

# Bloomberg

## EBay Focuses on \$195 Billion Global Emerging Markets Push

*By Danielle Kucera  
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EBay Inc. (EBAY), owner of the biggest Internet marketplace, is boosting staff in its emerging-markets group by 50 percent this year, seeking to win loyalty in burgeoning regions where online sales may top \$195 billion.

The team tasked with stepping up sales growth in Russia, Latin America and China has reached 140 employees and may increase by about 60 more people by the end of 2013, said Wendy Jones, who oversees geographic expansion and cross-border trade at San Jose, California-based EBay. The effort is “incredibly well-funded” and plans to focus first on Russia, she said.



The EBay Inc. logo is displayed at the entrance to the company's headquarters in San Jose. EBay is reaching into developing countries as the company competes with Amazon.com for the loyalty of merchants selling on its online store.

EBay Chief Executive Officer John Donahoe is betting on regions of the world where consumers and merchants are starting buy and sell more over the Internet. The company predicts that 25 percent of its users will be in developing countries at the end of 2015, up from about 5 percent in 2012, as EBay works to narrow Amazon.com Inc.'s lead in global e-commerce.

“There is still a significant, untapped opportunity out there,” said Dan Kurnos, an analyst at Benchmark Co., who recommends buying EBay shares. “If EBay doesn’t address it, someone else will.”

EBay ended 2012 with 6 million active users in Brazil, Russia, India and China, with \$3.2 billion in sales to consumers there. It had more than 112 million active users worldwide.

### **Language Barriers**

EBay is reaching into developing countries as the company competes with Amazon (AMZN).com for the loyalty of merchants selling on its online store. Amazon is increasingly shifting to a marketplace model similar to EBay's, with 40 percent of units on the site sold by outside vendors in the first quarter.

"We are sparing no expense," Jones said in an interview, referring to staff dedicated to developing countries.

Donahoe's biggest hurdle will be fostering trust in markets where fraud abounds, couriers such as FedEx Corp. (FDX) don't exist, and most consumers don't rely on credit cards or PayPal, instead using cash to pay for online purchases upon delivery.

"The challenges involved are significant," said Michael DeSimone, CEO of Borderfree, which helps companies adapt e-commerce sites for new countries. "Culture is so different. Language is so different. To really do business in those countries, you need to be on the ground."

### **Rapid Growth**

E-commerce revenue in China, India and Latin America were estimated to exceed \$185 billion in 2012, increasing at rates as fast as 44 percent a year, compared with 14 percent growth in the U.S. in the same period, according to Forrester Research. Russia's online retail industry expanded 25 percent in 2011 to \$10.5 billion, according to a report by East-West Digital News. Combined, Internet commerce in emerging regions approached the value of the U.S. market, where sales reached \$231 billion in 2012.

Gaining ground abroad could help EBay close sales-growth and share-price gaps with Amazon. Shares of Seattle-based Amazon have more than tripled in the past five years, while EBay has increased 78 percent. Amazon's sales tripled from 2008 to 2012, and EBay's rose 65 percent.

There are reasons these emerging regions are under served. Shipping, translation, Internet search and payments all pose obstacles for companies. EBay itself closed its unprofitable Web-auction unit in China in 2006 and formed a venture with billionaire Li Ka-shing's Tom Online Inc.

## **New Approach**

This time, the company is trying to take a smarter approach. EBay debuted a Russian-language site earlier this year, following the release of a mobile application focused on fashion in the country in 2012. EBay saw users in Russia surge by 75 percent in 2012. To support its efforts in Russia last year, EBay began building a team charged with forging partnerships with local companies, improving shipping times and making payments easier. The company hired Vladimir Dolgov, who most recently oversaw Google Inc.'s efforts in Russia and was previously CEO of that country's online retailer Ozon.ru. Dolgov's team of less than 10 people is working to learn how to best service a country where there is no clear road map to success for non-native e-commerce sellers.

EBay focused first on smartphones and tablets, releasing its mobile application before the desktop website -- an approach it may also take in Latin America, Jones said. The company is trying to reach consumers who are still in the nascent stages of online buying. While most have mobile phones, not all have laptops or desktop computers, which tend to be more expensive.

## **Native Content**

One shortfall EBay is seeking to fill is a lack of home-grown content in emerging markets. Consumers outside the U.S. are used to sub-par experiences because offshoots of U.S. sites tend to be badly translated, sporadically updated and prone to showing out-of-date merchandise.

Products displayed on such pages are often tailored to U.S. customer interests -- a football game on the display of a flat-screen television, for instance. This can turn off users and ruin brand trust, said Chuck Whiteman, senior vice president at MotionPoint Corp., which works with U.S. retailers to help them improve their international sites.

"It's the world wide web -- it's a global consumer," Whiteman said in an interview. "As soon as that consumer decides they're in an experience that isn't the best that company has to offer, they abandon it."

## **Localizing Sites**

In the summer of 2012, EBay introduced its Global Buying Hub, which focuses on localizing sites for larger markets outside the U.S., according to Sylvie de Wever, senior director of geographic expansion. Russian visitors on EBay's site last spring saw merchandising for U.S. college basketball's March Madness, she said.

Shipping has also long been a nightmare for retailers in new markets. Merchandise can take weeks or months to arrive because of delays when crossing country borders. Certain wildlife products -- an ostrich-skin purse with feather detailing, for example -- have to be accompanied by extra documentation. If they aren't, they stay put in customs until the correct papers arrive.

In Russia, the delivery network is made up of local companies that service small areas within the country and are often loyal to local retailers. Theft and fraud are common, and consumers tend to pay with cash upon delivery, rather than with credit cards ahead of time.

### **Paying Later**

"Most people think you can stick it in a FedEx box and everything will work out perfectly," Borderfree's DeSimone said. "It just isn't like that."

Jones's team is discussing a payment-on-delivery technology that doesn't involve cash -- an attempt to stay loyal to Russian consumers, who tend to open boxes and then decide whether they're satisfied with the products before they pay.

"If the way people shop is an environment where I physically want to see and touch and feel the goods before I pay, that's great," Jones said. "But we don't necessarily want rubles handed over to a delivery person. We're partnering with PayPal -- we're partnering with others in the market -- to continue to learn and figure out how do we solve that in a uniquely EBay way."

Because U.S. retailers have had trouble breaking into markets like Russia, the rewards of doing so at EBay are potentially that much greater. There's latent demand for western brands, such as Michael Kors, Tory Burch and Balenciaga.

That doesn't extend solely to luxury-fashion items. The day EBay unveiled its Russian site, the company promoted pink baseball hats featuring the New York Yankees -- a brand that's popular globally.

### **Local Competitors**

EBay also has to deal with different search algorithms used abroad. Most U.S. companies have become accustomed to using Google's technology to make themselves more easily findable on the Web. In Russia and China, Google isn't the dominant search engine, with most consumers using Yandex NV's. To learn about the nuances, EBay has begun teaming

up with companies that have been in the market longer, such as Opera Software ASA (OPERA), the most popular browser in Russia with 25 percent of the market, Jones said. There's also the local competition. Ozon.ru describes itself as the Amazon.com of Russia, and it increased net sales by 55 percent last year, according to a statement in March. In China, EBay is going up against Alibaba Group Holding Ltd.'s Taobao, which has an estimated 90 percent share of the market, Forrester Research analyst Zia Daniell Wigder wrote in a report.

Alibaba's billionaire founder, Jack Ma, last year said the company may go public within five years. While Alibaba already dominates in China, the company may position its initial public offering as a bet on gaining even deeper penetration in the country, according to a person familiar with the situation.

### **Potential Returns**

Still, the potential payoff in developing regions makes the bet worthwhile for EBay. China's online retail market is poised to reach \$356.1 billion in 2016, more than tripling from \$118 billion in 2011, Wigder wrote.

EBay re-entered China in November as part of partnership with luxury online seller Xiu.com. The company will probably seek additional partners as the team learns more about the market, Jones said -- a similarly methodical approach to the one it's taking in Russia.

"Will they be the only people that we potentially will work with? Probably not," she said of Xiu.com. "We're now in the process to start to ramp that up and spend a little bit more behind it, as we continue to learn."