



What's Behind the Overseas Forays of U.S. Online Giants?

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America's online giants have been busy abroad in recent weeks. eBay has acquired Baazee.com, an online auctions firm in India. Yahoo has launched Yisou, a speedy search engine in China. Google has acquired a minority stake in Baidu, another Chinese search engine that had been viewed as China's Google. Wait a few weeks, and it's a safe bet that more international expansion plans will be rolled out amid the PR-driven sounding of trumpets and crashing of cymbals (metaphorically speaking, of course).



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What's driving these international expansion plans? Even more importantly, what are the chances that they will succeed? Do the business models of U.S. Internet firms lend themselves to being exported and transplanted overseas? Experts at Wharton and elsewhere say that these world conquests are no sure thing. The ability to localize a global business can be a major challenge, they add, but if done right, over time such ventures can help offset slowdowns in the U.S. market.

Wharton management professor [Raphael \(Raffi\) Amit](#) points out that sometimes companies enter an international market only to retreat later. What works in the United States may not apply internationally. Although Internet-based companies, with their lack of physical assets, might in theory be expected to have an easier time overseas, success is hardly guaranteed. "When designing a business model you have to think of scale," says Amit. "The biggest issue overseas is whether a company's architecture will work in another institutional setting."

Take eBay's acquisition of Baazee, for instance. In June, the U.S. auctions behemoth announced that it would take over Baazee, which describes itself as India's biggest online marketplace, for a reported \$50 million. Amit believes that the biggest hurdle eBay will face in making the deal work is dealing with the fact that most Indian consumers don't use credit cards. Meanwhile, though the numbers are growing, at present Internet penetration is fairly low. Eventually India is likely to be the second biggest market in the world behind China, but now the country has 17 million Internet users, according to research firm IDC. That figure is expected to increase to 30 million in 2006, but still remains paltry for a company with a population topping 1 billion.

Amit isn't necessarily skeptical of eBay's forays abroad, but notes the company will have to overcome cultural norms. "In many places around the world people want to meet face to face," he says. The ability to localize a global business is one of the biggest challenges, say experts. "When you have a business model that works at home, the challenge is to find out what's critical for success and then look for ways to localize," says Adrian

Tschoegl, an adjunct professor of management at Wharton. "You have to be cautious with the changes – you just can't start fiddling around."

That's why companies like eBay, which also in 2003 acquired EachNet, an e-commerce company in China, increasingly buy a local player to enter a market. Baazee, the largest private online marketplace in India with more than one million users, knows the local customs and payment systems and should therefore be able to show eBay how to operate. According to Avnish Bajaj, Chairman and Co-CEO of Baazee, his company's "local expertise combined with eBay's global perspective" will fuel e-commerce in India.

[Eric K. Clemons](#), a Wharton professor of operations and information management, says that eBay's strategy is to "get speed fast and do anything it has to" in order to build scale. According to Clemons, eBay's international strategy is to buy critical mass in global markets so it has a foothold to gather buyers and sellers.

Trials and Errors

So how will eBay's Baazee acquisition play out? Odds are that the move to India will work, but analysts such as Christa Sober at brokerage firm Thomas Weisel don't see any meaningful boost to eBay's international business until 2005, at the earliest. CEO Meg Whitman noted in a statement that it's the "early days for e-commerce in India," but she sees a "great opportunity over the long term."

Tschoegl says eBay's buy-its-way-in strategy makes sense because it's a safer way to learn the local business. It's also the most popular way for Internet giants to test overseas waters. Earlier this year, Yahoo bought Kelkoo, Europe's largest shopping-comparison site, and Expedia bought French travel site Anyway.com.

A recipe for failure would be a blind entry and seeking to rebuild U.S. operations overseas. It's unlikely that eBay could enter India by pushing its PayPal payment system, charging listing fees and urging credit card use. In contrast, Baazee doesn't charge a listing fee, but it does take a percentage of a final sale. Baazee users can pay in more ways – check, credit card, bank transfer, its PayPal-like PaisaPay system and even in person with cash.

And eBay has withdrawn from an international market before. In 2002, eBay retreated from Japan, according to regulatory filings. Even if successful, eBay expects the costs of operating new sites to exceed revenues for at least 12 months in most countries."

International expansion is largely a matter of trial and error," says Tschoegl. Like any other business method, practice makes perfect. You can't expect relatively young e-business companies to be able to replicate themselves abroad like McDonald's, which has been building outposts all over the world for years, he notes.

Google acknowledges the disadvantage young companies face in expanding abroad in its prospectus for its initial public offering. "Expansion into international markets is important to our long-term success, and our inexperience in the operation of our business outside the U.S. increases the risk that our international expansion efforts will not be successful," says the document. The company opened its first office outside the U.S. in 2001.

For its part, Amazon has had strong success in the United Kingdom, but it has struggled in France. The company recently laid off workers in that country as it consolidated operations with its U.K. business. Amazon faces stiff competition in France from local firms Cdiscount.com and FNAC.com.

Tschoegl says it is not surprising Amazon has had difficulties. Retailing and courting consumers is the toughest business to replicate abroad. Among the issues: Advertising laws, various consumer restrictions, local competition with closer supplier relationships and different means of payment. "The risk for U.S.-based retailers is that you offer a solution to something that's not a problem," says Tschoegl.

Aside from local consumer tastes, Amazon must have credit card payments for its model to work, adds Amit. Amazon's international sites include Canada, the United Kingdom, Germany, Japan and France - all countries where credit card usage is common. "You probably won't see Amazon in China or India immediately," says Amit. "Credit cards are a big hurdle and a constraint on business."

Clemons says e-commerce players can minimize a lot of missteps if they simply keep in mind business basics and remember what flopped in the U.S. Before going overseas, e-commerce companies should examine whether they can fulfill a real need and know the population's similarities and differences compared to their U.S. customers. In addition, a close study of how online markets function in the new locale is necessary. "If you're serious about e-commerce, you need to know the territory," says Clemons.

Big Risks, Big Rewards

Global Internet companies are upfront about the risks revolving around international expansion. Among some of the common risk factors noted in regulatory filings:

- Cultural differences;
- Longer payment cycles;
- Laws favoring local competitors;
- Credit risk and higher levels of payment fraud;
- Legal and regulatory restrictions;
- Currency exchange rate fluctuations;
- Higher costs;
- Diverting management attention.

Such risks are formidable, but for many high-fliers the biggest risk may be to stay home. EBay, for instance, is banking on its international sites to help drive the growth of the company, which Wall Street expects to be close to 50% every year. In the first quarter, international revenues accounted for 35% of eBay's revenues, up from 30% the previous year. " Slightly less than 50% of eBay's total registered users are outside the U.S.," says CIBC analyst Paul Keung in a research note." eBay has a majority/minority stake in 24 countries and users span across 150 nations around the world. The global opportunity is quite large for eBay considering that the international markets combined are larger than the U.S."

As growth in the U.S. inevitably slows, companies like eBay, Yahoo and Amazon increasingly have to expand internationally to support their stock valuations. Each company, however, will face unique hurdles. For eBay, it may be local laws restricting ties to banks and other financial institutions. Yahoo may have to restrict certain types of advertising deemed unacceptable to a local government. Amazon needs local ties to suppliers and facilities with customized systems."

We have relatively little experience in purchasing, marketing, and distributing products or services for these market segments and may not benefit from any first-to-market advantages," says Amazon in its filings. "It is costly to establish international facilities and operations, promote our brand internationally and develop localized websites, stores, and other systems." Nevertheless, Amazon adds that it will continue to expand abroad over time. It will have to because the opportunity may be too much to ignore.

Clemons doesn't buy this argument. He says every e-commerce player will have a different reason for going overseas, but fundamentally it should earn more than it invests. Executives need to closely analyze the market and see what the upside could be. If the company can't fulfill a legitimate need, it could fail. "Not every company has to go international," says Clemons. "Not all of these markets are ones where if you don't go global, you die."

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