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eBay: Smart Entry Strategy into the Korean Market Through M&A and its Post-Merger Integration*

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Abstract

Purpose - This case study illustrates the story of eBay Korea, which owns two most leading Korean open market companies, AUCTION and Gmarket. The main concerns are to take over the Korean top domestic companies one by one, then, emerge these two giants through its well-developed post-merger Integration by eBay, an American multinational corporation.

Research design, data, and methodology - This case explores various secondary resources such as periodicals, annual reviews, magazine, news articles, commentaries, even some interview materials related to 'eBay Korea' and industry source on condition of anonymity based on the critical reviewing of existing studies on these topics as well.

Results - The findings of this study show the merger and acquisition of two market leaders in Korea is the only successful case in Asian Markets. The eBay's choice of entry mode is appropriate considering the timing, synergy and efficiency by sharing their resources.

Conclusions - This study examines the successful entry and settlement process of foreign, multinational company through mergers and acquisitions in the Korean market. This would be a valuable in the studies of International Business and Global entry or distribution strategy in the e-commerce and open market dealing with M&A and its post-merger integration.

Keywords: E-commerce, Open market, Merger and Acquisition, Post-Merger Integration.

JEL Classifications: C99, L81, M1.

1. Introduction

Electronic commerce, or e-commerce, is a category of industry or form of electronic transactions where the trading occurs over electronic systems using computer networks or Internet. Modern electronic commerce usually uses WWW (World Wide Web) at the minimum at one point in the transaction's life cycle, while it may encircle different forms of technologies such as e-mail, social media, mobile devices, and telephones as well. As the Internet network

service has become widespread, e-commerce appealed to both buyers and sellers. Maximizing the opportunities given by network effect of the increasing Internet users and freeness from geographical limitation, e-commerce has rapidly replaced traditional commerce (Hinz & Jochen, 2010; Sperdea, Enescu, & Enescu, 2011). In 2017, e-retail sales represented 10.2 percent of all retail sales worldwide with expecting to reach 17.5 percent in 2021. Online shopping is one of the most favorite and popular online activities worldwide with global e-retail sales reaching 2.3 trillion U.S. dollars in 2017 (Statista, 2018). This astonishing rise of e-commerce is largely due to the development in the Asia-Pacific area. Developed markets such as US and Europe, however, are still recording double-digit growth as well. Especially, South Korea is the third largest online retail market in Asia due to a well-developed internet infrastructure and its highest internet penetration (Internet World Stats, 2018). Although the growth is not exponential as it was in the last decade, the e-commerce and online shopping market are still rapidly growing in this region. Accordingly, this market attracts the leading multinational e-commerce

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corporate such as eBay to build the sustainable competitive advantage in Asian regions.

With this market-seeking reason, many multinational enterprises have entered foreign marketplaces through foreign direct investment (henceforth, FDI). FDI is one of the form for investment made by a firm, which has a controlling ownership in a business in another country and most scholars have observed a dramatic surge in FDI through Greenfield or Merger and Acquisition (Charles & Tomas, 2017). However, the choice of entry mode between those two types is still the controversial issue in business with different perspectives (Blomstrom & Persson, 1983; Blomstrom, 1986; Blomstrom & Edward, 1989; Aitken & Harrison, 1999; César, Norman, & Luis, 2002; Charles & Tomas, 2017). Because there are critically different virtues and drawbacks to both types, for example, many scholars have observed most acquisitions fail without creating value in business while it seems to be a very alluring and attractive type to enter quickly overseas markets. However, eBay's acquisition of Korean domestic leading firms, AUCTION and Gmarket has proved as a successful case.

eBay had grown to successfully compete in certain international markets, including Europe and Latin America as an US online shopping giant, but was still a relatively small player in the Asia Pacific market. In Asian markets, eBay has had a history of failures in Japan and China. With eBay's failure in Japan and China, they looked at the Korean market where they saw the giant and no.1 leader AUCTION as a viable partner, which had great technological base and market base to have a strategic alliance. In February 2001, eBay bought 50% plus 10 stocks from the major stockholders resulting in a successful takeover of the company. Another company eBay acquired after 7 years is Gmarket. By April 2009 eBay bought 29% of Gmarket's share through AUCTION paying 440 billion won and Gmarket was delisted same as AUCTION. The acquisition of AUCTION and Gmarket in Korea is the only successful case in Asian markets. eBay, the leading open market corporation of the world, took over the two best e-commerce performers in the Korean online shopping industry by 2011. Considering that it was founded as one-man company in 1995, its unprecedented progress in less than twenty years is worthy of close attention. It has not only succeeded in making its own business prosper, but also contributed to the widespread use of e-commerce worldwide. Through successful acquisitions and mergers, eBay has able to keep its status as the US market leader in the e-commerce open market industry and currently eBay becomes Number 3 retailer in Korea behind the top two Korean giants, Lotte and Shinsegae (The Korean Herald, 2017). By inspecting the Korean market environment thoroughly and maximizing the core competencies of AUCTION and Gmarket, eBay was able to carry out the existing businesses to the best. Through the lessons eBay learned from the failures and successes in the Asian markets, it is now preparing to

reenter the undeveloped markets with 'eBay Korea' as an Asian-Pacific outpost.

Based on this background, this case study aims to describe the strategic entry and settlement process by eBay to take an opportunity of increased adoption of the internet in the highly wired Korean market. eBay's choice of entry mode through merger and acquisition to enter into the Korean market is appropriate considering the timing, synergy and efficiency by sharing their resources. This study will provide multinational enterprises, which are interested in entering Asian markets with business insight and contribute to find best practices for merger and acquisition theoretically and practically.

2. Literature Review

2.1. The Choice of Entry modes: M&A or Greenfield?

The studies on the choice of entry modes in global marketplace are attained from traditional theories of international business (Barkema & Vermeulen, 1998; Kogut & Singh, 1988; Pan & Tse, 2000; Park, 2017). According to various perspectives in terms of the choice of entry mode in foreign markets, it has evolved from several theories. Among them, different choice of entry modes could be decided based on the level of controllability or control preferences. Listed from the lowest controllability, externalization (e.g., exports, contracts (licensing), and joint ventures) and internalization of foreign direct investments (M&A and Greenfield) are the entry modes used by multinational enterprises (Root, 1987; Park, 2017). Unlike the previous view, definite rank exists among entry modes in this theory (Chu & Anderson, 1992). Existing theories such as the life cycle theory, the eclectic paradigm, and the stage model share common points in explaining the dynamics of foreign market entry. They put forward that entering a host country in overseas market usually takes notably large amount of time and efforts, therefore, entry strategies should be implemented gradually as firms accumulate knowledge and skills acquired through experience in the global marketplace (Johanson & Vahlne, 1977, 1990; Buckley & Casson, 1998; Park, 2017).

Especially, multinational firms have the choice between two types of investment, greenfield investment and mergers and acquisitions as a foreign direct investment (Charles & Tomas, 2017). A firm can create a subsidiary or a new company in a country such as building a wholly owned subsidiary from ground up (commonly named greenfield), or by acquiring an existing business in a local market. However, the choice between two modes is not an easy one. Both modes have different advantages and disadvantages (César, Norman, & Luis, 2002; Charles & Tomas, 2017). In general, the choice is determined by each condition facing up the firm. If the firm is trying to get to

enter a market where there are already firmly established or well-known businesses, and where leading competitors globally are interested in creating a presence, it may lead the firm to enter quickly via an acquisition. Currently, the volume and its growth of cross-border acquisitions have been tremendous at a rapid rate for two decades. In such occasions, a type of greenfield may be too slow to establish a substantial presence. However, if the firm is going to decide an acquisition, its management should be aware of the potential risks joined with this mode and think carefully when determining which target firm to be purchased. It may be better to choose the idea of slower mode with greenfield than to make a negative acquisition. If the firm is considering a country, where there are no incumbent candidates to be acquired, then, a greenfield may be the only way. Even though when target firms are present, if the competitive advantage of the firm is formulated on the transfer intangibly of embedded competencies, routines, skills, and culture organizationally, it may still be desirable to enter through a greenfield. Embedded resources such as skills through experience and organizational culture, which are placed on significant knowledge that is challenging to enunciate and codify, are much more easier to entrench in a new venture business than in an acquired body, where the firm may be required to prevail the established routines and organizational culture of the acquired firm (César, Norman, & Luis, 2002; Charles & Tomas, 2017). Accordingly, there are many previous studies to explore the distinction or association between the two modes empirically with different perspectives (Blomstrom & Persson, 1983; Blomstrom, 1986; Blomstrom & Edward, 1989; Aitken & Harrison, 1999; César, Norman, & Luis, 2002; Charles & Tomas, 2017). This is still a very controversial issue among scholars and businesspersons in the practical world as well because each type has very different pros and cons. For instance, many scholars have found that most acquisitions fail for several reasons even though it seems to be a very attractive entry mode to extend a business geographically, quickly. First, the acquiring firms generally outbid the equities and assets of the acquired firm. Moreover, the management of the acquiring firm is typically too promising and optimistic about the value that can be generated through an acquisition and is therefore willing to pay an extraordinary premium over a target firm's stocks. Second, most acquisitions fail to create more value because there is a conflict between the cultures and differences in management philosophy of the acquiring and acquired firms. Thus, they run into barrier and take much longer than expectation. After an acquisition, many acquired firms face high management resignations or turnover, possibly because their employees are not pleased by the acquiring firm's way of doing things. Finally, many acquisitions fail caused by insufficient pre-acquisition assessment and investigation. Many firms decide to vet and acquire others without comprehensively analyzing the conceivable benefits and

costs. This may be a distinct problem in cross-border acquisitions because the acquiring firm may not fully understand the target firm's national culture and business practices (Charles & Tomas, 2017).

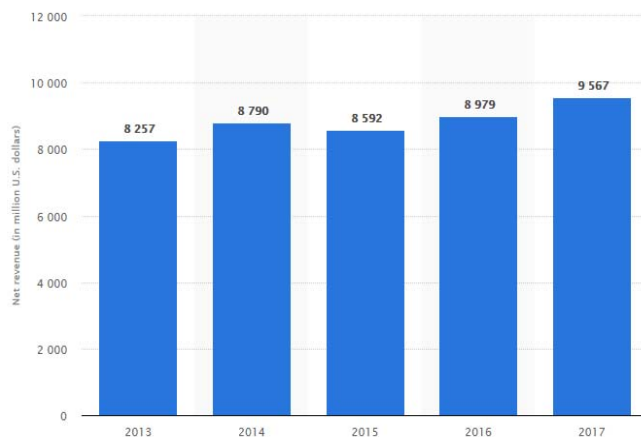
However, those problems can all be overwhelmed if the firm is cautious about its acquisition strategy, especially 'Post-Merger Integration' process. PMI, the abbreviation of Post-Merger Integration is a complicated and impenetrable process of combining two firms' resources and rearranging businesses system to actualize possible efficiencies and synergism that typically motivate mergers and acquisitions. This approach affirms that all significant decisions that shape the success of integration built in a proper manner and under reflection of all relevant issues. The process of combining two or more organizations into a single one involves several organizational systems, such as assets, people, resources, tasks, and the supporting information technology (Charles & Tomas, 2017).

2.2. Electronic Commerce in Korea and eBay

Electronic commerce (also known as e-commerce) or internet commerce represents the dealing of goods or services over the internet as a type of industry where the trading occurs over electronic systems. Along with the brisk and wide expansion of e-commerce, open market companies grew up significantly. Open market, which is a kind of online shopping mall, is a platform where everyone can be a seller just by registering his or her goods to the open market site. Open market is different from other online shopping malls in the way that open market companies do not take responsibility for transaction between sellers and buyers. The Asian-Pacific open markets are the most promising markets that have lead the global growth in e-commerce and open markets. For instance, Chinese online shopping sales recorded 77 billion dollars in 2012. Although it is very small compared to the 174 billion dollars of US markets, Chinese market has a lot more potential for faster growth (Jeong & Wang, 2016). Moreover, South-East Asian developing countries are actively investing in network infrastructure, making them the open market 'gold mine'. Open market players in Korea such as AUCTION, Gmarket, and 11ST have become the most popularly used online marketplaces. In addition, open market became the fastest growing sector in Korea. Started in 1998 with the service of AUCTION, the size of Korean open market came to be 17 billion dollars in just 15 years. Considering that the size of completely Korean online shopping market is about 41 billion dollars, it is natural to say that Korean online shopping market is now led by open market companies.

Meanwhile, eBay, an American multinational, leading e-commerce corporation, facilitates 'business-to-consumer' and 'consumer-to-consumer' sales as well through its website. In 1995, a French-born computer programmer Pierre Omidyar built a personal auction website. The website was

just one of his hobbies until the Internet service provider informed him of the extra charges for the increased internet traffic. The extra charge forced him to collect fee from users. This was the very beginning of eBay, one of the most successful dot-com companies in the world. In 1998, the number of users grew to about half a million, and its revenue, 4.7 million dollars. In the same year, the record-breaking growth of eBay led into the IPO price of 53.5 dollars in NASDAQ, which was approximately three times more than the target stock price. In 1998, CEO Meg Whitman was hired to fulfill the need of a management specialist. In the following decade, the promising venture turned into an open market giant under her leadership. In 2008, when she resigned, the number of employees was about 15,000 and especially the revenue was 8.5 billion dollars. During the ten years under Meg Whitman, eBay succeeded in multiple mergers and acquisitions of possible competitors in the US. It also bought PayPal to reinforce its payment system, and Skype to diversify its revenue models. Figure 1 shows the annual net revenue of eBay from 2013 to 2017. Moreover, in 2017, eBay's online auction and selling website's net revenue amounted to close to 9.7 billion U.S. dollars, up from 8.99 billion in the previous year (Statista, 2018). As one of the oldest online shopping destinations with operations in over 30 countries, eBay became the global platform, allowing people and businesses to buy and sell a large volume of various goods and services worldwide.



Source: statista (2018)

Figure 1: eBay's annual net revenue from 2013 to 2017

As it kept the number-one position in the open market business in the US, eBay started pushing its frontiers worldwide. Through takeovers of well-performing or promising open market companies from Europe, Middle-East, and Asia, it has become the world-wide giant of e-commerce. Although not all the acquisitions are considered successful, some of its subsidiaries are thriving and making up for the loss of

revenue in the home country, US market, due to the strong competition from Amazon.com. eBay Korea, which owns two most famous Korean open market companies, AUCTION and Gmarket, became the prime example. Currently, eBay Korea has been a key player for the parent firm's global push. In 2016, Korea with 863.3 billion was the third-largest market for eBay globally after the US and UK (The Korea Herald, 2017).

3. Methodology

The importance of case study is the ability to find the in-depth information on a topic using real life examples. This case study aims to promote our understanding of entry strategy in overseas markets through merger and acquisition, then the process of post-merger integration. For this, the case explores the successful entry strategy and settlement process in the Korean market by eBay, the world's leading e-commerce company to broad its business and build its competitive advantage. In this paper, we used a qualitative research methodology. Accordingly, to investigate this case study, we explored various secondary resources such as periodicals, annual reviews, magazine, news articles, commentaries, even some interview materials related to 'eBay Korea' and industry source on condition of anonymity based on the critical reviewing of existing studies on these topics as well.

4. The case of eBay in the Korean Market

4.1. Entering into the Korean Market

The business environment of the highly wired Korean market was quite promising and as the AUCTION Company offered joint marketing alliance in July 1999, eBay started to pay attention to the Korean market. Looking for a chance to enter Asia after settling down at the Europe market, eBay was quite serious about the proposal. And finally in June 2000, based on the scrutiny and analysis of the Korean market, eBay accepted the offer and the two firms began their partnership. Not long after that in February 2001, eBay took over AUCTION. It took only 1 year and a half from the alliance offer to the acquisition, which executes quickly for a company to go into another international market. This must have been possible due to the attractiveness and the potential that the Korean market had.

First of all, Korean government's policies concerning Internet, IT, and e-commerce must have been a very critical factor for them to decide whether entering the market was good or not. According to 'Cyber Korea 21' plan which was announced in March 1999 by the government executives under president Dae-Jung, Kim, his goal was to make Korea

a knowledge-based advanced country by building IT infrastructure so that Korea could cope with the fast growing IT trend and overcome the country's economic recession. This idea was the base of 'Cyber Korea 21' plan. The total budget for the project was 28 trillion won for 4 years and it was invested in several phases. The first step of this plan was to establish a fast information technology network and provide it at a low price to the customers so that a high-quality Internet atmosphere would be exposed to all citizens. Then, the government planned IT education programs for all the citizens, especially students, soldiers and government officials. This included for example, designating an IT specialized teacher in schools and requiring all soldiers and government officials to complete an IT lecture course. Based on these changes, the government encouraged all citizens and economic agents in the country to move to the new information technological way of doing things; public organizations using online mailing system, corporations changed their accounting system into digital programs, consumers buying goods on the online market, etc. The ultimate goal of 'Cyber Korea 21' was not only to revolutionize existing industries but also to develop new online businesses in order to make 1 million new jobs and 118 trillion economic values. The Korean government has increasingly over the past two decades, encouraged, urged, and embraced not only the development of information computer technology (henceforth, ICT) industries but also the application and use of ICT in all spheres of government, industry, education, and socio-cultural atmospheres. Korean Government's active role in supporting the ICT industry has been a strong factor and a green light for eBay to enter this market.

Otherwise, technological environment is not crucial for all corporations because not all businesses need particular technological infrastructure as their main base. However, eBay's online commerce system cannot succeed without technological environment such as the Internet. Specially, the informatization level of Korean society is very important for eBay. 'Informationization', the term increasingly employed to describe this overall process, become a linchpin of central and many local development strategies, upgrade the old ailing parts of the economy, turn the Koreans into true citizens of the 21st century, and plug Korea into the wider world.

Table 1: Broadband internet subscribers and Internet usage in Korea

Year	1998	1999	2000	2001
The percentage of broadband internet subscribers	0.03%	0.61%	8.42%	16.89%
The rate of people using all kinds of Internet usage	6.78%	23.55%	44.70%	58.6%

Source: The World Bank, International Telecommunication Union, World Telecommunication/ICT (2005)

As the broadband Internet service started in June 1998, the online atmosphere improved greatly allowing people to download and upload data at the high speed. This progress triggered more people to utilize the internet and developed Korea's ICT level one step further. As Table 1 shown, the percentage of broadband internet subscribers was consistently increasing during the period of 1998 to 2001. There's a big jump every year; 20 times between 1998 and 1999, 14 times between 1999 and 2000, 2 times between 2000 and 2001. Accordingly, the rate of people using all kinds of Internet usage was also increased. These usage rates shows that, behind eBay's decision to enter the Korean market which lay a big advancement in the ICT infrastructure (see Figure 2, 3, 4).

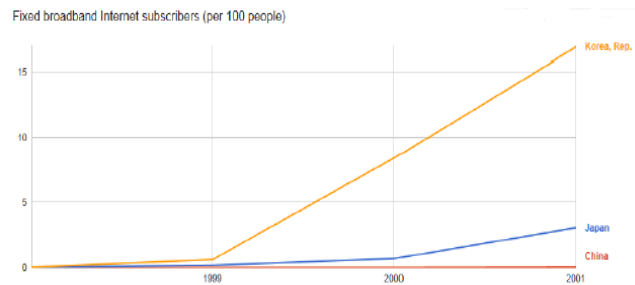


Figure 2: Broadband Internet subscribers (per 100 people)

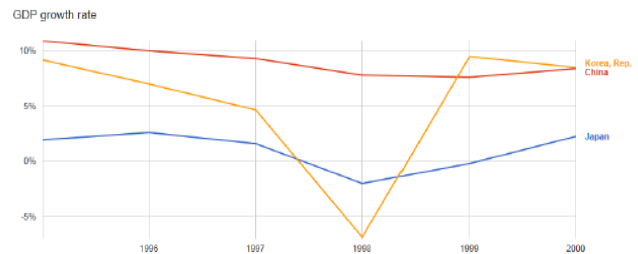


Figure 3: GDP growth rate

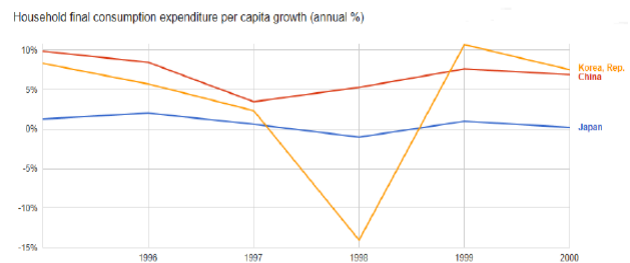


Figure 4: Percentage of household final consumption expenditure

In addition, the economic environment of the Korean market is another factor that attracted eBay to enter the Korean market. On account of the currency crisis in 1997, the emerging Asian economies collapsed and Korea's economic system started to be disciplined by the International Monetary Fund (namely, IMF). However, thanks

to Korean government's fast reaction and citizens' commitment, Korea succeeded in overcoming this economic recession in just one year. Amazed at Korea's revival, eBay set a high value on Korean economy's potential and decided to enter this market.

The GDP growth rate showed a big fluctuation around the currency crisis. Slowly stagnating from mid-90's recording 7% in 1996, 4.65% in 1997, Korean economy hit the bottom in 1998 recording -6.85%, right after the currency crisis. However, taking this period as an opportunity rather than a threat, Korean economy recovered rapidly and the growth rate skyrocketed to 9.49% in 1999 and 8.4% in 2000. In the same context, as the economy got in the right path, people began to spend more money. Actually, the expenditure made by consumers is more important to eBay since they need more people to buy things through their online market. This can be checked out by looking at the growth rate of households' final expenditure which changed from -14.05% in 1998 to 10.71% in 1999. Hence Korean economy's recovery and growth must have been a very attractive incentive to eBay to enter the Korean e-commerce open market.

4.2. Acquisition of AUCTION

4.2.1. Foundation and Growth of AUCTION

The history of eBay Korea started in 1998 with the foundation of Internet Auction Inc., which changed its corporate name later to AUCTION. It started its service and gained popularity as the first dotcom auction company. It was renowned for its excellent bidding services including bulletin board bidding, which enabled real-time bid and prevented repeated bid at the same time. It also provided multiple bidding for the customers and improved transparency in the ongoing auctions. The most distinctive point was its system for protection of deals named Escrow. This program could effectively protect customer's online deals. However, despite AUCTION's excellent business system, it did not have a successful model to make profit and had trouble running the business.

This financial crisis was overcome as Future and Human Inc. purchased 73% of its stocks. With this capital it started to enter other Asian markets with international strategies such as joint alliance with Goodwill of China and Hikari telecom of Japan. In this process, however, it realized the need for more professional approach in marketing and brand management. This led Future and Human Inc. to suggest a strategic alliance to the global online auction company, eBay in July 1999. In those days, AUCTION went through many changes. In September 1999, Kum-Lyong Lee was scouted as the CEO. In the following month, it changed its corporate name to AUCTION Inc. In these radical changes, it also promoted various events and TV commercials. As a result, its number of members increased from 800,000 to

2,800,000. Furthermore, it began to charge fees over deals and its financial statements, previously in red ink, improved significantly. Finally AUCTION Inc. achieved getting 62% of market share and began to lead Korean online market.

4.2.2. Strategic Alliance, and then Acquisition of AUCTION

From 1999, eBay and AUCTION had been discussing alliance and 6 months later, on June 2000, as AUCTION listed it on KOSDAQ they finally allied with each other. eBay and AUCTION established joint marketing alliance and launched a page named Korean City. For the customers who accessed the page and became a member of eBay through AUCTION, eBay paid \$3 to AUCTION. It also had alliance with Lycos, the leading Internet portal service company at that moment. This decision was placed on eBay's failure in Japan, where they started their business as a joint venture and failed to beat the market leader, Yahoo Japan.

As it examined the alliance offer from AUCTION, eBay found business opportunity in Korea market expanding. AUCTION had great technological base and market base as well, and this made eBay interested in having more cooperation with AUCTION. Accordingly eBay sent its board members to Korea and at last suggested taking over AUCTION by purchasing 100% stocks of the company. In return, AUCTION board also sent over its team to America to discuss this issue. Finally in four months' time, they came to an agreement over the acquisition. In February 2001, eBay bought 50% plus 10 stocks from the major stockholders including Sung-Moon Kwon of Future and Human Inc. and KTB resulting in a successful takeover of the company. Remaining stocks were bought in 2004 and AUCTION was delisted from KOSDAQ. Purchase of the stocks and delisting from KOSDAQ gave eBay complete control over the company. Through the delisting eBay became free from the complicated regulations of stock market, business information sharing, and managerial pressure from the investors. Without pressure from general investors and regulating offices, eBay ran their business more independently.

4.2.3. After Taking over AUCTION

Since April 1998, when AUCTION initiated auction service by using the internet in Korea, other competitors appeared such as Esale, Dacom, Samsung AUCTION, Wawa, AUCTION Plus, Yes world and so on. In 2001, when eBay took over AUCTION, AUCTION occupied 70% of the market share in the open market of Korea, followed by Esale getting 20%. AUCTION had dominated the open market in Korea at that time. In addition, when eBay took over AUCTION in 2001, other companies expected to be in terminal crisis about their survival and started restructuring. In February 2001, however, other competitor, Dacom declared suspension of business and in the same year,

Samsung C&T closed down their site. Moreover, in June 2001, second tier in the open market, Esale and third tier Sellpia merged together and launched Esellpia to compete with eBay AUCTION but could not help closing down their site in 2004. These show that eBay's acquisition of AUCTION was very harsh to the other open market players and made Korean open market to rapidly rearrange.

4.3. Acquisition of Gmarket to become a Market Leader

4.3.1. Foundation and Success of Gmarket

Another company eBay acquired after 7 years is Gmarket. It started as a venture company of Interpark in April 2000. At first its buyers and sellers were distinguished clearly but later it changed its model to C2C system. In 2004 it attracted the investment from Oak Investment Partners, the world's biggest venture capital and next year its billing increased by 500% and ranked its name as No. 1. internet shopping mall in Korea. Its billing exceeded trillion won in half a year for the first time as an online shopping company and gained international interest. Whereas the other competitors like Esellpia, Samsung Auction did not have competitive priority over AUCTION, Gmarket tried lots of fresh services and marketing strategies. For instance, Gmarket made administration fee free, attracting a great number of vendors. Its aggressive marketing strategy included targeting women in 20s, immediate purchase option, star shop, brand outlet, bargaining, and blog style mini shop. In January 2005, the difference of market share between AUCTION and Gmarket was 37.5% but changed to 11% at the end of the year. Along with this success in the market, Gmarket was listed in NASDAQ in June 2006 and launched global service establishing branch in Japan and Singapore. Furthermore, in 2007, Gmarket recorded 2.5 trillion won in transaction scale.

4.3.2. Acquisition of Gmarket

As Gmarket became the No.1 leader of Korean open market, AUCTION had trouble in its business. Whereas net profit of AUCTION decreased to 10 billion won, that of Gmarket grew up to 30 billion won. In this market status, as Interpark showed its intention to sell Gmarket, eBay began to participate in the acquisition discussion. The discussion was ceased because of unstable market in March 2008. However, they resumed it soon after and applied for an approval on their acquisition plan to Fair Trade Commission (henceforth, FTC) in Korea. The application said that eBay will buy 37% shares from Interpark and it was approved before the year changed. Yet, the negotiation took longer than expected and in April 2009 they finally get to the agreement done. eBay bought 29% of Gmarket's share through AUCTION paying 440 billion won and Gmarket was

delisted same as AUCTION. At last the competition between two big companies ended and their market share summed up to 86%, causing a huge sensation in the press.

4.4. Merging AUCTION and Gmarket: eBay Korea

4.4.1. Creation of the new name of corporation

The open market giant with more than 70% market share is born. Today, Fair Trade Commission (FTC) decided to allow the merger of the open market leader AUCTION and the second best Gmarket without further regulation. FTC cleared up that the merger would not bring restraint on competition. The name of merged corporation is 'eBay Korea'. The mother company of both is eBay, the world leader in open market industry.

Pressian, July 5th, 2011.

Since it now owned both AUCTION and Gmarket, eBay decided to officially merge the two companies. When it applied for its merger to FTC, it faced opposition from some part of the country. Some people criticized that eBay was a foreign company, and would monopolize Korea's open market. In addition, it is believed that eBay Korea's monopoly would necessarily cause negative effect such as price fixing, high rate auction fee and so on. In fact, 11ST, the competitor of Gmarket and AUCTION repeatedly sued them on monopoly rules and regulations. However, its merger was approved in September 2011, and the name of corporation changed into eBay Korea, achieving 72% of the market share. The merger was intended to improve management efficiency by reorganizing the company. It was expected to reduce administration cost and help to increase the revenue. FTC explained its approval in that eBay's market share had dropped 15% from last year having powerful competitor 11ST of SK Planet and potential market enterer, NHN (Next Human Network; new name of Naver).

4.4.2. Post-Merger Integration (PMI) of eBay Korea

However, even though eBay obtained complete ownership of both companies, there were still many problems. To overcome those hurdles experienced by an acquiring firm typically after consolidation, eBay has worked in many ways.

First, eBay has made the effort to minimize the modification on the existing competences of AUCTION and Gmarket as part of its integration process to combine them thoroughly to make a single unit of eBay since its acquisition. One key feature showing this intent is the brand and domain names of AUCTION and Gmarket. eBay kept their original brand name and the domain names (auction.co.kr/gmarket.co.kr) in use even after the integration. Actually it's hard to find out whether eBay owns them just by looking at the website. In other cases of eBay's acquisitions overseas, however, eBay usually changed the

existing brand names into ones that included 'eBay' in them. For other countries like America and Europe it uses unified URL such as 'ebay.com', 'ebay.co.uk', and 'ebay.co.de.' Yet, in Korea, the address 'auction.co.kr' and 'gmarket.co.kr' are still in use. It's because the brand identities are maintained and also reflects the Korean customers' preference over domestic brand. AUCTION and Gmarket were already well performing open market companies when eBay acquired them. By maintaining the brand names, eBay successfully absorbed the core competency of two Korean companies, and the customer loyalty to the brands.

Other key feature can be found from eBay's careful approaches in managing human resources. eBay did its best to keep existing employees in their posts. In the process of M&A, brain efflux is typically one of the most troublesome and frequently occurring issues that managers should fight. Especially for the Internet companies, it can always be a deathblow. To avoid this, eBay clearly showed its cooperative manner. It appointed the former AUCTION CEO Joo-Man Park as the CEO of eBay Korea. And the former Gmarket CEO Young-Bae Goo started his job as a leading manager of eBay Asia-Pacific sector. Not only the chief officers, but also other employees were provided with stock options and the highest-industry salaries. After the merger, stock prices of the firm fell significantly and the existing employees got enraged because they had bought the shares in the early days as a policy of their company. To pacify their anger, eBay promised the best salary in the field and stock option to guarantee fair stock price for them. Moreover, for workers in AUCTION and Gmarket, working with eBay was a great chance to learn advanced business skills for global online market. Some of the workers were excited to have eBay's system in the company and they put great effort to learn from small things. By respecting employees' needs, eBay didn't have to suffer from the inside resistance. eBay also attempted to maximize the technological capability of AUCTION. eBay did not replace the buyer & seller protection system of AUCTION with its own system. It just modified a little and made the best use of the existing system. By doing so, eBay could cut the cost of replacing the legacy system while maintaining its own core competency in the open market industry.

Finally, eBay Korea built 'eBay Kingdom' in the open market of Korea. eBay Korea as a joint corporation has started with 830 employees, and among them, some business divisions like financing and purchasing have been undertaken both by AUCTION and Gmarket, however, some divisions such as marketing and sales have been operated separately. Through integration, eBay Korea has achieved synergy by sharing their resources. Keeping each brand name, eBay Korea has pursued efficiency in regard with management like sharing human resources. In other words, eBay does not abandon both advantages of AUCTION which has strong market power in IT and home appliances category and Gmarket which has strong power in fashion

category. With these integration strategies, eBay Korea can achieve their synergy with AUCTION and Gmarket.

4.4.3. Market Competition after the Integration

"Mobile continues to rewrite the commerce playbook, and we continue to be a mobile commerce and payments leader"

John Donahoe, the CEO of eBay

In 2009, at CNBC interview, CEO John Donahoe strongly emphasized the importance of mobile market's potentiality. This insightful comment of CEO can be praised because the incredible growth of mobile shopping market during the past 4 years has confirmed its importance. Korean mobile shopping market would reach 4,000 billion won in 2015. It showed 49% growth rate in 2009, 370% in 2010, and 1,325% in 2011, which is continuously growing to become a bigger market. As users of smart phones steeply increases, online shopping customers are moving to mobile shopping platform. In 2012, Korea mobile shopping market as recorded 600 billion won in scale mainly by 20~30 aged people. In 2012, mobile shopping market grew up to 1,700 billion won, which has increased more than twice in 2011, and this tendency will last until it reaches an online market maturity.

However, this mobile shopping market has intensified competition as it has a great potentiality. According to research data of DMC Korea, in mobile market 60.1% of customers use social platforms, and 57.6% of customers use open market platforms at the same time. Social commerce companies like Coupang, Wemakeprice, Ticketmonster and an open market company 11ST are all strong competitors of mobile shopping market. Even 11ST of SK planet took its first place in market with about 50% market shares. This competitor operates service centers for 24 hours, and guarantees the lowest price and delivery delay. These kinds of customer-centered services and Korean-oriented marketing strategies make powerful market position. Moreover, SK uses its information technology infrastructures or user networks through its subsidiary, SK Telecom. As lots of smartphone users are connected to SK Telecom, this open market company continuously expands its market power in mobile shopping markets. Based on the well-developed IT infrastructures, competitors like 11ST and Interpark have been growing, and also 'Naver' is coming into the market with its price comparing options. Recently, NHN (the new name of Naver) has launched open market business in 2012 and it has been anticipated that NHN is going to be the one of the main open market players in the near future. Different from the apprehension of the monopoly of eBay in the market, Korean online market has been in severe competitions. Competitions are getting aggressive in this market, and merged companies (AUCTION and Gmarket) of eBay are said to change and respond more actively. There

are many key factors to succeed in this market; the convenience of using mobile application for searching product or paying bills, and maximized customer services or high brand awareness and etc. Accordingly, they must be considered to catch customers in Korea.

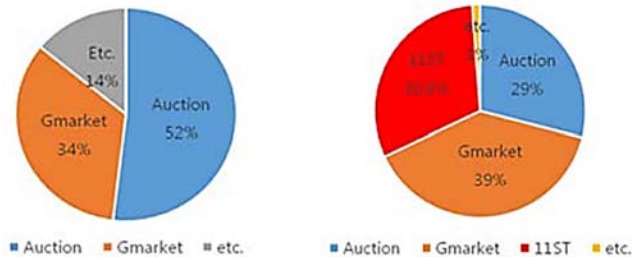


Figure 5: Market Share in 2007 (Before and after launching 11ST)

5. Findings and Implications

Based on this case, we can summarize some noteworthy and evident implications as following. First, many multinational enterprises, even small and medium sized businesses are going global by various entry modes, especially through foreign direct investment (using Greenfield or M&A) with the aim of covering overseas markets in a broad manner, finally raising profits and market share in the world market. However, the question of which approach generates more economic value is still one of the arguable debate issues in the study of international business. Nonetheless, eBay is a good example of overcoming many obstacles to acquisitions and then creating success equations in the Korean market. This case study shows the strategic entry approach used by eBay successfully through merger and acquisition, then highlights the importance of the process of post-merger integration to combine two giants into a single organization in the foreign marketplace. This merger and acquisition of two market leaders in Korea is the only successful case in Asian Markets. Moreover, the eBay's choice of entry mode through merger and acquisition to enter into the Korean market is appropriate considering the timing, synergy and efficiency by sharing their resources. Second, this case once again reminds us of the importance of the integration process after the acquisitions. There were still many obstacles while eBay obtained complete ownership of both companies. Accordingly, eBay has made much effort to overcome those hurdles in many cooperative ways such as keeping their original brand name and the domain names (auction.co.kr / gmarket.co.kr) even after the integration, then keeping existing employees in their posts as well and providing with stock options and the highest-industry salaries. eBay also endeavored to maximize the technological capability of AUCTION. eBay used AUCTION's own system for the buyer & seller protection instead of replacing that

system. It just modified a little and made the best use of the existing system. All of which helped to prevail over all of the internal resistance of the acquisitions. Lastly, eBay is now preparing to reenter the undeveloped markets with 'eBay Korea' as an Asian-Pacific outpost or as a hub of other host countries. That is, this case represents that multinational corporations can leverage their major overseas market such as Korean market to prepare for entry into another foreign markets. Based on those critical implications, this case extends a strong essence of e-commerce and open market sector, and shows the best practices how to deal with M&A and its post-merger integration in the host countries globally.

6. Conclusion

This case focuses on whether eBay has entered the Korean market by applying the method of entry (Foreign Direct Investment), especially through mergers and acquisitions. Thus, we mainly described the detailed process of merger and acquisition by eBay in the Korean market since the issue of whether multinational corporations prefer the greenfield or merger-and-acquisition approach is still controversial both among academic world and among practical field. In addition, while there are many research cases where most mergers and acquisitions fail to create their economic value, this study, which examines the successful entry and settlement process of multinational company through mergers and acquisitions in the foreign market, would be a very valuable and noteworthy case in the study of 'International Business' and 'Global Entry or Distribution Strategy' as an educational and practical example.

While the findings of this case were very significant and noticeable theoretically and practically, there are some weak points to be examined in future research. First, the current study was confined to the Korean marketplace as one of the host countries of eBay. Therefore, the main findings cannot be generally applicable to other foreign countries due to different political, economic, social and cultural environments, even internet infrastructure. Second, this study focused mainly on the process of acquisition and post-merger integration issue as a main entry strategy. Thus, after entering the Korean market, the case about how eBay is currently competing in the market environment of Korea has become so enormous and broad that it has had to divide its contents separately. Therefore, we will look at another case study through future studies. Moreover, it is necessary to compare other entry modes used by eBay to operate its business in other overseas markets to see which approach creates more value and outperform. Lastly, it also can be tested empirically to build a theoretical model of successful online retailer's business practices. Such limitations of research will be reflected in future researches.

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- According to internet world stats (2018), Brunei (94.6%), Japan (93.3%), and South Korea (92.6%), they are 3 top countries with the highest internet penetration rates. (source: <https://www.internetworldstats.com/stats3.htm>)