



# Champions Trophy

## Case Competition 2014



### Case 3: Trade Me

31 January 2014



Case prepared by Mary Dong under the supervision of Sunny Gu. This case has been prepared solely for the Champions Trophy Case Competition. All data in this case has been obtained from publically available sources and Trade Me. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

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## Benjamin Banker

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**From:** Benjamin Banker  
**Sent:** 31 January 2014  
**To:** Project Team  
**CC:** David Dollar; John Jobs; Peter Partner; Warrant Wallstreet  
**Subject:** Trade Me Group Ltd Strategy Presentation

Good morning,

Our client, Trade Me, is a local household name and is one of the most visited websites by New Zealanders. Trade Me currently has 3.3 million members (a very significant proportion of New Zealand's population of 4.4 million).

Founded in 1999, Trade Me has defined its business as connecting people and facilitating transactions online. Its core business is providing an online market place for auction and retailing of goods. Since its inception, its offerings have expanded to include properties, jobs, motor vehicles and services.

The company has experienced consistent and strong growth over the past few years. However, with intensifying international competition (particularly as international retailers become more accessible to New Zealanders), the company would like to explore options that will allow Trade Me to defend its market share in New Zealand and continue to grow.

Your team has been invited to give a PowerPoint presentation of ten minutes to the board of directors and executive team. They would like to hear your thoughts on what strategies Trade Me should pursue in order to sustain its growth both in the short and long term.

The research team has compiled some information about the client, some industry data as well as financial information to help you with your preparation.

Regards,

**Benjamin Banker**  
Senior Vice President  
SYG Consulting Group



# Company profile



## Introduction to Trade Me

Trade Me is New Zealand's leading auction and marketplace website. The company was founded in 1999 by Sam Morgan (who still sits on the company's board today as a director). In its first week of operation, Trade Me gained just 155 members.<sup>1</sup> The company subsequently took advantage of the shift online as internet access became more widespread and less expensive. Within six years of operating, Trade Me reached the milestone of gaining more than one million members.

In 2006, Trade Me was acquired by Fairfax Media (an Australian company) for NZ\$700 million.<sup>2</sup> In 2012, Trade Me went public and listed both on the NZX (New Zealand Stock Exchange) and ASX (Australian Stock Exchange). Fairfax Media also eventually sold its 51 percent interest in December 2012 to institutional investors.

Despite the changes in ownership and its public listing, Trade Me is still a distinctly New Zealand company with its slogan of "where Kiwis buy and sell". In 2013, a poll found Trade Me to be the fifth "most loved" company in New Zealand, ahead of Air New Zealand, Pineapple Lumps and L&P.<sup>3</sup>

Trade Me has continued keeping up with technology in the past few years. In 2010, its first smartphone application was launched for the iPhone. Today, Trade Me is available on a range of smartphone and tablet devices, with almost half of visitors using a device rather than a computer.

## Company milestones

- **1999:** Trade Me launched
- **2000:** Success fees charged to users
- **2003:** Reached staff count of 100
- **2004:** Awarded Deloitte's New Zealand fastest growing company
- **2005:** Property launched
- **2006:** Jobs launched
- **2010:** iPhone application launched
- **2011:** Reached staff count of 200
- **2012:** Trade Me goes public and floats on the NZX and ASX
- **2013:** Reached staff count of 300

1 [www.nzherald.co.nz/web-2-0/news/article.cfm?c\\_id=363&objectid=10372090](http://www.nzherald.co.nz/web-2-0/news/article.cfm?c_id=363&objectid=10372090)

2 [www.tvnz.co.nz/content/677092/425823.xhtml](http://www.tvnz.co.nz/content/677092/425823.xhtml)

3 [www.stuff.co.nz/dominion-post/news/9317948/Capital-company-gets-most-loved-title](http://www.stuff.co.nz/dominion-post/news/9317948/Capital-company-gets-most-loved-title)



## Website statistics and membership

Statistics for the main Trade Me website as of 7 December 2013:<sup>4</sup>

- **Number of members** (live): 3,305,615
- **Number of current listings** (live): 2,554,092
- **Average time spent on website:** Ten minutes
- **Average number of people visiting each day:** 742,417
- **Busiest day of the week:** Monday

Trade Me's membership is restricted to residents of New Zealand and Australia aged 18 and over. Under-18s who wish to use Trade Me are encouraged to use a parent or guardian's account.

While previously open to members from any country, Trade Me introduced the geographic restriction in 2005 to minimise fraud. Members now need to verify a physical address to gain a verified account (sellers have the option of restricting bids only to verified members).

## Main Trade Me website

The screenshot shows the Trade Me website homepage. At the top, there is a navigation bar with links to various services: Trade Me (Where Kiwis Buy and Sell), FindSomeone (Dating & personals), Holiday Houses (Browse & book bachres), Travelbug (Hotels & motels), LifeDirect (Compare insurance), OldFriends (Get back in touch), and Stuff.co.nz (News & entertainment). The main header features the Trade Me logo and navigation options: Browse, Sell, My Trade Me, and Community. A search bar is prominently displayed, along with links to Watchlist and Favourites. Below the search bar, there are several sections: 'Categories' with a grid of sub-categories like Antiques & Collectables, Art, Baby Gear, etc.; 'Cool Auctions' featuring a 'Celebrity painted gnome' for \$82.00; a 'Today's Daily Deal' for 'All Christmas Roll Wrapping Paper' at 50% off; a 'Compare life insurance' section on LifeDirect with a form for gender, smoking status, age, and cover amount; and 'Hotel and Motel deals' on Travelbug, including Astelia Apartment Hotel Wellington and Boulcott Suites Wellington. A 'New on Trade Me' section features a 'GLASSONS' advertisement with 'FREE DELIVERY ON ALL ITEMS'. The 'Featured Listings' section displays three items: a Mercedes-Benz 200te 1992 for \$6,500 to \$7,000, a Christchurch Burnside Dairy for sale, and a Subaru WRX Nemesis 2013 for \$48,000.

4 www.trademe.co.nz

## Company operations

Trade Me generates revenues from four online activities:

- Auctions
- Retail
- Classifieds
- Advertising

### Auctions and retail of general items

Auctions and retail of general items is the line of business that Trade Me has been operating in since its inception. It is also the core business that most New Zealanders associate Trade Me with.

Trade Me provides an auction function where sellers can list items with a minimum reserve. Sellers can also choose to have a “buy now” function on their listings. The “buy now” function allows sellers to set a price that buyers can accept for immediate purchase. Trade Me generates revenue through collecting a success fee (a percentage of the sale price paid by the seller if a transaction is successful).

It is estimated that on any given day, there will be around 40,000 sales completed on Trade Me. A large proportion of items sold through Trade Me are new, with almost half of sales being driven by new products. This is a market that the company is currently focused on to drive long-term growth.<sup>5</sup>

General items is split up into the following categories:

- Antiques and collectables
- Art
- Baby gear
- Books
- Building and renovation
- Business and industry
- Cars, bikes and boats
- Clothing
- Computers
- Crafts
- Electronics and photography
- Farming
- Flatmates wanted
- Gaming
- Health and beauty
- Home and living
- Jewellery and watches
- Jobs
- Mobile phones
- Movies and TV
- Music and instruments
- Pets and animals
- Pottery and glass
- Real estate
- Services
- Sports
- Toys and models
- Travel, events and activities

Categories of general items that have been growing in terms of value are farming, business and industry, and home and living. Categories that are declining include books, CDs and DVDs (as expected with a shift towards new technology platforms for these products). Trade Me has also suffered in its clothing category, which is attributed to international competition, with international retailers becoming more accessible to New Zealand shoppers.<sup>6</sup>

In 2013, general items accounted for around \$65.4 million of revenue (up from \$62.4 million in 2012). Revenues increased due to an increase in the average value of goods being sold as well as an increase in fees. The number of transactions actually decreased by 4.5 percent in 2013.

<sup>5</sup> TradeMe, 2013 annual shareholder meeting

<sup>6</sup> TradeMe, 2013 annual shareholder meeting

Trade Me has identified three key strategies to continue growing its core and founding business of general items:

- Functionality and design of Trade Me for buyers and sellers. Trade Me last did an overhaul of its interface in 2009 with a redesign of the website.
- Business development focusing on acquiring new sellers and retaining existing sellers already using Trade Me.
- Growing the demand of buyers. In 2013, Trade Me launched its first advertising campaign including mainstream TV advertisements.

## Classifieds

Classifieds is currently Trade Me's largest growing business with revenue growth of 29 percent in 2013. This was also the first year classifieds became Trade Me's largest revenue generator (overtaking auction and retail of general items). Classifieds generated in \$69.7 million in revenues for 2013 (up from \$53.9 million in 2012).

Because classifieds mostly deal with higher value products, Trade Me charges a listing fee. The fee depends on the value being sold, the length of time that it is listed for and level of service. Users can opt for a basic or premium listing (a premium listing will have more features and will generally gain more views than a basic one).

Classifieds is split into three product categories – properties, motor vehicles and employment.

- **Properties:** Trade Me properties has its own dedicated mobile applications, with features specific to property listings such as maps of where properties are located. At any given time, there will be approximately 120,000 properties listed on Trade Me.
- **Motor vehicles:** Motor vehicles are listed on Trade Me as well as the acquired website AutoBase. Revenue growth for motor vehicles excluding the AutoBase acquisition was 24 percent for the 2013 financial year.
- **Employment:** At any given time, Trade Me will list approximately 10,000 job vacancies. Trade Me charges \$160 for 30 days of listing a job. Unlike most of its other categories, Trade Me is not the dominant player in the online employment market. Its competitor Seek is larger with around 16,000 jobs listed at any one time.<sup>7</sup>

## Advertising

Trade Me generates advertising revenue from the various websites that it operates. Advertising is not a significant source of revenue for Trade Me as a whole. In 2013, advertising revenue grew by five percent. This figure was seen as "disappointing" by Trade Me as it was not growing as fast as other operations. Furthermore, the outlook for advertising includes challenges in tapping into the fast growing mobile market as internet users move away from their dependence on computer browsers.

## Other ventures

Besides the main Trade Me site ([www.trademe.co.nz](http://www.trademe.co.nz)), the company also operates various other online ventures. Revenue is generated from user fees as well as advertising.

Trade Me's current strategy involves actively pursuing opportunities that it believes fits into its premise of connecting people and/or facilitating transactions online.

### SafeTrader<sup>8</sup>

SafeTrader is an alternative payment option that can be used with Trade Me transactions. Once an auction or sale is completed on Trade Me, SafeTrader allows the buyer of goods on Trade Me to deposit money into a SafeTrader account. Once the buyer has paid the money, the seller is notified to ship the goods. The money is then released to the seller of the goods only when the buyer has signed for and inspected the goods.

SafeTrader charges 3.5 percent per transaction (minimum fee of \$4.95 and maximum fee of \$24.95) for transactions up to NZ\$20,000.

### Find Someone<sup>9</sup>

The screenshot shows the Find Someone website interface. At the top, there is a navigation menu with the following items: Trade Me (Where Kiwis Buy & Sell), Find Someone (Dating & personals), Holiday Houses (Browse & book baches), Travelbug (Hotels & motels), LifeDirect (Compare insurance), OldFriends (Get back in touch), and Stuff.co.nz (News & entertainment). The main banner features a smiling couple and the text 'Meet NZ singles' and 'There are 380,935 New Zealanders looking for their special someone. Join today'. A search box titled 'Search Kiwi singles' allows users to find a partner by gender (Woman or Man), location (All of New Zealand), and age (between 18 and 30). A 'Join for free' button is prominently displayed.

A New Zealand dating and matchmaking website acquired by Trade Me. In December 2013, there were around 380,000 active profiles on Find Someone. Basic use of Find Someone is free but members can pay a premium price for gold membership for additional features such as more comprehensive privacy options and uploading extra photos onto a profile.

8 [www.safetrader.co.nz](http://www.safetrader.co.nz)

9 [www.findsomeone.co.nz](http://www.findsomeone.co.nz)



## Travelbug/Holiday Houses/Holiday Homes<sup>10</sup>

Need help? Call 0800 885 284 (NZ Only) or Email Us

**travelbug**  
by trademe

Browse ▾ Shortlist Deals of the Week Secret Sale Sign In ▾

### The most places to stay in NZ

New Zealand accommodation of all types

City, hotel name etc - worldwide

Where are you going?

When? 15 Dec 2013 How many nights? 1 night

Number of people? Any Accommodation type? All types

**Search**

**DEAL OF THE WEEK**

**FROM \$175**

**Rydges Melbourne Hotel** **View**

**Melbourne**

Heading to Melbourne before the Australian Open? Consider a deluxe Queen room with buffet breakfast for ... [read more](#)

Travelbug, Holiday Houses and Holiday Homes are websites used for booking travel and accommodation. Travelbug specialises in traditional holiday accommodation such as hotels and motels. While Holiday Houses / Holiday Homes focuses on holiday properties that are available for rental. Holiday Houses and Holiday Homes are very similar websites which previously competed against each other until Trade Me acquired Holiday Homes and now operates both.

## Old Friends<sup>11</sup>

A basic social networking website designed to help New Zealanders get in contact with former classmates and co-workers. There are around 1.5 million members signed up to Old Friends.

## BookIt<sup>12</sup>

BookIt is an online system that is used by businesses to book travel and tourism services. BookIt is used by Trade Me, Travelbug and other business clients. One of BookIt's competitors, Tourism Exchange, recently exited the market.

<sup>10</sup> www.travelbug.co.nz, www.holidayhouses.co.nz, www.holidayhomes.co.nz

<sup>11</sup> www.oldfriends.co.nz

<sup>12</sup> www.bookit.co.nz

## LifeDirect<sup>13</sup>

Trade Me Where Kiwis Buy & Sell | FindSomeone Dating & personals | Holiday Houses Browse & book bachs | Travelbug Hotels & motels | LifeDirect Compare insurance | OldFriends Get back in touch | Stuff.co.nz News & entertainment

LifeDirect by trademe | About Us | Contact Us | Blog | MyLifeDirect

HOME | LIFE INSURANCE | HEALTH INSURANCE | INCOME PROTECTION | 0800 800 400 Mon - Fri 8:30am - 5pm

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Cover amount: \$ Cover Amount | Not sure? Use our calculator

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### You're in good company

10,000 smart Kiwis use LifeDirect to help find a better insurance deal every month

LifeDirect was acquired by Trade Me by 2013. LifeDirect is a free service that allows consumers to quote, compare and apply for insurance from New Zealand's leading insurance companies online. LifeDirect covers life insurance, health insurance as well as income protection insurance.

## Treat Me<sup>14</sup>

Treat Me is a daily deals website that offered discounted deals to consumers from local businesses for a limited time. Treat Me's operations is similar to Groupon or GrabOne. Due to overcrowding in the market, Trade Me divested its Treat Me operations in 2013.

## Domestic strategy

The company has identified three key areas of investment that it plans to undertake to improve its domestic operations in New Zealand:

- **People:** To ensure product development is ongoing and that services are continuously improved.
- **Advertising:** While Trade Me has succeeded in the past with little spending in promotions, the company is now expected to put money into advertising to achieve the high growth rates it has in the past. At the moment, the company is focused on traditional advertising channels such as TV advertisements.
- **New businesses, acquisitions and joint ventures:** Trade Me has recently increased its acquisitions of smaller internet companies. It is doing so in order to enter into new markets (eg. insurance with LifeDirect) as well as strengthen its position in existing markets (e.g. holiday rentals with Holiday Homes when it already operated Holiday Houses). Trade Me is also not opposed to start up new websites if it sees an opportunity in the market.

13 www.lifedirect.co.nz

14 www.treatme.co.nz

## International opportunities

With New Zealand's small population, Trade Me recognises that there is only so much it can do in the domestic market in the long term. While the company is still currently very much focused on the New Zealand market, it has started to look offshore for growth prospects.

### Seller side expansion

Trade Me has made some steps towards international expansion to increase product ranges. For example, in 2012, Trade Me signed a deal with an offshore e-commerce company ChannelAdvisor. The deal provides a channel for overseas retailers to use Trade Me to sell to New Zealand consumers.<sup>15</sup>

### Buyer side expansion

Trade Me is not currently aggressively pursuing international expansion in terms of selling to offshore consumers but is expected to make a move internationally within the next five years. At the moment, Trade Me does not have plans to enter into markets where there is already an established dominant player. The company is more open to opportunities in smaller, developing nations. An expansion could take the form of acquisition of a local player, a partnership or joint venture, or a direct entry starting from scratch.<sup>16</sup>

The company's short-term strategy for international expansion is cautious and involves looking at potential regions of expansion as well as evaluating opportunities proposed to Trade Me. While the company does not expect to be offshore in the next two to three years, CEO Jon Macdonald has expressed that if the right opportunity arises for Trade Me internationally in the short term, the company may take it.

15 [www.stuff.co.nz/business/money/6738158/Trade-Me-goes-global](http://www.stuff.co.nz/business/money/6738158/Trade-Me-goes-global)

16 [www.stuff.co.nz/business/industries/9344339/Trade-Me-to-stick-to-its-knitting-for-now](http://www.stuff.co.nz/business/industries/9344339/Trade-Me-to-stick-to-its-knitting-for-now)



# The online retail industry





## Market trends

The online retail sector is a growth industry in New Zealand as consumers become more comfortable with purchasing online, shopping on mobile devices becomes easier and the range of products available online increases. Key statistics for the industry include:<sup>17</sup>

- The New Zealand online retail market was estimated to be worth NZ\$3.2 billion in 2012.
- Online retailing is expected to grow at a CAGR (compounded average growth rate) of 14.3 percent to reach a total value of NZ\$5.37 billion by 2014.
- In 2012, approximately 1.9 million New Zealanders (almost half the population) were spending money in some form online.
- The average spend per person online was NZ\$1,659 each year.
- Online retailing made up 5.9 percent of total retail sales in New Zealand for 2012. Excluding groceries and liquor, this figure is around 9.5 percent for 2013. This percentage is expected to continue growing.
- 35 percent of online shopping in New Zealand is spent on offshore operated companies. This area of competition is of particular threat to Trade Me. New Zealanders spending money with offshore retailers is increasing at a faster rate than local online retailers. Factors that have contributed to this trend include wider range of products available offshore as well as a high New Zealand dollar on the foreign exchange market.<sup>18</sup>

A significant proportion of New Zealanders cite lower prices as one of the key drivers for purchasing online. Online retailing means that physical retailers (or the operation of physical retailing) can be cut out of the profit margin for manufacturers, allowing them to sell directly to consumers at lower prices.

Other drivers of online retail include the convenience of avoiding travelling to and queuing at physical stores and having products delivered directly to homes. Furthermore, for a small market like New Zealand, access to offshore retailers means consumers can buy products that are otherwise not available in the country.

One of the key trends in the online retail market is the growing presence of shopping on a mobile device. More than half of New Zealanders own a smartphone and more than a third have a tablet.<sup>19</sup> The New Zealand market is also starting to pick up features of the international market. In 2013, more than 80 local online retailers participated in the first “click Monday” (a variation on “cyber Monday” in the US or “click frenzy” in Australia) where discounts were offered to online shoppers. Click Monday had a successful uptake with some retailers reporting increases in sales of up to ten times more than usual.<sup>20</sup>

17 PwC and Frost & Sullivan, Australian and New Zealand online shopping market and digital insights: An executive overview July 2012

18 BNZ, Online Retail Sales Index October 2013

19 [www.stuff.co.nz/business/money/9295089/Online-shopping-jumps-18pct](http://www.stuff.co.nz/business/money/9295089/Online-shopping-jumps-18pct)

20 [www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11163112](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11163112)

## Online retail market by sectors

### Product sectors

For the year ended September 2013, the online retail market was split into the following sectors:<sup>21</sup>

- **Groceries and liquor:** 12 percent
- **Home, furniture, appliances and electronics:** 20 percent
- **Recreation, toys, games, entertainment media and books:** 12 percent
- **Fashion, cosmetics and personal:** 16 percent
- **Department, variety, daily deals and other:** 40 percent

Growth among each of the sectors is varied, however most sectors have been consistently growing more than ten percent each year since 2010. For 2013, the largest growth sector was recreation, toys, games, entertainment media and books.

### Geographic sectors

Online spending is not surprisingly dominated by the largest city, Auckland, with a population of around 1.5 million. Auckland accounted for a higher percentage of online spending than its share of the New Zealand population. Wellington and Canterbury also showed higher percentages of online spending than population compare to the rest of the country.

## Table of notable competition

With New Zealand's online retailing market showing significant growth, Trade Me is expected to face intense competition as both local and international players attempt to gain market share. The following is a table to notable competition that Trade Me currently faces in its various operations:

Industry	International Competitors	Local Competitors
Auctions	eBay	Wheedle
Online retail	Amazon	Physical retailers, The Warehouse (general merchandising – stores and online), Fishpond, Mighty Ape
Classifieds		Newspapers (physical and online), Seek (jobs)
Advertising	Facebook, Google	News websites

21 BNZ, Online Retail Sales Index October 2013

## Local players

Direct local competition for Trade Me in terms of its core business of being an online auction website is low. While various competitors have attempted to enter the market, none have been particularly successful. By being the first mover, Trade Me has taken advantage of the network effect of being the service with the largest number of buyers and sellers. Despite competitors such as Sella providing auctions services for free, Trade Me has remained the dominant player in the market.

### Sella<sup>22</sup>

Sella launched in 2008 and was one of various entry attempts into the online auction market. Sella provides auction and retail services for free (as opposed to Trade Me's listing and success fees). Sella's business model was to gain revenues from advertising rather than charging its members. With a lack of success, Sella exited the business in March 2013.<sup>23</sup>

### Wheedle<sup>24</sup>

**wheedle**  
LET'S GET TOGETHER

ALL CATEGORIES Q LOG IN REGISTER SELL

Hide

**Hi. We've been flat out coming up with more great ways to help you turn your stuff into ...**

MORE

**THIS!**

**All categories**

- Antiques & collectables
- Art
- Baby gear
- Giveaways
- Health & beauty
- Home & living
- Sports
- Toys & models
- Travel & events

Wheedle is another domestic player that attempted to compete with Trade Me. When Wheedle first launched, the service had severe security and technical difficulties (for example, it was possible for users to set "buy now" prices for auctions that were not theirs). These problems resulted in Wheedle shutting down indefinitely in 2012.<sup>25</sup> Wheedle has since then re-entered the market and has launched TV advertisements to promote its website. Wheedle charges listing fees but no percentage success fees.

22 [www.sella.co.nz](http://www.sella.co.nz)

23 [www.nbr.co.nz/article/sella-pulls-out-auction-market-classifieds-be-rolled-herald-ck-136710](http://www.nbr.co.nz/article/sella-pulls-out-auction-market-classifieds-be-rolled-herald-ck-136710)

24 [www.wheedle.co.nz](http://www.wheedle.co.nz)

25 [www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=10837782](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10837782)

## Fishpond<sup>26</sup>

Fishpond is an e-commerce company focused on selling new goods online. The company's mission is "to build the best place for Australians and New Zealanders to buy online". Fishpond gained momentum by being the first online seller of books in New Zealand. Fishpond's services include free shipping with the majority of products.

## Mighty Ape<sup>27</sup>

Mighty Ape is a direct competitor with Fishpond. The company started out operating physical stores selling games (and subsequently CDs and DVDs) but re-launched as an online store in 2008. Mighty Ape currently stocks more than 360,000 products. Mighty Ape received awards for being the best shopping site and best overall site in New Zealand's NetGuide Web Awards.

## The Warehouse<sup>28</sup>

The Warehouse is New Zealand's largest general merchandise retailer. The company operates both physical and online stores. By 2013, The Warehouse had 92 stores throughout New Zealand as well as an extensive online operation. The Warehouse is branded to provide the lowest priced products with its slogan of "where everyone gets a bargain".

In 2012, The Warehouse acquired Noel Leeming, an electronics retailer. Noel Leeming continues to operate its own branded stores as well as its online shop.

26 [www.fishpond.co.nz](http://www.fishpond.co.nz)  
27 [www.mightyape.co.nz](http://www.mightyape.co.nz)  
28 [www.thewarehouse.co.nz](http://www.thewarehouse.co.nz)



## International players

### Amazon

Amazon developed from being an online book seller to the world's largest online retailer. Amazon had revenues of US\$61 billion in 2012. The company provides a comprehensive range of consumer goods online encompassing Trade Me's offerings in their general items category.

While previously inaccessible to New Zealand consumers due to currency barriers and the high cost of shipping, Amazon is being used more frequently by New Zealanders. Amazon is particularly popular for its Kindle books and items that are otherwise unavailable in the New Zealand market.

### eBay

eBay is an international online auction website with a "buy now" feature (similar to Trade Me). eBay is the dominant player in the US and is actively expanding into different countries. eBay now has operations in more than 30 countries. The company also has a significant investment in the classifieds website Craigslist. In 2012, eBay had revenues of US\$14 billion.

In 2001, eBay attempted to enter the New Zealand market but pulled out after it failed to gain market share. Like Trade Me, eBay used a kiwi icon for its New Zealand operations. In an interview, Sam Morgan attributes eBay's failure in New Zealand to a lack of investment and lack of understanding for the local market (for example, using US dollars instead of New Zealand dollars).

### Taobao

Taobao is China's dominant online auction and retail website. Since launching in 2003, Taobao now has more than 500 million users and lists around 800 million products at any given time. While Taobao was launched after eBay acquired the largest local player, Taobao was ultimately able to overtake eBay in market share to become the dominant player. Taobao did this through offering free listings and providing services such as instant messaging between traders as well as safer payment methods.



# Financial information



The financials for the past three years are provided both in this case as well as in excel format on the USB you have been provided.

## Income statements

Income statements (000's)	2013	2012	2011
<b>Revenue</b>			
General items	65,496	62,408	59,487
Classifieds	69,708	53,904	44,717
Other	28,910	26,146	21,007
<b>Total revenue</b>	<b>164,114</b>	<b>142,458</b>	<b>125,211</b>
<b>Operating expenses</b>			
Employees	(21,203)	(17,228)	(12,801)
Web infrastructure	(3,016)	(2,895)	(1,733)
Promotion	(2,750)	(2,602)	(3,027)
Other	(13,683)	(13,097)	(8,929)
<b>Total expenses</b>	<b>(40,652)</b>	<b>(35,822)</b>	<b>(26,490)</b>
<b>Other</b>			
Income from investment in associate company	-	502	514
Gain from disposal of interest in associate company	-	3,269	-
<b>EBITDA</b>	<b>123,462</b>	<b>110,407</b>	<b>99,235</b>
Depreciation and amortisation	(8,735)	(5,165)	(3,519)
<b>EBIT</b>	<b>114,727</b>	<b>105,242</b>	<b>95,716</b>
<b>Finance income and costs</b>			
Finance income	1,926	1,329	5,563
Finance costs	(7,185)	(4,042)	-
<b>Total finance income and costs</b>	<b>(5,259)</b>	<b>(2,713)</b>	<b>5,563</b>
<b>Profit before tax</b>	<b>109,468</b>	<b>102,529</b>	<b>101,279</b>
Income tax	(30,872)	(26,937)	(31,531)
<b>Net profit</b>	<b>78,596</b>	<b>75,592</b>	<b>69,748</b>

Note: Trade Me currently pays around 80 percent of its net profit as dividends to shareholders.

## Balance sheets

Balance sheets (000's)	2013	2012	2011
<b>Current assets</b>			
Cash and cash equivalents	48,857	39,135	6,012
Trade and other receivables	9,004	5,310	43,309
<b>Total current assets</b>	<b>57,861</b>	<b>44,445</b>	<b>49,321</b>
<b>Non-current assets</b>			
Trade and other receivables	814	-	-
Derivative financial instruments	78	-	-
Property, plant and equipment	5,449	4,342	4,081
Goodwill	730,703	729,724	721,561
Other intangibles	45,672	43,675	35,975
Deferred tax asset	875	824	189
Investment in associate	0	0	546
<b>Total non-current assets</b>	<b>783,591</b>	<b>778,565</b>	<b>762,352</b>
<b>Total assets</b>	<b>841,452</b>	<b>823,010</b>	<b>811,673</b>
<b>Current liabilities</b>			
Trade and other payables	11,522	9,649	25,557
Derivative financial instruments	24	-	-
Income tax payable	6,953	8,944	16,308
<b>Total current liabilities</b>	<b>18,499</b>	<b>18,593</b>	<b>41,865</b>
<b>Non-current liabilities</b>			
Loans and borrowings	165,858	165,758	-
Other non-current liabilities	29	80	250
<b>Total non-current liabilities</b>	<b>165,887</b>	<b>165,838</b>	<b>250</b>
<b>Total liabilities</b>	<b>184,386</b>	<b>184,431</b>	<b>42,115</b>
<b>Net assets</b>	<b>657,066</b>	<b>638,579</b>	<b>769,558</b>
<b>Equity</b>			
Contributed equity	1,069,196	1,069,051	-
Share based payment reserve	557	200	-
Other reserves	(485,737)	(485,737)	749,885
Retained earnings	73,050	55,065	19,673
<b>Total equity</b>	<b>657,066</b>	<b>638,579</b>	<b>769,558</b>



## Share price history

Date (dd/mm/yy)	Open	High	Low	Close	Volume
01/01/2014	4.06	4.25	3.95	4.24	577000
02/12/2013	4.35	4.35	4.06	4.06	1254500
01/11/2013	4.53	4.59	4.19	4.33	1115800
01/10/2013	4.59	4.76	4.47	4.5	1062200
09/09/2013	0.05072 dividend per share				
02/09/2013	4.35	4.75	4.34	4.56	1532800
01/08/2013	4.73	4.99	4.28	4.35	2161200
01/07/2013	4.86	4.88	4.67	4.78	971700
03/06/2013	4.95	4.95	4.48	4.87	925500
01/05/2013	4.93	5.45	4.75	4.95	3030300
01/04/2013	4.73	5.06	4.67	4.94	1230900
08/03/2013	0.075 dividend per share				
01/03/2013	4.87	4.99	4.5	4.73	1464200
01/02/2013	4.2	5	4.16	4.93	2703400
01/01/2013	3.95	4.3	3.85	4.18	2027600
03/12/2012	4.2	4.3	3.91	3.95	11441500
01/11/2012	4.3	4.34	3.98	4.22	471700
01/10/2012	4.01	4.45	4	4.29	820200
12/09/2012	0.108333 dividend per share				
10/09/2012	0.108333 dividend per share				
03/09/2012	3.88	4.08	3.86	4	1275600
01/08/2012	3.7	3.98	3.7	3.89	1020800
02/07/2012	3.74	3.78	3.55	3.71	667000
01/06/2012	4.02	4.04	3.53	3.73	2037000
01/05/2012	3.61	4.09	3.61	4.07	1461200
02/04/2012	3.49	3.65	3.36	3.62	568700
01/03/2012	3.16	3.53	3.07	3.49	442200
01/02/2012	2.85	3.18	2.85	3.16	1352500
02/01/2012	2.93	3.05	2.84	2.85	379600
13/12/2011	2.75	2.99	2.74	2.95	2456200



# Appendices



## Trade Me to hike fee for selling homes

**NZ Herald, By Alanah Eriksen, 31 October 2013**

People trying to sell their homes may have to fork out an extra \$230 to have the property listed on Trade Me - on top of real estate agent fees and commission they already pay.

The online auction site stands to make a huge profit from the increased fees - which the company encourages agents to pass on to homeowners.

Real estate offices had listed their properties on the site at a discounted fee. But from tomorrow, as contracts come up for renewal, each listing will be charged at \$159.

Most agencies had absorbed the old costs but say they will now pass it on to vendors.

In a letter to agencies, Trade Me recommended vendors be charged \$199+GST (\$228.85), allowing a 20 per cent commission for agents.

This is on top of real estate fees, which in the Auckland region can range from 2.95 per cent to 4 per cent for the first \$300,000 of the sale price, and then 2 per cent to 2.5 per cent for anything on top of that, according to Real Estate Consulting New Zealand.

An administration fee can be up to \$500.

The site has also raised the fees it charges to list rental properties, commercial leases and businesses.

Real estate agencies were fuming when contacted by the Herald yesterday. First National general manager Colleen Milne said: "We're really unhappy with that because a lot of our owners have absorbed that cost till now.

"Trade Me really are promoting that they should be getting an equal cut of the pie, so I've asked them to justify it. And they haven't been able to ..."

She said the company would not charge vendors rates proposed by Trade Me but would pass on the actual costs.

"First National is one of the first groups to support Trade Me and I made my opinion very strong that I felt they had a monopolistic kind of attitude."

Professionals chief executive Mike Henderson said: "For us to shift from a capped environment to a listing fee environment straight away without actually really thinking it through and forming the right strategies and deciding how we want to manage this increasing cost, just seemed a wee bit rapid. Trade Me will close to treble their revenue streams." "

Trade Me spokesman Paul Ford said the new fees "better reflect the value delivered". He said the company was recommending agents pass on the costs to home-owners as it was the right thing to do.

Real Estate Institute chief executive Helen O'Sullivan said listing on Trade Me would become an "added extra" for vendors, rather than automatic when signing up with an agent.

But she said print advertisements were still a popular way to advertise as well as realestate.co.nz.

Trade Me chairman David Kirk told yesterday's annual shareholders' meeting in Wellington that revenue from classified ads for cars, houses and jobs was up 30 per cent and was now "delivering the bulk of earnings growth today"



## Trade Me lifts profit, warns of slower growth

*NZ Herald, 21 August 2013*

Trade Me, New Zealand's largest online auction site, posted slower profit growth for 2013 and warned earnings growth would remain tepid in the coming year as it reinvests in its business.

Trade Me profit rose 4 per cent to \$78.6 million in the year ended June 30, slower than the 8.4 per cent pace a year earlier, the Wellington-based company said in a statement.

Revenue rose 15 per cent to \$164.1 million as classified advertising sales surged 29 per cent while fees from sales of general items rose 5 per cent. Profit was just above First NZ Capital's estimate of \$77.6 million.

"We expect to grow top line revenue and bottom line earnings but these will reflect slower growth than we've recorded this year while we focus on reinvestment in the business," said chief executive Jon Macdonald.

Trade Me, which has attracted about two thirds of New Zealand's population to its online marketplace, is adding to its core auctions business to drive future growth.

The company said today it has agreed to buy online insurance comparison business LifeDirect, adding to its purchase of inventory management company Tradevine and holiday rental accommodation website Holiday Homes in the past year.

Trade Me, which was spun out of Fairfax Media in 2011 in an initial public offering, said profit growth slowed in 2013 reflecting higher interest costs following its IPO and because of a \$3.3 million one-time gain the year earlier. Finance costs increased 78 percent to \$7.2 million in 2013.

Earnings growth was likely to slow further in 2014 as the company invests in improving the performance of its general items auction unit, develops products and marketing for its classifieds section and looks to new business opportunities and revenue lines, Trade Me said.

Some 40 per cent of all visits to Trade Me are from mobile devices and the company is developing technology applications to meet the demand, the company said.

"Growth in mobile, new products in the classifieds, the migration of advertising yield online, the long-term opportunity in online retail and forays into new businesses all provide sizeable opportunities for Trade me over the coming years," Macdonald said.

The migration of online activity to mobile devices constitutes "both an opportunity and a threat to us".

The company's expenses rose 13 per cent to \$40.7 million in 2013 as it took on new staff to accelerate produce development.

Trade Me will pay a dividend of 8.3 cents a share to be paid on September 24.

The shares last traded at \$4.70 and have gained 19 per cent this year.

## Main Trade Me competition from offshore

*www.stuff.co.nz*, By Tom Pullar-Strecker, 30 October 2013

New homegrown competitors to Trade Me, which include Wheedle, are “nowhere to be seen”, chief executive Jon Macdonald told several dozen shareholders at the company’s annual meeting in Wellington.

But he warned investors that the company was facing tough competition from overseas e-commerce firms which were selling online to New Zealand consumers.

Without improvements, Trade Me risked “falling behind” when it came to providing the experience people now expected when shopping online, he said.

“To be straight with you, that means spending more,” Macdonald told investors.

“That means we expect our growth to be subdued in the coming year.

“While we will remain a high-margin business, we do need to grow our team and increase our marketing spend.”

Trade Me chairman David Kirk said Fairfax’s decision to sell its 51 per cent stake in Trade Me last December had proved beneficial for the online auction house and listings site.

The selldown and the influx of new investors had propelled the company into the NZX10 and ASX200 indices.

Shareholders passed a motion to increase the annual cap on Trade Me’s directors’ fees from \$650,000 to \$800,000.

Kirk said Trade Me might add an additional sixth director to its board.



## Trade Me raises sale fees 5.3pc

**www.stuff.co.nz, By Tom Pullar-Strecker, 26 September 2013**

Trade Me will raise the “success fees” members pay to sell most items through its online marketplace by more than 5 per cent on Monday.

The announcement of the pending hike was met with a mixture of indignation and resignation on the company’s community bulletin board.

Last month Trade Me reported an 8.4 per cent jump in its annual profit to \$75.6 million. One member described the price rise as “greedy”, placing the company in the same category as “councils, power companies, water companies, supermarkets, petrol companies and so many more”.

Others said rival free auction sites were no real alternative because they lacked a critical mass of buyers. Some said they were having success selling items through Facebook, but one poster forecast nothing would change.

“People will moan for a while and will suggest the sky is falling in. Others will suggest going to ‘X site’ or ‘Y site’ instead and a few will try. Ultimately, all will find that selling through here is still the easiest way to go because the buyers are here.”

Trade Me said the fee for selling an item valued at \$50 - about its average trade - would rise from \$3.75 to \$3.95, an increase of 5.3 per cent.

The highest rise would be for items priced at \$1500, for which success fees will increase by 8.1 per cent to \$79.50. There will be lower increases on higher-priced items and no change to the maximum \$149 success fee.

The changes will not apply to cars sold through its motoring section.

Marketplace head Craig Jordan said Trade Me had not increased its success fees on general items since February last year, 20 months ago.

“We took a long look at the value we were delivering to our sellers and we arrived at a price where we thought we were delivering good value for money.”

Traffic to Trade Me’s site had grown 18 per cent over the past year, Jordan said, which was in part due to the investment it had made in new mobile apps and interfaces designed to make the site more smartphone-friendly.

Forsyth Barr analyst Rob Mercer said Trade Me probably considered it was undercharging for low-value transactions and he doubted the fee rise would dissuade traders.

Real-time banking, which meant traders got paid faster, and efficiencies and consolidation in the courier industry could make it easier to trade, offsetting any impact.

### **BRINGING TRADE ME INTO THE 21ST CENTURY**

Trade Me is testing a new homepage design with a subset of its members to get their feedback.

Proposed changes include making it easier for visitors to click through to its motors, jobs and property sites.

The company said more than one in 10 visitors headed straight to these sections and the subtle redesign was done to bring the site into the 21st century and set it up for “more exciting changes to come”.

Trade Me has said it sees the greatest growth potential in helping retailers sell new goods through its site.

Links to members’ watchlists, “Favourites” and “My Trade Me” are now included on every page. Another new feature is a list of “handy links” at the bottom of each page.

The new design drew hundreds of comments from the randomly chosen triallists. More controversial changes included relegating Trade Me’s auction clock to the bottom of each page and doing away with “Help” and “Home” buttons.

## Brick-and-mortar shops still favoured for shopping

*NZ Herald*, By Daniel Lynch, 11 December 2013

New Zealanders are becoming keen online shoppers but most are still opting for brick-and-mortar retailers in the lead up to Christmas.

Only 16 percent of shoppers have, or will be heading online to buy gifts this Christmas, a new survey on consumer shopping trends has revealed.

Many people prefer the convenience of being able to dash down to the local shops, MasterCard country manager, Peter Chisnall said.

“Kiwis in general have really embraced online shopping, however it seems when it comes to buying Christmas gifts, the bulk of consumers still like to tread the pavements and select gifts in person,” said Chisnall.

The research, commissioned by credit card company MasterCard, also found that kiwi consumers were influenced heavily by the ‘ability for recourse with local retailers if something should go wrong,’ as well as ‘best price,’ ‘quality’ and ‘convenience,’ when deciding where to purchase goods.

“Although its common place to hear kiwis bemoan the hustle and bustle of the shops at Christmas, for most of us the desire to actually see and examine the goods we are buying prior to purchase will trump the convenience of shopping from home,” said Chisnall.

## Online advertising revenues headed for record

**www.stuff.co.nz, By Josh Martin, 22 November 2013**

Companies are spending more of their advertising budgets on interactive, online campaigns than ever before.

Advertising spend in New Zealand's interactive market, on websites like stuff.co.nz, Trade Me and Facebook, will surpass a record \$400 million by year-end, according to a report by the Interactive Advertising Bureau (IABNZ) and PwC.

For the three months to September 30, advertising spending totalled \$120m, a 27 per cent jump for the same period last year.

The year-to-date total for online advertising spending of \$328m, is already more than double the \$137m spent in 2007.

However, the \$400m target for the year is still well below the \$614m spent in 2012 on television advertising, or \$540m in newspapers.

The online advertising surge is in line with global industry average annual growth rates of 13 per cent, compared to traditional media advertising growth rates of only 1.6 per cent a year.

Search engines and directories accounted for the largest share of online advertising spending, \$52m in the September quarter, followed by classifieds, \$33m and total display, \$30m, which incorporates advertising on YouTube and "on-demand" video streaming ads.

Mobile advertising had its largest period gain to date, more than doubling year-on-year, as more people access news and content on their smartphones and tablets the report found.

Government services, investment and banking services, travel and tourism, and food and beverage made up a combined 45.8 per cent revenue share.

Traditional advertising clients like retail and real estate made up only 6.9 per cent and 1.2 per cent of the total online spend per industry.

## AT Kearney 2013 Global Retail Development Index

AT Kearney's index analyses the top 30 countries for online retail investment both for developed and developing nations. The index gives each country a score for online market size, consumer behaviour, growth potential and infrastructure. Replicated below, are the rankings for market attractiveness along with the scores for online market size and growth potential.

Rank	Country	Market Type	Online Market Size	Growth Potential
01	China	Next generation	100	100
02	Japan	Digital DNA	100	17.4
03	United States	Established and growing	100	39.9
04	United Kingdom	Established and growing	100	14.7
05	South Korea	Digital DNA	79.6	9.3
06	Germany	Established and growing	90.3	28.1
07	France	Established and growing	85.5	7.4
08	Brazil	Next generation	37.2	64.7
09	Australia	Established and growing	15.7	46.2
10	Canada	Established and growing	17.7	48.3
11	Singapore	Digital DNA	2.3	28.9
12	Argentina	Next generation	9.2	75.7
13	Russia	Next generation	34.9	56.4
14	Hong Kong	Digital DNA	3.2	17.2
15	Italy	Next generation	16.1	64.3
16	Sweden	Established and growing	12.1	21.7
17	Slovakia	Next generation	2.0	86.4
18	New Zealand	Digital DNA	2.5	28.1
19	Netherlands	Established and growing	16.2	17.4
20	Chile	Next generation	3.9	56.5
21	Finland	Established and growing	13.3	13.6
22	Turkey	Next generation	10.7	72.9
23	Venezuela	Next generation	2.5	100
24	Belgium	Established and growing	9.8	26.5
25	United Arab Emirates	Next generation	0.9	49.2
26	Norway	Established and growing	12.3	9.7
27	Ireland	Next generation	7.2	42.2
28	Denmark	Established and growing	10.2	14.1
29	Switzerland	Established and growing	13.2	10.9
30	Malaysia	Next generation	1.0	44.2

One notable exclusion to the top 30 list is India. While the population of India is 1.2 billion, there is currently low internet penetration (only ten percent) and poor infrastructure.

**Next generation:** Next generation markets include developing nations with high growth potential but a lower internet penetration rate. Of the consumers that are online, around 40 percent will make online purchases. Next generation markets also have significant mobile device penetration rates.

**Established and growing :** Markets that are well established but are still growing. Access to internet is high (around 80 percent or more of the population are on the internet) and users will routinely purchase online.

**Digital DNA:** Digital DNA markets are mostly developed nations in the Asia-Pacific region. There is strong internet use and significant online buying among consumers. A larger proportion of online consumers in digital DNA markets are sophisticated and are looking for compelling experiences online.



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