
Section 14

AH, THAT'S HOW YOU DO IT

eBay

The global yard sale

ONE LONG WEEKEND IN 1995, PIERRE OMI DYAR, A YOUNG French-Iranian computer programmer, sat down in his San Jose home office and created the website that would shortly make him one of the richest men on the planet, worth \$9.9 billion in 2005. His idea was eBay, or, as it started out, AuctionWeb: a website where people could post things they had for sale and other people could bid for them.

Paris-born Omidyar grew up in Maryland after his father moved there to take up a urology residence at the Johns Hopkins University Medical Center. Pierre demonstrated an early interest in computers, at one point writing a program for his school library, earning \$6 an hour. He studied computing at Tufts University and then worked at several firms, including General Magic, a developer of mobile computing devices. In his spare time, he navigated the emerging Internet, where he encountered bulletin boards where people advertised their stuff for sale. Omidyar decided to start a site called AuctionWeb where items were bought and sold by auction. This project would improve his programming skills, and hopefully the site would sell an old laser printer he didn't want anymore.

By today's standards, AuctionWeb looked plainer than the classifieds page of a newspaper. There was no budget for graphic design or marketing. Omidyar was actually worried about paying his \$30 monthly Internet bill. But the site was free, and slowly, through word of mouth, the listings began to build.

By February 1996, there was so much traffic on AuctionWeb that Omidyar's Internet service provider started charging him a

commercial rate of \$250 a month. Omidyar decided the only way he could justify keeping the fledgling site going was to pass some of the cost on to its users, and he started levying a commission on sales. He feared that would be the end of the experiment, but, to his amazement, sellers were happy to pay it. Unlike 99 percent of start-ups, Omidyar had discovered a straightforward revenue stream that actually covered his costs. He also gave his business a name: Echo Bay Technology Group, chosen because it sounded cool, but the closest domain name he could register was eBay.com.

In late 1995, Omidyar decided he needed a partner. He chose a young Canadian called Jeff Skoll. Skoll, a computer engineer and Stanford MBA graduate, had several assets including a head for business and a large living room in nearby Palo Alto, which became AuctionWeb's head office. Skoll wrote the firm's first business plan and became its first president, then its vice president of strategic planning and analysis. By June 1996 (nine months after the launch), revenues had doubled for the fourth consecutive month, bringing in enough money for them to quit their day jobs. So many checks were piling up at the door that Omidyar had to hire somebody to open them, he later recalled.

In 1997, the site changed its name to eBay. When eBay went public in September 1998, it was valued at \$2 billion. By July 1999 Omidyar was worth \$10.1 billion. Skoll's share made him Canada's fifth-richest man and a subject of some hilarity when, worth \$4.8 billion in mid-1999, it was revealed he was still living in a student share house. (Still worth some \$3.7 billion—and ranked Canada's third-richest man in 2003–2004—Skoll left eBay in 2001 to start a charitable foundation and is now dabbling in movies, making films with a social justice bent with a vehicle called Participant Productions.)

Why was eBay so successful? Omidyar instinctively (or inadvertently) made several great decisions in the site's first few years of life. His decision to run auctions, not just allowing people to post items with "for sale" signs on them, was made out of a libertarian

desire to create a level playing field, but it had an unexpected side effect: people became addicted to the competitive nature of bidding. His decision, out of necessity, to charge a commission rather than, say, hoping to gain cash from banner ads, meant eBay became one of the rare Internet businesses that actually made a profit from the outset. Omidyar also kept a realistic focus on costs—employees assembled their own desks and Omidyar bought discounted cubicles from a warehouse.

When users suggested improvements to the site, Omidyar introduced them immediately. When he became swamped by emails, he added a bulletin board to the site where users could help each other out. Then he added the feedback rating system, which tackled the fundamental problem of trust. How do you know the seller will send you what you've paid for? Omidyar believed people were basically good and would generally do the right thing. But to encourage people to stick to the right path, he introduced feedback ratings that allowed users to police each other. Miscreants attracted black marks that warned other users to avoid them. To Omidyar's surprise, though, most feedback was enormously positive—people felt good about giving praise where it was due.

By encouraging eBay's users to manage their own affairs, Omidyar reduced the time he had to spend running the site and, later, the number of people he had to hire. It also fostered a sense of community that persisted as the site grew from the equivalent of a small village to the largest city in the world. Once the mechanics were in place, growth was exponential. As anybody who has devoted a few hours to browsing the site has discovered, eBay is addictive, combining the thrill of bargain hunting in the world's biggest yard sale with the frisson of auctions. "Where eBay departs the traditional pleasure of a flea market, though, is its sheer scale and its searchability," wrote author William Gibson, who became obsessed with eBay's watch auctions. "If you can think of a thing, you can search it on eBay. And, very probably, you can find it."

One of the best-known myths about eBay is that it was set up by Omidyar to help his girlfriend, Pam, sell her Pez dispensers. The press loved its rags-to-riches quirkiness, and, in 1998, hundreds of papers, including the *Wall Street Journal*, repeated the story, which was actually fabricated by a PR person, who admitted she used it to make eBay more interesting to reporters. (The story circulated now is that Omidyar used the embryonic eBay to sell an old laser printer, which sounds dull enough to be true.)

In mid-1997, Benchmark Capital, a venture capital firm, invested \$5 million, which brought eBay a color website and a professional management team. In March 1998, Omidyar recruited Hasbro marketing executive Meg Whitman to become eBay's CEO. eBay was still a small start-up, but Whitman, a career manager with an economics degree from Princeton and an MBA from Harvard, had "an instinct that this could be big," as she told Oprah Winfrey in 2003. Others hadn't always seen the potential. In 2000, eBay had courted AOL and Yahoo over possibly selling them the business; both parties demurred. With a strong focus on cost management still alien to most Internet start-ups, Whitman took eBay public, growing the business from net income of \$7.2 million in 1998 to \$778 million in 2004, with 8,100 employees.

Along the way, she earned stock options that have made her a billionaire in her own right. In 2005 *Fortune* named her the most powerful woman in business. Omidyar stepped down from the day-to-day running of eBay in 1998. Today, he sits on the board of the Internet community classified website Craigslist, drives a Mini Cooper, and has pledged to give away most of his eBay billions through a foundation called the Omidyar Network.

There are still millions of little traders on eBay, but to make real money eBay has always aimed at higher-priced items. eBay is now the country's leading seller of used cars; sales of cars and parts now turn over some \$8.7 billion. In 2001, eBay allowed sellers to open virtual storefronts on the site: in less than two years 30,000

“shopkeepers” signed up. By 2004, some 150,000 small business-people earned their living buying and selling on eBay, running eBay “shops”; more than 430,000 small businesses in the USA trade on eBay. And big business is experimenting with this brand new virtual economy too: Intel, Continental Airlines, and Cadbury Schweppes are among a growing number of corporations experimenting with business, eBay-style. In 2002, Nissan auctioned the first of its new 350Z sports cars on the site, making three times the sticker price and generating much free publicity along the way. The site is hoping cross-promotions with bricks-and-mortar businesses will further legitimize the online auction system.

As it grew, eBay required more complex governance. In the early days, users could buy or sell anything. Items put up for auction have included a seventeen-year-old Miami high school student’s virginity (eBay cancelled the auction after bad publicity); a lunch date with investment guru Warren Buffett (sold for \$202,000), a human soul (sold for \$1,325 in March 2000 to a New York real estate agent); a Russian space shuttle prototype with a starting bid of \$500,000 (no bids); and, in 2004, half of a grilled cheese sandwich that resembled the Virgin Mary (sold for \$28,000).

Today, morally difficult items including guns, pornography, counterfeit designer handbags, and pirated software are banned, and listings are routinely scanned for contraband. Omidyar likens it to running the government of a small state. In fact, if eBay’s community were a country, it would be the eleventh most populous—with 100 million users, it is larger than Great Britain or Mexico.

Its biggest challenge now is to expand and grow revenue while retaining its traditional users. eBay is much more than an auction house, wrote Michael S. Malone, a *Forbes* editor-at-large and one of eBay’s first shareholders. “Once you realize that it becomes obvious that crucial to the company’s long-term success is the ability to cultivate and nurture that community.” He added a warning: “If eBay ever stops listening to its community it will wither and die.”