Chapter IX
eBay: An E–Titan Success Story

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ABSTRACT

eBay provides online marketplaces for the sale of goods and services, online payments, and online communication offerings. Their three primary business segments are: eBay Marketplaces, Payments, and Communications. The Marketplace platform has grown beyond the initial auction platform to include Rent.com, Shopping.com, Kijiji, Craigslist, mobile.de, and Marketplaats.nl. PayPal enables individuals and businesses to easily and securely transact payments. The overgrowth of eBay may have brought about the management problems in a young company that grows so fast. As the eighth largest global retailer, eBay’s mission is to pioneer new communities around the world built on commerce, sustained by trust, and inspired by opportunity. Their ability to maintain or enhance this position will depend on their ability to adapt to new technologies while facing increased competition and anticipating customers’ needs. This chapter will address management’s philosophies, the corporate business model, its challenges, and network relationships, and examine corporate growth to date as well as future horizons.
ORGANIZATION BACKGROUND

History

Pierre Omidyar earned his undergraduate degree at Tuft’s University and worked for Apple Computer after graduation. He cofounded Ink Development Corporation, later renamed eShop, which was later bought out by Microsoft (eBay, 2005a).

Subsequently while working for a mobile communication company and inspired by his future wife’s Pez collection, Omidyar brainstormed the idea of an online auction where people would be able to trade with each other. In 1995, while keeping his day job he cofounded AuctionWeb with Jeff Skoll, a Stanford MBA graduate. Omidyar created the concept of serving people on the Web, and Skoll provided the business experience to turn the concept into a business (Bunnell, 2001). The company incorporated in 1996, and with the rapid growth of the company the need for additional capital was recognized in the spring of 1997.

During the 1990s, as a result of Silicon Valley’s successes, there was a tremendous amount of venture capital available for Internet start-ups, the new “darlings” of Silicon Valley. The computer age was changing its focus from electronic manufacturers to the application of these products to the Web married to business models that promised to change the way people did business. AuctionWeb’s person-to-person online trading was provided its initial funding of $5 million from Benchmark Capital. In exchange the venture capitalist group received stock and warrants representing 22% of the company.

In September 1997 the company formally adopted the name eBay, and began to post banner ads on selected sites and ad placement in certain publications. By year end, eBay’s revenues topped $350 million and 850,000 registered users. In collaboration with the venture capitalist group the fast growing online auction company began to solicit talents that would allow the company to realize its potential.

Management

The search for a CEO in March 1998 resulted in the recruitment of Meg Whitman. As General Manager of the $600 million Preschool Division of Hasbro, Meg had strong “brand-building” experience. Meg Whitman’s employment package included an option to purchase 7.2 million shares of stock, which represented approximately a 6% ownership of eBay which once exercised made the CEO a billionaire.

The new CEO recognized the need for additional strong management to develop the company which was operating in a new and undeveloped business arena. Howard Schultz, chairman and CEO of Starbucks, and Scott Cook, chairman of Intuit, both experienced in successful enterprises in previously undeveloped consumer markets, were brought in as board members (Bunnell, 2001).

Most of eBay’s key executives who were first recruited came from the managerial ranks of traditional business: Meg Whitman from Hasbro; Matt Bannick, vice president of customer service, from McKinsey & Company; CFO Gary Bengier from Kenetech Corporation, an energy service firm; and Marketing Senior Vice President Brian Swette from Pepsi-Cola. The philosophy of the company encouraged hiring experienced management with technical know-how in marketing, corporate finance, and human resource management.

Going Public

After an unprecedented growth, in September 1998, the NASDAQ market made an 18% downward adjustment. September 1998 was also the date of eBay’s Initial Public Offering. Despite market jitters, the IPO underwritten by Goldman, Sachs, Donaldson, Lufkin & Jenrette, Bancam-
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