

**CASE # 3<sup>1</sup>**  
**EBay- A Business History**  
**TO APPEAR IN-“E-COMMERCE MANAGEMENT: TEXT AND CASES” BY**  
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*Introduction*

eBay is a vibrant gathering place where consumers can sell anything to interested buyers. Examples of items sold range from Harley Davidsons, cars, antique vases, stamps, coins, dolls, beanie babies, jewelry, computers, tickets, software, concert tickets, cameras etc. The list is endless.

Meg Whitman, the current CEO, describes the nature of the company in this way<sup>2</sup>-

We think of eBay as a global, online trading company. That might sound foreign, but that's because we really did create something entirely new that took unique advantage of the Internet. It connects many-to-many every single day. You can come to eBay to buy or sell practically anything in both the auction format and most recently, with the acquisition of Half.com, in the fixed-price format. Every day thousands and thousands of people come to buy and sell, everything from Beanie Babies to cars to skis.

eBay views itself as an intermediary that helps buyers meet sellers. Unlike the traditional retailer, eBay has created a unique business model. The company makes money by matching buyers with sellers. Sellers ship the items directly to the buyers. As a result, eBay does not have any distribution or fulfillment cost which gives it a tremendous advantage.

There are a multitude of analogies that can be used to describe eBay. One of them is to think of it as a giant “classified advertisement” page. Individuals can advertise an item that they would like to sell for a price and buyers can contact the sellers directly. eBay is also an auction house since the method used to sell goods is an auction. Buyers bid on items and the highest bidder wins. Some have also described the company as a large swap meet or yard sale where individuals can buy directly from consumers.

eBay is one of the most well recognized online brands today. As shown in Table 1, by August 1999, the company rated number 3 in a survey of online brands behind Amazon.com and Priceline.com. Even at that early date, more than 46% of the American population had become aware of the brand. It is no wonder that eBay is now a household name in the US and in many corners of the globe.

**[Insert Table 1 About Here.]**

### *Background*

The story that led to the formation of eBay is very interesting and is described well by Kevin Pursglove, the Senior Director of Communications<sup>3</sup>-

There's a great Silicon Valley story here about a gentleman named Pierre Omidyar. He was working as a software developer here in Silicon Valley, and he had always been fascinated by how you can establish marketplaces to buy and sell goods and services. He had also been fascinated by how you can bring together fragmented audiences.

Because of his interest in the Internet, and his background in software, he developed a software program that allowed people, in one spot, to list items of various interest and various degrees. It allowed people to be able to come to that very same site and look at what's for sale and bid on and buy those items. He used the auction process as the method for establishing how merchandise is valued and eventually how it is exchanged between buyer and seller.

A key component that prompted him to do this was at the time his fiancée -- now wife -- was interested in her Pez (dispenser) collection. She was experiencing a frustration that many collectors have experienced, and that is often times when you're collecting a particular item or you have a passion for a particular hobby, your ability to buy and trade or sell with other people of similar interests is limited by geographical considerations. Or if you trade through a trade publication, often volunteers produce those publications, and the interval between publications can often run several weeks if not months.

All of that was shortened down when Pierre, at the prompting of his wife and interest in Pez dispenser collections, used his interest in fragmented markets and efficient marketplaces as a laboratory for what eventually became eBay.

### *Services offered by eBay*

The company started with the basic auction service. It now offers a variety of services-

- Billpoint- One of the big challenges in an online auction environment is to ensure that the sellers are paid for the item that has been auctioned. eBay has created an online bill payment service that facilitates credit card payment between buyers and sellers in

collaboration with Wells Fargo Bank. However, buyers are free to use other services such as Paypal.

- Half.com- One of the biggest uses of eBay is to sell previously owned merchandise. However, not all such merchandise needs to be sold in an auction format. Half.com fills this gap by providing previously owned items in a fixed-price format.
- eBay International- eBay has consciously tried to create a global marketplace. Even though users from other countries may bid on US auctions, the legal and financial barriers prevent easy trading. Country-specific sites are seen as the way to overcome this. As of now, eBay has country-specific sites in Austria, Australia, Canada, France, Germany, Ireland, Italy, Japan, Korea, New Zealand, Switzerland and the UK.
- eBay Motors- In addition to selling used cars online, this site features motorcycles, as well as auto parts. The company has created a unique trading environment with services such as financing, inspections, escrow, auto insurance, vehicle shipping, title & registration, and a lemon check.
- eBay Stores- eBay Stores expands the marketplace for sellers by allowing them to create customized shopping destinations to merchandise their items on eBay. For buyers, eBay Stores represents a convenient way to access sellers' goods and services. Buyers who shop at eBay Stores are able to make immediate and multiple-item purchases for fixed-price and auction-style items.
- eBay Professional Services- Professional Services on eBay serves the fast growing and fragmented small business marketplace by providing a destination on eBay to find professionals and freelancers for all kinds of business needs such as web design, accounting, writing, technical support, among others.
- eBay Local Trading- eBay has local sites in 60 markets in the U.S. These sites feature items that are located near them. As a result, buyers pay low shipping rates- especially for difficult-to-ship items such as automobiles, furniture or appliances.
- eBay Premier- This is a specialty site on eBay, which showcases fine art, antiques, fine wines and rare collectibles from leading auction houses and dealers from around the world. Through its "Premier

Guarantee" program, all sellers on eBay Premier stand behind and guarantee the authenticity of their items.

- eBay Live Auctions- This interesting feature allows consumers to participate in auctions being conducted by the world's leading auction houses.

In addition, the company has sponsored special auctions. For example, after the tragedy of September 11, 2001, eBay sponsored the "Auction for America". Rather than paying the seller, the proceeds from the purchase of any listed item would automatically be assigned to a charity of the buyer's choice. The company challenged its users to raise \$100 million in 100 days and led by making a donation of \$1 million dollars.

### *Why is eBay unique?*

Even early on, eBay had a completely different view of the world and the Internet and how it applied to retailing. While most companies were interested in opening online stores where they could sell products to consumers, Pierre Omidar was interested in creating a trading community. In his own words<sup>4</sup>,

The first commercial efforts were from larger companies that were saying, 'Gee, we can use the Internet to sell stuff to people'. Clearly, if you're coming from a democratic, libertarian point of view, having corporations just cram more products down people's throats doesn't seem like a lot of fun. I really wanted to give the individual the power to be a producer as well.

Meg Whitman, the CEO of eBay, has identified three reasons why eBay was successful<sup>5</sup>. First, she said that in her mind<sup>6</sup>, successful consumer business models will either create an entirely new business that could not have existed without the Web or offer a service that becomes a lot more efficient with the Web. Specifically, she has said that-

We created a business that took unique advantage of the properties of the Net -- the Net's ability to connect many to many -- allowing a business to be created where there was no land-based analog. If you can't buy your book at Amazon, you can still go down to Barnes & Noble. eBay has no land-based analog -- not in one place. It was a business model that was created out of the technology called the Internet. Some of the most successful companies are those that had an entirely new model that could not have existed without the Net. eBay might be one of the only businesses that was created on the Internet.

The second reason identified by Ms. Whitman was the company's successful business model. The idea was not just to create a new concept. But, rather to create a concept that could make money and be profitable.

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Finally, the third reason was, in her words<sup>7</sup>, “old-fashioned execution -- building a company to last, building cost behind revenues, not ahead of revenues, having a returns-based investment philosophy”. She described how the company exerted a strong financial discipline by measuring the return of every dollar spent on marketing and technology. Moreover, eBay never planned to grow for growth’s sake. Rather, the goal was always to be profitable.

### *Understanding the dominance of eBay*

In May 2001, eBay gained 64.3% of all spending on online auctions. This was up from 57.8% the previous year. It has clearly established itself as the leader over rivals such as Amazon.com and Yahoo<sup>8</sup>. One study put its market share as high as 85% and there have been allegations that eBay violates antitrust laws for the extent of its dominance<sup>9</sup>.

The extent of its dominance is seen clearly in Figures 1-4. These figures were compiled by Nielsen’s Netratings service in collaboration with Auction Watch over a period ranging from November 1999 to November 2000. It is very clear from these figures that in this timespan eBay simply dominated its rivals on a variety of measures. There is absolutely no competition when it comes to the total number of unique customers and the total number of pages viewed. Yahoo had overtaken eBay at one point in terms of number of pages viewed per person. But, this was a short effect. eBay does show some weakness in the number of visits per month, though.

**[Insert Figures 1-4 About Here.]**

eBay’s competitive advantage may come from the sheer number of registered users. As shown in Table 2, at the end of 2000, eBay had over 22 million registered users. This is up from 46,000 in the year 1996! This is a huge advantage over rivals because in this market, the greater the number of buyers, the greater the advantage for sellers and *vice versa*.

**[Insert Table 2 About Here.]**

As Meg Whitman described it<sup>10</sup>,

We had three years to build a very vibrant marketplace and because buyers want to be where sellers are, and sellers want to be where the buyers are, it is an incredibly compelling environment, and it’s difficult to start another market. The analogy I often use is the New York Stock Exchange and NASDAQ—it’s very hard to create another stock exchange today because the action is on those two exchanges.

A third-party firm, Auction Watch, provides ratings of top auction sites on five dimensions Inventory, Bidding Services/Fees, Support, Functionality and Community. This is attached as Table 3. eBay gets high marks on all dimensions. Notably, it is the only company to get a score of 4 on the community dimension!

**[Insert Table 3 About Here.]**

At the same time, the company has said that it currently accounts for less than 0.5% of all goods sold in each of its product categories. The company's goal is to triple this to 1.5% of all purchases by 2005. That would mean selling goods valued at \$30 billion by 2005- an ambitious target. Their real challenge is converting users who buy in fixed-price environments both on and offline to the online auction environment.

Once again, Meg Whitman<sup>11</sup>-

But you know who our real competitor is? It's not the other online auction companies. It's the challenge of getting people to do on eBay what they do in the offline world. So all of our collectors, sporting cards, toys, antiques—all those kinds of things most people still buy in antique shops or on collectible trade shows. So our challenge is actually to get the offline transactions transferred online because it's more efficient, more fun, and there's a bigger selection. Our real competitor is, in many ways, the old way of doing things.

In one way, eBay really does not have much competition online. Some have argued that eBay's real impact is being felt in the flea market, antiques and collectibles shows and on newspaper classified ads-

Hardest hit so far are antiques and collectibles shows, which aggregate items like eBay does, but less efficiently. Joe Spotts, president of L&S Management, owns two shows--one in Denver, the other in Kansas City, Mo.-and he says the number of vendors at both has slid 30% in the past 18 months. And eBay is the reason. "It has the potential of absolutely destroying the business," says Spotts. "I've seen several shows around the country that are near shutting down." Flea markets could be the next to suffer. When the National Flea Market Association held its annual meeting in Orlando, Fla., in October, 100 members jammed into a session on the Internet future to hear dire predictions of what the Net would do to their land-based businesses.

While these businesses may be negatively impacted, a large number of small businesses have used eBay as a channel to sell their products and have increased the size of their operation. This is a typical story<sup>12</sup>-

David James, for example, opened his shop in Alexandria, Va., eight years ago. He deals mostly in what the trade calls smalls: candlesticks, glassware and other such collectibles. He's still got the store, but today his business--

and his life--revolve around a warehouse a few miles away, where he stores the treasures he has gleaned from scouting estate sales and flea markets. From a cramped, windowless cubicle, he monitors the hundreds of auctions he has posted--moving anywhere from \$40,000 to \$75,000 a month. He has hired a full-time employee to oversee his eBay business and plans to move to a new space complete with a miniprocessing center.

### *The Stellar Financial Performance of eBay*

eBay is one of the most successful companies in the Internet space in recent times. The consolidated statement of income is attached in Table 4 and the balance sheet is attached as Table 5.

### **[Insert Tables 4 and 5 About Here.]**

From Table 4, it is immediately obvious that the company has had positive gross profit and net income since at least 1997. Its income position has only strengthened over time. This is an important point in the E-Commerce space since many large and successful companies have never made a profit- notably Amazon.com. The company has realized perhaps more than others that<sup>13</sup> “There's only one economy, and it judges you on standards like profitability, strong investment strategy, and your balance sheet”.

Also, from Table 4, one can see that the largest revenue source for the company is “fees and services”. eBay earns money on every transaction on its site by charging two fees to the seller of an item- the Insertion Fee and the Final Value fee. The Insertion fee is paid by the seller for having his or her product featured on the site and ranges from \$0.25 to \$2.00 depending on the value of the opening bid. The Final Value fee is charged only if the transaction is successfully completed and ranges from 1.25% to 5% of the final sales price. In addition to these fees, the company earns money if individuals want their item to be highlighted in some way in order to stand out. For example, for a fee of \$99.95, sellers can have their item featured on the home page of eBay.

The company has also been praised for adopting a prudent marketing approach. The company relied on some print and radio advertising<sup>14</sup>. However, the majority of its consumer acquisitions were through word of mouth generated through consumer experiences. As a result, marketing expenses hovered around 40% of total net revenues from 1996-2000. Moreover, as shown in Table 6, eBay has advertised in a very prudent manner. Due to the strong word-of-mouth and community aspects, it's advertising “bought” it much greater awareness in comparison to other leading online companies.

### **[Insert Table 6 About Here.]**

Further information about the operation of the company is shown in Table 2. On all dimensions, we see tremendous growth during this time period. In the year 1999, the company had over 10 million registered users, had been responsible for sales of almost \$3 billion and had listed almost 130 million items.

The auction format also helped eBay to create a sense of excitement in the shopping process. As a result, the company always appears on the top sites in terms of stickiness- i.e., average time spent on the site. The data shown for the month of October 2001 in Table 7 is very typical.. eBay's users spent an average of 96.3 minutes per month in comparison to Amazon user's 16.9 minutes!

**[Insert Table 7 About Here.]**

### *Cultural Impact*

Consider the following story- Sterling Jones, 18, of Ontario, Canada put his soul on auction on eBay. The offer stayed up for 2 days at which point, Jones was sent an e-mail that read- "Although you may not have been aware, eBay does not allow the auctioning of human souls". The story goes on to say that<sup>15</sup>- "According to an eBay spokesman, Kevin Pursglove, there's no proof Jones can make good to the winning bidder. "This gentleman would have to make a pretty strong case to us that he could deliver his soul," Pursglove told Salon. "Now, assuming that he has a soul, we also have language in our user agreement that prohibits the sale of body parts. That's against U.S. law. If the soul exists, one would assume it is some way a part of the human body."

Stories about the items on sale at eBay have had a huge cultural impact with everyone trying to imagine what will be next. For example, at one time, the raft on which Elian Gonzalez, the Cuban boy who made it to Miami without his mother, was put up for auction<sup>16</sup>. One individual put his or her vote up for sale<sup>17</sup>. The auction of beanie babies on eBay took on a life of its own with reporters talking about the price at which a certain doll was sold. At one time, a group of software engineers placed themselves on the auction block for employers. At one point, eBay was under investigation for auctioning items made from the body parts of animals on the endangered species list<sup>18</sup>. A killer offered tickets to his execution on eBay and received no bids<sup>19</sup>.

In almost all of these cases, eBay has stepped in and stopped the auction. However, the publicity from these cases has led to people offering all sorts of creative products for sale.

The talk show host, Rosie O'Donnell, partnered with eBay to sell items that were autographed by the guests of the show. The proceeds from the auction went to charity. Several consumers got into the business of buying items and selling them on eBay for a markup. Consider this story<sup>20</sup>-

Sally Rosenthal, who is based in Palo Alto, Calif., said that while at a Target store in Silicon Valley watching collectors line up to buy Star Wars trinkets, she started talking to a couple in their early 40s, with infant in tow, who had been returning to the shelves every 20 minutes. The couple systematically bought up \$4,000 worth of stuff, each buying the maximum items that Target allowed each customer, then going back for more.

"They said they'd decided that the lowest risk with the fastest, highest return," Ms. Rosenthal said, "was to buy Star Wars merchandise, then post it on Ebay for a seven-day auction, with a reserve" -- the lowest price they would take -- "of double their money." Thus, at the end of seven days, they would double their investment, maybe doing even better, "or they would return the merchandise, making it zero risk; their only investment was their time and running around to buy the stuff."

Consumers have reported rounding up merchandise from yard sales and selling them on eBay.

### *Problems with eBay*

If eBay has led to major consumer participation, it has also led to some bad consumer experiences. In fact, there is a club on Yahoo! devoted to consumer horror stories at- <http://clubs.yahoo.com/clubs/ebayhorrorstories>.

The National Consumer League's Internet Fraud Watch identifies auctions as the number one source of fraud-related complaints. Auctions formed 87% of all complaints they received in 1999 and 68% of all complaints filed in 1998<sup>21</sup>.

There have been several cases where the sellers exaggerate the value of the item or present an item as being something that it is not<sup>22</sup>. In other cases, buyer rings help increase the final price. Here, an associate of the seller places a fake bid to encourage others to increase their bid amount leading to a high price. In a publicized case, "a Sacramento, Calif., attorney named Kenneth Walton had entered his own bid of \$4,500 for a painting that eventually fetched a winning bid of \$135,805"<sup>23</sup>.

eBay is taking several steps to overcome this. Perhaps, the most important of which is the seller ratings system where buyers rate their experience with the seller. Jakob Nielsen is an industry expert in the area of usability, i.e., ensuring that the user experience is maximized (If you wish to learn more about him, visit [www.useit.com](http://www.useit.com)). He analyzed the reputation ratings in this way <sup>24</sup>.

eBay (auction site) keeps reputation ratings for all the people who offer things for sale on the site. After buying a collectible in an auction, you can go back to the site and rate the seller for prompt shipping and whether the physical item actually matched the description in the auction. This is the most literal of the current reputation managers: eBay literally keeps track of the reputation of each seller. Prospective buyers can feel safe bidding on items from people they have never heard of: if the reputation ratings show that many previous buyers were treated well and thought that the textual descriptions matched the actual collectible, then the seller is almost certainly honest and worth dealing with. Also, sellers are highly motivated to offer great service to every single buyer: a single customer with a bad experience will ruin a seller's perfect reputation rating and multiple bad experiences (quickly followed by negative ratings) will put a seller out of business for good.

However, even these can be manipulated. For example, a seller can ask friends to fill out positive evaluations. Interestingly, recent studies are showing that consumers pay more attention to negative rather than positive reviews while making their decision.

For higher value items, paid escrow service (i.e., a service where a third-party holds on to the item of the seller and the cash from the buyer and makes the exchange for a commission) and insurance are available. However, since most of the items sold on eBay are of lower value (in the \$50 range), these may not be applicable to a broad range of products.

### *The Future of eBay*

The company is totally committed to the Internet. As CEO Meg Whitman put it<sup>25</sup>, "The Internet is not dead. When I talk about the future of the Internet many people say, 'What future?' But I believe the Internet's best days are still ahead".

eBay realizes that it has a very powerful place in the market with a loyal customer base. On January 17, 2002, the company announced that it was increasing the Final Value Fee which is the fee paid to the company when an item is sold<sup>26</sup>. This had previously not been increased since 1996. Such increases in fees could be expected in the future leading to strong profits.

On July 8, 2002, the company announced that it had acquired PayPal, a leading online payment service. While eBay had tried to develop its own payment system, PayPal was the clear industry leader. This move is seen as further solidifying the strong base of the company. It also opens up future growth prospects in the online payment arena<sup>27</sup>.

A clear direction of growth for eBay is in foreign markets. It is currently operating in eight of the top ten countries by online market size outside of the United States. eBay currently has a presence in major Asian markets, Japan, South Korea, Singapore, and plans to expand to Taiwan and China soon. It is gaining users 50% faster in Europe than in the United States, and gross merchandise sales are growing 135% faster<sup>28</sup>.

eBay has also identified M-Commerce as a potential growth area. Specifically, eBay is working with Microsoft's .Net initiative to provide access to its auction services to cell phone users<sup>29</sup>. With this technology, consumers will be able to bid on auctions using their cell phones. This will make it even more easier for users to participate in auctions and is expected to increase usage.

There are some indications that eBay feels that sticking to the auction format alone limits its growth prospects. As a result, it has said that it will pursue fixed-price retailing, something it started with its purchase of Half.com.

### **Questions for Discussion**

1. What are the factors that contributed to the success of eBay?
2. You should be able to obtain the answer to these questions from the financial statement-
  - a. Compute the ratio of operating income to sales and gross profit to sales. See how these ratios have changed over time. Compare with Amazon.com and BN.com. What do you learn from this?
  - b. Compute the current ratio (current assets/current liabilities) and the quick ratio (current assets). See how these ratios have changed over time. Compare with Amazon.com and BN.com. What do you learn from this?
3. Will eBay be limiting itself if it stuck to auctions as the only form of transacting?
4. Is eBay a retailer? Discuss.
5. Would the merger of eBay and Amazon.com be a good idea?
6. How can eBay leverage its community more to improve its market position?

**Table 1**  
**Top 10 Online Brands**

(Source: Pastore, Michael(1999), "Top Online Brands Becoming Household Names",  
<[http://cyberatlas.internet.com/markets/retailing/article/0.,6061\\_189911.00.html](http://cyberatlas.internet.com/markets/retailing/article/0.,6061_189911.00.html)>)

		Aug-99		Spring 1999	
	Brand	Percent Awareness	Million adults	Percent Awareness	Million adults
1	Amazon.com	60.10%	117.8	51.70%	101.3
2	Priceline.com	55.40%	108.6	46.50%	91.1
3	eBay	46.40%	90.9	32.20%	63.1
4	E*Trade	43.80%	85.8	29.90%	58.6
5	eToys	26.20%	51.3	21.60%	42.3
6	HotJobs	26.00%	50.9	17.60%	34.5
7	Monster.com	24.10%	47.2	17.40%	34.1
8	AutobyTel	22.60%	44.3	17.90%	35
9	CDNow	20.20%	39.6	17.20%	33.7
10	Reel.com	19.40%	38	14.90%	29.2

**Table 2**  
**Operational Information**  
 (Source: Company 10-k form, March 8, 2001 and  
 quarterly earnings releases for 2001)

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Number of registered users at end of year, thousands	41	341	2,181	10,006	22,472	42,400
Gross merchandise sales, in millions	\$7	\$95	\$745	\$2,805	\$5,422	\$9,320
Number of items listed, thousands	289	4,394	33,668	129,560	264,653	423,000

**Table 3**  
**Ratings of Top Auction Sites**

(Source: Auction Watch Ratings, Accessed in January 2002,  
1=Below Average, 2=Average, 3=Good, 4=Excellent,  
<<http://www.auctionwatch.com/awdaily/reviews/ratings.html>>)

Auction Site	Inventory	Bidding	Services/Fees	Support	Functionality	Community
Amazon.com Auctions	4	2	4	3	4	2
AuctionAddict.com	2	1	3	3	2	2
Bid.com	1	1	3	3	2	N/A
CNET Auctions	3	2	2	2	3	1
Collecting Nation	2	2	3	3	2	3
Dell Auction	2	2	3	3	3	1
eBay	4	3	3	2	3	4
eBay Premier	2	1	2	3	4	N/A
edeal Marketplace	3	1	4	2	2	3
eHammer	3	4	3	3	2	1
eOrbis.com	2	1	3	4	3	1
eWanted.com	2	2	3	3	3	2
Excite Auctions	2	2	4	3	2	1
First Auction	2	3	2	3	3	N/A
Haggle Online	2	2	3	2	2	2
Lycos Auctions	2	2	3	4	3	2
MSN Auctions	3	2	3	2	3	2
NBCi Auctions	3	2	3	3	3	2
Onsale	3	3	2	4	2	2
Pottery Auction	2	2	3	4	3	2
Sothebys.com	4	3	3	3	3	N/A
SportsAuction	3	N/A	2	3	3	N/A
uBid	3	3	3	4	3	N/A
Yahoo Auctions	4	3	3	1	4	2
Yahoo Store	3	N/A	3	2	4	N/A
ZDNet Auctions	3	3	3	2	2	2

**Table 4**  
**Consolidated Statement of Income**  
 (All figures in thousands of dollars except per-share data,  
 Source: Company 10-k forms,  
 2002 figures for first 2 quarters only)

	1996	1997	1998	1999	2000	2001	2002 YTD
Net revenues	32,051	41,370	86,129	224,724	431,424	748,821	\$511,393
Cost of net revenues	6,803	8,404	16,094	57,588	95,453	134,816	85,838
Gross profit	25,248	32,966	70,035	167,136	335,971	614,005	425,555
Operating expenses:							
Sales and marketing	13,139	15,618	35,976	96,239	166,767	253,474	152,908
Product development	28	831	4,640	24,847	55,863	75,288	48,653
General and administrative	5,661	6,534	15,849	43,919	73,027	105,784	69,089
Payroll expense on employee stock options	--	--	--	--	2,337	2,442	2,110
Amortization of acquired intangibles	--	--	805	1,145	1,433	36,591	2,638
Merger related costs	--	--	--	4,359	1,550	---	---
Total operating expenses	18,828	22,983	57,270	170,509	300,977	473,579	275,398
Income (loss) from operations	6,420	9,983	12,765	(3,373)	34,994	140,426	150,157
Interest and other income (expense), net	(2,607)	(1,951)	(703)	21,412	46,025	46,276	16,388
Income before income taxes	3,813	8,032	12,062	18,039	81,019	170,457	163,981
Provision for income taxes	(475)	(971)	(4,789)	(8,472)	(32,725)	(80,009)	(62,697)
Net income	3,338	7,061	7,273	9,567	48,294	90,448	101,892
Net income per share(1):							
Basic	\$0.20	\$0.14	\$0.07	\$0.04	\$0.19	\$ 0.34	\$0.36
Diluted	\$0.04	\$0.04	\$0.03	\$0.04	\$0.17	\$ 0.32	\$0.36
Weighted average shares:							
Basic	16,979	48,854	104,128	217,674	251,776	268,971	279,525
Diluted	90,119	169,550	233,519	273,033	280,346	280,595	285,142

**Table 5**  
**Balance Sheet Information**

(All figures in thousands of dollars except when noted, Source: Company 10-k forms,  
2002 figures for first 2 quarters only)

	1998	1999	2000	2001	2002 YTD
Current assets:					
Cash and cash equivalents	\$31,790	\$221,801	\$201,873	\$523,969	\$616,867
Short-term investments	40,401	181,086	354,166	199,450	121,651
Accounts receivable, net	6,369	36,538	67,163	101,703	128,769
Other current assets	4,825	25,882	52,262	58,683	70,299
Total current assets	83,385	465,307	675,464	883,805	937,586
Long-term investments	7,831	373,988	218,197	286,998	412,969
Property and equipment, net	1,267	112,202	125,161	142,349	187,055
Goodwill	---	---	---	---	252,891
Intangible and other assets, net	0	12,689	23,299	198,639	11,089
Restricted cash and investments	---	---	126,390	129,614	129,963
Deferred tax assets		5,639	13,892	21,540	23,520
Other assets		---	10,236	15,584	14,950
<b>TOTAL ASSETS</b>	<b>\$92,483</b>	<b>\$969,825</b>	<b>\$1,182,403</b>	<b>\$ 1,678,529</b>	<b>1,970,023</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$1,385	\$32,133	\$31,725	\$33,235	\$36,531
Accrued expenses and other current liabilities	4,971	32,675	66,697	94,593	116,025
Deferred revenue and customer advances	---	5,997	12,656	15,583	22,373
Short-term debt	---	15,781	15,272	16,111	14,974
Income taxes payable	---	6,455	11,092	20,617	23,318
Total current liabilities	8,038	93,041	137,442	180,139	213,221
Long-term debt	---	15,018	11,404	12,008	9,808
Other liabilities	---	5,905	6,549	19,493	20,421
Minority interests	---	1,732	13,248	37,751	30,470
<b>TOTAL LIABILITIES</b>		<b>115,696</b>	<b>168,643</b>	<b>249,391</b>	<b>273,920</b>
Commitments and contingencies (Note 10)					--
Stockholders' equity:					
Preferred Stock, \$0.001 par value; 10,000 shares authorized, no shares issued or outstanding	--	--	--		
Common Stock, \$0.001 par value; 900,000 shares authorized; 262,087 and 269,250 shares issued and outstanding	121	262	269	277	282
Additional paid-in capital	86,265	831,121	941,285	1,275,240	1,406,083
Notes receivable from stockholders	(1,130)	(11)	---	---	---
Unearned stock-based compensation	(4,139)	(8,704)	(1,423)	(2,367)	(692)
Retained earnings	3,328	26,367	74,504	164,633	266,475
Accumulated other comprehensive income (loss)	--	5,094	(875)	(8,645)	23,955
Total stockholders' equity	84,445	854,129	1,013,760	1,429,138	1,696,103
	<b>\$92,483</b>	<b>\$969,825</b>	<b>\$1,182,403</b>	<b>\$ 1,678,529</b>	<b>\$1,970,023</b>

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**Table 6**  
**ROI on Advertising Spending**

(Source: Pastore, Michael(2000), "Ad Spending Does Not Equal Brand Awareness", June 29,  
<[http://cyberatlas.internet.com/markets/advertising/article/0,1323,5941\\_405731,00.html#table](http://cyberatlas.internet.com/markets/advertising/article/0,1323,5941_405731,00.html#table)>)

<b>Brand</b>	<b>1999 Ad Spending (millions) (1)</b>	<b>Top of Mind Brand Awareness (2)</b>	<b>Branding Bang for Ad Buck (2)/(1)</b>
eBay	\$5.50	22%	4
Excite	\$3.20	8%	2.5
CDNow	\$10.50	22%	2.1
Yahoo	\$29.20	38%	1.301
Amazon	\$35.20	45%	1.278
Buy.com	\$17.00	6%	0.353
IWON.com	\$18.40	6%	0.326
AOL	\$83.20	22%	0.264
Priceline	\$49.60	5%	0.101
Monster	\$29.00	2%	0.069
E*Trade	\$124.20	5%	0.04
Ameritrade	\$103.70	1%	0.01

**Table 7****Top 20 Digital Properties, October 2001**

(Source: Oettinger, Ryan(2001), "Jupiter Media Metrix Announces Us Top 50 Web And Digital Media Properties For October 2001", November 13, <[http://www.jmm.com/xp/jmm/press/2001/pr\\_111301.xml](http://www.jmm.com/xp/jmm/press/2001/pr_111301.xml)>)

<b>Rank</b>	<b>Top Web &amp; Digital Media Properties</b>	<b>Unique Visitors (000)</b>	<b>Total Usage Minutes (000,000)</b>	<b>Avg. Minutes Per Month</b>
1	AOL Time Warner Network	83,871	44,894	535.3
2	MSN-Microsoft Sites	70,720	10,994	155.5
3	Yahoo!	68,364	10,494	153.5
4	Terra Lycos	39,514	701	17.7
5	X10.COM	39,334	64	1.6
6	Vivendi-Universal Sites	36,458	535	14.7
7	About/Primedia	33,220	491	14.8
<b>8</b>	<b>eBay</b>	<b>25,945</b>	<b>2,498</b>	<b>96.3</b>
9	Walt Disney Internet Group	25,386	931	36.7
10	eUniverse Network	25,156	298	11.8
11	Amazon	24,298	408	16.8
12	Excite Network	21,723	1,127	51.9
13	Infospace Network	21,381	182	8.5
14	CNET Networks	21,368	402	18.8
15	Google Sites	21,146	500	23.6
16	American Greetings	20,814	225	10.8
17	Viacom Online	17,008	396	23.3
18	Ask Jeeves	16,741	250	14.9
19	COLUMBIA HOUSE SITES	15,560	81	5.2
20	AT&T Web Sites	15,248	452	29.6

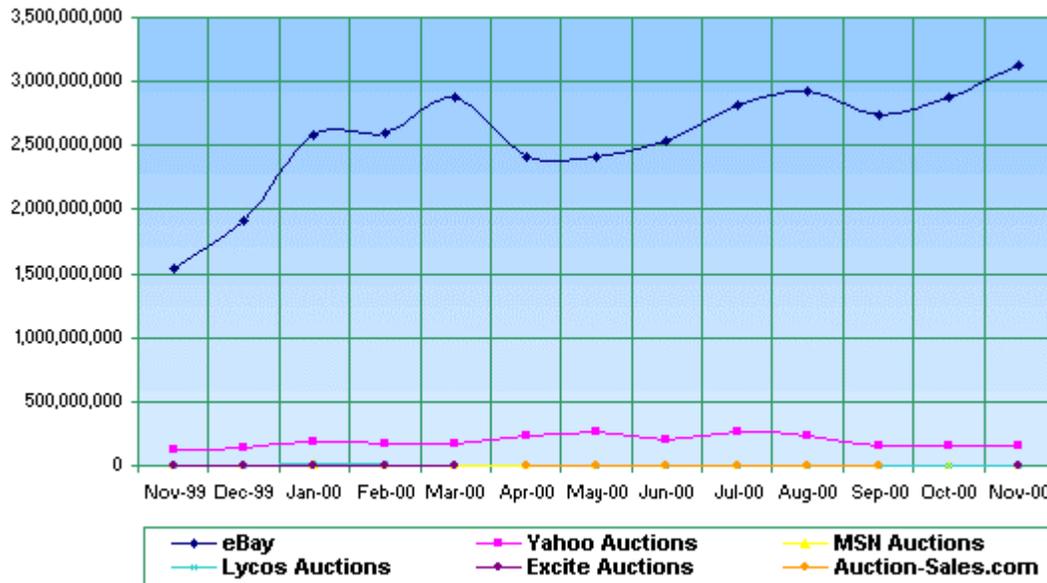
# Figure 1 Unique Visitors

(Source: Auctionwatch.com(2000), "AW Metrics Monitor",  
<<http://www.auctionwatch.com/awdaily/reviews/metrics/index.html>>)



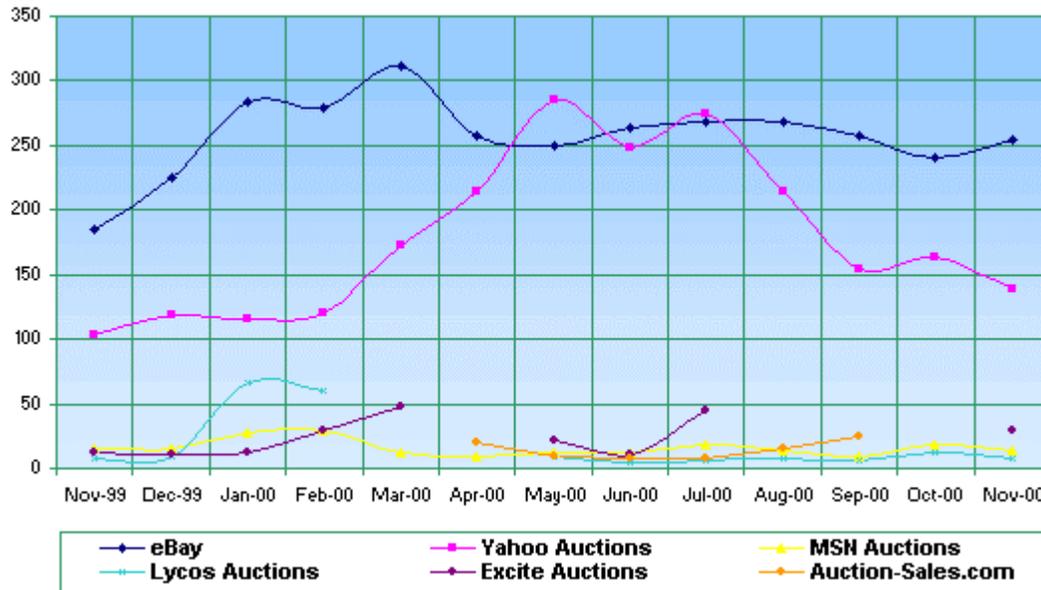
## Figure 2 Total Number of Page Views

(Source: Auctionwatch.com(2000), "AW Metrics Monitor",  
<<http://www.auctionwatch.com/awdaily/reviews/metrics/index.html>>)

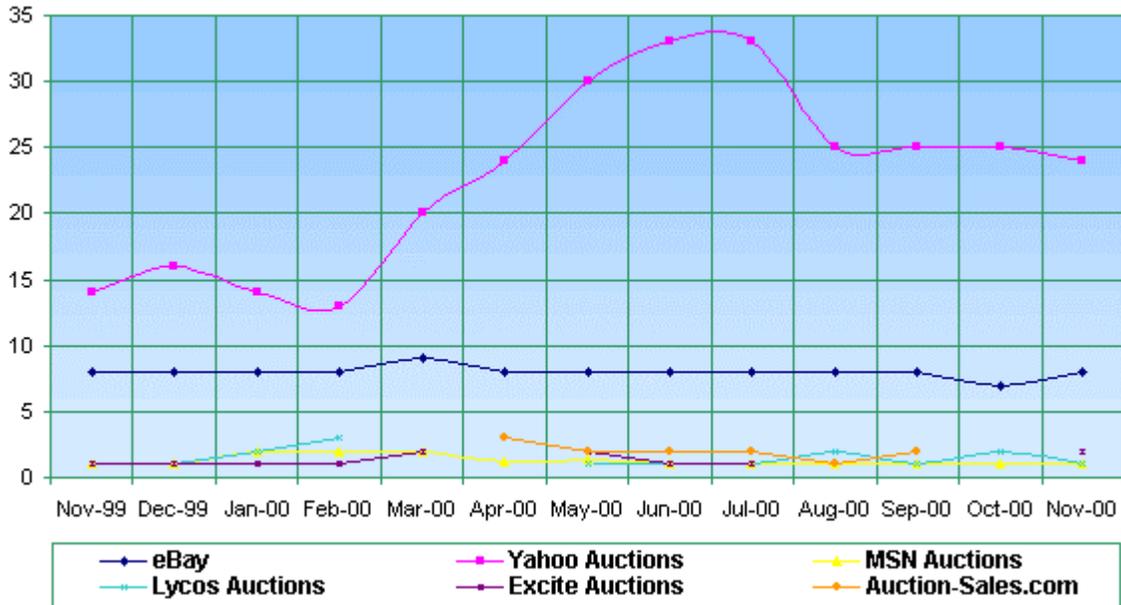


### Figure 3 Page Views Per Person

(Source: Auctionwatch.com(2000), "AW Metrics Monitor",  
<<http://www.auctionwatch.com/awdaily/reviews/metrics/index.html>>)



**Figure 4**  
**Number of Visits Per Person In a Month**  
 (Source: Auctionwatch.com(2000), "AW Metrics Monitor",  
 <<http://www.auctionwatch.com/awdaily/reviews/metrics/index.html>>)



## ENDNOTES

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- <sup>1</sup> All URLs presented in this chapter were current as of March 15, 2002.
- <sup>2</sup> Rose, Charlie(2001), "Q&A with Meg Whitman", July/August, <[http://business.cisco.com/app/tree.taf?asset\\_id=58046](http://business.cisco.com/app/tree.taf?asset_id=58046)>.
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- <sup>6</sup> <[http://www.worth.com/content\\_articles/0501\\_ceo\\_qa\\_whitman.html](http://www.worth.com/content_articles/0501_ceo_qa_whitman.html)>, Accessed December 2001.
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- <sup>8</sup> Wolverton, Troy(2001), "eBay riding Net auction industry's wave", June 28, <<http://news.cnet.com/news/0-1007-200-6407299.html>>.
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- <sup>10</sup> Rose, Charlie(2001), "Q&A with Meg Whitman", July/August, <[http://business.cisco.com/app/tree.taf?asset\\_id=58046](http://business.cisco.com/app/tree.taf?asset_id=58046)>.
- <sup>11</sup> Rose, Charlie(2001), "Q&A with Meg Whitman", July/August, <[http://business.cisco.com/app/tree.taf?asset\\_id=58046](http://business.cisco.com/app/tree.taf?asset_id=58046)>.
- <sup>12</sup> Ferguson, Andrew(1999), "Auction Nation", December, <<http://www.time.com/time/poy/auction.html>>.
- <sup>13</sup> Hurt, Elizabeth(2001), "Whitman: We Will Survive", March 14, <<http://www.business2.com/articles/web/0,1653,15559,00.html>>.
- <sup>14</sup> Beale, Matthew, "E-Commerce Success Story:eBay", <[http://www.ecommercetimes.com/success\\_stories/success-ebay.shtml](http://www.ecommercetimes.com/success_stories/success-ebay.shtml)>.
- <sup>15</sup> Lemons, Stephen(2000), "eFaust Foiled", February 25, <<http://www.salon.com/people/log/2000/02/25/soul/index.html>>.
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- <sup>25</sup> Jacobus, Patricia(2001), "eBay's Whitman: Net has lots of fight left", March 14, <<http://news.cnet.com/news/0-1007-200-5137192.html>>.
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As eBay approaches its 25th birthday, the company has quite a story to tell. Learn more about the e-commerce heavyweight and its history. And 25 years later, history has proven Omidyar right. The company has a market capitalization of \$29 billion at the end of 2019, and the company's founder now has a net worth of \$13.1 billion. That's not a bad haul for a startup owner who sold his first product for \$14.83. How did eBay grow so fast and soar so high? By switching to a business internet account, Omidyar's monthly internet bill rose from \$30 to \$250, which led him to start charging eBay users to conduct transactions on the site. Users happily paid up and eBay grew even larger, causing Omidyar to hire his first employee, Chris Agarpao, to process checks.

### The History of eBay.

eBay was founded in Pierre Omidyar's San Jose living room back in September 1995. It was from the start meant to be a marketplace for the sale of goods and services for individuals. In 1998, Pierre and his cofounder Jeff Skoll brought in Meg Whitman to sustain the success.

### The Business Model.

eBay has built an online person-to-person trading community on the Internet, using the World Wide Web. Buyers and sellers are brought together in a manner where sellers are permitted to list items for sale, buyers to bid on items of interest and all eBay users to browse through listed items in a fully automated way. The items are arranged by topics, where each type of auction has its own category.

### History of eBay Inc.

Millions of buyers and sellers have made eBay Inc. the world's largest and most popular Internet site for individuals and businesses to exchange goods. At the end of 2000 a new service called BusinessExchange, a business-to-business marketplace for small companies to buy office products and equipment, was launched by eBay to maintain its lead as the world's top online auctioneer. According to Forrester Research, an Internet market research firm, eBay controlled 85 percent of the online auction action, which Forrester estimated would top \$3.3 billion for the year (Fortune, June 26, 2000).