



Meg Whitman and eBay Germany

eBay CEO Meg Whitman looked up from her work to find Senior Vice-President of International and eBay Premium Services Steve Westly knocking on the wall of her cubicle. “I just got an email from Germany. Philipp and Malte are on a plane right now. They want to discuss problems their site has been having post-migration.” Whitman took a moment to process this new and unexpected information. Fourteen months earlier in June 1999, eBay had purchased German online auction company Alando.de (Alando). Due to strategic, scale, and cost reasons, the two companies agreed that the auction and user information of the German site would eventually migrate to a new site based on the eBay platform and hosted by the company’s servers in San Jose, California. The migration, which occurred six weeks earlier, encountered a series of technical difficulties, and resulted in an exodus of users. The reaction from the press was quite negative, and the company was flooded with thousands of emails protesting the changes. The German team, which was used to exponential growth and a supportive user community, worked frantically to win back users. Ultimately, users returned to the site, but as the impending visit of eBay Germany Country Manager Philipp Justus and his Director of Product Management Frerk-Malte Feller demonstrated, not at a satisfactory rate. The Germans were also concerned about their closest competitor, Ricardo.de, who were using this opportunity to attempt to convert dissatisfied eBay users.

Whitman guessed that Justus and Feller were traveling to San Jose to request the engineering resources needed to make the changes they believed would win back disgruntled users. As CEO and president of eBay for the last three years, Whitman had experienced first hand the extent to which the user community could resist technology changes, and she took the Germans’ concerns quite seriously. She was, however, also painfully aware of all the work that had been delayed on the core U.S. site in order to accommodate the huge technological needs of the Alando migration. The German site was important to long-term growth, but at the same time, the U.S. site was responsible for 98% of the company’s revenue. Turning her attention back to Westly, Whitman said, “Unfortunately, I’m not going to be able to meet with them tomorrow. I’ll be interested in hearing how it goes.” Whitman was not able to attend the meeting because she was scheduled to meet with analysts. The next day the executive team was scheduled to consider the acquisition of European online auctioneer iBazaar, and its eight person-to-person trading websites. With plans to expand internationally moving ahead at full speed, Whitman realized that it was time for to review how eBay was managing its non-U.S. operations.

Research Associate Maria T. Farkas prepared this case under the supervision of Professor Linda A. Hill. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management. This case is intended to be used alone or as a follow-up to the “Meg Whitman at eBay Inc.” case series, HBS Nos. 401-024 and 400-047. It can be taught with the “Philipp Justus at eBay Germany” case series, HBS Nos. 402-007 and 402-015.

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eBay Background

Launched in 1995, eBay was the largest and most frequently visited trading community on the Internet¹. The company offered consumers an efficient and entertaining auction format for buying and selling anything from obscure collectibles to refurbished servers (from the site's largest seller Sun Microsystems) using eBay's fully automated, topically arranged, online service. Sellers paid eBay a nominal fee, ranging from \$0.25 to \$2.00, for placing an item up for sale. In addition, the seller had the option of highlighting the item for additional fees, ranging from \$2.00 to \$49.95. At the end of the auction, if a bid exceeded the seller's minimum price, eBay automatically notified the buyer and seller via email and charged the seller a transaction fee that ranged from 1.25% to 5% of the final sale price. The buyer and seller worked out the logistics of the transaction (e.g., shipping, payment) between themselves. eBay never took possession of the item being sold, or the payment for the item—sparing the company inventory, transportation, and other overhead costs. After the sale, each user was encouraged to submit feedback on his/her trading partner through eBay's "Feedback Forum." As a result, the Feedback Forum created a self-regulating mechanism that encouraged good behavior. It was just one way that eBay fostered a strong sense of community on its site.

The site initially attracted a community of individual collectors who appreciated the improved accessibility to buyers from other geographic areas. Very quickly, users began to use the site to trade practical goods as well; in 1999 non-collectibles accounted for approximately 60% of gross merchandise sales (GMS)², eBay's most important metric.³ Initially, all the users on the site had been individuals, as reflected in the company's vision "to be the world's largest online person-to-person trading community." Over time, the user base expanded to include both mom-and-pop and established businesses. Reflecting its expanded user base, eBay had adapted and reaffirmed its vision in early 2000 to read: "We are a global trading platform where individuals and small businesses can buy and sell practically anything in almost any format."

After going public in September 1998, eBay's stock price rose dramatically (see **Exhibit 1** for a chart of relative stock price performance). The high valuation exerted serious pressure on the organization to maintain its rapid rate of growth. In 1999 alone, eBay grew from 2.2 million registered users to 10 million. More importantly, GMS increased from \$745 million in 1998 to \$2.8 billion in 1999, an increase of 276%.⁴ It was extremely important to eBay, which had been profitable since inception, to maintain profitability while investing for growth. Whitman explained eBay's attitude toward financial performance:

From day one, financial discipline has been a critical success factor for us. We have spent money like it is our own, and we have managed the financial performance of the company to achieve profitability targets that we thought were acceptable to investors, yet also allowed us to invest in future growth. But, we were not able to do every single thing we wanted with abandon because we had the financial discipline of the bottom line.

¹ Adapted from "Meg Whitman at eBay (A)," HBS No. 400-035.

² GMS was the total value of goods sold on the site during a specified period of time.

³ eBay Annual Report, April 1999.

⁴ *Ibid.*

Executive Team

Whitman's executive staff consisted of her direct reports and operational heads (see **Exhibit 2** for eBay's organizational chart and **Exhibit 3** for executive bios). Westly and Bengier had been employees number 13 and 14 respectively; Whitman hired the balance of the executive staff after she became President and CEO. Bengier explained how the senior team was able to integrate so well despite their varying histories with the company: "The culture we started was just so delightful. We tried to recruit people of the same temperament who shared the value set. Much of the team had been there, done that, seen the bad things, and had no time for politics." eBay also nurtured an informal working environment that encouraged teamwork and discouraged hierarchy. The company's office layout reflected this value with every employee calling the same standard eight-foot by eight-foot cubicle home. Whitman, Swette and Webb, who shared the same assistant, Anita Gaeta, also sat in cubicles that were placed together in an alcove on the perimeter of the main office building. The remaining cubicles were situated in the center of the room, with conference rooms of varying sizes - named after countries - lining the perimeter of the building. When a group of people decided they needed to meet for a prolonged period of time, they would go to one of the conference rooms which were outfitted with phones and whiteboards.

From the beginning of her tenure at eBay, Whitman and her executive staff had invested time in building a strong team. They held weekly meetings lasting from two to four hours to discuss important decisions. The meetings were supplemented by numerous informal conversations. The team also took time for regular offsites. Whitman explained, "The pressure of running this company was intense. So, the offsites helped to relieve stress as well as give us an opportunity to step back from the daily pressures of operating the company and evaluate our performance. For instance, in the last offsite, we reviewed employee survey results and their implications." Before each meeting, Whitman would prepare the agenda with input from other members of her team. General Manager of eBay U.S. Jeff Jordan explained that although "executive staff were very involved in a lot of decisions," there were limits to their collective input:

The pace of the company precluded joint decision making on everything but the most important of decisions. Most of the decisions were made between the top management of the company and the appropriate business unit. For example, most of the decisions on the German migration happened between the international team and Meg and Brian. Those decisions impacted the U.S. business, both because the migration consumed a substantial portion of our engineering resources and because it was a complicated procedure that could have impact on overall site performance if anything went wrong. It wasn't a decision, however, that required my input.

Other decisions are brought to the exec staff. For instance, discussion about whether we should do an acquisition in Europe to further our European business. That kind of decision gets to the exec staff level where we really delve into it, and the team develops its own point of view. That level of decision where someone says, "This is so important, we're going to drag everyone out of what they're doing and make them pay attention because we care what they have to think," only happens once or twice a month.

Jordan explained how the executive team was able to make the right decisions quickly in such situations despite a lack of knowledge about the details of each other's businesses:

In other corporations, more time is probably spent going around the room talking about what people are doing for coordination. Because we were moving so fast, we didn't do a lot of that. Here, we focused on the issue of the day. So much of what was going on, I didn't need to know. So, Meg and Brian were very good at flagging discussions we really needed to know

about. There was a coherent vision of where we wanted to go long and near term, and we were pretty good at keeping that in mind for key decisions. And everyone was pretty trusting in believing that we were each being responsible in optimizing our businesses, and that we would each keep Meg and Brian apprised so they could make good decisions and elevate the things they thought needed to be elevated.

On these important issues, it was Whitman's custom to "take a roll call and get people's points of view before coming out with her own." Westly recalled, "There were a lot of votes at eBay. It wasn't majority rule, but we did generally like to see at least two-thirds in favor of big decisions." Bengier added:

There was a certain trust that was implicit in the team. We were all willing to drive hard, to get things done. We had thoughtful discussions based on logic in the midst of chaos. Having been in technology, I believe technology is ten times faster than most companies, and the Internet is ten times faster than technology companies. There is a strategic advantage in using logic to make decisions which eliminated the need for politics, etc. It was instrumental to our being able to execute quickly.

Acquisitions

eBay made its first acquisition in 1998 while preparing for its IPO. Bengier recalled:

We considered upforsale.com to be a serious threat. They understood the web and the importance of community. They loved us because they felt the cultural fit was so good, and we thought they were at a point where they might be willing to sell. Jeff Skoll realized that the company might be willing to sell seven days before we would be excluded from making any acquisitions due to SEC regulatory complications regarding our impending IPO. We decided to try to complete the purchase in a week. Six days later we closed the deal.

The purchase of upforsale.com was indicative of the way eBay handled acquisitions. The company had a group dedicated to scanning the Internet for companies that fit with their strategy and culture. When they found an attractive company, they moved quickly to purchase. Whitman explained:

I believe that on the Internet, the price of inactivity is far greater than the cost of making a mistake. In our space, doing nothing is actually a strategy, and my belief is the cost of inaction is enormous. You are far better off trying a number of different things, making mistakes, and pulling back, than actually trying to hunker down and not make changes to what you are doing as a company.

In early 1999, eBay began developing its international expansion strategy. It was clear from the start that acquisitions would play a major role in that strategy. Vice President of Product and Community Matt Bannick recalled:

When eBay decided to expand internationally, we began to capture key metrics of Internet auction sites operating around the world. We tracked listings, conversion rates, average sales prices and gross merchandise sales, among other things. This helped us determine which markets were attractive and helped us identify locally emerging players. In late winter of 1999, it became clear that Germany was one of the highest potential markets outside the US. In Germany, making an acquisition was strategically smart because the leading local players had already gained substantial traction.

In May 1999, eBay founder Pierre Omidyar visited Germany to meet with representatives from both Alando and its rival Ricardo.de. After this visit, it was evident to eBay that they wanted to acquire Alando. Bannick explained, "They had a community approach, were focused on understanding the needs of the customer, grew organically and had a focus on Internet users and collectors, not the mass market." eBay acquired Alando.de in June 1999 on the heels of three other acquisitions that expanded the company's market into, amongst other things, upscale auctions and cars.⁵ At the same time, the company was developing eBay Canada and eBay U.K.—two other international sites that would be launched in the fall of 1999 (see **Exhibit 4** for a timeline of eBay's activities). Whitman explained how eBay's executive team applied the method of "divide and conquer" to handle the acquisitions: "After purchasing Alando, we had four 'live' acquisitions. Without a great deal of explicit discussion, we divvied up the work. There was an exec team sponsor for everything we did."

Alando.de

Launched in March 1999, Alando was started by six friends—Oliver Samwer, Mark Samwer, Alex Samwer, Karel Dörner, Max Finger, and Jörg Rheinboldt. Alando focused its resources largely on marketing in order to build its user base. In fact, Alando outsourced most of its technology needs to Living Systems, a local IT systems development company. The company was very responsive to Alando's requests, and the software that they developed belonged to Alando. Alando's main source of revenue was fee income based on the total value of the completed transaction. In order to reach profitability, the company believed it would eventually need to introduce listing fees. They planned to take this step once the site reached critical mass.

From its inception, Alando had an extremely passionate employees and an effective grass-roots marketing campaign. For example, the company rented a booth at the biggest stamp fair in Germany. When collectors came to the booth to see an extremely rare stamp belonging to an eBay Germany seller, they were also introduced to the Alando site from a computer set up in the booth. Like the employees, Alando's users were passionate and loyal. Westly explained:

It was the ultimate customer relationship company. Users felt they had a relationship with the company. Not only did they feel that they could talk to the company and the company would respond, they felt as though they had a say in what happened. It was like a partnership and that is a very rare thing.

The site launched with 5,000 items listed for sale. Three months later, listings had grown to 60,000 due to Alando's innovative, and sometimes risky, marketing tactics. For example, the founders listed a friend's Ferrari for auction on Alando, and took out a banner ad on Yahoo's front page. The ad informed readers of an opportunity to purchase a Ferrari for 1 DM. The stunt not only brought a great deal of new traffic to the site, but also garnered a reasonable price for the Ferrari. At the heart of the company was a group of category captains, each responsible for different auction categories that were run as profit centers. By the time Omidyar visited in spring 1999, Alando was the largest online trading site in Germany.

However, Alando faced a formidable competitor in Ricardo.de. Like Alando, Ricardo generated most of its revenue from fees based on the total value of completed transactions. Ricardo also did not charge listing fees. However, Ricardo differed from Alando in other significant ways. To augment

⁵ The acquisitions were Butterfield & Butterfield (an auction house), Kruse (a car auctioneer), and Billpoint (a payment system).

revenue, Ricardo frequently purchased wholesale goods (e.g., electronics) and listed them on the site. The company used more of a mass-marketing approach than Alando with its grass-roots marketing approach. Although Alando was the largest German trading site at the time of eBay's acquisition, Ricardo was actually better known—in part due to the company's high profile IPO in July 1999, which valued the company at \$1 billion.

International Strategy

In the week following eBay's acquisition of Alando, a discussion of how to manage their international acquisition was at the top of eBay's executive staff agenda. At the time of the meeting, Alando was eBay's only international site, but the team knew that sites under development for the United Kingdom, Canada, Japan, and Australia would be completed by the end of the year. The company had big plans for international expansion and the executive team knew they would be integrating acquisitions and nurturing new international sites for several years. One of the key issues the team needed to address was how to manage differences among user communities around the world. Community was essential to eBay's success. As one analyst wrote, "The three most important keys of [eBay's] success – community, community, community."⁶ With the acquisition of Alando, eBay was gratified to learn that the German user community seemed to be similar to the U.S. community. Westly commented, "Something about eBay is hardwired into all human beings. One, they love the thrill of the hunt, and two, they have a need to collect stuff. Those two traits appear to be completely universal." Bannick further explained, "It is remarkable to me how similar sellers are everywhere. There are certainly cultural differences, but regardless of nationality, our sellers tend to be entrepreneurial, customer-focused, and passionate about eBay." Although the U.S. team did not perceive there to be many differences between the German and American user community, they did recognize that the internal culture within the two companies differed. Bannick noted, "The German and U.S. teams are quite entrepreneurial. The German team is a lot like the eBay U.S. team two years ago. Naturally, the United States is now a much bigger organization, with greater structure and more processes."

eBay's executive staff realized that the company had a lot to lose if it mismanaged the integration of Alando. The integration plan called for an immediate rebranding of Alando's site, while allowing the company's management to largely maintain operational autonomy in the short-term. In a few months, the team planned to introduce listing fees to the German site, a vital ingredient to profitability. Finally, eBay planned to migrate the site to the eBay "template"⁷ and host it on eBay's servers in San Jose. Such a move would eventually allow trading between the U.S. and German sites—a key aspect of eBay's international strategy.

Rebranding the Site for the Global Trading Platform

The rebranding of Alando began immediately after eBay completed its acquisition. Initially, the logos of the two brands were displayed side-by-side. Then over the course of several months, the eBay logo gradually increased in size, while the Alando logo grew smaller, until it dropped off the site altogether (**Exhibit 5**). The change in brand was a necessary step in eBay's ultimate international strategy. Bannick explained:

⁶ Shaun Andrikopolou, "eBay Inc.; Enabling an Army of Entrepreneurs—The Dominant Online Trading Community," BTALex.Brown Research, October 27, 1998.

⁷ eBay used the term template to describe the website's layout, look, and feel.

From a technology and product perspective, we wanted to have one global trading platform. If we were to develop a cool, new feature for eBay, then we wouldn't want to have to develop it again for a different platform. With this in mind, it was clear that we needed to transfer eBay Germany over to the eBay platform. Similarly, we were focused on building a global brand. We acknowledged that Alando had substantial brand equity among the German trading community and were therefore careful to transition to the eBay brand over a period of months. We introduced the eBay brand to the Alando site the day of the acquisition and transitioned completely to eBay several months later.

Jordan further explained the logic behind a global-trading platform:

We thought we would have an enormous advantage long-term if the tools emerged to enable person-to-person global trading. For example, I like Japanese furniture. At the moment, my option to buy Japanese furniture in the Bay Area is to go to a woman on Santa Cruz Avenue paying \$35 per square foot a month in rent. Selection is small, cost is huge. I would much rather buy from a woman in Kyoto. The key constraints to this idea are customs, currency, and language. As a stepping-stone toward that, we are trying to develop a number of robust, local, stand-alone businesses. With a global platform, it's important to have everyone branded on eBay. Even though we're trying to build a robust German business, long-term we're all going to be on one platform. That's an incredibly intriguing and romantic notion for us, but we have no idea if that's two years or ten years away. So, we're trying to build a platform that, for both near and long-term concerns, is as standardized as possible.

To support this strategy, management at eBay Germany agreed to switch over to eBay's platform—a project initially scheduled to be completed by August 1999. Since beginning her tenure at eBay, Whitman had invested in system capacity with the goal of having ten times the capacity needed at any given point. Despite that, in June 1999 the U.S. site experienced an outage lasting nearly 22 hours. The outage cost eBay millions of dollars in lost and refunded fees, and \$5 billion in market capitalization.⁸ As one eBay watcher explained “For most Web sites, the supporting infrastructure is a fragile ecosystem of software, hardware and wiring. A small weakness in any part can cascade into a catastrophic event—especially when a Web site has a rapidly growing base of customers and keeps loading on more features to attract still more.”⁹ In response to the outage, Whitman invested additional company resources in computer-network experts, experienced technology managers, and infrastructure. She also hired Maynard Webb—senior vice president and CIO of Gateway—to become president of eBay Technologies, and Marty Abott to be eBay's vice president of operations. Webb was considered “a hot property” and had “turned down lucrative offers in the past.”¹⁰ Robin Reed, the headhunter who brought Webb to Whitman's attention, said of Webb, “He has the courage to pull the brake on a car going 2,000 miles an hour.”¹¹ In spite of the company's best efforts, two more severe outages occurred in mid-July and early August costing eBay millions more. Whitman announced that “every new project within eBay [would] be re-examined in terms of its impact on website stability.”¹² Consequently, the German migration was postponed until core site stability could be assured.

⁸ Julie Piita, “The Web Webb Master,” *Forbes*, December 13, 1999, p. 322.

⁹ *Ibid.*

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² George Anders, “Online: eBay Scrambles to Repair Image after Big Crash,” *The Wall Street Journal*, June 15, 1999, p. B1.

Engineering Resources

The outage highlighted the series of trade-offs the company's expansion would create. Everything at eBay depended on the engineering resources that supported the site. As Whitman explained, "Ultimately, we are a technology company." These resources were so central to operations at eBay, the company had evolved a method of speaking about them that even non-technical staff could understand. Three-and-a-half weeks of a developer's time and the associated resources required to implement the new code were called a "train seat." Managers beginning new projects would initially fill out a marketing requirements document (MRD) that served as a blueprint for the end product. The MRD would next go to engineering where a developer would "size" the project in terms of train seats, and create an engineering requirements document (ERD). eBay management would review the MRD and ERD to determine a feasible start date. eBay had a limited number of train seats which were allocated out to the different business units. When eBay consisted simply of the core U.S. site, allocating those resource had not been difficult. In fact, in the early days, a user could make a suggestion on a chat board in the morning and find that co-founder Jeff Skoll had written that suggestion into the code by that evening. However, as the company grew, the demands on engineering resources increased proportionally. Although Webb's long-term strategy was to increase engineering resources, his short-term goal was to simply stabilize the site.

As Whitman explained, eBay's emphasis on growth even as its core business matured implied that competition for engineering resources would only grow more fierce:

We want to continue to be a growth company as far into the future as we can. However, some of our businesses are going to mature over the next three to five years. If we wake up five years from now, and decide that we need some growth vehicles, that's going to be very inefficient and highly costly. So we have started a number of new businesses that won't make meaningful contributions to eBay's revenue over the next few years. But, we knew we were planting acorns before we needed oak trees—we knew some would die, and some would grow into saplings.

Whitman's Changing Role

With the appointment of Brian Swette as COO in January 2000, Whitman shifted even more of her focus from daily operations to strategy:

As eBay has grown, I've been able to step back and say, 'Where are we going?' Due to the rapid pace of change in the Internet space, it's a constant challenge to figure out what is going to happen next—from a technology, competitor, or customer standpoint. We spend a disproportionate amount of time relative to my experiences at other companies trying to focus on the longer term. How can we redefine the markets that we are in? What markets are the right markets to be in?

Bengier explained that Whitman's clear focus was a key success factor in a company that moved so quickly. "Small changes can have dramatic effects, and with our rapid growth and competitive pressures, it's hard to keep things on track. Meg can listen and readjust and that's incredibly important."

Swette's promotion occurred as the company was significantly expanding its international operations. In October 1999, the company launched eBay U.K. and eBay Australia, a joint venture, and in February 2000, it launched eBay Japan, also a joint venture. Unlike with eBay Germany, each of these sites were based from the beginning on the eBay operating platform, although adaptations to

the site look and feel were made as necessary for each local country. The local team in each country was not simply a marketing arm of the U.S. operation, as was often the case in other internet companies. Rather, they had profit and loss responsibility, and were expected to drive for the bottom-line through business development, marketing, community support, and product management. However, responsibility for operating and maintaining the sites resided in San Jose. The new U.K. site, which along with Germany was to be the cornerstone of eBay's European expansion, was facing fierce competition from QXL, a British online trading company.

Listing Fees

Executive staff decision In October 2000, Westly was promoted from vice president of marketing and business development and replaced Scott Barnum as vice-president of international and eBay Premium Services. He soon determined it was time for the German site to begin to charge a fee for each item a seller listed. Westly announced his intention at the next executive staff meeting. He recalled the discussion:

I came into the meeting and said, 'Look, I'd like to start charging listing fees because we need to get up to profitability. But, it's risky. The founders aren't in favor of the decision because they don't want to endanger their listing volume – it's greater than their competitors and they're proud of that. Until now, we've given the founders a high degree of autonomy, and I am concerned they might leave over this issue. Their departure could have a serious effect on the spirit of the company.' Meg replied, 'It's okay, and I understand. Let's do what we can to keep the founders, but I agree that it's time to focus on profitability.'

With the support of the executive staff, Westly announced the change to the German team.

I was running international and so I had to be the bad guy. I said, 'In everything else, you can run it the way you want, but on this, you need to do it our way.' If you don't have listing fees, users are more likely to put junk up for sale, your users get bored because the stuff is junk, top sellers are upset because of the low conversion rate and most importantly, it inhibits profitability.¹³

After much deliberation, the Germans agreed to charge 25 Pfennig per listing, which was approximately half of the \$0.25 minimum listing fee the U.S. charged users. However, as Westly had feared, the decision resulted in the resignations of five of the six founders. Although their departure was amicable, it was potentially damaging to the young company since the founders each held important roles. Before they departed the founders searched for someone to take over the leadership of the company in conjunction with the one founder who chose to stay, Jörg Rheinboldt. They chose Philipp Justus, formerly of Boston Consulting Group (BCG). Justus, a native German who received his MBA degree from the J.L. Kellogg Graduate School of Management at Northwestern University, had been at BCG for three-and-half years where he had served, in recent years, both as project manager and the youngest ever director of recruiting. Justus traveled to San Jose to meet the eBay management team. After meeting with him, Westly endorsed the founders' choice of Philipp:

I believed that we needed to trust the founders. I was also impressed with Philipp from day one and felt that younger executives frequently understood both the Internet and eBay culture a little better than people who had spent careers at larger, more traditional companies. I believed Philipp's younger age would enable him to relate to his younger senior staff better than an older executive. This was key in making the transition work because the next tier of

¹³ The conversion rate was the fraction of auctions that resulted in a successful sale.

executives at eBay Germany, although they were all in their mid-20s, were extremely competent and essential to eBay Germany's success. I feared that an older, or more traditional executive might have caused more people to 'bail'.

Although initially hesitant over Justus' inexperience, Whitman accepted the decision of the founders.

The lieutenants Westly was concerned that when the founders announced their departure at the end of January 2000, the second tier of management would go with them. Westly, who called this group of five people the lieutenants, felt much of the value of the company rested in their energetic and passionate efforts. "These five people are extraordinary human beings, and they make the company worth 10 times what it would be otherwise." To retain this group, Westly increased their stock options, but by the time the necessary paperwork circulated through the legal and HR departments, the value of eBay's stock had decreased 20% due to a decline in the technology sector as a whole. Sensing a possible uprising, he asked the lieutenants how he could make it better. Westly "went through heaven and hell" to secure their request to receive a 20%-30% increase in stock options. Ultimately, the lieutenants elected to stay on when the founders finally departed.

Implementing listing fees In February 2000, just three weeks into Justus' tenure, the Alando site introduced listing fees. Westly recalled the two turbulent weeks that followed:

We were all thinking, 'Have we killed the goose that laid the golden egg?' Before we started, Alando was like the coolest car around. Then on the first day, we lost 100,000 items. When the number of items listed declined from 1.2 million to 800,000, I started to get calls from Germany saying, 'Steve, we're not very happy about this.' It was as if the car had gotten all rusty. When listings declined to 600,000, it was as if the fenders and hubcaps had fallen off the car. Every day, something else fell apart. All along, the senior management team here was backing me, but as the number of listings dropped to below 500,000, people started looking at me and thinking, 'Oh, my God, I hope he knows what he is doing.' At 400,000 even I began to wonder if I had done the right thing.

The site finally bottomed out with 250,000 listings. However, the conversion rate increased from 12% prior to listing fees to 50% after the introduction of listing fees. Moreover, as Westly had expected, the listings soon began to recover, reaching 400,000 items within three months. In comparison, Ricardo—which did not charge listing fees—had 400,000 listings and a conversion rate of 5%.

The Migration

In January 2000, Lynn Reedy, vice president of product development, had a meeting with eBay Germany's Justus and Feller. Reedy, who reported to Webb, had joined eBay just two months earlier. Previously, she had held information technology positions with both Amdahl Corporation and Andersen Consulting, and most recently, she had been the CIO of media company Miller Freeman. Reedy arrived at eBay and quickly learned from Webb that a queue of projects was waiting for her. She recalled her initial conversations with Webb:

I got here November of 1999, and the first thing Maynard said to me was, 'You know, we haven't done much on Y2K.' It ended up not being a big deal, but talk about my surprise. Next on the list was the German migration and how it was late. We were already late, and had barely started! On top of that, we had to make a series of functionality improvements to the core site, and were responsible for launching the Japan eBay International site as well.

By far the largest project ahead of Reedy was the German migration, which Justus and Feller wanted to discuss. The two forecast that eBay Germany's platform would not be able to scale past June or July of that year. As a result, they notified San Jose that the migration would have to occur before the end of the summer, or eBay Germany would need to invest in a significant technology upgrade.

Before Reedy would commit to a date for the migration to occur, she took the time to analyze the project. First, "internationalization code work" had to be completed. These were the changes that needed to be made to the site software to create an environment where multiple countries and foreign languages could be easily added to the site. The expected completion date for that project was January 2000, after which work on the migration could begin.

While work on eBay's infrastructure continued, the German team continued to grow its site at a rapid rate. This meant that, in January, when eBay's engineers were ready to turn their attention to the monumental task of migrating the German site, the size of the user community and the complexity of the site had increased. Reedy quickly realized the challenge she would be undertaking:

Alando was a leading business in Germany, and we needed to view this project as a huge migration with major customer impact if we didn't do it right. They had a number of established functions and features, and migrating that was going to be probably the largest effort we had undergone. It wasn't simply adding a feature to the core site; it was changing an entire country's leading auction site.

Reedy began to form a work plan with a completion date set for June 30th, 2000. She soon hired a project manager, Ruth Haring, and a lead developer, Petra Hofer. Haring and Hofer would lead a team of three to five full-time developers, pulling in others throughout the life of the project. Senior Manager of International Product Marketing P.J. Palmer, who had led the product development of eBay's other international sites, would serve as a consultant throughout the process, with Germany Product Manager Andrea Held serving as liaison between Germany and the United States. eBay already had a basic international template that both the U.K. and Australian sites had used when they were launched in the fall of 1999. The plan, from the U.S. side, was to transfer the auctions and user information from Germany's old site to a new site based on the eBay template with as little disruption to commerce as possible. Reedy divided the project into three large sections:

We had three major components. One, we needed to determine what functions and features we needed to add to our site that were a must-have unique function for Germany. Two, we had something like 500 different functions and screens, so we had to translate all that into German and arrive at a translation that the Germans were happy with. That was a process we called localization. Three, we had to determine how we were going to convert the data from the old site to the new site. This was an ongoing company so we couldn't just tell everyone, 'We are starting a new site. So, for the next ten days, we want you to visit two sites—the old one for on-going auctions, and the new one for new auctions.'

One eBay employee explained the migration with an analogy: "eBay's engineers were attempting to send a town's residents out for the night and have them come home to an entirely new village with all of their belongings safely moved and all of their keys still working. "

The MRD Planning for the migration began in earnest in late January when the U.S. migration team which consisted of Haring, Hofer, Palmer, Held, and Billing Specialist Colleen Lindow, flew to Berlin to meet with Feller and eBay Germany Director of Customer Service Renate Maifarth who were leading the project for eBay Germany. Hofer spent most of her time speaking with developers at Living Systems to better understand the challenges involved in integrating Alando's databases with eBay's.

The team was initially tasked with completing a MRD that would lay out which functions the Germans wanted and what pages needed to be translated. Preparing the MRD highlighted the complexities involved in the migration. At that time, the eBay site had over 800 static pages. Some of the information to be filled out in the MRD, such as currency type, was obvious and would have little effect on users or the team in Germany. Other decisions would result in profound changes to the German site. For example, the MRD listed eBay's existing 13 categories and called for the team to map them to the corresponding German categories. However, the German site, with 20 categories, utilized a different and more specialized category structure than the U.S.. Reducing Germany's 20 categories to the States' 13 would require changes in the organization of the company's category captains, as well as adaptations for the users. But, the technical task of the alternative - increasing the number of the U.S.'s categories and asking millions of U.S. users to adapt to those changes - would be huge.

Categories was just one of many areas impacted by the migration to the U.S. site. Amongst other areas of concern, the two groups realized that the two sites had different systems for tabulating feedback, and some users on the U.S. and German platforms shared the same user name—both matters about which users took great pride and ownership. Ultimately, these differences were decided in favor of the U.S. model. For example, the German feedback ratings, which were earned each time a transaction occurred, were re-formulated in the eBay method whereby the same buyer and seller could only give each other a feedback rating once. In addition, German users with the same username as U.S. users were given a “_de” at the end of their usernames.

Change requests After a week in Berlin, the American team returned to San Jose with the 15-page MRD. As the migration project progressed, both the U.S. and German teams continued to make improvements and enhancements to their sites. The eager management team at eBay Germany dealt with these ongoing changes by asking that those changes most suited to their community be integrated into their new site. For each change to the initial MRD that the Germans wanted to make, they needed to first complete a “change request” form that outlined the details of the change for the developers. For the first month of the project, Held represented in San Jose the requests and interests of the Germans. Over time, both the U.S. and German teams realized that they needed to station someone in San Jose who was intimately familiar with the concerns and values of the German site. In March 2000, Gerrit Müller from Germany joined the international product marketing team in San Jose. He aided in the process of localizing (translating and making relevant the web-site text) and in processing and explaining different requests for changes that came to him through Feller and Maifarh in Berlin.

Two months later, in May, the German site suffered a 14-hour outage—a sign that the system was reaching its capacity. Despite having to make approximately 100 unforeseen changes to the prospective site, the project deadline could not be significantly altered due to the pressure to complete the migration before Germany's system began to experience more serious problems. Reedy commented, “By the time Germany supplied us the right resources and got educated on the right questions, they would never have agreed to the MRD they initially signed-off on. So the business unit was fine with the change requests, but the development team was getting more and more stressed.” Reedy made numerous attempts to stop the endless flow of changes in conversations with her German and U.S. colleagues. As the pilot run of the new site with German PowerSellers¹⁴ approached, Reedy went to Webb and Westly and requested that the changes stop so she and her team could have time to run quality checks on the site. She recalled, “I went to Maynard and said,

¹⁴ eBay used the term PowerSellers to denote the group of sellers who traded the highest value of goods. Under eBay US's formalized Powerseller program, sellers qualified for participation by reaching preset volume goals and, in return, obtained certain service benefits. eBay Germany used the term more loosely to mean its top 350 sellers.

‘This has to stop. And my plan for stopping it is to have weekly meetings with you and Steve where you both have to agree to each requested change.’ He was fine with it, and the second we implemented that, very few items even got to the table because people knew it had to go through Steve and Maynard.”

The two groups also needed to come to an agreement about how the actual cut-over would occur. Reedy and her group wanted to simplify the process as much as possible:

We knew we had to have the current set of German listings on the new eBay site when it went live. Users would click on the old listings and be taken to the old site, complete the transaction, and return to the new site. We wanted to do a one-time feed to get the listings and let the users see where the auction was when they clicked over to the old site. The Germans wanted the auctions to be updated every two hours so that users would have an approximation on the new site of where the auction was. We favored the former because updating the listings every two hours was going to be technically complex and prone to problems because the data would have to be transmitted over the Internet.

Ultimately, however, the Germans’ insistence that the auctions be updated won out over Reedy’s technical concerns, since Germany’s demands did not affect eBay’s overall strategic goal of all their sites running on one source code.

Change Management

After several years of dealing with an active and vocal community, eBay management had learned that their users often did not respond well to change; even improvements requested by the community met resistance. Vice President of Product Marketing Jeff Taylor explained:

We learned that change is very difficult; it is painful. The users’ position is, ‘This is how the site works. We’re comfortable. Don’t mess with it.’ We’ve learned that evolution is much better than dramatic change. Whenever we’ve strayed from that policy, we have gotten burned. Consequently, when launching new business initiatives or business units, we try to minimize change. Often there is a desire to have a launch to create PR and buzz, but that is exactly what the customer doesn’t want.

eBay monitored its online chat boards to see how its users were reacting to specific changes on the site. Initially, Taylor had taken the reaction of the users on the boards to be representative of the views of the community at large. However, he soon learned that the sellers, many of whom earned a living trading on eBay, tended to be more active participants in the chat boards. He also realized that people who were unhappy with changes or situations were much more likely to post on the boards than those who were satisfied. To get a more accurate read on user opinion, Matt Bannick, then vice president of customer service, started a program called Voice of the Customer. Senior Manager of Community Support Brian Burke explained the program:

Every quarter we bring in 10 to 12 users—a cross-section of buyers, sellers, and PowerSellers. We look for people who are expressive and critical. We start out by giving them a tour of eBay. Then we brainstorm with them about specific issues they would like to see addressed. Then the users spend the rest of the day meeting members of the company who deal with the specific issues raised in earlier brainstorm sessions. At the end of the day, they have an opportunity to meet with Meg and the rest of the senior management and discuss their questions and concerns directly with them.

Over time, eBay began to use Voice of the Customer groups to gather feedback on proposed new products. Taylor commented, “When we come up with a new feature, we review the idea with a Voices group and get their feedback. Then, when we come up with a more specific feature, we literally run the announcement past them, and they will reword it for us so it will be better received. It’s incredibly valuable to have almost everything you do pre-vetted by the community.” Taylor so valued the input of the community in launches that he handed out awards to employees who did “a good job of involving the customer in the feel and design of functions, engaging them in policy, and doing a tactful job of launching the function.”

Knowing that the upcoming German migration would be the kind of radical change that upset users, community support in the United States and Germany’s Maifarth and Feller held teleconferences with Bannick and his community support team to discuss how to most effectively communicate with the users to minimize their resistance to the change. They developed an extensive plan to communicate the change to the users – including giving users the opportunity to preview the site before it went live. Still, many of the staff at eBay recalled that the Germans seemed unduly confident that their users would accept the changes once explained. One U.S. executive remembered, “We were very worried about how the user community was going to deal with the migration. The German team did not seem to be as worried. This may sound awfully stereotypical, but they seemed to be saying, ‘We’re Germans and we are used to doing what we are told.’”

Cut-Over

On June 26, 2000, eBay Germany went online with a dress rehearsal. One-hundred-and-eighty German power sellers listed items on the new site, while company employees bid on items listed. The dress rehearsal enabled Reedy and her team to ensure that all the site’s core functions—bidding, selling, and searching—worked. Then eBay opened up bidding to the external user community and invited the PowerSellers to list even more items. As an incentive to participate in the program, eBay Germany waived all listing and final value fees. The test of the site proved successful, with only minor bugs surfacing.

On Sunday, June 16th, the actual migration occurred (see **Exhibit 5** for comparison of old and new home-pages). Users who logged on to the site after 6:00 AM automatically went to the new homepage. All their user information had been transferred, so usernames and passwords were the same (except for the subset of users who had ‘_de’ appended to their usernames). The transfer of auctions had also occurred without a hitch so the content on the site was also familiar. But, the format of the site had changed. Links were placed in different areas, the color scheme had changed, the number of categories had been reduced, and users were no longer able to search in the manner to which they were accustomed. More troubling, many users had not received or failed to pay attention to the email informing them that their username was being changed, and as a result couldn’t gain access to the site. To top it off, a system crash resulted in users not being able to view some items. Reedy recalled the listing “disaster”:

When we went live, the volume of listings actually caused our listing machines to crash, and it took us more than 24 hours to fix those technical problems. That was devastating. You had your brand new site, you could list items, and you could bid, but you couldn’t browse the listings. It was a disaster.

eBay’s high-powered engineering team worked around the clock to get the site to function correctly. Even so, it took them two days to stabilize the site. From his frequent conversations with Justus, Westly learned that the damage had already been done. German customer service was

inundated with email from users who couldn't access their accounts or their auctions. Later, as eBay executives had expected, users began to complain about the format changes. The old site had been simple to navigate and use, while the new site was not only different from what they were used to, but more complex. The site ultimately lost half of its listing volume in the weeks directly following the migration. Eventually, listings recovered, but according to the data eBay Germany was sending to San Jose, the rate of growth in listings appeared to be permanently altered. Of even more concern to the German team, they did not seem to be recovering the trust of their user community as evidenced by the continual influx of user complaints.

As frustrations mounted in Germany, the team attempted to get the developers in the U.S. to help with some of the most pressing problems. But, once Reedy and her group had delivered and stabilized the Germans' new site, they no longer could devote so many resources to Germany. Reedy commented, "The German migration was handled totally differently than other standard IT requests. Every resource they needed, they got. I took people off of other projects—even core projects—to work on the migration. But after we got the site live and stable, we had to make Germany part of our normal processes where it takes up to six weeks to address a request. They were not happy about that at all." The Americans—who believed the Germans had underestimated the response of their community to the migration—believed that the German user community would ultimately adjust to the new site as they became more familiar with it.

Building a World Class Multinational Company

As Whitman watched Westly return to his cubicle to begin making calls, she wondered, "Why didn't we catch this coming? Why does the team feel they need to fly here right away?" The timing of the Germans' visit was particularly thought-provoking. Whitman and her management team were in early-stage discussions with France's iBazaar. The company ran eight online auction sites in Europe, and acquiring iBazaar would result in eBay having a presence in every important market in Europe. It would also mean potentially eight more migrations.

eBay Germany was comprised of a group of highly energetic, motivated people who cared deeply about their work. Whitman had been impressed by Justus at the quarterly review meeting. He was a fast learner and his presentations demonstrated that he was clearly on top of the key issues. She knew her senior team would work hard with the Germans to solve their immediate problems, but she was concerned that her team consider the longer-term implications of how international was run. Whitman and her team were deeply motivated to be an excellent multinational company:

I've worked for a number of multinationals, all of which, I thought, did it badly. The culture of those companies were very Americancentric. If you ever spoke to someone who ran Japan or France, they were ready to kill the Americans. With eBay's expansion into other countries, we have the opportunity to be a best-demonstrated-practice international company. I think that we, as a senior management team, need to always have that on our minds. How do we not be Americancentric? How do we instill in the company that every time an engineer writes a line of code, or a customer support person gets a new question, that that's immediately codified and done with a global view? If we want a global trading platform with a global community, we need to get this right.

Exhibit 1 eBay Relative Stock Price Performance

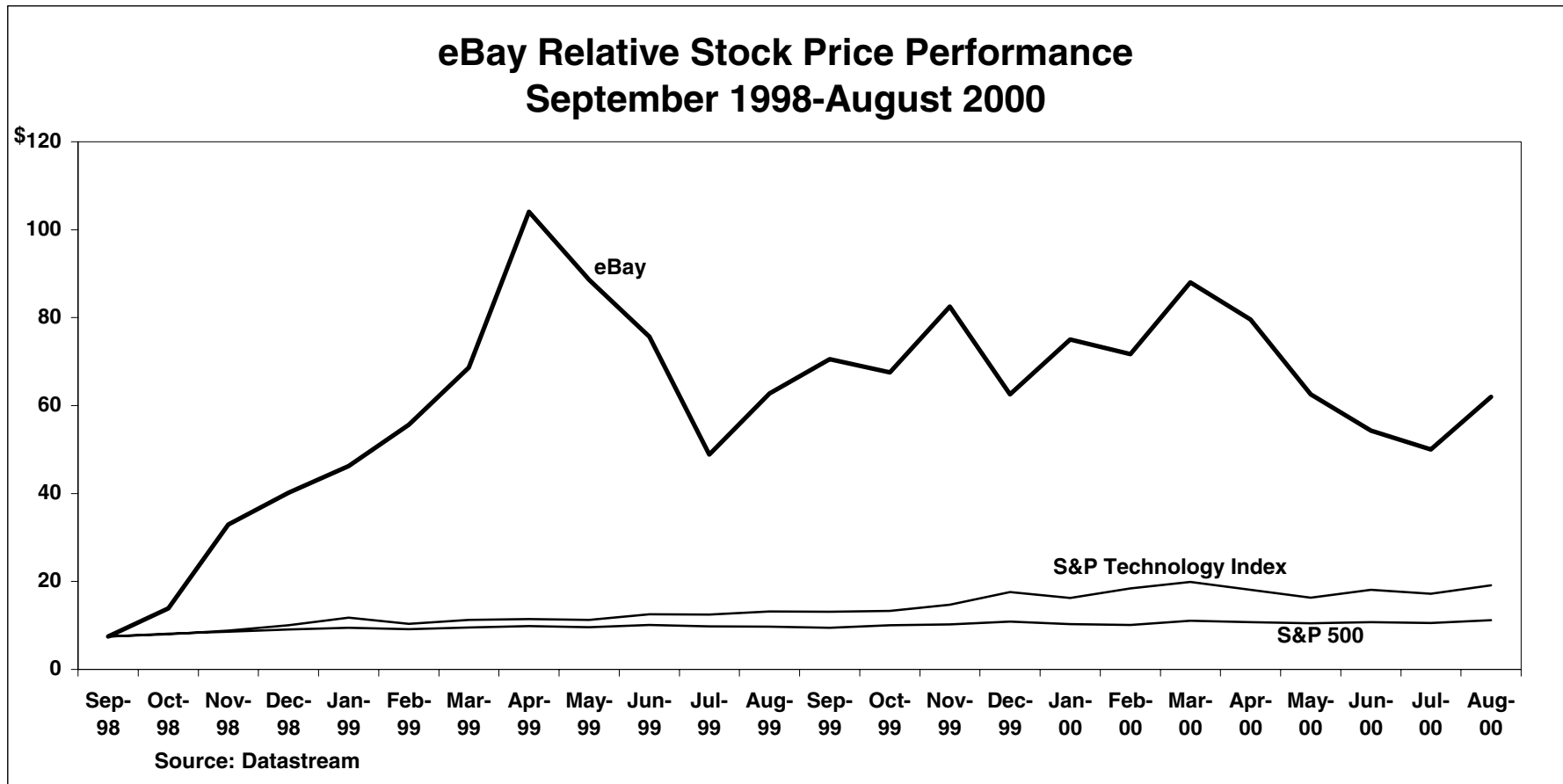
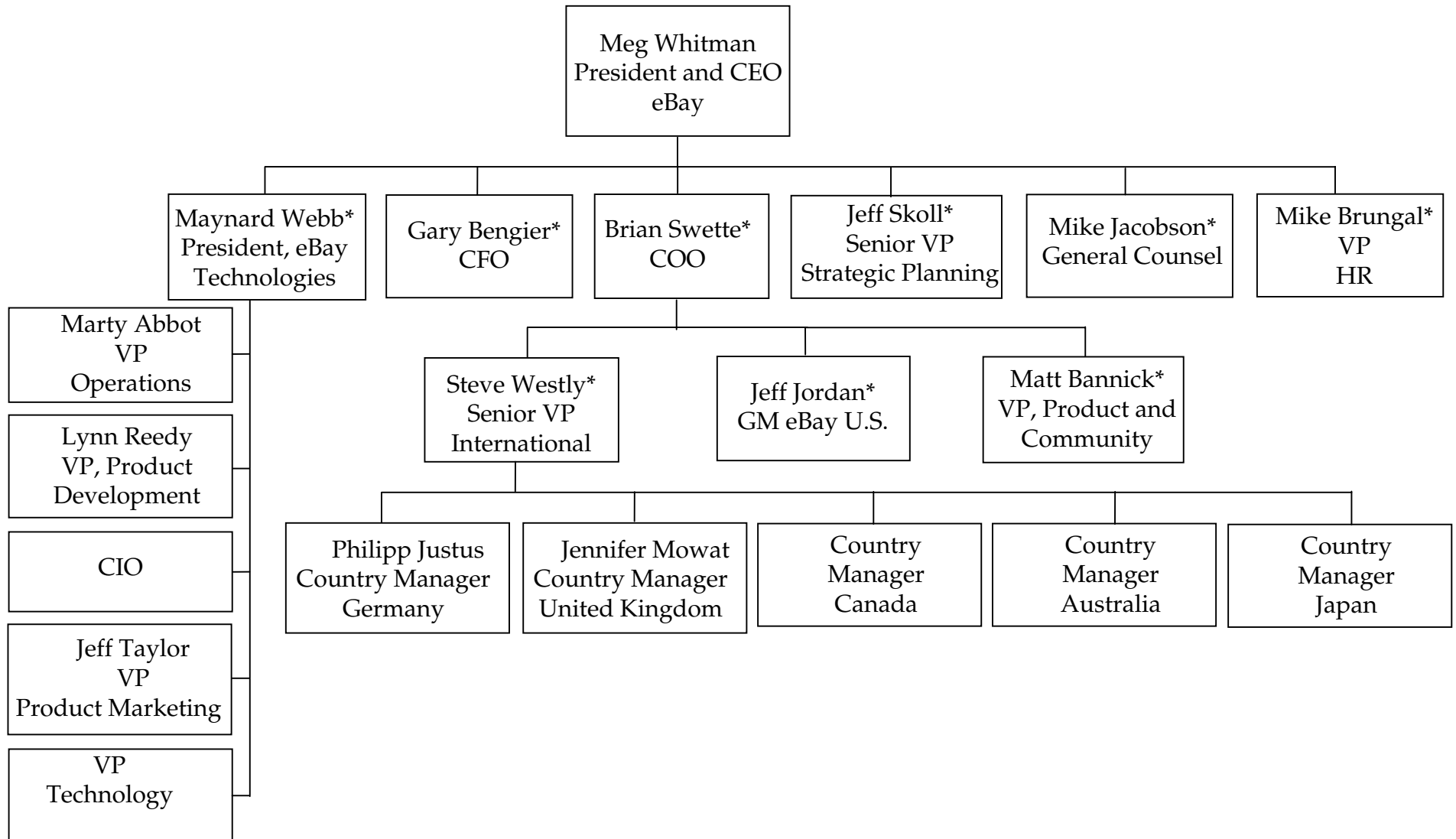


Exhibit 2 eBay Organizational Chart



*Members of the executive staff

Exhibit 3 Background Information on Selected eBay Executives

Pierre M. Omidyar founded eBay as a sole proprietorship in September 1995. He has been a Director and Chairman of the Board since eBay's incorporation in May 1996 and also served as its Chief Executive Officer, Chief Financial Officer and President from inception to February 1998, November 1997 and August 1996, respectively. Prior to founding eBay, Mr. Omidyar was a developer services engineer at General Magic, a mobile communication platform company from December 1994 to July 1996. Mr. Omidyar co-founded Ink Development Corp. (later renamed eShop) in May 1991 and served as a software engineer there from May 1991 to September 1994. Prior to co-founding Ink, Mr. Omidyar was a developer for Claris, a subsidiary of Apple Computer, and for other Macintosh-oriented software development companies. Mr. Omidyar holds a B.S. degree in Computer Science from Tufts University.

Margaret C. Whitman has served as President and Chief Executive Officer of eBay since February 1998 and a director since March 1998. From January 1997 to February 1998, she was General Manager of the Preschool Division of Hasbro Inc., a toy company. From February 1995 to December 1996, Ms. Whitman was employed by FTD, Inc., a floral products company, most recently as President, Chief Executive Officer and a director. From October 1992 to February 1995, Ms. Whitman was employed by The Stride Rite Corporation, in various capacities, including President, Stride Rite Children's Group and Executive Vice President, Product Development, Marketing & Merchandising, Keds Division. From May 1989 to October 1992, Ms. Whitman was employed by The Walt Disney Company, an entertainment company, most recently as Senior Vice President, Marketing, Disney Consumer Products. Before joining Disney, Ms. Whitman was at Bain & Co., a consulting firm, most recently as a Vice President. Ms. Whitman currently serves on the board of directors of Staples, Inc. Ms. Whitman holds an A.B. degree in Economics from Princeton University and an M.B.A. degree from the Harvard Business School.

Matthew J. Bannick has served as eBay's Senior Vice President and General Manager International since November 2000, Vice President International from June 2000 to October 2000, Vice President Product and Community from November 1999 to May 2000, and Vice President Customer Support from February 1999 to October 1999. Prior to joining eBay, Mr. Bannick held several positions at Navigation Technologies, a maker of up-to-date navigable map databases, including President of NavTech North America. From 1993 to 1995, Mr. Bannick worked as a consultant for McKinsey & Company in San Francisco. Mr. Bannick holds an M.B.A. degree from the Harvard Business School.

Gary F. Bengier serves as Senior Vice President Strategic Planning and Development. Previously he served as eBay's Chief Financial Officer and Vice President Operations. From February 1997 to October 1997, Mr. Bengier was Vice President and Chief Financial Officer of VXtreme, Inc. a developer of Internet video streaming products. Prior to that, Mr. Bengier was Corporate Controller at Compass Design Automation, a publisher of electronic circuit design software, from February 1993 to February 1997. Mr. Bengier has also held senior financial positions at Kenetech Corp., an energy services company, and Qume Corp., a computer peripherals company, where he participated in numerous debt and equity financing transactions. Prior to joining Qume in 1989, Mr. Bengier spent six years at Bio-Rad Laboratories and held varied financial management roles. Mr. Bengier also spent several years as a management consultant for Touche Ross & Co. Mr. Bengier holds a B.B.A. degree in Computer Science and Operations Research from Kent State University and an M.B.A. degree from the Harvard Business School.

Brian T. Swette has served as eBay's Chief Operating Office since January 2000 and Senior Vice President of Marketing and International from August 1998. From 1981 to June 1998, Mr. Swette was employed by Pepsi-Cola Beverages, a global beverage company, in various capacities including

Executive Vice President and Chief Marketing Officer—Global Beverages from March 1996 to June 1998, Executive Vice President Marketing—North America from September 1994 to March 1996, Senior Vice President and General Manager of New Business from February 1992 to September 1994, Senior Vice President Marketing and Strategy—North America from 1990 to 1991, Vice President North Latin America—General Manager from 1986 to 1989, Director of Marketing Planning and Development—Pepsi International from 1984 to 1986 and Country Manager—Brazil from 1981 to 1984. Before joining Pepsi-Cola Beverages, Mr. Swette worked in various capacities for Procter & Gamble from 1977 to 1981. Mr. Swette currently serves on the board of directors of J. Crew Apparel. Mr. Swette holds a B.S. degree in Economics from Arizona State University.

Maynard G. Webb has served as President of eBay Technologies since August 1999. Previously, Mr. Webb served as Senior Vice President and CIO of Gateway, Inc from July 1998 to August 1999. From February 1995 to July 1998, Mr. Webb was Vice President and CIO at Bay Networks, Inc. From June 1991 to January 1995, Mr. Webb was Director, IT at Quantum Corporation. Mr. Webb also serves on the board of directors of Extensity, Inc., an Internet-based software company, and Niku Corporation, an Internet-based software company. Mr. Webb holds a B.A.A. degree from Florida Atlantic University.¹⁵

Steven P. Westly has served as eBay's Senior Vice President International since December 1999, and Vice President of Marketing and Business Development from August 1997. From July 1996 to August 1997, Mr. Westly was Vice President, Business Development of WhoWhere?, an Internet directory and Web-based email company. Prior to that time, Mr. Westly was Director of Sales for Netcom, an Internet service provider, from August 1995 to July 1996 and was Deputy Director of Office of Economic Development, City of San Jose, California, from April 1991 to August 1995. Before joining the Office of Economic Development, Mr. Westly served as President of Codd and Date International, a relational database consulting firm, from January 1990 to March 1992 and was the Managing Director of Bridgemere Capital, an investment banking firm, from 1987 to 1990. Mr. Westly holds a B.A. degree in History from Stanford University and an M.B.A. degree from the Stanford Graduate School of Business.

Source: Adapted from eBay, Inc. Prospectus, April 1999.

¹⁵ Source: Market Guide, Inc., Lake Success, NY, 2001.

Exhibit 4 Timeline of Key Events During Whitman's Tenure

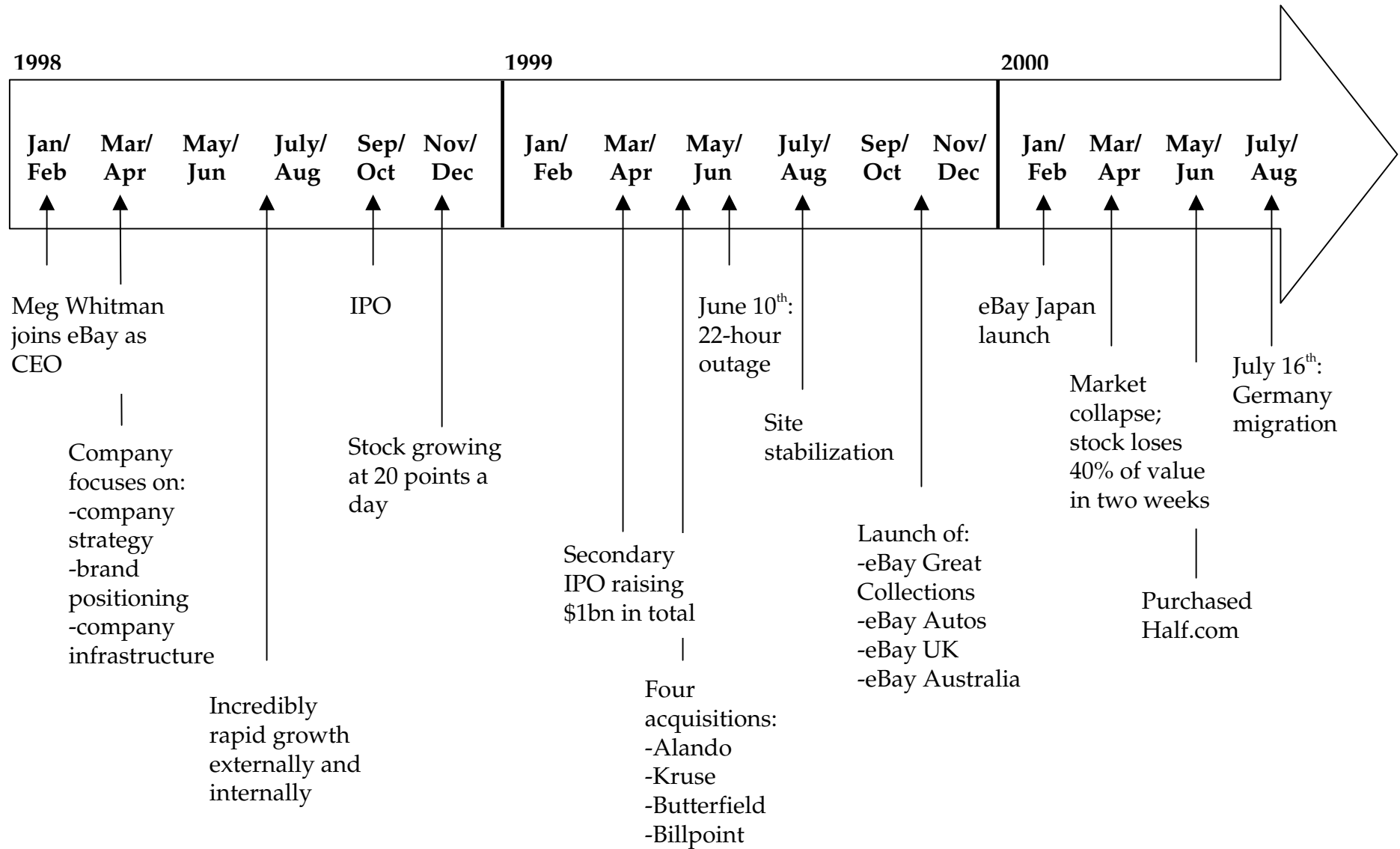


Exhibit 5 The Rebranding of eBay Germany and the Homepage Post-Migration



Figure 1. Homepage pre-acquisition. Sept. 1999.



Figure 2. Homepage post-acquisition. Oct. 1999 – Nov. 1999.



Figure 3. Homepage pre-migration. December 1999 – July 2000.



Figure 4. Homepage post-migration. July 2000.