

E-BIZ SUPPLEMENT: INSIDE eBAY

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COVERSTORY

responsibility for building the community—even the building of the Web site.”

For instance, he would answer e-mails from buyers and sellers during the day, then rewrite the site's software that night to incorporate their suggestions, from fixing software bugs to creating new product categories. Says e-commerce expert John Hagel III, chief strategy officer with e-business incubator 12 Entrepreneur Inc.: “It really helped give people a sense of ownership and participation.” Likewise, Omidyar set up an online bulletin board for customers, whose volunteered help kept early support costs almost nil—and cemented their loyalty.

Omidyar's biggest breakthrough was the Feedback Forum, a rating system that allows buyers and sellers to grade each transaction positive, negative, or neutral. Amazingly, it works. More than 99% of feedbacks are positive (sample comment: “Great Bidder! AAAAA+++++ Highly Recommended!”). And eBay's rate of fraud remains below 0.01%. By contrast, credit card fraud runs at nine times that rate. And positive ratings, which translate to more sales, keep people from straying to other sites. Says Dwayne Rogers, who sells vintage fruit crate labels on eBay from his home in Chico, Calif.: “They just don't have any competition.”

But as eBay grew from a small town into a city, urban problems erupted, such as contraband goods. Since early 1998, eBay has used more stringent rules to crack down on crime, and banned sales of firearms. Indeed, eBay has increasingly realized that, like government in a democracy, it can't leave absolutely everything to the people. Says Jeff Jordan, senior vice-president in charge of eBay's U.S. operations: “You can't govern a metropolis the

**“SHOELESS” JOE JACKSON'S
“BLACK BETSY” BASEBALL BAT
SOLD FOR \$578,000**

same way you governed Mayberry.”

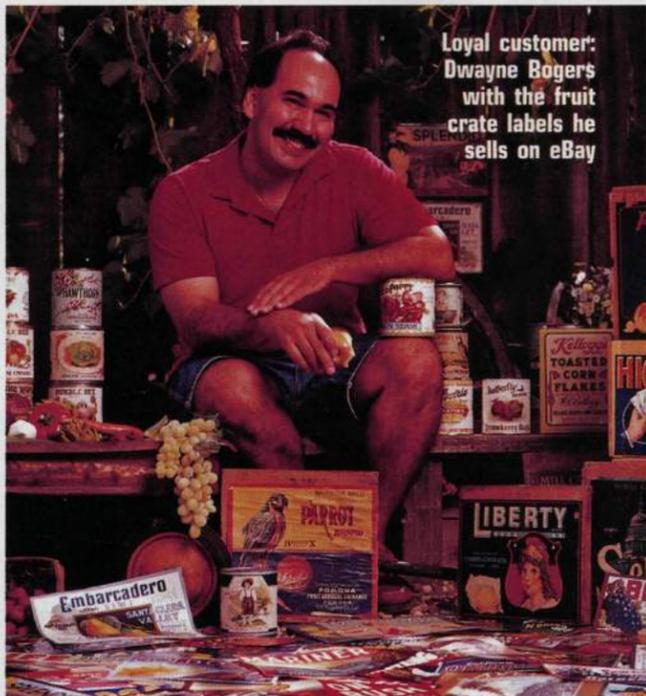
eBay's key public-works project: its computer network. Until last year, it was plagued with outages—including one in June, 1999, when eBay was completely shut down for 22 hours thanks to software problems and no backup systems. Former Gateway Inc. Chief Information Officer

Maynard Webb, who joined as president of eBay's technology unit, has upgraded systems so eBay's site is down less than 42 minutes a month despite much higher traffic. Credit that partly to Whitman, who dived into the technology despite her lack of experience in it. Still, eBay's customers had a big part, too. Shortly after Webb joined, he recalls, eBay's discussion boards twice lit up with user complaints about site glitches. His techies claimed nothing was amiss—and both times were proved wrong. “They catch things we don't,” Webb says of eBay's customers. “The community actually moves faster than we do.”

Sometimes, so do rivals. Yahoo and Amazon beat eBay on such features as online bill payment and uploading of product photos. Shmuel Gniwisch, CEO of online jewelry seller Ice.com, says Yahoo early on provided services more tailored to helping commercial companies. eBay admits it sometimes doesn't have the resources to do everything all its customers want—and, on occasion, just forgets to listen. Says Brian T. Burke, senior manager of community support: “Sometimes we're kind of slow.”

As befits a corporate democracy, eBay's biggest challenges are political. Features good for buyers, such as those e-mail auction referrals, can hurt sellers. Lately, sellers are especially peeved at eBay's promotion of large commercial companies such as Disney, which rates a special area in the Disneyana category. Says David Steiner, an eBay seller who's also president of the online auction watchdog site AuctionBytes.com: “The general consensus of veteran sellers is that they've forsaken the people who built them in favor of corporate sellers.” eBay argues that commercial sellers lend credibility to their categories, drawing more buyers to all the sellers—a point many merchants concede.

Yet others think eBay isn't listening as well as it once did to its core individual and small-business merchants. “They've gotten too big for their britches,” fumes Ron Saxton, an Apple Creek (Ohio) seller of die-cast cars. eBay didn't consult its customers when it launched its Auction for America campaign a week after the September 11 attacks, aiming to raise \$100 million in 100 days for victims. And eBay's insistence that sellers use its billing system, rather than let them accept checks or use



**Loyal customer:
Dwayne Rogers
with the fruit
crate labels he
sells on eBay**

a more popular rival system called PayPal, rubbed many the wrong way. That may partly explain why the charity drive has raised less than \$6 million halfway through—despite donations such as Jay Leno's celebrity-signed Harley-Davidson motorcycle, which sold for \$360,200.

Few complaining sellers, however, stop or even reduce selling on eBay, or go anywhere else. Partly, that's because eBay commands more than 80% of the online person-to-person auction market. “The only way I'm leaving eBay is kicking and screaming,” says longtime eBay collectibles seller Tina DeBarge. Sure, eBay's relationship with its customers can be messy, says eBay board member Scott Cook, chairman of financial software maker Intuit Inc., “but in the same way that democracy is messy compared with the straightforwardness of a dictatorship.”

FROM LEFT PHOTOGRAPH BY REAL LEGENDS, INC.; JAMIE TANAKA

**TWO YEARS AFTER
eBAY MOTORS SELLER
CAR PARTS TOP 100**

It doesn't hurt that Whitman's traditional top-down management ground at Disney, FTD.com, and eBay became a convert to the eBay way after she joined as CEO in early 2000. She's a top seller among the 2,500 employees, with a power rating in the hundreds. In 1999, she mentioned some \$35,000 worth of goods in her ski condo in Colorado. Whitman's stand the selling experience—she's often required fellow execs to help her, too, can detect problems.

It's no surprise, then, that Whitman has devised a constant stream of changes to tap the expertise of its user base. Naturally, eBay harnessed the qualities of the Internet to do things much deeper than most brick-and-mortar businesses can obtain. Before eBay revamped its better collectibles categories earlier this year, it made products easier to find. It mailed 1.2 million customers to check out the proposed changes. The 10,000 who responded had suggestions, and many were implemented.

Some of its most effective changes came from user input, though, delivered via the Net. Since early 1999, eBay has convened Voice of the Customer sessions, bringing in a new group of all-arounders and buyers from around the world. San Jose (Calif.) headquarters executives grill them for their views on new features. “Some of the things they've led to changes,” such as improved feedback policies, says Voice of the Customer George Hawkins, who sells collectibles on eBay from his home in San Jose.

The result: fewer problems, fewer features and policies, a smoother ride. Even when something goes wrong, eBay uses all that user input to gear up quickly. In the past few years, Whitman says eBay has started budgeting an extra 10% for projects so it has the resources to make a quick turn. “They negotiate with 50,000 users to make it work,” says Munj, who runs the auction services firm.