

Posted in MEG WHITMAN

Last updated 07/12/2010 at 2:42 p.m. PDT

EBay's Lost Years

As a CEO, Meg Whitman has had her ups and downs

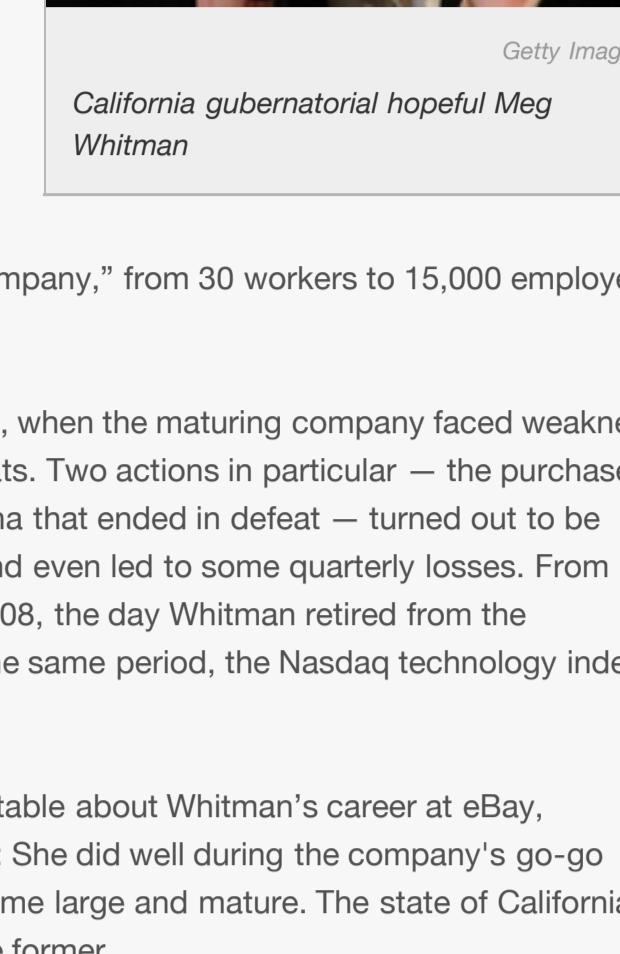
By RUSS MITCHELL on July 5, 2010 - 7:00 p.m. PDT

[Comment](#) 9 Comments [Print](#) [Email](#) [Tweet](#) 143 [Recommend](#) 546 [+](#)

There are three things Meg Whitman doesn't discuss much on the campaign trail: 2005, 2006 and 2007.

Those were Whitman's last full years as CEO of eBay. Over that period, eBay's stock price was cut in half, a loss of \$30 billion in market value, as investors reacted to a string of troubled acquisitions initiated by Whitman and the prospect that Google or others might up-end the online auction business.

With her record \$91 million in campaign spending — most from her own pocketbook — GOP gubernatorial candidate Whitman is funding a ubiquitous TV and radio campaign designed to link her management abilities with eBay's success. Repeatedly, the ads remind voters that she "took a startup and turned it into a Fortune 500 company," from 30 workers to 15,000 employees and revenues of nearly \$8 billion.



California gubernatorial hopeful Meg Whitman

But Whitman's early success was not matched later on, when the maturing company faced weakness in its core business and new types of competitive threats. Two actions in particular — the purchase of Skype, the Internet phone service, and a foray into China that ended in defeat — turned out to be major mistakes that helped crush eBay's stock price and even led to some quarterly losses. From a historic high on December 29, 2004, until March 31, 2008, the day Whitman retired from the company, eBay shares dropped by 54 percent. Over the same period, the Nasdaq technology index, which includes eBay, finished up 4.6 percent.

Even the best CEOs make bad acquisitions. What's notable about Whitman's career at eBay, however, is how her record cleaves into two neat parts: She did well during the company's go-go growth stage, but much less well as the company became large and mature. The state of California, of course, is likely more analogous to the latter than the former.

In the beginning, "eBay was a gravy train for Meg," said Ina Steiner, who runs the AuctionBytes.com industry-news website. "She could afford to get what she wanted while appearing magnanimous." Whitman built a professional organization, Steiner said, but as growth slowed she began to demonstrate "an inability to control the empire she built."

Whitman declined to speak with The Bay Citizen. A campaign worker responded to queries via email: "If you look at eBay's earnings reports from Q4 2004 until she left in Q1 2008, the company posted net profits in eleven out of fourteen quarters — often rising by more than 30 percent compared to the prior year. The decisions she made were designed to make eBay a stronger company built for the long haul, not just to make quarterly earnings estimates — although she did a pretty good job of that, too. To suggest that she did not run eBay with a firm fiscal conservative hand is just wrong."

Only recently did Whitman, 53, feel the pull of politics.

She worked eight years as a management consultant at Bain & Co., with Mitt Romney for a boss, followed by a string of jobs as a consumer products marketing specialist. They included Stride-Rite, Disney, FTD and Hasbro.

She began talking with eBay while at Hasbro in 1998. eBay, founded in 1995 by ponytailed computer programmer Pierre Omidyar, had been profitable from its first year of operations. Whitman took the CEO job months before eBay's wildly successful initial public stock offering.

Whitman and her neurosurgeon husband Griff Harsh were making a comfortable living on their combined salaries. But profits on eBay stock are what made them rich and what fuel her campaign. Forbes pegged her net worth at \$960 million in 1999, a year after the IPO; today, her fortune is estimated at \$1.3 billion.

Omidyar, who now is financing a startup online news service in Hawaii, ceded great authority to Whitman, who by all accounts was deeply involved in company operations and strategy. "She makes the tough decisions," said Peter Krasilovsky, an interactive media specialist at the BIA/Kelsey consulting firm. "Those who say she simply rode a rocket ship to success underestimate her contributions." Whitman was the driving force behind eBay's highly successful move into the business-to-business auction market, Krasilovsky said, where, instead of consumers selling Beanie Babies and baseball cards to one another, businesses might auction off a building's worth of office furniture. By 2007, she had acquired StubHub, a sports ticket auction site that has proved profitable.

Still, there were missteps and wasted billions. When the founders of PayPal, the online payment company, offered to sell eBay their company for \$500 million in 2001, she countered with \$300 million. PayPal walked. A year later, PayPal was asking \$1.5 billion. This time, Whitman agreed.

"It will tell you, I don't think I'm a very good negotiator," Whitman told Stanford students in a 2006 speech. Even at three times the original price, however, PayPal has paid off for eBay. It now contributes 27 percent of total revenues, with an operating profit margin of about 20 percent.

But by 2004, eBay's revenue and profit growth rates were beginning to fall. Whitman's challenge shifted from guiding breakneck expansion to finding new ways to grow. Late that year, eBay stock began its steep, years-long slide.

Troubles in China

Early on, Whitman recognized that China offered stupendous opportunities for new growth. In 2003, eBay purchased the Beijing-based EachNet auction site. EachNet was China's clear leader in online auctions, controlling 85 percent of a still-tiny market. Three years and \$300 million later, eBay shut down its China site.

eBay's China trouble began with the entry of powerful new local competitor TaoBao ("seeking for treasure"), which charged no fees. Fees are eBay's bread and butter. A transaction fee of 8 to 10 percent is typical for someone auctioning an individual item on eBay. To this day, eBay and the U.S. press attribute the company's China failure to the fee issue, ignoring serious operational problems, bureaucratic torpor and poor communications.

While TaoBao's no-fee policy hurt eBay, EachNet founder Bo Shao said the falloff was not precipitous. What caused a customer exodus, he said, was a major strategic error, combined with bungling by eBay's corporate bureaucracy, which failed to react quickly to mounting problems.

Shao, now an investment banker, did not respond to The Bay Citizen's inquiries. But he offered a critique of Whitman's strategy in an interview for "Red Wired: China's Internet Revolution," a little-noticed book recently released in the United States.

According to Shao, Whitman envisioned a "global village" to create one universal eBay site. For a year, eBay and EachNet worked on a transition plan to switch from EachNet's China technology platform to the system in the United States. eBay traffic would flow back and forth between the two countries; previously, the China traffic had mostly stayed in China.

"It was a great vision, but a terrible business strategy," wrote book co-author Sherman Sho. The data capacity of overseas Internet pipes couldn't handle all the traffic; loading speeds on the site slowed dramatically. (New capacity has since been added.) Furthermore, the overseas traffic received more scrutiny from China's "great firewall" — a system of government filters that screens for political content — which further slowed eBay's China site. Although no evidence indicates the Chinese government intentionally caused eBay's technology problems, rumors circulated that TaoBao planted politically sensitive usernames and products on eBay China to create trouble. TaoBao denied that claim.

The system "migration" to the United States occurred in October 2004. According to Shao, eBay China's traffic immediately dropped by half. For weeks, the site remained slow and unstable.

eBay's response to the technical problems was likewise slow. According to Shao, either Whitman was not paying sufficient attention or her executives failed to pass reliable information to her because she didn't hear about the problems for at least a month. When Whitman found out, he reported, she was furious.

In December 2004, eBay stock hit its historic high, but as word leaked about eBay's China troubles, the stock began its decline.

Whitman began considering other employment. She interviewed at Disney to replace retiring CEO Michael Eisner, but withdrew just before the job was given to Disney executive Bob Iger in March 2005.

That May, Whitman traveled to Beijing to signal commitment to China. "If we are good and we execute, ultimately China could be eBay's largest local market in a five to 10 year period," she said at a conference. By late 2006, eBay shut its China site while buying a minority stake in Tom Online, a tiny auction market player whose market share today is in the single digits.

Whitman's campaign said, "Meg and her top executives moved to China for months" during the summer of 2005 to make the endeavor work and noted that Google and Yahoo faced extreme difficulty in China as well.

A few weeks ago, TaoBao and Yahoo Japan announced a "China Mall" that would allow users from both sites to trade with each other, cementing their positions as the two online auction leaders in the fast-growing Asian market.

Skype: Dropped Calls

As Whitman struggled to reverse eBay's failings in China, she engineered eBay's biggest acquisition ever: Skype. In September 2005, eBay agreed to pay \$3.1 billion for the Internet phone company. "Synergy" was the rationale: eBay would gain revenue as Internet phone calling became more popular; eBay users could employ Skype as another means of trading, boosting eBay's transaction volume. Meantime, Skype's own site could serve as a new trading post, increasing eBay's fee tally. PayPal would benefit from added payments on both sites. Whitman called it "The Power of Three."

The basic strategy made sense, according to Phil Wolff, who runs the website Skype Journal. The problem, he said, was weak execution. In order to make the synergy work, eBay needed to update Skype's underlying technology. Krasilovsky, the consultant and Whitman admirer, agreed with Wolff, saying, "It turns out it was not a technologically capable platform" for online auctions. He called the Skype purchase "a mistake."

Wolff, whose contacts include former and current engineers at eBay, said the company could have invested in new systems, but Whitman was focused narrowly on growing the telephone business. "No investments were made to bring the strategy about," he said. "She froze innovation [at Skype] for years and focused on nothing but getting more users for the [phone] network." Investment, he said, would have cut into profits, and likely would have put further pressure on eBay's stock price. "The innovation engine was shut down," Wolff said. "Any proposed R&D spending that didn't contribute to that was immediately set aside."

Skype never met eBay's goals. Whitman went through three Skype presidents trying to make the acquisition work. One, Henry Gomez, now runs her campaign.

Whitman's successor as eBay CEO, Jack Donahoe, saw Skype as a "distraction," and in September 2009 sold 70 percent of it to a private equity firm for a price that values Skype at \$2.75 billion.

Skype did not respond to requests for comment. Whitman's campaign said: "Meg firmly believes that when the final chapter is written on the Skype deal, it will prove a good acquisition." Or, as Whitman put it in her book, "I remain convinced that this tiger is only beginning to growl."

Then there's Craigslist. In 2004, eBay bought a 24 percent stake in the Internet classified ads phenomenon. Within a year, bad blood was flowing. Without informing Craigslist, eBay launched Kijiji, its own classified site in the United States. eBay and Craigslist are now suing one another in separate courts. Kijiji never took off; it remains less than a tenth the size of Craigslist. In March, Donahoe finally admitted Kijiji was a dud when he changed its name to [eBayClassifieds.com](#).

There are different ways to interpret business deals gone wrong, and different ways to analyze the relative success of a CEO. With Whitman communicating almost entirely by paid advertising, though, real discussion of the totality of her record at eBay has only just begun.

Tagged: China, Internet Auction, Skype

[Comment](#) 9 Comments [Print](#) [Email](#) [Tweet](#) 143 [Recommend](#) 546 [+](#)

RELATED CONTENT

GOP Candidates Dismiss 14th Amendment Talk

By GERRY SHIH

Nurses Protest 'Queen Meg' (Video)

By KATHARINE MIESZKOWSKI

Nurses Protest at Meg Whitman's House

By KATHARINE MIESZKOWSKI

Sign up for Our Newsletter**Send Us Feedback**

The Bay Citizen

126 Post St., Suite 500

San Francisco, CA 94108