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Acquisition: eBay and Auctionco

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Stephanie Tilenius, vice president and general manager for merchant services at PayPal, an eBay company, shares in detail the story of the acquisition of Auction Co, a successful company in Korea. This brings to life management characteristics and values and execution, she says. Tilenius defines the situation, the process within eBay, and eBay's response to a different market place.



Transcript

I'm going to spend about 15 minutes or so and try to open it up for questions after that. I'd like to share a story of what happened when we acquired Auction Co. in Korea. And through this story I hope to bring to life a lot of the management characteristics and what executives at eBay do to really execute well and lead in a high-growth environment. So I'm going to go through and define the situation that we found ourselves in, then I'm going to talk about the response and the results that we achieved, as well as lessons learned. So let me start out with the situation. I started in early 2001. And at that time, we had acquired a company called Auction Co. in Korea. It was a publicly-traded company.

When I came into eBay, we essentially were in Europe. We didn't have much presence in Asia. We were in Japan and we were Number 2 in Japan. It's the only country we've ever been Number 2 in. And I was asked to build out Latin America and Asia. We did an acquisition in Korea because Korea was the second-largest market after Japan. It has the highest penetration of high-speed access. Two-thirds of the population is on the Web. They had an entrepreneurial environment in Korea that was very similar to the boom here in Silicon Valley. There were a number of startups.

And they copied the eBay model and Auction Co. had really gained tremendous amount of success. We bought 50% of the company for \$120 million. It was a publicly-traded stock at the time, and the stock was trading at 24,000 Korean Won. There was a man named KR Lee, who is the CEO, who is very famous in Korea both in the business community as well as among the Korean politicians. The company had 320 employees. And they had just completed the year with 8.4 million of revenues and they were losing money. So I'm just trying to give you a little bit of background on Auction Co.. That was in the beginning of 2001, around the March timeframe. We have every quarter what we call 'operating reviews' at eBay where executives come from all parts of the country.

We have the international team come over and we go through each of the different business and each of the countries and how things are going, what the plans are for the next quarter. We call it 'operating reviews'. So KR had come over for our traditional operating reviews, and I was in the meeting with him and Matt Bannick, who was running all of international at that time, who is now CEO of PayPal. And KR proceeded to tell us that they were going to miss the numbers and that the numbers that they had told us in terms of revenues and GMS were targets that were really not achievable. And it became very clear that KR and his team did not really understand how eBay operated. They didn't understand that you don't miss the numbers, you deliver on your commitments, and that profits are really important and delivering day in and day out and executing is absolutely critical. So I put together a SWAT team of eBay folks, rushed over to Korea and tried to figure out what was going on. It became very clear that we had a turnaround situation. And it was a turnaround for several reasons. First of all, the

management team that was in place was not the right team to really scale this business.

Secondly, 70% of the business was what we call 'B to C'. So it's actually very different than the eBay model in the sense that they had a bunch of category managers in the country that would negotiate with manufacturers and e-commerce suppliers and actually put listed items on the site every Monday in a Mercado-type format. So I'm not sure how many of you are familiar with Mercado but it was a business model that was somewhat successful in Silicon Valley where people would come on and bid on new items at a fixed price, and the more people bid, the lower the price. And the model was very successful in Korea at the time. It was called 'group buying'. There were about 400 companies in Korea that were pursuing this model, and Auction Co. was one of the leading ones. And so 70% of the volume was actually an intermediated marketplace where Auction Co. determined the pricing of the product. Very different than the dynamic marketplace and community that we know as eBay.

We only had 20% of the revenues that were eBay-like in terms of a dynamic auction marketplace. So we looked at this and said, "This is not scalable." They had 320 employees. We didn't need that many employees. And we realized that there was also some fraud. Credit card fraud was rampant in Korea, and they were using Auction Co. at the time as a format for getting money from individuals and essentially stealing credit card numbers. So between the fraud and the flawed strategy, we said we need a new team. We've got to get the right management team at the right time. We need to have the right strategy so we can execute effectively and scale this business to profitability. And we have to lead with integrity.

We cannot have fraud. I mean, that is just not allowed at eBay.