



Stanford eCorner

Founding of Paypal

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Video URL: <http://ecorner.stanford.edu/videos/378/Founding-of-Paypal>

After his company zip2, Musk started exploring other opportunities on the web. He realized that money required low bandwidth and there was not enough innovation in the financial industry. Musk shares how he arrived at the idea of PayPal.



Transcript

So we had that but I wanted to do something more after Zip2. Immediately post the sale, I'd ordinarily take the time off. I tried to get where the opportunities, this is early '99, remained in the internet. It seemed to me that there hadn't been a lot of innovation in the financial services sector. And when you think about it, money is low bandwidth. You don't need some sort of big infrastructure improvement to do things with it. It's really just an entry in the database. The paper form of money is really only a small percentage of all the money that's out there. It should land itself to innovation on the internet. So, we thought of a couple of different things we could do.

One of the things was to combine all of somebody's financial services needs into one website. So, you can have banking, brokerage, insurance and all sorts of things in one place. And that was actually quite a difficult problem to solve. But we solved most of the issues associated with that. Then we had a little feature which took us about a day. That was about an emailed money from one customer to another. You could type in an email address or, actually, any unique identifier and transfer funds or conceivably stocks or mutual funds or whatever from one account holder to another. And if you should try to transfer money to somebody who didn't have an account in the system, it would then forward an email to them saying, "Hey, why don't you sign up and open an account?" Whenever we demonstrate these two sets of features we'd say, "This is a feature that took us a lot of effort to do and look how you can see your bank statement and your mutual funds and insurance and all that. It's all in one page and look how convenient that is." And people would go, "Hmm." And we would say, "And by the way, we have this feature where you can enter somebody's email address and transfer his funds." And they go, "Wow!" All right, OK.

So we focused the company's business on emailed payments. In the early game going, our company's called X.com. There was another company called Confinity which also started out from a different area. They started off with Palm Pilot cryptography and they had as a demo application the ability to beam token payments from one Palm Pilot to another by the infrared port. Then they had a website which was called Paypal where you'd reconcile the beamed payments. And what they found was that the website portion was actually far more interesting to people than Palm Pilot cryptography was. So they started leaning their business in that direction. In early 2000, X.com acquired Confinity and then about a year later, In early 2000, X.com