



Stanford eCorner

Negotiating with eBay

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Video URL: <http://ecorner.stanford.edu/videos/1033/Negotiating-with-eBay>

The negotiations with eBay were difficult because eBay did not originally recognize Paypal as an essential part of their business model. After a year-and-a-half long negotiation (and a few marketing ploys by Paypal), eBay recognized the Paypal's value and the two companies were able to agree upon the deal terms and valuation figures.



Transcript

Well, I think there's sure a lot of things can be said about it. The high level thing was that eBay was focused mainly on expanding their auction business and the payment fees originally seemed orthogonal and you know I don't know if eBay made any catastrophic mistakes historically. I think they build a much bigger business than they might have otherwise built and they try to focus squarely on payments earlier on. Though the weird dynamic was, you could say eBay was like a giant Wal-Mart store and there was a separate company that was running all these cash register machines and we were certainly nervous that they might get some other people to internally figure out how to get the cash registers to work. Billpoint, they just couldn't get the product to properly work. It was very tricky. The fraud technology thing made them very nervous to make the product functional and so they had a secure product but it was too inconvenient for people to use because of the three-way trade-off Max described and that's fundamentally why Billpoint never took off. And so basically it was a one and a-half-year long very tricky negotiating process with eBay to figure out, you know we should combine these companies but what's the evaluation? And the problem is, you know, the combination made a lot of sense. It was, you know, worth a lot to eBay. It would make a lot of sense for us to combine and we had basically five separate merger rounds of negotiations and the first three, you had like weeks of negotiation and, you know, you could never quite get to evaluation.

They want to pay less when you felt it should be worth more. Fourth round, most intense ever, went on six weeks straight. I knew every meeting. Here are the numbers to back us up and this is what we should do. At the end of six weeks, couldn't quite get to this point. At this point people were really pissed off especially on the, you know, eBay side. We were this small little company on the side. Remember the CFO's fist clenched announced to us, "If you do not sell the company to us, then we will fight!" And with that, the whole eBay team stood up and stormed out of the room. I thought to myself, "Wow! These companies are never going to come together and..." And I said, Peter in less than a year... And well it was about three months later, yes but probably the best single investment that we ever made on a dollar basis was two months later are COO, the eBay had this big conference that they brought all their power solvers together in Anaheim, California.

Our COO decided to bring a few people from PayPal down the, and printed out all these PayPal T-shirts and there were about 2000 of these T-shirts and they got everybody, all of eBay's customers to wear PayPal T-shirts and at that point, it was like, well maybe we should talk again and... At the front page of USA Today had a picture of Meg Whitman. The eBay CEO. The eBay CEO signing autographs with, you know, eBay live is a big love fest when Meg comes out and everybody just sort of smooches with everybody. And the guy who was getting a signature was wearing a PayPal T-shirt so I think the point was driven to them once again that we really become this bizarre... This bizarrely synergistic had made them go well together. This

always synergistic and they really couldn't be without it anywhere.