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When and Why to Merge With a Competitor to Dominate a Market

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The early merger with the competitor created a unified front that helped convince people that there was a large market with real growth. Though there is no way to tell, it is likely that both companies would have run out of money had they not merged.

Transcript

The biggest thing was really a creation of a unified front because by then we were getting enough attraction in Silicon Valley and just on the internet as well where it was fairly obvious that it's a real business, people using it, there was growth, and there were two companies. And X.com is actually getting an attraction as well, so it was not exactly clear who was the absolute leader. So as we went out to raise money and also the same time, we had already seen two different acquisition offers. As soon as the X.com would enter the conversation it was very clear to us that people are now seeing us and X.com as sort of these equals. So when we did the merger we were fairly certain we weren't going to sell the company anytime soon but it helped Peter and his financing team greatly to say, "Look there is only one player in town, that X.com company, we're it. We're both; we're the same one now. So that was a very valuable thing for us at the time. The value that we've got out of the merger can always be disputed and it's tempting to say, "PayPal brought in more that X.com did or in the.." Can't run the experiment twice. So you really cannot find out... The financing perspective is that both companies would have blown up because it would have run out of money.

As I said we have raised 100 million dollars and we had not a single day to spare. So if it helped us by just a single day that was critical. We've got some pretty good people out of X too so it was not so bad.