

EBay CEO John Donahoe



How eBay Developed A Culture of Experimentation

JOHN DONAHOE HAD BIG SHOES TO FILL in 2008 when he took over from Meg Whitman, eBay's celebrated longtime CEO. He also had work to do. The company's core business was slipping, and a major acquisition, Skype, had gone wrong. In this edited interview with HBR's Adi Ignatius, Donahoe talks about reinvention, experimentation, and whether any CEO is worth the \$10 million he made last year.

HBR: eBay changed how the world does business. But it's been around now for 15 years. How do you avoid the slowed growth that usually comes with age?

Donahoe: Yes, we're 15 years old, but in each five-year phase of the internet there have been significant differences in the key driving forces and the companies leading them. And there will be more change in the next five years than there's been in the past 10. We're very focused on capitalizing on this period of dynamic change in how consumers behave.

But in some ways eBay is still in its original incarnation, and it's now almost a traditional merchant. Do you ever feel you're missing innovation opportunities?

Well, no. One of the most fundamental forces changing how we operate is the smartphone. We launched our iPhone application in 2009. In its first year it did more than \$600 million in volume. In 2010 it did between \$1.5 billion and \$2 billion. More than 14 million people have downloaded eBay's iPhone application—it's by far the largest m-commerce application

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in the world. Mobile is bringing the internet to you seven days a week, 24 hours a day, on your time, at your convenience, where you want to be. We're finding out how people shop now: They're standing in a line at Starbucks, let's say, and they start browsing on eBay. They see something they want and they buy it right there.

Mobile also seems to be breaking down the barriers between online and offline.

We bought this little mobile company called RedLaser. You take your smartphone camera, you look at an item, you scan the UPC, and it tells you what the item is selling for on eBay, on Walmart.com, on BestBuy.com, all across the web. You can immediately price compare or get additional information. And we just bought a company called Milo, which brings up inventory in local stores online. We integrated that into RedLaser, so if you're in Boston and you want to buy a pair of Nikes, you walk into the nearest shoe store, you scan the shoe you want, and you can see its price at other merchants within five or 10 miles of you.

Everyone says they want to be where the customer is, but at a certain point you have to make some bets. Are tablets like the iPad where your business is going?

What we're finding is that consumers are using multiple devices—iPhone, iPad, laptop, in some cases a desktop at home with a big monitor. A subset of our mobile volume is people who did research on a laptop or a desktop at night. They found an item and put it into My eBay, which is a place where you can watch your items, and the next day they bought it on an iPhone.

Mobile users are four times as engaged as non-users, but not just on their mobile devices. Within a year you're going to be able to walk into your house while using your iPhone and have that connection seamlessly transferred to your laptop or your TV—they're all just devices that connect to the internet. The internet will be much more present in your life, but on your terms.

Are you trying to create a bigger platform for innovation that some of the newer social shopping companies could join and develop?

Absolutely. The eBay platform already has more than 119,000 developers, and 25% of the listings on eBay come through third-party applications that developers have built. Last year PayPal became the first payment system in history to open up its platform. This transitions us—eBay and PayPal—from having to create all the innovation to enabling some of it.

Given PayPal's growth, are you gradually becoming more a PayPal company than an eBay company?

We're a consumer company. Our core mission is to connect buyers and sellers, and eBay, StubHub, and PayPal are all ways to do that.

You've been in the top job for almost three years, yet it's fair to say that some still regard your predecessor, Meg Whitman, as the face of the company. What are the advantages and burdens of following a high-profile CEO like her?

Meg helped build eBay into what it is and did a phenomenal job, and I stand on the shoulders of what she created. But my job is not to try to be like Meg Whitman. I never could be—plus I never want to run for governor. I'll go on record: I never want to run for governor.

Be careful what you promise.

It's my job to take this incredible company and the core values that Pierre Omidyar, our founder, created in the business that Meg and that first-generation team helped build, and ensure that we're positioned to succeed in today's and tomorrow's world. The level of change in consumer behavior is enormous, but we bring to it a great set of core values and a strong business.

The core auction business had faltered somewhat in the years before you took over as CEO. Tell us about your efforts to revive it.

Well, auctions provide price transparency and help items of uncertain value establish a market price.

With the emergence of product search on the internet, that role is no longer needed, so a lot of the changes I've made over the past couple of years have been to make our marketplace indifferent to format. If a buyer and a seller want to transact in a fixed-price format, they can. If they want to transact in an auction format, they can. A couple of years ago we saw fixed-price sales surpass auctions for the first time; I expect the ratio to settle at about 70% fixed price and 30% auction. But that will require a complete re-architecting of almost every element of the business system: pricing, incentive and feedback policies, search algorithms, seller tools and onloading.

You've created Garden by eBay to try some experiments. What are you learning?

Two of the major themes of my time as CEO have been a greater focus on customers and a greater focus on driving innovation. The Garden offers a chance for our engineers to get real customer feedback on

innovations. For instance, if you shop for an iPad or an iPhone, you can see auctions and fixed-price sales in a side-by-side format and make a decision right there: Do I want to engage in the auction? We tested it. We got customer feedback. We refined it.

Let's talk about some of the acquisitions eBay has made. What happened with Skype, and why didn't that pan out?

Skype was acquired by eBay under Meg's leadership in 2005. At the time, we thought Skype might be another way to connect buyers and sellers. But that didn't turn out to be the case. Skype is an enormously successful way to connect people, but not through commerce. When I became CEO, I felt it was really important to focus—that you can't compete and succeed on multiple fronts. Skype was a fantastic business, but it didn't have synergy with eBay and PayPal, so I made the decision early in my tenure to divest it, and we sold 70%.

Judging the Donahoe Era



With your other acquisitions, what have you learned about how to make them work, how to integrate them into the culture?

We think about acquisitions in three categories: acquisitions to strengthen our core, adjacent acquisitions, and capability acquisitions. The easiest are the first kind, like the acquisition two years ago of [the Korean auction site] Gmarket. We're letting adjacent acquisitions, such as StubHub and Bill Me Later, run relatively independently. With Bill Me Later we've integrated core capabilities into PayPal and eBay. Positronic, a small search company, is in the third category. In many cases we're buying the people—Christopher Payne, who's running eBay North America now, was a founder of Positronic—which helps us integrate faster and acquire great talent.

So what's your biggest challenge now: execution or innovation?

I think it's the intersection of the two. We have to keep innovating, but we have to execute at scale, and the challenge is how to balance the pace of change in

That's a lot of what business is today: the old "Ready, fire, aim." You're better off moving and, if you don't get it exactly right, making an adjustment. That's the only way to compete on the internet today, because it's moving so fast.

What about China? The general perception is that Alibaba and its Taobao.com auction site ate eBay's lunch some years back. What's your China strategy now?

Well, there are two parts to China. One is the domestic market, and the reality is that for all major internet categories it is dominated by Chinese companies. That's because you have great entrepreneurs like Jack Ma, of Alibaba; Robin Li, of Baidu; and Pony Ma, of Tencent. But it's also because the playing field there is not necessarily level, so whether it's eBay or Google or Facebook, a major global internet company doesn't really have much traction in domestic China. I think that will change over time, but we respect and understand it, so we've in essence gone the joint-venture route.

In many ways eBay was the first social network. It's a highly engaged community-based shopping experience.

the eyes of the consumer. Existing users often don't like the changes initially, because they're used to a certain way of shopping, yet new users do like them.

How do you cultivate and sustain risk-taking as the company expands?

By talking about it. By celebrating failure—cases where we took bold risks and things didn't work out exactly as we imagined, but we recognized that and made adjustments. In 2010 we introduced the largest pricing change in eBay's history in the U.S., to make our marketplace truly balanced between auctions and fixed price. Six or eight weeks in, I knew something wasn't right. There was a second-order dynamic in the marketplace that was depressing it, so over the summer we really drilled down to understand what was going on. That was a period of anxiety, but I had no regrets. It was one of those changes where you either flip the switch and go for it or you don't do it. We diagnosed the issues, we made adjustments, and we benefited in the fourth quarter.

The second part is an enormous cross-border business that connects Chinese sellers with buyers all over the world. In fact, it accounts for \$4 billion annually in trades on eBay and PayPal.

As a guy with an MBA who worked for Bain for many years, what do you think about investors' focusing short term on share price rather than long term on development? Would you like to see a shift in investor values?

The thing that was drilled into me at Bain was that in consulting you had to be incredibly customer focused, because you had no product other than yourself. I bring that to eBay. If there's one mark of my tenure at eBay, it's making us a more customer-focused company. So "short term" and "long term" can be confusing. If you're really focusing on what you have to do to serve the customer's needs today and in the future, some of those distinctions fall away. I told the investing world in March 2008 that it's going to take three years to get through the first phase of this, and

by and large investors have responded. The market understands if you create clear expectations of what you're trying to accomplish and what's achievable by when. Then the challenge of leadership, whether you're a CEO or part of the leadership team, is to execute against those commitments, and that's what we've tried to do.

What's the biggest difference between being an important guy at a company like eBay and being the CEO?

As the CEO you are in the public eye, and the aura and the environment around you really reflect the successes and failures of the company. It takes a little bit of getting used to.

I've always thought it's easier to be number one than number two.

It's just different. For me they're both learning experiences. I like being number one.

Another topic you've probably thought a lot about is executive compensation. I think your total compensation package is \$10 million. Are you worth \$10 million?

[Laughs] One of the things that has been enormously eye-opening is watching how public-company compensation gets reported and how Black-Scholes evaluations play out. It's misleading, in my opinion, but my job is to drive value for our customers, and ultimately that will drive value in our company. My compensation is closely tied to what the stock price does, so if I drive value over time, I'll be fairly rewarded for that.

In terms of generating value, where do you see future growth for this company?

E-commerce is still in its early days. Today it's 5% of offline retail. That's going to easily go to 10%, 15%, 20%. Our market is going to have enormous growth, and eBay and PayPal will benefit from that. I think PayPal will be larger than eBay at some point, because it's serving all of e-commerce.

Social media are moving quickly, and a company like yours needs to keep pace. How do you do that?

Well, in many ways eBay was the first social network. It's a highly engaged community-based shopping experience, and we're trying a variety of things. We had a group-gifting product for the holidays, where you could identify a gift for a friend, engage your

Facebook networks to help pay for it, and then use PayPal to make that easy. Take what's happening in the Facebook world and overlay it with what's happening in the commerce world, and you're going to see a tremendous number of innovations and experiments. Our job is to drive them and see which ones consumers really respond to. That's what makes the internet fun.

Speaking of fun, I've read that eBay executives assign one another cartoon personae, and that you're Dennis the Menace. What are we supposed to make of that?

I think it probably means that I tend to have a smile on my face and be relatively polite, but I have a bit of a devilish side behind that—and also perhaps a tougher side than people are aware of. So thank you, Mr. Wilson. ♥

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