

The Internet
Breaking Down Barriers to a Better World

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Good evening. It's a pleasure to be here at the Leaders in Technology dinner. Thank you [name(s)] for your kind introduction. It's great to see so many friends and colleagues in the audience from industry and government. Since this is eBay's first time to CES – if this is the kind of welcome we can expect – I hope you'll have us back again and again!

Tonight, I'd like to talk about how the Internet breaks down barriers to create a level playing field for individuals and businesses worldwide. While I'm at it, I'd like to tell you a little bit about the history of eBay, why we've grown so fast, and why I think eBay has become a very powerful resource for buyers and sellers of all shapes and sizes. Finally, I'd like to touch on key benefits that I believe eBay offers the computer and electronics industry and address key policy issues affecting e-commerce today.

[pause]

Now clearly, over the past several years, the Internet has had far-reaching effects on almost every aspect of our civilization. I'm sure most of you would agree that the Internet has fundamentally changed the way we work, live, and learn. It's become the single greatest resource for news, information and communication ever. For children, it's a powerful educational tool. For families, it's a wonderful way to stay in touch. And for business, it has revolutionized the way companies interact with customers.

In the 20th century, electricity, the telephone and the automobile made the world more accessible to more people. It's possible that the long-term impact of the Internet could equal those three technologies combined.

Think about it. The Internet helps individuals and businesses to overcome geographical, cultural and logistical barriers. It shrinks time and distance. It simplifies complex business processes and enables more effective communications. As social and cultural barriers continue to fade away, more individuals and companies are able to participate in the global economy, regardless of their size or location.

A large corporation like Cisco uses the Internet to connect with employees, suppliers and partners around the globe. Its web-based business model increases productivity across many fronts. Cisco's website is localized for 70 countries and is available in nine languages. This leverages the skills of people who work across a variety of social, geographic and cultural boundaries.

On the flip side, individuals and small businesses are now able to find customers anywhere in the world. Kenny's Bookshop, a small family bookstore and gift shop in the west of Ireland, was the first bookshop in Europe to have an Internet presence. It now deals with hundreds of thousands of requests from customers worldwide. With 40 million

Americans of Irish decent, and millions more around the globe, the Internet has become an ideal place to sell Irish products.

But while we talk about how the information economy transforms the lives of people in the developed world, we must also reflect on how it is affecting the 4 billion people in developing nations. And the good news here is that struggling economies can jump right into the Internet revolution without missing a stride. Individuals in Costa Rica, Jordan and some of the poorest nations in Africa are now bypassing the massive capital investments of old world technology, and leapfrogging right into the information age.

In Niger (Nye-ger), Africa, Tuareg (Twa-reg) craftspeople are using the “virtual market” of the Internet to sell their products worldwide. In tiny Nepal, situated between China and India, e-commerce markets are emerging for electric power, agricultural products, handicrafts and tourism.

As the Internet transforms the lives of people all over the world, the Net's population continues to explode. We've all heard the statistics of Internet growth – a billion people online by the year 2005 who will spend more than \$5 trillion in e-commerce. But there are interesting facts underneath those statistics that we may want to pay attention to.

As you know, nearly half of all Internet users live in Asia and Europe. By 2005, 75-percent of the worldwide online population will access

the Internet in a language other than English. And within a few years two-thirds of all e-commerce spending will originate outside the U.S. Yet 91-percent of Fortune 500 companies can't respond correctly to a foreign language email! We clearly have some brushing up to do if we're going to maximize our global opportunity.

As the Internet population expands and more potential customers come online, smart companies are fine-tuning their e-business models to reach these consumers. What's becoming clear is that two winning e-business models have emerged. The first is the "clicks and mortar" model that consists of companies that use the Internet as the ultimate medium for supercharging relationships with customers.

These companies have brands that are already trusted by consumers. They also have the ability to leverage offline marketing campaigns, existing distribution centers, and the enormous purchasing power they have with suppliers. Some great examples of "clicks and bricks" include Best Buy and Wal Mart.

The other winning e-business model is the "pure play" – a business that would not exist and could not exist without the Internet. There is no land-based analog for this model because without the Internet the customers of this business simply could not access the products or services offered by the company. The revolutionary advantages of the Internet are built into every aspect of these companies. These include the ability to connect "many-to-many" across geographies in a

seamless and efficient manner, as well as the ability to provide 24 by 7 interaction and communications.

eBay has quickly become one of the best examples of an Internet “pure play.” We’ve broken down the barriers of land-based commerce to create the first level playing field for buyers and sellers of all shapes and sizes. eBay is a marketplace where anyone can trade anything, anytime, anywhere. We make our money by charging a small fee per transaction.

There’s no exclusivity on eBay. Anyone – any individual, small business or major corporation present here today – can buy and sell on our site. By creating this level playing field, eBay has emerged as the world’s online marketplace.

Now, with all that has occurred on the Internet during the past several years, it’s easy to forget just how young e-commerce companies truly are. eBay is no exception. When eBay went public in 1998, we were a fairly one-dimensional proposition. eBay had only one site in the U.S. We had around 300 categories of goods on the site – mostly collectible and unique, hard-to-find items – and you could only acquire those goods through one trading format – auctions. At our core was a small community of loyal individuals drawn to the site by their own special interests. We had 30 employees, 300,000 registered users, and had just completed a year where we recorded a little more than \$4.7 million in revenues.

But while eBay's scope and size may have seemed limited in 1998, the building blocks for growth were clearly beginning to form. We were learning about the dynamic nature of our business model and its enormous potential overseas. Already, we had users in 60 countries trading on the U.S. site. Our community was gradually introducing us to new categories in which they wanted to trade. We were beginning to understand that the easier we made it for our users to buy and sell, the quicker we would grow.

By the end of 2000, eBay was in seven countries, including Germany, Japan, the UK and Australia. Our business consisted of 9,000 categories and 22.5 million registered users who transacted \$1.6 billion in gross merchandise each quarter. Individuals, small businesses and even governments were buying and selling new and used goods like never before.

In 2001, eBay truly hit its stride. The phenomenal strength of our business is built across multiple dimensions, spanning geographies, categories, formats, items, uses and services. eBay's 38 million registered users – a community larger than the population of Canada or Australia – trade in 18 countries. We are on course to generate more than \$9 billion in gross merchandise sales this year, which translates into about \$26 million every day or \$300 every second.

Today, eBay is blessed with what is perhaps the most loyal and active customer base in business. 4.3 million unique visitors request 250 million page views a day. People spend significant amounts of time shopping on eBay. Our brand has entered the lexicon of American pop culture and is recognized around the world. More and more companies, and some of the world's most recognized brands, are turning to eBay to promote and sell their products.

So, why has eBay grown so quickly? There are several answers to that question. Let me focus on three.

First, eBay has introduced tremendous efficiency to inefficient markets. eBay does best in categories that have traditionally endured complex sales and distribution channels, uneven pricing, or a widely scattered customer base. Sellers that do business on eBay enjoy a broad market, low distribution costs, maximum selling prices, and increased sales velocity. On the other side of the equation, buyers benefit from massive selection, value and convenience.

Another reason for eBay's rapid growth is that our business is very adaptable. It is diversified across business categories, geographies and formats. And it is fairly predictable and highly resilient. As a pure-play Internet company, eBay takes advantage of the many benefits the Net offers. eBay has no "real" cost of goods. We have no inventory or warehouses, no sales force or commissions. We enjoy very efficient customer acquisition, and we have no large

capitalized development. We make most of our money one dollar at a time on the transaction fees our users pay to sell their goods.

The final reason – but perhaps the most important reason for our growth – has been the strength of our buyers and sellers. The best way to think about our sellers is to look at them as a tremendously flexible army of entrepreneurs, who are constantly on the lookout for new business opportunities. Using the 24 by 7, real-time advantages of the Internet, these entrepreneurs are continuously fine-tuning their business strategies. Our buyers, on the other hand, have come to expect value, selection and top-notch customer service from the sellers they deal with.

We have found this cycle between seller and buyer to be self-perpetuating. More buyers bring more sellers, which in turn brings more goods and more buyers, and so on. And once this cycle takes hold, it accelerates rapidly. In the end, eBay becomes a marvelous platform to sell almost any product to almost anyone at almost anytime.

To give you an even better sense of how eBay works, I thought you would enjoy hearing from two very different kinds of eBay users.

(Roll Video: "Eyeballs" and "PalmFactoryStore." Approx. time: 4 minutes)

So now, let me give you a sense of how the power of the eBay business model and the strength of our user community create a tremendous marketplace for consumer electronics. It is a little understood fact that one of the ways we determine when and how to expand our business across categories is to monitor the types of goods that organically appear and are traded on the site. Once we identify trends and see sufficient activity in a product, we create a new stand-alone category for the goods, and begin to nurture the category's growth with on-line and off-line marketing.

Computers and electronics were among the first practical items vigorously traded on the site. The computer category became one of the first stand-alone categories to be born on eBay. We estimate that the sales of computers and consumer electronics on eBay worldwide will top \$2 billion this year.

The eBay model offers many key benefits to manufacturers who are looking for new, effective channels for their products.

First, eBay allows large companies to reach new customers. Recently, companies like IBM Dell and Palm Computing have become an integral part of the eBay community. These sellers say that eBay has given them targeted access to illusive new customers. In fact, some of our computer sellers report that more than 50 percent of their eBay buyers are new to their brand. A recent study by IBM

showed that as much as 70 percent of the customers who bought IBM products on eBay were new to IBM.

A second key benefit to consumer electronics manufacturers is that eBay has become an effective incremental channel for returned merchandise or excess inventory. One of the major issues facing manufacturers today is the large number of returned items. As products become more complex, more products are being returned to stores. This can create an inventory management problem for some companies, placing them in unexpected businesses that they may not be suited for. Many companies, like Ritz Camera and Palm Computing, now use eBay as an excellent clearance and liquidation channel, often yielding 30 to 70 percent higher prices than traditional channels.

A third benefit – eBay is a low cost, efficient way to help businesses move merchandise. While most large companies sell direct on their own websites or through retailers, many also sell products on eBay to enjoy low distribution costs and increased sales velocity. As you heard earlier, companies like Palm Computing use eBay to determine whether certain products are worth refurbishing. Other companies, like Handspring, use eBay as a great channel to launch new products and services. You may have read that Handspring's first Treo just sold on eBay for more than \$3,000. They have additional Treos listed on the site now. Proceeds from these sales, and the sales of products donated by 40 other consumer electronics manufacturers,

will support "Bids to Help Kids," a charity initiative of Consumer Electronics Association and eBay.

Again, a lot of what we do at eBay is nurture the growth of our categories, and of course, consumer electronics is no exception. Our goals for marketing our CE category are straightforward -- build awareness and drive purchases. By applying the best features of the Internet and the power of our brand and loyal community, we believe eBay has created an outstanding new incremental sales channel for consumer electronics products.

[pause]

Today, the Internet flourishes thanks to government encouragement and selective well-thought-out regulation that has helped companies bring new technologies to consumers faster than ever before. But for e-commerce to continue its phenomenal growth and for consumer electronics to benefit from this growth, many key issues still remain that stop it from reaching its full potential.

The first issue is broadband. We support the accelerated deployment of broadband throughout the United States. While only 6 to 7% of the U.S. Internet population use broadband, that group shops more than any other consumer group online. Accelerated broadband deployment would be great for e-commerce and it would be great for eBay. Although 95 percent of eBay's users still use dial-up

connections, once broadband use increases, sellers will be able to provide a much richer shopping experience, with streaming media and voice-over descriptions of their products. Broadband is essential for increasing consumer demand for e-commerce. We support the efforts of regulators, Congress and industry to promote and deploy broadband as soon as possible.

The second issue is expanding trade opportunities overseas. The continued growth of the global Internet needs new levels of access to foreign markets and clear thinking on how to deal with such issues as customs barriers, taxation, and the current telecommunication barriers. Quick passage of Trade Promotion Authority by the Senate will help to convince other countries to engage with the United States and it will reassert U.S. leadership in trade negotiations. TPA is an immediate national priority and will expand our access to global markets and stimulate growth.

The third issue on eBay's agenda is protecting our users' data, including their e-mail addresses, from unscrupulous individuals and companies. Spam and database piracy are two problems that Congress can solve this year. We strongly endorse legislation that will prohibit the harvesting of e-mail addresses for the purposes of sending spam. We all know what it's like to receive spam. Roughly half of all unsolicited e-mail consists of misleading offers, but more than that, it's an invasion of privacy. E-mail addresses should be protected. Eliminating the harvesting of e-mail will help promote

public confidence in the Internet. At the same time, the 136 million Internet users nationwide can participate in e-commerce without having their personal information abused. We hope Congress will enact strong database protection and Spam anti-harvesting legislation this year.

[pause]

In the years ahead, the Internet will have an even more profound effect on the way we work, live and learn. A combination of cheap and powerful computing, fast and convenient Internet access, and software innovations could make the Internet as pervasive as electricity.

Experts suggest that within 10 years, half the world's population – 3.5 billion people by then – will have access to the Internet. A connected world on such a scale will no doubt expand markets and accelerate globalization. But it could also transform human awareness and expectations. This new global connectivity could accelerate economic and social development, protect natural resources, and hasten the spread of democracy.

Whatever the future holds, the Internet will continue to break down barriers to create a level playing field for companies, countries and individuals around the world. With universal access to information and resources, people will be empowered to change their lives – or

change the world – in ways that are uniquely personal to them. It's a future that I'm inspired by... I hope you are too.

Thank you again for spending part of your evening with me.

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