

## Making a Market: eBay, StubHub, and Swaptree

### Introduction

In 1995, Pierre Omidyar, the holder of a Bachelor's degree in Computer Science from Tufts University in Massachusetts was working in Silicon Valley. The internet was just emerging and the financial markets were quite active, as many companies needed funding and eventually went public. Time magazine reported that Omidyar was "...troubled by how imperfectly the financial markets seemed to be operating." It quoted Omidyar as saying "Institutions and large investors had all the inside information. What I wanted to do was create a marketplace where everyone had access to the same information."<sup>1</sup>

As a hobby while working at General Magic, Omidyar created Auction Web. This "free online marketplace"<sup>2</sup> was launched on Labor Day of 1995. Omidyar's first posting for auction was a laser pointer he was about to throw away. It was bought by a collector for \$14.83. Initially the service was free to both buyers and sellers, but a \$250 per month web hosting fee led Omidyar to impose a fee on sellers, if their listed item sold. As Omidyar commented, "The revenues came in at \$500, and I thought 'This is pretty good.'" When the next month's revenues came in at \$1,000, Omidyar regarded it "as a pretty neat trend."<sup>3</sup>

### eBay

In 1997, Auction Web became known as eBay. In 2009, the company's website termed eBay "a remarkably efficient market created by connecting individuals who wouldn't otherwise be connected. It was the world's first example of online social networking."<sup>4</sup> In an interview in 2004, Jeff Skoll, who worked with Omidyar, reflected back on the founding days: "One of the things that we were most proud of was that there were people who were buying and selling on eBay that substantially improved their lives. They had access to a level playing field, something they had never had before."<sup>5</sup> By 1998, eBay was hailed as "the world's leading personal trading community. eBay has created a new market: an efficient, one-to-one trading site on the web in auction format."<sup>6</sup> At that time, it charged between 25¢ and \$2.00 to sellers listing an item and collected a commission on the sale between 1.25% and 5%.<sup>7</sup>

In these early days, eBay was often characterized as an "online flea market"<sup>8</sup> or "global garage sale"<sup>9</sup> with news articles focusing on buyers and sellers transacting "collectibles" such as Ulysses S. Grant memorabilia, custom pool cues, fishing lures, and "garage-sale doodads."<sup>10</sup> An early "hit" on eBay was Beanie Babies, with about \$500,000 in transactions in 1997.

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