

new transparency and use it to turn customers and vendors into collaborators and colleagues. "The Internet creates an economic imperative for transparency," says consultant David Ticoll, co-author with Don Tapscott of the upcoming book, *The Naked Corporation: How the Age of Transparency Will Revolutionize Business*.

That's why eBay's success holds potent management lessons for many businesses. In place of Stuyvesant's tyrannical approach, seemingly a model for conventional business management, Meg Whitman must take a more laissez-faire approach. It is based on cooperation and finesse, not coercion and force.

To make sure eBay doesn't do something that incurs the wrath of its citizens and in-

cites a revolt, eBay's executives work more like civil servants than corporate managers. They poll the populace through online town hall meetings and provide services to keep them happy—and business humming.

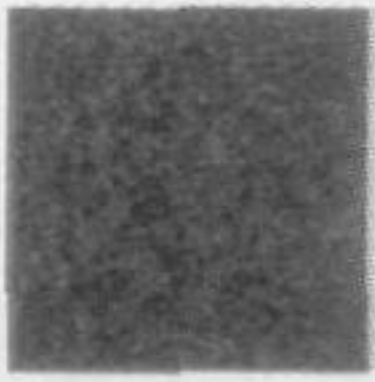
As challenging as it is, the collaborative approach offers awesome benefits. Unlike most traditional companies, eBay presides over an expanding ecosystem—one whose limits are still unknown. Its magic is that as buyers and sellers flock to the site, they not only feed on it, but nourish it. By rating each other on transactions, for instance, both buyers and sellers build up reputations they then strive to maintain, setting a standard of behavior that reinforces eBay's appeal. It's a powerful dynamic that only a handful of other companies can claim. One example is Microsoft Corp. It builds a software universe that grows bigger and richer as thousands of companies and programmers add their own applications. This in turn attracts more users, fueling an ever-expanding ecosystem. The upshot, says Harvard Business School professor David B. Yoffie: "You get the incredible leverage of other people doing all your work for you."

eBay's powerful vortex is pulling ever larger players into its economy. The company's sellers are stretching far beyond eBay's specialty of used and remaindered goods—they're pushing into the heart of traditional retailing, a \$2 trillion market. Among eBay's 12 million daily listings are new Crest toothbrushes and the latest DVD players, and giants such as Sears Roebuck & Co. and Walt Disney Co. are selling brand-new items there as well. More than a quarter of offerings are listed at fixed prices familiar to mass-market consumers. The result, says Bernard H. Tenenbaum, president of the Princeton (N.J.) retail buyout firm Children's Leisure Products Group: "They're coming right for the mainstream of the retail business."

eBay's deft management is apparent in its financials. Last year, profits rocketed 176%, to \$250 million. Net sales, from transaction fees on \$15 billion in gross revenues, hit \$1.2 billion. In the second quarter, revenues shot up 91% from a year ago, to \$509 million. It now looks as if

Whitman's forecast two years ago that eBay would grow to \$3 billion in net revenues by 2005—derided at the time as a stretch—will be met easily, barring an unexpected slowdown. That kind of growth has pushed eBay's stock into the stratosphere, with shares rising 47% from the start of the year, to \$102.

As the eBay economy expands, managing it could get a lot tougher. The move into the mainstream, in particular, poses thorny challenges. It not only means balancing the needs of big corporate vendors with those of small fry—no easy task—but also remodeling eBay to attract

 B-school terms like "drive, force, commit don't apply. We're...listening, adapting, enabling," says an exec

millions of newcomers. For the many who haven't yet tried eBay, the process of listing items on the site, packing them up, and mailing them can be cumbersome and confusing. And, for many, the brand still emits the stale odor of thrift stores—or worse. Reports of fraud on auction sites—mostly on eBay, which still accounts for 80% of the market—are rising sharply even as eBay keeps hiring more virtual cops.

The question is whether the company's traditional laissez-faire governance can sustain its growing economy. It now appears that making shopping on eBay as safe and easy as a trip to Wal-Mart may well require a more forceful approach—simplifying payments, reducing the hassles of shipping goods, and cracking down on the rising number of crooks who are prowling the site. But pushing through reforms is tough because eBay's millions of passionate and clamorous users demand a voice in all major decisions. Concedes eBay director Robert C. Kagle, a general partner at venture firm Benchmark Capital: "These users can organize themselves if we do something they really don't like."

eBay managers are reminded of this day after day. Whitman says it often takes six months for new managers to adjust to the democratic regime. "Some of the terms you learn in business school—drive, force, commit—don't apply," says former PepsiCo Inc. exec William C. Cobb, now senior vice-president in charge of eBay's international operations. "We're over here listening, adapting, enabling."

This process is clear in one of eBay's most cherished institutions: the Voice of the Customer program. Every couple of months, eBay brings in as many as a dozen sellers and buyers to ask them questions about how they work and what else eBay needs to do. And at least twice a week, it holds hour-long teleconferences to poll users on almost every new feature or policy, no matter how small.

The result is that users feel like owners, and they take the initiative to expand the eBay Economy—often beyond the execs' wildest dreams. Stung by an aerospace downturn, for instance, machine-tool shop Reliable Tools Inc. tried listing