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TRUSTING STRANGERS

eBay, Community Sites and Portals

It's often remarked upon that Silicon Valley has a prominent utopian streak. When founders of today's billion-dollar chat apps talk earnestly about how their inventions are "changing the world," they are part of a long tradition of grandiose digital idealism indigenous to the tech industry. A lot of this comes from geography and timing. Silicon Valley came into being in the 1960s and 1970s. Cold War–era defense-and space-research spending seeded the technology industry in the Valley, while the nearby counterculture havens of Berkeley and San Francisco infused flower-power thinking among the denizens. So, Silicon Valley has always been equal parts egghead libertarianism and acid-tinged hippie romanticism. Both of these worldviews mesh quite well actually when it comes to believing that technology can be used to better mankind and free it from all manner of oppression, repression and just everyday drudgery. The Internet was another in a long line of technological miracles that many believed would elevate minds and free souls from all sorts of impediments. For the libertarians the Internet was great because it had few rules and no governance. For the hippies, the Internet promised free expression and a democratization of ideas.

Steeped in this milieu was a French-Iranian immigrant named Pierre Omidyar. Omidyar had been involved in the Silicon Valley startup scene even before the Internet Era started. When Microsoft purchased eShop, the startup he worked at, Omidyar's share of the windfall made him a millionaire. Not even thirty at this point, he had no intention of retiring. Omidyar came from the libertarian side of the Valley's intellectual duality. With that philosophical bent, he found himself wondering if perhaps the then-exploding web could be a sort of laboratory for realizing that long-held libertarian dream: a perfect, frictionless, regulation-free marketplace. His insight was that the traditional classified ad—say, selling a used coffee table by buying a few lines in the newspaper—just wasn't an efficient use of market dynamics. With a normal ad, you simply said, "I want $100 for this table." And if someone agreed that that was a fair price, then you got your $100. But what if $100 wasn't the right price? What if you could have gotten more for your coffee table? What if the buyer could have paid less? There was no way of knowing. In a perfect marketplace, the market price is the *correct* price because buyers and sellers (ideally, multiple buyers and sellers) can haggle to arrive at an optimal result. Classified ads did not allow for that haggling. But what if you could create an auction scenario in classified ads? That way you could find the true market price for any item because the buyers and sellers would arrive at the final price organically. As Omidyar described it, "If there's more than one person interested, let them fight it out. The seller would by definition get the market price for the item, whatever that might be on a particular day."[1] In other words, Omidyar didn't just want to bring classified advertising to the web; others like The Monster Board for employment classifieds and Match.com for personals were already doing that. He wanted to see if the web could create the perfect classified platform by introducing the auction element.

On the Friday night before Labor Day weekend in 1995, Omidyar holed up in his home office on the second floor of his town house and began writing code for his auction idea. By the end of the long weekend, he had cobbled together a crude website that allowed users to do three simple things: list items for sale, view items that were on sale, and place bids on those items. He hosted the site on his home server and published it to the web via his $30-a-month account with a local ISP. He called the site AuctionWeb. But he hosted it as a subsite on his personal webpage, ebay.com. So, the URL was ebay.com/aw.

Why eBay? Well, after cashing out from the eShop sale, he had done some web consulting and freelance work and decided to do so under the rubric Echo Bay Technology Group, a name he simply liked. However, the domain EchoBay.com was taken, so he registered what he considered to be the closest approximation: eBay.com. Omidyar was already hosting an assortment of other properties on the domain, so AuctionWeb was born sandwiched between a handful of other sites, including one with links to recent Ebola outbreaks, an interest of Omidyar's interest of Omidyar's.

As far as Omidyar can recall, not a single visitor came to AuctionWeb on its first day online. In order to drum up interest, he posted a message about the site on the National Center for Supercomputing Applications website—the NCSA still being a heavily trafficked destination of the web at that point. The NCSA had a "What's New" page, so Omidyar posted there, describing AuctionWeb as "The most fun buying and selling on the web."[2]

Visitors to AuctionWeb began to trickle in. Thanks to one of Omidyar's many early newsgroup postings, we can get an idea of some of the offbeat items that people were listing. On September 12, 1995, Omidyar made a post on the newsgroup misc.forsale.noncomputer, where he listed items on offer as well as their current bids. Among them: autographed Marky Mark underwear (current bid: $400), a used Toyota Tercel (current bid: $3,200) and a Mattel Nintendo Power Glove (current bid: $20).[3]

After the slow start, Omidyar himself was surprised by the way AuctionWeb began to take off. Within a month, there were entire Sun computer workstations listed for sale, and even a 35,000-square-foot warehouse in Idaho for which the bidding started at $325,000. By the end of the year, AuctionWeb would play host to more than 1,000 auctions and more than 10,000 individual bids.[4] At this point, Omidyar was still running AuctionWeb as an after-work-hours experiment, for free. Both of those arrangements couldn't last forever. Because of the increase in data he was using, his ISP contacted Omidyar in February of 1996 and told him they were jacking up his hosting fees to $250 a month, the rate for a commercial account. Omidyar objected that he wasn't actually running a commercial enterprise, but the ISP didn't believe him. So, it was at that point that Omidyar figured that if he was being treated as a commercial enterprise, he might as well just become a commercial enterprise. He made two big changes to AuctionWeb. First, he decided that buyers could continue to use the site for free; their only cost would be whatever they agreed to pay the seller for the item at auction. Second, he decreed that from then on out, sellers would have to fork over a percentage of the final sale price. That percentage was set at 5% of the sale price for items listed below $25 and 2.5% for items that sold for a price above $25. These changes were implemented based on no research or calculation whatsoever, merely Omidyar's own instincts.

Omidyar had no idea if charging a fee would bring an end to his little experiment or not. Furthermore, he had no way of actually enforcing payment. He didn't have a credit card merchant account or even a method for validating auction results. In keeping with his libertarian ethos, however, he refused to impose any governance or policing of his system. He simply relied on sellers to impose any governance or policing of his system. He simply relied on sellers to be honest.

It turned out that his faith in humanity was justified, because envelopes started showing up in his mailbox with checks inside them. By the end of that first month of February, when Omidyar tallied up the envelopes, he found that he had made more than the $250 he needed to cover his web hosting. And just like that, eBay became that rarest of things: the first-ever meaningfully profitable ecommerce company.

Soon AuctionWeb was more than just nominally profitable. Very quickly, it became meaningfully lucrative, especially for one man and his hobby. In March of 1996, revenues hit $1,000. In April, $2,500. And in May, $5,000. Revenues would double again in June, surpassing $10,000. Omidyar had a revelation. “I had a hobby that was making me more money than my day job,” he recalled. “So I decided that it was time to quit my day job.”[5]

A lot of AuctionWeb’s early user growth came from things like antiques and collectibles because, unwittingly, Omidyar was tapping into something the Internet had been very good at from its inception: providing a platform for niche interests. From the very first days newsgroups and email began, geeks had been trading and selling their rare *Star Trek* memorabilia and the like. If anything, AuctionWeb wasn’t bringing classifieds online so much as it was moving the ad hoc swap meets that already existed on the Usenet newsgroups and on early community websites into a centralized location.

But AuctionWeb’s immediate success was also due to structural decisions that would enable the service to scale successfully. In short, Omidyar enabled AuctionWeb’s community to organize itself. Early on, Omidyar listed his personal email prominently on the website. When buyers and sellers had a question or a dispute, they came to him directly. But Omidyar knew he didn’t want to spend his time settling petty squabbles; his libertarian impulses told him that people should be able manage things for themselves. Oftentimes, when a buyer came to him with a complaint about a seller, he would simply forward the email along to the seller with a note that read, “You two work it out.”

Another way to help the system regulate itself was the Feedback Forum. This was a public online message board where users were encouraged to leave written feedback about other buyers or sellers, in addition to a numerical rating: plus one, minus one or neutral. Once a user’s rating on the feedback forum surpassed a negative four, they were banned from the site. This took the dispute resolution process out into the open and (just as important from Omidyar’s point of view) out of his email inbox. The Bulletin Board accomplished this as well. It was the place where users could ask questions: “How do I upload pictures?” or “What do you think is the proper minimum bid I should set for this item?" Fellow eBay users could chime in with their input. Very quickly, as often happens in online communities, a select group of users prominently stepped forward to become regular advice gurus and trusted "experts." Omidyar had accidentally stumbled upon one of the longer-term factors in AuctionWeb's eventual success. A focus on community, on empowering the users and allowing them to function autonomously would prove to be absolutely vital.

Even as he built it to self-regulate, AuctionWeb was growing so quickly that Omidyar couldn't continue operating it as a one-man show. For one thing, he needed someone to open all the mail and deposit the checks and loose change that users were sending in. Chris Agarpao, a friend of a friend, was hired to come to Omidyar's house twice a week to open the envelopes and make the deposits. But more than that, Omidyar needed help building AuctionWeb into something more sophisticated than a hobby/experiment operating out of his spare bedroom. He would remember later, "I had a vague idea of what I needed to do as an entrepreneur, but I knew I wasn't going to be able to put together a business plan." In short, despite the fact that he was a startup veteran, Omidyar needed a "business" guy, a true partner to help run the operation.

Jeff Skoll had founded two successful companies earlier in his career, and in 1996 he found himself in California, consulting at Knight Ridder, helping the newspaper chain develop an Internet strategy beyond its Mercury Center experiment. As part of his consultancy work, Skoll was monitoring the early web to watch for threats to his employer's classified advertising cash cow. When he stumbled upon AuctionWeb, Skoll could see exactly the threat Knight Ridder was worried about. Instead of trying to help the newspapers beat back the disruption that he could see would soon come from the Internet, Skoll decided to join the disruptor, joining AuctionWeb in August of 1996.

Skoll pitched in at first by helping the company land space in an office park at 2005 Hamilton Avenue in Campbell, California. Skoll also convinced Omidyar to move AuctionWeb from the subdomain to the main ebay.com site. The Ebola site and the other subsites were removed. The service would eventually be known simply as eBay.

It was also Skoll who recruited Mary Lou Song to the company. Song, more than anyone else, would be instrumental in developing and cultivating the community that would be key to eBay's success. Song was skeptical of eBay's business model at first, and was perhaps even more dubious when she showed up for her first day of work in October of 1996. She was given a card table for a desk and a folding chair to sit on. Her office was between Omidyar's—who was seemingly always busy crunching out code to keep the site from crashing—and Skoll’s, who was working on eBay’s nascent business plan. Outside her office was Chris Agarpao’s card table, where he was busy plowing through envelopes of checks from auctioneers.

Wary as she might have been, Song understood right away that eBay was a new type of business that had never existed before—indeed, *could not* have existed without the web. eBay was online commerce, but not in the way that Amazon was; it was a platform, but not like the operating system or the browser were. eBay was nothing more than a virtual marketplace, and by being virtual, it didn’t actually *do* anything other than facilitate the interactions between buyers and sellers. It didn’t store goods. It didn’t ship goods. It didn’t even guarantee the exchange of goods between buyers and sellers! The *one* truly tangible thing that eBay had was the goodwill of those buyers and sellers and the community they were creating—on their own—to make the buying and selling happen. eBay would be one of the first web companies to understand that all the value of its service came from the users and their community. eBay’s *only* asset, in fact, was its users, and therefore the only important thing for the company to do was to make sure the buyers and sellers were happy so that they would keep coming back.

Song carved out her own role as eBay’s community liaison/manager. She always referred to users as “the community,” not as customers. She reached out to the de facto user-leaders who had risen organically on the bulletin boards and hired them to formally take over the task they were already performing gratis: policing the auctions and handling customer service. She also enhanced and expanded the existing community guidelines and processes for which Omidyar had laid the foundation. And it was Song who helped build out the user-reputation systems that were becoming so important for eBay’s buyers and sellers. It was these systems that would soon become eBay’s most valuable feature.

A new user to eBay might (rightly) be wary about buying something online, sight unseen, from a complete stranger who was hiding behind a username. If you were a buyer, how could you be sure the seller would actually send the item you paid for? Conversely, how could a seller be sure a buyer would pay up? Buyer-and seller-reputation ratings helped assuage these fears. The higher-rated a seller was, the more trustworthy they must be, right? And the mechanism functioned the same way in reverse: sellers wouldn’t sell to users who, the ratings revealed, made a habit of stiffing other auctioneers. Thanks to Song’s tinkering, the feedback scores eventually manifested themselves as actual numbers that got attached to a user and their auctions on the site. So, if someone was considering bidding on an auction from someone with a +48 rating, they could reasonably assume that seller had completed 48 successful auctions with satisfied buyers. Plus, buyers and sellers alike knew that if they had a bad auction experience, there was recourse: you could give the offending user a bad rating and thereby damage their reputation on the market. Everyone on eBay had real incentive to give constructive feedback. Things like fraud and serious disputes, while never 100% absent, were kept to a manageable minority of auctions.

This is a key evolution. In so many ways, over the last twenty years, the web and the Internet have slowly trained all of us to get comfortable interacting with crowds and, often, crowds of strangers. eBay was one of the first websites to show that a largely anonymous community, carefully constrained by a few guidelines and regulations, but invested in a system of online reputation, could actually work. Today, this key ingredient of ratings and reputation continues on sites like Yelp and Reddit—and especially on sites like Uber and Airbnb. It's hard to imagine that the current sharing economy could even exist without the reputation template that eBay pioneered.

When Mary Lou Song joined the company in the fall of 1996, eBay hosted only about 28,000 auctions a month.[6] After what was known within the company as the great eBay flood, in January 1997, eBay would host 200,000 auctions in that month alone.[7] As they got deeper into the first quarter of the year, eBay's brain trust realized that the site was on pace to take in $4.3 million for hosting all these new sales. AuctionWeb/eBay had made just $350,000 in all of 1996. They were on track for an astounding annual growth rate of 1,200%.[8]

There were several factors leading to this explosion in growth. For one thing, eBay noticed the power of Januarys: they came after the holiday season. That meant millions of people with millions of unwanted gifts. eBay to the rescue. But the site was also benefiting from the phenomenon Omidyar had discovered earlier: the Internet as a place where people of like interests, no matter how obscure or remote, could congregate. Suddenly, eBay was a central place where all these disparate communities of interest could find each other when they wanted to perform the fundamental acts of hobbyists everywhere: trading and collecting. Baseball cards. Barbie dolls. Postage stamps. Buffalo nickels. Quilts. Antiques of all stripes. Anything collectible. eBay became, overnight, the world's greatest flea market/garage sale/bazaar. In AuctionWeb's earliest months, the majority of the listings were for computer items and electronics. But at the beginning of 1997, antiques and collectibles suddenly rose to become 80%

of eBay’s offerings.[9] eBay would also piggyback on many of the hottest fads in collectibles, of which there were quite a few in the late 1990s. Furbies. Tickle Me Elmos. Tamagotchi. But the greatest of these was the Beanie Baby craze of roughly 1996 to 1999, exactly mirroring the rise of eBay.

Beanie Babies were stuffed animals developed by an independent toy manufacturer from suburban Chicago, Ty Inc. From initial animals like Flash the Dolphin, Patti the Platypus and others, Ty gradually ramped up its lineup of characters to encourage a habit of collectibility. But Ty also introduced a brilliant complication: artificial scarcity. Beanie Baby characters were not distributed to retailers equally. Part of the fun of Beanie Baby collecting was hunting down obscure characters in order to complete your collection. When, in 1996, Ty began “retiring” individual Beanie Baby models, this set off a collecting frenzy. Once, say, Buzz the Bee was sold out, the only way collectors would be able to obtain discontinued Buzz was on the secondary market—just the sort of market eBay provided.

In April of 1997, listings of Beanie Babies surged to 2,500 separate auctions, and eBay assigned them their own category. When rare and discontinued Beanie Babies suddenly started going for hundreds, even thousands, of dollars at auction, eBay reaped the attendant press attention thanks to its position at ground zero of the craze. Within a month, that single Beanie Baby category was responsible for 6.6% of the entire site’s sales volume.[10] eBay was not exactly the company that Beanie Babies built, but Beanie Babies certainly brought eBay to the world’s attention.

eBay was perfect for collectibles. By creating a centralized clearinghouse of hard-to-find items, it could eliminate many market inefficiencies that had existed for years. There are plenty of articles from the late nineties about hordes of eBay-ers descending upon flea markets and antiques shops around the country, scooping up virtually everything on hand in hopes of turning around and fetching higher prices on eBay. An antiques store in Maine put an old-fashioned calculator it had lying around up on eBay for $100. Once calculator enthusiasts discovered the listing, they bid the price up to $6,500. The store didn’t know what it had on its hands until they put it on eBay, where the perfect buyer could discover it.[11]

This very rapidly led to the phenomenon of people building true small businesses on top of eBay’s marketplace platform. Most small sellers on eBay were what they’d always been: hobbyists and part-timers who sold spare items for a little supplemental income. But in due course, perhaps tens of thousands of people came to make their entire living on eBay, some creating businesses large enough to employ dozens of people and gross into the millions of dollars. eBay was creating not just the world's largest virtual marketplace, but also the first marketplace that could rival the real world. Just as the Internet allowed people to connect to the entire world, eBay allowed a person to sell to the entire world from their tiny little corner of it.

And eBay embraced its image as the hobbyists' mecca. Many people are familiar with eBay's founding myth: how Pierre Omidyar created the site so his fiancée could expand her Pez dispenser collection. But like many company creation stories, the Pez story is a fiction. The Pez story was created by Mary Lou Song to get reporters interested in covering eBay's role in the collectibles phenomenon. As she put it later, "Nobody wants to hear about a thirty-year-old genius who wanted to create a perfect market. They want to hear he did it for his fiancée."[12]

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BEFORE LONG, EBAY'S VERY SUCCESS—user and auction numbers were sometimes doubling from one month to the next—became a serious problem. Omidyar's original code, which had been strung together as an experiment, proved too weak to handle the growing user base. "It was like holding back a hurricane," Song said of the surge in users over the course of 1997–98.[13]

Knowing that they needed the resources to stay on top of growth, Omidyar and Skoll decided the time had come to raise some capital. They hadn't needed to do so before, because ever since that first month Omidyar had introduced auction fees, the site had been profitably self-sustaining. Jeff Skoll returned to his newspaper industry contacts and received interest from his old associates at Knight Ridder, as well as at Times Mirror. But both companies were put off by the valuation Skoll put on eBay: $40 million. Forty million might not seem insane to modern eyes—especially for a company growing by double-digit percentage points each month and with gross margins above 80%,[14] but as Mark Del Vecchio, a Times Mirror executive, recalled later, his bosses simply couldn't wrap their mind around the very concept of what eBay was. "They kept saying, 'They don't own anything,' " said Del Vecchio. " 'They don't have any buildings, they don't have any trucks.' " So, both companies passed.

eBay instead found joy by going the technology VC route. In June 1997, Benchmark Capital paid $5 million for 21.5% of eBay. By various measures, this deal would go down in history as one of the greatest investment home runs of all time. Benchmark's stake in eBay would eventually be worth $4 billion.[15]

Benchmark's money came with strong suggestions that more serious management be brought in to eBay. The days of card-table desks were over. Both Omidyar and Skoll were sanguine about this, with Omidyar saying, "We were entrepreneurs and that was good up to a certain stage. But we didn't have the experience to take the company to the next level."[16] And so, a world-class manager was recruited in the person of Meg Whitman. Whitman had nothing in the way of a technical background, but she did have experience with brands and marketing. With a degree in economics from Princeton and an M.B.A. from Harvard, like Steve Case, Whitman had done a stint at Procter & Gamble, as well as Disney and the toy company Hasbro. She proved to be a perfect choice, capable of shepherding eBay into an era when it was turning into a marketplace for every brand and product category under the sun.

Whitman came on board as eBay's CEO on February 1, 1998. By that point, eBay had only 500,000 registered users. But those users exchanged more than $100 million in goods in the first quarter of 1998, generating $3 million in revenue every month. Only one quarter later, in June 1998, eBay would announce its one-millionth user. When eBay went public on September 21, 1998, its stock popped 197% on the offer price. The company was valued at almost $2 billion. Nineteen ninety-eight was, as we'll see, the year that the dot-com mania really struck, and eBay would become one of the true highfliers of the era. Roughly two-thirds of the pre-IPO staff—about seventy-five people—became paper millionaires at eBay. By July of 1999, *Forbes* magazine would peg Pierre Omidyar's eBay fortune at $10.1 billion, Jeff Skoll's at $4.8 billion and Meg Whitman's at about $1 billion.

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THE INTERNET ERA might have been launched in Silicon Valley, but to a large extent, it was monetized by startups in New York City. As the web began to call out for digital advertising as a revenue engine, young New York–based geeks stepped up to create digital agencies, brokerages and advertising companies. There was a new technology on the scene. The olds couldn't quite grok it, so they turned to the youth to bring them up to speed. The phenomenon of young interns being summoned to the executive suite to give presentations on the new digital realities became common. "We were all twentysomethings in really bad suits," remembered Seth Goldstein, founder of one of the first New York–based Internet marketing firms, SiteSpecific.[17] But they seemingly had a grasp on the future, so the usual rules of decorum and seniority were increasingly overlooked.

The young techies on the East Coast had a sense of fearlessness and a DIY ethos that was possibly more aggressive than even the moxie displayed by their peers in Silicon Valley. A perfect example is Craig Kanarick who, fresh off his efforts designing the first banner ads for AT&T and *HotWired*, founded the interactive media and advertising agency Razorfish with his childhood friend Jeff Dachis. The two twentysomethings ran their "company" out of Dachis's Alphabet City apartment and suddenly found themselves consulting with Fortune 500 companies like Time Warner for no other reason than that they claimed to "get" the web. SiteSpecific had its first offices in a "hovel" on Broadway just north of Madison Square Park. The startup made great efforts to hide its squalid condition and give off an air of professionalism to their old-media clients. "Seth would call all his friends and say, 'Come in and look like you're working,' " remembered SiteSpecific co-founder Jeremy Haft. "So we would all arrive fifteen minutes before the client would arrive, and would be sitting at our desks typing away. You put up shadow puppets, and 'Look! We're a company!' "[18]

For various reasons, the design, marketing and advertising startups sprang up around, and especially below, Madison Square Park and the Flatiron Building. This entrepreneurial "scene" acquired the nickname Silicon Alley, a sobriquet that many people claim credit for but which owes its popularization primarily to New York–based advertising startup DoubleClick. DoubleClick, founded by Kevin O'Connor and Dwight Merriman, would create the first large-scale advertising network and marketplace on the web, brokering and delivering the banner ads that would generate revenue for many of the advertising-supported websites in the late 1990s. By 1998, DoubleClick was serving up more than 1.5 billion ads a month and had one of the first significant Silicon Alley IPOs in February of 1998.[19] Flush with success, DoubleClick hung a banner behind the Flatiron Building that, at the height of the company's success, declared to the world DOUBLECLICK WELCOMES YOU TO SILICON ALLEY.[20]

If Silicon Valley had a software engineering culture, Silicon Alley had a creative culture. A media culture. The DIY New York spirit spread to journalists and writers who figured the web allowed them to start publications with a global reach that could match any print publisher in the world. The best example of the web-based "ezines" that sprang up was *Feed* magazine, aka Feedmag.com, or, simply, *Feed*. Launched by two young freelance writers, Stefanie Syman and Steven Johnson, the lure was the same for independent publishers as it had been for bigger names like Time Warner: the promise of seemingly insignificant production costs. Syman and Johnson began reaching out to big names in media and culture for interviews and profiles. "And we'd be like, 'Hi! We just started this online magazine. Would you come and have a dialog about this topic?' " Syman recalled. "And they'd say yes! And we were always shocked! We were like, 'We're no one! We're not the *New York Times*, we're not *Esquire*, we're not even *Wired*.' And yet, people wanted to participate."[21]

But by then, of course, even big names like the *New York Times* were participating as well. The *Times* had experimented with a cobranded news presence on America Online called @times back in 1994. A full website went live at www.nytimes.com on January 22, 1996, with headlines, stories and pictures from the print edition. The *Times*'s local rival, the *Wall Street Journal*, limited its content solely to paying subscribers when it launched on the web in 1996. A paywall ended up being successful for the *Journal*, which eventually accumulated around a million online subscribers, proving that there were *some* types of content that audiences were willing to pay for. But time and again, publishers that went the subscriber route found that by doing so, they only left the door open for free, advertising-supported online competitors. Larry Kramer, a longtime veteran of the newspaper industry, saw just such an opportunity to deliver financial content thanks to the *Journal*'s paywall. "I said, 'I can replicate information about the stocks [investors] care about, for free on the web!' " Kramer says. "I can build a newsroom that gives them their version of the *Wall Street Journal* and the Bloomberg terminal."[22] And he did so, launching Marketwatch.com (later, CBS Marketwatch), which would IPO and earn a billion-dollar valuation, before eventually being purchased by Dow Jones, the parent company of the *Wall Street Journal* itself.

The biggest lesson to learn about online media was the 24/7 nature of the beast. The tragic 1997 death of Britain's Princess Diana was the media sensation of its day, and not just for traditional outlets like the *Times*. Online news sites like Pathfinder saw their traffic numbers spike as distraught readers went online to absorb any and all details they could find. Furthermore, web users found online forums and message boards the perfect venues to express their feelings and share their collective grief. One site that did *not* benefit from this spike in traffic was *Slate*, which had followed a long-standing publisher's tradition of taking a vacation during the summer, considered to be a "slow" period for breaking news.[*] And so, the whole week surrounding the Diana tragedy, *Slate* was dark, with no new content for news-hungry readers. "Diana's death finally made us understand that online journalism is by nature a round-the-clock business," *Slate*'s David Plotz would admit later.[23]

The site that best exemplified the new metabolism of media in an online environment was Suck.com. Two *HotWired* staffers, Joey Anuff and Carl

Steadman, launched Suck on *Wired*'s servers in August of 1995; it was just that nobody knew it at the time. Steadman and Anuff, and eventually other *Wired* employees and outside freelancers who were let in on the secret, all published under pseudonyms. The site looked different right away. Most early websites had some sort of landing page, and usually a navigation menu, a table-of-contents–style holdover from the print paradigm to help readers get oriented. Suck completely eschewed this convention and simply put its content right there on the front page. No need to click anywhere. Suck had a simple one-column structure with reverse-chronological formatting: the newest stuff on the top, older stuff on the bottom, very much in the style of what we would later call blogs or a social networking newsfeed. And unlike any of the other sites at the time, Suck was always updating. There were no "issues" as at *Slate*. Suck tried to put up new content every day. Steadman and Anuff figured that *they* were going in to work every day and consuming content on the web in between doing their jobs (for most people at this time, the fastest and most reliable Internet connection available was often found at work), so Suck should regularly have fresh content to serve this audience of bored office drones.

The voice of Suck was pitched to people just like them: jaded cubicle warriors, Gen Xers, grunts in this new web revolution. Suck was not stentorian, like traditional media. It was first-person, confrontational, skeptical. The very first post was about the nascent Kurt Cobain death conspiracy culture. Another early post poked fun at Netscape's Marc Andreessen. There were no sacred cows, even among the digerati. But the Sucksters reserved their most cutting missives for digital Luddites. Here's a quote form a typical post. The pseudonymous author "Pop" describes his frustration with the clueless suits he is forced to work for in the new media world:

> They don't browse. They don't keep up. They read about the web, fer chrissakes, in the New York Times and in the Wall Street Journal. They tell their flunkies to order up some presence and have no idea what they've done or what it should look like. They're virgins who've been told about sex and think they have a clue. They're experts vicariously.

The columns, posts and diaries sometimes followed a regular topic or subject matter. Sometimes they were just random screeds. Some posts were well researched, almost "serious" journalism. Just as often, they were just gossip items or analysis of web industry news. And this was Suck's crucial contribution: a lot of the formal structure and stuffy posture of "traditional" media writing was abandoned. The posts on Suck always felt like they came from a distinctly personal point of view. There was commentary, sometimes overt, but also between the lines. Suck was rude, often crude, glib and satirical, but always with purpose. Suck was, in short, snarky. It was a publication that laid the groundwork for blogging in its modern form, both in structure and in tone.

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BY 1996 AND 1997, AOL was consolidating its position as perhaps the dominant player in the new Internet economy, surpassing 10 million subscribers in 1997.[24] To serve this audience, longtime AOL executive Ted Leonsis was tasked with creating AOL-specific content that would extend the AOL experience and allow the online service to compete with what the web had to offer. Under initiatives variously called AOL Studios and AOL Greenhouse, Leonsis began to shepherd new sites into existence, often on AOL's proprietary pages, but also with experimental web presences as a way of hedging AOL's bets. There were sites devoted to fitness (The Health Zone), golfing (I Golf), finance (The Motley Fool) and people of color (Net Noir).

Candice Carpenter Olsen, Nancy Evans and Robert Levitan were media veterans who were consulting with Leonsis to develop Greenhouse sites. AOL had noticed that, for the first time, women—especially stay-at-home mothers—were beginning to come online in big numbers. So, Leonsis commissioned the trio to create a parenting-focused site called Parent Soup. With their background largely in publishing, Parent Soup launched with a magazine mindset and a plethora of professionally written articles and parenting advice. But right away, it became obvious that what the users really liked were the message boards around the articles, where they could trade tips, experiences and stories with other users. "Once they came in, yeah, they read the content," Evans says. "But the content was the appetizer. They congregated at the message boards. They began talking to each other. I remember this one mother going, 'I am just so thrilled to be talking to someone today who could talk in complete sentences.' "[25]

Expanding on this lesson, AOL funded a standalone website targeting the female audience more generally, eventually called iVillage. Content was still a key component for drawing users in, but iVillage consciously focused on the message boards and forums as well. Again, the lesson was that users in an online community were perfectly capable of producing value all by themselves. The community aspect of sites like iVillage became more than simple chatting and interaction, it became a way for people to live their lives online. " 'iVillage got me through my pregnancy, iVillage got me through my breast cancer, iVillage got me through my divorce,' " says Evans. "It was all those women together.

Women *got* the webbiness of the web. The web was made for them."[26]

Like eBay had done, a growing crop of community-based sites realized that their most valuable asset was their users. Today, we take for granted that social-networking sites like Facebook are merely platforms for user activity. Facebook doesn't actually generate anything itself. We do. The users generate content for Facebook to advertise against. The early social sites stumbled upon this miraculous business model almost a decade before Mark Zuckerberg did.

A Los Angeles–based entrepreneur named David Bohnett started a small firm that designed and hosted websites for local businesses. In order to drum up more clientele, he hit upon the idea of giving away limited homepages to individuals for free. "I was a passionate advocate of the validity of user-generated content," Bohnett says. "That the Internet was all about giving people the opportunity to contribute and participate, and feel like they were a part of the medium—that it was not a top-down, programmed model like radio and television."[27] Bohnett provided templates and plug-and-play tools that allowed a user to create a rudimentary homepage without having to know HTML or how to find a host or a server. Bohnett's brainstorm was to group the homepages into groups of similar interest using a virtual real estate model. So, you could homestead your website in a "neighborhood." For example, Nashville for country music sites, Area 51 for science and technology, or West Hollywood for LGBT sites.

GeoCities, as the site was called, proved to be wildly successful by pursuing the "let a thousand flowers bloom" strategy to its conceptual extreme. Millions of GeoCities homepages were created, often by individuals, with most being nothing more than simple personal pages with variations of a "Hello World" message. Similar plug-and-play homepage hosts sprang up called Tripod and Angelfire, both allowing users to express themselves directly by producing rudimentary "profiles." GeoCities and the like were "social media," or at least, an early form of it. What they weren't, *precisely*, was "social networking" because despite the fact that GeoCities grouped like interests together, the focus was not *exactly* on mapping social connections. Not yet.

If Bohnett eschewed the "top-down" model of media, other entrepreneurs thought that the web itself could be a powerful new model of top-down media, at least in the broadcasting sense. Mark Cuban was a retired entrepreneur who had made his millions selling a company to CompuServe in 1990. As the web was taking off, Cuban was approached by a college acquaintance from his alma mater, the University of Indiana. "There's gotta be a way that we can listen to Indiana basketball even if we're in Dallas," Todd Wagner told Cuban.[28] The pair formed AudioNet, which was eventually renamed Broadcast.com, in September 1995, based on that one simple premise: giving people access to streaming radio and video content anywhere in the world, via a web browser. Soon, the site was hosting 400 live events a day and was being accessed by half a million viewers daily.[29]

Cuban had the same intuition that Suck.com had: that because people were tied to their computers at work, there was a certain "prime time" for content during the day. "We reach people where they are," Cuban told *Fast Company*. "We reach more white-collar office workers during business hours than ABC, NBC and CBS combined."[30] Broadcast.com would air literally anything, even live police scanners. But it also signed exclusive deals to webcast live programming from hundreds of local radio and TV stations as well as sporting events from Major League Baseball, the NCAA and the NHL. Broadcast.com even had some community elements like SportsWorld.com, where fans could discuss the live events they were watching along with other fans.

Broadcast.com proved that just allowing people to *use the web* could be an incredibly successful business model all by itself. Sometime in 1995, two low-level Apple employees named Sabeer Bhatia and Jack Smith took this idea even further. In the mid-nineties, your email address was something that was assigned to you by your Internet service provider, by your employer at work or by your university if you were at school. And you could access your email through that provider only. Today we are used to free, almost disposable email addresses; but in the early days of the Internet, email addresses were actually something of a scarce commodity. Bhatia and Smith's idea would change all that, allowing people to check their email anywhere—at work, at home, on the road—anywhere there was a web browser and Internet access. They wanted to let users pick their own email address. They wanted to enable people to separate their personal lives from their professional lives, at least in the realm of email.

So good was this idea, and so mind-blowingly obvious was it to Bhatia, that when Smith first called on his cell phone to suggest the concept, Bhatia told him, "Call me back on a secure line when you get to your house! We don't want anyone to overhear!"[31] Bhatia wrote up a business plan for the idea, but refused to make copies for fear someone else would beat them to the punch. When Bhatia made the rounds at venture capital firms, he pitched a dummy startup concept instead of the web-based email idea. If the VCs in question rejected the dummy startup for what Bhatia considered to be the right reasons, only then would he share with them his real idea: a simple, seemingly obvious concept that would be called Hotmail.

Hotmail.com launched on the web on July 4, 1996. In little more than a year and a half, Hotmail would claim 25 million users.[32] At the time, this meant that Hotmail was actually the fastest-growing web thing in history. Such phenomenal growth was the result of a clever marketing tactic. Every time a user sent an email using Hotmail's free web mail accounts, a small link was appended at the bottom that read: "*Hotmail: Free, trusted and rich email service. Get it now.*" So, every time an email was sent, the sender was promoting Hotmail's service. The very act of using Hotmail helped spread the word about Hotmail. This kind of practice is now called viral marketing, the technique of promotion by rabid user word of mouth. Today, this is the very foundation of modern marketing strategy; in Hotmail's era it was very much new and revolutionary.

Almost everyone on the web thought Hotmail was a brilliant idea as well. Yahoo came calling, and almost every other player in technology was interested in getting a piece of Hotmail and its viral growth. But all lost out to Microsoft, who, on New Year's Eve 1997, purchased Hotmail for $400 million in stock. Not bad for two years of work, and an idea that even its founders thought was so obvious that anyone could have done it.

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HOTMAIL'S TIMING WAS impeccable. By late 1997, and especially through the whole of 1998, there was a big new watchword among Internet players: portal. The major search sites—Lycos, Infoseek, and especially the two most popular search destinations, Excite and Yahoo—were regularly among the most trafficked destinations on the web. And by 1997, having a lot of web traffic meant you could generate quite a lot of revenue. Yahoo, in particular, hit a seemingly insane metric: 1 billion pageviews a month.[33] And of course those pageviews translated into "impressions" for advertisers and their banner ads.

The need to produce more impressions began to change the calculus at the search sites. Yahoo, for example, had once been happy to send surfers out to their intended destinations on the web. But now all those advertising dollars were making Jerry Yang and company think twice. Money would only keep rolling in if Yahoo kept web browsers returning again, and again, and again. Suddenly, sending users off to the larger Internet wasn't as attractive as keeping them reloading Yahoo's own pages throughout the day in order to generate new ad impressions. As Yang told a television interviewer, Yahoo was facing a dilemma. "You're a search engine—once they've done the searching, why do they need you?"[34] Yahoo needed to find a way to keep users on its pages. To use a watchword that was ubiquitous at the time, Yahoo needed to get more "sticky."

To that end, Yahoo and the other search sites began to try anything that might encourage users to return habitually. First, the search sites copied the model of newspapers: they added things like horoscopes, weather reports and stock quotes. Then they realized that features like classified ads were cheap to put up and could quickly generate listing fees with practically zero investment. And if they offered, say, airline listings, the search portals discovered they could collect lucrative promotional fees as, obviously, Expedia and Travelocity would engage in a bidding war to get on their pages.

The search sites began to accumulate a utility belt of services to keep users hooked on their offerings. Things like free, web-based email, calendars, and address books, proved to be the most sticky tools of all. Once web users locked into a given portal and began to rely on one particular site for their personal email, for their scheduling, for the most intimate details of their lives, portals locked these users to repeat visits. A portal was now where you returned to again and again throughout the day, not just to search, but to manage your life.

Providing these personal services had an added benefit. Users had to “register,” i.e., identify themselves. Users who registered on a portal proved to be more lucrative than the randoms who came by just to perform a search. Registered users of what became known as My Yahoo generated, on average, 238 pageviews per person, versus 58 pages for an unregistered Yahoo browser, and 3.82 hours per month on the site, versus 0.76 hours per month for someone who just came to search.[35] *And*, registration allowed the portals to charge more to advertisers. Once you identified yourself to your portal of choice in order to claim your “excite.com” email address, the site now knew your name, your general geographic location, your age, your sex, and tons of individual preferences. Sure, the portals claimed that all of this was in the interest of providing useful info like local weather conditions, personalized headlines and stock quotes. But the reality, of course, was that they now had the holy grail of marketing: demographic data to target ads against. This served to turbo-boost the advertising revenues the search sites were already generating.

Today—however uneasily—it seems we’ve accepted the notion that “free” web services make their money by whoring out our personal information to marketers and advertisers. But this practice really began in earnest with the portals, which claimed they were only interested in delivering us, say, personalized sports scores for our favorite teams. All the major search sites quickly pivoted to this new portal and personalize strategy, and to say it was lucrative would be an understatement. Excite saw its revenues jump 709% in 1997 alone.[36] The four biggest search sites, Yahoo, Excite, Lycos and Infoseek, all saw their share prices increase an average of 390% over the course of 1998.[37]

All of these various players, as they feverishly pieced together features to compete in what were called the "portal wars," went a long way to creating the competitive froth that would set the stage for the dot-com bubble. Before dot-com IPOs were an everyday occurrence, the portals, with their ballooning stock prices, were able to fork over big money (at least on paper) to construct their arsenal of user features. Yahoo had wanted Hotmail first, but since Microsoft had won that battle, it made do with the purchase of a Hotmail competitor, RocketMail, for a comparatively cheap $94 million. RocketMail was quickly rebranded as Yahoo Mail.[38] Joe Beninato, the founder of an online calendar startup called When.com, took a meeting with Yahoo, hoping to get a distribution partnership. Before he could even make his pitch, the discussion turned to Yahoo purchasing When.com. This struck Beninato as a bit nutty since When.com had not even launched to the public yet. "We didn't really have anything," Beninato recalled. "We were a couple of months old."[39] Yahoo didn't end up buying When.com, but AOL eventually did. For $225 million.

The portals wanted to be all things to all people, and so they ventured into any adjacent areas that might prove lucrative. That inevitably led to experiments with ecommerce, as the portals looked jealously at the revenue that growth sites like Amazon.com were enjoying. In addition to the dozens of promotional partnerships Yahoo signed with select retailers, the company began offering its own version of an online mall, dubbed Yahoo Shopping. In order to make it easier for small merchants to set up shop in its mall, Yahoo purchased a company called Viaweb from a young British programmer named Paul Graham. By the holiday season of 1998, more than 3,000 different storefronts had opened shop, with Yahoo raking in monthly fees and a percentage of every sale.[40]

"We began with simple searching," Yang told *Time*, beginning to sound a bit like a studio mogul, "and that's still a big hit—our *Seinfeld* if you will—but we've also tried to develop a must-see-TV lineup: Yahoo Finance, Yahoo Chat, Yahoo Mail. We think of ourselves as a media network these days."[41] A Wall Street analyst told *Businessweek*, "You have to look at it [Yahoo] as the new media company of the 21st century."[42]

[*] Weekly magazine publishers traditionally published only fifty or even forty-eight issues a year, allowing for "off weeks" around the holidays and during the traditionally news-slow summer months.