

College of Business Book Review by Barbara Jo White

Title: "The PayPal Wars: Battles with eBay, the Media, the Mafia, and the Rest of Planet Earth"

Author: Eric Jackson

Publisher: World Ahead Publishing

Length: 344 pages

Price: \$17.61

Reading time: 6-8 hours

Reading rating: 5 (1 = very difficult; 10 = very easy)

Overall rating: 3 (1 = average; 4 = outstanding)

The PayPal wars are heating up again. Are you one of the more than 40 million people with a PayPal account? Consider a quick summer read about the history of PayPal. Eric Jackson, PayPal's former director of marketing, will take you on an exciting journey from the time just after PayPal's inception in 1999 until it was sold just a few years later to eBay. The problems Jackson describes for a young business – building up a customer base quickly before operating cash runs out, keeping a watchful eye on your competitors, and dealing with lawsuits are not unique to a dot com business. Many businesses face similar problems.

Jackson does a good job of describing PayPal's marketing strategy. One of PayPal's main objectives was to build up a large network of users faster than its competitors. The value of a service like PayPal, in fact, increases as the number of people participating increase. This is known as the network effect and it is evident in other service product areas like health care networks and telephone networks. A large customer base for PayPal would discourage its competitors. PayPal chose to build up its customer base by paying customers first \$5 and then \$10 for referring new customers. Jackson shows how this strategy requires a lot of cash as PayPal burned through several million dollars a day in customer referral payments. PayPal quickly latched onto eBay's growing customer base as a way to find its own customers quickly.

What I find so interesting is that Jackson seems genuinely shocked that PayPal had to deal with any issues beyond bringing a good product to market and a few competitors. But then, Jackson was in his early 20s and a recent college graduate when he started working with PayPal. He describes how PayPal was besieged with lawsuits from various states over PayPal's fiduciary status around the time of its initial public offering (IPO), the first after the September 11 bombings in 2001. Jackson also describes how the mafia used PayPal to launder money. To combat this problem, engineers at PayPal created a fix whereby account holders have to type in a set of funky letters and numbers on a funky background. Only humans, not computers, are able to read the sequence. This simple fix made it difficult for the mafia to use computers to create accounts.

In the end, PayPal proved more effective at marketing its system to eBay's users than eBay did with its own Billpoint system. If you can't beat 'em, buy 'em -- eBay abandoned its system and purchased PayPal for approximately \$1.5 billion in 2002.

PayPal's battles aren't over. What makes this a timely read is that it is such good background material for the ongoing payment system war happening around us right now. In early July, Google announced that it is entering the payment systems war with its own payment system called Google Checkout ([www.checkout.google.com](http://www.checkout.google.com)). Google's entrance into the fray will likely not affect PayPal's eBay customers, but may have a negative effect on PayPal's non-eBay customer base. And it must have had a negative effect on Jeff Jordan, head of PayPal at eBay because he left the company about a week after Google's announcement to "spend time with his family." Read the book and follow the war!

Barbara Jo White is a professor of computer information systems in the College of Business at Western Carolina University. For previously reviews books, visit our Web site at [www.wcu.edu/cob/](http://www.wcu.edu/cob/).