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DeRemate.com: Building a Latin American Internet Auction Site

In the fall of 2000, CEO Alec Oxenford, his colleagues, and cofounders of DeRemate could look back with satisfaction on a year they all agreed had been the most "intense and gratifying of their lives". Established by a group of friends just over a year earlier, and live since August 31 1999, DeRemate, had become the leading online trading community site for Latin America, with over one million registered users and 160,000 product listings. Indeed, in early spring 2000, at the peak of Internet startup valuations, the company had even been given pre IPO market capitalizations ranging from 0.75 – 1.5 billion, when less than ten months before DeRemate did not exist—even as an idea in the founders minds.

Yet everyone in DeRemate recognized that they "had only completed the first two hundred meters of a marathon". However rapid the growth had been, and however far ahead of the competition the company might be, the challenges of building an enduring company and leading the dramatic changes which the Internet could bring to Latin American society had just begun.

Founding

The origins of DeRemate went back to a group of young Latin Americans from six different countries who came to know one another through various family, school, and business connections (**Exhibit 1**). For many, these links were cemented in the shared experience attending business school in the US in the late nineties. Five of the key players went to the Harvard Business School (class of 1997) and were in a study group that met every day during the two year program. Others were neighbors while attending the Kellogg School at Northwestern, or arrived at HBS or the Yale School of Management a year later. Another set of friends and relatives were simultaneously pursuing careers and building contacts in Argentina. All became imbued with the desire to establish a company in which they could work together and build a regional Latin American business.

While at business school, various members of the group investigated specific opportunities, including Alec Oxenford, who wrote a term paper on the possibility of online bookselling, before becoming aware of Amazon.com. Yet in 1997, as graduation for many of the group approached, no

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Professor Michael G. Rukstad and Professor David Collis of the Yale School of Management prepared this case. This case was developed from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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specific business appeared attractive, and each member pursued their individual careers by taking jobs at consulting or high technology firms in the United States and Latin America.

In spite of going their separate ways, the group remained in touch socially. It soon became clear from the work that each was doing that the Internet revolution was creating numerous business opportunities. Guillermo Cepeda watched as a research report he had worked on at Harvard was turned into a company by one of his co-authors and then sold to Amazon.com for $200 million within nine months of graduation. Alec Oxenford, working for the Boston Consulting Group in Argentina, wrote the first report on the future of e-commerce in Latin America. In various meetings in New York and Buenos Aires during 1998 and early 1999, the group, therefore, began to focus on finding Internet business models which they could readily apply to Latin America. Initial analysis that ranked existing Internet companies by market value and market value per employee, quickly showed that eBay's auction model was extremely attractive. Attention narrowed to starting a Latin American auction site, even though the group had become aware that a competing group of Stanford Business School graduates were also considering entering the same market space with a company that became Mercado Libre.

By the early summer of 1999 the group began to seriously investigate creating a Latin American online marketplace, while continuing to work in their regular jobs. The first requirement for such a business would be to build the software to run the site. Alec contacted his cousin Marcos Detry, who was CTO of an Internet Service Provider (ISP) in Argentina, to hire two programmers on a crash course to develop the requisite software. Very quickly it became apparent that developing their own software would take too long. Cognizant of the need for speed, attention shifted to finding existing dynamic pricing software. Contacts with leading firms in the field produced offers to sell the software in return for an ourageous initial payment and a substantial equity stake. Thwarted by the indifference of the large players, the group conducted a web search of smaller companies that had dynamic pricingproprietary software. One such company, suggested by a McKinsey friend, was Aucland, a French firm that was running an auction site on a platform that was expressly designed to accommodate the many different currencies, languages etc. of the EU. Attracted by this feature, the group sent an email inquiry to its founder in early July. Within twenty four hours he had replied, expressing his interest in licensing the software for use in Latin America.

In response, in July 1999 the group got together in Andres Capriles' apartment in New York for a weekend to decide whether to commit to launch the company. In a dramatic moment, after brainstorming for twenty hours, a consensus emerged that the go ahead should be given, but only if Alec agreed to be the CEO. Alec paused, and then agreed, pending the approval of his wife. With that commitment the decision was made to found DeRemate (although at that date the company had no name), and to begin operations in Argentina where Alec lived and where there was a vibrant entrepreneurial Internet community. Each of the eleven founders committed to invest $50,000 and to be liable for an additional $50,000 if necessary. Without signing any formal documents the company was then established on July 26 1999, and incorporated in Delaware within one month in order to have access to U.S. capital markets and maintain the transparency of U.S. accounting. Alec's wife, pregnant with their first child, agreed to his decision to leave BCG, saying that she was prepared to sell the car and take the bus to work if that was what it took to raise their share of the money.Impressed by the rapid response, and by the technical knowledge that Aucland's founders demonstrated, Alec, Marcos Detry and Sergio Grinbaum got the go ahead from the group to fly out to Paris for direct discussions over the weekend of July 22nd, one weekend after the gathering in New York. In those meetings Alec hammered out a deal to license Aucland's software. In return for 10% of DeRemate, Aucland would inject cash in the next round, provide an exclusive software license for Latin America and the US Hispanic market, which would also include all upgrades for fifteen years,

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and would make the founders of Aucland available for consulting on management issues for two hours each week .

Activity then shifted into high gear in Argentina, even as many of the new management group continued to work their regular jobs. Guido Grinbaum, the head of marketing, for example, took a five week vacation from Pepsi to launch the site and then continued to work at Pepsi until he finally joined DeRemate in December.

In one of the first decisions the management group made, the "go live" site launch was set for August 31st 1999, six weeks later. To ensure that this date was immovable, Guido hired one of the most visible locations in Buenos Aires, a building designed to be a Planet Hollywood restaurant, and sent invitations to leading politicians, the television networks and the media for a huge launch party that night. With a firm deadline the group had no choice but to work extraordinarily hard. As Guido observed, "I don't know how we did it. And knowing what I now know, I would never again commit to that short a time."

There were three immediate tasks to complete before launch—adapt the Aucland software for the DeRemate site; generate product listings so that there was something available for consumers to buy; and develop the launch marketing. To achieve the first objective, Marcos sent two engineers, neither of whom had ever visited Europe nor spoke French, to live in France for forty five days in order to learn the Aucland software and convert it to the new Spanish language site.

Knowing that the success of the launch would depend on the depth of products listed for sale on the site, the biggest effort was devoted to generating product listings. At this stage, although it knew the ultimate strategy would be as a C2C (consumer to consumer) player, the company believed that its entry had to be as a B2C (business to consumer) auction site. While management listed everything they possibly could from among their personal possessions and those of all their friends and family, they were aware that, because of its novelty, most consumers would not list products for sale on the Internet. Management, therefore, believed they had to convince retailers and manufacturers to use the site as a new channel of distribution. A call list of such vendors was generated from the yellow pages by identifying a number of categories which management felt would be receptive to selling on the web. These included electronics, cameras, and computers. Anyone and everyone, from friends to students and secretaries, were then sent out on the street to generate listings and laboriously enter them on the site. By launch date there were about 4,000 product listings in five categories, at least double that of the competition.

Meanwhile, the marketing team was choosing a brand name and a logo (**Exhibit 2**). The literal translation of the Spanish is "at auction," but the term has other connotations. To be "loco de remate" means to go crazy, in a wild and uninhibited fashion—as teenagers might. Retail stores also use "precio de remate" to describe their incredibly low prices during a sale. The moment the suggestion was made, everyone knew it was the perfect name—irreverent but descriptive. The choice of corporate logo and color was more deliberate. An outside brand group suggested a number of logos, but the auction hammer hitting a computer mouse stood out as graphically capturing the service that the company would provide for consumers. The bright orange color was Guido's choice. Because he knew of no other company in the world that used such a color, he expected DeRemate's advertising to be very distinctive.

The launch went ahead as planned on August 31st. Alec Oxenford appeared at the party dressed in a suit and tie, "the last time I wore a suit"—it was his final day at BCG and he had just completed his last client presentation that morning. In fact, people had been calling his cell phone during the BCG presentation to make sure that he would arrive, and after the launch he went back to the client to answer questions.

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The launch was a great success. All major television channels covered the introduction because it was one of the first domestic Argentinian consumer Internet sites to open. In fact, the free publicity brought DeRemate its first crisis. The night after the launch, Argentina's premier television show for teenagers devoted seven minutes to the new site. When the show finished, the DeRemate site was deluged with thousands of hits and it promptly crashed. Luckily for the company, the inadequacy of Argentinian telecommunications and Internet infrastructure meant that users were used to frequent outages, and no one blamed DeRemate for the failure to connect—they all assumed it was a system, not a site failure.

Even while working on the Argentine launch, management had been developing its Latin American strategy. From the beginning, the founders had wanted to build a regional business, and beating competition to this goal was seen as a key to success. Within two weeks of the Argentine launch, DeRemate made its first regional move. Brazil was the largest market in Latin America and the obvious place for the company's second site. However, a number of players were already present in that market. Rather than trying to develop their own site, DeRemate decided on a Saturday to approach the oldest established site, E-Bazar, founded by, Mr. Andrade, a well known business figure and Internet "guru".

The next day, a Sunday, Marcos and Guido (still working full time for Pepsico) visited Andrade at his home outside Sao Paulo. When asked if he would sell the E-Bazar site, Andrade named a price of several million dollars. In response Guido suggested a price of tens of thousands of dollars. As he said, "I was so embarrassed at the offer I couldn't look at Andrade when I was speaking." Offended by the low price, Andrade laughed at them, terming the offer a joke, and nearly threw them out of his house, but they convinced him to continue talking. By the end of the day, and impressed by the vision and management talent at DeRemate, Andrade had agreed to sell them E-Bazar for $50,000, and 2.4% of DeRemate. As Marcos observed, "he believed that 2.4% of something big was going to better than 100% of his own company." Negotiating the deal had taken longer than expected and so the pair missed their flight back to Buenos Aires. With a vital meeting for Guido at Pepsi beginning at 9 a.m., the pair slept for four hours at the airport to be sure to be in line for the 6 a.m. flight out the next day.

The Brazilian site was formally re-launched as Arremate.com, after two hectic weeks translating the Spanish DeRemate site into Portuguese. Having launched the first two sites, the hard work building the company began.

Building the Company

Markets An auction site has two sets of customers—sellers and buyers—and DeRemate's marketing programs had to address both audiences. Initially the company focused on gaining product listings since it believed that "with no listings you will never generate consumer interest in the site".

After the initial pre launch blitz, DeRemate put in place a systematic program of direct sales calls and telephone solicitations to identifiable customer groups. These were concentrated among retailers and small manufacturers. While listings from consumers were accepted, proactive marketing sold the merits of the auction site to businesses as a new and complementary channel of distribution. For small retailers, which could not afford their own web site or which lacked technical expertise, DeRemate was positioned as "your e-commerce solution available today." For wholesalers, the company was "a way to go direct and cut out retailers." For manufacturers, the site was positioned as a channel for outdated stock, and a vehicle for price testing new models.

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DeRemate levied no charges on vendors. Partly this was to encourage trial and build loyalty. Partly it was because the Internet was seen as "free" and the company did not want to violate consumer perceptions. Partly it was to save the effort of building a group that could collect small sums from individuals. And partly it was because competitive sites were also free. In line with this philosophy, DeRemate did not charge purchasers either.

Although DeRemate grew its listings rapidly, by the end of 1999 it became clear that the B2C market was not going to be huge, partly because retailers were charging full prices on the web and so were being undercut by used products sold by consumers. Even a huge promotion in late 1999 that gave merchants their own web pages within the site failed to generate expected sales.

In a dramatic change of focus, and after heated debate at an offsite strategy meeting over the timing of the changeover, DeRemate, reoriented itself to become a C2C site in January 2000, and reorganized its sales and marketing accordingly. Teams that had been directed to calling on vertical markets, such as electronics retailers, were redeployed to target consumer segments, such as students, and specific campaigns were launched to build presence in those segments. DeRemate, for example, began actively sponsoring University events and social events for technology sophisticated and trend setting adults. In the switchover between the two business models, the number of product listings dropped to 10,000 in one day.

By the fall of 2000, DeRemate was building communities of consumers in each of its product categories. Chat rooms and messaging boards allowed collectors to talk among themselves, while the company had active programs of public relations with specialty magazines, attending shows, and interviewing individuals to understand their specific needs, such as how to categorize their interests in order to make the site easily searchable. Manufacturers or retailers were still using the site but were pricing lower and listing themselves to appear as individuals rather than as corporations.

To attract the other important audience—buyers—DeRemate faced an uphill struggle. Because income levels in Latin America were substantially below the United States, and income distribution was more unequal, the number of consumers able to afford a PC and Internet connection was low (**Exhibits 3** and **4**). Moreover, the telecommunications infrastructure in Latin America, typically provided by a state owned PTT, was often inadequate to support high quality Internet service and had extremely high connection charges. Local telephone charges, for example, might cost $2 to $4 dollars per hour (whereas most users in the United States had free local calls to their Internet service provider). As a result, Internet usage was extremely limited in DeRemate's target markets and consumers were essentially new to the web and its benefits. Nevertheless, Latin America was the fastest growing Internet region in the world. BCG, for example, estimated the total market for online retailing in Latin America in 2000 to be $580 million,[1] up from about $200 million in 1999. Auctions were the largest single category—at $192 million, up from only $12 million in 1999. Future growth was estimated at over 100% pa. compound for the next several years.

DeRemate also had to make those consumers who were online, aware of the existence of auction sites and explain exactly what service the site provided. This was complicated by the fact that Latin America had a very limited market for collectibles, like Pez dispensers (the product behind the original eBay site), no tradition of yard sales, limited classified advertising—the formats believed to be closest to the eBay model—and less confidence in auctions in general. The one advantage to doing business in Latin America was that consumers needed a way to monetize their assets. Because income levels were low, most people's wealth was tied up in real assets. If they wanted cash, or if they wanted to buy a new model VCR, they were often forced to sell existing assets, such as the old

[1] Boston Consulting Group, "Online Retailing in Latin America," October 2000.

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VCR. Moreover, because income levels were low, there was a ready market for products that in the United States might simply have been discarded as too out of date. As a result, DeRemate believed it could provide a real service to consumers by providing liquidity to their unused physical assets.

Indeed, DeRemate had an almost missionary belief that they were introducing a service that truly benefited society. In developing countries there were many segments of society that suffered from extremely high transactions costs. Whether it was rural peasants who could only buy from a local merchant at huge markups; small merchants who were at the mercy of wholesalers when trying to find distant markets; or consumers that could not easily monetize unwanted physical assets, DeRemate believed that their service would substantially reduce transaction costs by allowing individuals that were distant from economic centers to have access to the information and markets they were previously barred from. This belief was a powerful motivator within the company since employees knew they were in some way contributing to the economic development of their region.

Marketing To create customer demand for its listed products DeRemate developed an ambitious advertising and marketing campaign designed to explain the site to consumers and build a brand image. To achieve this DeRemate developed a three phase advertising campaign, which they adhered to for the next year, and whose expense peaked at over $4 million per month, or 60% of the total expenditures of the company.

In the first, educational phase of the campaign, a simple commercial showed what a consumer could do with the service. In particular, knowing that listings would be the key to success, the company wanted to make clear that this was a site to "Sell" as much as to buy. Indeed, the tag line for the company was "to sell and buy…." In the first commercial (**Exhibit 5**), while his parents watched a small television, a teenager went online to sell some of his old stuff—for which customers came to the door and paid with cash—until he had enough money to buy a new large television for his own room. In fact, the typical Internet customer was a male (74%) in his late twenties.

The second advertisement was designed to overcome the anonymity and technological remoteness of the service, and to build trust in the company. In this commercial, every one of the DeRemate offices and all the employees were shown, explaining that it was these individuals who stood behind the site. The third commercial switched to demonstrating that the service was for everyone. Customers featured in these advertisements ranged from women to older people.

The only disruption to this sequence of commercials was when the main competitor, Mercado Libre, temporarily changed its corporate color to yellow and orange similar to DeRemate's corporate colors. In response, DeRemate quickly introduced an advertisement that asked the rhetorical question, "Who is orange?", to which the answer was DeRemate, in order to demonstrate their market leadership.

Media DeRemate always had a clear idea of the media that were to be used for its advertising. This followed a sequence within each country. In the launch phase, DeRemate used public relations as the primary vehicle to generate awareness. As one of the first indigenous Latin American C2C web sites, the company benefited from the burgeoning awareness of, and interest in the web in Latin America. With few other companies to go to, journalists wanting to do a story on the Internet usually found their way to DeRemate, which positioned itself as "the flagship of the net in Argentina," and "the net is DeRemate." As a result, the company and certain individuals within the company, became known as Internet gurus. This free publicity was enormously valuable.

Recognising that users had to be on the web, DeRemate was also careful to build a substantial consumer marketing presence on the web itself. As the site matured and the company accumulated experience, it began to introduce interactive, one to one, web marketing in which customized emails

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would be sent to consumers. A new purchaser would get one email. A regular vendor would get another, and so on.

To boost visibility among consumers at large, the company began at launch date with a very aggressive billboard campaign. On major highways, such as the main road from the airport to downtown Buenos Aires, DeRemate leased visible billboards that drew attention to the dramatic and brightly colored orange logo. Within months, even technologically unsophisticated consumers, such as taxi drivers, had become aware of the brand name. The strength of the brand was such that DeRemate had become a generic term for auction sites (like Fed Ex for sending a package) and in some countries had more awareness than ISP or portal sites.

However, the medium that gave DeRemate its greatest boost was cable television. Guido early on identified this as the preferred medium for the company. The overlap between cable television subscribers and Internet users was likely to be high. Only wealthier, technologically and media savvy consumers would have cable television, and that definition also covered web users. Second, cable television was the only truly regional medium. Third, cable rates were extremely low when compared to other media because cable offered a small and geographically dispersed audience. With no other Internet companies yet advertising on cable in Latin America, DeRemate negotiated very advantageous rates and was ensured of uncluttered visibility for its commercials. In fact, the company was able to sign year long deals at rates that were half the cost of the cheapest radio spots, and that supported a one month campaign for less than the cost of a single page advertisement in the thirty or so magazines needed to get regional coverage. More importantly the rate was between a third to a fifth of the rate that became established for the Internet companies that followed DeRemate's lead onto cable channels, such as MTV, Fox, TNT, and E! Entertainment, after a three month delay.

Even though the company had limited cash on hand, planning for the cable television campaign began in September 1999. Scripted by Guido, and shot by friends for $25,000, the first commercial aired on eleven cable networks on credit of a few hundred thousand dollars beginning in October. DeRemate was the first Internet company to undertake a regional marketing strategy, and had a two month lead over other auction sites. Luckily for the company, first round financing was completed ten days before the company would have run out of the cash needed to pay the networks.

It was when DeRemate's cable television advertising began in October 1999 that consumers really discovered the service (**Exhibit 6**). Within three months DeRemate had over 200,000 registered users—a number that it had taken eBay two years to reach (**Exhibit 7**). In March 2000 it had over 600,000 cumulative product listings. By August 2000 the company had reached over one million registered users, or about 9% penetration of all Internet users in Latin America.

By the fall of 2000, DeRemate was the clear leader among auction sites in Latin America. To demonstrate this fact, it worked with an independent market research company, Ipro, to collect audited figures for page views, and brand awareness (**Exhibit 8**). In a field where competitive claims were easy to make, DeRemate was the only firm to offer third party verification of its numbers.

Product Initially the categories that DeRemate expected to be big sellers were collectibles, electronics, books and CD's ie categories that were big for eBay. Very quickly the company realized that the Latin American market was not going to be the same as the United States. Collectibles were just not a large market in Latin America where most consumers had no disposable income for such fripperies. Books and CD's that were drawn from millions of items proved to be too illiquid a market to be attractive to vendors. Listing a book on organic gardening was unlikely to find a buyer when the number of registered purchasers was fairly low. Instead, the biggest categories for DeRemate turned out to be electronics—as consumers sold off older versions of CD players, VCR's, and Palm

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Pilots—computers, and cars. As a result, the average price of a completed auction on DeRemate was about $150, well above the eBay average of $50. Categories were examined every fifteen or so days and subdivided if they had become too large, so that battery packs might be split from digital cameras.

Site design for DeRemate was simplified by the existence of the eBay example, and by the use of the Aucland software. However, management was aware that the company needed to do its own development in order to customize the site for the Latin American market. A committee agreed the overall site design every three to four months and the navigation experience was kept exactly the same across countries, even if the wording would differ. The auction mechanism itself was kept simple because auctions were a novel consumer phenomenon and there were no fancy Dutch auctions or other complex offers provided.

Fraud, and security were a key concern for site managers. Registration was required both to list or to bid on the site, although anyone could browse the site. As a result, the company could track and delete rogue traders who failed to complete transactions or otherwise defrauded customers. There was a customer service department in each country responsible for screening listings and responding to customer complaints. Members were also encouraged to rate each other and provide feedback so that the site was to some extent self monitoring with intervention only necessary in extreme circumstances. DeRemate itself worked to ensure that fraudulent items, such as Cartier watches or bootlegged Microsoft software, were not auctioned. However, a recent ruling that Yahoo could not allow vendors to sell Nazi memorabilia in France threatened to put a damper on international auction site listings.

Two other issues concerned the legal department. The first was privacy limits on what the company could do with personal data it collected. In the United States, for example, there had been many complaints when a failed online retailer had sold its customer purchase data to another Internet company. The other issue was the legality of online contracts and the role of DeRemate as an intermediary. In the United States and Europe, lawsuits had held auction sites liable for fraud arguing that they were responsible as the auctioneer. The sites' response had been that they merely provided the venue in which others could auction their goods. Since they never took possession of the items, they could not be held liable for misrepresentation or fraud. As electronic commerce was even less developed in Latin America than the United States and Europe, these issues had in no way been settled, and DeRemate was working with governments to produce suitable domestic legislation. In the meantime, the company was holding itself to a U.S. standard and treating customer problems, such as fraud, as a customer service issue.

Technology Initially DeRemate just translated Aucland's French site into Spanish. However, the two programmers sent to learn the code (about 3,000 lines) quickly began to customize the site for Latin America. Although the Aucland software was found to be very robust and scaleable, DeRemate rapidly moved ahead of Aucland in the number of countries in which it was active, and in site usage. As a result, by the fall of 2000, the code had been at least 80% rewritten by DeRemate's inhouse staff of 10 programmers.

By the summer of 2000 DeRemate was on its third web hosting company. Initially, the Argentine site was hosted by Aucland, the software provider, in France. This was always recognized as a temporary solution because of the vulnerability of the transatlantic connection. In October 1999, DeRemate switched to a Tampa based web hosting company. In August 2000, it switched again toanother web hosting company this time based in Atlanta because they wanted a higher quality service.

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One operational complication was that the Brazilian operation had its own domestic servers. Initially this was because DeRemate bought eBazaar which already had local servers, but it continued with domestic service because of a flaw in Brazil's telecommunications infrastructure. The country had only one trunk line to the United States which regularly became filled to capacity and often failed. Any company trying to use a host in the United States would be out of operation at least two or three times a week. In contrast, in other Latin American countries, the telecommunication links to the United States were often better than inside the country. It was typically more reliable to use web servers in the United States than locally. Indeed, many companies routed their internal traffic to the United States and back in preference to relying on the local infrastructure.

As the crash on the second day of operation illustrated, site failures were less of a problem than in the United States. In the first year of operation, DeRemate itself only had a few failures, but customers would often have difficulty connecting because of problems with their electricity supply, ISP, or international phone line. They would usually go elsewhere and come back to the site half an hour later.

In addition to its choice of host, DeRemate had to plan its capacity carefully since it owned its own servers. Wary of site crashes, Marcos, the head of technology, tried to have capacity for five times peak site viewership. With demand growing so fast, in practice this meant that the company was upgrading its servers every three to four months. At a cost of between $10 and $100,000 per server, the expense of building and maintaining the current IT infrastructure of forty five servers was not insignificant.

Geographical Scope The founders had always intended to build a Latin American business because they believed that no one country could support the business model. They also recognized that they were in a competitive race to complete a regional network of sites. As a consequence, opening operations in other countries was always a high priority. As Alec noted, "even when we were launching Argentina, we were planning our next countries." By August 2000, DeRemate had a presence in nine countries including a Spanish language site in the United States (**Exhibit 6**).

Many countries were opened by one of the founders. Mexico, for example, was opened by Jose Marin on a three month leave from the Boston Consulting Group. Similar tasks were undertaken by Andres Capriles for the Andean Region. Opening offices became routine for the company and for Sergio Grinbaum and Alejandra Herrera, in particular. These two formed a SWAT team that opened new offices. Alejandra, a former BCG office administrator, could have an office up and running within a week of arriving in country. Sergio, often helped by one of the founders, would hire local managers for the site, and initiate the marketing campaign, end-to-end solution, and alliances, before moving on.

Each country required a country manager and a staff to conduct two primary activities. The first was to generate the listings. The second was to begin the marketing campaign and create customer awareness, which in every country followed the same strategy and overall launch implementation tactics. Once up and running, country management was responsible for the continuing operations of the site in their country, including local customer service and site security. Corporate headquarters in Argentina remained responsible for overall site development. Local initiatives were encouraged and could easily be rolled out throughout the region since country managers were in daily contact with headquarters.

In spite of creating a regional business, there were substantial country differences. A seemingly trivial difference was language—Spanish in Argentina and most of the region, Portuguese in Brazil. Surprisingly, it was, impossible to use the original Argentine site even in other Spanish

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speaking countries. Argentinians used formal expressions, such as "vos" rather than "tu", which alienated consumers in many other countries to such an extent that if a Chilean read the Argentine site they would be unlikely to return to the site. Since pronunciation differed between countries, words were also written with different accents.

DeRemate also had to accommodate the fact that its market position differed by country. In Argentina, PR was a useful tool and partners could easily be found because DeRemate was the market leader. In Brazil, where they had to come from behind against better known competitors, these strategies were less successful. As a consequence of all these differences, management had to be localized within the constraints of the overall strategy, such as the brand, for which there was a global template of do's and don'ts.

Other important country differences included the legal, logistics, and payment infrastructures of the various countries that demanded different end to end solutions in each country. Product categories that were successful also varied between countries. In Brazil, for example, high taxes on computers made that market smaller than in Argentina, but soccer related paraphernalia was bigger there than in Venezuela or Colombia. Media also differed between countries. In Buenos Aires, two newspapers accounted for 80% of the market. In Sao Paulo, six papers combined gave only an 8-9% penetration. As a result, the marketing strategy had to be adapted to the local context.

In spite of the fact that DeRemate was a regional player, each country's site was independent and few consumers in Brazil, for example, browsed the Chilean site. Indeed, only 2-3% of transactions occurred across borders. More generally, while 75% of Latin American Internet users shopped at U.S. sites, only 7% of their purchases were from the United States.[2] The company expected this would change as the payments system and tariff barriers were liberalized between countries.

Alliances One of the most difficult decisions that DeRemate had to make early in its life was whether to enter an alliance with one of the Latin American portals. In 1999 these companies—Terra Networks, T1msn (the Microsoft/Telmex portal), and Starmedia, were seen as controlling consumer eyeballs because of their substantial brand advertising campaigns. Scared of losing out to competitors, and desperate to generate site visits and traffic, Alec and senior managers had long discussions with the portal companies. Finally, and after much agonizing, DeRemate walked away from any portal deal, believing that having to pay upwards of $1 to $5 million for exclusivity, and to give away a substantial equity share of the company was not worth the reward. By summer 2000 the decision was looking prescient. Portals had struggled to establish themselves, and had not delivered the sort of traffic they had promised. DeRemate did have portal presence, with Starmedia where they bought banner advertising on a non exclusive basis; a strategic partnership with Terra, their strategic investor, and with T1msn on an exclusive basis, but its own brand was as strong, if not stronger than portals in many countries.

DeRemate was also approached by numerous startup ventures looking for venture capital or alliances. To date, the company's policy had been to avoid any commitments in order to remain focused on building their own business. In due course, it was expected that deals with complementary players, such as a delivery and logistics company, would be feasible. In the meantime, some of the founders had established a separate entity eVision Partners to make investments in some of the more promising opportunities that were presented to them.

[2] Boston Consulting Group, "Online Retailing in Latin America," October 2000

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Completion One extremely difficult issue for DeRemate to address was the physical completion of the transaction. In the United States checks, money orders, and credit cards were all readily available and acceptable as a means of payment. The physical exchange of the product was also trivial since the Postal Service, UPS, Federal Express, and a host of other logistics companies provided secure and reliable delivery service. In Latin America neither of these were true—only 18% of Brazilians, for example, had credit cards—and providing customers with a payment and delivery service (called an end to end solution) for completing the virtual transaction was a major concern for DeRemate.

One fact that simplified the physical completion of the online transaction, however, was that most wealthy Latin Americans lived in the major metropolitan areas. In Argentina, for example, one third of the population (and a larger share of the rich and Internet connected) lived in Buenos Aires. It was, therefore, possible for many transactions to be completed by the two parties simply meeting each other and handing over the goods for money. Indeed, DeRemate's first advertisement essentially illustrated just this sort of exchange. When cash was not feasible many customers used escrow accounts at banks rather than checks or credit cards, which were rarely accepted by individuals in Latin America

However, solutions had to be customized for individual countries, since each had their own financial and legal infrastructures. Argentina, for example, tended to use checks, while Brazil had debit cards, and Venezuela lacked the supermarket kiosk payments found in both those countries. As a result, different end to end solutions were tried in different countries. Cesar Carman, for example, had set up an alliance in Argentina during the company's founding. In Brazil, for example, DeRemate tried working with a ratings service to independently evaluate the myriad of local delivery companies. With those ratings made public, customers could hopefully choose a reliable company for delivery.

By the fall of 2000, the company believed that it had found a generic solution in a successful model it had developed in Colombia. In each country a courier company partner would be chosen to provide a national COD (cash on delivery) service at low prices, with 24-hour telephone support, and with insurance that the product would be delivered (no one would provide insurance that the winning bidder would actually pay up). It appeared that DeRemate could find such partners in every country who would be willing to subsidize the service—on an average transaction of $145 in Colombia, the entire delivery service cost $3.50—because many companies wanted the opportunity to build an ecommerce related business and partner with the DeRemate brand. The service was integrated into the DeRemate site so that after successfully completing an auction, users entered data in the shipping section of the site. This was automatically transferred to the courier's data center, which then took over completion of the transaction.

Finances The initial launch of DeRemate in Argentina was funded by the founding group who wanted to have the site running in several countries before seeking venture capital financing. In fact, no formal corporate account was established and early payments were made out of individuals' personal checking accounts. Cash was always short until first round financing was raised, and there were several weeks where Alec and the management group did not draw their, meager, salaries.

While they always knew they needed outside funding, the group delayed the move as long as possible to maximize its first round valuation. However, in October 1999 competitor, Mercado Libre, raised several million dollars from Chase Capital Partners. Concerned that they would be preempted by a well funded competitor, the group decided to approach Wall Street the next week. After two days of phone calls and emails to any and very banker they knew or were told of, on the Wednesday Alec, Enrique, and Jose began a five day trip to New York and Miami. Venture capitalists appeared uninterested in a Latin American startup so the three focused on banks that traditionally lent to the

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region. Interest was such that one banker agreed to return to the office after eating dinner at home and met with them from 11 p.m. to 1 a.m.. Many offered terms—three even wanted to do the entire deal themselves—and on November 29, DeRemate closed what was the largest first round for a Latin American Internet startup, $12 million, at a $15 million prevaluation.

Alec chose the investors, Citigroup, Merrill Lynch, eQuest (a Bronfman family fund), TPG, and SLI, on the basis of their reputation and their willingness to be part of a group, feeling that the more investors, the higher the visibility for DeRemate. Negotiations were helped by the fact that StarMedia offered to buy the company in an all-stock transaction valued at $30 million in early November. Although this was only two months after going live, the founders turned down the offer.

The first round financing had been done with the intent of inviting Terra—the leading portal company owned by Telefonica the Spanish phone company—to enter as a strategic partner. Alec saw it as the only Internet company with a long term commitment to the business that would not be looking for an exit strategy or worried about the vagaries of its stock price. After declining to join the first round, Terra returned later to invest $45 million in cash in March 2000 in two tranches—at an average valuation of $150 million post money. After the deal, the approximate ownership structure of DeRemate was Terra 1/3, financial investors 1/3, and founders and management 1/3.

Given the phenomenal performance of Latin American Internet IPO's in early 2000, DeRemate next considered its own IPO. Terra Networks had a valuation of $20 billion at the time: its IPO had been oversubscribed by up to 20 times and had had a first day "pop" (rise) of about 100%. As a result DeRemate was approached by numerous bankers to do an IPO. CFO, Roger Kennedy, remembered it as "a feeding frenzy. I had senior bankers calling me at home to do a deal." The company held a beauty contest among ten banks and although DeRemate had no revenue, valuations were made using a multiple of registered users and gross merchandise sales, with eBay and QXL (the leading English auction site) as comparables. Resulting valuations began at multiples of the last round financing price and reached $1.5 billion. Choosing First Boston and Salomon Smith Barney as co-leaders and with J.P. Morgan and Merrill Lynch on board, the company was ready to file an S1 for an IPO date of mid June when the US stock market collapsed in April 2000. With the recognition that the market for Internet startups in developing countries was gone, management knew that the window for an early IPO had closed. As a result, DeRemate began to focus on cash flow and burn rate. As Roger Kennedy observed, "before the crash, cash on the books was a bad sign, bankers wanted you to spend it all for growth. Since then their message has changed completely to conserving cash."

By August 2000, DeRemate had cut its burn rate by 70%. This was achieved without layoffs partly because the expenses of buying servers and opening new countries had been completed. One change that was necessitated was in marketing where the company switched from expensive media, as the first years purchase of cable time was exhausted, to interactive (email) marketing. The company was predicting that with the new revenue streams it would be cash flow breakeven by the second quarter of 2002 and showing accounting profits by 2003.

Management As Guillermo Cepeda observed, "the 5 Ps key to the Internet are People, People, People, People, and Product." It was part of the founders' agreement that Alec Oxenford would be CEO, and other early hires came from among the founders' friends and acquaintances. Many were attracted by the quality of the existing management team and the power of the vision. Guillermo, for example, gave up an important stock option package at Siebel to join DeRemate. Rodrigo Viera had to pay back his Kellogg tuition to Booz Allen when he resigned in early September 1999 to run the company's Brazilian operation. As he said, "I was paying for the privilege of joining DeRemate!" By the summer of 2000, one sixth of the firm (thirty people) had MBA's from top U.S. business schools. By the fall, DeRemate employed 200 people, of which 35 were in the corporate headquarters in

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Buenos Aires, five in the Miami legal and finance office, and the rest in the various country operations.

With rapid geographic expansion came a pressing need for qualified personnel. Many of the offices were opened by one of the founders who either took time out from their regular job, or hired one or two key individuals that they knew to be country managers. As Alec said, "having a network of Latin American founders to draw on was critical to our rapid geographic rollout." Personnel changed jobs regularly as the company grew. Rodrigo Viera began as the Brazilian country manager in September, was made COO in February, and chief product officer in July.

Because the founders were a group of trusted friends, initial decisions could be made without consulting one another, and anyone could be delegated to act as the ambassador for DeRemate. Building on this, the company's management style was to have open democratic debate among a trusting group of managers, followed by an emphasis on executing tasks every day. This reflected the need for rapid decision making by encouraging initiative and flexibility. As Alec described it, "we try something quickly to see if it works, if not we cut our losses and try another tack." Such experimentation was however directed towards the fulfillment of a vision to build a different sort of Internet company that was not just an auction site but a company with a culture that would last.

Alec, an HR manager in his pre business school career, believed that HRM was key to the company's success. Everyone had stock options in the firm, and no one flew business class. Even Alec, who traveled about 60% of the time, had committed not to fly business class until the company reached profitability. Offices were open plan with glass walls so that anything written on the white boards that functioned as dividers could be seen by everyone. Metrics for all aspects of performance were established—tracking conversion rates of users to bidders, sales to listings, affiliate click thrus, and so on—and all employees were given job descriptions and mentors, while upward feedback by everyone was encouraged.

By the summer of 2000, Alec and his management team became aware of the need to more carefully design the structure, systems and processes that the company would need if it was to continue to grow rapidly and successfully. Managers were overworked and frustrated at the lack of clarity in reporting relationships. What had once seemed the benefit of a matrix structure of geography and product was becoming a liability of lost accountability and ownership. Many decisions were flowing to the same people where they either bogged down or resulted in what often appeared to others, to be quick and arbitrary decisions. In a seminal four day offsite in July 2000, the entire company worked through the issues that were preventing the effective operation of the company. As a result, a new, clearer organization structure was designed (**Exhibit 9**), in which a regional operating group was clearly separated from the headquarters functions responsible for centralized activities, such as product development. Countries could be responsive to different customer needs, while acting as antennas for ideas for corporate activities. Coordination among countries was achieved by Diego MacDougall, who headed up the operating group, and by regular conference calls and emails that tied everyone together.

Competition When DeRemate was launched in August 1999, the founders knew that they were not going to be alone in the online auction market space—estimates varied from sixteen to forty "superficial" players already in existence. There were a number of substantial players present in the largest Brazilian market, including eBazaar, which DeRemate quickly bought, and at its peak there were about eighteen competitors in that market. There were even several existing rivals in Argentina when the company launched. However, the most formidable competition was always seen as being the Stanford Business School rivals—Mercado Libre. Its presence was motivating. As Marcos observed, "competition was one of the best things that happened to us. It made us speed up."

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Competition took place on many fronts, from launch dates and product listings to registered users and marketing campaigns. Mercado Libre beat DeRemate to launch in Argentina by about two weeks, but DeRemate's launch received more prominence. Mercado Libre's initial funding, from family members of the founders, was more substantial than DeRemate's. It also raised its first round financing earlier so that DeRemate was outspent in advertising for the first several months of operation.

By the fall of 2000, real competition had narrowed to two major players—Mercado Libre and Lokau—which had each raised funding of $40 to $50 million—and iBazar, a French Internet auction company which had a C2C model and a strong brand using a well known television personality (**Exhibit 8**). Mercado Libre continued to hold to a B2B business model believing that the Latin American market was too small and immature to support a C2C model. It had also changed tactics frequently and was believed to have had poor advertising. Its first campaign, for example, had featured a 1960s speech by Fidel Castro on free markets (Mercado Libre in Spanish), which might have drawn attention to the brand name but in no way informed consumers about the service or the company. It had also allowed each country to develop its own marketing campaigns so that commercials and media were very different across countries. Lokau, owned by the Internet venture arm of luxury goods company LVMH, was rumored to be available for sale.

Revenue While successful on many dimensions, both in terms of growth and market share, DeRemate's business model lacked any immediate revenue streams. In the capital market environment that followed the Internet stock crash in April 2000, the company needed to demonstrate profitability sooner rather than later.

DeRemate, like eBay, had steered away from taking advertisements on the site in order not to have competition for product listings. It did, however, have sponsorships, in which links were created to commercial sites. The company was also considering some types of banner advertising for products and services that added value to, rather than competed with listings. An example would be car insurance, but not car dealer, advertising on the car pages.

DeRemate had begun operation with no charges for either buyers or sellers. The intent always had been to charge a successful transaction fee, but competition from other free auction sites and the need to build site traffic had deterred DeRemate from billing anyone until the summer of 2000. At that point the company introduced a fee structure for users in Argentina and Chile beginning from July 1. As with eBay, purchasers would not be charged anything. Nor, unlike eBay, would vendors be charged a listing fee. Instead, DeRemate would charge vendors a fee on completed transactions that began at 5% on transactions less than $50, and reduced to 2.5% for transactions over $200. No one would be billed until they had incurred $10 of fees, and charges would be imposed in the month following the sale. Average commissions were expected to be 2.7%. Charging would be instituted in Mexico and Brazil from August 1 and elsewhere after September 1. Early reaction to fees did not appear to show a reduction in merchandise sales. Nevertheless projections showed that advertising revenue would be larger than fees for the next year or so.

By the fall of 2000 many competitors had announced some charges for vendors on their sites, although whether they actually tried to collect fees, as opposed to stating they existed was uncertain.

Looking Back: Reflections

As the management group and the founders reflected on the past year they all recognized that it had been "a hell of a ride", and none could believe that an entire year had passed. Common to their experience was a sense that it had been fun, a privilege, and professionally challenging. Many

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described working at DeRemate as more like school or an adventure than work. Pilar Ramos described the environment as "working on really interesting group projects that have stimulating issues with great friends." All agreed that what made it worthwhile was the passion and energy everyone committed to fulfilling a vision and building a company at the forefront of profound social change. It had also been intensely satisfying. As Marcos Detry observed, "we have built so much in so little time…. And now I am one of the guys that gets written up in the newspaper!" On the downside, the job had been incredibly demanding, working twelve hour days and most weekends. As Guido described it, " this is like war. There is a personal risk to working here so the adrenaline is rushing, and like war you get very close to your colleagues because you have to rely on each other and depend on the team".

Alec Oxenford had never imagined that DeRemate would be where it was in the fall of 2000. He had planned for 60 employees not 200. Nor had he expected his job as President to involve quite so much travel, or organizational and external communication. "I expected my job to be strategic," he observed. As one of the most visible Latin American businessmen in the Internet space, Alec featured in many magazine articles and profiles of entrepreneurs. He also became an advocate for the Internet in Latin America. In that role, he spent much time lobbying and testifying before various government committees throughout the region, and he had established an industry group Redlatina.org to formally play that role.

As he reflected on decisions that had been made during the last year, Alec noted that "it is very hard in the Internet space to know what are the defining moments or turning points because everything is brand new. As a result it is very stressful because you have to worry about every decision. Ultimately intuition and judgement matter."

Looking Forward: Challenges

In spite of DeRemate's success, as the company approached its first anniversary, management was only too aware of the challenges that remained. Everyone was "humble and paranoid," conscious that, however great their current market position, they still had "97% of the marathon left to run."

First and foremost among these challenges was the need to demonstrate the financial viability of the online auction model in Latin America. After the dramatic drop in Internet company valuations in spring 2000 and the demise of many startups, investors had shifted their attention from metrics like customers and page view growth rates, to traditional P&L measures. In this new environment DeRemate had to demonstrate that it could become profitable.

To achieve this, the company's burn rate had been dramatically reduced, but DeRemate also needed to generate revenue. Unlike eBay, no Latin American auction site had yet charged for its service. Since DeRemate had just begun billing sellers for a commission on completed transactions, its effect had yet to be observed. Would vendors defect to other sites that did not charge? Or would DeRemate retain market leadership?

Even if DeRemate could generate revenue and become profitable, the upside potential for the business was limited by the current low Internet penetration rates in Latin America. While it was true that Latin America had the world's fastest growth rate in penetration, the unequal distribution of income and infrastructure in many countries, caused concern that penetration would level off at a relatively low level. Governments were concerned about the "digital divide" and, under pressure from lobbying groups, like redlatina.org, were introducing policies to expand Internet access, but the concern remained. How quickly would the primary market expand? And at what level would it reach saturation?

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DeRemate had effectively established itself as the market leader in Latin America against competition from several well funded startups and a host of opportunistic ventures. However, at least two competitors remained that had the funding and the partners to continue to pressure DeRemate. And looming over the market was the potential entry of eBay—the dominant U.S. auction site (**Exhibits 10** and **11**). While it was currently engaged in entering the European and Asian markets, Latin America would presumably not be far behind. When would eBay—or other successful U.S. Internet firms—enter Latin America? Which countries would it target first? And would they enter through acquisition or their own startup? Above all, how sustainable was DeRemate's position against the entry of such competitors?

Changes to the organization structure and management processes that DeRemate had made in July 2000 were intended to position the company for its next round of growth. Yet growing from nothing to nearly two hundred employees in less than a year placed inevitable strains on an organization. However convinced management was that it had made the right organizational moves, there was always concern that the internal processes and structures might fail. Did DeRemate have in place the appropriate organizational design and systems? What other internal changes were now necessary?

Lastly, DeRemate had to consider its long term goals and objectives. After the IPO opportunity disappeared in the spring, management had to consider where it wanted to take the company. Was an early IPO the preferred exit strategy? Or, with the support of strategic partners, like Terra, should they be concerned with building a company for the long haul? If so, what other markets or businesses should DeRemate extend into, and in what time frame?

With all these issues floating in his head, Alec Oxenford closed his eyes and tried to sleep during yet another overnight economy class flight from Buenos Aires to Miami.

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Exhibit 1 Background of Founders and Senior Managers

	Age	Title[1]	Graduate Education	Previous Employment	Nationality
Alec Oxenford*	31	CEO	HBS	BCG	Argentine
Marcos Detry*	31	CTO	ITBA	an ISP	Argentine
Guido Grinbaum*	33	CMO	CEMA	Unilever, Pepsico	Argentine
Roger Kennedy	36	CFO	Harvard/Oxford	Salomon Smith Barney	United States
Rodrigo Viera	30	CPO	Kellogg	Booz-Allen	Brazilian
Guillermo Cepeda*	32	Corp Comm & IR	HBS	Siebel Systems	Peruvian/Mexican
Enrique Shaw	29	Business Dev.	Kellogg	BCG	Argentine
Jose Acosta	29	CM Mexico	Wharton	AT Kearney	Mexican
Diego MacDougall	36	COO	Argentina	Carrefour	Argentine
Pilar Ramos	30	General Counsel	Penn.	Simpson, Thacher & Bartlett	United States
Cesar Carman*	31	Founder	Yale	Unilever, Hoffman La Roche	Argentine
Alejandra Herrera	42	CAO	Argentina	BCG	Argentine
Andres Capriles *	30	Director	HBS	General de Seguros	Venezuelan
Adolfo Critto*	31	Founder	UCA		Argentine
Jose Marin*	29	Director	Stanford	BCG	Mexican
Sergio Grinbaum*	35	CM South Cone	UBA/CEMA	Tessicot	Argentine
Otavio Cury	29	CM Brazil	Kellogg	Starmedia	Brazilian
Carlos Faria	32	CM Andean & USA	Venezuela	Citigroup	Venezuelan
Manuel Vega*	32	Founder	HBS	Sensormatic	Peruvian
Gonzalo Sanz de Acedo*	35	Founder	HBS	Chase	Spanish

*indicates founder

[1] As of June 2000
Source: Company

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Exhibit 2 DeRemate Logo and Brand

DeRemate.com
www.deremate.com

Source: Company document

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Exhibit 3 Population, Income and Infrastructure Levels by Country (1999)

	Population (million)	GNP ($b.)	Share of Income of top 20%	Phones (per 000)	PC's (per 000)
Latin America	509	2100	67%	123	34
Brazil	168	760	61%	121	30
Mexico	97	475	48%	104	47
Argentina	37	282	52%	203	44-100
Colombia	42	88	65%	174	8-42
Chile	15	71	55%	206	48
Venezuela	24	103	50%	117	43
United States	273 (32 are Hispanic)	8700	NA	661	459

Source: Adapted from World Bank, Economist Intelligence Unit, Statistical Yearbook for Latin America, eMarketer

Exhibit 4 Estimates of Internet Usage and E-commerce by Country

	Users 1999 (m)	Users 2003 (m)	CAGR (%)	Revenue 2000 ($b.)	Revenue 2003 ($b.)	CAGR (%)
United States	83 (of which 4 Hispanic)	150 (of which 18 Hispanic)				
Brazil	3.5-8.6	10-37.5	35-148%	.32	2.7	102%
Mexico	1.5-2.5	10-17.1	48-162%	.1	1.9	145%
Chile	0.7	4-NA	50 - NA%	.03	0.4	106%
Argentina	1-1.4	5-10.5	53-165%	.08	1.2	147%
Venezuela	0.6	6.0	37-176%			
Colombia	0.9	6.2	26-160%	.03	0.5	
Latin America	5.7-16	11-50	36%-50%	3.2-3.6	8-15	115%
				0.6-0.7 B2C	3.7	
				0.2 Auctions		

Source: Adapted from Economist Intelligence Unit, IDC, Salomon Smith Barney, Jupiter Communications, eMarketer, Bill Gates, JP Morgan, Morgan Stanley Dean Witter

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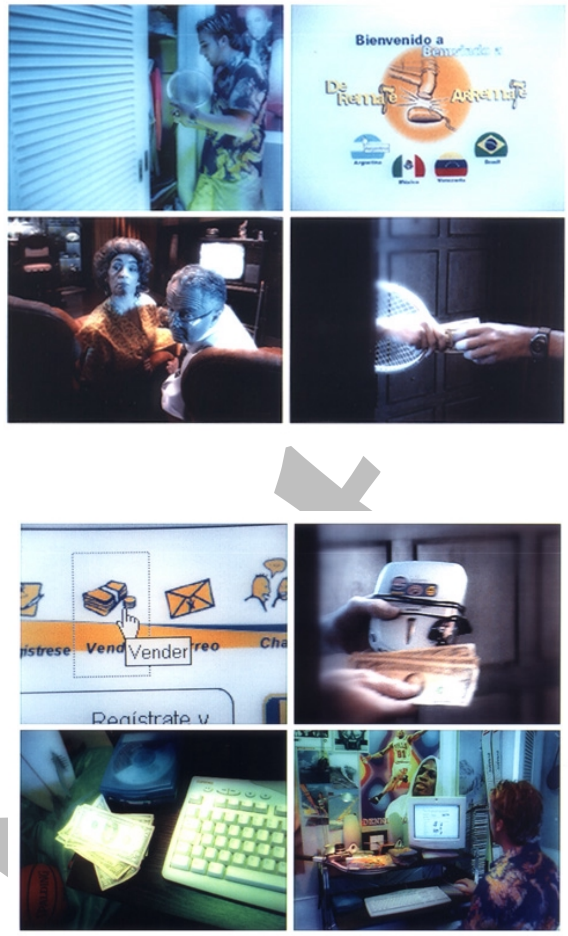
Exhibit 5 First Cable Television Advertisement Storyboard



Source: Company document

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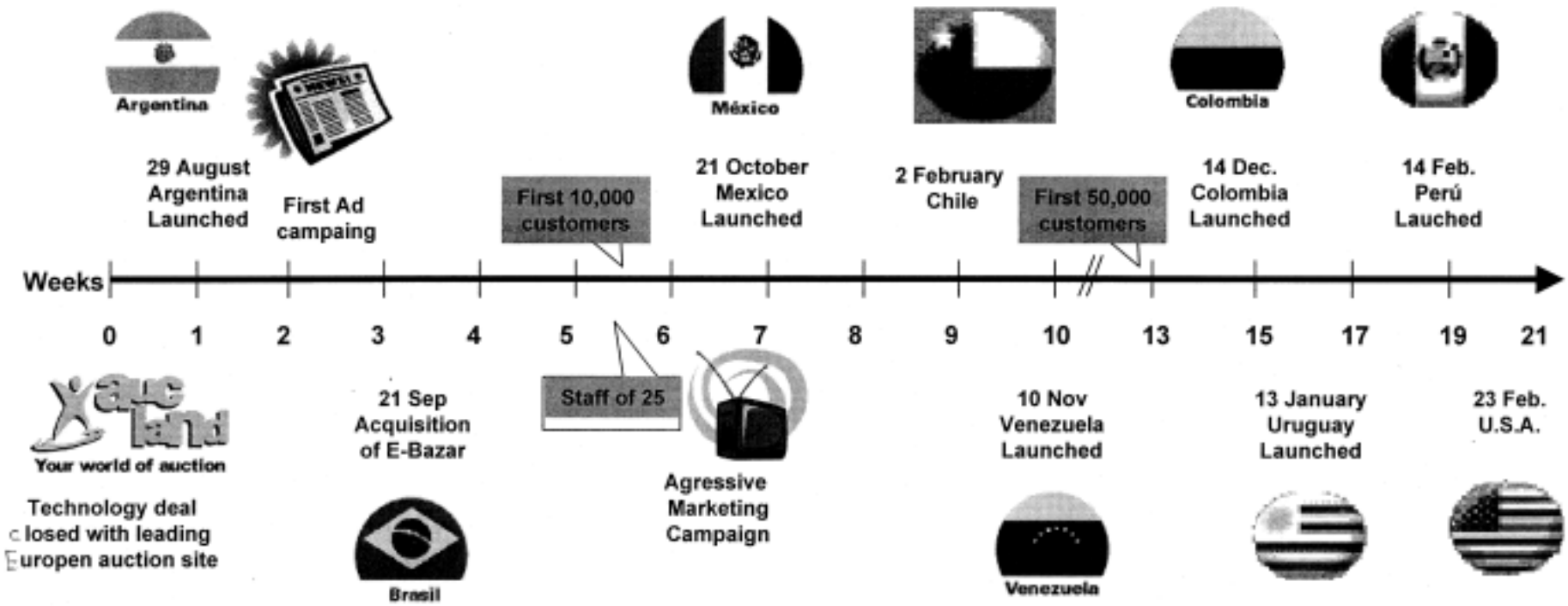
Exhibit 6 Advertising Campaigns and Office Openings



DeRemate Market Presence (Sept. 2000)

	Registered Users (000)	Product Sales (000 per qtr.)	Product Sales ($m. per qtr.)
Argentina	208	17	3.4
Brazil	357	21	4.2
Mexico	197	13	3.2
Chile	88	10	1.4
Venezuela	76	}	}
Colombia	134	}	}
Uruguay	18	}19	}3.5}
Peru	52	}	}
USA	18	}	}

Source: Company documents

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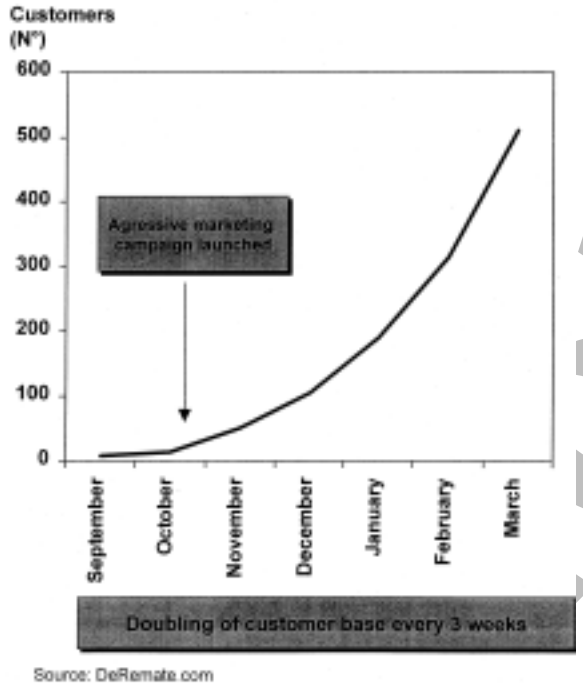
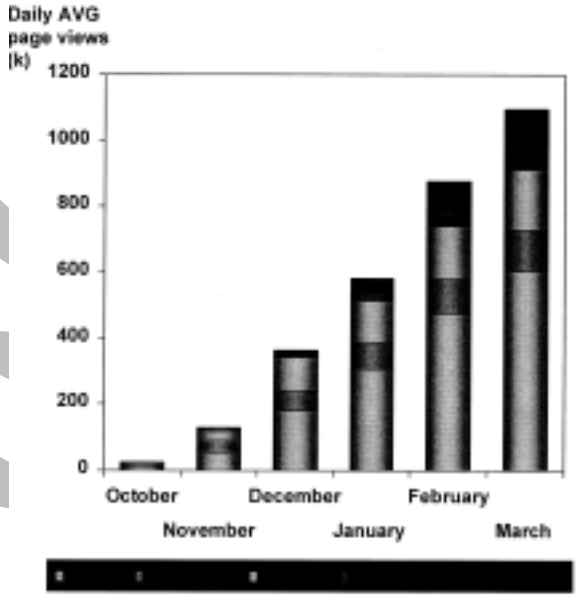
Exhibit 7 Growth of Registered Users, Listings, Completions, and Sales Value

	DeRemate	eBay
Time to 100,000 users[3]	4 months	14 months
Time to 1 million users	10 months	34 months
Time to 2% of Internet user Penetration	4 months	14 months
Time to $15m. GMS per qtr.	3 quarters	7 quarters

Registered Users over Time



Page Views over Time (000 per day)



Cumulative Data through first 12 months

Product Listings	500,000
Completed auctions (number)	125,000
Completed auctions (value)	$30 million
Average sales price per item	$150

[3] Source: De Remate estimates June 2000

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Exhibit 8 Competitor Market Awareness and Presence (July 2000)

	DeRemate	Mercado Libre	IBazar	Lokau	Other
Brazil Awareness[4]	30% (Arremate)	3%	16%	11%	
Mexico Awareness	24%	3%			10% (Todito)
Argentina Awareness	64%	10%			3% (Subasta)
Latin America - Consider for use	29%	8%	1%	2%	7% (Yahoo)
Brazil Market Share	43%	14%		40%	
Latin America Market Share	60%	18%		22%	

Source: Company Document

[4] Source: Ipsos May through July 2000

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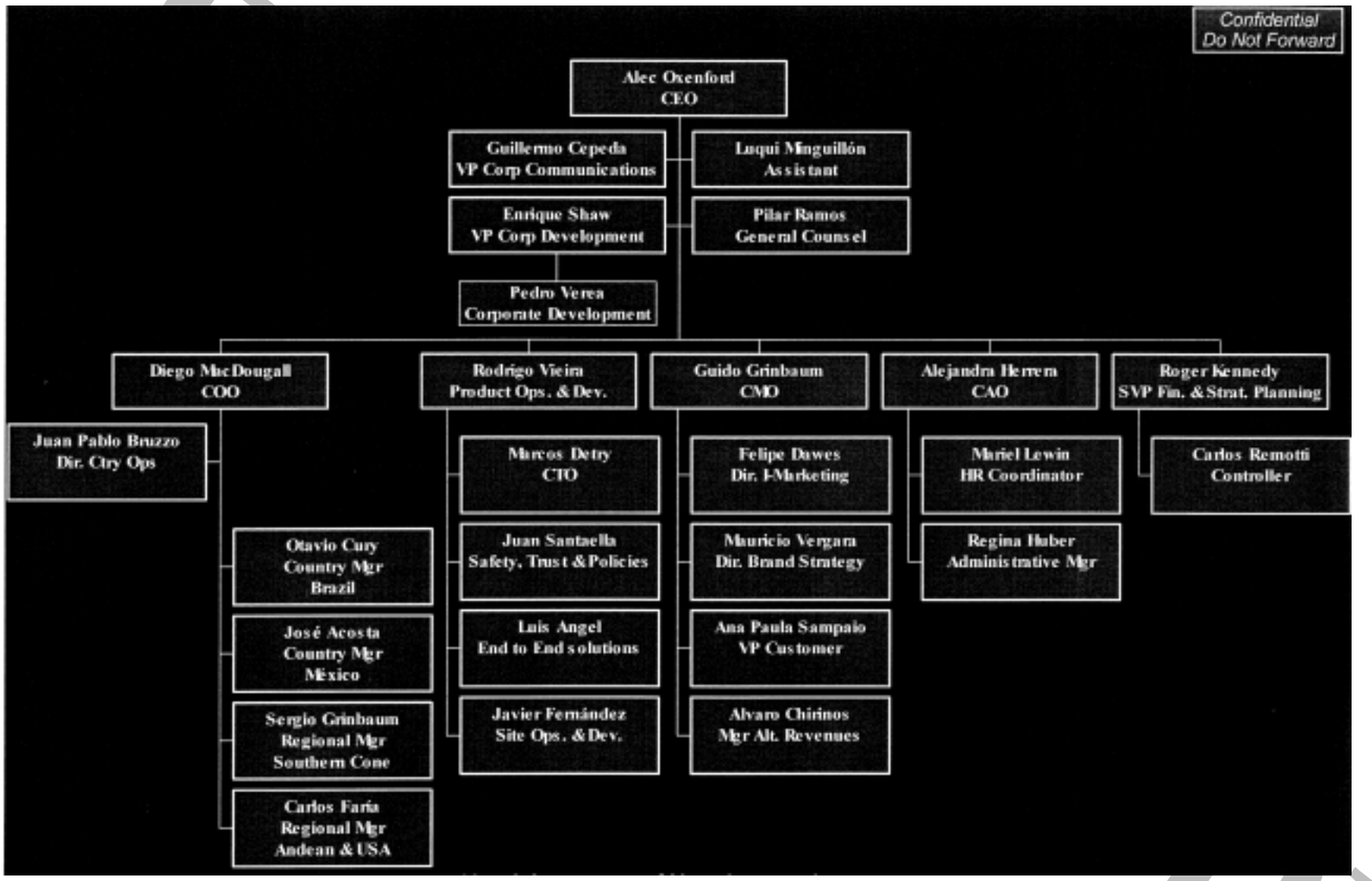
Exhibit 9 Current Organization Chart



Source: Company document

Exhibit 10 Ebay International Presence in 2001

	Date of Entry	Mode	Registered Users (m)	Market Rank/Share	Price ($m)
USA	9/95	startup	22.5	#1 /85%	
Canada	2/99	startup		#1	
UK	2/99	startup		#1	
Germany	6/99	Acquired Alando.de		#1	NA for 50k users
Australia and New Zealand	10/99	startup		#1	
Japan	2/00	startup			
France	10/00	startup			
Austria	12/00	startup			
Italy	1/01	startup			
Korea	1/01	Acquired Internet Auction Co.	2.8	#1	$120m for 50% share
France announcement (with sites in Italy, Spain, Sweden, Holland, Belgium, Portugal, and Brazil)	2/01	to acquire iBazar		#1	$92m

Source: Compiled by case writers

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Exhibit 11 Ebay Income Statement and Balance Sheet

	1996	1997	1998	1999	2000 (thru 3 quarters)
Revenue ($M)	0.4	5.7	47.3	225	297
Revenue	100%	100%	100%	100%	100%
Cost of Revenue	3.8	13.0	18.7	25.6	23.9
Gross Margin	96.2	87.0	81.3	74.4	76.1
Sales and Marketing	8.6	30.1	41.8	42.7	39.7
Product Development	7.5	14.5	5.4	10.6	14.1
G&A	12.1	16.5	18.4	19.2	18.2
Other	0.0	0.0	0.9	2.4	0.0
Total Expenses	28.2	61.1	66.5	74.9	73.1
Operating Income	68.0	25.9	14.8	(0.5)	2.7
Interest (net)	0.3	1.0	(0.8)	9.5	10.4
Income Tax	(28.5)	(11.7)	(5.6)	(4.2)	(5.7)
Net Income	39.8	15.2	8.4	4.8	8.1

Source: Annual Reports

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