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Web Start-Ups Lure Executives At eBay, Yahoo

By MYLENE MANGALINDAN

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After six years at **Yahoo Inc.**, including a stint as vice president of the company's successful online-shopping business, Rob Solomon wanted a new challenge.

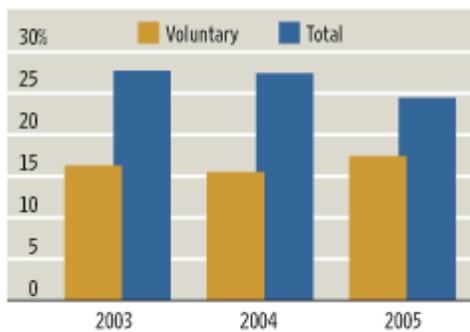
Last year, he was offered the job of chief executive at Internet travel start-up SideStep Inc. Although he would have profited from some stock options had he stayed at Yahoo, he accepted the position starting in January. His cash compensation this year will be a 10th of what he earned at Yahoo, but he says he was happy to trade the big salary and bonus for more responsibility and the potential to get in on the ground floor of a potentially hot company.

"In a smaller environment, you can have a much bigger impact," Mr. Solomon says. At an established public company, the 39-year-old adds, "It's harder to control your own destiny."

While once workers left other companies to join Yahoo and **eBay Inc.**, many employees are now leaving those firms to work at the newest wave of Web start-ups. The exodus -- the largest outflow, some say, since Yahoo and eBay went public in the late 1990s -- is a sign of how the two companies have matured. Part of the original groundswell of Internet firms, the two are grappling with the same challenge of how to retain employees that other mature tech companies, such as **Microsoft Corp.**, have faced.

Opting Out

Although overall turnover at public e-commerce companies has gone down, voluntary turnover has risen:



Source: Radford Surveys + Consulting

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In the last year, in addition to Mr. Solomon, Yahoo lost Geoff Ralston, its chief product officer; Mike Murphy, a regional ad-sales manager; and John Robison, a veteran engineer, among others. eBay, meanwhile, lost Lynn Reedy, its senior vice president of product; Gil Penchina, a regional manager; Chief Technology Officer Maynard Webb; and Senior Vice President Michael Dearing. Last month, Jeff Jordan, president of eBay's PayPal electronic-payments business, regarded by some as an heir apparent to eBay CEO Meg Whitman, said he is resigning. Lower-ranking employees have also left. Not all departures were voluntary, but a large number were.

Many are leaving eBay and Yahoo now because they have already grown rich from their stints there. And there is little financial incentive to stay: eBay and Yahoo shares have fallen significantly of late, buffeted by increased competition and their maturing businesses. In the past year, eBay shares have declined 42%, while Yahoo stock has declined about 20%. That has pushed many employee stock options underwater,

The current "talent drain" from maturing Internet companies reverses the "flight to safety" of 2001 and 2002, when employees sought the stability of big-company jobs amid the dot-com bust, says Martha Josephson, a partner at executive-recruiting firm Egon Zehnder International in Palo Alto, Calif. [Google Inc.](#) is an exception, she says, because it is still expanding so quickly.

Indeed, "voluntary" turnover at e-commerce companies -- which occurs when employees choose to leave rather than being pushed -- rose to 17.4% last year from 15.5% in 2004, according to Radford Surveys + Consulting, an employee-benefits and consulting unit of AON Corp. And voluntary turnover jumped even as overall turnover in the e-commerce sector fell to 24.5% last year from 27.4% in 2004, says Radford.

eBay and Yahoo say they aren't suffering a talent drain and that some employees have always left. They add that their head counts grow each year, a sign that they can still recruit the best talent. Overall, eBay had 12,900 employees at the end of the second quarter, up from 8,900 a year earlier. Yahoo, meanwhile, had 10,500 at the end of the second quarter, up from 8,800 the year before.

Libby Sartain, Yahoo's senior vice president of human resources, says the Sunnyvale, Calif., company continues to inspire its people by monitoring their careers and offering them challenging assignments internally. eBay spokesman Hani Durzy says the San Jose, Calif., company also offers employees different kinds of opportunities in its Skype Internet-calling unit and PayPal businesses.

At the same time, Silicon Valley's start-up scene is booming again. In the second quarter, venture-capital funding hit its highest level since early 2002, according to the National Venture Capital Association and PricewaterhouseCoopers. Start-ups with names like Yelp Inc., which offers city guides; Prosper Marketplace Inc., a person-to-person loan site; and Bix, which hosts online contests, have snagged employees from the big Internet companies.

It helps that private companies have nearly closed the salary gap with public tech companies, says Linda Amuso, a senior vice president at Radford. Start-up salaries are "pretty much equivalent" to those at public companies now, she says, with a 2% difference on average. A midlevel software engineer who manages engineers and reports to the vice president of engineering makes a median base salary of \$145,100 at a private company, compared with \$153,200 at a public company, according to Radford.

While employees at private companies are paid 8% to 10% less in bonus compensation, that gap is smaller than it was a few years ago, Ms. Amuso adds.

At eBay and Yahoo, part of the employee exodus also stems from the bureaucracies that developed as the companies grew. With nearly 13,000 workers, "eBay is a big shop," says Robin Reed, a principal at Reed Shay & Co., an executive-search firm focused on start-ups. "The majority of what I hear is: 'This place has gotten just too big. I want to go back to a start-up,'" she says.

That was the case for Tony Pecora. Last year, Mr. Pecora left eBay, where he had run Internet marketing for international sites, to become a vice president at comparison-shopping company Become Inc. The 46-year-old, who had worked at eBay for nearly five years, says he was itching to go to a start-up because "in a small company, you get to touch and deal with things more directly."

Yahoo and eBay aren't the only Internet companies losing talent. Mike Speiser, co-founder of Web-review start-up Epinions, now part of eBay's Shopping.com unit, left security-software firm [Symantec Corp.](#) in January. He then co-founded a start-up called Bix, which lets Internet users create "American Idol"-like online talent contests in karaoke, photography or videos and hold voting to choose winners.

Mr. Speiser says the primary reason people leave large companies is that the bigger the organization, the larger the effort spent on communication and trying to get work done. "Compensation is important, but it's secondary," he says. "Equity keeps people who aren't really psyched."

But Ms. Josephson, the Egon Zehnder recruiter, cautions employees against leaving big companies for an early-stage business hastily. She worries many start-ups are being funded simply to "flip," or be sold to larger companies, in the absence of a strong market for initial public offerings. "If the start-up flips in a year, are you going to get credit for that on a résumé?" she asks. "It's a risk."

Nonetheless, SideStep's Mr. Solomon, for one, isn't sorry he left Yahoo. At SideStep, Santa Clara, Calif., his day is now filled with such activities as hiring personnel, business strategy, legal matters and technology direction. That is more responsibility than he had at Yahoo, he says, where he often found it difficult to get things done because he

had to go through an elaborate matrix of teams and managers. "I'm having a blast," he says.

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