

Nation's Leading Consumer Electronics Trade-In Site

Technology

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Israel Ganot
CEO

BIO:

Israel Ganot is the co-founder, president and CEO of Gazelle. But it's the intangibles he brings to the company – his passion for recycling and re-Commerce, his devotion to customer service, and his personal touch with employees – that make the difference. Israel was born in Peru, raised in Israel, and came of age in America, where he's spent two decades in on-line and offline retail. During six years at eBay and PayPal he was instrumental in the company's expansion to Europe, Latin America and Asia. Israel also served as Director of Finance & Operations at eBay UK Ltd., helping scale that local business

to \$300 million. From Gazelle's start, Israel's intent has been to unlock the value in everyday objects and help the world rethink what it means to buy, own and sell electronics. Since he became President and CEO of Gazelle in 2008, Gazelle has grown into America's largest reCommerce service, with more than 1.5 million electronic devices traded in. Boston Business Journal chose him as Emerging Leader for its Best Green Practices awards in 2012 and Ernst & Young named him a 2009 Entrepreneur of the Year finalist for his early accomplishments at Gazelle. Israel has been quoted as a reCommerce expert in Forbes, CNN and The Wall Street Journal. He holds an M.B.A. from Harvard and a B.S. from the Stern School at New York University.

About Gazelle:

Gazelle is the nation's leading consumer electronics trade-in site, providing an easy, fast and safe way for consumers to get cash for their unwanted devices. Gazelle takes the risk and effort out of selling electronic gadgets online with benefits such as free shipping and packaging and comprehensive identity and data removal. To date, Gazelle has paid out more than \$100 million to consumers and accepted more than 1.5 million trade-ins, helping consumers upgrade to the latest technology and earn quick cash.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine

CEOCFO: Mr. Ganot, what was the original vision for Gazelle and where are you today?

Mr. Ganot: When we founded the company, we observed a world in

which consumers have a demand for innovation, for new devices, for mobile phones and for tablets. We also observed this behavior where consumers upgrade and buy new devices every two years or sometimes every year. We realized this created an abundance of second hand devices that typically just sit in a drawer or in a closet and are ultimately forgotten about. You may look at old devices and see "junk," but we look at old devices and see opportunity. We saw the opportunity to get these devices outside of drawers and closets, and reintroduce them to the world by making these technologies more affordable and more accessible to folks who otherwise could not afford to get them.

CEOCFO: What is Gazelle doing to accomplish that?

Mr. Ganot: In order to answer this question, you really need to understand the barriers from the consumer's perspective. When a consumer upgrades to a new smartphone or to a new tablet, they're inevitably really excited about the new device and the new features. But as far as the old device goes, we really don't appreciate how much value it still holds, even after using it for a year or two. Historically, with the notion of reselling a device, people used to only think about reselling them on eBay or Craigslist, which is worthwhile, but it is a lot of work. There's a lot of friction, so many people simply won't do it.

One of the other issues we've learned along the way is that people are really concerned about the data that is stored in their devices. When you put your old device in the drawer, your data remains safe and within your

reach. Because of that, we knew from day one that we had to create a service that would overcome inertia, overcome all of this concern and get consumers to engage with this new service. In order accomplish that, we developed a service that removed all of the friction and challenges of reselling your product, ensuring that it is done in a way that is easy, convenient and fast; no one wants to wait for weeks to get paid for their devices. We also do it in a way that is trustworthy. By that I mean to be sure that when you sell us the device the data is wiped and that when we resell the device to the new buyer, they do not end up with your data. The way it works is pretty simple. You go to our website, www.gazelle.com. You search for the product that you want us to sell; our catalogue includes smartphones, tablets, a few other Apple products, laptops and desktops. Once you've selected the item you want to see, you answer a couple of very quick questions about the condition of the item. You are then offered a price for your device. If you like the price, you will receive a box from us in a couple of days to help pack and ship your device. Gazelle pays for the shipping, and the device is sent to our processing center in Louisville, Kentucky. Once it gets to our processing center, the device goes through an inspection process where the data is wiped and we check out the device. Following the inspection and data removal process, Gazelle pays the customer. Our goal is to pay the customer the same day that we receive the device from them.

CEOCFO: My personal concern is the security issue. Are people as concerned about it as they once were?

Mr. Ganot: It is a great question. Security, in general, is something that we have always taken very seriously. There are a couple of different aspects to it. First, let us talk about the one that you are referring to, which is data security. From our perspective, first and foremost, we want to make sure that we have the tools in place to do the data wiping. And this process varies by device. We

have been in this business for five years now and overtime, the quality of the data wiping process has gotten better and better. We are now in a position where, for most of the smartphones on the market today, you can literally just plug numerous devices into a big machine that essentially wipes the data and guarantees that the data is removed. With other devices, such as laptops, for example, it is not as simple. I am sure you have all read articles about the concern of when you think that you have wiped the data and cleaned out your hard drive the data is still sitting there and someone could still access it. We use Department of Defense data wiping capabilities to ensure that data is, indeed, completely wiped from these devices. We take that very seriously. More recently, we've been focusing on a new phenomenon: the concern around lost and stolen devices. One

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- Israel Ganot

of the side effects of building awareness for the reuse of devices is raised awareness of the value consumer electronic devices inherently have. As a result, we've seen a rise in crime associated with stealing devices with intention of reselling them.

In terms of how we earn consumer trust, frankly this is just something that you have to earn organically, over time, by “walking the talk” and wiping the devices. We have earned consumer trust over time by getting our best customers in the early days to tell their friends about Gazelle and recommend the service, knowing that they do it because they found that our service is very easy to use, it is very fast and safe. That is one big area that we have always focused on.

CEOCFO: How do you handle the problem of stolen devices? Your website indicates that you will not take devices that have been lost or stolen.

Mr. Ganot: Our program works very different from some of the others that you have seen in the market and we have an advantage there. The way that our program works is that we do not pay you until we receive the device in our processing center. When we receive the device in our Louisville facility, we run the serial code associated with the device against a database that gives us information about the legal status of the device. We realized about eighteen months ago that the stolen device market was growing, and were the first company in our space to invest in a tool to prevent thieves from profiting from stolen goods. We now work with a UK-based company called Recipero. We basically brought them into the US and asked if they could develop a very similar database here that includes information from the FBI, from the carriers and from other law enforcement entities. Recipero was able to create a type of database that you can ping every time you get a device and access the status of the item. We were the first company in the reCommerce space to roll out a program like this; we've been using it for a while now and it's been very helpful to us to be able to offer this peace of mind to our customers.

CEOCFO: Do you get many products that fall into that category?

Mr. Ganot: Surprisingly, no! If you think about our service again; there are easier ways to sell stolen products. With Gazelle, you have to give us your name, you have to give us your email address, and you have to give us your address, because we send you a check. If we do receive a stolen device, we work with the law enforcement officials in different areas of the country and provide information to help with their investigation. Consumers understand that we've taken measures to not sell stolen devices, which is why, I think, we're not seeing much trouble in that area. Again, it's essential to Gazelle's business to do whatever we can to build trust with our customers and to invest in the tools and the systems to make sure that we are well protected

and that our consumers are well protected.

CEOCFO: Would you tell us about what happens at the other end? You have all of these devices, they are cleaned and they are ready to go. Where are they going? What is next?

Mr. Ganot: The starting point is that there is insatiable demand for second hand mobile devices, globally. This year, there are about 1.2 billion smartphones in the world. This is mostly in developed markets, but places like China and India are growing really fast in terms of smartphone adoption. However, over the next three to four years, there will be a large shift in smartphone use worldwide; smartphone use is expected to grow from one billion devices in the market to five billion over the next few years. As we transition to a world where most people use smartphones, we will also see a shift of consumers' sentiment; consumers no longer will think of their phone as *just* a phone. It is also an entertainment device, especially in emerging markets, where consumers typically do not have a computer or entertainment system at home. The notion of buying a smartphone is a powerful thing for these consumers. Therefore, most of the devices that we buy, we resell to wholesale buyers in these emerging markets, like China, Africa and Latin America. This creates more choice for consumers in these emerging markets. If you want to buy a brand new iPhone, an Apple device, you can, but most consumers in emerging markets cannot afford the \$1,000 price tag of an unsubsidized smartphone. We fill the gap, bringing high-end phones, mostly iPhones and Samsung phones, to the market at very affordable prices. The iPhones that we bring into the market will, depending on the model, be sold for \$200-\$400. While it's still expensive and a big purchase, it is much more affordable than paying thousands for a device.

CEOCFO: Would you tell us a little bit about how you handle the logistics of moving so many items in and out?

Mr. Ganot: Logistics is a huge part of what we do. At the end of the day,

logistics determine or drive the customer experience and the brand, and are key to help us really deliver on the brand promise. To start with: the customer experience. We work to deliver a "crazy awesome" experience; we want to build Gazelle in the way that Zappos, Netflix and Amazon have built their businesses -- with a focus on customer experience. For us, that means the speed of our service, the quality of our service, and the surprise element in our service, like pleasantly surprising our customers. That is really tough to do when you operate in the reverse logistics world. We get one iPhone, one iPad at a time from consumers, which is very different from other business models. With us, every item that we get in is different in structure, capacity and model; all of our models are different. We have made significant investments to support this side of the business, being sure to create a system that is able to scale over time. We've gone through many changes over the years to make sure we're delivering the best experience possible. We originally started by processing all of these items in Boston, where the company is headquartered. That was great in the early days, as we were able to learn what was and was not working. After we began growing, we realized processing in Boston wasn't allowing us to scale as quickly as we wanted, so we began outsourcing our processing capabilities. While outsourcing our processing wasn't preferable, we didn't have the capital at the time to invest in building our own processing center. Outsourcing our processing worked really well for a few years in terms of delivering better customer experience and reducing costs.

A year ago, we decided that it was time for us to bring processing back in house, enabling us to better control the customer experience and control our own growth. In June 2013, we opened a state-of-the-art facility in Louisville, Kentucky, which is the home of many logistics players; our facility is located right next to the UPS hub. We've been able to process more devices than ever before, and

as a company, are very excited about the facility and the ability to better control our customer experience.

CEOCFO: You are in a competitive field. Why is Gazelle different?

Mr. Ganot: Over the last couple of years, the reCommerce market has become a very competitive space. Gazelle's success and our marketing investments have really spurred a lot of interest in reCommerce, or the idea of extending the lifecycle of devices. In the early days of Gazelle, our competitors were very similar to us; through our commitment to customer service and the idea of reCommerce, we were able to grow and emerge as the leader in online device trade-ins. I do think we are in a good position today, but the competition in the last couple of years has been very different. Now, we compete with Apple and we compete with the carriers, like AT&T and Verizon, and major companies, like Best Buy and Amazon. The reCommerce market is a huge opportunity, and seeing corporate giants enter the space reaffirms what we've been working on since 2008.

So far, from our perspective, we really welcome the competition. That is because we wanted to get other players in the market, especially with companies that have bigger marketing budgets and some clout, to help shape consumer behavior. The number one barrier here, for us and for the industry, has always been lack of consumer engagement, lack of reselling those devices. This year, still only one in four consumers resell their devices. Between us and the competition, what we have seen so far this year is a massive push -- a lot of marketing, a lot of awareness-building activities around reCommerce -- and we see it as a huge tide that is helping to lift all boats, including Gazelle.

In terms of differentiation, Gazelle is uniquely positioned. There is no one in the market that is doing what we are doing. We are focused on the online segment. The competition today, from Apple, the carriers and the retailers, is predominately focused on in-store trade-ins, which is valuable

for consumers. For example, when you buy your tablet at Best Buy, you can bring in your old tablet and they will give you credit right there on the spot. That's great! We do not compete in that degree. Where we compete is in the online world -- about 20-30 percent of all mobile devices are purchased online. If you think about that transaction, this is someone who

goes to Apple.com, or to the carrier's website and buys their new phone. The phone is then shipped to the consumer's home where they set up the new device, activate it and transfer data. This is our customer. This is a customer that will have the tendency to buy these new devices online and they show a preference to trade their old device up to the new

device, and does not want to go to the store. Our solution works really well for the online segment. If you are an Amazon customer, if you are an online, ecommerce customer, you are our customer, essentially.



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