

The Great Eyeball Race

When Alexander Graham Bell invented the telephone in 1875, he actually was trying to invent a talking telegraph. His associate, Thomas Watson, fashioned the device we now know as the telephone, by assembling a wooden stand, a funnel, a cup of acid, and some copper wire into a contraption that would carry sound over a long distance.

And before you could say, “Mr. Watson, come here. I want to see you,” the Great Eardrum Race was on.

On March 7, 1876, Bell received his first telephone patent, and that was the beginning of the Bell Telephone Company. By 1881, every major city and town in the United States had its own telephone exchange. Everybody who was *anybody* had a phone.

However, the real floodgates for this new technology didn’t open until Bell’s second telephone patent expired in 1894. From that moment forward, and for the next 10 years, more than six thousand telephone companies sprang up in this country, and the number of working telephones skyrocketed from 285,000 to 3,317,000.

Does this ring a familiar bell with any of you? If not, allow me, please, to dial you in....

Just about one hundred years later, when the Internet went public in 1995, our own generation's technology floodgates were opened, and the Great Eyeball Race was on. Fasten your seatbelts ladies and gentlemen. This is going to be a bumpy ride.

7.1 Reach Out and Touch Someone

When the Internet went public in 1995, tens of thousands of enterprising folks rushed down this new primrose path to profitability. The theory was that, if you could get enough eyeballs looking at your new Web site, somehow serious revenues and profits magically would appear at your doorstep.

The first successful forays into delivering content on networks were adjuncts to traditional publishing in professional fields. For example, Lexis-Nexis delivered a variety of services to lawyers, accountants, and doctors, and Westlaw offered a competitive service. Early versions of these services bundled in network access, a workstation, and a monthly subscription.

These businesses made a go of it because they had high value content and lots of it. Professionals were now able save countless hours of tedious effort, thanks to their newfound ability to do textual searches of this content. Even though lower-cost clerks and paraprofessionals performed much of the research, it was still costly, highly skilled work.

Before 1995, three very popular online services were available: CompuServe (a subsidiary of H&R Block), AOL (which was in its infancy at that point and not Internet based), and Prodigy (which was an IBM-Sears joint venture). In the mid-1990s, Prodigy was the largest of the three online services.

The folks at H&R Block had powerful centralized computers that they used during tax season, but, during the off-season, which made up most of their year, these computers sat idle. Such a waste. That's when some of the brightest H&R Block folks came up with an ingenious idea for putting these computers to good use. They started a subsidiary called CompuServe, a company focusing on providing content to professionals.

CompuServe, AOL, and Prodigy were what we call today "walled gardens," environments in which people work in communities and access online services in a prepackaged way. People were signing up for these services in droves. Within a couple of years, millions of subscribers were using Com-

puServe, AOL, and Prodigy and forming reasonably large communities in those environments.

CompuServe tended to be more business oriented than the other services. Interestingly, Prodigy became a consumer-oriented company, and it was among the first of the companies to adopt Web-based family fare and services.

When Steve Case joined AOL, he brought with him a very strong consumer focus that he acquired when he was a top executive at Proctor & Gamble. One of the first things he did as Chief Operating Officer (CEO) of AOL was to hire a seasoned executive team with a fair amount of media and entertainment experience. The vision and flair of these executives can be seen in the user-friendly interfaces and the myriad family services that AOL offers.

Prodigy quickly discovered that one of its most promising sources of profitability could be found among its online communities, so Prodigy threw a great deal of resources into developing its user communities. CompuServe, on the other hand, focused its attention on developing content. It had lots of databases containing professional content, and millions of users were accessing this information. CompuServe was making a pretty penny by charging its users a premium for accessing various services. AOL also was charging for its premium services, but it quickly discovered that additional revenue streams could be gleaned from its user communities.

As the Internet caught fire, Microsoft also joined the gravy train by introducing its own online service, MSN. Microsoft's entry into this arena was seen as a huge threat to the entire industry. Many thought Microsoft's pre-existing grip on the eyeballs of so many millions of people on their desktops would threaten the very openness of the Internet. MSN was viewed as such a powerful player in this arena because many thought that Microsoft could leverage its desktop monopoly to connect people, more or less automatically, to its online property. There, the second round of significant anti-trust activity lodged against Microsoft began.

Remember, too, that computer manufacturers were earning revenues from the online service companies. By including the icons of AOL or CompuServe or Prodigy on their desktops, computer manufacturers were making it easy for people to sign up for these services, and the online services were paying the manufacturers "bounties" for including their icons and software on their systems.

As I mentioned in Chapter 5, all sorts of folks in this industry were up in arms about the early and unfair advantages American Airlines had created for itself by programming its SABRE system to favor American Airlines routes over competitor routes. American Airlines was quick to remedy this situation gracefully, to the utter delight and relief of the rest of the airline industry.

The same cannot be said about Microsoft's approach to its MSN network. Microsoft continued to push computer manufacturers to have its icon first, foremost, and forever on as many computer monitors as possible, while insisting on having all other logos hidden from view.

There was a fair amount of litigation and threatened litigation, and some fascinating jockeying for position at this time. Nevertheless, because AOL, CompuServe, and Prodigy were already online, they were well positioned to give Microsoft a run for its money. Although these three companies changed their business models to one of providing Internet services, the great eyeball race with MSN was underway, and this was a race that was going to be undertaken with a vengeance, I might add.

I should point out that the business models being pursued looked a lot like traditional publishing models, only with a different distribution mechanism and faster ramp times. These models are basically subscriptions subsidized with advertising. On the Internet, the process of getting subscriptions happens at a much faster pace, the market is more global, and the physical delivery problems are reduced. On the other hand, the revenue sources are the same as for conventional publishing. This has been an extremely stable business model for more than one hundred years. The model is basically a steady, recurring revenue base (subscriptions) with a more opportunistic upside (advertising).

7.2 Fishing for Eyeballs

When the Internet took off, I used to joke with my fellow IBM executives about how this new phenomenon reminded me of the story about the blind man and the elephant. In those early days, wherever consumers first touched the Internet, like wherever the blind man first touched the elephant, that initial point of contact formed the basis for how they thought the entire Internet looked and operated. There was virtually no understanding on the part of consumers regarding how enormous and powerful the Internet actually was

or would become. More important, it seemed that most executives, from whatever industry, now viewed the Internet through the eyes of their recent consumer experience. They also blindly adopted portions of the business models pioneered by online service providers.

When I joined HP, I noticed that my new colleagues also suffered from the blind man and the elephant syndrome. Most HP executives had lots of impressive experience, but just not with the full scope and potential of the Internet. Therefore, their understanding of the Internet was often based on their experiences with the Internet as consumers only. Therefore, to a whole lot of IBM and HP executives, the whole Internet spelled out “e-y-e-b-a-l-l-r-a-c-e.”

According to the eyeball-race theory, the new dot.coms could grow their businesses in ways that paralleled the adoption curves of the telephone, broadcast TV, and cable TV. Advertisers considered that 30 to 35 million subscribers would represent critical mass, and, after the Internet reached this level, it would automatically become a viable advertising media.

The Internet hit that milestone around 1996. This achievement then fueled the hope that, all of a sudden, advertisers would start dumping massive advertising dollars into various Web sites. Online service providers, on the other hand, continued to build their businesses with the proven newspaper model: subscriptions subsidized by advertising.

Then Yahoo came along with a very interesting value proposition. Even at this early stage of the public Internet, there was an enormous amount of content out on the Internet. Yahoo theorized that it could build a very successful business by hosting a site on which all of these millions of pages of Web content could be accessed in a clear, simple, and rapid fashion. Revenue was generated primarily through advertising without recurring subscription revenue. This added further fuel to the great eyeball race, and the race for content. Dreams of dollar signs were consuming everyone, everywhere.

A whole new generation of businesses centered on content packaging, and search engines sprang up, mostly fueled by advertising revenue. Because start-up costs and times for online businesses are dramatically less than for physical businesses, in no time at all, this segment of the market became overserved. All you ever heard about during this period was “dot.com this and dot.com that,” and, before you knew it, the Internet was besieged by unorganized content that was increasing exponentially.

That's when Yahoo! came to the rescue with a tremendous new business model designed to unscramble the tangled Web we had woven. Yahoo! didn't own its connectivity function, nor was it getting subscriptions, but it did get lots of "hits." However, Yahoo! was racking up very impressive advertising revenues, and, all of a sudden, it was one of the darlings of the dot.com era.

The technology behind Yahoo! was pretty simple. The underlying genius behind its business strategy was to make the Internet usable for the average person. At one stage, Yahoo! had hundreds of librarians cataloging the Internet. Their work formed the basis for the search engine that Yahoo! was building, an engine that would tame the Internet and make it useable for average human beings.

For early users, particularly in 1995 through 1997, their first pit stop on the Internet would likely be the Yahoo! site. A whole lot of eyeballs were falling into the lap of Yahoo!, and Microsoft watched, studied, and salivated.

Not to be outdone by Yahoo!, the Microsoft team had a plan up its sleeve. Its vision was that every time anyone in the world would turn on a computer, the first thing that would appear on the screen would be the Microsoft logo or the MSN logo. In either case, consumers would come face to face with Microsoft each time they tapped the ON button on their computers.

Netscape also wanted to be part of this eyeball race, so it began shipping its browser with a very handy entry button into the Web. All of a sudden, Netscape had a truckload of eyeballs, too.

However, for a long time, Netscape couldn't quite figure out how to leverage those eyeballs. This made Netscape a prime takeover target for AOL, whose traditional walled-garden strategy could be greatly enhanced by the acquisition of Netscape's millions of pure Internet users. Again, the prospect of dollar signs enticingly flashed before the eyes of AOL's executives.

Therefore, here we had AOL, Netscape, MSN, Yahoo!, and CompuServe, and the gold rush for advertising dollars was on. Yahoo! became profitable very quickly. With only a modest investment up front, Yahoo! was able turn a profit without having to do all of the value-added packaging that AOL had to do.

There was a perception in the marketplace that the entry barriers for doing business on the Internet were much lower than those in traditional business environments. However, Microsoft spent billions of dollars building MSN, and AOL spent billions building its business. Conversely, with very little upfront investment, Yahoo! came on the scene, and, right out of the chute, it was making money hand over fist.

During this time, there was also a great Internet real estate land rush. The theory of this model was that the opening of the Internet frontier was like the opening of the American West, where people rushed to file homestead claims. In the case of the Internet, the homestead claims were "captured retail mindshare" in particular product categories. There was a rush to file for Internet addresses like "toys.com," "furniture.com," "groceries.com," and so on. The logic went that, because Amazon.com had captured so much mindshare so quickly, that there would only be room in the market for one or two big companies and that the early movers would dominate their respective marketplaces. Of course, now we have Borders.com, Dalton.com, and so forth.

The problem on the Internet is that the communications channel is open to all comers for very modest investments. If the business has a good basic operations model, taking it to the Internet is a relatively fast and uncomplicated effort, as evidenced by the new "click and mortar" sites. If the only thing a company has is a dot.com address, building a real business behind it can be quite a challenge.

For companies fortunate enough to have their value propositions perpetuated in the industry, continuously enhancing those value propositions has been an ongoing challenge. Yahoo! has skillfully met this challenge with such moves as acquiring hotjobs.com. The more narrowly based providers have had a hard time holding onto their subscribers, and thus their advertising revenue.

As investors continued to fish for eyeballs, several entrepreneurs ventured into the niche categories of bidding wars and spot markets. Price-line.com, eBay, and other similar sites appeared with such voracity that the whole wired world began looking like an auction. The problems many of these sites encountered were that "no-bargain" bargains are easier to sniff out, and unreliable delivery or deliverers undermine the value of the exchanges.

7.3 The Slippery Slope from Dot.Com to Dot.Bomb

In January 2002, Amazon.com announced its first quarterly profit. This was huge news despite the fact that Amazon only made a penny a share. At last, Amazon, a dot.com company, had found a way to get its operations under control, and its huge investments were starting to pay off. Interestingly, one of the fastest growing and most profitable areas of Amazon's business is in helping other companies get online. As a result, its professional services organization has turned itself into a huge moneymaker for Amazon.

Well, before Amazon turned a profit, however, thousands of hungry entrepreneurs were watching its every move, and trying to figure out how they could sell everything from soup to nuts over the Internet. They were especially drooling over the prospect of not having to build a big and costly retail network in order to do retail sales over the Internet.

However, traditional retailers also were eyeing the Internet with eager anticipation. Many of these retailers had been experiencing moderate success in their efforts to sell their products, not only in their stores, but also by means of 1-800 numbers. Much to their delight, many of these traditional retailers were able to move fairly quickly into the realm of online Internet sales. Coincidentally, in 1996 and 1997, there were a number of relatively decent Internet products coming on the market, which made it easier for retailers to put up their electronic storefronts.

IBM was doing a lot of work in this space by offering its Open Market product, which represented the beginning of its very successful e-business initiative. IBM was helping to establish the interfaces that allowed companies to actually sell things over the Internet and to accept payment for these products.

At the same time, a new SSL protocol was introduced and accepted by credit card companies, retailers, and consumers, and, all of a sudden, this new avenue of commerce received a significant boost. The SSL is what ensures secure Internet sites and the ability to transmit information safely. Now, companies could actually sell items reasonably well over the Internet.

Amazon got a toehold in the door quickly because it already had a book distribution warehouse. As you may know, the book business is a tough business because retailers expect to return a fair amount of unsold books to the warehouses. (I humbly hope that such will not be the case for this, my first book!)

At any rate, the Amazon folks were lucky enough to come across a warehousing operation, which they purchased and leveraged to their great advantage from a retailing point of view. Amazon was also technologically skilled and able to apply this talent by creating a very inviting, broad catalogue of online books, accompanied by a fantastic search engine that could deliver customers to their favorite book choices in the blink of an eye. Next, Amazon focused on the rapid delivery of its products, each of which was offered at a fairly good price. Customers loved this experience, and they were buying books from Amazon at an incredible rate.

I remember visiting one venture capital company in 1997, and I literally discovered that every venture-funded activity it was launching was for an online retailer. I remember scratching my head and thinking, “Hasn’t this venture capital firm realized that it is going to have huge transportation problems with some of the online retail operations it is starting?”

For example, the firm was funding online furniture companies. Imagine the logistics problems involved when customers would order a couch online, have it shipped to their homes, and then decide they didn’t like what was sent because it was damaged in transit, or the fabric wasn’t as expected or the color looked awful. How on earth would a customer prepare a couch for return shipment? The business model for customer returns would be a nightmare, which was one of the reasons why Furniture.com tanked.

Obviously, other products and services were better suited for an online environment. Consider online matchmaking, which has become a very big business. It’s surprising how many true romances have blossomed over the Internet. There is no shortage of remarkable stories about people meeting each other that way and then falling in love and marrying.

On the steamy side of the Internet, I recall from my days at IBM that we made a Top 10 List which we were not particularly proud of. This was back in 1996, and *Penthouse* magazine had just published a list of the top corporations in America whose employees were accessing its Web site by using their corporate accounts. Imagine our shock and embarrassment when IBM showed up on that list.

What resulted was a very rapid education effort across IBM about the appropriate use of company resources. It reminded me of my earlier days at Indiana University, when we had Internet usage problems of a similar nature.

Anyway, at IBM, we knew we had a challenge on our hands. If we put a filter on our computer systems at work, we'd undoubtedly end up in the newspapers the next day, with headlines like "IBM Filters *Penthouse*." Therefore, our objective was two-fold: first, to educate our employees, and, second, to stay out of the press.

As it turned out, IBM did a nice job of stressing to its employees the importance of getting their online activity under control. Hits to the *Penthouse* site by IBM employees tapered off, and IBM quietly clamped a smut filter on its internal systems. I suspect that more than one company has faced this challenge in the Internet age.

The wacky world of online enterprises also included the curious entry of groceries into the market. The delivery problems with perishable commodities, as you can imagine, were a nightmare. However, people somehow thought that, because their groceries were being sold on the Internet, all of the basic rules of economics (for example, you shouldn't mix a low-margin business with an additional high-cost delivery model) were suspended. These online grocery operations had such a preoccupation with the retail experience they were delivering to their customers on their Web sites that they failed to focus on the entire delivery chain necessary to get the products from their warehouses to their customers' front doors.

Then, sites like eBay sprang up, and online auctions began to capture the attention of consumers. The beauty of these sites was that they made it possible for individuals to put items up for bid without having to create an underlying commerce infrastructure. It was an ingenious entry into the online world.

By 1998, conventional retailers started coming into the Web in a more meaningful fashion. Amazon's professional services organization was right there to help these folks establish their online presence. The nice thing about having conventional retailers on the Web was that a lot of the logistical problems were solved right out of the gate. For example, if a customer ordered a blouse from Nordstrom.com and it didn't fit, the customer could easily return it to a nearby retail outlet, rather than having to mess with mailing it back. All of a sudden, traditional brick and mortar companies were finding success as click and mortar companies.

Success was achieved because these folks began to think through all of the aspects of delivery and the total customer experience, not just the purchasing experience, as so many dot.coms had done before.

All in all, we were seeing a lot of folks taking their business to the Internet, dreaming about their forthcoming riches, and, more often than not, discovering that, if they were going to be successful, they were going to have to *earn* their money. It wasn't going to fall into their laps.

It is interesting that *The Producers* should be the top Broadway show in 2001. This old film classic, written and produced by Mel Brooks, is the perfect model for much of the dot.com industry. The theory behind *The Producers* is that, if you produce a flop, the investors will just write off their monetary losses and you can simply oversubscribe the production. To a large extent, the “dot.bombs” were more focused on “going public” than they were on building businesses. Most of the dot.bombs were lavishly spending someone else's money, and this applied to companies large and small.

7.3.1 Bomb #1: A Lack of Conventional Promotional Activities

During the late 1990s, too many marketing folks were thinking that all they had to do was create a presence on the Internet and instantly they would be making barrels and barrels of money. People were thinking, “Build it, and they will come!” What went wrong? Why did so many dot.com companies slide down the slippery slope to the world of dot.bombs?

First of all, a lot of dot.coms discovered that getting customers was harder than they thought. They were under the mistaken impression that all they had to do was put up a site and customers would magically appear. The lesson to be learned here is that it still takes promotion through conventional means to attract customers.

Steve Case knew this lesson well from his days at Proctor & Gamble. He instinctively knew how to reach customers. In fact, there was a joke going around recently about Steve Case and AOL. It went something like this: “Why is Steve Case upset that they've discovered life on Mars? Because now he has to figure out how to get an AOL CD up there!”

You've got to hand it to Steve, though. He has blanketed this country with AOL CDs, offering free hours on AOL. The CDs come in newspapers. They're delivered with the mail. They pop up in magazines. Steve Case is a

consumer guy, and he sure knows how to promote his product. Believe me, he uses every conceivable conventional means at his disposal to promote AOL to consumers.

The funny thing is that most folks would agree that Prodigy and CompuServe had better products than AOL; they just hadn't mastered the marketing formula the way Steve Case had, which is what really distanced AOL from the pack. Steve just knew how to promote to consumers, and, as his installed base at AOL increased, he made additional investments in improved programming.

If you are considering taking your business to the Internet, I urge you to avoid one of the prime pitfalls experienced by the dot.bombs. They dramatically underestimated their customer procurement costs.

7.3.2 Bomb #2: Too Narrow a Value Proposition

The second major problem that many of the dot.bombs had was that they had too narrow a value proposition. They figured that customers were going to come to their sites magically, and, because so many people were flocking to the Internet, they could offer a very narrow value proposition and still get to a critical mass. Big mistake.

It's true that today's sophisticated search engines can lead customers to precisely the kinds of things they want, no matter how specialized these things might be. However, what happened from a business model point of view is that a lot of these dot.bombs assumed that their niches were going to be a lot larger than they actually ended up being.

The most successful players in the niche markets understood how to promote themselves and how to make sure that the various search engines out there would pick up their sites and drive customers to their doors. That required spending promotional dollars, just like it did in the physical universe.

Take a look at AOL. One of the things it has done so well over time is to continue to enhance its offerings. For example, right now AOL is adding digital imaging services, photo services, and similar products to its customer portfolio.

As you know, through its entire history, AOL has continued to add value to its bundle of services. Their purpose in doing that has been to keep customers loyal and to keep them paying that monthly subscription fee. It

generally has been more cost-effective for AOL to design and introduce new services than it has been for it to offer a price reduction in its subscription fees.

The challenge for online service providers has been to hold their prices steady while continuing to add more value. Luckily, as the cost of computing and storage continues to fall, online service providers have been able to reinvest those cost savings into enhancing their services.

If you look at Amazon's Web site, you'll notice that it continues to evolve and expand its customer experience. This strategy has allowed Amazon to grow its retail base without dramatically adding to the capital costs of running the business. Of course, as Amazon has expanded, the logistics of fulfillment have gotten to be a gigantic nightmare.

7.3.3 Bomb #3: An Inadequate Delivery Chain

The third problem for the dot.bombs involved the monumental task of product delivery. Whenever these companies touched the physical universe in any way, unique delivery challenges arose. Whereas AOL is largely a consumer "experience," many dot.com folks had to worry about transporting their physical products from one location to another. The logistics involved in this endeavor were enormous.

A lot of companies that attempted to sell groceries and other perishables, and larger items such as furniture over the Internet ended up bombing. Factors such as road conditions, weather conditions, product availability, and the nightmare of product returns were all wreaking havoc on the balance sheets of some of these early dot.bomb companies.

7.3.4 Bomb #4: A Lack of Business and Financial Discipline

There are a few business rules of thumb I've learned over the years. The first of these is to know the source of your revenues. I've seen many folks get involved in the great eyeball race without the slightest inkling regarding how, exactly, they are going to reel in revenues.

Steve Case understood that AOL's revenues would come primarily from online advertising and secondarily from subscriptions. Having a revenue model in which both subscriptions and advertising contribute to the bot-

tom line can often spell success for dot.coms. This is the traditional media industry formula: subscriptions, subsidized by advertising. This approach has stood the test of time since the early days of newspapers and magazines.

However, it is dastardly difficult for firms on the Internet to get consumers into the habit of paying for subscriptions. Online and wireless service providers have trained us to pay for their services, but, beyond paying for the connection itself, consumers are very reticent to pay for anything else. Without an audience or audience demographics, it's very difficult to get advertisers to pay.

Therefore, many of the dot.bombs held on to a faint hope that they could get some advertising revenue, without having the slightest thought about who would be buying this advertising space on their sites. The lesson to be learned here is know from whence your revenues will come before you go to all the expense of taking your business to the Internet. Many of the traditional publishing companies have made a nice transition to the Internet and have brought their advertisers along with them because they know their audiences well.

7.3.5 Bomb #5: A Failure to Prove the Viability of Your Cost Structure

For the most part, I believe that, if your firm has \$3 million in revenues and you still aren't profitable, the odds are you'll never be profitable, especially with startups. First they need to prove out their revenue models and cost structures and then get things sized in a way that they can deliver profit, early and often. This takes a steadfast discipline from Day One. There are a lot of companies in the dot.bomb bone yard that just didn't have the discipline to tighten their own belts in order to keep their businesses viable. They had too many fancy offices, fancy cars, fancy perks, and not enough raw business sense. Most seem to have no concept that they were living off investors' money and that they had a fiduciary duty to put the business interests of their investors ahead of immediate enhancements to their personal lifestyles. Of course, some of the investors showed a surprising lack of judgment by all at once dumping big buckets of money at the doorsteps of the dot.bombs.

7.3.6 Bomb #6: Dawdle Mania

A lot of dot.coms became dot.bombs because they were too slow in launching their sites and spent tons of time and money just preparing them. Companies in the hot dot.com era were spending a year or two working on their launch strategies, and, by the time they finally brought their businesses to the Internet, customers no longer had an interest in what they had to sell.

Conversely, if you look at some of the most successful companies on the Internet, you'll notice that they got out there early and evolved their sites as rapidly as they could in order to add additional value. There's just no substitute for getting the experience with the user community early on, at a low cost, and then building on that value going forward.

That sort of development model is very foreign to the average company. Yahoo! was one company that was extraordinarily good at getting out there early and then enhancing its services after it had the initial technology breakthrough. Even today, Yahoo! is evolving on a daily basis. No dawdling is going on within its doors.

7.3.7 Bomb #7: A Failure to Communicate

The lesson to be learned here is that it is critical to articulate every step of the customer relationship process before you take your business to the Internet. Even today, I see so many retailing Web sites that are poorly instrumented from a customer interface point of view.

Of course, from Day One, Amazon knew that its relationship with its customers was central to its success, and, because of this, Amazon erred on the side of overcommunicating with its customers, rather than undercommunicating. Overall, Amazon has found a good balance between positive communication and intrusive communication. It's done a pretty good job of tracking its active users and communicating with them at appropriate times. If you're not an active buyer on its site, it's unlikely that you'll be receiving a lot of unsolicited messages from Amazon. The key to these communications activities has been to make them personal and relevant to the customer.

7.4 The Secrets to Dot.Com Success

For those considering taking their business to the Internet, I'd like to offer these secrets to success:

- Define your revenue model up front.
- Develop a compelling set of value propositions and enhance it over time.
- Create a scaleable architecture.
- Don't spend too much on technology too early.
- Get things up fast and develop them with real customers.
- Pay close attention to physical logistics.
- Communicate wisely with your customers by doing such things as immediately acknowledging their online orders and the shipping status of those orders.
- Develop an early sense of profit discipline.

There's no guarantee that you'll become rich beyond your dreams by following these steps, but you certainly will have a better chance of positioning yourself on the fast track to profit.

7.5 Online Purchasing Purgatory

Before you jump into the dot.com world, I'd like to share with you one of my recent online retail experiences that happened to be particularly horrible. I hopped on the Internet and purchased a small widget. After I officially placed my order, I received absolutely no email confirmation that my order had been received. Was it received? I really needed this widget.

I thought about calling the company on its 1-800 number, but there was no such number posted on its Web site. Somehow I just knew my order was in trouble. Nevertheless, I decided, against my better judgment, to have faith that my widget would soon be winging its way to my Boise home.

I waited a week or two, and, to my surprise, my package showed up at my front door. Unfortunately, the company had shipped the wrong product. Good grief! Therefore, again, I needed to call the company. This time, I found a telephone number in the collateral pieces that were included with the incorrect product they sent to me, but, naturally, it wasn't even a toll-free number. I called the number and, much to my dismay, I ended up in a seemingly endless series of expensive telephone queues. This was such a big headache for such a little widget.

It makes a person wonder: What is wrong with these online companies?

For one thing, so many of these companies just haven't refined their own internal systems. Unless you're going to follow through by tuning up your own internal systems, your customers are going to have a bad experience. I can almost guarantee that. You can't just bolt something on to the front end of your Web site and expect the situation to be miraculously rectified.

I find a surprising number of online retailers that don't even bother to add anything onto the frontend of their sites. They just take the simplest commerce engine available, with absolutely no regard to the customer experience, and then they just start taking orders. Then, someone, somewhere, manually enters these orders, and, before you know it, orders are falling into a black hole with no visibility or communication with the customer.

It's a prescription for online purchasing purgatory. It's also the best way to ensure that you have both unhappy customers and customers who never return to your site again.

7.6 Online Purchasing Nirvana

A heavenly online purchasing experience begins with making your products easy to find online. So many companies just throw their catalogs online without any regard for the unique attributes of this medium. Beware. Most printed catalogs are not necessarily organized in a way that consumers will find easy to navigate if the catalogs are just thrown online without any redesign. It takes a fair amount of research into what your customers would find of interest and then a sharp Web designer to present your merchandise in an appealing way.

One of the real strengths of the Internet is that it allows consumers to dive more deeply into product features and function. I have found so many online retailers who don't take advantage of this feature and simply don't bother to link their products to additional information and content that they or their suppliers might have.

My recommendation is to just take your site to the next level by offering content linkages. You'll find this endeavor to be extremely valuable to your customers and to your ultimate bottom line.

Next, make the online experience heavenly for your customers by making the online ordering process incredibly simple and easy. Make it easy for

your customers to get in and out of their shopping baskets. Above all, make it easy for them to keep adding items to their baskets.

Give your customers the chance to choose their preferred method of shipment. Some will want expedited service and will be willing to pay a premium for this service. Others will be completely satisfied with less expensive ground transportation. Whatever your customers choose, be sure to provide delivery date estimates, and, when available, hot link the FedEx, UPS, and U.S. Postal Service tracking numbers so that your customers can follow their orders from your door to theirs, with just a click of the mouse. Remember, all of these services are going to be downright difficult to provide if you are still using manual processes. With just a small financial investment in technology, these processes become a piece of cake.

You can buy yourself bushels of goodwill by providing an immediate acknowledgment of every order placed. Do this through an instant email message, which includes confirmation that the order has indeed been placed and that the credit card has been charged. Also include a status update on the items to be shipped. Trust me and automate this process.

I find so many companies that just haphazardly bolt these processes onto their frontends without automating their internal systems. These companies don't realize that their performance as a supplier is incredibly visible to their customers on the Internet. Believe me, those early customer experiences really do determine whether customers will come back to those sites in the future.

Remember, the customer experience does not end when you ship your product. The returns process generally has received poor attention. However, as unglamorous as this process is, it can have a startling impact on your company's profit picture. Keep in mind that the more times your product is touched means the more likely it is to arrive damaged. Therefore, consider shipping your products with preprinted return labels and enough packing material to cushion its journey from, and if needed, back to your warehouse.

7.7 Busy Signals

Let's face it. If you haven't figured out a way to make your business work in the physical world, just putting your business online isn't going to make it work either.

Here's the good news, however...

A number of industries out there have been able to serve various customer markets of under a million people and make some impressive amounts of money while doing so. These industries have done a superb job of exploiting the world's best Internet technologies in order to run their online businesses in an impressive, cost-effective manner.

For the wise and business savvy among us, opportunity abounds in this arena, and I think we've barely scratched the surface. I see a lot of promising opportunities ahead for those who choose to bring their business to the Internet. It's hard to predict the future with rock-solid accuracy, but I believe the outlook is quite bright.

Back in 1915, although ever so busy with the telephone and his other inventions, Alexander Graham Bell nevertheless took a moment to ponder the future. He noted, "The possibilities of further achievement by the use of electricity are inconceivable. Men can do nearly everything else by electricity already, and I can imagine them with coils of wire about their heads coming together for communication of thought by induction."

I wonder if Mr. Bell is looking down upon us today and thinking that gigabytes and megapixels are every bit as cool as coils of wires about people's heads.