

The bubble has burst. Many would-be dotcom millionaires are floating back down to earth. **Edgar Whitley** reviews what has been learned from experiences in the dotcom world.



Dotcompetition: surviving in e-business



Dotcom companies have become a new element of the popular image of business. These companies, which operate wholly, or in part, over the internet, have had disproportionate coverage in the media, despite the fact that, in many cases, they have been little more than small startups with a good idea and dreams of financial success.

As a result, most UK newspapers now include a dotcom supplement that reviews the latest developments in electronic commerce, profiles the newest companies and reports on the most recent business failures. Dotcoms have something for everyone: for the shrewd investor, they potentially offer a huge return on a risky investment, for the more cynical observer they provide an opportunity to gloat as yet another high-profile company fails because it hasn't understood the basis of doing business in today's global economy.

Dotcoms can be found in most areas of business. In many cases, they are simply extensions of existing business areas – thus banks are moving into internet banking as the next step after telephone banking. Traditional bookstores are opening web-based stores in addition to their conventional stores to compete with rivals like Amazon, thereby offering their customers the option of traditional bookshop browsing and online ordering. Other dotcoms are competing directly with existing businesses, operating on the assumption that their reduced cost base can provide a cost advantage over their rivals. For example, there are now online estate agents who can charge a far lower commission than traditional agents because they don't have to maintain an

expensive office on the high street, and online pharmacies that compete with high-street drug stores on price. Finally, there are a whole range of new services which seek to replace traditional intermediaries: it is possible to buy airline tickets online rather than going to a travel agent, to order railway tickets over the web rather than at the station, etc.

The dotcom company phenomenon also offers many important avenues for academic research. For example, LSE's Information Systems department has been involved in the widely-cited Novell survey of top internet sites. This study evaluates and ranks commercial websites for the ease with which they enable electronic commerce. Other work in the department has studied the regulatory and security issues required to enable electronic commerce to succeed.

Some studies have focused on telling the stories of new media startups and web companies. They reveal the key role that is often played by the charismatic individuals who represent the companies when dealing with the venture capitalists who have been providing much of the finance for this sector. These studies of new companies also highlight the unexpectedly important role that personal credit cards have played in keeping fledgling companies afloat whilst they seek further funding or wait for orders to come in.

As well as studying the experiences of new startups, academics can also learn important lessons about the relationships between organisations and technology by considering dotcoms during periods of rapid growth. These are companies whose websites are becoming more popular and who are offering an increasing range of products. Traditionally, information

and communication technologies have been seen as potentially strategic assets for commercial organisations. In dotcoms they are inextricably intertwined with the business itself. A growing dotcom can only continue to be successful if its website, and the services it provides, keep up with growing demand.

As anyone using a commercial website has discovered, it is possible for organisations to redesign their websites on a daily basis, changing the way information is presented so as to enable customers to perform the transactions offered by the site more easily. While this may be done simply to tinker with the public image that is presented by the company, it can also be done to enable the company to grow. Moreover, beneath the front end is further computer technology which also has to keep up with the growth. Scaling up a property website that has coped easily with the details of 50 properties to deal with over 500 (and the related increase in demand) may require a complete rewrite of the underlying computer system, as adding more data to the existing system may simply make it too slow to be useful. Moreover, even simple problems like scaling up the hardware can be problematic as it is often the case that any new computers introduced will not be exactly the same as the original ones, and software that used to work perfectly may become unstable.

Similar kinds of problems arise on the organisational side of growing dotcoms. To begin with, the company may have been started by a small group of individuals, often young and often friends. Their size and lack of financial history would have meant that they were unable to secure proper offices and so were forced to start up in someone's house or

garage. Many hours would be spent in confined spaces, developing ideas, designing the website and launching the service. As a result a particular 'corporate culture' would develop which shapes the way the company and its employees look at the world, the issues it sees as important and the values it tries to promulgate.

It is often difficult to maintain this culture in the face of growth. At one level, the rapid growth in the number of employees (hundreds of new employees joining every few months is very common) means that it is not possible for the founders to meet the new staff, let alone instill the company's values in them.

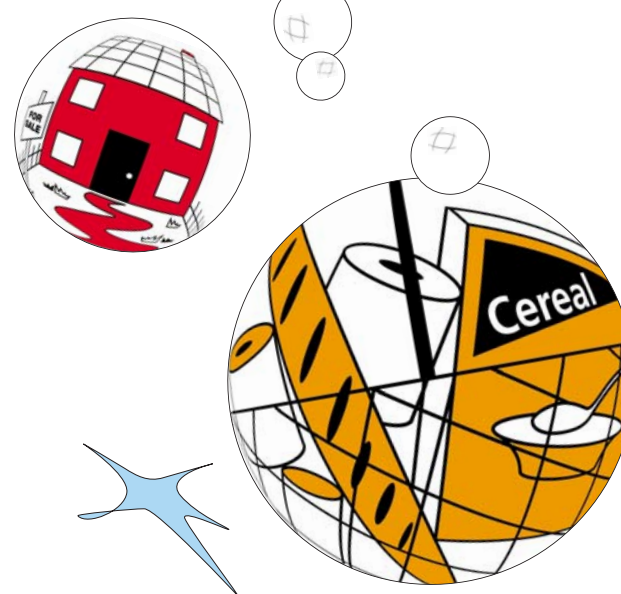
Finally, another interesting growth problem faced by many arises when a successful dotcom is taken over by a traditional organisation that wishes to set up a dotcom presence and prefers to buy in the new capability rather than develop it in house. For example, a bank seeking an internet presence may purchase an existing financial services web company. This will result in a strange mismatch of employees: traditionally conservative banking employees and free-spirited entrepreneurs will have to learn to work together closely and effectively.

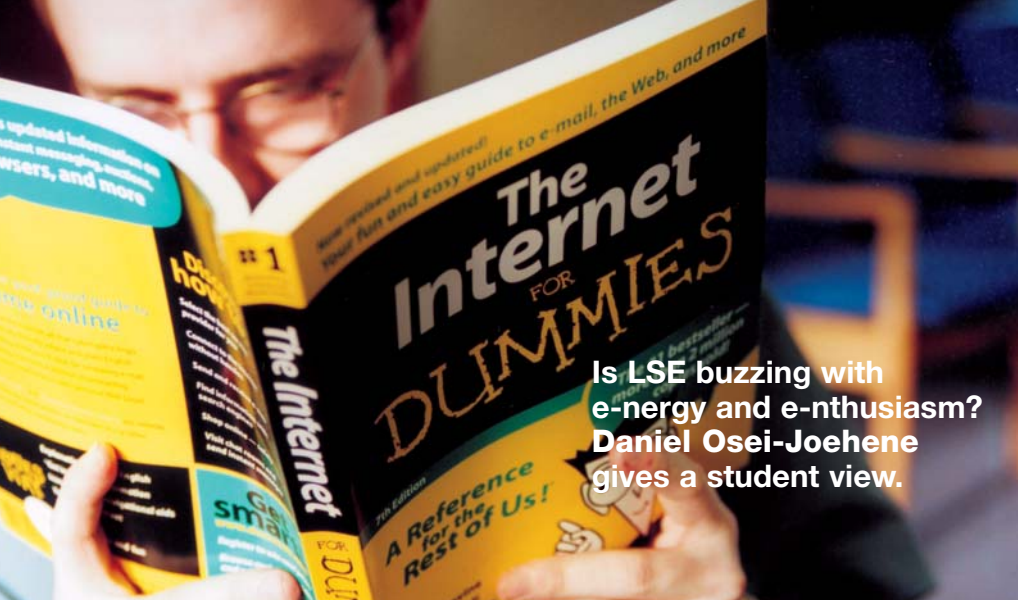
Conclusions? Keep watching.



**DR EDGAR
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IS A SENIOR LECTURER IN LSE'S INFORMATION SYSTEMS DEPARTMENT.





Is LSE buzzing with e-energy and e-nthusiasm? Daniel Osei-Joehene gives a student view.

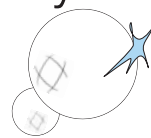
One year of the LSE Internet and E-commerce Society

During my time at LSE, one of the most rewarding activities I undertook was to form the LSE Internet and E-commerce Society (IES) with a team of fellow students. LSE provides access to a selection of leading specialists in the field of internet and e-commerce and when we began the society over a year ago, our aim was to invite these experts and others from industry to share their knowledge and experiences with a small team of enthusiastic students. We never thought our membership would grow beyond 30 or 40 students. It therefore came as a great surprise to us when our events began to attract large audiences. Our list of members grew to include students from all the various London University colleges. Such was the popularity of the LSE IES that students from as far as Cambridge University made the effort to attend our meetings.

Over the past year we have invited prominent members of industry to talk at the IES. However, in keeping with the ethos of LSE, the IES was also able to give something back to society by offering voluntary services to various organisations in the wider community.

One of the most memorable moments was teaching primary school children in North London how to use the internet. Although we expected to encounter one or two exceptionally talented children, we were pleasantly surprised to find that some of the children had previously created their own web pages. I wonder how much longer it will be before a group of these kids puts together a business plan for a dotcom enterprise.

In fact, most of the activities we organised for members were focused around starting a dotcom business. The low entry barriers to e-commerce have made it a very attractive area for talented students who wish to avoid the regime of corporate life. We have all heard the stories of poverty-stricken students who become millionaires overnight through e-commerce by combining a good idea, one or two broke friends – preferably someone with a copy of HTML for Dummies – and hey presto! The fairy venture capitalist would suddenly appear and turn the following three wishes into reality: lots of initial funding, followed by a successful IPO (initial public offering), and infinite riches.



'I wonder how much longer it will be before a group of these school kids puts together a business plan for a dotcom enterprise'

Indeed, when e-commerce took off, students from LSE and other top institutions could have obtained funding to sell turkeys over the web, but things are very different now. To form a successful start-up requires a sound business model, hard work, a good team and a large dosage of good luck.

The students here at LSE are among the most talented in the world, however, many will require additional support if they are to achieve the ambition of starting a successful e-commerce venture. LSE provides an ideal environment for these students to realise these ambitions. At the IES, our aim is to build on our past success by providing student entrepreneurs with the necessary support that will make their journey less hazardous. ■



DANIEL OSEI-JOEHENE

FOUNDED THE LSE INTERNET AND E-COMMERCE SOCIETY AND IS CURRENTLY A PHD STUDENT IN THE INFORMATION SYSTEMS DEPARTMENT.



Useful resource – click here
Doing it for themselves

Mauricio Cordova (MSc Operational Research 2000) funded the London E-ncubator company with other LSE students to nurture internet ventures in their early stages. He explains: 'The E-ncubator is the first company of its kind that ensures the success of each venture by creating a network of alumni who provide experienced support. With over 10,000 students graduating each year from leading universities like LSE, Imperial, UCL and nearby Cambridge and Oxford, London concentrates a significant portion of Europe's top brainpower. Our company leverages this knowledge base to develop a long-term, revolving pool of highly innovative internet ventures.

'In the US, the entrepreneurial spirit at the college level is incredibly dynamic, and universities such as Stanford, Berkeley, UT Austin and MIT have built the grounds for billion dollar high-tech clusters. Companies founded by students in the US include such heavyweights as Dell Computers, Microsoft, Yahoo and Netscape. The E-ncubator is the first company of its kind in Europe to create a strong entrepreneurial community at the university level.'

The London E-ncubator has been featured in several magazines such as *Wired News*, *Tornado-Insider*, *New Media Age* and *Fortune's* Internet publication *eCompany Now*. There are already three ventures in production, focused primarily in B2B (business to business) and new media. Netvision.com, a unique video search engine, aggregates online video from such partners as California-based Hollywoodonset.com. The venture is currently being supported by Bertelsmann and the

The new www.e4student.co.uk website was launched in November. This site, put together by a group of LSE students, will provide an online directory of useful links and resources for students interested in e-commerce.

So, got an idea? Find out how to develop it by visiting www.is.lse.ac.uk/lsemagazine

Bertelsmann Valley, owner of Lycos, eGroups and Tripod, and now features over 2,000 streaming videos.

A seed fund will be raised soon to provide capital to these ventures. Anyone interested in getting involved in this initiative either as advisors or investors can write to info@london-ncubator.com or visit the site at www.london-ncubator.com

Tim Lloyd (BSc Econ 1991) launched Classical.com as a holding site at the end of July. This offers free classical music downloads and collects useful information about people's tastes and demographic information. It is in four languages (English, French, German and Japanese) and incorporates talking voices. Make sure you turn on your speakers if you take a look! Having acquired their own music catalogues and with distribution in hand, they are now raising further money to build the full service for a launch around the end of 2000.

Tim says: 'I gave up a cushy job in 1999 to try and start this company with a friend. We've been through a lot of ups and downs since then (with no help from the markets!), and our business is evolving all the time but it's been worth every second.

'We're aware of a large number of internet companies that raised significant sums on the back of dotcom euphoria but which are now facing bankruptcy as their burn rate outstrips current market sentiments to put more funding in. Investors are now applying basic business rules, which will help shake out the wheat from the chaff.

'Classical.com is unusual for an internet company in that it also has a real world business. This is a trend that is likely to become more common as the risks of relying on the internet alone make 'clicks and mortar' companies a safer bet.'

Email tim@classical.com and visit www.classical.com

Sukhjinder Singh Khinda, 21, is a second year economics student at LSE. Previously studying dentistry at Sheffield University, he changed his course to develop his business acumen. He launched his dotcom Sports Mart in April this year. Sports Mart is an e-commerce business, based in Manchester, selling sports wear and equipment. Suki feels that the direction for the site is to become an 'e-commerce focused sports information portal.'

Suki is also soon to feature on a Channel 4 programme called *Show Me the Money*, where teams are challenged to deliver the best return for an investment portfolio over a ten week run. Email him at suki@sportsmart.co.uk and visit www.sportsmart.co.uk