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Conference e-workshop report

Lessons from the dot.com fallout

Chairman: Dr T Wicks, Searchspace Ltd

Rapporteur: V.A.J. Maller, Loughborough University

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eWorkshop: Lessons from the dot.com fallout

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Eight people attended this workshop and all contributed to an interesting and useful discussion.

Ralph Land started the ball rolling by proposing that the discussion should start by considering a case study concerning a company with which he was associated, which he thought provided many lessons. This was agreed.

This particular company was set up to operate in a business to business mode in the US gift industry, which has a total annual turnover of about \$50 billion. The founder was an ex IBM engineer, who had a good concept, or so it was thought, used reliable providers for his hardware and software (Sun and Oracle) and launched the company.

When the time came to raise additional capital, he could have obtained \$5 per share but, instead, held out for \$20 per share. The company has survived, but only just, and is now seeking associations with others in the industry.

The lessons learnt from this particular case were discussed at length and were felt to be typical of many dot.com companies, whether they operated in business to business or in business to consumer.

Summarizing the main lessons:

- ? the founder, although a capable technologist, had little business experience and had never before managed a business
- ? the founder, who did not understand the gift industry, thought that his concept would triumph over the established practice of the industry and, therefore, neglected any proper market research
- ? the founder was unwilling to listen to advice
- ? the founder hired the wrong staff. Some had had experience of the gift industry but not at the right level
- ? the initial investors did not carry out any effective due diligence and, therefore, failed to appreciate that the business model was flawed.

All contributors agreed that this was a classic situation in which both the founder and his backers were high on hype and appeared to think that the normal rules of business had been suspended for their benefit.

Particular emphasis was placed on lack of market knowledge, weak business plans and underestimating the costs of both marketing and system implementation. These classic failures have resulted in the situation in the US where barely 2% of retail trade takes place over the internet.

Boris Babayan, who, coming from Moscow, had spent most of his life in a very different economic environment, asked how this dot.com situation could possibly have occurred. Everyone answered at once, "Greed!"

Several members of the workshop with venture fund experience pointed that many venture fund managers felt "underweight" in the dot.com area and were under pressure to "pile-in." This environment discouraged proper due diligence. There was also additional pressure from the "First Mover" paradigm, which inevitably led to unrealistic expectations of growth.

There was now a strong feeling among investors that they had been cheated and, naturally, they were now reluctant to invest.

All was not gloom, however, as many large multi-nationals were using the technology in a sensible way as a supplementary channel to extend or maintain their market share. This was considered to be particularly true in the business to business world.

One member of the workshop then brought up the term "disintermediation" in the internet context. Your rapporteur understood this be the current, but ghastly, buzz word for the good old fashioned concept of "cutting out the middle man." The low cost airlines, such as Ryanair, Go and Buzz were cited as evidence for their success in bypassing travel agents.

The use of the internet as an advertising medium was also discussed and it was observed that, if properly aimed, this approach could result in low costs per contact as well as reliable statistics based on establishing known links with customers.

In conclusion, the workshop believed that internet based commercial ventures were not dead but that, in future, they would succeed only if they followed well established business principles.