

# **If It Doesn't Make ~~cent~~\$, It Doesn't Make Sense: Understanding and Profiting from the Internet**

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## **The Perfect Storm**

In 1991, it took the convergence in the skies and seas of the Northeastern United States of an eastward-moving cold front, a low-pressure system off Sable Island, and a hurricane headed out to sea to create a monster, known to movie-goers as “The Perfect Storm.” Waves over 100 feet high killed experienced seamen and caused damage and dangerous conditions for many. It was an once-in-a-lifetime disaster.

Likewise, a convergence of financial conditions in the late 1990s caused a “financial perfect storm.” For a few strange years in the late 1990s, Wall Street became so enamored with Internet companies and young entrepreneurs saying “it was easy to earn a billion” that normally conservative businessmen, who took 20 or more years to earn their fortunes, fueled a virtual Ponzi scheme in the capital (stock) markets. Of course, like all irrational movements, the Internet had been oversold to investors, but soon rationality and the forces underlying basic economic laws returned, as they inevitably must. The entire thing came crashing down.

What are the results that we see after the Dot-Com storm? Certainly a few entrepreneurs and speculators became rich. Their riches were gained at the expense of common investors and companies. Now, most investors have returned to the environs of yesteryear where value is measured in terms of real companies with real assets and real profits. To a large degree, the current scandals of deceptive bookkeeping and fraudulent management reflect the insistence of the investing community on a return to basic values.

The Dot-Com storm brought about significant development of the Internet. But, we might logically ask, “What is the appropriate role of the Internet in my business?” and “Should my company pursue E-Commerce as a method of sales and marketing, either as a replacement or supplement to traditional methods?” The pessimistic might even ask, “Is the Internet going to be more than just an easy way to search for information, something like an on-line library?”

To understand if the Internet has any relevance or use in the composites industry and your business in particular, a brief review of what caused the Internet mania late in the last decade will prove beneficial.

### **What really happened in the Dot-Com disaster?**

Perhaps not what you think. And the conclusion may not be an end but really a beginning. Consider the following:

The Federal Reserve (“The Fed”) expanded (gunned) the money supply from the early 1990s due to the Asian Crisis and lingering concerns from the Gulf War and consequential recession. This was seen as necessary to make sure that the U. S. economy would not sink into the doldrums with the slowing of Asia and, to a large extent, Europe.

The advent of the Internet and unprecedented hype converged with this incredible oversupply of money. The excess money went into ventures. The Internet technology companies were more than willing to receive it.

Then the Fed pushed an astounding fifteen percent more money into the system in 1999 on economic fears, mostly revolving around the potential impact of Y2K. When Y2K came and went with no problems, the excess money poured into the capital markets. Some \$1.5 trillion new dollars entered the system from 1995 to 2000. That’s a lot of fuel for the engine. Venture investment spiked along with the money supply.

Then, in March 2000 the money started to dry up. The Fed realized Y2K was a non-issue and that the money supply had been expanded far too much. The Fed’s tightening of the money supply took

hold in earnest by April 2000 and caused investors to critically examine their portfolios. It was apparent, as the fog cleared from this intoxicating storm of money lust, that silly and embarrassing enterprises with no chance for success (i.e., profit) had been funded with little due diligence. Many had even managed to go public and achieve dizzying valuations. Some companies, such as eBay and others, were real companies. (eBay is actually a new economy.) But, most were, sadly and at best, nice ideas for small divisions of real companies, not real companies themselves! Some 835 well known Dot-Com ventures have gone bankrupt since early 2000.<sup>1</sup>

Many ideas were simply “flaky,” such as Flake.com, the cereal portal. Other companies, like Pets.com and eToys were better marketing gimmicks than real businesses. Legitimate efforts like Excite@Home have failed in grand style—billions in operating losses. It goes to show that “just because you can, doesn’t mean you should.”

### **Evaluating online businesses**

When looking at online investment opportunities, we should all be on the lookout for these elements:

- A competitive advantage
- A compelling proposition that beats off-line enterprises
- Solid revenue
- Cost of the investment
- Profit models that don't rely on advertising and click-through advertising
- A clear value proposition that doesn't require drastic change in the way businesses operate
- Backing by well-funded, patient capital

However, new start-ups are not necessarily where the action is. The real story is that the Internet was indeed a revolution—for people. Never has man been able to communicate in such a way. However,

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<sup>1</sup> See <http://www.webmergers.com/editorial/article.php?id=58>.

for businesses, the rise of the Internet should be evolutionary. And that's where many seemed to go astray in trying to do too much with the Internet at the beginning. The real Internet wars have just begun for real companies with real assets that recognize the Internet, and eBusiness, as just an extension of their businesses, another sales channel, for instance, of high-profit revenue.

### **Winning the Internet wars**

Leveraging the power of the Internet for a composite fabrication company may take many forms along a spectrum, as shown in Figure 1. At one end, a company may **do nothing**—indeed, if the CEO does not believe there is any benefit to being on the web, then this may be the best decision. Some companies who totally ignored the Internet and the often related massive misspending on information technology are some of the companies who are thriving now and, ironically, best poised to capitalize on the online opportunities.

Moving a little on the spectrum are simple **identification web sites**, where a company has a web site, usually with its own domain (e.g., [www.compositefabricator.com](http://www.compositefabricator.com)). There seems to be no reason to not at least have a simple site that establishes a beachhead on the Internet for prospective customers, suppliers, etc. to find a company and its most basic information. To not have this minimal type of site would be analogous to not having a listing in the Yellow Pages or an industry directory. Often, buyers research the Internet before making “the call” that leads to sales.

Moving along the spectrum of possibilities, companies may provide more robust web sites with features that would be normally found in a brochure. These brochure web sites might contain:

- Company history
- Management information
- Product information
- Catalogs
- Frequently Asked Questions
- Related information

The above features are examples of mid-tier site features that will require more thought, time, and resources to initialize and maintain than just basic identification.

Still further along the spectrum, much more sophisticated sites include **e-commerce** (the ability to take orders and collect payment). These sites are typically retail-oriented, although some manufacturers have also instituted e-commerce capabilities.

The next level of complexity is online **customer service sites** (trouble-shooting, analysis, specification assistance, design assistance, etc.). These forays often require significant time, dollars, and corporate bandwidth to accomplish and maintain. They should only be undertaken by a company with the resolve to do it well and with a clearly defined business plan that demonstrates a clear path to a meaningful return on investment.

In spite of these costs, the potential rewards from customer-service sites can be astonishing. In fact, decreasing expense through efficiency and productivity may be the most important promise of the Internet. Thousands of companies are using the Internet to bring increased efficiency and productivity to mundane processes such as billing, approval of proofs, and host of other applications. The money saved flows straight to the bottom line.

*Business Week* magazine recently did an exposé on this use of the Internet.<sup>2</sup> One interesting example concerned the paperwork involved in shipping materials that uses a bill of lading. The use of a bill of lading for a shipment goes back at least 3,000 years. Under the time-honored system, a bill of lading would be created by the merchant on the date of departure, the merchant would tear the bill in two, keeping half and giving the other half to the captain of the ship who would present the bill of lading to the customer upon delivery and receive the agreed-upon money.

Today, multiple copies of bills of lading go to each involved party. However, companies such as Singapore-based Neptune Orient Lines, have moved the paper-based shipping business onto the Internet.

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<sup>2</sup> See *Business Week*, April 15, 2002, story entitled *Business' Killer App: The Web / No, this isn't Dot-Com Delusion Act II. It means adding a couple of points to profit margins -- and that's nothing to deride these days*; online version at [http://www.businessweek.com/technology/content/apr2002/tc20020415\\_3981.htm](http://www.businessweek.com/technology/content/apr2002/tc20020415_3981.htm).

The company established its first Internet site in 1995 and it has steadily transferred to the Web the transactions required to ship cargo. The transition was slow, but by 1999 almost 8 percent of the shipping lines' customers conduct their business online. More importantly, today that number has grown to 38 percent, with 25 percent never seeing a paper bill of lading.

The reduction of paper is astounding. The company reports a double-digit increase in shipping volume but a 20 percent reduction in the costs of bills of lading. One executive claims, "I can't think of one thing we're building that doesn't sit on top of our Web. We don't think of it as e-business anymore—just business."

Finally, are approaches to the Internet that require **custom computer programming** to achieve, such as a site where customers could see three-dimensional versions of a composite product before it is finalized. Approval for design and manufacture might be given online, saving everyone in the chain time and expense.

Another example of a custom programmed site would give a company's suppliers limited access to the purchasing/manufacturing company's process and inventory data. This permits the suppliers to follow consumption of their OEM product and anticipate when shipments are needed.

### **Costs of preparing an Internet site**

The costs of a site can vary widely, even when the company is careful to watch the development costs. The first step in estimating the costs is to decide on the type of site that a company will have. Some typical costs are given in Figure 2 for the various types of sites across the Internet spectrum.

The costs are divided into initial expenses and then monthly costs to maintain the site. The initial expenses range from a few thousand dollars for a brochure site to tens and even hundreds of thousands as the complexity increases. Monthly costs are generally a few hundred to several thousand dollars.

If a company is unsure what type of site to start with, we suggest that a brochure site is best. With a carefully developed site, where attention has been given to the purposes of the site as well as to

its appearance, money can be effectively controlled and the CEO can be consulted with to determine if a more complex and aggressive site is desired. Of course, considerable variation is possible within the each of the site types and each company should try to reflect their own culture and image in the type of site that they present.

### **Getting the most out of your site**

An article in *Composites Fabrication* in February 2000 entitled “Composites On The Web: A Business Strategy” by Joe Dysart gave many suggestions for improving the ability of a company to make their site easily found using Internet searches. Most of these are still valuable suggestions. In particular, the trends toward using companies that help give good placement in searches has become the general rule. Today, it is vital that a company comes up well in searches on Google ([www.google.com](http://www.google.com)) in particular as this is virtually the web’s default directory. It is unparalleled in accuracy and intuitive searches.

Another angle on the Internet is creative partnering with online ventures that might bring a composite manufacturer more status or more leads. This kind of creative marketing is the hallmark of the Internet and is a way in which to defray or share costs.

The use of Internet yellow pages or other listing services is also a helpful method of directing people to your web site. *Plastics News* has a listing of over 3,000 plastics industry websites. There is no charge for having your company’s site listed. ([www.plasticsnews.com](http://www.plasticsnews.com))

### **The big Internet picture**

As a consumer of information, composite fabrication executives and managers have an enormous amount of data available to them.<sup>3</sup> Using the Internet for market research and information gathering is an essential component of a company’s online strategy.

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<sup>3</sup> See <http://www.kppc.org/resources/workshops/CF/links.cfm> to see the Composite Fabricators Association’s approach to the Internet.

Obviously, leveraging the Internet is more than just having a web site. Certainly, a composite fabrication company needs to determine if it should have a web site, whether its current web site is good enough, what makes a site good, what is the objective of the site, and how much should be invested. Yet, these questions are answered in ways as diverse as the companies and their CEOs. The elements of a brochure web site are distinct from the requirements of a commerce-oriented site. A company would be wise to follow this pattern of decision-making:

1. Is there a top-level CEO commitment to an Internet presence for the company and to the type of site that is chosen? (The involvement of the CEO in determining the nature of the website and the costs to be expended is generally the #1 factor in success of the site.)
2. What is the objective of the site—simple “brochureware” or a custom or even revolutionary approach to composites on the World Wide Web?
3. Is there enough fuel in the tank? (Does the company have the resources to complete its online objectives?)
4. The company should ascertain what constitutes a quality site for its vertical application on the Internet? Design and function naturally follow.

### **Conclusion and additional reading**

Many companies are succeeding at the Internet just when the media would have us believe it's a total bust. eBusiness is here to stay, and it will become just “business.” It needs some concerted effort and focus by visionary cogs within the corporate machinery, but it is changing America and the rest of the business world. Books like *D2D: Dinosaur to Dynamo* by David Stauffer and others detail extremely successful applications in eBusiness at companies like Powell's Bookstore, Office Depot, J.C. Penney, Ethan Allen, and a host of others.

The Internet is alive and well. It just has to make cents.

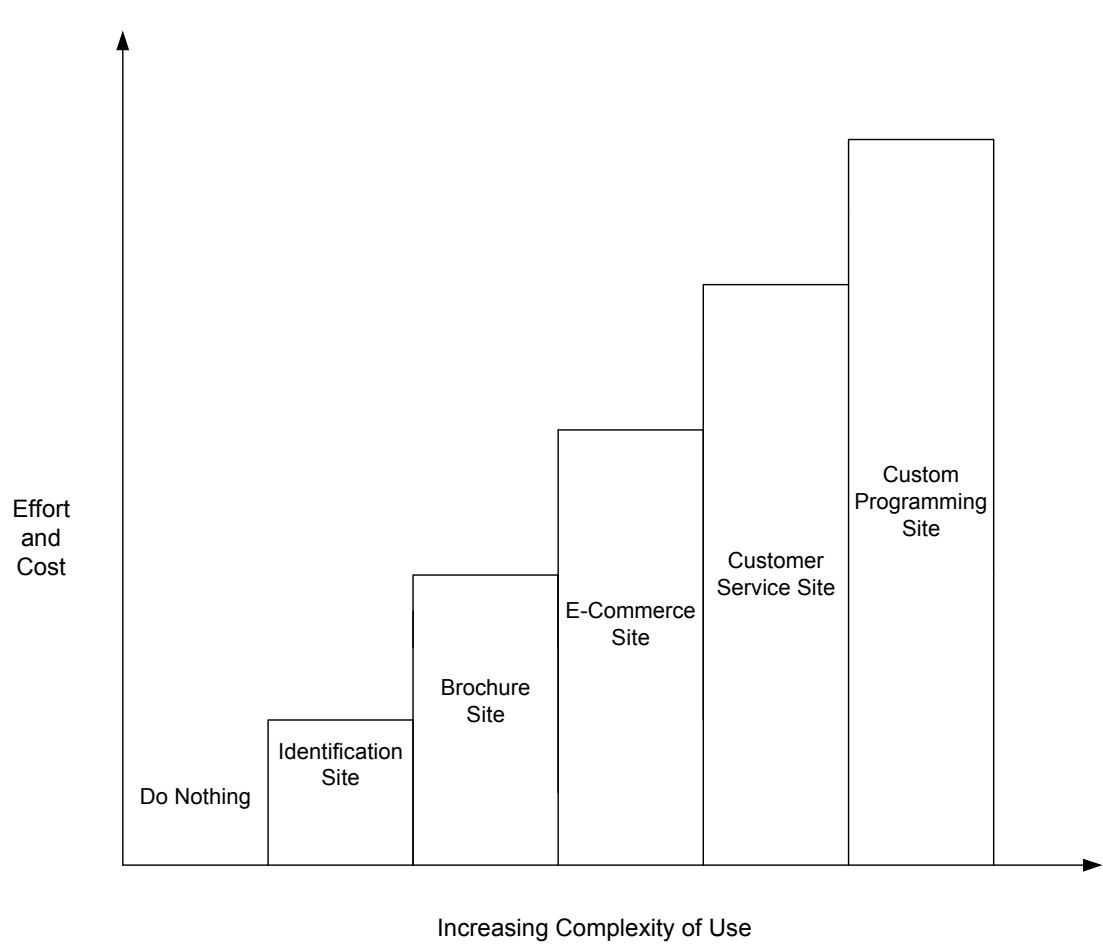


Figure 1 Spectrum of Uses for the Internet by a Company

Figure 2 Costs of various types of Internet sites

<u>Type of Site</u>	<u>Initial Cost (\$)</u>	<u>Monthly Cost (\$)</u>
Doing nothing	0	0
Identification site	2,000	100
Brochure site	10,000	500
E-Commerce site	10,000-150,000	500-10,000
Online Customer Service site	30,000-150,000	5,000-50,000
Custom Development site	50,000-500,000+	15,000-50,000+