

## Chapter 1

# The Internet Gold Rush

**T**his is it—your second chance to strike it very rich because once again, the internet is changing all the rules. The first dotcom gold rush occurred roughly between 1995 and 2001. It began when a little start-up named Netscape introduced a web browser—and the race for cash was on. Amazon, eBay, Yahoo, 1-800-Flowers.com, drugstore.com, Priceline.com, WebMD.com—they staked their claims to a piece of cyberspace and became billion-dollar businesses. Others, like Pets.com, WebVan and eToys, flamed out spectacularly when the bubble burst in 2001. Many wondered if the internet would ever amount to anything more than a few pie-in-the-sky ideas.

But today, e-commerce is back in a big way. Web 2.0 is here and many are referring to it as the second internet gold rush because so many new companies are once again making a big splash and changing the way people do business, spend time and purchase things online. Just as dotcom giants of the first wave did a decade ago, companies like Skype, YouTube, Facebook and Google are skyrocketing in value. And just as before, they've all been started by smart individuals who have faith in their ideas and the future of the internet. They are succeeding because the new rules favor companies that are innovative, smart and ultraquick to react to changing consumer interests. It also helps that Web 2.0 entrepreneurs have been able to learn from the mistakes and successes of the original dotcom pioneers.

Chew on these numbers: Online retail sales are projected to hit \$204 billion in 2008, up from \$175 billion in 2007, and should reach \$300 billion by 2013, according to a study conducted by Forrester Research, an independent technology and market research company. During the 2007 holiday season alone, consumers spent more than \$29 billion online, an increase of 19 percent over the same period in 2006. On 2007's "Green Monday"—the term eBay coined for the second Monday in December—online sales hit a record of \$881 million, making it the heaviest online spending day in history.

The internet is for real, and in the 21st century, if you're not on it, you're not in business. That is today's reality byte.

### **A New Set Of Rules**

On the web, the advantage is yours—it belongs to the entrepreneur. Why? Consider Compaq, now a brand under the Hewlett Packard umbrella. It makes fine computers—maybe no better than its competitors, but certainly no worse. So why did Dell long ago surpass Compaq in market leadership? Dell leapt feet first into full-steam web retailing. It yanked its merchandise out of retail stores and

threw the dice, betting the company's future on direct selling (via catalogs and the web) to corporations and individuals. Compaq, meanwhile, faltered at every step because it didn't want to alienate its established retail channels, convinced they would be irked if suddenly the same computers were available for less on the internet. So Compaq dithered during the infancy of the web, and that indecisiveness made it lose momentum and leadership while upstarts grabbed market share.

Compared with 20th-century business models, the web is both a new distribution channel and a new way of doing business. Don't miss either part of that statement. Think of the web only as a new channel—a different way of putting products and services in front of customers—and you miss the threat and the promise of the internet, which is that it has and will continue to utterly change the business world and how you do business.

For one thing, the web is ruthless in the squeeze it puts on pricing. Fat and waste have to go, and good riddance, because many large companies (and too many small companies) have grown comfortably wealthy by exacting indefensible margins out of the retail process. No more. The web stomps margins flat, and to make profits, companies have to rethink where their dollars will be earned. Big companies (most of them) have responded to these new rules by shutting their eyes and praying the moment will pass. (Think of the big banks that treat customers terribly, pay laughable interest rates and are forever hiking fees. Most are doomed to be dinosaurs.) All this is good news for you because it means you have a wide-open playing field before you.

Better still, the opportunities are unlimited. Would it be wise to go head to head against Google or Amazon? Not directly, because these companies are among the many internet businesses that can legitimately claim to have established major consumer brands. But at less than 20 years old, the web is still just a tot in the over-

all business world and, as so many of Dotcom 2.0's upstart entrepreneurs have shown, possibilities are still everywhere. Want proof? Read on for a few amazing stories of internet success popping up where most people would least expect it.

### Getting Social

Consider Facebook. The ultra popular social networking site was started by a Harvard student in his dorm room. As a sophomore, Mark Zuckerberg had a hunch that his fellow university students would like to congregate,

### **Beware!**

*Venture capital funding, billions of dollars' worth, is out there—but be prepared for a grilling like you've never had before any check is signed. Never forget that venture capitalists are in business to make money, lots of it, not to speculate on chancy business ideas.*



send messages, load photos and generally flirt with one another online. Within a year of launching Facebook, Zuckerberg took off for Silicon Valley and hasn't looked back since.

Facebook eventually opened its doors to all users, not just students, and it now has 66 million active users. In 2007, Microsoft purchased a 1.6 percent share in the social networking company. Do the math: That's a \$15 billion valuation—and Zuckerman isn't even 25 years old yet.

News Corp. purchased social networking site MySpace for \$580 million in 2005. Google paid \$1.65 billion for video-sharing site YouTube in 2006. And AOL just recently picked up Bebo, a favorite social networking site in the United Kingdom, Ireland and New Zealand, for \$850 million.

These are some big figures. While social networking can be a difficult game to enter, it does show the extreme possibilities are available in our new Web 2.0 world for innovative entrepreneurs with a good idea.

### Claiming Success

Charles Brofman is an internet entrepreneur who has found success pairing fast-paced internet technology with the slow-paced process of settling insurance claims.

Brofman started Cybersettle Inc. (cybersettle.com), a White Plains, New York-based online dispute resolution company, in 1996. Its web-based system facilitates high-speed, confidential claim settlements by matching offers and demands. Parties can settle disputes instantly, 24/7, via the internet, or by calling its customer service center during normal business hours.

Why did he start the company? "The courts today literally cannot handle the onslaught of litigation they face," says Brofman, a seasoned trial attorney. "As a result, people who are entitled to get compensated for their injuries have to wait long periods of time, and insurance companies that have an obligation to pay—and want to pay—have to wait a long period of time. Cybersettle really just came out of our frustration with this process."

Here's how Cybersettle works: An insurance company receives a statement of claim from a plaintiff's lawyer. When the insurance adjuster reviews the case and is ready to settle, he then enters three offers into the computer. The plaintiff's lawyer is informed that the insurer has made an offer, and the lawyer then enters three demands. The Cybersettle main server compares the lawyer's first offer with

#### Smart Tip

*Just because your idea might seem a little out of the ordinary, don't quit if you're a believer. Charles Brofman didn't quit, and his Cybersettle is a big winner in reinventing the way insurance claims are settled.*



the insurer's, and when the demand falls below the offer, the software splits the difference and settles the claim. Brofman says the system mirrors the way the insurance industry does business.

To date, Cybersettle, which can be used in the United States and Canada, has handled more than 200,000 transactions and has facilitated over \$1.5 billion in settlements, including bodily injury and other types of insurance claims.

In addition, Cybersettle has expanded beyond just insurance. One area is public entities. A pilot program with New York City started in 2004; by the end of the first year, the city estimated Cybersettle had saved the city about \$11 million. By 2007, the City comptroller announced that the cost of claim handling for the city dropped \$34 million in the prior fiscal year—and he attributed \$27 million of that savings to Cybersettle.

Cybersettle is also launching a new consumer-to-consumer program in 2008 that will basically become an online small claims court for the world.

Brofman says there are several reasons why his internet venture is successful. One, his company has a “fabulous” investor, a strategic partner who understands his business. Another is that his business does what the internet was designed to do, and that is to conduct a transaction 24 hours per day, seven days per week. “If you are going to do something on the net,” says Brofman, “you have to do something that the net was designed to do.”

### **Reaching Their Peak**

If you're willing to expand your horizons a little, as two entrepreneurs discovered, the sky's the limit. Consider Jim Holland and John Bresee, who founded Backcountry.com, a Herber City, Utah-based online retailer of outdoor gear for all things backcountry, in 1996.

Holland, a two-time Olympic ski jumper and six-time national champion Nordic ski jumper, and Bresee, a former editor of *Powder* magazine, founded the company with the purpose of providing outdoor adventure gear to the hard-core recreational athlete. Holland and Bresee's online store has seen triple-digit average annual growth for the past 10 years. Pretty amazing, considering the fact that they began the company without any outside investment.

“We developed the site ourselves and banked about \$2,000 of our own money to get started, which we used for inventory,” says Bresee. “We took a risk but knew there was an interest out there for what we were doing.”

What's the company's secret to success? There's not one answer to that question, but a key reason is that the company decided to focus on a narrow niche—selling gear to hard-core sports enthusiasts—instead of competing with mass-market retailers like REI that might sell the same items, but without the same knowledge.

Backcountry.com, for example, populates its call-center staff with hard-core skiers and trekkers who are out there using the equipment the site sells.

Therefore, when customers contact Backcountry.com with their questions, the customer solutions team, known as “Gearheads,” can answer by drawing on their own unique personal experience.

Excellent customer service, in fact, is the company’s mantra. “We make it very easy for our customers to communicate directly with real people at Backcountry.com, whether they have a question or want to make a purchase. Our phone number is on every page of our site, and people can just as easily opt to IM a Gearhead if they prefer,” says Bresee.

Other reasons for its continued growth? The addition of other successful niche sports gear sites (Tramdock.com, Dogfunk.com, SteepandCheap.com, WhiskeyMilitia.com and BackcountryOutlet.com), cost-effective online and word-of-mouth advertising, and the company’s philosophy that the risky way is the safe way.

“If it’s safe, we’re not interested in pursuing it,” says Bresee. “To successfully grow a business, you have to take risks. In the case of Backcountry.com, we’re lucky that the risks we’ve taken are working out pretty well.”

### **Film Rentals For The 21st Century**

Now, what about taking on an established business model and using the internet to completely turn it on its head? Travel back to 1997, a time when the dotcom era was in full bloom. It was also a time when the idea of renting movies via mail seemed ludicrous. In fact, many thought that Netflix founders Marc Randolph and Reed Hastings were nuts. DVD players had just started selling in the United States in March 1997, yet by October the guys were already executing their business plan. Despite the odds and the obstacles, they persevered to create Netflix, a pure-play dotcom that has revolutionized the movie rental industry.

At the start of this venture, there were plenty of naysayers asking why people would wait for movies to arrive in the mailbox when they could just go down the street to Blockbuster. But the founders stubbornly found a way around all objections and spent countless hours mapping out operational strategies.

Netflix launched in 1998, operating for the first five years with virtually no advertising money. Even they were surprised by the consumer response. The key was connecting with rabid early DVD adopters on Usenet discussion groups. Netflix made no public announcements about the site launch, hoping the soft launch might bring in volumes of more than 10 or so “friends and family” orders

### **Opportunity Knocks**

**Always look for a niche the Big Boys have neglected—then exploit this opportunity swiftly, before the mega-companies come to their senses. And guess what: There always are such opportunities. Find yours and move fast.**



per day. But the first day, 500 orders arrived, almost exclusively from Usenet advocates who noticed the site was live and announced it to their networks. Within 30 days, the company was processing 1,000 orders per day; within three months, they were moving more than 2,000 orders per day, and their phenomenal growth continued from there.

Netflix has been one of the most successful dotcom ventures yet. Today, it's the world's largest online DVD movie rental service, serving 7.5 million members and offering 90,000 movie titles. Its appeal and success are built on providing an expansive selection of DVDs, an easy way to choose movies, and fast, free delivery.

Incredible stories? You bet, but the internet is filled with them because all the rules are new in the internet economy. Even the biggest players can be successfully challenged by the upstart who sees an opportunity, then seizes it.

Better yet, the odds are stacked in your favor because you are little. How? When a big company such as Toys “R” Us fumbles its e-commerce debut—which it did by disappointing many holiday season shoppers back in 1999—it makes headline news and even e-commerce history. That company has a well-established brand; consumers who shop there, offline or on, shop with expectations. When it made hash of its web storefront, it hurt.

What if you do likewise—drop a few balls at startup? Customers don't know you, don't have expectations, and odds are you'll be forgiven. A few years ago, business guru Tom Peters' mantra was that the moment had come for business to practice “Ready, Fire, Aim” because no longer was there latitude to spend months scoping the target. On the web, too, action counts. Take it—as Netflix did—and you just may come out way ahead.

### **Sweet Dreams**

Sometimes even when your dreams aren't so lofty, the internet can still save the day, as Barbara McCann found out. She and her husband, Jim, owned The Chocolate Vault, a store in Tecumseh, Michigan, a village about 60 miles west of Detroit. They'd watched traffic—and customers—veer away from little towns, and they'd watched their cash flow dry to a trickle. Then they decided to give the internet a whirl.

On a skimpy budget—a few thousand dollars—Barbara McCann personally built her website, [chocolatevault.com](http://chocolatevault.com), and then she watched an amazing thing happen. “People from all over the country found us, and they started buying our chocolates!” she says.

McCann says the internet business has grown so much that she has decided to close the retail store. In 2005, she moved her internet business and home to another small town in southeastern Michigan and built a small factory-type facility that allows the company more space. McCann says the move was the best decision she could have made.

McCann doesn't have the money to buy major advertising space and instead puts all her energy into offering exceptional customer service. "We are trying to give our customers the kind of personal service online that they would receive if they walked into our store," she says. "We've also found ways to customize our products. For example, we make custom molds for our corporate clients."

McCann also says that most of her customers are return customers who keep coming back because the site is understandable and easy to maneuver.

Will The Chocolate Vault rise to the top and challenge the biggies in that space, such as Godiva and others? "Never," says McCann, who knows her budget and her ambition. But the big miracle is that "the internet has been a lifesaver for us," she says. "We would've closed our shop without it."

Set the scale of your internet ambitions—dream large in the way of Charles Brofman, or dream on a more diminutive scale like the McCanns—because there is no "right" approach to the internet. Good, steady money can be earned by strictly local players who open on the net and find a stream of global business pouring in. Or big bucks may be yours if you invent a new eBay or Monster.com.

## The E-Commerce Quiz

**Think you're ready to become a "netpreneur"? Prove it. Before moving on to the next chapter, take this quiz. Answers are true or false.**

1. I'm comfortable in a game in which tomorrow's rules are invented the day after tomorrow.
2. I see inefficiencies—waste and delay—in many current business practices.
3. I'm willing to delay this year's profits to potentially make more money next year.
4. I know how to size up customers I've never seen or talked with.
5. The net excites me—I honestly like surfing around and seeing what's new.
6. I can live with thin margins.
7. Customer satisfaction is the most important thing a business can deliver.
8. I'm not afraid of battling titans.
9. I see opportunity where others see risks.
10. I am willing to work harder and smarter than I ever could have imagined possible.

**Scoring:** Guess what—"true" is always the right answer for any netpreneur. But you knew that already because you're ready to compete on this merciless playing field.