The face of e-business may have changed this past year, but the basic idea of using the Internet to facilitate commerce is still alive and well.

That seems to be the consensus of eight members of a virtual roundtable Silicon Alley Reporter assembled recently (participants were interviewed separately). The diverse group, which ranges from the executive VP of AOL Time Warner to the CEO of SeamlessWeb Professional Solutions, a small, Alley-based firm, also includes a prominent attorney, a venture capitalist, an analyst, and a representative of the online advertising community.

Most of the participants agreed that eBay, Yahoo, AOL Time Warner, and Amazon are the leading companies in their respective markets, and that Amazon is clearly the e-commerce leader. But, prominent characters such as WalMart.com, Staples.com, and FTD.com were also mentioned as successful e-businesses. In fact, the general consensus was that companies that use the Internet to foster their core business are much more likely to succeed than those that build their companies around the Internet itself.
WHO'S WHO

Rep. Rick Boucher (D-Va.) is serving his 10th term. He co-founded the House Internet Caucus in 1996 and currently serves as one of two House chairmen of the 140-member group. He is a leading architect of federal policy for the Internet.

Paul T. Cappuccio is the executive VP and general counsel of AOL Time Warner. He oversees the worldwide management of AOL Time Warner’s legal affairs, collaborating with all of its operating businesses.

Stewart Cheifet is the managing editor of both Net Café, a national public television series on the Internet in its fifth broadcast season, and Computer Chronicles, a national television series that features high-tech subjects around the world, now in its 18th broadcast season. Both shows are produced by Stewart Cheifet Productions.

Jason Finger is the co-founder and CEO of SeamlessWeb Professional Solutions. Opened in 2000, SeamlessWeb provides New York City investment banks—as well as law, accounting, and public-relations firms—with a single electronic bill for all of their restaurant, catering, gift, and courier services.

Jonathan A. Flint is a managing general partner of Polaris Venture Partners. He co-founded Polaris in 1996 with Steve Arnold and Terry McGuire. Polaris is an early-stage VC firm with $1.2 billion under management and investments in more than 60 diversified information and medical technology companies.

Faye Landes is the senior research analyst at Bernstein Investment Research & Management. She covers e-tailing companies such as Amazon, Priceline, and eBay.

Stuart D. Levi heads the Internet and e-commerce practice group at Skadden, Arps, Slate, Meagher & Flom LLP. His clients include Citigroup, CMGI, and Register.com. In 1999, he was selected by Crain's New York Business as one of New York's "Forty Under Forty" rising stars.

Mark Moran has been senior VP and general counsel of 24/7 Media since its inception in 1997. 24/7 Media provides advertising and marketing solutions to Web publishers and advertisers.

While the fall of many dot-coms was expected, the demise of certain major players, such as eToys, makes predicting the future more difficult—and makes companies like Amazon's road to profitability that much more important. Though business-to-consumer companies were used throughout the roundtable to demonstrate e-business principles, the B2C sector was seen as much weaker than its business-to-business counterpart, which everyone essentially gave high marks for success.

As for future growth, a few ideas resonated. First, developments in broadband and high-speed Internet technology will exponentially fuel the growth of e-business, the panelists predict. Second, regardless of whether or not it is cool to admit, some government regulation is necessary to prompt advancement. Of course, the participants disagreed on the extent to which the government should get involved. Third, self-policing is key, and privacy is still a major issue. Finally, there are high hopes for Michael Powell, the newly appointed Chairman of the Federal Communications Commission.

The evolution of e-business has come full circle. The road to success in cyberspace is again paved by traditional customer service and ease of use, rather than catchy domain names and flashing banner ads. Boring but sound business plans have stolen the glimmer from exciting but perpetually unprofitable ideas in the venture capitalist's eye. And, remarkably, established "old economy" companies are back in vogue as they lead the e-business charge with their offline reputations and substantial resources. It is somewhat ironic that years after the Internet irreversibly transformed the commercial landscape, e-business is not actually new business: it is simply old business with new ideas.

Silicon Alley Reporter: Describe the current state of e-business. Is it succeeding, treading water, or drowning?

Rep. Rick Boucher: Notwithstanding the much-publicized demise of hundreds of dot-com companies, the state of electronic commerce appears to be strong. It is frequently remarked that a transformative technology that leads to an investment bubble experiences its truly sustained growth after the bubble bursts. So I think that will be [the case] with Internet-based commerce.

In fact, at a time when retail sales generally were declining last year, retail sales conducted online were increasing by a factor of 30 percent or better. This increase was not sufficient to save many companies, but it should give confidence to those with sound business plans that there is a future in business-to-consumer electronic commerce. Of course, on the business-to-business side, electronic commerce is dramatically expanding and contributing to the huge new efficiencies that traditional businesses are experiencing.

Jonathan A. Flint: At Polaris [Venture Partners], we believe that this is a great time to put capital to work in a more reasonable economic environment. Last year we experienced an unprecedented period of growth in our industry, driven largely by the funding of e-businesses [Editor's note: Venture-capital investments totaled over $100 billion in 2000, up from $40 billion in 1999.] Although the pace of investing has slowed, technology innovation continues unabated. Companies that cannot refocus their models will suffer. The companies that articulate a clear value proposition and profitability orientation will have a better opportunity to succeed.

Stuart D. Levi: On the B2C side, I think it's fair to say that from a user perspective—which is perhaps the most important factor—[e-business] is treading water. Many [consumers] don't realize how central the Internet has become to their lives with respect to...
obtaining content, researching information, and purchasing certain goods. On the B2B side, it is definitely succeeding. Companies are beginning to appreciate the efficiencies and opportunities presented by conducting transactions online.

Jason Finger: I think e-business is succeeding more wildly than anyone could have reasonably expected. However, too many companies were considered e-businesses when, in fact, they were merely using the Internet to conduct traditional business. Just as a company that utilizes the telephone to conduct business is not a telephone company, a company that utilizes the Internet to conduct business is not an Internet company. If your question relates to what people perceived as "e-business," I think that it is drowning. If you are asking about the true intent and concept of electronic, frictionless transactions and exchange of information, I think e-business is one of the most powerful revolutions any economy will ever see, and will be for the foreseeable future.

SAR: What is necessary to foster further growth?

Paul T. Cappuccio: There is no question that the government should keep its hands away from the Internet as much as possible. That is not to say that there is no role at all for the government. But, it ought to let the market work, and if there are excesses, the government can watch them. I think, for example, that the application of the antitrust laws is a good policing force. I am hopeful that the legislatures will stay out of the Internet except to correct the first Internet expansion that expectations were unrealistically high. There unquestionably will be further growth, but the market will expand at a more normal business pace, not at so-called "Internet speed."

Technology may advance quickly, but investors were fooled into thinking that business growth could advance as quickly. If anything, once e-business companies find their footing and get on a more steady growth path, the issues of regulation and taxation will unquestionably lead to another slowing down. E-commerce will not stay free of taxation, and issues of security and privacy are sure to eventually create a cry for more regulation to protect consumer interests.

RB: The fostering of future growth in Internet-based businesses will depend to a significant extent on positive action being taken by Congress.

I am promoting two major initiatives this year. The first will require Congress to enact a baseline set of privacy guarantees that would be applicable to all websites that collect information from Internet users. Each site would be required to publish a statement that indicates what information it collects from website visitors and how that information is used by the website. Visitors would be given an opportunity to depart the website with no information being collected (that is, opt out).

The second [initiative] will reflect my view that the open-access principle, which currently applies to the telephone-wire Internet transport platform, should be made applicable to the other platforms, namely cable-modem service and the wireless and satellite platforms. The assurance that each service provider can reach its customer even when the customer migrates from one Internet transport platform to another will give impetus to the creation of new Internet-based applications, and will prevent the formation of bottlenecks through which companies that own both transport and content would have the opportunity to discriminate in favor of their own content.

SAR: How can the mistakes that led to the downfall of so many Internet companies in 2000 be avoided in the future?

Mark Moran: Companies relied too heavily on an undiversified, low-quality client base for a substantial portion of their revenue; [they] developed expensive fixed-cost infrastructures to support this unstable revenue base; and left themselves vulnerable to a market downturn by not being adequately capitalized.

These were very heady times, and it was difficult for a young company not to grow at all costs to

"[The problem was] dumb money chasing dumb business models.... It is actually a healthy shakeout. Dot-coms are not dead; they are changing the world." ³⁸ ³⁸ ³⁸ AOL Time Warner Exec. VP and General Counsel Paul T. Cappuccio
pursue the easy revenue. Those companies that developed a more solid customer base and raised sufficient capital, or that still are able to obtain financing, are surviving better. However, no one is untouched; most Fortune 100 companies benefited from the great Internet land grab of 1998–99, and are suffering in comparison to year-ago financials. Most companies knew that their weakest customers were at risk; few anticipated the vicious spiral that would ensue as these customers adversely impacted the strong customers on their way down.

PC: [The problem was] dumb money chasing dumb business models. It is very clear that for a lot of companies, their only business model was the idea of going public. At the end of the day, you have to be able to show Wall Street that you have a business model that works better than just getting money from venture capitalists. I think it is actually a healthy shakeout. Dot-coms are not dead; they are changing the world. What we had for a couple of years was not healthy; it was a lottery system.

Faye Landes: The spigot was turned off. There was also a live-by-the-sword, die-by-the-sword aspect that was derived from the tremendous attention that these companies received from the media. You would go into their executives’ offices and see the

FL: Amazon is a leader because its site is so good. They are in a position to do a lot of great stuff, but the question is: Where will it lead? The key is to provide information-driven purchases, standardized products, and things that are hard to find. eBay's value is that it offers items that are hard to find. eBay is not really a retailer and, of course, their ace in the hole is that they don't own any inventory at all. What they really are is an incredibly successful exchange.

SC: Clearly, business-to-business e-commerce has come to the head of the crowd because it is an easier universe to tackle. The rules are understood; the market is rational; and the huge branding, marketing, and advertising costs associated with B2C e-commerce are missing.

Even in the B2B field, the leading companies like Commerce One, Ariba, and Vertical Net are still struggling to create appropriate business models. What should be the primary revenue stream: one-time software sales or licensing, or continuing transaction fees? They are two very different models, and the jury is still out on which one will be most successful.

Some vendors are still reluctant to adapt to a new exchange model in which they have to pay commissions on sales that were commission-free in the past. The trend for the leaders is to find new value-added services like financing, fulfillment, and customer support to broaden their revenue base.

PC: I think the Internet changes the way you shop for the better, but only if companies succeed in making it easier for consumers than their experience in the offline world.

MM: Consumer companies that are succeeding are those that, for one reason or another, do not have to spend more to attract a customer than the customer is worth. FTD.com is one example: they have the power of a great offline brand behind them. Companies that service their customers well are seeing and will continue to see loyalty as a reward.

JI: If your revenues are derived exclusively from the Internet, to be successful you either need to own the customer, as is the case with AOL, or make money regardless of who owns the customer, like EMC, Cisco, and the payment processors that make money from credit card transactions. As a middleman, [SeamlessWeb] owns the relationship with the customer. As we have relationships with hundreds of vendors, we make money regardless of which vendor provides the finished good. We are merely tracking purchasing information.

In my opinion, the industries that are succeeding are the ones that are taking advantage of

"[T]he industries that are succeeding are the ones that are taking advantage of the Internet's original intent, which is free flow of information."

SeamlessWeb Professional Solutions CEO Jason Finger
the Internet’s original intent, which is free flow of information. I think the interesting “pipe” that will be the front-runner is wireless technology. People are so focused on optical networking and the like, they are not concentrating on the frictionless, cost-effective method of transporting information wirelessly.

JAF: In today’s market, [Polaris] believes that opportunities exist in the Internet-infrastructure, broadband-enabling, and distributed-computing sectors. As the Internet becomes more pervasive, infrastructure demands will continue to increase, multimedia applications will drive bandwidth requirements, and peer-to-peer applications will be developed. We previously invested in Akamai Technologies, which helps improve website download speed and delivery capabilities. Recent investments include Narad Networks, a broadband IP-services infrastructure company, and Applied Meta, a peer-to-peer operating platform.

On the medical side, genomics and drug-delivery industries have recently outperformed other sectors. With the recent completion of the human genome sequence, we believe that the advancement of genomics and nanotechnology will play a key role in the discovery and delivery of new therapeutic drugs. MicroCHIPS [a Polaris portfolio company] is a revolutionary drug-delivery company whose platform involves the release of chemicals, on demand, from an implantable silicon chip.

SAR: Where is e-business headed?

SC: One of the big lessons of the past year has been that business fundamentals do not go away just because you are selling on the Internet. Even successful companies [in terms of revenue and number of customers] like Amazon realized that they didn’t have the expertise to be in the specialty retail business.

When [Amazon] decided to go beyond the relatively easy-to-understand business of books and music, and to expand into toys, they gave up on the idea of doing it themselves. They did a deal with Toys‘R’Us, admitting that there is a business skill to knowing how to buy, market, inventory, and sell certain kinds of products. Just because you have a popular Internet site doesn’t make you an expert in the core aspects of retailing.

RB: On the B2B side, electronic commerce will continue to expand in dramatic fashion. The B2C business plans most likely to succeed are those that have already been proven in the traditional world. They are those that are extensions of an offline model and have been expanded to the Web. These companies can enjoy new sales either to existing customers or sales to new customers who are Web users [but] find it more convenient. Barnes & Noble, for example, is successfully selling books online because of its proven offline model.

PC: The Internet works only if it makes something easier than it is in the offline world. For example, although video streaming is getting better and better on the Internet, I don’t see it replacing traditional movie-delivery systems anytime soon. That is because with current technology, video streaming is not going to be better or more convenient than digital cable. The Internet is not perfect for everything. It has to make something more convenient for consumers. You have to be able to cover your costs, attract people, and get them to pay in a way that works, rather than just click in a couple of ads with no other source of revenue, especially when you have huge network costs. Integration of e-principles into business is key.

SL: [E-business] is on the upswing. Internet technology is improving constantly. Too many people think that because the market has slowed, [techno-

“Companies that can survive this shakeout and learn lessons from it will find it much easier to gain market share … businesses will now begin to develop in the manner they should have all along.”

--- Senior VP and General Counsel of 24/7 Media Mark Moran

logical] innovation has slowed as well. In fact, the opposite is true.

MM: [E-business is not headed] to the moon, as was predicted a year ago, and not down the sewer, as many now predict. Companies that can survive this shakeout and learn lessons from it will find it much easier to gain market share in the future. With the capital market–fed hysteria behind us, businesses will now begin to develop in the manner they should have all along.

FL: I think what we’re going to see is continued adoption by consumers. There is little doubt that convenience is going to sway consumers online. I think that you will see bricks-and-clicks businesses like Staples.com and WalMart.com continue to get a nice piece of the overall pie. I am particularly fond of WalMart.com. What happens to Amazon is a big question; I wish I knew.

Although I have to say that I am so perplexed by why toys are not doing better online. That is the one thing that makes me a little nervous because, as a parent, I am quite familiar with the tremendous inconvenience of going into Toys‘R’Us in December and fending off screaming children.
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