

Al Nazarali

How the World Wide Web was Lost

Now that the dust has settled on the dot-com bust, industry experts are busy at work analyzing what happened. Amidst reports of layoffs, CEO resignations, and the *Wall Street Journal* reporting that luxury car repossessions are at an all time high in Silicon Valley, everyone is wondering why, and why so fast?

We asked several dot-com executives, and some ex-dot.com executives, to reflect back and comment on what appears so obviously now as strategic mistakes.

Here is a composite of what they had to say.

1. “Halo Effect” on decision making

The dot-com era was characterized by inexperienced managers funded by equally inexperienced venture investors. In the absence of experience, the Internet medium proclaimed that experience does not count because the new economy has new rules, or better yet, no rules at all. Inexperience was often seen as pioneering. Speed prevailed over speed and accuracy.

2. Frantic advertising and brand building

Classic marketers evangelize that the brand is everything. Too often however, in the dot-com world, the brand was the only thing. The ability to afford Super Bowl ads replaced business-building basics as the barometer of a company’s strength.

3. Demographic myopia

Internet offering and advertising campaigns tended to have young, trendy connotations, often ignoring or failing to create appeal for other demographic segments with high disposable incomes. Trendy Internet executives evaluated and approved ads created by hip ad agencies. For example, the heaviest users of the now defunct Internet delivery service provider, Kozmo.com, turned out to be other dot-com workers, who relied on the service to deliver everything from videos to groceries to augment their busy lifestyles. The service failed to effectively extend its value and appeal to other segments, thereby failing to build a sustainable business model.

4. Too far out in left field from business fundamentals

In a frenzy to create and capture category leadership, the fundamentals of building a successful business prototype and then scaling it were often ignored. The bricks and mortar principles that built companies such as Wal-Mart were replaced by the “scale-first” principle, fueled by the illusion of moving in Internet time

5. Customer acquisition at any cost

In an era when one Internet CEO proudly professed, “Revenue is a distraction,” a focus on profits was considered even more of a diversion. Through most of 1999 and 2000, the median cost of acquiring a customer on the Internet was \$78, with one in 12 major Internet retailers spending more than \$500 for each customer acquired! This spending logic failed to acknowledge a basic characteristic of the Internet – that the nearest competitor was only a click away and that most companies therefore had little hope of ever realizing a return on these expenditures.

6. Too much emphasis on the investment community

The primary battlefield for mind share was not the marketplace for customers but the investment community. For those who had already gone public, analyst expectations were a key decision driver. According to Charles Grantham, chief scientist, Institute of Distributed Work (www.isdw.com), and author of The Future of Work, “Companies focused their business strategy on the investment community trying to raise their next round, and neglected the psychology of customers – trying to solve a business problem customers have.”

7. Finally, the entrepreneur just had too much money

This meant too little bootstrapping and creativity. This robbed innovators of valuable experience. Instead of being the guerilla commando force behind enemy lines, the well-funded start up was more like a well-armed battalion. And as anyone who grew up watching World War II movies knows, the guerilla force always wins in the end.

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