

Online Ventures

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The Emergence of Online Ventures

One of the most significant forms of new companies to emerge in recent years is the online venture. Fueled by the growth of the Internet, online ventures are those companies that conduct their business primarily through online media, such as the World Wide Web.¹ Initially, the bulk of sites available on the Web were used for marketing or product information purposes (“mar/comm” sites). However, this medium is now being used for broader, more strategic business applications such as e-commerce, customer service/support, and inventory management.

As various industries converge in this space, each brings a distinct perspective on the challenges, opportunities, applications, and procedures for developing successful businesses using this medium. The online medium requires companies to function differently and improve reaction time, service quality, and communication depth in order to serve customers who are more self-reliant, demanding, and focused. Also, the technologies themselves create limitations on the customer experience and often dictate certain approaches and solutions that may fall outside of a traditional company’s expertise or understanding.

The operating efficiencies made possible by the Web, combined with its ease of use and global reach have made it possible for start-up companies to have an immediate impact in the marketplace and pose a credible competitive threat to well-established, traditional offline companies. A classic example of this phenomenon is Amazon.com, whose initial emergence as an online retailer of books revolutionized this category and forced established offline companies such as Barnes & Noble and Borders to take notice and reevaluate their business strategies.

However, online ventures are not limited to start-up companies. As existing, traditional (offline) businesses seek ways of lowering costs, improving service, and expanding into new markets, they too are migrating some functions online or developing new divisions to serve the online channel. Some of these companies make the decision to completely abandon their “bricks and mortar” stores in favor of conducting business strictly online (e.g., Egghead Software), while others develop their online business as a complement to their offline operations (e.g., The Gap).

As more business functions and companies migrate to the Internet, the changes within an existing business will be substantial. Consider what it takes to open an online store, for example. Not only are the requirements for success dependent on traditional business functions (creating catalogs, updating information, enabling transactions, processing credit cards, coordinating inventory and shipping, fulfilling orders, etc.), but also the experience itself needs to be newly minted. The act of walking into a store and purchasing a product is nothing like surfing a website and making a purchase. Merchandising itself must be reinvented. Added to this, customer service must now respond to potential buyers through a new medium (as well as the traditional ones) and these customers will have different expectations of a company based on their use of the Internet and familiarity with it. Lastly, various parts of a company will need to function more closely as a result and may need to be organized in alternate ways in order to serve customers better.



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1. *The World Wide Web is merely one type of online medium and only a portion of the Internet itself. Online services, interactive television, and future forms of online media may not use the Internet as we know it.*

Defining the Online Venture

Simply put, online ventures are companies that primarily conduct their business online. They are distinct from other companies who might have an online presence, but still conduct business primarily through traditional offline channels. What distinguishes an online venture is not so much the features and functions of its website, but the business needs the site serves and the requirements for its success. While virtually every company can benefit from having a website (at the very least for serving promotion, marketing, and communications needs), an online venture differs in that its success or failure is directly tied to the success or failure of its website.

Furthermore, online ventures require more than just the development of an effective website; they require the building of an entire company (as in the case of a start-up) or the re-engineering of an existing business in order to meet the operating needs of an online marketplace and customer-base. In addition to the online piece, they also require many of the standard components of a traditional business (business plan, marketing strategy, distribution/fulfillment strategy, etc.).

An online venture's needs and functions (at the highest level) include the following:

- Business Strategy (revenue model, marketing, content, fulfillment, customer service, etc.)
- Market Analysis
- Technology Strategy
- Experience (Design) Strategy
- Brand & Corporate Identity Creation or Evolution
- Organizational Development
- Recruitment Needs

Online ventures can use any of several components to build a business around, including:

Marketing/Communications

- Commerce and Transaction Systems
- Communities
- Customer Service Centers
- Publishing Systems
- Events and Online Entertainment
- Intranets
- Extranets

An online venture is more than merely an "electronified" version of any one of these components. Successful ventures are stand-alone businesses that focus on meeting customer needs through online media and likely use a combination of these components. These components, as a result, require the most advanced solutions, functionality, interaction, and financial resources. All of these components are described in more detail below.



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The Requirements for Success

Most Internet “commerce” start-ups are online ventures, and most have no idea that their needs go far beyond simply building the site. To be successful and effective, online ventures require building and operating a business. Often, online business stakeholders are deeply focused on the development of their website and miss the need to address the development of the business itself. Some never make this realization until they’ve already launched their service, only to find that they are ill-prepared to deal with business functions such as shipping, billing, and fulfillment.

Following are the primary strategies for developing a successful online venture:

Carefully study your market.

It is always important to know your product or service well, but it is even more critical to monitor current trends and anticipate future ones especially in this rapidly changing online industry. Your competitors online may be very different than those offline. Because the Internet, for example, connects so many disparate people, companies, and nations, it heightens the likelihood that your competition may be from companies only tangentially related to your core business. Your marketing and positioning will not only need to be prepared for real-time change to address threats from previously unlikely sources, but also have the capacity to identify opportunities that never *could* have existed in a different medium.

Likewise, it is important to understand how your online customers differ from your offline ones (if you have them). The online medium offers an unprecedented opportunity to track, understand, and respond to customers—particularly their shopping behaviors. Online businesses must respond to customers skill levels, their varied interests, their needs at any given time, and their goals, while also addressing their time, location, and experience in order to serve them best.

Lastly, plan and build the alliances and partnerships with other businesses that will drive customers to your site, support your messages and initiatives, offer the experience and content your customers desire, and establish reliable flows of products, services, and capital. More than any other medium, online businesses require relationships with other companies in order to remain a contender in the rapidly developed, highly competitive market. Going through these exercises will enable you to set your own strategy and build an effective operating plan.

Structure your company to meet the demands of the online marketplace.

Because operating in the online medium is so different from the offline world, merchandising, order processing, fulfillment, and customer service all must be customized to meet the demands of customers in this medium. Existing companies need to identify opposition to their online venture within their organizations due to structure, attitudes, or lack of experience, and be wary of any blocks developing during the life of their venture. New companies must build organizations that are streamlined from the beginning. Too often, companies only think through or develop their Internet site, spending the bulk of their time and budget developing the service without properly considering the operating structure they need to execute this service. This is one of the biggest failing points for businesses—new or reengineered—and one of the least recognized. Traditional ways of doing business are not necessarily going to be successful online. Likewise, too many new businesses start by focusing only on their products and services and skimp on the back office pieces (processes, systems, tools, relationships, authorities, etc.) until they’re already “up and running.” By the time they’re ready to address these needs, their businesses are usually already failing or experiencing organizational trauma.



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Focus on the customer experience.

Online ventures, more than standard companies must recognize that the experience their customers have with their website (or other online solution) is the key to a successful customer relationship. The online medium offers a rich opportunity to develop strong relationships not paralleled in any medium other than physical, face-to-face interactions. Through this medium, companies are finding ways of treating their customers differently, often with personalized service. Customer loyalty is difficult to win, and is built only on the experience customers have with a company. Likewise, a company's brand is built through these very same experiences. For online ventures, lack of an effective website with valuable online experiences (for example, if the navigation is confusing, the content inappropriate, the process too arduous, or the interaction too impersonal), is the quickest route to failure. Part of the process is to develop a solution that encompasses all of the necessary aspects of an exceptional experience: information architecture and navigation and—especially—interaction design. Too many companies pay attention merely to what their sites look like (visual appearance or technological tricks) and not to how its organization communicates values or how its interactions enable experiences.

Build realistic financial projections and growth expectations.

Online ventures do not turn profitable overnight and expecting them to do so is a mistake. More important than profits at the outset are the establishment of a presence, gaining market share, and growing traffic/customer relationships. This requires significant investments and expenditures in marketing, site development, customer service, and often advertising. In general, you can not count on a return on investment (ROI) in under three years. In fact, the most high profile online venture to date, Amazon.com, has yet to turn a profit, and yet the company has a market capitalization of over \$19 billion. Granted, online ventures (or any other type of company, for that matter) can not continue to operate at a loss indefinitely. But, having a realistic approach to profit expectations is necessary from both an operational planning and an investor perspective.

Create and support an entrepreneurial spirit.

In a medium with little clarity and few models, inspiration, and insights might come from anywhere and anyone and online ventures need to create and foster an environment that rewards commitment, energy, risk-taking, and resourcefulness. The culture of an online venture is critical to its success and is more than merely "nice working conditions." A company *is* its people and a company's culture will determine how that business responds to stress, problems, opportunities, and change more than any process, tool, or command structure.

Partner with an experienced developer focused on your business.

Lots of companies can help you build a website. Very few can actually help you build a business. Understanding how to use the medium well and working with an experienced partner are some of the most strategic requirements an online venture must address in its earliest development. The ideal relationship for any online venture is to build partnerships that reflect a shared understanding of skills and experiences: each partner trusting the insight, experience, and knowledge of the other and, together, building a customer experience that emphasizes these shared strengths.

For an online venture, the company's website is its connection to the world. It is what defines its brand, establishes its customer relationships, and generates revenue. Because of this, cutting corners in the development of the website costs much more in terms of lost business, poorly communicated messages, poor service, frustrated customers, and the cost of redeveloping the site soon after launch to correct these problems. In the long run, the few dollars saved by hiring inexperienced or cut-rate

design firms, or firms that cannot provide a well-rounded business-focused methodology and skillset can cause irrevocable damage to a company's competitiveness and usually nullifies any lead it may have held in the market.

The issue is not even really one of money, but of time and complexity. If you hire a partner who can only help you develop a website, than you are ignoring the need for help in developing your business. This medium's effects reach widely into all aspects of a company's activities, and these must be addressed, resolved, and prepared for a website (or other online solution) to have a successful impact on the company's growth.

The Components of Online Ventures

We have identified at least eight different types of Internet solutions. Of these, about half are oriented to customers, while many are focused on both internal relationships (such as employees) and external ones, such as investors, distributors, partners, etc. Any business can develop and make use of these solutions to grow and succeed online—especially the simpler solutions. When a new business or an existing one decides to be an online venture, it will need to build several of these solutions—at least two.

These include:

- Marketing/Communications
- Commerce and Transaction Systems
- Communities
- Customer Service Centers
- Publishing Systems
- Events and Online Entertainment
- Intranets
- Extranets

Marketing/Communications

Most of what appears on the Internet at present serves a company's basic marketing and communications needs. Whether a website is a traditional marketing/communications experience (offering information on a company's objectives, personnel, experience, history, or capabilities), or an elaborate brand-building experience (enhancing a brand's stature with customers, creating brand awareness, or serving lifestyle needs), by and large, they talk at their customers. However elaborate these may be, they are usually merely Internet "presences."

Examples of mar/comm sites range widely, from a few pages on the Web with contact information and directions, to large sites for companies with everything from press releases to investor information to brand-enhancing lifestyle magazines. These are almost exclusively produced for customers and follow the same broadcast/publishing model as corporate magazines, customer newsletters, or other "brochure-ware."

Examples of the types of functions covered by mar/comm sites include:

- Corporate Information (directions, officers, and department descriptions)
- Marketing Materials (including Press Releases)
- Publicity and Promotions
- Brand Messages
- Limited forms of Direct Marketing
- Investor and Analyst Relations Materials



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Commerce and other forms of online transaction systems are a rapidly expanding solution category. Fueled by the market capitalization and increased venture funding, thousands of companies are setting-up online storefronts. Unfortunately, most only create the storefront and forget about the rest of the store and their customers' needs. In particular, it is easy to buy or build a system enabling an individual or a company to sell things online. Simple cataloging and sales programs are available off-the-shelf and through store services at directory sites, such as Yahoo. But, building and maintaining a store is much more than merely making the sale itself. Merchandising is usually not a component of these transaction systems, nor is anything that approximates building a relationship with a customer.

Few online commerce sites build shopping experiences that even attempt to rival those in traditional "brick and mortar" stores. Instead, they seek to take advantage of the medium to offer capabilities that physical stores cannot (such as immediate notification of inventory, reminders of reordering or special offers, quick ordering, etc.), but often to the benefit of themselves, not their customers. To date, online stores function fairly well for those customers who already know what they want. For the vast majority of customers who are "shopping" (comparing products, prices, benefits, or other factors, or those who needing some explanation, convincing, or elaboration), online stores are not fulfilling their needs like traditional ones can.

Features of commerce solutions include:

- Fulfillment Systems
- Ordering and Tracking Systems
- Customer Information Management Systems
- Transaction (shopping cart) Systems
- Credit Card Verification and Ordering Systems
- Secure Transactions
- Data Warehousing
- Cataloging Systems

Online commerce solutions are often coupled with other types of online solutions, including any of those listed here, in order to be more successful. Simpler commerce systems are among the easiest to build from available tools but the more complex, rich, and successful merchandising sites are much more difficult to create. This is mostly due to the rarity of models to follow and lack sophisticated tools to allow true merchandising and the development of rich customer relationships.

Communities

The communities category includes sites that allow people to gather, meet, and identify themselves. Many companies are rushing to develop communities as a way of building brands and competing for market share through customer attention and participation. Participation, is one of the driving forces behind communities as it is a key ingredient to both a successful community and a more involved customer. Most companies, particularly those trying to "foster" community, build few, if any, opportunities for their online visitors to actually participate in the community. Most approach community as a "gimmick" or a "hook" to get people to come to their sites—often with the sole purpose of selling banner ad space. Most community sites fail to build a sustainable community because they focus on selling things rather than enabling communications and fostering discussion and interactions between visitors. Essentially, they only view their audience as potential buyers instead of active participants.



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Communities are deeply complex spaces for rich interactions. They develop by chance as much by design. Online communities are usually distinguished from other online experiences (such as marketing/communications sites, commerce sites, intranets, etc.) by the ability of the community members to initiate and control their interactions, information, and the creation of content for the community. A community could be a component of an online venture, coupled with a commerce system or online entertainment. To be successful, there needs to be a reason to participate in the community. Simple availability of community, however, doesn't create the need or desire to actually participate. The success of online communities rests more with an understanding of human communication and interactions than with technological ones.

Some of the likely features and functionality of a community include:

- Moderated and Unmoderated Communication Systems
- Real-time and Time-shifted Communication Systems
- Polling Systems
- Identity-building and Maintenance Systems
- Community -builders and Moderators

Online communities are, in many ways, the most difficult type of online solution to build and maintain. Communities are usually fragile, carefully balanced, and dynamic experiences that rely on human interaction above all else. The few online tools for building communities are usually inadequate without the careful attention and crafting of the experience by content and culture experts who build and feed the relationships within the community.

Customer Service Centers

Online customer services centers are not so different from their offline versions. In fact, they can be easier to build if a company has an existing phone-based call center. The same personnel and procedures can usually be used as these are merely evolutions of traditional service centers. This online evolution, however, provides much more functionality, enabling company representatives to serve customers in more elaborate and rich ways.

Online service centers focus on the specific relationship between a company and it's customers with the intent to better serve those customers much like traditional service centers. In contrast, online customer service centers provide real-time service, allowing customers to "serve themselves" and solve their own problems with the aide of online information or tools. Many customers prefer to solve their own problems and are thankful for the ability and information to do so—especially when it is available 24 hours a day, 7 days a week. Aside from the obvious ability for a company to save money on customer service (by reducing the number of live operators), companies have the opportunity to increase the quality and variation of support, allowing customers to find deep information in ways most comfortable or convenient for them. This is true for all companies, whether they sell or sustain products or services, online or off. Some examples of this service includes: reordering products, fixing minor problems with equipment, learning to use products, updating contact information, or checking on account histories.

Ultimately, enhanced online customer service may blend almost seamlessly with many of the functions now served through various forms of direct marketing. The distinction between marketing to customers and serving their needs is becoming less discrete, creating a more powerful relationship in the blending of both aspects of customer relationships.

Features and functionality for online service centers include:

- Customer Relationship Maintenance
- Direct Marketing
- Data Warehousing
- Online Technical Support
- Moderated and Unmoderated Communication Systems
- Real-time and Time-shifted Communication Systems
- Answers Database/Library



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Customer service systems are often complex solutions, requiring coordination between several departments of a company in order to serve customers well. Many companies are not experienced in serving customers to the depth they may desire nor are the solutions yet available in the online medium.

Publishing Systems

The publishing category focuses on the delivery of large quantities of information or data to a variety of audiences. These might include broad, varied content (such as a search engine or directory site) or more focused, narrow content (such as Lexis-Nexis' online law and business libraries or small product information sites that move beyond simple marketing information). In addition, some publishing systems may allow their audience to contribute content instead of merely publishing company-generated information. Here, publishing systems begin to merge with communities enabling greater audience participation. Publishing systems typically require advanced forms of navigation and might require content management and creation solutions.

There are few pre-built systems for these uses, but several products can be adapted to the particular needs of the content and the audience. Systems that allow audiences to navigate content in several ways not only serve a more varied base of users and problems, but also allow users multiple ways of getting answers based on their particular need. These are usually more successful than systems that offer only one way to find information.

The quantity of the information to be published will be a factor in the cost, scale, or complexity of a publishing site.

The features and functions of typical publishing systems include:

- Automatic and Semi-automatic Publishing Systems
- Workflow Development
- Remote Publishing Engines
- Cross-media Publishing Integration
- Content Management Systems
- Data Visualization

Intranets

Some of the major differences between intranets and other online solutions are that the audience is more controllable, and the access is more restricted than with Internet sites. Intranets are used habitually, day after day, inside a company, living exclusively on its internal network. Intranets use the same types of technologies as Internet sites, but they operate solely to aid employees to be more effective at their jobs and to disseminate internal messages and coordination. In this aspect, they may facilitate (in the long term) substantial corporate reorganization as they both simplify the access to shared information and speed-up its availability and timeliness.

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Basically, all of a company's internal functions can be streamlined by building solutions with Internet-based technologies and integrating them into the culture and workflow of that company. This category holds the most promise for modular solutions that target specific recurring needs or activities of specific departments. There are also several pre-built intranet solutions available on the market that can be easily installed, customized, and launched to serve many of company's needs.

Many companies approach the development of their intranet as an extension of their corporate organization and structure. Though well-meaning, they often duplicate the same inherent problems within their company—especially with internal communications and the coordination of services between departments—onto their intranet, thereby not taking full advantage of the opportunities for intranets to change the nature of their work.

Some of the features of intranets include:

- Employee Info/Publishing
- Employee Feedback and Polling
- Employee Learning
- Employee Training, Help desk Functions, and New Employee Orientation
- Company Policies and Benefits
- Human Resources Functions
- Employee Expense Tracking Systems
- Internal Messaging and Communications
- Employee, Facility, and Partner Directories
- Company Newsletters and Communiqués
- Calendar Publishing and Synchronization
- Travel Management Systems
- Knowledge Management (Capturing and Sharing)
- Reporting Systems
- Security
- Corporate Identity Guidelines Sub-site
- Network Usage and Status Visualization
- Measurement & Reporting
- Automated Internal Communications Systems

Events and Online Entertainment

This category refers to the set of functionality required to present a specific event at a specific time (such as a live event simulcast) and/or a specific place to an online audience. These events could be simulcast in real-time (live) or archived online for repeated access. Events could take place exclusively online or be a component of a larger offline event. These might also include ongoing entertainment properties, such as games, shows, or news of online entertainment.

These solutions are distinguished by a need for very responsive content management that allows for updates of information quickly and accurately. These may also require networks that can handle enormous bursts of activity on a site or sustained use of high-bandwidth data flowing from a site.

There is a wide variety of applications for online events and entertainment. While there have been many experiments in this category, there have been few successes.



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Some of the possible features of online events and entertainment include:

- Game Development
- Communications Systems
- Event Simulcast
- Onsite Activities
- Media Broadcasting (audio, video, etc.)
- Advanced network design and development
- Media Production
- Event Planning
- Event-based Promotions



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Extranets

Extranets are solutions very similar to intranets in that they provide functionality and information for a company's non-consumer needs, but instead serve external relationships with partners, alliances, manufacturers, suppliers, increasing the effectiveness of these relationships. Extranets, by definition, require multiple, secure, and distinct access by varied audiences.

Extranets are gaining prominence as companies find ways of not only converting their own support and coordination systems to online access, but synching these with the same systems of their partners and, in the process, establishing new standards for communication between businesses. This coordination can be more difficult than any technological issues.

Some of the features and functions of extranets include:

- Partner Support
- Manufacturer Support
- Suppliers Support
- Reporting Systems
- Billing and Fulfillment Systems
- Advanced network design and development
- Shipping and Distribution Coordination
- Project Reporting and Status Updates
- Scheduling and Calendar Coordination
- Help and Technical Support
- Searchable Data (product specifications, etc.)

Conclusion

All of these solutions are merely a sample of those to be developed as this industry grows and matures. They all share a similar focus on building and enhancing business experiences critical to a company's success. Whether these solutions are used in the development of online ventures or as enhancements to existing businesses, they demonstrate the evolutionary nature of this medium and represent the breadth and depth of opportunities to come. They are also a testament to the complexity and breadth necessary to run a successful business online.