THE NET AND SMALL BUSINESS
by Jerry Michalski

It's taken three years of patient work, late nights, and Top Ramen dinners, but Zoe's Zoo Zine and Phil's Philodendron Phantasy (see Release 1.0, 6-95) have started to gain traction (or take root, as the case may be) on the Web. Zoe and Phil's online sites are no iVillage or TalkCity, but they have a dedicated following and plenty of potential.

Zoe and Phil yearn to expand their business horizons, despite their limited resources. They would like to sell some wares and offer their expertise in a variety of services, including freestanding applications. They might even dabble in ecotourism again.

They also know one thing for sure: They don't want to hire a full-time IT person, nor do they want to run a bank of servers, install a T-1 line, or wear beepers on their belts forever. If at all possible, they want to farm their services out to third-party suppliers. After all, it's almost the Third Millenium; they should be able to run a virtual company, right?

Well, almost. There are a few simple, relatively inexpensive services that they could use to build and host virtual storefronts. There are also some sites that offer discussion hosting, shared file spaces, and collaborative tools for ad-hoc meetings. It's a start.

All told, though, there aren't many Net-based services designed for Zoe and Phil's business needs, and the ones that exist haven't evolved past their early designs yet. For example, the build-your-own-storefront sites are relatively easy to set up, but they don't connect to other applications or functions, such as bookkeeping, customer communications, and marketing.

Or take Net-based storage backup from companies such as Atrieva, BackupNet and Connected. These services are really designed for individual desktop PC users, not entire small businesses. Besides, Zoe and Phil hope not to have any data kept locally worth backing up.

Online travel and investing services are more automated than ever, but they're designed for

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individuals, too. Zoe can now buy tickets directly through Travelocity or Preview Travel, but the services don't link her travel to Phil's and offer unified statements. She can manage their equity holdings through e-Schwab or their payroll account at Citibank's Website, but she can't get a unified financial picture of both without turning to a shrink-wrapped package such as QuickBooks.

That's the recurring catch: None of the various services Zoe is evaluating know about one another. If Zoe registers her clients in one so they'll have permission to read documents in her virtual office, she'll have to register them all over again in the next, so they can receive Zoe's occasional e-mailed updates or her invoices. Each service provider seems to live in the fiction that it will own all of Zoe's business. Unlikely. More tedium: The services seldom have easy ways of receiving such lists. Zoe will have to sit in front of the member-registration screen and type away. More on integration shortly.

Not just 24x7

The Internet does indeed offer small businesses 24-by-seven access to a global marketplace with remarkably few barriers to entry and amazingly low costs, but so far, it doesn't offer a reasonable service platform for their business needs. That brings us to the premise of this issue of Release 1.0: How can small businesses take advantage of all the Net has to offer? Who is working to create great Net-based platforms that will help small businesses deliver products and services without hosting their own IT systems? Are Zoe and Phil's expectations unrealistic, or do they in fact represent the inevitable future? How might meeting their expectations change today's software and computer-services industries?

To address these questions, we will conduct a brief tour of the many kinds of services that small businesses need to have available, from payroll and customer service to logistics and a few novel ones. (For this issue we're focused on what IBM refers to as the "very small business" market segment — companies with under 50 employees — though we occasionally dip down to one- and two-person outfits.) Here's the batting order:

- Infrastructure
- Customer contact
- Merchandising and selling
- Getting and holding attention
- Support and security

Before we start the tour, we'll examine the benefits and drawbacks of size, postulate a new kind of company and examine some of the issues that technology and service suppliers will have to solve if this market is to thrive. Along the way, we delve in greater detail into a few key players and include some wishful descriptions of potential offerings, as well as of how the services could fit together.
To restate our assumptions: Zoe and Phil, who run an eight-person company:

- want to leverage the Net as much as possible,
- don't want to hire any full-time IT staff,
- can't afford to pay consultants much to do this stuff,
- want to sell a mix of products and services on the Net,
- favor outside services (outsourcing) over software that's installed on premises,
- expect those services to be as sophisticated and integrated as enterprises get, and
- are willing to pay fees for services per transaction or per user — though not if it will eat up all their revenues, of course.

THE INVERTEBRATE COMPANY

It's easy to understand the dearth of innovative offerings for small businesses. Most of the interesting technology startups we've seen recently are in the "enterprise" market, where customers have substantial budgets and deals boast six or seven digits. The overhead and time it takes to communicate with thousands of small businesses with a conventional sales force is easily outweighed by the potential of closing a few large deals.

Here's a random walk through some new and not-quite-new players and the useful functions they offer: Remedy (help desk), Net Perceptions (collaborative filtering), PeopleSoft (human resources), Kana Communications (customer e-mail management), Edify (self-service), Siebel (sales force automation), Diffusion (electronic document distribution), Extensity (expenses), SAP (oh, everything), CrossWorlds (intra-enterprise applications), CrossRoute (cross-enterprise applications), SpaceWorks (order management), Ariba (procurement), Manugistics and i2 (supply chain management) and Moai (inventory auctioning).

Size matters

Small businesses have all the problems of large businesses, just on a smaller scale (obviously), but with almost no resources to devote to solving them. So much for a competitive advantage due to size. If they had a larger company, Zoe and Phil would have an IT department that could deal with the packages listed above. They could also solicit bids from a wide variety of outsourcing contractors, who could take over their operations, to run them on-premises or off.

But very small businesses aren't anywhere near the target zone for most such services. Little companies end up buying offerings such as Microsoft's BackOffice for Small Business, which provides turnkey access to e-mail, Web servers and scheduling (as well as the venerable Office suite and file and print sharing), and in doing so trap themselves in a web of Microsoft's offerings. Don't want to use Exchange? With the small-business version of BackOffice, you can't choose not to.

But wait. Let's take Zoe and Phil's desire to steer clear of IT as far as we can take it. Imagine them turning their business inside-out, even put-
ting their most critical data and applications — their customer list, financial statements and proprietary product-configuration application — in others' hands.

One source or many?

Given the variety of business types, personal preferences, and design alternatives in the world, it's unlikely that a single company could offer everything Zoe and Phil need. More likely, their systems would be scattered among a couple or even a half-dozen different cooperating vendors. What they need is a robust platform from which they can control a variety of external services that know how to integrate their data and features.

Crazy!, you might say. With a few software packages such as GoldMine and QuickBooks, a small business can easily manage its business and send its customers personalized messages, detailed invoices and more at will. Besides, disk storage is so cheap these days and suppliers are so unreliable that Zoe and Phil would have to be nuts not to keep their data and applications locally.

But what if you thought of the external data as primary and the local data as backup, or as a more compact version of only the data you needed at any one moment? (Note that this is more extreme than a virtual company, which might still have its own IT department.) What would it take to change your mental model of your company's vital infrastructure — its spinal cord and skeletal system, if you will — from inside its body to outside? Think like a virus, not a tiger. Use hosts.

Advantages and trends

What are the advantages of an external infrastructure? (We'll return to the obstacles momentarily, after we fight back the urge to use the term "extrastructure.") For the small businesses, getting high-function systems without having to buy and maintain them is an opportunity to taste the benefits of large companies' economies of scale, while preserving far greater flexibility.

For the external partners and infrastructure providers, it's a chance to play new and useful roles (and potentially get better margins). For example, many small companies toil and struggle to build good lists of prospects. They collect business cards and do data entry; occasionally, they buy lists from other companies or swap them for one-time use. As these records age, they lose accuracy and value.

Of course, everyone is duplicating this effort. Note that a few large companies whose customer bases include almost everyone, such as utilities, phone and cable-TV companies and major credit-card providers, already have practically everyone in their databases (in the major industrialized countries, that is). If the big service providers maintain the directories, they can give each client private views that let them overlay their proprietary data. They can also deal once (and well) with privacy issues and preferences that individuals listed in the database have. Online white pages today don't offer that capability, though they could. Having a clean list of names and keeping it clean can be part of the supplier's new value proposition.
Having your data outboard all the time lets you allow others to access it and do useful things for you. For example, if your accounting system were hosted by a trusted third party, tax advisors could solicit your permission to analyze your books and make recommendations.

From the outside, in

The idea of having your infrastructure be external echoes some arguments made by champions of the thin-client, network-computer world. Employees steer the company via Web browsers. Sophisticated monitoring and analytic functions are part of the services, and they integrate neatly into central consoles. Individuals' access is defined by role and function.

Our model also assumes that software is cheap. It's the price of admission. Once companies have solved the major, thorny integration problems (which we do see as possible), the cost of replicating the solutions is low. It really turns into the cost of custom-fitting the solutions, which gets easier the more models exist and the better vendors understand how to adapt to new customers' businesses.

In this model, software competition isn't about luring people with a few extra functions, but about welding them into your platform, by becoming their business processes or functional departments and meeting their every need. Once a company is running its operation on such a platform, it'll be hard for it to leave. Of course, a company's willingness to commit to such important things comes from trust, as well as from agreements and standards that guarantee portability of the applications and databases.

Who will do this?

So far, the market for small-business services online is small and fragmented. It's either an emerging field or one that won't prove economically viable. We're betting it's the former. If it is, who will step in as the principal providers? There are many possible avenues to this space. The more you look, the more interested parties you find.

Small businesses are hard to reach (a problem we return to shortly), but they spend lots of money. They generally lack IT skills and the time and patience it would take to gain them. They often buy packaged systems for general ledger, office productivity applications or LAN/file/print servers and have them installed by local VARs, vertical-market specialists or freelance consultants. Some of those packaged-system vendors could flip themselves inside-out – a feat of considerable complexity and potential danger for the vendor – and create service offerings. The most obvious candidate for this is Intuit, which we profile below (see page 9).

Itty-bitty Business Machines

IBM is clearly interested in this market, and has taken a fresh perspective on it. Nancy Faigen, IBM's vp of Web hosting, empathizes with the small-business owners who have tried to use today's Web tools: "You can put up a storefront, but your cash register's a cigar box. There's no supply chain, logistics support, and so on."
Faigen sees small businesses’ ongoing potential for new business. “If 20 percent of them grow, you have a customer for life,” she says. “You can sell them all their incremental needs. That's the promise.” IBM has begun to offer Website hosting and merchant services for the very small business segment in an offering similar to (but not as visible as) the virtual store-building and -hosting services from GeoCities, Yahoo!, iCat and others described below (see pages 15-17).

Support costs for IBM's initial offering have been quite manageable so far, notes Faigen. The product planners built phone support into the base costs of the service's monthly fee, and hardly anyone calls. The service seems to be easy enough to use unaided.

Faigen also sees great opportunities for local businesses that aren't portals but have great relationships with small businesses, such as local banks, to band together with other businesses such as the town newspaper, utility and others, all of whom aspire to be portals, too. Together, they could build a service environment hospitable to small businesses, as well as communities of interest and support.

**A healthful triple play**

Here's a hypothetical system we'd love to see built: Imagine that Nike and Kaiser Permanente co-sponsor a Web environment for health clubs, personal trainers and nutritionists. The resulting environment would combine many of the features of Zines and Fridge Doors (see Release 1.0, 6-95 and 11-97).

Our gym, the Embarcadero YMCA, has a rudimentary Website (after all, it is in San Francisco). With the Nike/Kaiser system, it would get a far better platform for running its operations, publicizing its services and helping its members schedule their activities. Kaiser could weave its expertise all through the system, instead of mailing us a monthly health magazine that we never read.

Independent professionals in the health, nutrition and fitness fields would also have places to run their businesses inside the system, including ways to generate invoices and balance their books. Nike and Kaiser could sponsor menu-planning and fitness-training applications that everyone would use. Nike would also sell a lot of gear by being at hand when people tried out new sports or wore out their shoes. With luck, Kaiser's claims losses would decrease as we all got healthier.

**Whom do small businesses use?**

There are some obvious potential small-business infrastructure providers we haven't hit yet, most notably the companies that have strong local operations and great brand recognition with small businesses, such as Kinko's and Mailboxes, Etc. Another group of more recent arrivals includes ISPs, Website developers, Website and application-hosting services, and outsourcing services, including USWeb, US Interactive and others. Their space will be cramped by many new entrants.
The software vendors themselves are also likely to try the small-business market. Few of them have service offerings today, but many do have consulting units, some of which offer outsourcing. Here a big leader is Pandesic, a joint venture between SAP and Intel (see page 10).

Finally, this may be the next natural step for portal sites on the Web. Note that many portals and portal wannabes are now giving away free Website hosting and e-mail, both of which are important applications. Some also feature small-business zones or channels with pointers to resources and helpful advice. Note also that most of their bets are on advertising-subsidized services. Wouldn't it be nice to supplement those dicey cash flows with other sources of revenue? If we ran AOL, MSN, or the other portal services, we'd be headed this way.

Big and bigger?

It seems that big companies are getting bigger (witness DaimlerChrysler AG, Citigroup and other mega-mergers), and small companies are getting more numerous. Individuals in large and mid-sized companies are turning into free agents faster than you can say "low overhead." The cost of setting up a computer infrastructure keeps dropping, making dropping out of the corporate life more appealing.

We're beginning to see many different arrangements of mutual benefit — symbiotic relationships in the new E-cology. Some of them are attention keiretsus, striving to drive eyeballs toward their banners; others are support communities, helping one another move ahead more quickly; still others are functionality guilds, banding together to combine their functionality and create killer feature suites. A new fabric of commerce is organizing itself now.

Unlike corporate outsourcing, which turns over management of key systems to third parties but seldom changes the nature and underlying costs of the technologies outsourced, a new platform is emerging with new business models that have amazingly low barriers to entry and often feature revenue-sharing agreements over time.

The power and agility that external infrastructures offer may well create permanent structural advantages for the smallest players in important markets. The largest players may well end up being the infrastructure hosts. They may provide communication, publishing and transaction platforms, but their margins may be lower than the agile players who can target and cherry-pick specific needs and audiences.

OBSTACLES

It's pretty easy to name significant obstacles that stand in the way of a thriving market in outsourcing critical infrastructure for small businesses. At the top of the list are interchange standards, trust issues and transaction costs.
Interchange problems

One of the major barriers to the availability of great services for small businesses is the poor sharing of customer information among the suppliers' systems. Firefly's Passport (now part of Microsoft) and the Information and Content Exchange specification (ICE, which includes formats for exchanging users' profile and preference information, with their permission) offer a small glimpse of what is possible (see Release 1.0, 2-98), but they're relatively narrow efforts. Other efforts abound, accelerated by the recent epidemic of XML fever, though not always marching in unison.

In the enterprise and inter-enterprise world, vendors such as CrossWorlds and CrossRoute (see Release 1.0, 3-98) specialize in creating applications that link major systems such as those from PeopleSoft, Remedy, Vantive, Baan and so forth. There is no such supplier for small businesses, nor is there a movement toward crisp integration between those large vendors (aside from outright acquisitions).

Much of the early integration will happen within single-vendor offers, or pairwise between companies that see clear benefits to coupling their systems more closely. The standards efforts will follow, but they will take a while.

Trust, trust, trust

Alongside its work on data-interchange standards, the Customer Support Consortium (CSC) has been working on trust models for the interchange of sensitive information for multi-vendor tech support (see Release 1.0, 9-96). The "break/fix" data these companies would like to share often describes serious problems with their offerings.

The CSC's trust model defines three levels of interchange. As you might expect, the lowest level allows for the exchange of non-sensitive data and the highest level is far more intimate. Each level has contractual language associated with it that sets different rights and expectations. Such a model may be useful more broadly across industry.

Transaction costs

One way to tackle the transaction costs associated with serving small businesses, none of which will bring in great revenues individually, is to automate like crazy. Customer self-service on the Web is hot; unfortunately, it doesn't work that well when things go beyond simple situations.

Another way to tackle transaction costs is to help communities help their members. Larry Kesslin, co-founder, president and chief community officer of the Let's Talk Business Network (LTBN), a membership organization for entrepreneurs, believes that the future of small business support is peer support. Healthy communities, he adds, will not only self-moderate, they will also say who is good and who isn't, what works and what doesn't.

As a community's members learn to trust one another, they become more efficient conduits of opinion and expertise. For free-agent entrepreneurs or very small businesses, organizations such as LTBN solve another big problem: loneliness.
A FUNCTIONAL TOUR

INFRASTRUCTURE

The gear and software that a company needs to connect to the Net, get bills sent and payments processed, manage inventories and communicate internally is all part of its infrastructure. There are too many subsystems to cover completely, but here are some of the major ones.

Stable, simple, inexpensive Net access is a prerequisite for everything else in this issue. Although full-time Net connections are far from ubiquitous in small businesses, companies are working to change that situation. Vendors such as Cobalt Microserver and Whistle Communications sell turnkey Net-access boxes that end the hassle of integrating separate routers, hubs, modems and PCs (not to mention the necessary Web, firewall, and e-mail server software) for small businesses.

One step up the price ladder are offerings from FreeGate (see Release 1.0, 3-98), Apexx Technology and others. The higher-end systems assume full-time connections to the Net (from dialup to T-1; the low-end systems are often configured for occasional polling and on-demand dialup to save on phone-line fees) and offer more robust features that can support larger numbers of workers. Despite all these offerings' attractive price points and integrated performance, the category as a whole hasn't taken off.

In fact, GlobalCenter, which used to offer access to small businesses (see Release 1.0, 3-97), left that business in favor of multi-site application hosting. We hope to see a deeper, healthier market for turnkey Internet access emerge in the next year or so, as competitive local-exchange carriers and super-ISPs such as Covad roll out more services and solve the service value equation.

Intuit: Beating products into services

At the heart of any business lie its books. Companies such as ADP have done well outsourcing small pieces of core business processes such as payroll, but the core accounting functions aren't available as an externally hosted, Web-accessible service yet.

The most obvious candidate to offer such a service is Intuit, which sells the market-dominating Quicken and QuickBooks packages. Around three million small businesses use Quicken for their books; another two million use its fuller-featured cousin, QuickBooks.

Intuit also offers QFN, the Quicken Financial Network, where visitors can learn about accounting, get tips on running a small business, shop for insurance and more. One QFN service, CashFinder, offers access to potential lenders that small businesses might otherwise not reach, but it sorely lacks automation: It requires users to print out and fax forms.

QFN is clearly central to Intuit's future, but Intuit hasn't used it yet to deliver an outsourceable version of its products. According to Jim Heeger, the senior vp of Intuit's small business division, the transition is likely to be gradual. Intuit included Microsoft's Internet Explorer browser in
its latest software releases, which allows Intuit to begin mixing Web resources into its product offerings.

Deeper, less frequent contact

Heeger envisions providing far more than just better information such as stock quotes and portfolio tracking. Some services may be unique to specific markets, such as bid-estimation and job-costing tools. Others may be more general-purpose, Internet-based business tools, including those for office functions, groupware, and e-mail.

Intuit is developing a payroll service in partnership with CRI, a major payroll-processing company. Intuit will take care of the front end and send the processor the data for tax filings, automatic payroll deposits, etc. The payroll function is a good starting point because the largest payroll companies have trouble reaching small businesses, which Intuit reaches regularly, and because the information needed for payroll neatly drives other applications such as benefits administration and insurance.

Given the levels of functionality and trust that service providers must offer (and earn) in order to host their customers' vital processes, their value proposition could increase markedly, as could their margins, as long as they kept the costs of offering such added services in check. Instead of being a vendor of shrink-wrapped software that occasionally answers tech-support questions or sends its customers point releases of its software, the external infrastructure provider can now be the platform on which companies run their businesses.

Pandesic: SAP working its way down-market

To some IT professionals, SAP embodies the megalithic, all-encompassing enterprise application suite that can take three years to implement, so it might come as a surprise to find out that Pandesic, a 50/50 joint venture of SAP and Intel, offers a significant subset of SAP functionality as a turnkey system for under $100,000 — installable in months, not years.

The suite is designed to run on Intel hardware (mostly from Compaq and HP) on the customer's premises, but most of Pandesic's customers are taking advantage of the company's hosting services and outsourcing the whole thing. Pandesic makes money by charging customers between one and six percent of transaction revenues.

With Pandesic's suite, a company can not only open an online store with its associated catalogs and transaction systems (which uses functionality from CyberCash and TaxWare), it can also have all the appropriate inventory, logistics, supplier payments, order-status and customer-service subsystems fed and kept in synch.

Keeping it fresh

Pandesic's "evergreen" strategy, part of its basic business model, keeps applications and hardware current by promising three automatic updates of the system each year. The company built its offering atop strategic Microsoft software, including NT, COM and the Site Server Commerce Edition.
Launched a year ago, Pandesic now has 110 employees. The company's ideal customers are startups or companies with under $100 million in annual revenues who want to go to full automation through the Net. Most of them aren't as small as Zoe and Phil's company, since they handle physical goods and need enough staff to manage suppliers, customer service and so forth, but some of Pandesic's customers are completely virtual. They have outsourced all the server systems.

Shredding the Web

For example, a year ago, Cold Fusion Sports started to sell snowboards on the Web (it's no relation to Allaire's Cold Fusion Web programming tool). The company sold a little under $200K last year and outgrew the home-grown Website and back-end applications it started with earlier than expected.

To make things a bit more complicated, so many people dropped by the company's warehouse in San Francisco that a store seemed an obvious addition to its existing Website and mail-order catalog. Nobody was eager to do triple-entry of product information, orders, shipments and so forth.

After shopping for a solution, they found that Pandesic's offering ties together all the key features they wanted across their store, Internet sales, and mail order. Better still, every invoice will be automatically barcoded with a tracking number (the Pandesic system comes with scanners). Customers will automatically receive e-mail confirmations with those numbers.

Easy entry and partnership

The snowboard site runs on Pandesic's premises in Sunnyvale, CA. Cold Fusion has a DSL link to the server and does almost everything through Web browsers; some of the database maintenance still requires SAP's older R/3 interface. To learn to run the system, Cold Fusion's programmers spent three days at a Pandesic training course.

Cold Fusion spent $25K on Pandesic's startup fee, plus another $15K on other work related to the site (i.e., graphics, Web integration, a search engine, a registration page and a user-submitted "shot of the week" feature, mostly done by freelance contractors). After the new site goes live on August 3, the company will pay Pandesic between three and five percent of its revenues from the site, depending on sales volumes. Oh, Cold Fusion has five employees in the off season and grows to ten at peak season. The company expects to sell $800K this year. Zoe and Phil are envious.

This is a model we like: Pandesic lowers the entry barrier to SAP's sophisticated software, then it relies on its customers to deliver revenue streams it can share. Some experts say that small businesses will reject percent-of-sales transaction fees, but Neil McKinell, Cold Fusion's ceo, doesn't mind the revenue sharing at all. "They're basically in business with us," he says. "There's no way I can think of that a small business could come up with all this on its own." An interesting note: A future release of Pandesic's system will include full accounting capabilities, so Cold Fusion plans to migrate off of QuickBooks.
Virtual colleagues and some grace notes

Many other applications could fall under the infrastructure umbrella, including content indexing and searching, document archival, backup and recovery, and system management. So could numerous collaborative applications. Quite a few of these are available on-demand on the Net, such as Lotus' InstantTeamroom, Visto's Briefcase and dka's SceneServer (see Release 1.0, 3-98).

Some innovative services are too small for large companies to use but just the right size for daring entrepreneurs to try. Incorporate.com, for example, does just what it says it does: Help small companies incorporate. Another unusual site, PositiveNet, shows how enterprising some market participants can be. For $1000 to start and $50 a month, it will help you set up and run a turnkey adult-services site, complete with images, billing, customer service and site maintenance. You advertise the site, bring visitors who will sign up and split the revenues with PositiveNet.

CUSTOMER CONTACT

When you contract for Website hosting with an ISP, the deal typically includes several e-mail accounts. If your company's not large, that may well serve as your entire e-mail server complex. Larger companies may choose to outsource e-mail services to service operators such as Critical Path (see Release 1.0, 5-98); individuals who want more complex messaging features may subscribe to services such as Wildfire's velvety personal assistant (see Release 1.0, 10-94) and Planetary Motion's new CoolMail, which neatly combines e-mail and voicemail from the Web and the phone.

Centrex everything!

While telephone companies rethink and redesign their communication offerings, small vendors have been working on clever solutions to the small-office problem. Advanced Queuing Systems is one such vendor (see box). Another is Jetstream Communications, which used to sell an integrated small-office PBX-style unit called Front Desk. It has set that product aside and is developing all-new hardware and software to offer competitive local-exchange carriers and other network service providers integrated voice and data capabilities. Armed with that gear, the service providers will be able to sell small businesses integrated messaging systems on a Centrex basis.
Pull up a virtual chair

Netopia and HotOffice sell Web-based virtual offices, a service invented for wired professionals that keeps gaining interesting new features. These virtual offices can function as reception desks and drop boxes for online workers. They can also drive a variety of external applications and services, acting as virtual command consoles to activities they don't have to host. Netscape, GeoCities, and Earthlink license Netopia's technology and offer it to their members.

It would be interesting if the virtual-office services integrated their systems with more traditional customer-contact applications such as GoldMine, as well as with other Net-based services that help people keep in touch such as PlanetAll (disclosure: Jerry Michalski is an investor in PlanetAll). As visitors dropped their virtual business cards on your virtual office's virtual desktop, their names would flow into back-end systems that would help manage those relationships in various ways.

This raises the sometimes touchy question of where your company's customer list lives. Who would want it outside the company's walls? (The customers on the list may have feelings about this issue, too!) As we mentioned above, a small number of mass marketers, utilities and other service pro-
viders not only have pretty decent databases, they also have analytic tools and speedy hardware to help make use of them. If they treat these databases as core assets into which other companies, their clients, can create private views, there could be powerful new business arrangements on both sides. The mass marketers would play a new and influential role with a new client base, and the small companies would have far better access to prospect databases.

MERCHANDISING AND SELLING

City-oriented services such as CitySearch and Microsoft's Sidewalk offer inexpensive ways for many small businesses to get onto the Web. The businesses needn't even be on the Web themselves; they can think of the online listings as mutant Yellow Pages ads. The services use templates to publish aesthetically appealing pages, then list the businesses in directories and search engines so they'll get traffic.

Recommendations matter

The Mining Co. hosts experts on a wide variety of topics, including small business (in fact, its small-business section is the content behind that topic heading on Netscape's Netcenter). However, besides a site-wide bookstore filled with its guides' recommendations, The Mining Co. doesn't yet have stores. Some guides do get business from their presence in the system.

Scott Kurnit, the company's founder and ceo, already thinks of its 630 guides (who cover 1200 topics) as running storefronts. It's just that the products they sell — recommend, really — are hosted on third-party commerce sites such as Amazon.com and HomeShark (for mortgages). "We have time to add the transactions downstream," he says. "Consumers don't care where the transaction takes place."

Over time, The Mining Co. will add more transaction capabilities, but generally they will be linked to external stores that stock a variety of competitive products, rather than to individual vendors. Kurnit wants to build a great recommendation engine that is stocked (and stoked) by human guides, and he needs to preserve their editorial integrity. He adds, "We can't cut a deal with Dell and have a guide point to it, but can have a guide say they like the Pilot III and point them to general merchants such as Egghead or Wal-Mart."

If you want to take the time to learn the tools and how to manage an ISP account, you can use PC software such as Microsoft's FrontPage or NetObjects' Fusion to create a site, then upload it to your ISP's HTML directory. It's easier to do than hand-coding HTML and FTPing the results, but it still requires coding and design skills, not to mention the skills to integrate the solutions with transaction services and product databases.
GeoShops, Yahoo! Stores, and more

If you want to set up a store in cyberspace but don't want to run servers or master HTML, several well-known sites offer easy-to-use store-building and -hosting services that start in the $50-a-month price range and even dip down to $25 a month. The two most visible offerings are GeoCities' GeoShops and Yahoo!'s Yahoo! Stores, which have similar offerings but have developed them quite differently.

Online store-hosting services have quickly become an important differentiator for portal sites, following free e-mail, messaging and personal Web pages. The stores are also independent revenue generators, complementing ad revenues. The trend is promising.

The general model these services follow is to offer Web-based site development and administration tools, nurture support networks with other homesteaders, make it simple for them to sell things and include the sites automatically in directories and search tools so they get some traffic.

The last item is significant: Small businesses' greatest problem is getting attention. The services also help process memberships in affiliate programs (e.g., Amazon Associates or CDnow's Cosmic Credit; see LinkShare, page 18). Site owners can have their own domains, at (reasonable) extra cost and subject to availability, of course. Building these stores takes patience, but it's all quite transparent.

One important way that the two offers differ is pricing: A GeoShop costs less per month, but its fee structure includes a percentage of transaction revenues; a Yahoo! Store currently has a flat fee, based on the number of items for sale on the site. For $100 a month, you can sell up to 100 items in your Yahoo! Store. For $300, you can sell up to 1000, with $100 increments per 1000 items after that.

Make vs. buy

GeoCities and Yahoo! Have taken markedly different approaches to building their platforms. GeoCities prefers to license others' content and services to add functionality. To create the GeoShops, for example, it worked with Internet Commerce Services (ICOMS), which is based on software from Open Market. WhoWhere? Provides GeoCities' white-pages, Classifieds2000 does its classifieds (see Release 1.0, 7-97) and Netopia runs its virtual-office service.

Although this strategy has allowed GeoCities to assemble a wide range of features quickly, the market seems to be entering an integration phase. Unless GeoCities works aggressively with its suppliers to make them link up and work together, it will have a much harder time creating an integrated offer than Yahoo!. With luck, GeoCities will have a great IPO and can invest some of that money in these projects.

Yahoo!'s approach

When it can, Yahoo! builds its own components and tackles the integration issues directly. According to Jeff Mallett, Yahoo!'s coo, the company bought ViaWeb in June 1998 for store building because it was proven tech-
nology that would scale quickly as merchants needed the capacity. Among the 1500 Yahoo! Stores now in operation are Frederick's of Hollywood, Virgin Interactive, and other sizeable merchants.

Mallett reports that the most popular stores sell items under $100 such as books, music, computer peripherals, and software. Another popular category is hard-to-find items such as collectibles. Yahoo! also has a classifieds section (developed in-house) that some small businesses use to dispose of surplus goods.

This is where owning its software may bring Yahoo! some integration advantages: Yahoo! will soon allow its store owners to place goods in its classifieds section or an upcoming auction service from their Stores directly, simply by checking the items and submitting them. No separate data entry, no separate accounting. Nifty!

Natural progressions

Yahoo!’s management decided to get into the store-hosting business after seeing mounting evidence that it was needed and should be profitable. Some of the evidence came from visitors searching Yahoo!’s yellow pages listings for small-business sites. Amazingly, Yahoo!’s directory lists over 100,000 businesses that let people buy things online.

The “get local” strategy which led to separate Yahoo!s for various major metropolitan areas highlighted the need for local listings, many of which would be from small businesses, but many of whom weren't on the Web yet. When the business analysts looked at how these merchants were doing with ISP-hosted Websites or local services such as CitySearch, they found that extended services that merchants wanted were missing.

They also found that the local services were trying to leverage local content but didn't have a national footprint. Local businesses couldn't get national attention, and national advertisers weren't in the mix enough. Yahoo! could blend its national advertisers with its local merchants and put them all in front of its 18 million registered users. While the national and local advertising businesses seem to complement one another, they could easily interfere.

“The critical missing piece [for small businesses] was getting targeted customers,” says Mallett. “They put a shingle out, and nobody came. We want to get them in front of customers quickly. Unless you get revenues quickly, [your Web Store] becomes an expense item.” To that end, Yahoo! will focus on integrating multiple promotion, advertising and distribution capabilities. One service it can use is the Yahoo! Impulse Network, a platform for real-time promotions currently offered in Yahoo!'s Visa shopping guide.

Extensions and limits

Yahoo! takes advantage of the steady flow of site submissions into its directory by geocoding them (so they can later be localized) and tagging non-transaction-enabled business sites as “brochure only” for later marketing about Yahoo! Stores.
Mallett sees plenty to do for the small-business market. Yahoo! will leverage all the content that is relevant to small businesses. A company setting up shop may need liability insurance, long-distance services, office supplies and so forth. The answers might be in software, books, Web services or combinations of these. Yahoo! will centralize them and package them for small businesses.

Yahoo! already offers a choice of communication applications and market-places from which its community of businesses will increasingly be able to pick and choose. Need free e-mail for your clients? A discussion board? Notification services? It has them or will develop them. Over time, Yahoo! could offer automatic translation or internationalization services... the list goes on and on.

Other players

Another important player in the store-design and -hosting business is iCat, whose Commerce Online offering gives merchants selling 10 items or fewer a free store. For merchants who want to sell more items, the company offers tiered services from $50 to $350 a month for 11 to 3000 items. (Disclosure: Esther Dyson is an investor and sits on the board.)

Merchants who need to integrate their own databases with the store and give it their own look and feel can turn to iCat's Custom Stores. Bloomingdale's did; now it sells PalmPilots (plus matching Dooney & Burke leather cases) in its virtual men's department. Boeing used iCat to develop an intranet catalog of training courses. Ziff-Davis used it to build a Training and Support Marketplace for its readers.

A strong contender in the virtual store-building market, iCat has link-submittal and marketing services, as well as its own virtual mall, but it doesn't have the automatic audience that Yahoo! and GeoCities have.

Big Blue serves the little people

As we mentioned earlier, IBM is taking the small-business segment seriously. Its HomePage Creator competes with Yahoo!-style services and includes easy links to some outside services such as UPS for shipping. The service now has around 6000 users, mostly small businesses.

The company also recently announced its Net.Commerce initiative, which is its selection of preferred suppliers in various categories (it includes Net Perceptions, NetGravity, Business Evolution, CommercialWare, Fisher Technology Group and PersonaLogic). With some integration efforts, IBM could draw on these companies to create powerful offerings for small businesses, which are unlikely to be able to afford many of these companies' products on their own.

Two more

Andrew Beebe, until recently a product manager and evangelist for NetOb-jects, has big plans for an online store-hosting service that he has named The Springfield Project. He aims to realize efficiencies by pooling the needs of many small businesses and offering them the resources available
to large businesses. For now, though, he's not saying much until he closes his seed round and finishes hiring his key executives.

Merchants could also use a server from Encanto Networks, a turnkey hardware/software bundle designed to stay offline most of the time and respond to Web visitors by connecting to the Net on demand. With the low cost of Web hosting and its high availability and quick response time, we're not sure why having a box on premises would be preferable to outsourcing.

GETTING AND HOLDING ATTENTION

The Web has fostered the birth of many useful promotion services, such as NetCentives, which issues ClickPoints to people using member sites that they can redeem for ClickRewards; LinkShare, which helps Websites develop their own affiliate programs; and LinkExchange, which helps small sites advertise by swapping ad-banner space on their sites for their presence on others' sites.

Similarly, advertising has exploded across the Internet, with a proliferation of ad aggregators, servers, auditors, developers, sales tools, analysis packages, spot markets, and more. NetGravity's progress is a good indicator of what's going on in the ad world.

NetGravity lets small businesses behind the curtain

Early to market with its AdServer, a system that helps large Websites serve and track ads, NetGravity took and held a large share of that market. To help its clients with distributed Web presences manage their ads centrally, NetGravity created the AdServer Network. Hearst New Media uses the ASN to control ads on over 100 publication Websites from its corporate office.

The complementary problem was growing, too. It was nice for advertisers to manage one campaign across multiple sites. They had to buy space on 50 sites, run campaigns, then aggregate and analyze the data. And what heaps of data. Only the largest agencies could afford to equip and run an AdServer installation, so NetGravity developed AdCenter, a remote, full-featured, browser-accessible solution designed originally for ad agencies but also ideal for small businesses. Naturally, that's the product we're interested in.

Unlike NetGravity's other products, which are sold with standard software licenses, AdCenter starts with a training and a $5000 setup fee, then charges its clients fees based on CPM (cost per thousand impressions), a standard advertising industry measure. At a bearable cost of entry, AdCenter gives small businesses access to the same product that J. Walter Thompson spent lots of money on to manage Ford's ad campaigns and others.

More and more

AdCenter includes the full functionality of NetGravity's other products, so clients can analyze which site has brought more leads and which one is the best value to them. They can test various creatives and change the mix dynamically. They can track ads all the way through to transactions on the client site, then see who bought products from the ads.
Rick Jackson, NetGravity's vp of marketing, likes the power the tools give advertising analysts. "The metrics are changing from technical metrics to business metrics," he says. "It's not about clicks, but what's my cost per lead, per transaction and what's my audience. It's beginning to sound a lot more like direct marketing than advertising."

As part of IBM's recently announced Net.Commerce product suite, NetGravity will integrate AdServer with other products so it can pull transaction histories and more. "This is not just blind advertising," says Jackson. "It's directed promotion at a known potential customer."

An AdForce to reckon with

The product that NetGravity probably has to watch out for most is AdForce, a completely virtual ad-serving and -management service owned by Imgis. AdForce serves both advertisers and host site owners, a nifty trick, since those audiences' needs are quite different. The company started serving ads for its clients in early 1997. Now it sports a range of sizeable clients, including Netscape, GeoCities and Modem Media.

The AdForce offering was completely Web-driven from the start. Among its many features, AdForce offers consolidated reporting across large numbers of sites, a task other products have trouble performing. The service's pricing is also based on CPM, but it has no startup fee. "Our philosophy is that we are a utility," says David Kopp, director of product management. "You should be able to call us up and turn us on or off easily."

Imgis is funded by Hummer Winblad, 21st Century Internet Partners, Convergence Partners, and Metromail.

And yet...

Despite all our talk about promotions and advertising, our favorite attention-getting mechanism remains word-of-mouth. Online, the "Forward" function in everyone's e-mail client is one of the most potent and underused marketing tools. We hope more companies focus on entering real conversations with their customers and prospects, eventually building trusted (and trustworthy) advisory relationships.

SUPPORT AND SECURITY

Many of the online store-hosting services we described earlier include a variety of conversation technologies that their merchants can use for free, such as instant messaging, real-time chat, discussion boards and e-mail. However, there's a big step between holding office hours in a chat room and dealing intelligently and consistently with customers. The latter activity requires knowing a lot about your business and your customers' interactions with it. This is probably a capability that will emerge for small businesses in the next product releases of the major services. For example, one can easily imagine the Pandesic service adding it.

Small businesses might contemplate outsourcing their customer support, but coordinating their activities with support-outsourcing specialists takes
more effort than it's worth today. When exchange standards such as the ones the Customer Support Consortium is developing (see page 8) are in broad use, this integration should be simpler. Of course, if you consider customer support the essence of most businesses, this may be the last function you want other employees to perform — though you may still want the code and data offsite.

Another approach is to try to take the support out of the product (depending on the product, of course) and rely on customer self-service as much as possible. FedEx, UPS and other shipping companies are doing a good job of integrating their services with merchants. Web designers are doing a pretty good job of creating useful FAQ files and other help systems, but that field still leaves a lot to be desired.

To make the economics of serving small businesses more favorable, suppliers may turn to tried-and-true systems such as network marketing. What if the latest members of Phil's Philodendron Phantasy network had to pay their dues by doing customer support for the next tier, and so forth up through the very experienced? (Assuming that philodendron taming takes considerable time and skill to master.) That would keep people talking to others not too far ahead of them on the learning curve.

Security: Data and job

Clearly, throwing your data overboard to other companies should be a recipe for disaster. Data thrown about that wantonly should be ripe for pilfering or damage. Nevertheless, we're not dissuaded. Can't Intuit afford far better security and recovery solutions than a small business? In the case that there are multiple suppliers, an optimist would say that an external infrastructure should have stronger "internal" links and communications, because everyone in the extended network would treat everyone else as suspicious and adopt stronger security procedures. Often, a company's worst exposure is to internal mischief.

Then there's the risk of business failure. A chain is only as strong as its weakest link, right? Having a string of suppliers providing a company's critical business processes definitely increases its exposure to obvious kinds of risk such as the risk of one supplier slipping up or failing altogether. (Or going on strike, as GM has found out again lately.) However, the external-infrastructure model may reduce other kinds of risk, such as the risk of technology obsolescence or the risk of spending a lot of money building a custom system that doesn't pan out. As long as the suppliers follow data interchange standards, it should be possible — though not necessarily easy — to change suppliers.

We may be a little too sanguine about the implications of being an invertebrate company, but small businesses really have little choice. How else will they gain the functionality of the many disparate enterprise systems? How else can they learn enough to make smart decisions about which components to choose and which to avoid?
RESOURCES & PHONE NUMBERS

Steve Lange, AQSYS, (888) 825-0800 x312; fax, (888) 825-0800; swlange@aqsys.com

Neil McKinell, Cold Fusion Sports, (415) 437-9680; fax, (415) 437-9749; neil@snowboardshop.com

Greg Oxton, Customer Support Consortium, (650) 654-6650 x22; fax, (650) 654-6654; oxton@customersupport.org

Nancy Faigen, IBM, (914) 642-5119; fax, (914) 642-5771; faigen@us.ibm.com
Jim Heeger, Intuit, (650) 944-6996; jim_heeger@intuit.com

Ken Kolderup, Jestream Communications, (408) 777-4331; kkolderup@jestream.com

Larry Kesslin, LTBN, (212) 742-1553 x201; fax, (212) 742-1291; larry@ltbn.com

Scott Kurnit, The Mining Co., (800) 258-7648; (212) 818-1379; kurnit@miningco.com

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Terri Lonier, WorkingSolo, (914) 255-7165; terri@workingsolo.com

Jeff Mallet, Yahoo!, (408) 731-3347; jmallett@yahoo-inc.com

Except as noted otherwise, all companies’ Websites are at the likely address, http://www.domain_name.com.

Additional small-business resources on the Web:

The Kauffman Foundation’s EntreWorld www.entreworld.com
US Small Business Administration www.sba.gov
The Edward Lowe Foundation’s smallbizNet www.lowe.org/smbiznet/
Let’s Talk Business Network www.ltbn.com
WorkingSolo www.workingsolo.com

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-Sept 1-3  #Telecom Business ‘98 - New York, NY. New and traditional telecom players confront the merger of the public switched telephone network and the Internet. To register call (800) 717-7469; fax, (713) 974-5459; e-mail spalmire@mpcshows.com; www.telecombusiness.com.

-Sept 9-10  #Business-to-Business Electronic Commerce - New York, NY. Sponsored by the Strategic Research Institute. To register call (800) 599-4950; fax, (212) 302-9850; e-mail info@srinstitute.com.

-Sept 14-17  #Voice on the Net Fall 1998 - Washington, DC. Internet telephony and related technologies. Produced by Pulver.com. For information call (516) 753-2640; fax, (516) 293-3996; e-mail von98@pulver.com; www.pulver.com.

-Sept 22-25  Internet Commerce Expo - Los Angeles, CA. Electronic commerce, intranets, extranets and Web-based business. Call (800) 667-4423; fax, (508) 370-4325; e-mail register@iceexpo.com; www.iceexpo.com.


-Oct 5-9  #Fall Internet World - New York, NY. Mecklermedia's East Coast extravaganza. Call (800) 500-1959; e-mail fixprogram@mecklermedia.com; events.internet.com/fall98.

-Oct 11-13  **EDventure's High-Tech Forum - Copenhagen, Denmark.** Sponsored by EDventure Holdings. Call Daphne Kis, (212) 924-8800; fax, (212) 924-0240; daphne@edventure.com; www.edventure.com.


-Oct 26-29  #ISP Forum - Cannes, France. Examines the business cases, revenue streams, and challenges of Internet service providers, next-generation telcos, and new carriers. To register call +44 (171) 915-5055; fax, +44 (171) 915-5056; www.totaltele.com/iir-conferences/ispf.

-Nov 4-6  HR Technology Conference and Exposition - Philadelphia. Sponsored by Human Resource Executify magazine. Explore systems for managing human intellectual capital. Call (800) 727-1227 or (703) 684-0510; fax, (703) 739-0489; lrpconf@lrp.com; www.lrp.com/Conferences/hrtprev.htm.
Nov 18-20  Virtual Systems and Multimedia '98 - Gifu, Japan. Virtual reality meets engineering and art. Call +81 (58) 293-3155; e-mail vsmm-sec@vsl.gifu-u.ac.jp; www.vsmm.vsl.gifu-u.ac.jp/vsmm98.


* Events Esther plans to attend.
# Events Kevin plans to attend.

Lack of a symbol is no indication of lack of merit. The full, current calendar is available on our Website (www.edventure.com). Please let us know about other events we should include. – Mari Katsunuma

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