

University of Montana

ScholarWorks at University of Montana

Graduate Student Theses, Dissertations, &
Professional Papers

Graduate School

2001

Role of traditional business principles in today's economy

Joseph D. McCaffery

The University of Montana

Follow this and additional works at: <https://scholarworks.umt.edu/etd>

Let us know how access to this document benefits you.

Recommended Citation

McCaffery, Joseph D., "Role of traditional business principles in today's economy" (2001). *Graduate Student Theses, Dissertations, & Professional Papers*. 3464.
<https://scholarworks.umt.edu/etd/3464>

This Thesis is brought to you for free and open access by the Graduate School at ScholarWorks at University of Montana. It has been accepted for inclusion in Graduate Student Theses, Dissertations, & Professional Papers by an authorized administrator of ScholarWorks at University of Montana. For more information, please contact scholarworks@mso.umt.edu.



**Maureen and Mike
MANSFIELD LIBRARY**

The University of

Montana

Permission is granted by the author to reproduce this material in its entirety,
provided that this material is used for scholarly purposes and is properly cited in
published works and reports.

****Please check "Yes" or "No" and provide signature****

Yes, I grant permission _____

No, I do not grant permission _____

Author's Signature: _____ *Joseph D. McElroy* _____

Date: _____ *5-1-2001* _____

Any copying for commercial purposes or financial gain may be undertaken only with
the author's explicit consent.

THE ROLE OF TRADITIONAL BUSINESS PRINCIPLES IN TODAY'S ECONOMY

by

Joseph D. McCaffery

B.A. The University of Montana, 1998

presented in partial fulfillment of the requirements

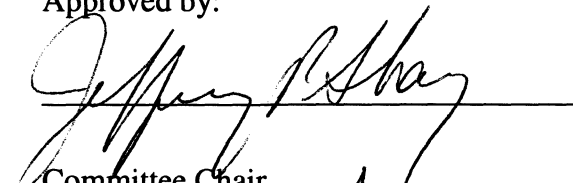
for the degree of

Master of Business Administration

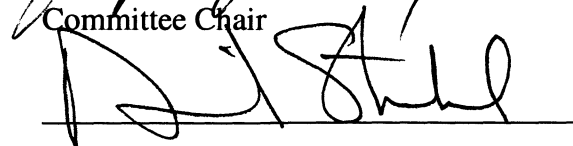
The University of Montana

May 2001

Approved by:



Committee Chair



Dean, Graduate School

5-7-01

Date

UMI Number: EP34511

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent upon the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



UMI EP34511

Published by ProQuest LLC (2012). Copyright in the Dissertation held by the Author.

Microform Edition © ProQuest LLC.

All rights reserved. This work is protected against unauthorized copying under Title 17, United States Code



ProQuest LLC.
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106 - 1346

Joseph D. McCaffery, The University of Montana 2001

Presented in partial fulfillment for the degree of **Master of Business Administration**

The Role Of Traditional Business Principles In Today's Economy

Committee Chair: Jeffrey P. Shay, Ph. D. 

Abstract

Over the last year there has been an extreme devaluation of technology stocks and an alarming number of companies either laying off employees or going out of business. A significant portion of these companies are dot coms, the same companies that just two years ago were credited with revolutionizing the way business is done and with ushering in the “new” economy.

On March 10, 2000 the “new” economy peaked when the NASDAQ Composite Index closed at a record high of 5,048.62 points. Soon thereafter the market started to slide. The slide evolved into a year-long fall and on March 12, 2001 the NASDAQ closed at 1,923.38 points. What was the reason for such a dramatic downturn?

As it turned out the viability of many of the dot coms was called into question. Analysts had serious doubts whether the “revolutionary” companies could ever become profitable. After all, some of the most celebrated dot coms had yet to earn a profit. Companies like Priceline.com had received hundreds of millions of dollars in financing, had extremely lucrative initial public offerings, and yet continued to show a loss. Business owners and investors alike searched for reasons behind the poor performances.

It was soon apparent that the assumptions on which many of these companies were basing their business decisions were inaccurate. Those assumptions and the reasons for their inaccuracies are examined through a series of discussions. Once those inaccuracies are addressed, several profit seeking concepts, based on traditional business principles, are defined. In addition, effects of the Internet on those concepts are examined. Finally, Priceline's situation is analyzed and recommendations are made that demonstrate the relevance of traditional business principles in today's economy.

These discussions show that the economy has evolved as a result of the Internet, but it is not necessarily new. Though powerful and exciting, the Internet is only a tool. No tool, not even the Internet, can make traditional business principles obsolete. The events over the past year are a testament to that fact.

Table of Contents

Abstract	ii
Introduction	1
Paper Overview	3
Common Misconceptions	5
The Internet	6
e-Business vs. e-Commerce	7
Is There A New Economy?	8
Discussion Summary	16
Traditional Business Principles	17
Strategy And Profit	18
Value And Profit	18
Strategy Development And Implementation	19
The Business Model	27
Discussion Summary	32
Traditional Business Principles Applied In Today's Economy	35
The History Of Priceline.Com	35
Possible Reasons For Priceline's Current Status	38
Application Of The Strategy Development And Implementation Model	41
CheapTickets And Priceline.Com	48
Discussion Summary	50
Contribution Of Research	52
Conceptual Contributions	52
Limitations Of The Paper	53
Recommendations For Future Research	55
Practical Implications	56
Conclusions	57
References	58
Exhibits	62
Appendix A	70

List of Tables

<i>Table 1 – The Impact of the Internet on Business Model Components</i>	30
<i>Table 2 - Timeline of Events in the History of Priceline.com</i>	37
<i>Table 3 – Financial Comparison of CheapTickets and Priceline</i>	49
<i>Table 4 – Additional, In-Depth Information for Each Model Stage</i>	54

List of Exhibits

<i>Exhibit A – Riding the Rollercoaster</i>	62
<i>Exhibit B – The Value, Price, and Cost Relationship</i>	63
<i>Exhibit C – The Impact of Quality on Profits</i>	64
<i>Exhibit D – The Impact of Traditional Competitive Advantage Building Blocks</i>	65
<i>Exhibit E – Value Chain Comparisons</i>	66
<i>Exhibit F – The Strategy Development and Implementation Model</i>	67
<i>Exhibit G – Sinking Feeling</i>	68
<i>Exhibit H – Rising Usage Rates of Websites Amid Declining Rates of IPOs</i>	69

Introduction

Prior to the year 2000 the phrase “dot com” was somewhat prestigious. Drove of people left high-ranking positions with established companies to work for dot-com companies. Businesses that had a “.com” after their names seemed to be instantly credible and worthy of millions upon millions of investment dollars. And why not - companies like Netscape, Yahoo!, and Amazon were making investors wealthy beyond their wildest dreams. Quick and profitable returns from Internet investments became very popular. A large return with minimal effort was the ultimate status symbol (Napoli, 2000).

Yahoo! provides an example of the type of dot-com company investors pursued. Currently Yahoo! is a global Internet communications, commerce, and media company that offers a branded network of services to millions of users daily (Yahoo.com, 2000). David Filo and Jerry Yang, Ph.D. candidates in Electrical Engineering at Stanford University, founded the company in 1994. In April of that year the two developers started compiling lists to keep track of their personal interests on the Internet (Hill & Jones, 1997). As they grew, the lists became more and more complex. Eventually the lists were converted into a customized database designed to serve the needs of the thousands of users beginning to use the service – Yahoo! was born. On April 12, 1996 Yahoo! went public. Its stock opened at \$24.50 per share and on January 4, 2000 its share price reached an all-time high of \$250.00 (*The Wall Street Journal*, 2000).

Well-publicized companies like Yahoo!, Netscape, and Amazon took center stage in the business world. As a result of the hype surrounding their initial performance on the stock market and the continued growth of the Internet, virtually every market was saturated by “me

too” companies. New companies desperately tried to parlay the power of the Internet into the perceived financial success associated with the notoriety of the dot coms (Napoli, 2000). During the 1990’s it appeared that most Internet ventures would do just that. Venture capitalists (VCs) were quick to fund new Internet related businesses and for good reason. Monstrous Initial Public Offerings (IPOs) seemed an everyday occurrence and early dot-com investors made millions of dollars. Unfortunately, the market conditions that fueled the start-up craze during the 1990’s would not last forever.

In March of 2000 analysts began to question the viability of the dot coms. VCs soon realized that many companies they were investing in were not actually viable businesses (Napoli, 2000). This realization cast an ominous shadow over all dot coms and suddenly an investment once considered a sure thing was deemed risky. This had a dramatic effect on the financial markets. Stock prices of the dot coms, which had been fueling the markets, faltered (See Exhibit A). Yahoo! illustrates this point. In October of 2000, just ten months after its share price reached an all-time high of \$250.00, it had fallen to \$45.00 (*The Wall Street Journal*, 2000). Securing second and third-round funding became more difficult as analysts and investors grew increasingly cautious. In the end, many dot coms could not survive (See Appendix A). APBNews.com was one such company.

APBNews provided a Website that covered the nation's justice, criminal, and safety system and it recently went out of business (Davidson, 2000). During its nine-month existence, APBNews lured high quality, experienced journalists by offering substantial salaries and stock options. It steadily increased its payroll by eventually hiring 140 writers and support staff. In June of 2000 APBNews announced it was laying off all employees because it was out of money. Ironically, just days after the announcement, *The National*

Press Club named APBNews the Web's best news website (Kelsey, June 2000). The company filed for bankruptcy one month later (Kelsey, July 2000).

How could these things happen? How could a news website like APBNews, which produced award-winning content, go out of business? How could the market value of a company like Yahoo! drop 82 percent in ten months? The answer in a nutshell is that many analysts, investors, and the dot coms themselves were caught up in the euphoria of the "new" economy. They were so caught up that they overlooked some important business principles. These oversights provide the foundation for examining the recent decline of dot-com companies.

Paper Overview

This paper is intended to demonstrate that, although the economy of today has evolved as a result of the Internet, traditional business principles are still relevant. The first section addresses some of the terminology frequently used in the popular press. The section then defines the difference between e-business and e-commerce and addresses the "new" economy debate. Clarifications made in the first section are the basis for the second section, which focuses on some of the specific business principles that have been overlooked. The second section also examines how the selected principles have evolved as a result of the technological advances of the past 30 years. It concludes by summarizing the principles discussed using the strategy development and implementation model.

The third section examines one of the most well-known dot coms today - Priceline.com. A brief history of the company is presented and recommendations made as to how Priceline might use the principles discussed in the paper to achieve true financial

success. To further justify the suggestions, a comparison is made between the performances of Priceline and an industry competitor that also uses the Internet to reach its customers. Finally, the paper summarizes various arguments made throughout the paper and examines their collective contributions and limitations.

Common Misconceptions

The rapid evolution and integration of the Internet into the world of business spawned a plethora of new terminology and phrases. While many terms are straightforward, e.g. “e-mail,” other terms are broader and take on multiple meanings. These terms are hard to define because people use them differently. For instance, many people use the terms “Internet” and “World Wide Web” interchangeably, when in reality they are two different things.

The Internet is a vast collection of computer networks interconnected both physically and through their ability to encode and decode certain specialized communications protocols (Afuah & Tucci, 2000). The World Wide Web is the collection of computers on the Internet that support a hypertext function that allows users to follow items of interest in a nonlinear fashion by selecting words or pictures of interest and immediately gaining more information on the items selected (Afuah & Tucci, 2000). The World Wide Web actually runs on the Internet, so by definition the Internet and the World Wide Web are two different things. This paper will generally use the term Internet in reference to the many ways companies can use the Internet to improve business functions. This includes, but is not limited to the World Wide Web.

The terms e-business and e-commerce and the phrase “the new economy” are also used without much thought being given to their actual meanings. As this paper focuses specifically on how businesses are using not only the terminology, but also the technology it refers to, these terms must be clearly defined and examined. The examination of the interpretation and application of recent technological advances is also important because they serve as the basis of the discussions throughout this paper.

The Internet

As stated, the Internet is a network of computer networks. This description is not meant to downplay the impact that the Internet has had on the economy over the last ten years, but rather to provide perspective. It helps to think of the Internet as a multiple purpose tool because it has a universal reach, acts as a distribution channel, and streamlines the interactions between transacting parties (Afuah & Tucci, 2000). As is evident in this description, the Internet is indeed a powerful tool. However, the Internet, like any tool, has limitations.

The Internet cannot be used as a substitute for business strategy or for the underlying principles on which business strategies are founded. For example, if a construction company acquired the latest and greatest tool available and trained its employees to use it, could that company then substitute that tool in place of its business strategy? Would constructing high quality projects for its customers no longer be important? Would profitability become irrelevant? The answer to all of these questions is a resounding “No.” There simply is no tool, no matter how powerful, that a business could use in place of business strategy, quality products, and profitability.

The Internet Does Not Deserve All The Credit

Unfortunately, many companies made the mistake of using the Internet for jobs it was never intended to do. Part of the reason for this misuse is the dramatic effect the Internet has had on the economy over the last ten years. In the early 1990’s, as the Internet transitioned from a government-funded entity used by universities and researchers to the commercially driven entity that it is today, the economy boomed. That sudden boom gave the impression

that the Internet alone could do almost anything. In reality, though, it is not just the Internet that should be credited with changing the way the world works and communicates. After all, the Internet infrastructure has been around since the late 1960's (Afuah & Tucci, 2000). The past 30 years have seen a number of other technological advances that have contributed to changing today's economy perhaps even more than the Internet.

Consider the introduction of the personal computer (PC), which coincided with the introduction of the microprocessor in the early 1970's. As prices dropped and microprocessor technology advanced, the PC continued to evolve. In the early 1980's the modern microcomputer, now simply known as a computer, was introduced (*Encyclopedia Britannica*, 2000). As technological advances drove prices down, companies like Microsoft and Apple made computers easier to use. With the introduction of graphical user interfaces (GUIs), computers were accessible to the average user and soon widely adopted (*Encyclopedia Britannica*, 2000). These events preceded the Internet as it is known today and deserve just as much of the credit for impacting today's economy. In fact, the introduction of the PC and widespread growth in its use provided the infrastructure necessary for the applications and uses of the Internet today.

e-Business vs. e-Commerce

E-business and e-commerce are both loosely defined as doing business via the Internet. Much like the terms Internet and the World Wide Web, e-business and e-commerce are related; however, the terms are not interchangeable. E-business is actually more of an umbrella-term for a company that uses the Internet or the Web to facilitate *any* business function (Techweb.com, 2000). E-commerce, on the other hand, implies that goods or

services can actually be purchased (Techweb.com, 2000). To illustrate this distinction, an e-business website may be very comprehensive and offer more than just the ability to purchase products or services. For example, it may feature a general search facility, the ability to track shipments, or have an area designated for threaded discussions. In this instance, e-commerce is only the order and payment-processing component of the site.

As a general rule, any time a business uses the Internet to conduct a business process, whether it is simply communicating through e-mail or marketing its product or services through an elaborately developed website, it is participating in e-business. Conversely, a business is participating in e-commerce if and only if its customers have the ability to order and purchase its products or services via the Internet.

Is There A New Economy?

Another term that is often used today is “the new economy.” Although technological advances since 1970 have changed the very way in which businesses and consumers interact, have they actually resulted in a “new” economy? A comparison of traditional mail and e-mail can be used to help clarify the conceptual basis of this question. Traditional mail is sent and received very differently from e-mail. However, the concept of sending a document of some sort from one location to another is essentially the same. For instance, reliability, expediency, and security are relevant with both methods.

A similar standard can be applied to the economy. Although today’s post-Internet economy differs from the pre-Internet economy, it is fundamentally the same. Or is it? There are powerful arguments on both sides, which make the debate worth examining.

Much has been said about the “new” economy in recent months. Politicians are trying to take credit for it, numerous books are trying to help people master it, and businesses are

struggling to survive in it. Ironically, even though so much has been written and said about the “new” economy in the recent months, no one seems to know exactly what it is. Those that have been brave enough to define today’s economy cite the shift from the industrial age to the information age as the basis of their definition (*Wired*, 2000). The question remains: Is the post-Internet economy actually different from the pre-Internet economy? Or rather - Is there a “new” economy?

Distinguishing Economic Characteristics

Before this question can be addressed, a framework of similar characteristics must be established so that comparisons can be made and conclusions reached. Since the post-Internet economy has not been around long, problems arise. Its relative newness makes it difficult to produce a clear definition that correlates with established concepts. Despite the difficulties involved, it makes sense to seek out common economic characteristics. Many of the wide-ranging qualitative and quantitative economic models are beyond the scope of this discussion; still, a rational comparison can be made using basic economic theory.

The primary characteristic selected for comparison is output growth. However, unemployment rates and inflation rates are also relevant and will be used in the discussion as well. Output growth depends on two factors - labor productivity growth, the overall gain in production from one year to the next, and labor supply growth, the overall increase in the hours worked from one year to the next (Stiroh, 1999). Accurately measuring and comparing output from one period of time, like the 1950’s, to that of another period of time, like the 1990’s, is a point of contention among many economists (Stiroh, 1999). For simplicity’s sake, this discussion assumes production measures are accurate over time.

Since labor productivity is defined in terms of outputs per hour, it stands to reason that it relies on the factors that would allow a worker to produce more output per hour of labor (Stiroh, 1999). For example, labor productivity growth is dependent on factors such as refined training methods or improved technologies that allow employed individuals to work more efficiently and produce more output per hour of labor. Labor supply growth is dependent on factors such as decreased population growth rates or modified workplace regulations that influence the number of employable individuals available to work in a given industry (Stiroh, 1999).

Since 1975 both labor productivity and labor supply have grown approximately one percent per year, so the total output growth of the U.S. economy has been about two or two and a half percent per year (Krugman, 1997). This increasing growth rate has been achieved while unemployment rates remained basically constant. Therefore, more people can be employed from year to year, yet, the overall level of unemployment stays within a range considered healthy from an economic standpoint (Krugman, 1997). It is considered healthy because historically, if there were a period of time where unemployment rates fell below what is considered the natural rate (approximately five and six tenths percent), inflation rates would climb at an accelerated rate. The opposite held true if unemployment rates climbed above the natural rate (Krugman, 1997).

To clarify, historically there has been a finite amount of output that could be produced over a finite period of time. The output growth rate, or rather, the total increase in products and services produced from one year to the next, could grow only at about two percent per year. The number of employed individuals available, as well as the rates at which they could produce the output, both grew only at about one percent per year. Output growth

also influenced employment levels, which in turn, affected inflation rates. Specifically, over the past 25 years, the level of inflation was inversely related to any deviation from the natural rate of unemployment (Krugman, 1997).

Therefore, the output growth rates and the way in which they interact with unemployment levels and inflation rates can be considered common characteristics of the economy before and after the advent of the Internet as it exists today. These periods will be referred to as the pre- and post-Internet economies for the remainder of this paper. Although this is admittedly a simplified example, the characteristics used are relevant and are based on fundamental economic principles. Therefore, if characteristics of the post-Internet economy interact differently than they did in the pre-Internet economy, those differences would help substantiate the existence of a “new” economy.

Analysis Of Characteristic Comparison

When the way in which the output growth rates interacting with unemployment levels and inflation rates during the 1990’s are compared to the interactions over the previous 25 years, significant differences become apparent. The analysis of the post-Internet economy’s characteristics suggests that the U.S. economy would enjoy an on-going period of permanently faster output growth that would not lead to increased inflation (Shepard, 1997). Recall that output growth is dependent on labor productivity growth and labor supply growth and that an increased level of employment historically resulted in inflation. Thus, faster output growth rates must be due to an increase in labor productivity.

Many attribute the apparent increase in labor productivity to the technological advances of the 1990’s (Shepard, 1997). This sentiment is echoed by “new” economy

proponents who believe that today's economy, fueled by a worldwide spread of capitalism, globalization of businesses, and the information technology revolution, can now grow faster than before without renewed inflation (Shepard, 1997). How much faster? According to an article in *Business Week*, three to four percent annual output growth is now possible. A significant increase compared to output growth over the past 25 years (Shepard, 1997).

A true increase in output growth rates accompanied by sustained inflation rates would go a long way in proving that the economy of today is in fact fundamentally different from the previous economy and therefore "new." The emergence of a "new" economy, where the old models of business and economics no longer apply and where productivity rates increase indefinitely, would be unquestionably desirable. However, questions regarding the actual increase in productivity need to be addressed. For starters, are workers really more productive?

Economist Stephen Roach calls this the Information Technology Paradox (Roach, 1998). The paradox claims that despite increased spending by American businesses on information technology, overall productivity has not increased as a *direct* result of the use of technology. Investment in information technology quadrupled, rising as a share of business spending on equipment from 28 percent during the 1980's to 53 percent during the 1990's (Perkins & Perkins, 1999).

A significant portion of that increase in spending on information technology involves maintaining and replacing computer hardware, more than \$220 billion annually. About 60 percent of annual technology budgets are used for hardware replacements and upgrades. The remaining 40 percent is allocated to software, service support, and computer management staff (Perkins & Perkins, 1999). Overall, corporations spent \$1.1 trillion on hardware from

1990 to 1996, an increase of approximately \$143 billion over previous years. Despite the fact that investment in information technology quadrupled during the 1990's, productivity grew by only eight tenths of one percent per year – no better than productivity growth over the previous 25 years (Perkins & Perkins, 1999).

Ironically, although productivity is not rising at a significant rate, the number of hours the average person works is. According to the U.S. Bureau of Labor Statistics, in 1996 the average worker spent 148 more hours working than in 1973 – a total of four working weeks longer. Far from being an era of advances in productivity, the connectivity and the competition of the post-Internet economy has made it harder for people to get away from work.

These facts attribute the increases in output growth rates of the post-Internet economy to the increasing number of labor hours being contributed by *existing* workers, not technologically improved production rates. Thus, employment levels remain relatively constant and inflation rates remain normal. These traditional economic lines of reasoning suggest that what many consider a “new” economy is simply a progression of the previous one.

Could there be more non-technological reasons for the recent performance of the economy? Many opponents of the “new” economy credit the deregulation of businesses and effective corporate restructuring for competition in global markets for the recent economic boom. For example, Herb Allen Jr. of investment bank Allen & Co. argued, “The streamlining and tightening up of American businesses over the last ten years has paid off.” (Perkins & Perkins, 1999).

Additional arguments attribute more non-technical credit to the economy's recent performance. One follows the reasoning that computers pale in comparison to earlier technological advances such as electricity, the internal combustion engine, or biotech goods (Gordon, 1998). Customers do not value much of the output that is created in the "new" economy, often an array of arbitrary information, and some argue that it should not be considered output (this ties in to the contention among economists that was mentioned earlier) (Gordon, 1998). In addition, the cost of software upgrades, system compatibility problems, employee training, and installation downtime combine to reduce the overall effectiveness of information technology systems (Stiroh, 1999).

Comparison Results

The arguments against the existence of a "new" economy seem to offset the earlier arguments that supported the existence of a "new" economy and thus, the discussion has come full circle. Unfortunately, as with many debates, there is no definitive answer. Figures have been presented that suggest differences in the characteristics of the economy today and the economy of the last 25 years, specifically when comparing output growth rates of each period. However, other figures illustrate increased investments in technology have not resulted in significantly higher productivity rates and attributed the recent economic events to non-technological factors.

Until more data about long-run productivity trends and the structural relationship between inflation and unemployment in the post-Internet economy are available, the fundamental question of whether or not a "new" economy exists will remain unanswered. In the meantime the term "today's economy" will be used in reference to the economic events

of the 1990's. Lessons from the past, however, suggest that it is prudent for most businesses to temper the hype of the "new" economy and to proceed with caution.

Why should businesses proceed with caution? Although the Internet is a relatively new phenomenon and its effects on the economy have been hard to ignore, old economic rules, such as profitability, still apply to businesses competing in today's economy. The economy has traditionally evolved as new technologies developed and as markets fluctuated. Two quotations, one from 1929 and the other from 1932, illustrate what history has to say about mistaking market fluctuations as revolutionary events that make established economic rules and traditional business principles obsolete.

The first quotation from *Forbes* magazine was written in June of 1929, just four months before the stock market crashed. It illustrates the presumptuous and misguided economic ideology of that time. "For the last five years we have been in a new industrial era in this country. We are making progress industrially and economically not even by leaps and bounds, but on a perfectly heroic scale." (Perkins & Perkins, 1999). It seems the existence of a "new" economy was debated once before.

Three years later, Bernard Baruch (1870 – 1965), who was an adviser to American presidents on economic matters for more than 40 years (scstatehouse.net, 2000), commented on the business practices and philosophies of the 1920's that led to the Great Depression. "In the lamentable era of the 'New Economics' culminating in 1929, even in the presence of dizzily spiraling prices, if we had all continuously repeated 'two and two still make four,' much of the evil might have been averted." (Perkins & Perkins, 1999). While the *Forbes'* quotation familiarly and eerily praised the accomplishments of the 1920's economy, Baruch's words admonished the misguided efforts of the times, which ignored the

established economic principles and ultimately resulted in a long period of economic hardship.

Discussion Summary

This discussion first demonstrated how business terminology has evolved as a result of the Internet. It then clarified some of that terminology and examined other technological advances that have impacted today's economy. The discussion then demonstrated that there is no definitive proof that the post-Internet economy is fundamentally different than the pre-Internet economy. An analysis of the differences in how the output growth rates interacted with unemployment rates and inflation rates illustrated this point.

History had the final say in the discussion. It warned of the dangerous consequences posed by mistaking technological advancement for a "new" economy. Considering the volatility of the stock market and the economy's performance in recent months, it appears that the words of Bernard Baruch are still true today. This paper, then, will refrain from referring to today's economy as "new."

Traditional Business Principles

Traditional business principles are both broad and complex. Businesses look for shortcuts and loopholes so that they might avoid the minute details involved with traditional business principles and still succeed. As the hype and perceived urgencies of the “new” economy began to build, that is exactly what many Internet-based businesses tried to do. In early 2000 though, observers began to see what they could hardly imagine. Confidence in the “new” economy, which had been the basis of circumventing traditional business principles, began to wane.

Michael Ross, of underwear retailer Easyshop.com argued, “Companies must be built on fundamentally sound traditional business principles.” (*Internet Magazine*, 2000). Though intimidating to a new breed of entrepreneur, traditional business principles must be applied. Perhaps this discussion can eliminate the intimidation factor by reducing all of the rhetoric and reasoning for business failures today into one definitive statement: **The primary reason for Internet-based business failure in today’s economy has been the inability of these businesses to profitably provide a valuable product or service to their customers.** This statement is made after reviewing dozens of companies that have either made a desperate attempt to slash their costs or have recently gone out of business (See Appendix A).

This section will focus on the steps a business must take in order to become profitable. This requires a strategy based on traditional business principles, which will be examined in some detail throughout this discussion. The manner in which the business principles have evolved as a result of the Internet will also be examined. The discussion begins, however, by looking at the relationship between strategy and profit.

Strategy And Profit

Strategy is defined as an action a company takes to attain one or more of its goals (Hill & Jones, 1997). For most, if not all organizations, an overriding goal is to achieve superior performance. Thus, a strategy can be defined more precisely as an action a company takes to attain superior performance (Hill & Jones, 1997). For the sake of this discussion performance is measured in profit, while superior performance is reflected in sustained profit.

Profit is defined as the excess of the selling price over all costs and expenses incurred in making a sale (Bangs, 1998). Profitability can then be defined as the ability to make a profit. So how does a business make a profit? The answer to that question lies in the way businesses are developing and implementing profit-oriented strategies. Before strategy development and implementation is addressed, a discussion of how profit relates to value is appropriate.

Value And Profit

Value is what customers are willing to pay for a company's products or services (Besanko, 1996). However, the actual sales price of a company's products or services is usually below its perceived value. The difference in the perceived value of a company's product or service and its sales price is what economists call a consumer surplus (Besanko, 1996).

$$\text{Consumer Surplus} = \text{Perceived Value} - \text{Sales Price}$$

The consumer surplus varies depending upon the competitive nature of the market. Also, the abundance of information about prices, competitors, and features that is readily accessible on the Internet has led to increasing cost transparency and consequently, to a decrease in consumer surpluses (Sinha, 2000).

A company's profit lies in the difference between the sales price of its product or service and the production cost of its product and service (Besanko, 1996).

$$\textit{Profit} = \textit{Sales Price} - \textit{Production Cost}$$

Traditionally, the higher the value a customer places on a company's products or services, the higher the sales price a company can apply. Higher sales prices, provided production costs remain constant, result in a company earning higher profits. Additionally, a business could improve its profit by lowering its production costs (Besanko, 1996).¹ This can be mathematically deduced from the formula above.

Formulas such as these can make the relationship between profit and value confusing. Though most businesses need only to remember that increasing sales prices or decreasing production costs can lead to increased profits, which is, after all, the objective of this strategy (See Exhibit B). Whether or not this particular objective is met depends on how the concepts below are used in the development of the business model.

Strategy Development And Implementation

One of the most common principles used by today's successful companies, whether it is a traditional brick and mortar store like Wal-Mart or an e-commerce trendsetter like Dell Computers, is the development and implementation of a well-defined strategy. This discussion begins by examining the steps necessary to formulate and implement an effective strategy and then isolates some of the concepts involved in that process.

The basic model for developing and implementing a strategy is a five-step process: 1) Election of the corporate mission and major corporate goals, 2) Analysis of the

¹ The statements regarding the increase in profit that result from higher perceived value or lower production costs are contingent upon the sales price of a company's products or services being greater than their production cost.

organization's external competitive environment to identify opportunities and threats, 3) Analysis of the organization's internal operating environment to identify the organization's strengths and weaknesses, 4) Selection of strategies that build on the organization's strengths and correct its weaknesses in order to take advantage of external opportunities and counter external threats, and 5) Strategy implementation (Hill & Jones, 1997).

As stated, the first step in strategy formulation is to establish a corporate mission and subsequently define corporate goals. Since most companies want to improve their business' overall level of performance, this discussion will focus on the goal of achieving profitability. For instance, the overriding goal of Yahoo! is to achieve significant revenue and earnings growth. Because the company has such clear goals, it is able to formulate the strategic steps necessary to meet its goals (Hill & Jones, 1997).

The Impact Of The Internet On Profit-Seeking Logic

In the past, profitability was directly linked to market share (Slywotzky & Morrison, 1997). Assuming the sales prices exceeded operating costs, the more units a particular company could sell, the more profit it would make. As a result, companies focused on building economies of scale, rather than on producing valuable products and services. The focus of companies in today's economy has since shifted away from products and towards customers.

Successful companies are not blindly focused on gaining market share, but rather on gaining *specific* market share in the most *profitable* areas (Slywotzky & Morrison, 1997). Traditional profit-seeking logic was 1) Gain market share and 2) Profitability will follow. Today's profit-seeking logic is 1) What's most important to the customer, i.e. what do they

value?, 2) Can a profit be made in providing value to customers?, and 3) How can market share be gained in that profitable zone (Slywotzky & Morrison, 1997)? Once these questions are answered, the strategy begins to take shape. Next, a company identifies external opportunities or threats by examining its competitive advantage within its particular industry.

Competitive Advantage

A company is said to have gained a competitive advantage when its business' profit margin is higher than the industry average (Hill & Jones, 1997). Yet, achieving a competitive advantage is only part of the process. Sustaining a competitive advantage over a period of time truly sets a company apart from its competitors.

Companies today should therefore be seeking to establish a competitive advantage and develop an on-going plan to sustain it. For example, Wal-Mart has had a sustained competitive advantage for over 20 years. Its competitive advantage has been based on efficient logistics, high employee productivity, and excellent customer service (Hill & Jones, 1997). Wal-Mart's willingness to integrate new efficiency-improvement technologies into its business has allowed it to sustain its competitive advantage.

Wal-Mart's ability to maintain its competitive advantage helped the company thrive in the early 1990's, when its competitors were struggling to keep their profits on par with the industry average (Hill & Jones, 1997). The concepts on which Wal-Mart's competitive advantage is founded are examined below.

The Generic Building Blocks Of Competitive Advantage

This concept is based on the premise that companies can use basic building blocks to establish a competitive advantage. Traditionally there have been four building blocks:

efficiency, quality, innovation, and customer responsiveness (Hill & Jones, 1997). Each building block can be used to either create value, decrease production costs, or both. Although these items are discussed individually, they are all interrelated.

Efficiency

Efficiency is the first element examined and in general terms, it can lead to a competitive advantage by driving down costs. If the process involved in transforming inputs into outputs becomes more efficient, the production costs can be driven down and a competitive advantage gained. Efficiency is equal to outputs divided by inputs (Hill & Jones, 1997). Therefore, the more outputs a business can produce from a given set of inputs, the more efficient the business. In other words, if Company A can take ten pounds of raw material and produce 50 widgets and Company B can take ten pounds of raw material and produce 55 widgets, Company B operates more efficiently.

Quality

Quality products are goods and services that are reliable in the sense that they accomplish what they were designed for and do it well (Hill & Jones, 1997). If the processes involved in transforming inputs into outputs are examined from a quality standpoint, measures can be taken to assure the outputs that result are of high quality. Continuing with the widget example, if Company B uses higher quality raw materials and employs more qualified employees than does Company A, it stands to reason that the widgets produced by Company B will be higher in quality than the widgets produced by Company A. Company B can subsequently charge a higher price to offset the production costs of the higher quality widgets. Furthermore, lower production costs can be attained if the quality inputs used by Company B reduce the number of defective widgets that would otherwise be produced. Both

of these scenarios, higher sales prices and lower production costs, would increase profits (See Exhibit C).

Innovation

Innovation, the third building block, is defined as anything new or novel about the way a company operates or the outputs it produces (Hill & Jones, 1997). Innovation has always been involved when production processes are refined or new products and services are created. If Company B, then, refined the process of producing widgets; it could lower its costs and increase profits. If the company developed a newer widget that its customers valued more, it could raise the sales price and increase profits. Both examples result in Company B strengthening its competitive advantage over Company A.

Customer Responsiveness

The last traditional building block, but certainly not the least, is that of customer responsiveness. As previously mentioned, the accessibility of knowledge in the market place and the ease with which it can be attained has contributed to increasingly transparent costs. Gone are the days when companies could set sales prices drastically higher than production costs (Sinha, 2000). Because sales price is no longer the differentiating force that it once was, the intangible qualities that profits depend on now lie in the realm of customer responsiveness.

To demonstrate, Company B may no longer be able to sustain its competitive advantage over Company A because it may no longer be able to charge a significantly higher price for its widgets simply because they are higher quality. This would pose a serious problem for Company B because it uses higher quality materials and provides its employees with more training than does Company A, thus its production costs are relatively higher.

Therefore, in addition to providing a higher quality widget, Company B can also use superior customer responsiveness to increase the perceived value of its widgets. The company could then continue to demand a higher sales price and offset the expenses attributed to the higher level of customer responsiveness. This is especially important if Company B intends to sustain its competitive advantage.

Again, note that the four building blocks are interrelated. The ability of Company B to integrate the efficiency, quality, innovation, and customer responsiveness building blocks could lead to lower unit costs and higher unit prices (See Exhibit D). A significant competitive advantage over Company A would be gained as a result.

On the other hand, suppose that despite all Company B has done to gain a competitive advantage, customers still prefer doing business with Company A. Why? It is possible that the four traditional building blocks are not enough to ensure a competitive advantage in today's economy. This discussion proposes that two additional building blocks must be taken into consideration for a business in today's economy to establish and sustain a competitive advantage. The two new building blocks are: lock-in and complementarities.

Lock-In

Lock-in refers to the ability of a business to attract repeat customers. It can result by establishing switching costs that customers face if they were to switch to a different provider (Amit & Zott, 2000). If a customer perceives a switching cost, then a company can increase prices for the products or services it sells. On the Internet, switching costs are created by providing transaction safety and creating the perception of trust, through familiarity with the site, and also through customization and personalization. One simple example of a company that uses lock-in effectively is Amazon.com. Amazon has developed features like its "one-

click ordering system" that make it easier for customers to complete e-commerce transactions (*Marketing News*, 2000). This ease of use, as well as Amazon's ability to personalize its website to better meet its customers' needs, effectively locks-in buyers who return for more purchases.

Complementarities

The second new building block is that of complementarities. Companies have long known that they can leverage the value of their own products by bundling them with complementary products from other suppliers. On the Internet, bundling complementary products or services together is crucial because it helps to establish and sustain a competitive advantage (Amit & Zott, 2000). For instance, if Company B markets its e-widgets with Company C's e-widget accessory services, the combined value of the two products could be greater than the value of the individual products alone. The higher combined value which results allows for increased sales prices.

These additional building blocks can help make the traditional generic building blocks more applicable in today's economy. Furthermore, businesses today should note that all of the building blocks discussed are generic and thus general in nature. As is discussed later in this section, well-defined strategies are necessary for companies to succeed.

Up to this point in the strategic planning process, the focus has been external. Ways in which a company can gauge its position in the market and improve customers' perception have been considered. The next stage of the strategy development process involves looking inside a company's organization and identifying the processes involved in delivering value to customers.

The Value Chain

The term value chain refers to a company's chain of activities that transform inputs into outputs that customers consider valuable (Slywotsky & Morrison, 1997). This is a strategic concept that businesses can use to further establish or develop their competitive advantage and to maximize profit. Traditionally the value chain begins with the company's core competencies and its assets. It then moves to inputs and other raw materials, to a product or an offering, to the distribution channels, and finally to the customer (See Exhibit E). The Internet is challenging the traditional application of this process, which results from the "product first and customer second" mode of thinking, which is referred to as product-centric thinking (Slywotsky & Morrison, 1997).

The Internet has shifted the balance of power away from businesses and towards customers. This fundamental shift has altered the way in which the value chain concept might be used today. Rather than starting with a company's core competencies and working towards delivering a product or service to a customer, it is more relevant to start with customers' needs and work backwards toward a company's core competencies. The "customer first and product second" mode of thinking is referred to as customer-centric thinking (Slywotsky & Morrison, 1997). A comparison of the product-centric value chain and customer-centric value chain is illustrated in Exhibit E.

Customer-Centric Thinking

This discussion does not infer that the value chain concept is irrelevant in today's economy. On the contrary, the value chain is a powerful tool, though this discussion argues that it be viewed in a customer-centric light. Consider customer-centric thinking as a way of focusing on the future and not on the past. It involves deciphering what a customer's top two

or three priorities are likely to be and then designing a product or service with those specific priorities in mind (Slywotsky & Morrison, 1997).

Clearly, if a product is developed specifically with a customer group's needs in mind, those customers will value that product more and be willing to pay more to acquire it. If Company B designed a customer-centric product it would have a definite advantage over Company A. Furthermore, if customers value Company B's product more than Company A's product, Company B could assign a higher sales price to its product. This would increase Company B's profit and thus establish a competitive advantage over Company A.

Up to this point in the strategic planning process, an objective has been set, desirable markets and customers have been identified, competitive advantages in those markets have been addressed, and the processes involved in delivering value to desirable customers have been defined. At this point in the development process, a company is ready to focus on its business model.

The Business Model

As has been discussed throughout this paper, the underlying premise of the traditional business principles is the same. However, the ways in which fundamental business concepts are applied has evolved since the advent of the Internet. The business model is one such concept. A business model can be defined as all of the Internet- and non-Internet-related processes involved in delivering value to a customer (Afuah & Tucci, 2000). Although it is part of the business model, **revenue generation is a model in itself**. The revenue model refers to the specific ways in which a business model enables revenue generation.

To clarify, a business model describes the ways in which a company interacts with its partners, suppliers, and employees to create value for its customers. A revenue model centers

on the methods in which revenues can be realized, such as subscription fees, advertising fees, or e-commerce transactions. The revenue model and its relationship with a business model's cost structure are now examined.

The Revenue Model And The Cost Structure

Before an effective revenue model can be designed, an understanding of the existing cost structure is necessary. After all, if the costs of producing a particular product are unknown, how can an efficient revenue model be developed? Fortunately the strategy development portion of this process can provide some insight.

In order to accurately define the cost structure, the cost of each process included in the business model must be determined. Accurately allocating costs to those processes is not an easy task. While it is fairly simple to assign a cost to raw materials or direct labor, precise costing of a process like research and development or marketing is more challenging.

Costs indirectly associated with a production unit are called overhead costs (Zimmerman, 1999). A variety of overhead allocation methods can be used; however, those methods are beyond the scope of this paper. Generally speaking overhead allocation methods allow a business to account for all costs on a per unit basis. Analyzing the existing cost structure and viewing it in a cost per process manner can provide a company with a deeper understanding of its business model.

Once production costs are accurately gauged, then and only then can an accurate pricing decision be made. APBNews is a good example of a company whose business model was adept at producing valuable content, but whose revenue model was inept at producing sufficient revenue. Had the executives at APBNews taken the time to examine their internal

processes and the costs involved in producing their content, they could have either taken a slower growth strategy or aggressively refined their revenue model to offset their expenditures.

The process of defining a company's cost structure also helps establish a floor, or a lower limit for the price a company should charge for its product or service. Conversely, market conditions, along with price transparency and other issues, help determine the ceiling, or the upper limit. These are crucial pieces of information when developing a revenue model.

If the business processes are accurately defined and costs are assigned accordingly, the revenue model is likely to be far more effective. An effective revenue model combined with the concepts previously discussed in this section will result in a truly solid business model that does two things: 1) Provides customers a valuable product or service and 2) Provides business owner(s) revenues that are likely to exceed production costs. The remainder of this section will examine how the Internet has influenced the processes involved in developing a business model.

The Impact Of The Internet On Business Models

Three basic strategies for structuring business models to create superior value exist: 1) Differentiation – a business model is structured in such a way that it produces a product or service that consumers value more and are prepared to pay a premium price for, 2) Low-cost leader – a business model is structured to drive down the production costs and produce a product or service priced below its competition, and 3) A combination of the two strategies (Porter, 1985). Before selecting a strategy, it may be useful for companies to identify the major components of their current and future business models and identify how the Internet

is likely to impact each component. Several business model components, along with questions that address the impact of the Internet on those components, are considered in the table below.

Table 1 – The Impact of the Internet on Business Model Components		
Component of Business Model	Questions for All Business Models	Questions Specific to Internet Business Models
Generic strategy	Is the firm offering its customers something distinctive or at a lower cost than its competitors?	What is it about the Internet that allows a firm to offer its customers something distinctive? Can the Internet allow a firm to solve a new set of problems for customers?
Desirable customers	To which customers (demographic and geographic) is the firm offering this value? What is the range of products/services offered that embody this value?	What is the scope of customers that the Internet enables a firm to reach? Does the Internet alter the product or service mix that embodies the firm's products?
Pricing decision	How does the firm price the value?	How does the Internet make pricing different?
Revenue model	Where do the dollars come from? Who pays for what value and when? What are the margins in each market and what drives them? What drives value in each source?	Are revenue sources different with the Internet? What is new?
Internet and non-Internet related activities	What set of activities does the firm have to perform to offer this value and when? How connected (in cross-section and time) are these activities?	How many new activities must be performed because of the Internet? How much better can the Internet help a firm to perform existing activities?
Implementation	What organizational structure, systems, people, and environment does the firm need to carry out these activities? What is the fit between them?	What does the Internet do to the strategy, structure, systems, people, and environment of a firm?
Sustainability	What is it about the firm that makes it difficult for other firms to imitate it? How does the firm keep making money? How does the firm sustain its competitive advantage?	Does the Internet make sustainability easier or more difficult? How can a firm take advantage of it?

Source: Afuah, Allan & Tucci, Christopher L. (2000). *Internet Business Models and Strategies*. New York: McGraw-Hill Higher Education.

Key Characteristics Of Internet Business Models

In order for business models to be just as beneficial in today's dynamic economy as they were in the past, it is recommended that they include three key characteristics: 1)

Scalability, 2) Complementary resources and capabilities, and 3) Knowledge-sharing routines (Ethiraj, 2000).

Scalability

Scalability can be defined as how well a solution to some problem will work when a variable of that problem - demand for example - increases (Hill & Jones, 1997). Business models in today's economy must be scalable to respond to such changes in the technological environment in which they operate. Because they were scalable, companies like Yahoo! and e-Bay were able to innovatively leverage their first mover advantage and quickly capture a dominant share of their respective markets. The scalability of those companies' business models enabled them to exploit opportunities offered by the Web. If companies want the ability to exploit Internet-related opportunities as Yahoo! and e-Bay did, they must develop business models that are scalable.

Complementary Resources And Capabilities

As previously mentioned, a company with an innovative business model can initially use its technological superiority to establish a competitive advantage. It is a mistake, however, to believe that a technological advantage in today's business environment is a long-term proposition. Technological innovation, which dominates the e-business world, has a unique attribute. It is generally difficult to produce in the first place, but once produced, it is comparatively easy to reproduce (Ethiraj, 2000).

This attribute sharply lowers technological barriers to entry and allows rivals to catch up with first movers in a relatively short period of time. Yahoo! is a good example of this. Although Yahoo! was the first portal to market, there were no real barriers to entry so competitors like AltaVista.com and Excite.com quickly followed suit. Yahoo! had to develop

and acquire additional complementary resources and services to sustain its first mover advantage. Had Yahoo! not had that capability it would almost surely not be as popular as it is today.

Knowledge-Sharing Routines

Whether it is Microsoft or America On-Line, no individual firm can dominate the Internet. In fact, the Internet's open architectural design was specifically created to avoid such dominance. As a result, networks of alliances have become increasingly important. Businesses today must recognize that competitive advantage in the post-Internet economy is often based on effectively managing collaborative relationships with key partners, like suppliers or distributors. Thus the need for strong collaborative relationships arises. These cooperative relationships can only become truly effective if the collaborators develop mechanisms through which they can mutually share knowledge. Such knowledge-sharing relationships will enhance the participating businesses' collective competitive advantage.

The elements of scalability, complementary resources and capabilities, and knowledge-sharing routines are not necessarily new. Yet, their degree of importance to the success of a business model is. Companies operating in today's economy can strengthen their competitive advantages by incorporating these characteristics into their business models.

Discussion Summary

The primary focus of this section was developing a strategy based on traditional business principles that results in a fundamentally sound business model. Concepts involved in the development and implementation process were examined throughout the discussion. Effects of the Internet on the application of these concepts were also analyzed. Value's

relationships to strategy and profit served as the foundation for developing and implementing the strategy.

The five-step process that followed that analysis served as the framework for the remainder of the discussion. The model illustrated in Exhibit F is based on the five steps of that process. The first stage of the model is that of clarification. In this stage a company narrows the focus of its potential business model by defining specific goals. The way in which the Internet has affected the process of identifying markets and customers was addressed in that portion of the discussion. As the company focuses externally on competitive markets, and especially on potential customers it hopes to serve, the model transitions into its second phase.

In stage two, a company focuses on the external opportunities and threats that exist for its business. The generic building blocks of competitive advantage used in that discussion evaluate a company's position within its marketplace. They also further establish the direction of the company. Additionally, two new building blocks - lock-in and complementarities - were proposed. For a company to gauge its market position it must have a good understanding of its internal business processes. The need for an internal analysis leads to stage three.

In stage three, internal focus, business processes and their interdependent relationships are defined. The value chain concept was used to facilitate the internal analysis. Customer-centric thinking was introduced and the vantage point of the traditional value chain challenged.

As a result of the new vantage point, it was argued that a company could better identify and assign costs to both value producing and non-value producing business

processes. This results in a well-defined cost structure, which was identified as being an integral part of a solid business model. The appreciation gained through using the value chain to identify business processes and then to allocate costs provides invaluable insights that carry over into stages four and five of the model.

In stage four, the new business model is conceptually constructed. Business processes are theoretically adapted to maximize value-producing efforts and to minimize costs. In an effort to drive down costs, value-producing business processes can be refined, while non-value-producing business processes can be phased out wherever possible. The well-defined cost structure will facilitate the development of a truly efficient revenue model. After all, a well-defined cost structure and an efficient revenue model, combined with the previous concepts covered throughout this discussion, will result in a truly solid business model. Stage five then involves identifying and implementing the changes necessary to bring the existing business model in line with the conceptual business model.

Finally, although the model is divided and ordered into five succinct stages, the model is actually perpetual. In today's dynamic economy, the only thing that is constant is change. As such, all companies must be willing to adapt their businesses to the changes they will inevitably face.

Traditional Business Principles Applied In Today's Economy

This discussion will look at how the traditional business principles have been used by one of the most recognizable companies today - Priceline.com. The discussion begins by looking at the history of Priceline and then defining the company, as it exists today, by examining likely causes for its recent decline. Finally, the model for strategy development and implementation will be applied to the context of Priceline's evolution. It should be noted the Priceline discussion in this section is retrospective and based on secondary data. The intent was to illustrate the conceptual model in a specific context rather than to suggest either effective or ineffective management on the part of Priceline.

The History Of Priceline.Com

Jay Walker founded Priceline.com on July 18, 1997. The company was based on a concept developed and patented by Walker Digital Inc. known as the "demand collection system" (Priceline, 2000). The demand collection system is detailed later.

Priceline launched its website on April 6, 1998 with its first service, airline ticket reservations and the following October expanded to include hotel rooms (Priceline, 2000). In January of 1999, Priceline underwent horizontal integration of its services when it began offering customers a mortgage-bidding service (Priceline, 2000). Thus, Priceline entered the financial services industry. Priceline went public on March 30, 1999 and used the \$160 million it raised to further horizontal integration into other industries (Priceline, 2000). The following July the company teamed up with AutoNation Inc. to offer an Internet car-buying service (Priceline, 2000).

In the fall of 1999, a portion of Priceline's capital was invested in another Walker-founded company, Priceline WebHouse Club. The demand collection system was licensed to Priceline WebHouse for the sale of groceries and the new company was incorporated directly into Priceline's website. Later that fall Priceline expanded into yet another industry with the addition of international and domestic long distance phone service (Priceline, 2000).

The announcements kept coming the following year and in February 2000, rental car reservations were added to Priceline's list of offerings. In June, while gasoline prices were soaring, Priceline WebHouse announced that it would allow users to name their own price on gasoline. At its peak, a customer visiting Priceline.com could "name their own price" on plane tickets, hotel rooms, rental cars, domestic and international long distance service, home financing, groceries, new and used cars, and finally gasoline. Gasoline, however, proved to be the last major addition for Priceline.

In September 2000, Priceline warned that its third quarter earnings would be in the range of \$340 million to \$345 million, significantly lower than analysts' estimates of \$360 million to \$380 million (Priceline, 2000). Later that October, Priceline WebHouse announced plans to wind down operations over the next 90 days and immediately lay off 40 of its 425 member staff (See Exhibit G). Remaining employees were to be let go during the following months (Fendelman, 2000). Priceline WebHouse officials said that they would not be able to raise a third round of financing required to complete the business plan and achieve profitability (Fendelman, 2000).

That announcement had a particularly negative effect on Priceline because it recorded a \$189 million non-cash gain in the fourth quarter of 1999 from a warrant it received in Priceline WebHouse. As a result of the closure, Priceline was forced to take a non-cash loss

Table 2 - Timeline of Events in the History of Priceline.com

- 7/18/1997... Priceline is founded
- 4/6/1998... Priceline launched its website with its first service, airline ticket reservations
- 8/27/1998... Richard S. Braddock is named Chairman and Chief Executive Officer
- 10/28/1998... Hotel rooms reservations are added to Priceline's offerings
- 1/25/1999... Priceline entered the home finance industry and provided its customers the opportunity to name their own rate and terms for mortgages
- 3/29/1999... Priceline priced IPO at \$16 per share went public the following day
- 6/17/1999... Daniel H. Schulman, former President of AT&T's Consumer Markets Division, is named as Priceline's new President and Chief Operating Officer
- 7/1/1999... Maryann Keller is named President of Priceline's Automotive Services Unit
- 7/27/1999... Priceline and AutoNation, Inc. announced their plans to offer a name-your-own-price new vehicle service
- 11/1/1999... Priceline WebHouse Club's website is launched
- 11/8/1999... Priceline entered the telecommunications industry by expanding its business offerings to include International and Domestic Long Distance Service
- 2/3/2000... Priceline expanded its offerings to allow its users to name their own price for car rental reservations
- 2/23/2000... Heidi Miller, Former CFO of Citigroup, joined Priceline.com as its Senior Executive Vice President, CFO and Member of the Board Of Directors
- 4/4/2000... William F. Pike joined Priceline as Vice President in charge of Financial Planning & Analysis and Investor Relations
- 6/20/2000... Priceline announced the addition of gasoline to WebHouse Club
- 10/5/2000... Priceline WebHouse Club announced the 90-day wind-down of its name-your-price grocery and gasoline Internet service
- 11/1/2000... Priceline announced plans to layoff approximately 87 employees
- 11/8/2000... Heidi Miller and Maryann Keller leave Priceline after the layoffs were announced, stock price fell 23 percent on the report of the executives departures
- 12/7/2000... Priceline.com eliminated approximately 11 percent of its workforce
- 12/28/2000... Jay Walker stepped down from Priceline's Board of Directors

Source: Priceline.com Press Releases

http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=pcln&script=400

for the full \$189 million carrying value of the warrant in the third-quarter of 2000 (Fendelman, 2000). This did not sit well with investors and its already falling stock price continued to plunge. As profitability became a more pressing issue in the minds of investors,

the viability of Priceline's demand collection system was called into question. In an effort to make Priceline profitable, considerable steps were taken to reduce expenditures.

Early in November 2000, Priceline announced plans to lay off 87 of its 535 employees (Priceline, 2000). This led to more setbacks later that month when two Priceline executives left as a result of the cutbacks. Maryann Keller, who headed Priceline's auto-services business, left the company after she was asked to lay off half of her 23-person staff (Loomis, 2000). When asked about her departure, she publicly declared Priceline's on-line car buying venture a failure (Anqwin & Lundegaard, 2000). That same week Chief Financial Officer Heidi Miller also left, though her reasons for leaving were not disclosed (Krebs, 2000).

The layoffs and departures continued to have a detrimental effect on Priceline's stock price. On November 13, 2000, just eight months after reaching a record high of \$106.63 per share, its stock price fell to an all-time low of \$2.13 per share (*The Wall Street Journal*, 2000). The table on the previous page summarizes these events. The next portion of this discussion will hypothesize on possible reasons for Priceline's diminishing market value.

Possible Reasons For Priceline's Current Status

Priceline's diminishing value can be attributed to two likely reasons: 1) Making Priceline successful is not Jay Walker's primary objective and 2) The demand collection system on which Priceline is founded is not efficient. The statement involving Mr. Walker's objectives is examined first.

Priceline does not provide a publicly disclosed mission statement. As such, no clear company objectives can be identified. From an outsider's point of view, however, one might ascertain from the number of horizontal expansions made by Priceline that its primary

unofficial objective has been to expand into as many markets as possible. A likely reason for the seemingly indiscriminate expansion of Priceline is the fact that Jay Walker has more of a vested interest in the success of the demand collection system than he does in Priceline itself.

This is because Walker Digital, Inc. holds the patent rights to the pricing system used by Priceline. Consequently, the more markets the demand collection system is viable in, the more valuable the patent becomes for Walker Digital, Inc. So it seems that instead of Mr. Walker using the demand collection system to make Priceline successful, just the opposite holds true. The possibility that the success of Priceline was a secondary concern for Mr. Walker would contribute to its present status.

The second likely reason for the present status of Priceline is the inefficient nature of the demand collection system, used in some form or another to sell all of Priceline's services. Technologically speaking the processes that make up Priceline's pricing system are rather complex, although the concept is quite simple. Since the majority of Priceline's revenues come from the sale of airline tickets, they will be used to illustrate how the system actually works.

The process actually began when Priceline negotiated with participating carriers for access to unsold seats at special prices. Unfortunately for Priceline, Mr. Walker did not have a great deal of leverage during early negotiations. As a result, Priceline is limited to the tickets and the prices the airlines decide upon. Also, the tickets provided by the airlines are generally for seats they would not be able to sell otherwise.

Once the pool of tickets is assigned to Priceline the ticket prices, which the airlines (not Priceline) may revise as often as they like, are entered into a database. When a bid is submitted, computers check whether a match is available and the bidder is notified via e-mail

20 to 30 minutes later with a response. This means that a bid is filled only if it meets or *exceeds* a price that is previously set by one of Priceline's partner airlines. So while it is true that consumers can "name" prices at Priceline, it is still the airlines that determine whether or not those prices are acceptable. Also, Priceline does not publish the prices of its available tickets and consumers tend to pay more than the undisclosed prices set by the airlines (Elkind, 1999).

Still, the value that results from this business model lies in the customer's perception of control, i.e. naming their own price. Although the number of concessions a customer must make in order to do business with Priceline arguably diminishes that value. For instance, here are just a few of the concessions passengers must be willing to make in order to purchase a ticket from Priceline. Customers must be willing to: 1) Fly any airline, 2) Depart at any time after 6 a.m. and land anytime before 10 p.m., 3) Accept coach class seats that are not eligible for frequent flier miles or upgrades, and 4) Agree that all accepted bids cannot be changed and are non-refundable. So not only are customers not getting the lowest price available, they are also forced to make concessions.

This turns out to be a fairly inefficient way of selling airline tickets. The ratio of submitted bids to accepted bids attests to this fact. In 1999 only 24 percent of all the bids submitted to Priceline were actually filled. As poor as that number sounds, it was an increase of 17 percent over 1998's seven percent fill rate (Elkind, 1999). This means that in 1998 Priceline was unable to satisfy approximately 75 percent of the bids that were submitted. Furthermore, it often takes several attempts before a bid is finally accepted because a specific itinerary can usually be submitted only once. Recall that it takes 20 to 30 minutes before customers know whether or not their bids were accepted, which can also make the process

very time consuming. The next portion of this discussion focuses on how the strategy development and implementation model introduced in the previous section could be applied to Priceline's situation.

Application Of The Strategy Development And Implementation Model

Stage One - Clarification

As previously stated, Priceline does not have a publicized mission statement or a list of strategic objectives. That is not to say that one does not exist; however, for this discussion it is assumed that Priceline is in need of a clearly defined corporate goal. Although Priceline may have many strategic objectives - for example to sell a certain number of tickets, to improve its fulfillment rates, or to earn a profit - none qualify as a corporate goal. Within the context of this model, corporate goals are long-term and specific.

For instance, if expansion were the corporate goal of a particular company, that company would likely focus on expanding into specific industries and markets in which it has a core competence. Priceline, on the other hand, underwent significant horizontal integration into industries in which it did not appear to have any obvious core competencies or previous experience. In retrospect those expansions may not have been the most ideal for Priceline. Unfortunately there is not an opportunity to examine the relevancy of those choices in the context of a public mission statement or its subsequent goals. This relevance and the importance of such goals are examined next.

If one viewed Priceline as a giant ocean-going ship, it would be easy to see the need for forward thinking and specificity. Ships that size cannot be maneuvered very easily, nor can they sail aimlessly for an indefinite period of time. Before setting sail, they first need a

specific destination so that the best course can be plotted, the appropriate personnel hired, and the necessary supplies brought aboard.

Just as a ship's destination cannot be vague, neither can a company's corporate goal. Therefore, while becoming profitable is an excellent objective for Priceline, it is not a suitable corporate goal. In fact, solely focusing on profitability could be detrimental to Priceline's long-term success. To avoid conflicts between short-term and long-term goals, Priceline's specific corporate goal should be to maximize the current value per share of its existing stock.

This goal is based on the assumption that investors purchase stock because they seek to gain financially (Ross, 1996). Therefore a company's decision could be categorized as either positive or negative based on the likely effect the decision would have on the company's stock price. It follows that Priceline should act in its shareholders' best interests by making decisions that increase the fundamental value of the company, which in turn would increase the value of its stock. Specific strategic objectives that could have such an effect on Priceline will be discussed in stage three. For now, the corporate goal has been selected and the model transitions onto stage two.

Stage Two - External Focus

In stage two, one of external focus, a company first identifies its target markets and ideal customers within those markets. To continue with the ship example, a decision needs to be made as to what cargo will be carried. After all, a ship designed to carry freight is much different than a ship designed to carry people. Once the cargo is selected, further distinctions must be made as to what type of freight or passengers the ship carries. The more information

that can be attained before a ship sets sail, the more accommodating the ship can be for its cargo.

For the sake of this discussion, Priceline should narrow the scope of its offerings to services within the travel industry. Its ideal customers are price-conscious travelers who need reservations and accommodations on short notice. Therefore, the ideal customers for Priceline are business and leisure travelers seeking accommodations on short notice and at bargain prices. Conversely, Priceline should not be actively seeking travelers who may have airline, class, or frequent-flier preferences. With a target market identified and ideal customers defined, it is important to determine how Priceline compares relative to its competition.

Although Priceline was an early entrant in the on-line segment of the travel industry, competitors quickly gained ground. In fact, later entrants have the benefit of learning from their predecessors. For example, Hotwire.com, a recent entrant in the on-line travel market, promises to deliver deep discounts just like Priceline does, only with a more user-friendly system (Merrick, 2000).

Hotwire is an excellent example of a service designed in a customer-centric fashion. This system takes much of the work out of the customers' hands. Instead of having to devise and submit multiple itineraries, as Priceline.com requires, Hotwire.com requires an itinerary be devised and submitted only once. Hotwire then takes the itinerary and provides a list of available flights according to customer preferences with regard to specific airports, number of connections, or lowest prices. Finally, the customer has 30 minutes to decide whether to purchase one of the available tickets at the price listed by Hotwire (Merrick, 2000).

The customer-centric focus and the fact that Hotwire actually publishes its prices are serious concerns for Priceline considering they share common sources of airline tickets. In fact, many major airlines that supply Priceline are direct investors in Hotwire. This poses a serious threat to Priceline's ability to sustain a competitive advantage, which is examined as the model begins to transition onto the third stage of internal focus.

Stage Three - Internal Focus

A closer look at how Priceline is currently using the competitive advantage building blocks can provide some insight as to what objectives might help Priceline improve upon its position in the on-line travel market. For instance, the demand collection system on which Priceline is founded is still relatively innovative. In fact, allowing consumers to "name their own price" may be one of the most important sources of Priceline's competitive advantage. The innovation building block could be considered strong as a result.

Priceline has further developed its competitive advantage by strengthening the lock-in building block. Much like Amazon, Priceline allows users to create a profile that tracks the areas visited and the purchases made by each user. It then uses that information to make customized recommendations the next time that user visits Priceline.com.

Priceline also offers a variety of services that complement its airline-ticket offerings. The ability of travelers to make hotel and car rental reservations when they make airline reservations strengthens the complementarities building block. However, some of the services offered by Priceline add no value to its core travel-related services. Because these non-value adding services consume valuable resources, they diminish the strength of this building block and the overall competitive advantage of the company.

Unfortunately the quality of the services offered by Priceline could be considered low – so low that more than 300 complaints have been filed against Priceline with The Connecticut Better Business Bureau and government regulatory agencies since 1998 (Schaal, 2000). In September 2000, the bureau rescinded Priceline's membership because of the numerous complaints filed against the company; though the company has since been reinstated (Schaal, 2000). Numerous complaints, along with the low percentage of bids actually filled by Priceline, are indicators that Priceline's quality, efficiency, and customer responsiveness building blocks are weak.

The competitive advantage building blocks provide the necessary insight to approximate Priceline's position in the market. To further enhance this insight and move closer to its goal of maximizing the value of its stock, Priceline needs a better understanding of how its internal processes interrelate with the competitive advantage building blocks. After all, improving the quality and efficiency of its internal processes would drive down costs and, if done correctly, could help to increase the percentage of completed bids and value delivered to its customers. In fact, these objectives are becoming more and more important as competition in the on-line travel market increases.

In January 2001 Expedia and Travelocity announced improvements to their on-line services (Davis, 2001). Expedia rolled out "Expert Searching and Pricing," a new platform the company says will allow its customers to choose from an average of 400 itinerary combinations for each round-trip domestic air ticket search. Travelocity's new fare-search technology will show consumers when to travel to get the lowest airfare. The fact that both companies made their announcements on the same day illustrates the competitive nature of the on-line travel market and the importance of providing ever-increasing value to customers.

Driving down costs and increasing sales volumes are two ways in which Priceline is most likely to achieve its corporate goal of maximizing the value of its stock. Recall that raising or lowering its prices are not options for Priceline because its suppliers determine the price floor and its customers determine the price ceiling. Therefore if Priceline wants to meet its goal and also become profitable it must focus internally on two strategic objectives: 1) Improving the quality and efficiency of the demand collection system and 2) Streamlining the cost structure.

Accomplishing these two objectives can be aided through the use of the value chain concepts (See Exhibit E). These concepts can be used to identify the processes that make up Priceline's current business model. Once identified, each process must be further reduced to specific activities, examined, and then defined. The definition should establish whether a process contributes value and quantify the costs it consumes.

Determining whether a particular process produces value and gauging its cost are tedious tasks. The effort required, however, should not deter Priceline, or any company for that matter, from clearly defining its business processes. The definitions provide insight into the efficiency and the necessity of individual business processes, which are vital pieces of information in stage four, construction.

Stage Four - Construction

In this stage, information gathered from the three previous stages is used to theoretically refine each business process and to construct a conceptual business model. Priceline's processes need to be refined to produce the most value and consume the fewest resources possible. Care must be taken to assure the two objectives discussed in stage three

are adequately addressed and that Priceline is closer to its ultimate goal as a result of the changes.

This stage is also a tedious one because it involves identifying specific activities within specific business processes that can be either improved upon or eliminated altogether. The end result of this stage is the ideal business model for Priceline based upon the decisions made and information gathered in the three previous stages. The next stage involves implementing the necessary changes.

Stage Five - Implementation

The objective of stage five is to minimize the differences between the ideal business model and the existing business model. When an implementation plan is developed, care must be taken so that employee or consumer confidence is not affected in a negative way. Employees could resist the changes being made or consumers could consider the product or service less valuable if the plan is not implemented in a thoughtful manner.

In Priceline's case the implementation plan would almost certainly involve modifying certain processes, eliminating some of its services, and ultimately further reducing its workforce. Changes like these have the potential to make Priceline appear to be in a worse situation than it actually is. Consequently, internal and external reactions should be thoroughly considered when the implementation plan is developed and carefully monitored when the existing business model is brought in line with the conceptual business model.

Comments About The Strategy Development And Implementation Model

The perpetual nature of this model requires that Priceline continually progress through the five stages of the model. This means that once Priceline implements the changes

necessary to bring its current business model in line with its ideal business model, it must begin anew to reevaluate its corporate goals and strategic objectives. Priceline must make sure the direction of the company coincides with current market conditions if it hopes to sustain its competitive advantage. This will undoubtedly result in Priceline perpetually refining its business model to assure continual movement towards its corporate goal.

CheapTickets And Priceline.Com

To further demonstrate how a closer adherence to traditional business principles would benefit Priceline, this section of the discussion compares Priceline's performance with that of a competitor who has adhered to traditional business principles. The competitor for this analysis is CheapTickets, which was co-founded in 1986 by Chairman Michael Hartley and his wife (Elkind, 1999). The company sells airline tickets primarily by phone and on the Internet, as well as through its 12 retail outlets. Thus, CheapTickets is not an Internet pure player. Despite this fact, CheapTickets strives to serve many of the same customers as Priceline and is subject to the same economic and market conditions. For the purposes of this discussion, these factors make CheapTickets suitable for comparison.

Even though CheapTickets was established nearly 12 years before Priceline, it is not nearly as well known. The reason for its relative obscurity is because Mr. Hartley specifically chose not to invest in developing his brand as Mr. Walker did. CheapTickets was committed to earning a profit, but could not afford to advertise like Priceline (Elkind, 1999). "My hat's off to Jay [Walker]," said Mr. Hartley in a 1999 interview. "He's created a national brand in a very short period. I think I could've done the same if I spent the money he did on advertising. But then, we've got a policy here at CheapTickets: We need to make money." (Elkind, 1999).

Over time, the decision not to invest heavily in brand development was profitable for CheapTickets. In 1999 it racked up a comparable number of airline tickets sales and generated comparable revenues (See Table Below). More importantly CheapTickets reported a net income of \$7.6 million for the fiscal year ending 1999 compared to Priceline's Net Loss of \$1.055 billion (See Table Below).

Table 3 – Financial Comparison of CheapTickets and Priceline

<u>CheapTickets, Inc.</u>	<u>Priceline.com, Inc.</u>
NASDAQ: CTIX	NASDAQ: PCLN
Fiscal Year-End: December	Fiscal Year-End: December
1999 Sales (mil.): \$339.6 1-Yr. Sales Growth: 98.5%	1999 Sales (mil.): \$482.4 1-Yr. Sales Growth: 1270.5%
2000 Sales (mil.): \$98.4 1-Yr. Sales Growth: (71.0%)	2000 Sales (mil.): \$1,235.0 1-Yr. Sales Growth: 156.0%
1999 Net Inc. (mil.): \$7.6 1-Yr. Net Inc. Growth: 590.9%	1999 Net Inc. (mil.): (\$1,055.1) 1-Yr. Net Inc. Growth: N/A
2000 Net Inc. (mil.): \$12.0 1-Yr. Net Inc. Growth: 57.9%	2000 Net Inc. (mil.): (\$330.0) 1-Yr. Net Inc. Growth: N/A
1999 Employees: 953 1-Yr. Employee Growth: 61.5%	1999 Employees: 373 1-Yr. Employee Growth: 164.5%
Source: Hoover's On-line: http://www.hoovers.com/co/capsule/3/0,2163,59003,00.html (CheapTickets) http://www.hoovers.com/co/capsule/7/0,2163,58847,00.html (Priceline)	

This paper argues that the drastically different bottom lines are a direct result of the drastically different ways in which the two companies applied traditional business principles. First and foremost, CheapTickets made making money a priority. Second, Mr. Hartley understood the cost structure of CheapTickets in relation to its revenue model. This is evident by examining the performance of the company over the last year. Despite its sales falling 71 percent in 2000, its net income actually increased 51 percent. This performance is a direct

result of Mr. Hartley's understanding of the relationship between CheapTickets' revenue model and its cost structure.

The fact that CheapTickets was founded in the pre-Internet economy could have something do with this understanding. The company began as a traditional brick and mortar company at a time when adherence to traditional business principles was not considered to be optional. As the Internet and the World Wide Web evolved, Mr. Hartley incorporated them into his business by focusing on them as alternative distribution channels and marketing mechanisms that could enhance CheapTickets' ability to attract new clients and better serve existing ones. Had Mr. Hartley forsaken traditional business principles because of the Internet and the World Wide Web, CheapTickets would almost certainly not be in business today.

Discussion Summary

This discussion demonstrates that the principles responsible for making businesses successful in the pre-Internet economy are the same principles responsible for making businesses successful in the post-Internet economy. Based on its history, it was evident that Priceline fell victim to the "new" economy mode of thinking where business plans were obsolete and issues such as value or profit were unimportant. The recent rise in the number of business failures served as a harsh reminder that this mode of thinking had to change (See Appendix A).

A retrospective examination of Priceline was used to illustrate what can happen to a company when it disregards traditional business principles. There is no way of knowing exactly what would happen if Priceline implemented the recommended changes based on the strategy development and implementation model. Though this paper takes a definitive stance

that the more Priceline uses traditional business principles, the greater the likelihood that it will achieve financial success. This stance is bolstered by the comparison of Priceline to CheapTickets, which has achieved and sustained financial success in today's economy through its adherence to traditional business principles.

Contribution Of Research

This section examines the conceptual contributions of current research in the on-going debate surrounding today's economy and the role of traditional business principles. The limitations of this paper and the model that was developed and applied are then considered. Recommendations for future research based on those limitations are subsequently listed. Practical implications of the topics covered throughout the paper are then examined and followed by concluding remarks.

Conceptual Contributions

Three contributions were offered in the paper that were theoretically or conceptually based. First, early sections of this paper addressed misconceptions about today's economy that have led to questionable decisions being made by those currently funding, running, or working for Internet-based businesses. Theoretical assumptions were made regarding those decisions in that they stemmed from a false understanding of what the Internet actually is and how e-business and e-commerce actually work. Those discussions served to clarify those misconceptions and examine how they may have led to poor business decisions.

Second, this paper demonstrated the absence of definitive proof that the post-Internet economy is fundamentally different than the pre-Internet economy. An analysis of how the output growth rates of the pre-Internet and post-Internet economies interacted with unemployment rates and inflation rates illustrated this point. Although the growth rates did interact differently, there was no conclusive evidence that today's economy is fundamentally different than the economy of the past. Thus, the principles responsible for making

businesses successful in the pre-Internet economy are the same principles that will be responsible for making businesses successful in the post-Internet economy.

The final conceptual contribution came from the discussion involving traditional business principles and how many of the concepts based on those principles have evolved over time. The effects of the Internet on several of these concepts were examined in the third section, which culminated with the introduction of the strategy development and implementation model. The model served as a framework for the principles and concepts covered throughout the paper. The fourth section demonstrated how Priceline could use the model in theory to incorporate the principles and evolved concepts to design and implement a strategy that would result in a solid business model aimed at maximizing the value of its stock.

Limitations Of The Paper

This paper offers an understanding of the subtle differences between the pre-Internet economy and the post-Internet economy and it does have limitations. The primary limitation is that this paper was based solely on secondary research. No original studies and no direct interviews were conducted while researching this paper. In the rapidly changing nature of today's business environment, studies become obsolete and business practices change on a daily basis. Rather than focus on a study likely obsolete by the time it was completed, the decision was made to examine and subsequently apply the findings of secondary research only.

Another limitation is the strategy development and implementation model was applied to only one type of business – one that was purely an Internet-oriented company. Had

the model been applied to a company like International Business Machines Corporation (IBM), it would have undoubtedly provided more insight into the practicality of the model. Implications of the model's application on companies implementing "clicks and bricks" approaches, companies with a physical presence as well as an on-line presence, remains to be seen.

Table 4 – Additional, In-Depth Information for Each Model Stage

Stage 1 – Clarification

Strategic Action Planning Now: A Guide for Setting and Meeting Your Goals

by Cate Gable

Section 1: Pre-planning Preparation

Stage 2 – External Focus

Market Driven Strategy: Processes for Creating Value

by George S. Day

Pt. 3. Assessing the Competitive Position

Chapter 5: Understanding Competitive Markets: Their Structure and Attractiveness

Chapter 6: Assessing Advantages

Wharton on Dynamic Competitive Strategy

by George S. Day (Editor), David J. Reibstein (Editor), Robert E. Gunther (Contributor)

Chapter 1: Assessing Competitive Arenas: Who Are Your Competitors?

Stage 3 – Internal Focus

The Balanced Scorecard: Translating Strategy Into Action

by Robert S. Kaplan, David P. Norton

Chapter 5: Internal-Business-Process Perspective

Corporate Internet Planning Guide: Aligning Internet Strategy With Business Goals

by Richard J. Gascoyne, Koray Ozcubukcu

Chapter 1: A Call to Action: Build the Internet/Intranet into Your Business.

Chapter 2: Rediscovering Your Customer: Serving Existing Needs and Predicting New Ones

Stage 4 – Construction

Developing E-Business Systems and Architectures: A Manager's Guide

by Paul Harmon, Michael Rosen, Michael Guttman

Chapter 3: Redesigning Business Processes for E-Business

Process Mapping: How to Reengineer Your Business Processes

by V. Daniel Hunt

Chapter 1: Do You Need a Roadmap? Reengineer Your Business Processes

Stage 5 – Implementation

e-Business 2.0: Roadmap for Success

by Ravi, Dr. Kalakota, Marcia Robinson, Don Tapscott

Chapter 13: Translating E-Business Strategy into Action: E-Blueprint Formulation

The model also focused on a struggling company. This was done in an effort to understand why the company was struggling and because it offered an opportunity to make recommendations. Although cases like Priceline's offer a number of learning opportunities, examining the characteristics and practices of companies successfully using the Internet to improve their businesses would also provide tremendous learning opportunities.

Finally, the application of the model was admittedly a superficial one. Superficial because the scope of this paper does not allow for a step-by-step approach as to how Priceline should actually complete each stage of the model. Instead this example demonstrated how the model could serve as a framework to identify the types of changes that are necessary for a company like Priceline. Unfortunately, the research and the methodology involved with topics like business-process reengineering are too information-rich to be adequately discussed here. The table on the previous page provides a list of specific sources of information that address these topics in more detail.

Recommendations For Future Research

Given the limitations of the resources described above, there are several recommendations for future research. First, conduct field interviews of those actually involved in today's economy. VCs, entrepreneurs, and dot-com employees would undoubtedly offer some unique insights into what strategic business practices are in use today. Such insights might lead to some intriguing studies to further augment these discussions and analyses.

Second, examine a wider variety of companies utilizing the Internet. All types of business models, from businesses operating as "Internet pure players" to those utilizing a

“clicks and bricks” strategy, should be examined. Along those same lines, pre-Internet companies and post-Internet companies should also be evaluated. Initially understanding how both established companies and start-up companies have incorporated the Internet into their business models is important. Determining the reasons for the resulting successes and failures experienced by such companies would especially enhance the topics addressed in this paper.

The last recommendation is to combine the previous recommendations and further develop the strategy development and implementation model. Insights gained from the field interviews and the lessons learned from studying a variety of companies operating in the current business environment would improve upon the relevance of the model. Although, improving the relevance of the model is not solely dependent on the completion of the first two recommendations. This could also be accomplished by applying, in theory or in practice, the model’s framework to various businesses.

Practical Implications

Although a lot can be said about being one of the first companies to enter a market, a lot can also be said about going to market with a viable business model. Unfortunately many companies learned that lesson the hard way and are no longer in business. Not surprisingly, the companies that adhered to traditional business principles when integrating the Internet into their businesses are reaping the rewards. Exhibit H illustrates the decreasing number of IPOs in contrast to the increasing usage rates of several popular websites. Although the number of Internet IPOs has significantly dropped off in recent months, the usage of websites designed in a customer-centric fashion has taken off. This suggests that the promise of the Internet is still relatively unfulfilled (*Gartner Group, 1999*).

Businesses must realize that throwing good money after bad in an effort to fulfill that promise is no longer acceptable. Rather than relying on investors with deep pockets to keep a company in business, companies should instead rely on traditional business principles. This paper and the model presented within provide a framework for developing a fundamentally sound business model that can fulfill the promise of the Internet and truly achieve financial success.

Conclusions

Although the economy has evolved as a result of the Internet, it has not proven to be fundamentally “new.” The Internet by itself is only a tool. Even the most powerful tools in business cannot be used in place of traditional business principles. Based on that understanding, this paper illustrates that many of the concepts are evolving as a result of the Internet. As such, they are still relevant in today’s economy because they are based on proven business fundamentals. The massive number of Internet-based business failures over the past year attests to this fact. Failed businesses demonstrate that the Internet, and technology in general, are no substitute for a well-defined strategy aimed at delivering value to customers and returning a profit to owners.

References

- Afuah, Allan & Tucci, Christopher L. (2000). *Internet Business Models and Strategies*. New York: McGraw-Hill Higher Education.
- Amit, Raphael & Zott, Christoph. (2000, June 30). "Creating Value Through e-Commerce Business Models." Reported by *Knowledge@Wharton*. Retrieved July, 26, 2000 from the World Wide Web:
<http://knowledge.wharton.upenn.edu/articles.cfm?articleid=254&catid=7>
- Anqwin, Julia and Lundegaard, Karen (2000, November 8). "Priceline's Auto-Services Chief Quits; Keller Says Sale Experiment Has Failed." Reported by *The Wall Street Journal*. Retrieved November 17, 2000 from the World Wide Web:
<http://interactive.wsj.com/archive/retrieve.cgi?id=SB973641507385457409.djm>
- Bangs, Jr., David H. (1998). *The Business Planning Guide*. Chicago, IL: Upstart Publishing Company.
- Besanko, David, et al. (1996). *Economics of Strategy*. New York: John Wiley, 1996.
- Davidson, Marshal. (2000, September 1). "Press Release: CEO's Overview: A History of APB Online, Inc." Reported by *APBNews.com*. Retrieved October, 30 2000 from the World Wide Web:
<http://www.apbnews.com/company/pressreleases/2000/09/01/release0901.html>
- Davis, Jessica. (2001, Feb 19). "NET PROPHET: Expedia and Travelocity improve search features and customer experience." *InfoWorld*, Feb 19, 2001 v23 i8 p84.
- Elkind, Peter (1999, September 06). "The Hype Is Big, Really Big, At Priceline." *Fortune*, Sept 6, 1999 v140 i5 p193+ Features. Retrieved June 30, 2000 from the World Wide Web:
<http://library.northernlight.com/PN19990827040000366.html?cb=13&sc=0#doc>
- Ethiraj, Guler, et al. (1999). "Creating Internet Strategies for Competitive Advantage." Reported by *Knowledge@Wharton*. Retrieved July 26, 2000 from the World Wide Web:
<http://knowledge.wharton.upenn.edu/articles.cfm?catid=7&articleid=244&homepage=yes>
- Fendelman, Adam (2000, October 8). "Priceline.com's WebHouse Club to 'Wind Down' Operations." *Newsbytes*, Oct 8, 2000 pNSBT13170155. Retrieved November 17, 2000 from the World Wide Web: <http://www.newsbytes.com/news/00/156232.html>

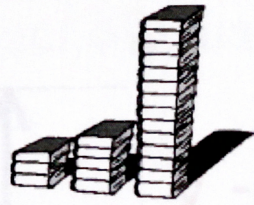
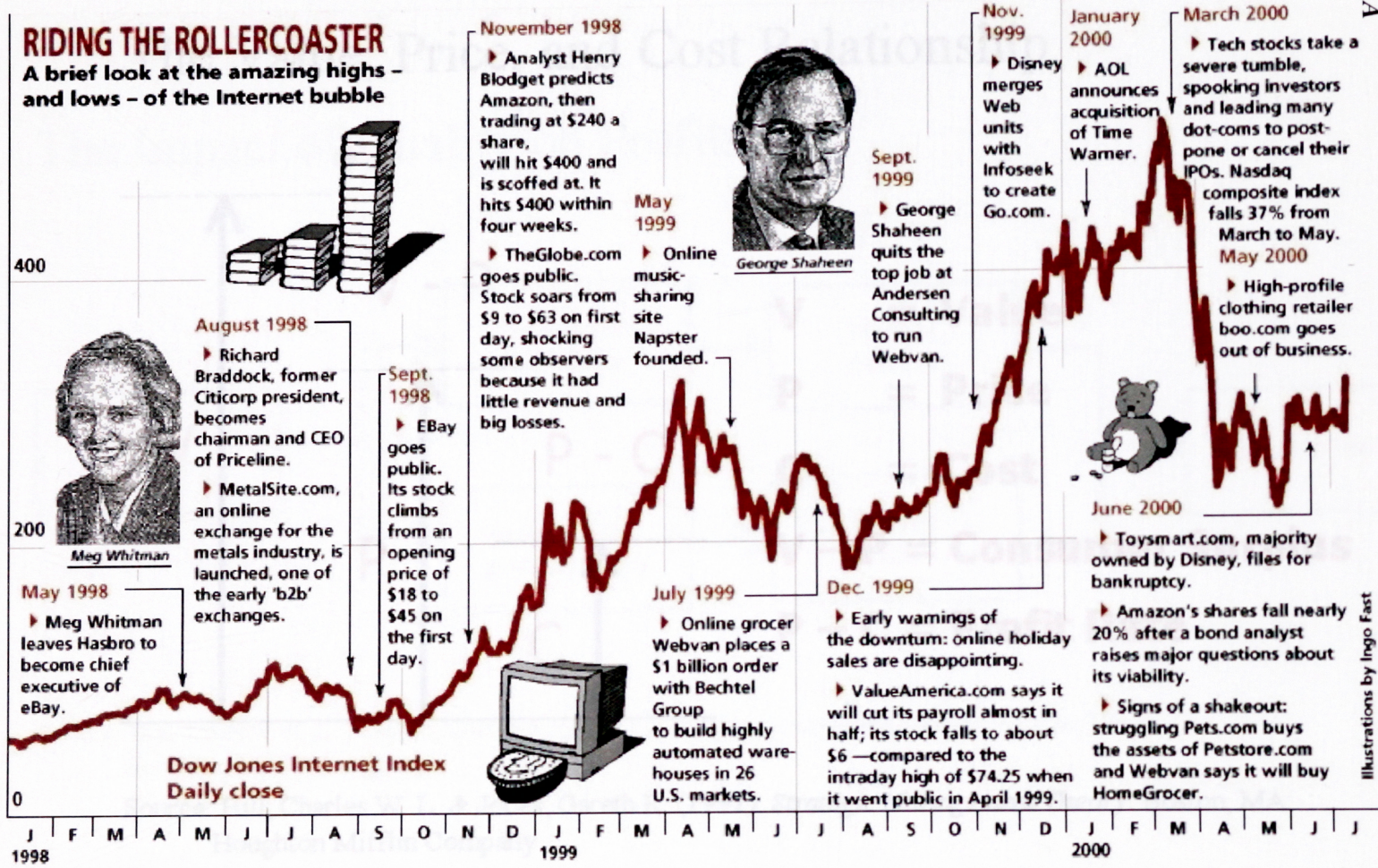
- Gordon, Robert J. (1998, Fall). "Foundations of the goldilocks economy: supply shocks and the time-varying NAIRU. (nonaccelerating inflation rate of unemployment)." *Brookings Papers on Economic Activity*, Fall 1998 i2 p297(3).
- Hill, Charles W. L. & Jones, Gareth R. (1997). *Strategic Management Theory*. Boston, MA: Houghton Mifflin Company.
- Kelsey, Dick. (2000, June 17). "Belly-Up APBNEWS.com Wins National Press Award." *Newsbytes*, June 17, 2000 pNSBT11511311. Retrieved July 21, 2000 from the World Wide Web: <http://www.newsbytes.com/news/00/150628.html>
- Kelsey, Dick (2000, July 12). "APBnews.com Files For Chapter 11." *Newsbytes*, July 12, 2000 pNSBT11813306. Retrieved July 21, 2000 from the World Wide Web: <http://www.newsbytes.com/news/00/151648.html>
- Krebs, Brian (2000, November 7). "Priceline.com CFO Leaves, Shares Tumble." *Newsbytes*, Nov 7, 2000 pNSBT13635658. Retrieved November 30, 2000 from the World Wide Web: <http://www.newsbytes.com/news/00/157674.html>
- Krugman, Paul (Summer 1997). "How Fast Can the U.S. Economy Grow?" *Harvard Business Review*, 75, no. 4 (July-August): 123-29.
- Loomis, Carol J. (2000, November 27). "Priceline's Walker Loses Two and Wins One." *Fortune*, Nov 27, 2000 v142 i13 p58+. Retrieved December 2, 2000 from the World Wide Web: <http://library.northernlight.com/MG20001122020000220.html?cb=13&sc=0#doc>
- Merrick, Amy (2000, October 23). "Live long and prosper? Two new Priceline competitors say they offer a better way to buy discount airline tickets. (Orbitz and Hotwire)." *The Wall Street Journal*, Oct 23, 2000 pR22(W) pR22(E) col 1 (30 col in). Retrieved November 16, 2000 from the World Wide Web: <http://interactive.wsj.com/archive/retrieve.cgi?id=SB970081708357037584.djm>
- Napoli, Lisa (2000, July 13). "The doomed dot-com." Reported by *MSNBC*. Retrieved July 27, 2000 from the World Wide Web: <http://www.msnbc.com/news/432690.asp>
- Perkins, Anthony B. & Perkins, Michael C. (1999). *The Internet Bubble*. New York: HarperCollins Publishing.
- Porter, Michael E. (1985). *Competitive Strategy: Creating and Sustaining Superior Performance*. New York: Free Press.
- Roach, Stephen S. (Summer 1998). "No Productivity Boom for Workers." *Issues in Science and Technology*, vol. 14 no. 4 (summer): 49-56.

- Ross, Stephen A., et al. (1996). *Essentials of Corporate Finance*. Chicago: Irwin Publishing, a division of The McGraw-Hill Companies, Inc.
- Schaal, Dennis (2000, September). "Consumer bureau ousts Priceline." *Travel Weekly*, Sept 28, 2000 v59 i78 p6.
- Shepard, Stephen B. (1997, November 17). "The New Economy: What It Really Means." *Business Week*, November 17-23: 3840.
- Sinha, Indrajit (2000). "Cost Transparency: The Net's Real Threat to Prices and Brands." *Harvard Business Review*, (March-April), pp. 3-8.
- Slywotsky, Adrian J. & Morrison, David J. (1997). *The Profit Zone*. New York: Times Books, a division of Random House.
- Stiroh, Kevin (1999). "Is there a new economy?" *Challenge*, July-August 1999 v42 i4 p82(2).
- Zimmerman, Jerold L. (1999, September). *Accounting for Decision Making and Control, 3rd Edition*. USA: McGraw-Hill Higher Education.
- (1999, October). "Dataquest Study Provides Global Outlook of Marketplace Through 2003: Business-to-Consumer E-Commerce to Become a \$380 Billion Industry by 2003." Reported by *Gartner Group*. Retrieved August 18, 2000 from the World Wide Web: <http://gartner12.gartnerweb.com/dq/static/about/press/pr-b9957.html>
- (2000, May 8). Amazon.com--Get Big Fast. *Marketing News*, May 8, 2000 v34 i10 p38.
- (2000, July). "Boo.com goes bust." *Internet Magazine*. July 2000 p12.
- (2000, October). "e-Business and e-Commerce Definitions." Reported by *TechWeb.com*. Retrieved October 28, 2000 from the World Wide Web: <http://www.techweb.com/encyclopedia/defineterm?term=e-business>
- (2000, November). "Bernard Baruch Portrait." Reported by the *South Carolina State House Network*. Downloaded November 15, 2000 from the World Wide Web: <http://www.lpittr.state.sc.us/baruch.htm>
- (2000, November). "Stock Charts." Reported by *The Wall Street Journal*. Retrieved November 24, 2000 from the World Wide Web: <http://www.bigcharts.com/custom/wsjie/wsjobb-mli.asp?r=wsjobb&onbad=wsjobb-bad&symb=YHOO>
- (2000, November). "Yahoo! Inc. Investor Relations Frequently Asked Questions." Reported by *Yahoo.com*. Retrieved November 24, 2000 from the World Wide Web: <http://docs.yahoo.com/info/investor/faq.html#2>

- (2000, November). "Stock Charts." Reported by *The Wall Street Journal*. Retrieved November 26, 2000 from the World Wide Web:
<http://www.bigcharts.com/custom/wsjie/wsjobb-mli.asp?r=wsjobb&onbad=wsjobb-bad&symb=PCLN>
- (2000, December). "Encyclopedia of the New Economy." Reported by *Wired Magazine*. Retrieved December 14, 2000 from the World Wide Web:
http://hotwired.lycos.com/special/ene/index.html?nav=part_one&word=intro_one
- (2000, December). "Personal Computer and Microcomputer References" Reported by *Encyclopedia Britannica*. Retrieved December 10, 2000 from the World Wide Web:
<http://www.britannica.com/bcom/eb/article/6/0,5716,2256+1+2247,00.html?query=personal%20computer>
- (2001, February). "Priceline.com Press Releases" Reported by Priceline.com. Retrieved February 12, 2001 from the World Wide Web: http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=pcln&script=400

RIDING THE ROLLERCOASTER

A brief look at the amazing highs – and lows – of the Internet bubble

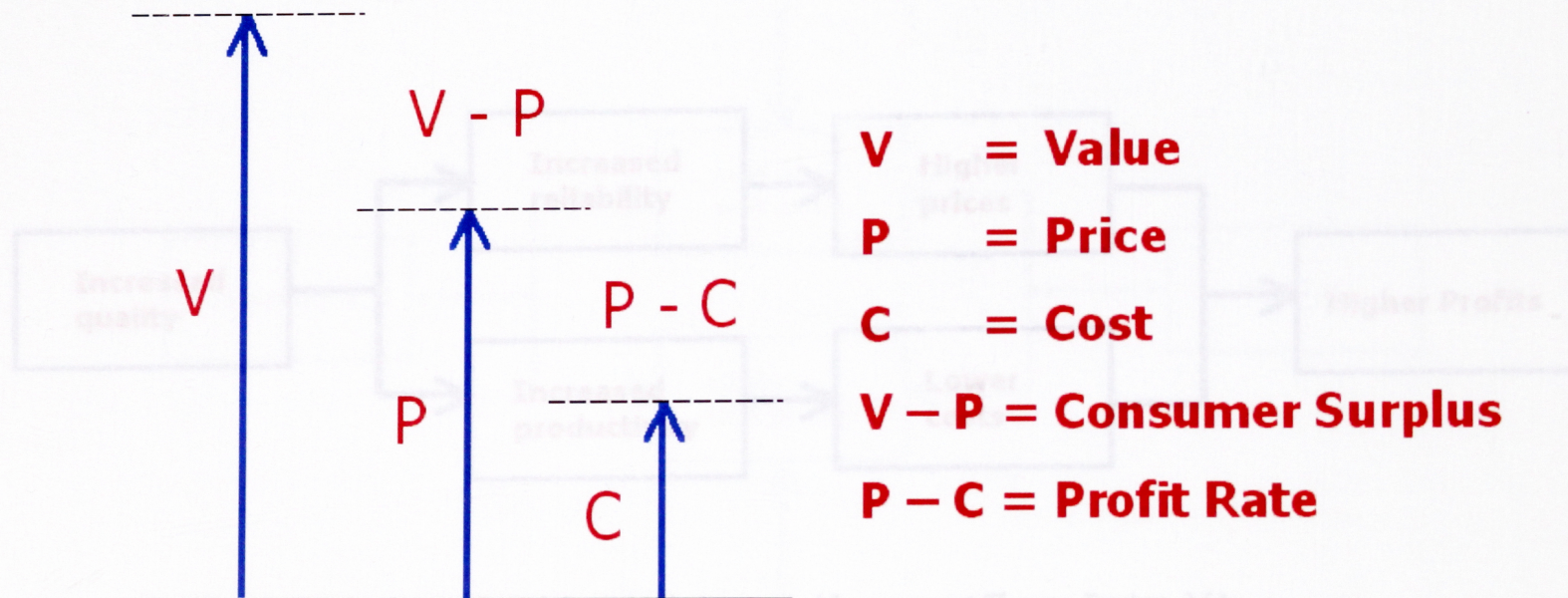


Source: Baseline

Illustrations by Ingo Fast

The Value, Price, and Cost Relationship

The Impact of Quality on Profits

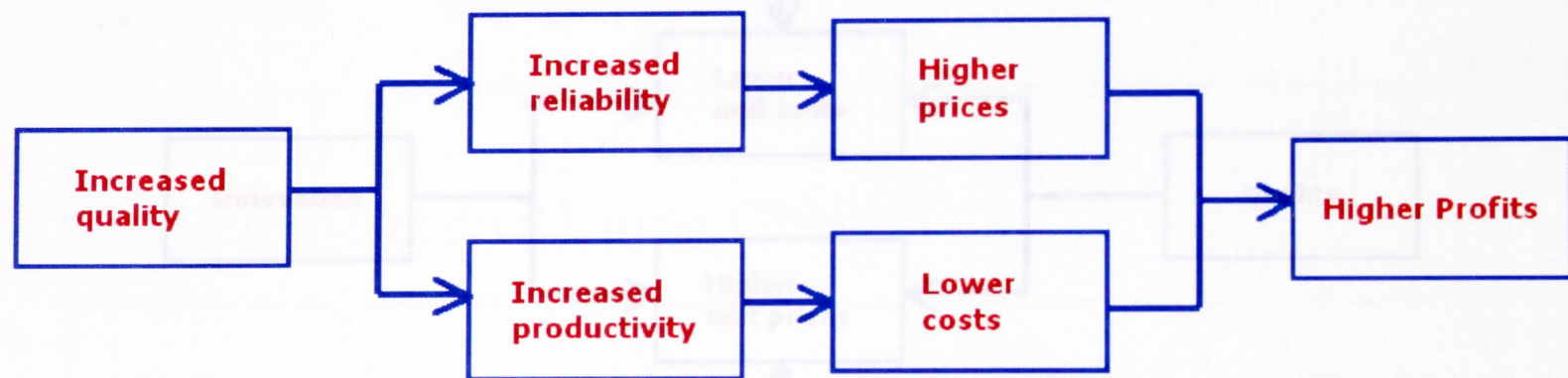


Source: Hill, Charles W. L. & Jones, Gareth R. (1997). *Strategic Management Theory*. Boston, MA: Houghton Mifflin Company.

Source: Hill, Charles W. L. & Jones, Gareth R. (1997). *Strategic Management Theory*. Boston, MA: Houghton Mifflin Company.

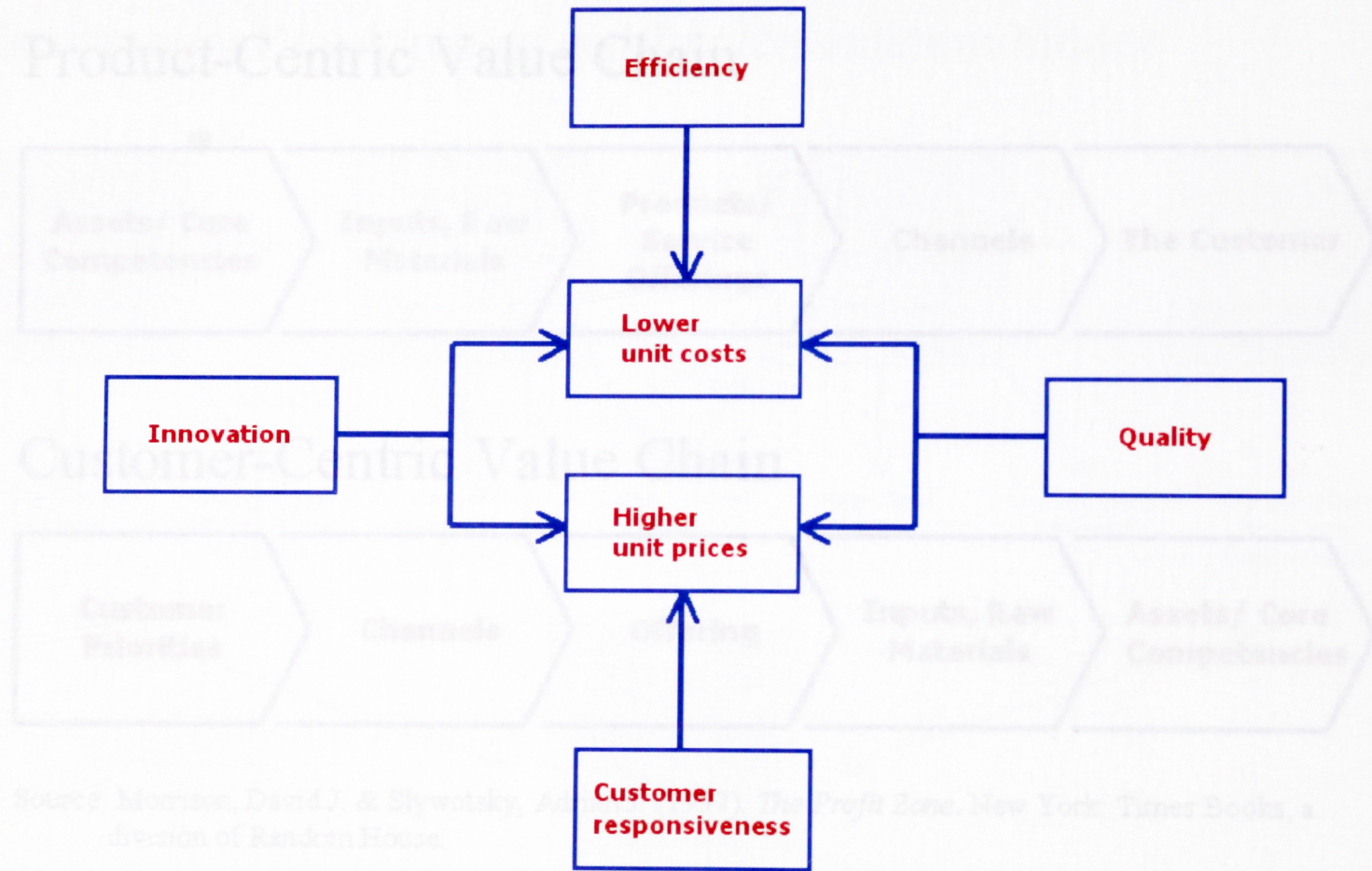
The Impact of Traditional Competitive Advantage Building Blocks

The Impact of Quality on Profits



Source: Hill, Charles W. L. & Jones, Gareth R. (1997). *Strategic Management Theory*. Boston, MA. Houghton Mifflin Company.

The Impact of Traditional Competitive Advantage Building Blocks



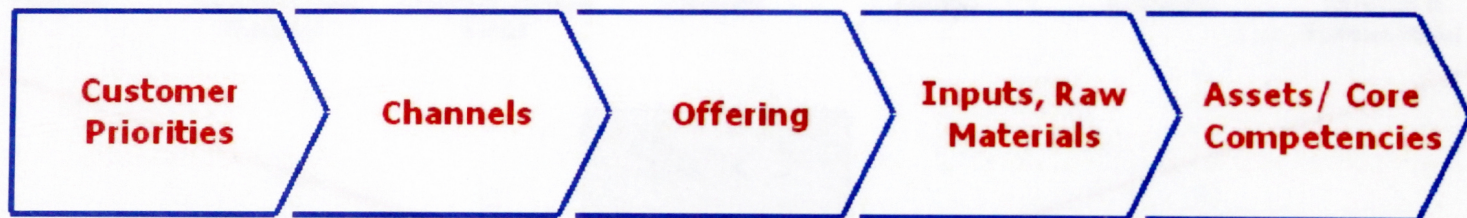
Source: Morrison, David J. & Slywotsky, Andrew. *The Profit Zone*. New York: Times Books, a division of Random House.

Source: Hill, Charles W. L. & Jones, Gareth R. (1997). *Strategic Management Theory*. Boston, MA: Houghton Mifflin Company.

Product-Centric Value Chain

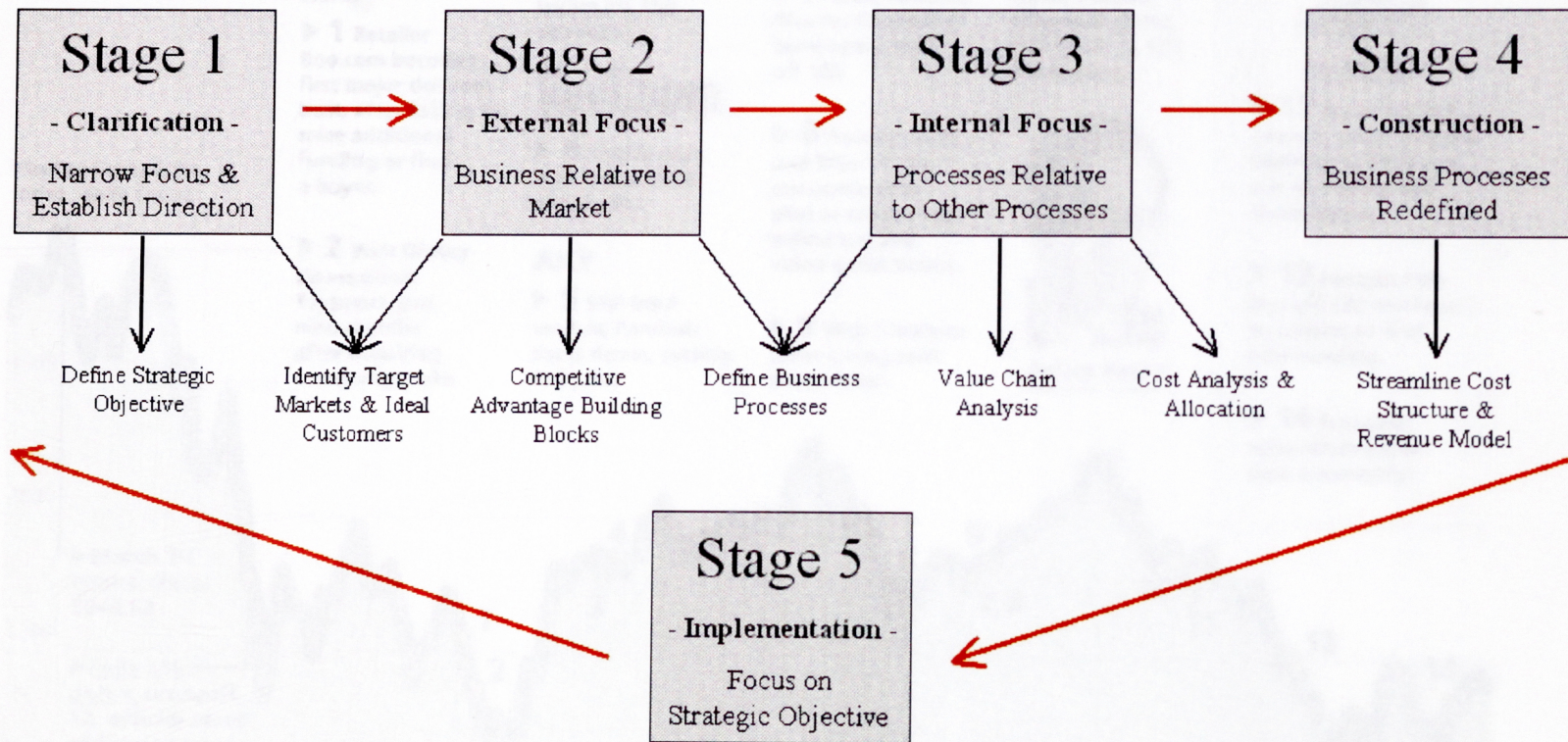


Customer-Centric Value Chain



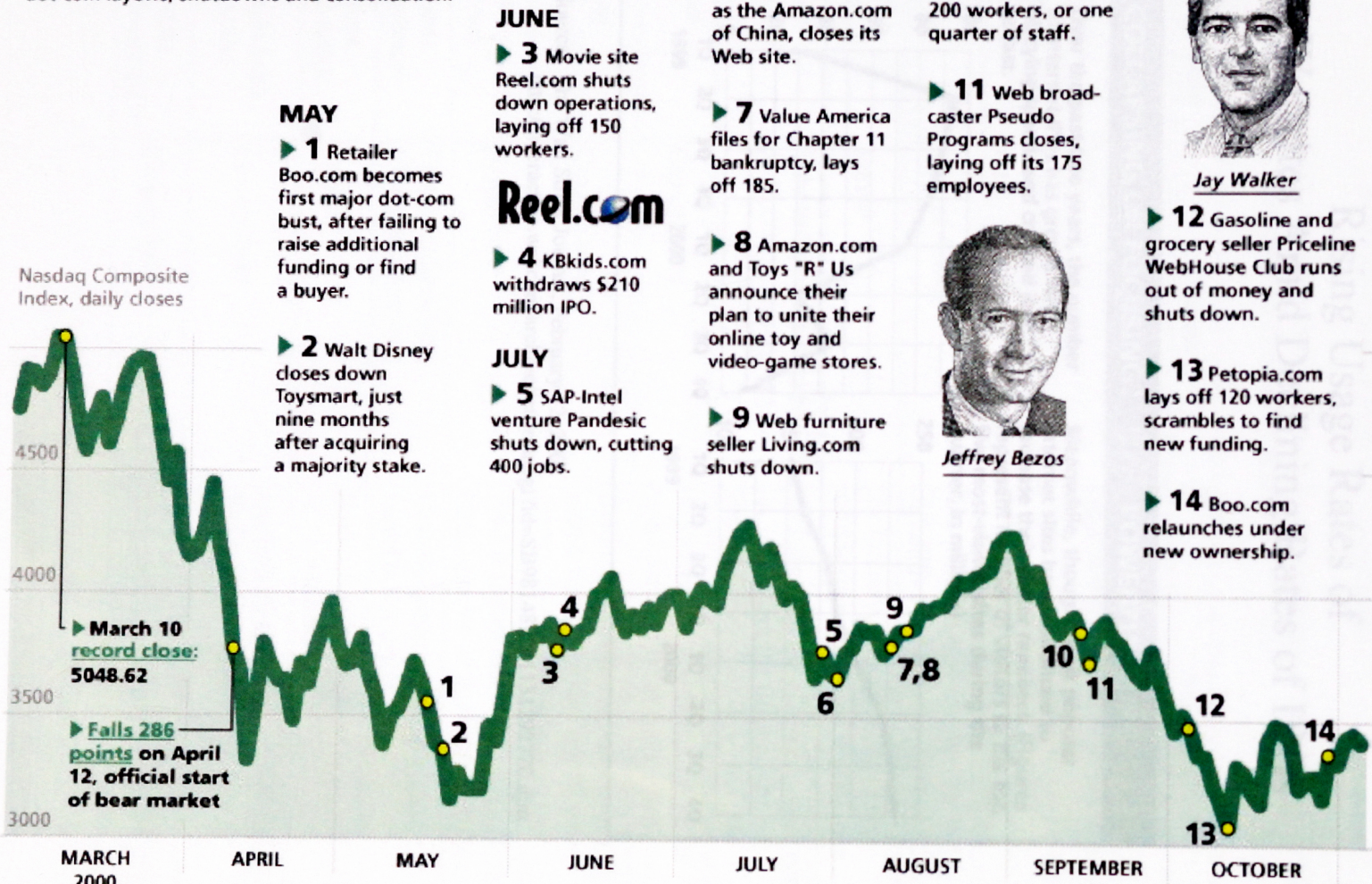
Source: Morrison, David J. & Slywotsky, Adrian J. (1997). *The Profit Zone*. New York: Times Books, a division of Random House.

The Strategy Development and Implementation Model



SINKING FEELING

The Nasdaq's long slide has helped accelerate dot-com layoffs, shutdowns and consolidation.



MAY

▶ **1** Retailer Boo.com becomes first major dot-com bust, after failing to raise additional funding or find a buyer.

▶ **2** Walt Disney closes down Toysmart, just nine months after acquiring a majority stake.

JUNE

▶ **3** Movie site Reel.com shuts down operations, laying off 150 workers.

Reel.com

▶ **4** KBkids.com withdraws \$210 million IPO.

JULY

▶ **5** SAP-Intel venture Pandesic shuts down, cutting 400 jobs.

AUGUST

▶ **6** Chinese Books Cyberstore, billed as the Amazon.com of China, closes its Web site.

▶ **7** Value America files for Chapter 11 bankruptcy, lays off 185.

▶ **8** Amazon.com and Toys "R" Us announce their plan to unite their online toy and video-game stores.

▶ **9** Web furniture seller Living.com shuts down.

SEPTEMBER

▶ **10** Search site AltaVista lays off 200 workers, or one quarter of staff.

▶ **11** Web broadcaster Pseudo Programs closes, laying off its 175 employees.

OCTOBER



Jay Walker

▶ **12** Gasoline and grocery seller Priceline WebHouse Club runs out of money and shuts down.

▶ **13** Petopia.com lays off 120 workers, scrambles to find new funding.

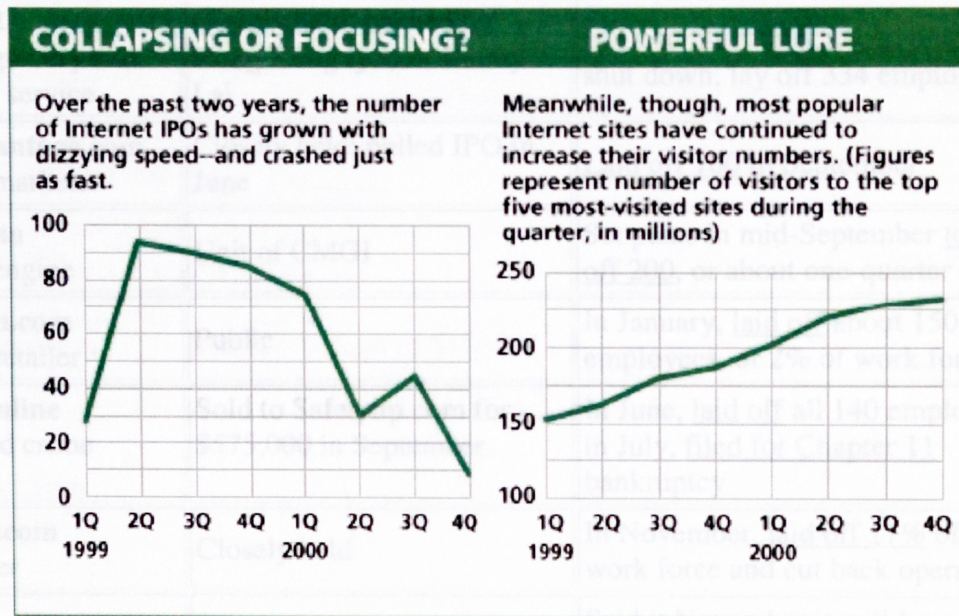
▶ **14** Boo.com relaunches under new ownership.



Jeffrey Bezos

Sources: WSJ.com research;

Rising Usage Rates of Websites Amid Declining Rates of IPOs



Source: The Wall Street Journal, February 12, 2001
<http://interactive.wsj.com/archive/retrieve.cgi?id=SB981489281131292770.djm>

Appendix A

2000 Dot-Com Layoffs and Shutdowns

A comprehensive list of job cuts and closures among Web commerce, content, and services companies from January 2000 through December 2000.

Company Name	Status	Action
AdMart Online grocery and delivery service	Closely held; backed by Hong Kong tycoon Jimmy Lai	In December, <u>announced plans</u> to shut down, lay off 334 employees
AllAdvantage.com Online marketer	Closely held; pulled IPO in June	<u>Laid off 100</u> in September
AltaVista Search engine	Unit of CMGI	Set plans in mid-September to <u>lay off 200</u> , or about one-quarter of staff
Amazon.com Online retailer	Public	In January, <u>laid off</u> about 150 employees, or 2% of work force
APB Online Operated crime website	Sold to Safetytip.com for \$575,000 in September	In June, <u>laid off</u> all 140 employees; in July, <u>filed for Chapter 11</u> bankruptcy
ArtNet.com Art seller	Closely held	In November, <u>laid off 17%</u> of its work force and cut back operations
Asia Online Internet services	Closely held	Said in November it will <u>lay off 56 employees</u> , or about 6% of work force
Ask Jeeves Search service	Public	Said in December it will <u>cut 180 full-time jobs</u> , or 25% of its work force
Auctions.com Online auctioneer	Unit of closely held Classified Ventures	Ceased operations in August; Layoffs not disclosed
Autoweb.com Online auto seller	Public	Said in November it will <u>lay off 25%</u> of its work force
Beautyjungle.com Cosmetics seller	Closely held	<u>Laid off 40 workers</u> , or 60% of work force, in October; <u>shut down</u> in November
Bigwords.com Online textbook seller	Closely held	<u>Closed down</u> in October; laid off 100

Company Name	Status	Action
Boo.com Clothing retailer	Brand name <u>was acquired</u> by Fashionmall; <u>technology bought</u> by Bright Station	<u>Entered liquidation</u> in May; laid off most of 370 employees at the time; Fashionmall <u>relaunched website</u> in October
Boxman Music retailer	Closely held	<u>Shut down</u> in October, laid off its 120 employees
Britannica.com Online encyclopedia	Online arm of Encyclopedia Britannica	<u>Laid off 75 employees</u> , or about 25% of work force, in November
CarOrder.com Online auto seller	Unit of Trilogy Development	<u>Suspended operations</u> in August; laid off 100 of remaining 140 workers
CBS Internet Group Web publisher	Unit of Viacom	<u>Cut 25 employees</u> or 25% of staff, in late May
ChamberBiz Small-business portal	Closely held	<u>Laid off about 40</u> of 50 employees in October
Chinadotcom China portal	Public; hit high of \$156 in March, low of \$6 in October	<u>Laid off 48</u> , or 2.8%, in August
Chipshot.com Golf-gear seller	Defunct	In October, <u>filed for Chapter 11</u> bankruptcy-court protection. In November, Eco Associates <u>purchased assets</u> for undisclosed amount
Clickmango U.K. health website	Closely held; backed by TV star Joanna Lumley	<u>Site shut down</u> in September, putting about 20 employees out of work
CitiKey Wireless European city guide	Closely held; backed by Crescendo Ventures, Atlas Venture and Kennet Capital; now in bankruptcy proceedings	<u>Laid off all 90 employees</u> in November, as company entered liquidation
Covad Communications DSL provider	Public	Said in November it <u>plans to lay off</u> 400 employees or 13% of its work force
Cozone.com Computer retailer	Unit of CompUSA	<u>Shut down</u> in March
CUseeMe Networks Internet video services	Public	Said in November it <u>will eliminate</u> 36 jobs, or 22% of work force

Company Name	Status	Action
Cyberhomes Online real-estate seller	Closely held	<u>Shut down</u> in November
Deja.com Buyers guide, discussions	Closely held; pulled IPO plans in June	Laid off 50 people, or one-third of staff, in September
Digital Entertainment Network Web content	Closely held	<u>Closed down</u> in May
Discovery.com Online arm of Discovery Communications	Closely held	<u>Laid off 45%</u> of staff in November
DoubleClick Online advertising services	Public	<u>Laid off</u> undisclosed number of workers, but less than 10%, in December
Drkoop.com Health news, advice	Public; stock peaked near \$20 last Dec., now trades around \$1	Laid off one-third of staff in May; <u>cut remaining staff</u> by another third in August, leaving about 80 employees
DrDrew.com Dating, health advice	Closely held; editor is MTV Loveline host Dr. Drew Pinsky; <u>assets sold</u> to Drkoop.com in November	In September, <u>laid off 14 of 20</u> remaining staffers, down from 70 three months earlier
Drugstore.com Retailer	Public; stock trades under \$3, down from high of \$55 in December	In October, <u>laid off 60 employees</u> , or 10% of work force
DSL.net DSL provider	Public	Said in December it plans to <u>cut 141 jobs</u> , or 28% of its work force
Egreetings.com Web retailer	Public; stock trades at under \$1 a share; CEO resigned in October	In October, said it <u>plans to cut 60 jobs</u> , or 34% of work force
Emusic.com Music download website	Public; stock trades at about \$1, down from high of \$19.63 in December	<u>Laid off 20%</u> of work force, or about 40 employees, in June
E-Stamp Logistics Firm	Public	<u>Cut work force</u> by 30% to 84 in November as it set plans to exit online-postage business

Company Name	Status	Action
Eve.com Cosmetics retailer	Closely held	In October, announced it <u>will shut down</u> and let go almost all 164 employees
Evite Invitation service	Closely held, put itself up for sale in November	<u>Laid off 60%</u> of its staff in November, in preparation for sale
Firstlook.com Movie, TV Previews	Closely held; backed by idealab!	<u>Laid off 34</u> of its 103 employees in October
first-e group Online bank	Closely held	Cut 69 jobs, or 17% of work force, in October
Fogdog.com Sporting goods retailer	<u>Acquired by Global Sports</u> in October for about \$40 million in stock	With the purchase, 125 jobs out of 150 were planned to be cut
Food.com Online ordering, content	Closely held, backed by heavyweights McDonald's, Kraft, TV Guide and Blockbuster	In September, <u>cut staff by 100</u> , or 50%; laid off two senior executives
Foodline.com Restaurant reservations provider	Closely held	In August, cut staff by about 54
Free-Scholarships.com Education-financing content	Unit of MathSoft	Closed down in September, eliminating 16 jobs
Freei Networks Free Internet provider	Rival Netzero acquired certain assets	<u>Filed for bankruptcy</u> in October
Furniture.com	Pulled IPO in June	<u>Laid off</u> most remaining workers in November, set plans to shut down
Garden.com	Went public in September '99; now trades under \$1	<u>Slashed work force</u> by 93 people, or 30%, in September; in November, <u>said it will close</u> retail operations, laying off 153 workers
Gear.com	Backed by Amazon.com, Gear is now a unit of Overstock.com	In September, firm <u>lays off 22</u> ; in October, <u>firm was bought</u> by Overstock, which hires 45 remaining employees
Internet Pictures 360-degree imaging	Public	<u>Cut 175 positions</u> , or 20% of work force, in October

Company Name	Status	Action
iXL Enterprises Web consulting firm	Public	<u>Eliminated 350 positions</u> in September
Kibu.com Teen girls' website	Closely held; was backed by Netscape co-founder Jim Clark	Shut down website in October
Kozmo.com Delivery service	Closely held; <u>pulled IPO</u> in August	<u>Cut 24 jobs</u> in June, then <u>slashed 275 jobs</u> , or 10% of total, in August, then another 40 later in the month
Lante Internet consulting	Public	<u>Reduced staff</u> by 44 full-time and 21 part-time positions in December
Living.com Furniture retailer	Closely held; partner of Amazon.com and Starbucks	In August, <u>filed for Chapter 7</u> bankruptcy and laid off 275 employees
Mail.com E-mail provider	Public	Said in October it <u>plans to lay off</u> 15% of its 632 employees
Mall.com Retail hub	Closely held	Cut 20 jobs, or 35% of staff, in August
MaMaMedia Content for kids	Closely held	In June, <u>laid off 30</u> of 150 workers; in October, <u>laid off 40%</u> , or about 40 people; in November, <u>cut staff again</u> , to 15 people, as it tried to find buyer, partner
Miadora Online jeweler	Closely held	<u>Closed site</u> in September, laying off almost all 77 workers
More.com Online pharmacy	Closely held	<u>Cut staff</u> by 30% in October, follows 20% reduction in June
Mortgage.com Online mortgages	Public	Said in late October that it will <u>close and lay off</u> most of its 618 employees
MTVi Music website	Unit of Viacom; in Sept, pulled plans for IPO	<u>Cut 105 people</u> , or 25% of work force, as it canceled IPO
MyPoints.com Online marketing	Public; merged with Cybergold this year	<u>Cut 120 jobs</u> in October in wake of Cybergold purchase
NBCi Community and content portal	Public, formed by merger of Snap, Xoom and certain NBC assets; stock trades around \$5, down from over \$100 in January	In August, <u>cut 170 jobs</u> , or 20% of staff; in October, <u>president quit</u> ; job won't be filled

Company Name	Status	Action
News Digital Media	Online media division of News Corp.	Laid off about 15% of its news staff, or 82 jobs, Reuters reported in October
Next Media Online publisher	Public; trades in Hong Kong	In July, <u>sacked 98 workers</u> at its Web sites, appledaily.com and nextmedia.com; in October, <u>cut another 90 jobs</u> and closed 11 of its 25 Web sites; in October, unit AdMart Travel said it <u>plans to shut down</u>
OneMain.com Internet service provider	Acquired by Earthlink	Said in April it <u>plans to cut</u> work force of 1,500 by 15% over next year
Onvia Small-business hub	Public	In September, cut 85 positions, or about 16% of work force
Oxygen Media Cable-TV and Internet content	Closely held	<u>Reduced staff</u> by 44 full-time and 21 part-time positions in December
Pandesic E-commerce services	Was joint venture of SAP and Intel	<u>Shut down</u> in July; laid off all 400 workers
pAsia Retailer and auctioneer	Closely held	Said it November it <u>laid off about 10%</u> of its work force
Petopia Pet-supplies retailer	Closely held; affiliated with Petco	<u>Laid off 120 employees</u> , or 60% of its work force, in October
Pets.com Pet-supplies retailer	Public	In November, <u>said it will shut down</u> and laid off about 255 of its 320 employees
Pixelon Streaming media technology	Defunct	<u>Laid off</u> most employees in May after being forced into Chapter 7 bankruptcy proceedings
PlanetRx.com	Public	<u>Set plans to cut</u> as much as 15% of work force, or up to 50 jobs, and move to Memphis, Tenn., from Calif.
Pop.com	Closely held; backed by Steven Spielberg and Ron Howard	<u>Closed operations</u> , laid off 80 in September

Company Name	Status	Action
Priceline.com Inc. Name-your-own-price retailer	Public	Set plans in November to <u>lay off</u> 87 of its 535 employees; in December <u>said it would cut</u> another 48 jobs and postpone new services
Priceline WebHouse Gas, grocery website	Closely held affiliate of Priceline.com	Said in October it <u>will close operations</u> , putting 375 out of work
Productopia Buying guide	Closely held	<u>Closed down</u> in October, putting about 70 people out of work
Pseudo Programs Web broadcaster	Closely held	<u>Closed down</u> in September, laying off 175 employees; had laid off 58 in June
Quepasa.com Spanish-language portal	Went public in June 1999	Following <u>round of layoffs</u> in May, <u>cut about two-thirds</u> of remaining work force in November, leaving it with 20 employees
Quokka Sports Sports news site	Public; acquired Total Sports in November	Laid off 90 employees, or 20% of work force, in November after closing Total Sports deal
Reel.com Movie retailer	Unit of Hollywood Entertainment	<u>Laid off</u> all 150 employees in June, refers buyers to Buy.com
Renren Media Chinese Web portal	Public; News Corp. owns minority stake	In August, <u>laid off 102 workers</u> , or 38% of work force
Riffage Online music company	Closely held	Said in December it will <u>shut down</u>
Sandbox Online games	Closely held	Said in November it <u>will cut</u> 30 jobs, or one-quarter of work force
Scient Web consulting	Public	In December <u>set plans to cut</u> 25% of its work force, or 460 positions
Scour Online media file-sharing service	Backers included talent manager Michael Ovitz; assets purchased by Listen.com in November	<u>Filed for Chapter 11</u> bankruptcy in October and said it will shut down; it <u>laid off 80%</u> of work force in September
Snowball.com Teen content	Public	In third quarter, cut work force by about 15%, or 50 people
Shockwave.com	Unit of Macromedia	Laid off 20 of its 170 employees in September

Company Name	Status	Action
Space.com Outer space content	Closely held; run by former CNN anchor Lou Dobbs	In October, <u>cuts 22 jobs</u> , or about 20% of work force
Stamps.com Online postage	Public; trades under \$5 a share; CEO and CFO resigned in October	<u>Cut about 240 jobs</u> in October, or about 40% of the total
Stan Lee Media Online animation	Public	<u>Eliminated 19 positions</u> as part of outsourcing deal in September
StarMedia Latin american portal	Public	<u>Cut 125 jobs</u> , or 15%, in September
Streamline.com Grocery service	Went public in June 1999 at \$10 a share; has traded below \$1 since mid-August	<u>Shut down</u> in November
Stockback Online rewards firm	Closely held; backed by RRE Ventures, Neo Carta Ventures	<u>Cut work force</u> by 29 employees in November
Supertracks Online music distributor	Closely held	<u>Laid off</u> about 40 employees, or a third of its workers, in September
theglobe.com Web community	Public, trades at under \$1 a share	<u>Cut 51 jobs</u> in third quarter
Techies.com	Closely held; withdrew IPO plans in May	Laid off 60 employees, or 12% of staff, in June
ThingWorld Internet multimedia technology	Closely held, backed by CMGI@ventures, Microsoft, others	<u>Laid off 70%</u> of staff, or 35 workers, in December
Tom.com Hong Kong portal	Public; trades in Hong Kong	<u>Laid off 80 people</u> , or 16% of staff, in July; unit GoChinaGo cut 50 jobs in August
Toysmart	Controlled by Disney	<u>Site shut down</u> in May; firm filed for Chapter 11 in June
Urban Box Office Urban content hub	Closely held	<u>Filed for bankruptcy</u> and laid off most of 330 workers in November
Urbanfetch.com Delivery service	Closely held; <u>stopped delivering movies</u> in September and <u>exited consumer market</u> entirely in October	Made substantial, undisclosed cuts of 400-strong New York staff; cut all 60 jobs in London

Company Name	Status	Action
Value America Retailer	In October, <u>signed letter of intent</u> to sell most assets to Merisel	<u>Filed for Chapter 11</u> in August; laid off 185 employees
Walker Digital Intellectual property developer	Closely held	<u>Laid off about 80%</u> of headquarters staff, or 100 workers, in November
WebMD Health website	Public; formed by merger of Healtheon, WebMD, CareInsite, others	<u>Announced plans</u> in September to cut 1,100 jobs; co-CEO Arnold <u>resigned</u> in October
Worldsport Sports website	Closely held	<u>Shut down</u> site
Women.com Internet publisher	Public	<u>Reduced staff</u> by 85 jobs, or about 25% of work force, in December
Xenote Song 'bookmarking' technology	Closely held	<u>Closed down</u> in September
Xceed E-business consultant	Public; stock peaked at \$48 in Jan., now trades around \$1	Said in September <u>that it will cut 75 jobs</u> , or 12% of work force
Xpedior Web consulting firm	Public; 80% owned by PSINet, which is looking to sell the stake	In September, <u>cut 270 jobs</u> , including 200 consultants; In December, announced <u>380 more layoffs</u>
Youbet.com ONline horse racing	Closely held	<u>Laid off</u> 34 employees, or 29% of staff, in November
Z.com	Closely held; backed by idealab	In October, <u>cut half</u> its staff of 95
ZipLink Dial-up, DSL Internet provider	Public	<u>Said it will close</u> its business, lay off all employees, in November
Zip2.com	Unit of CMGI	In October, <u>firm said about 140 employees</u> would either be switched to other CMGI jobs or let go

Source: *The Wall Street Journal*
<http://interactive.wsj.com/public/resources/documents/dotcomlayoffs.htm>