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Lessons from Netscape: Building a Small Anthill into a Large-Scale E-Business

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Abstract

The purpose of this study was to gain insight into how a company can incorporate important principles learned by other successful E-businesses. This study examines four essential principles used by Netscape Corporation for building a successful E-business as they relate to Anthill.com, a relative newcomer to the E-business world. Data were gathered via in-depth interviews with Anthill.com executives. It is hoped that other E-businesses will recognize the importance of closely following these principles to improve the opportunity to develop into a large-scale E-business.

Introduction

Although experts indicate that the Internet is continuing to grow at a remarkable rate each year, operating a successful E-business site is an arduous task. The E-business phenomenon is so new that little is really known about best practices for success. As a result, the engineering and redesign of traditional core business processes and improved forms of collaboration and partnering are critical in creating a successful E-business (El Sawy, Malhortra, Gosain, and Young, 1999).

Although there is limited documented research on best practices for building a successful E-business, Yoffie and Cusumano (1999) provide a foundation for building a successful large-scale E-business through their investigation of Netscape Corporation. We use their principle framework to systematically examine the practices of a relatively new E-business, Anthill.com. We then compare Anthill.com practices with those developed by Yoffie and Cusumano in their research with Netscape.

Data Gathering Method

Data were obtained for this case through a number of interviews with top management of Anthill.com. Interviews included CEO Curt Matsko, President Scott Alexander, and Director of Operations, Brad Thurber. Interviews were conducted during a number of site visits. Follow-up information was gathered by telephone. Anthill.com provided access to important company

information and permission to use their name in this publication.

The focus of the interviews was to gather information about the current E-business practices and business processes. The questionnaire consisted of a set of open-ended general questions used to inquire about the general E-business practices of the organization. The utility of the questionnaire was not that of rigid data gathering tool but rather a tool to keep the conversations focused on task.

Research Method

We analyzed the data from this case within the lens of the following research questions. First, we wanted to find out how a start-up organization can become a successful web-based enterprise. To answer this question, we used the Yoffie and Cusumano four-principle framework to identify a set of factors that greatly increase the chances of success. Second, we wanted to find out how the factors we derived from Anthill.com compare with those reported by Netscape. To answer this question, we compared the results from the Yoffie and Cusumano study of Netscape with those from our study.

We set up our research methodology for two purposes. First, in-depth data gathered from a real case allows us to determine factors that really work, at least within the limited context of one organization. Second, generalizability may be increased by comparing our results with those from another organization within the same industry.

The four-principle framework proved to be a very useful means for organizing a lot of data into manageable categories of information. Transcripts from the interviews were thereby categorized into vision, talent, internal, and internal resources. Specifically, Yoffie and Cusumano (1999) developed four conceptually independent principles as follows:

- Create a compelling, living vision of products, technologies, and markets that is tightly linked to action.
- Hire and acquire managerial experience, in addition to technical expertise.
- Build the internal resources for a big company, while organizing like a small one.

- Build external relationships to compensate for limited internal resources.

The details of the case are reported within the context of these four principles. The next section describes the background of Anthill.com. The following sections describe analysis of the data within the context of each principle.

Background of Anthill.com

In the beginning, Anthill.com was funded with credit from an American Express credit card available to the entrepreneurs. The roommates believed that their idea was a viable business opportunity. Curt Matsko (the current CEO) understood the risks involved. "It's risky business, but the potential is enormous" (C. Matsko, personal communication, October 15, 1999). Scott Alexander (the current President) agreed and was willing to take the risk. "We believe in ourselves, and with borrowed funds we can travel the country and share our vision of Internet business growth with small business owners desiring to develop their companies through the Internet"(S. Alexander, personal communication, November 5, 1999). In 1998, the personal faith Matsko and Alexander had in their idea was rewarded as one by one, companies began adding their presence to the Internet world on an electronic mall the developers (Matsko and Alexander) called I-netmall.com.

Revenues from mall space commerce provided the means for Anthill.com to expand from a simple online mall to a robust E-business site bringing small businesses and millions of customers together on one site. According to Matsko, "The 'one site' business and shopping opportunity was a key factor, we think, for success" (C. Matsko, personal communication, November 5, 1999).

In addition to mall space commerce, Anthill.com contains a city guide of thousands of local businesses throughout the United States, as well as free e-mail, and a number of joint ventures with companies such as travel.com and barchart.com. These expansions to Anthill.com make it a high traffic website, which improves sales and visibility of its small business owners.

Currently, Anthill.com obtains revenues from a variety of sources including banner advertisements, mall space commerce, domain hosting, and custom programming

Bill Gates of Microsoft, Inc., a premier technology corporation, once stated that businesses of all sizes benefit from the Internet, but small companies are arguably the greatest beneficiaries. The success of companies like Microsoft spurred the creators of Anthill.com to take the risk. Anthill.com believes that their competitive edge lies in their ability to develop unique solutions for funding the Internet site, recruiting

top employees, attracting attention to the site, and keeping pace with technology. With the explosion of E-business these are very tough challenges.

Analysis

Principle 1: Create a compelling, living vision of products, technologies, and markets that is tightly linked to action.

The greatest strength of Netscape's vision was its ability to create a tight link between senior management's high-level view of the world and the products they delivered to the marketplace. Netscape's vision did more than map a path through the confusion of the Web's early years. It also mobilized the company's troops to develop and deliver an impressive range of client and server products in a very short period of time (Yoffie and Cusumano, 1999).

From humble beginnings, Curt Matsko and Scott Alexander envisioned developing a startup Internet business into a multi-million dollar enterprise. The two friends began the Anthill.com business from a two-bedroom apartment in 1999. Their vision was to bring as many small to medium businesses in secondary markets across the United States together into one E-business location. These secondary markets include cities between 10,000 and 250,000 people. As a result of this vision, individuals are able to develop their business in a central Internet location that is highly visible to consumers. Likewise, small E-business owners benefit from being able to place their business in a visible location without enormous cost or effort.

With advances in Internet technology and hard work, Matsko and Alexander are beginning to realize their E-business vision. With Web access now very common and relatively inexpensive, Anthill.com is currently adding up to 1000 small business sites per week and is in the process of capturing over 10% of the entire small business market. This forward thinking is benefiting both consumers and retailers involved in E-business.

Principle 2: Hire and acquire managerial experience, in addition to technical expertise

Netscape's strategy of hiring experience was not restricted to the top ranks; it extended throughout the organization. Managers at every level tried to bring on board people who would hit the ground running. Netscape did not hire many green college graduates, fresh from studies in programming or marketing. Instead, it looked for people who had actually done these jobs (Yoffie and Cusumano, 1999).

Anthill was pleased with company growth, but realized other resources were necessary for the future of the company. Matsko was sure that they would need an in-house lawyer to assist with legal issues and a possible move to bring the company public. "We didn't know what to expect, but we figured that rapid growth doesn't come without pain. I discussed with Scott the possibility of recruiting Dan Thurber for legal support. He is an outstanding and experienced attorney as well as a personal friend." Scott concurred with the choice. "I think he would make an important addition to our team. We not only need Dan, but should also approach his brother Brad. He knows the markets, and is an exceptional manager" (S. Alexander, personal communication, November 5, 1999). Since their company was made up of only the two partners, it seemed prudent to hire the management and legal experience they lacked. In addition, they knew the people they were hiring on a personal level Matsko and Alexander thus followed this Netscape strategy. They brought in the Thurber brothers who have experiences in managing and providing legal advice for new businesses.

Dan Thurber, a successful New York City attorney, was so impressed with the company's potential that he joined in 1999 while taking a 70% reduction in salary. His brother Brad quickly followed Dan's lead and joined. Brad emphasized the importance of his decision with the following comment, "the potential growth, stock options, and work environment at Anthill.com made it an easy decision for me to leave my current position as a successful stock consultant" (B. Thurber, personal communication, November 5, 1999).

Substantial growth of Anthill.com has greatly increased the number of employees necessary to run the operation. Matsko developed a unique recruitment strategy that has enabled the company to add over 45 highly-qualified employees. The recruitment strategy is unique at Anthill.com because it focuses on future growth and employee ownership, rather than traditional salaries and retirement plans. Employees at Anthill.com have bought into the vision, potential, and excitement of managing an E-business

Principle 3: Build the internal resources for a big company, while organizing like a small one

Most start-up companies scale their systems to meet their current needs. In fact, they usually allow their systems to lag behind their growth. One of the biggest traps for an entrepreneur is to build an organizational structure in advance of sales, profits, and stable cash flow. Far too often, wildly optimistic sales projections do not materialize, the company gets overextended, and everything comes to a crashing halt Yoffie and Cusumano, 1999).

Attracting attention to Anthill.com is a top priority. Management is responding by a method coined by Matsko as "travel and conquer". The method involves traveling the country and providing training seminars for small businesses to help them develop a variety of commerce sites. According to Matsko, "our clients need to know us on a personal basis and understand how we can affordably help them make money with the Web" (C. Matsko, personal communication, November 5, 1999). This approach is the mainstay of Anthill.com. It continues to bring thousands of individuals to the Anthill colony. Likewise, this personal interaction makes Anthill.com have the coziness of a small business as it works to expand into a large-scale-E-business.

Since Anthill competes in an industry immersed in the technological revolution, it must invest much of its profits in technology resources and people with technical skills. Top executives Curt Matsko and Scott Alexander are investing for the future. Matsko underscores this by stating, "our company realizes the importance of staying abreast of the rapidly changing technologies associated with the Internet. What started out as a relatively simple web server has emerged into a complex array of Active server pages, Java, Pearl, and Netscape's SSL technologies. Therefore, we need to be able to attract attract technically competent employees". Recruiting the best technical minds is becoming more difficult as the competition for good technical people is at its highest in years in the information systems industry. Anthill executives spend much of their decision making time devising strategies to attract talent. Matsko's plan is to recruit individuals with experience in both managerial as well as technical areas to quickly create internal resources similar to a large organization.

Principal 4: Build external relationships to compensate for limited internal resources

Netscape would have been unable to keep up with the demands of Internet time without outside help. The company had a powerful vision, experienced leaders, and an organization geared towards fast growth, but ultimate success depended critically upon a wide variety of external resources and relationships. These external assets compensated for Netscape's lack of scale in marketing, financing, and product development. Netscape was essentially able to exploit the Internet and other external resources to create a virtual workforce-- people outside the organization who were working for free on the company's behalf (Yoffie and Cusumano, 1999).

According to Matsko, "individuals we train are equipped to promote the colony through a variety of means such as registering with search engines and maintaining

promotions via traditional media" (C. Matsko, personal communication, October 15, 1999). As a result, there are thousands of individuals around the United States working to attract attention to Anthill.com

Other methods of attracting attention to Anthill.com take place through mailers, online promotions, and face-to-face communications. For example, teams of Anthill.com employees meet daily with individual businesses. Brad Thurber emphasizes this facet of company growth by saying, "face-to-face communications helps us to personalize the Internet and our company. It is a viable and successful approach to business" (B. Thurber, personal communication, October 15, 1999).

Additional external relationships have been developed with a number of Internet companies such as Travel.com and Barchart.com. These relationships help to enhance the quality services offered by Anthill.com without requiring additional resources. According to Thurber, "We plan to develop additional relationships with additional Internet organizations to help improve our site within our current budget constraints" (B. Thurber, personal communication, October 15, 1999).

Challenging lessons from Anthill.com

Although Anthill.com is working diligently to avoid organizational setbacks, there are a number of problem areas that the organization must improve to remain competitive. Two problem areas that emerged relate to the tremendous growth of the organization in such a short amount of time.

First, Anthill.com has, to some extent, attempted to move forward too quickly with new web technologies. Rather than focusing on providing solutions related to the original goal Anthill's original web site was unorganized, confusing, and error-prone. According to Matsko, "We were just moving too quickly without the staff to keep up with the changes we desired. As a result, our site contained a lot of errors, link problems, confusion, and unnecessary information" (C. Matsko, personal communication, January 20, 2000). Successful changes in organizations are brought about by people and critical business decisions and not by technology alone (Markus, and Benjamin, (1996). Although the employees of Anthill.com have a great deal of managerial and technical experience, few of them have a great deal of experience with E-business. E-business is still a relatively new form of conducting business and there are no general guidelines to follow. In addition, few people have enough experience with E-business to really know what the best practices are. These individuals are obviously in great demand and extremely expensive to recruit (B. Thurber, personal communication, October 15, 1999).

Second, with the rush to incorporate innovative technology into Anthill.com, organizational changes are often taking place in a very assertive and directive manner. According to Thurber, "technology is changing so quickly that we often find ourselves making changes for the sake of technology and not our customers." The voice of a customer must be heard by all, and customer responsiveness must be a top priority (El Sawy, Malhortra, Gosain, and Young (1999). Anthill recognizes that rapid technological change is a problem and is dedicating resources toward solutions. Anthill is also very sensitive to its customers. Communication is also an important factor for enterprise success. By opening strong channels of communication between customers and programmers, companies increase their chances to improve their E-business" (Maruca 1999). Anthill executives are currently contemplating ways to improve communication flow throughout their organization

According to Berthon, Hulbert, & Pitt, there are four strategic orientation modes that an organization can follow -- isolate, follow, shape, and interact (Berthon, Hulbert, and Pitt, 1999). To Serve or Create? "Shaping suggests that technology defines human needs and hence determines the nature of customer demand by providing new products or services that induce changes in basic behavior" (Berthon, Hulbert, and Pitt, 1999). According to Thurber, "We feel like we have been operating under this shaping orientation and we feel like we need to make a shift to the interact strategic orientation" (B. Thurber, personal communication, January 20, 2000). The interact strategic orientation occurs when a "true dialogue is established between the customer and technology" (Berthon, Hulbert, and Pitt, 1999). Thurber believes that more focus must be placed on interacting with their customers and feels that Anthill.com site could afford opportunities to develop a true dialog (B. Thurber, personal communication, January 20, 2000). Thurber suggests that "we have reached the point where we need to stop believing that our organization has all of the answers and begin drawing upon an incredibly rich resource--our customers" (B. Thurber, personal communication, January 20, 2000).

Conclusion

We have found that the four key principles that capture the core lesson of Netscape for other start-ups have provided valuable insight for other E-businesses such as Anthill.com. We have found that crating a compelling vision of the company, recruiting and attracting top employees, building internal resources for the company, and developing external relationships are also core lessons for Anthill.com. For instance, Matsko and Alexander's vision for Anthill.com expanded not only with technological advances but also with their high

increase of small businesses to their website. Likewise, they chose to attract employees who had experience in specific areas which could benefit the company. Doing this started to help them build up their internal resources. Also, Anthill's ability to bring outside resources to its web site is an exceptional beginning to building lasting external relationships.

In addition, we also found that Internet start-up companies must focus on their organizational roadmap and not charge forward with technology for technology sake. Although Anthill.com is committed to being a dynamic organization that is prepared to embrace further opportunities to business success, it now understands that these changes must take place in a reasonable timeframe and with the support of their most important asset, their customers. According to Matsko, sharing of information in the future among employees, customers, and business partners is priceless. "Its absence guarantees failure, and its presence coupled with disciplined application guarantees success" (C. Matsko, personal communication, January 20, 2000). The lessons learned from Netscape have provided Anthill.com with a better understanding and vision of core responsibilities needed to build a small anthill into a large-scale E-business.

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