

Strategy - Business Essentials

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This piece looks at some of the most common assumptions that are wrong about doing business online. These are for those who are planning to do business – as in sell or buy goods or services, including advertising -and not for those who just want a presence online

We are in what is probably the third wave of Internet businesses. The first wave that had eyeballs and sticky eyeballs as measures of valuation ended in the dot com bust of the end nineties. The second wave came after that and was more muted with e-commerce and online transactions being the focus. The third wave and current wave is focused around social networking and other “web 2.0” technologies.

One of the perks of my job is that I get to see quite a lot of business plans in all their detail. And these days I am getting to see quite a lot of them that focus on doing business via the net. Unfortunately, not many it seems understand the medium that is the Internet. Many of the mistakes that were made in the very first wave are still being repeated. Many of the assumptions that were proved to be wrong then are still forming the basis of one too many business plans.

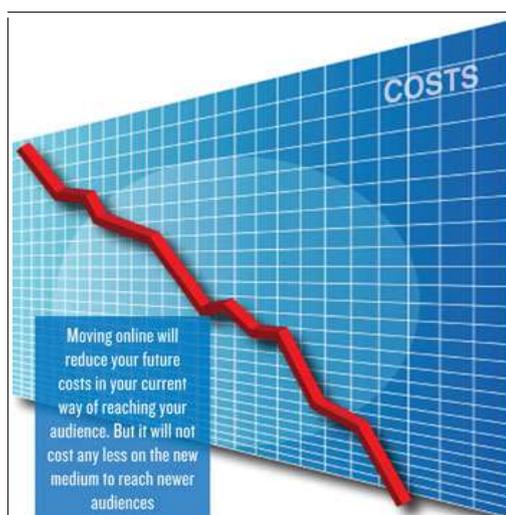
This piece looks at some of the most common assumptions that are wrong about doing business online. These are for those who are planning to do business – as in sell or buy goods or services, including advertising -and not for those who just want a presence online. By design, I have jumbled up the items in no particular order, so that you read all of them and do not ignore some saying that they are not relevant to you, because they are.

1. Online will reduce costs

This is the number one reason running businesses give for taking up an aggressive online strategy. I have heard it from retailers, I have heard it from consultants, I have heard it from publishing houses. And this is the big mistake that will upset their otherwise well laid business plans right from day one.

What actually happens is like this. Moving online will reduce your future costs in your current way of reaching your audience. But it will not cost any less on the new medium to reach newer audiences. For example, it will reduce your costs in new retail stores or in new field data collection staff or in paper for new copies. But, mark my words, you will end up spending equal if not more on the new media – the Internet.

If you are converting existing customers from say your retail shop or your print pages to the net, even then, the cost of setting up and running a similar or better experience for your customers will turn out to be similar if not more. If you don't believe me, read on.



2. Setting up a website is cheap

This one flows from the online is cheap syndrome. I have seen business plans that talk of multi-crore revenues that allocate all of five thousand rupees a month for a web server!

Stop for a minute to do the calculations.

How many customers does that multi-crore income convert to? Can the \$9.50 shared hosting from bluehost take that load? Would you want such a shared server to hold your sensitive business and customer information?

Let us look at some real data. As of early last year, Facebook photo, one of the applications in Facebook (and not the main Facebook, mind you) had 160 terabytes of storage with 5 terabytes of photos being added each week. At about Rs. 3000 for a half terabyte hard disk, that is 30k to 50 k in just new hard disks every week depending on the level of RAID you have deployed!

At the same time, Facebook was hosted on 10,000 web servers, 1,800 database servers and 105 memcached servers. Any guess what their monthly datacentre bills are like? Any guesses on what the salary bill for the administrators for the system would be? Or how many software developers are required to create and maintain the entire application? What about the security experts required to keep your applications hacker proof?

Then there are those who state that using opensource software makes it cost next to nothing. Now, I have to be careful, given that dare.co.in runs on opensource software and has been comparatively cheap to build. Opensource can be cheap if you know what you are getting into. It can be cheap in the license part, but not in the customization part. I have sat through evaluations where software houses have quoted (and got) in the crores to build websites based on Opensource software.

Tech and web savvy startups are equally bad when budgeting for Internet resources. Most of them assume that the founders will do all the coding and server administration required, for ever after, and do not or at best under budget for these items. As the business grows, you will need to put more developers on the job and the founders will have to move on to more strategic things than the coding of a sub menu.

3. It will run for ever without further investments

A website is not like a house that requires only an infrequent paint job. It is more like a star hotel that requires regular and significant maintenance and makeovers. A website is in constant evolution. As technology and surfer tastes evolve, web properties have to evolve to keep pace. And that takes time, money and effort, all of which are often not budgeted for.

Why has it to evolve? Consider social networking. Out of nowhere, social networking has become the central hub of most web activity. Almost all web sites have had to adapt to this and build social networking features. Operating systems evolve over time. New patches come out and after applying a patch, you will find that some features of your web site are not working and you need to rejig them. New security threats are discovered almost every day and your web applications have to be patched or perhaps re-architected to overcome them. Services you use may change. For example, your payment gateways may change their security requirements. Business dynamics change. Business processes change. Your website needs to be changed to accommodate all these. And finally, in about 3 years, your hardware will need replacement and upgrading.

A quick rule of thumb would be that you would spend as much in maintenance and changes on your website in 3 years as you would spend initially in setting it up. Milage of course varies with makeup. If you have done your initial architecture, scoping and setup well, then this will be on the lower side. If you went conservative in the beginning, then be prepared to spend on the higher side as you go along.

4. Technology is everything

Then there are those who believe that all that you need to succeed is the latest technology. This is much like having fabulous packaging and an expensive ad campaign even when your product is, to put it mildly, terrible.

There was lot of talk (and scrambling) about the need to make web sites web 2.0 enabled, or social networking enabled. Great. You do all these, but what use has the user got with all these if they are not relevant to their experience and use of your site? One of the best examples of e-commerce in India, irctc.co.in, does not need social networking to get about 200 thousand unique visitors every day. Your bank would have to do some real hard soul searching before having forums as part of their on line transaction portal.

Remember that technology or features is not what you are selling. It is at best an enabler of the experience that the user gets at your site. If the user gets there and sees that all that you have are gimmicks, it is unlikely that she will come back again. Look for the value proposition for the user, not for enhancing the biodata of your tech team.

5. Traffic just happens

Sure. And the Sun rises in the west!

Consider some numbers.

There are a hundred million plus domains registered under just .com, .net, .org, .biz and .info. And you just added one more. Technorati has indexed some 133 million blog records since 2002. There are 900 thousand blog posts made every twenty four hours. And you set up yet another blog and expect people to just flood in!

Most business plans, particularly startups make no provision for traffic generation activities. Like you need to drive footfalls to your brick and mortar business, you need to drive traffic to your web properties. And the methods at your disposal are roughly the same, namely advertising and making your shop / site popular by various means.

And advertising is not the only thing you need to do. You need to do search engine optimization, and you need to ensure that dead URLs are removed and you need to cultivate links from other websites... the list goes on.

6. Search engines will find you easily

This derives from point 5. You set up a site and search engines are waiting to send the whole world to your door step. Unfortunately, reality is completely different.

Major search engines require you to authenticate your site by creating an account with them and putting up a code fragment that they provide at your site. Till that is done, most of them will not server your pages to searchers. You need to also regularly maintain one or more (more as your site gets bigger or more complex) site maps that they download (at their own frequencies) to update their index pool.

How to submit and authenticate your site to search engines

You need to create an account with the search engine and then submit your site and its sitemaps to them. For Google submit at Google webmaster tools at google.com/webmasters. For Yahoo, go to siteexplorer.search.yahoo.com and for live, proceed to webmaster.live.com.

By the way, how many search engines are there that people use? Did you know there are literally hundreds of them? A list can be found at searchenginecolossus.com/.

After submission and verification, you need to constantly check back to see whether there are problems with your sites listing and indexing. You are also able to define some parameters that search engines use to index your content. As your site develops, you need to change some of them. It is quite possible that there will develop problems with your listing at the search engines that will seriously limit traffic to your site or even stop them completely. And once you get into trouble with a search engine, it is often a frustrating and time consuming experience getting it sorted out.

And I have not even touched upon search engine optimization.

7. You don't need people to run an online business

During the dotcom boom of the nineties, I had come across those who believed that the icon of those days, ebay, operated from a basement with almost no employees and that all that ebay required was a few servers. And this was at a time when ebay actually had a few thousand employees and operated out of offices and warehouses across continents.

Things have not changed much since those days. Recently I came across another business plan that almost did away with people! It called for software to gather content from other websites and post it up. And then it expected visitors to add value to that content. Another software would deliver ads on those pages. If only business was as simple!

By the way, do you realize what is the biggest problem with this business model? It is not just the absence of people. The content that you scrape from other sites – search engines would mark the other site as source and you as a copy. So, not only they will not send any traffic your way, but also, if you are seen to be regularly doing this, they could black list your site! And of course, there are copyright issues to using content that others own.

Almost every online business plan I have seen seriously underestimates the number of people required!

8. Website visits can be measured exactly

One of the biggest advantages of the Internet is that everything is measurable – or atleast that is the theory. In

practice, this too turns out to be different. The easiest way to check this out is to put two analytics solutions to work on your site. You will almost immediately see that the two do not agree on most things.

The difference could be anywhere from 10-20% on most matrices. For sites with large traffic volumes, that may be within manageable (or ignorable) limits. But for sites with smaller traffic levels, the variation could be significant, particularly if you are going to use the information for strategic decision making.

Let us say you are looking at the key words driving search traffic to your site. What if the top keywords currently driving traffic to your site are not the ones with the most relevance for you? You would then want to do some search engine optimization to increase the search traffic for the 'relevant' keywords. Now, if analytics tools cannot even agree on the relative strengths of keywords for your site, what are you supposed to do?

9. Alexa is right

This is worse. Let us say you want to find out how your competitor is doing. Obviously (keeping industrial espionage out) you do not have access to their analytics reports. So what do you do? You head over to a public website rating service like Alexa (or compete or quantcast with hundreds of such sites out there).

These sites have two big problems that skew all their data completely out of context. Number one, they are all heavily focused on a US based audience. Their sampling of non-US originating traffic is infinitesimal. So, unless you are competing for visits from the US audience, they would give you completely skewed reports. Second, some, like Alexa specifically depend on people who have downloaded and installed their tool bars or have created accounts with them. And there is no information on what demographics of people have done so. So, for all you know, the information and ranking of your site selling software as a service to large corporates in South Asia could well be based on the surfing habits of stay at home moms in the US!

I have come across instances where traffic ranks at such sites fluctuate wildly, in the thousands one day and down in the dumps of double digit lakhs the next. So, use such websites sparingly, knowing fully well that they could be completely, completely off track.

10. Beautiful pictures make people read your emailers

Talking of beautiful websites brings me to beautiful emails about beautiful websites. One of the standard ways of promoting a website or article is to send out emails. Unfortunately, most such emailers are cut and paste jobs of the print creative- just put the print advertisement into an email and send it out. Now, most email clients are configured not to show pictures in emails unless the recipient specifically asks for it by clicking on a button.

So, effectively, when you send out picture ads as emailers, you are depending on the subject line piquing the attention of the reader and making her want to see your ad.

11. People read emails

An even bigger problem is that your emailer may never reach your intended audience in the first place. Let us assume that over time, you have collected an impressive number of subscribers to your mailing list. Now, you face three significant problems in communicating with them.

One, a significant portion of your email list is invalid. As people move jobs or move from one free email service to another, they rarely update the information at the various websites they visit – at best some of them will re-subscribe from the new email address. Good list manager software will remove email addresses after a given number of bounces to give you a more realistic picture of your database size. Empirical evidence seems to suggest that as much as 20% of your email database could get invalidated like this every six months. But then you need to be using such list managers and should have enabled bounce management!

Second, an email has to go through multiple spam filters before it reaches the inbox of the intended recipient. Most mass mailings, particularly those with only graphics in them or those with suggestive titles in them will never reach the intended audience.

Finally, the reader has to open the message and read it. People typically do not read a large number of emails they receive, due to a variety of reasons including lack of interest or time.

To sum it up, you should consider yourself very lucky if you consistently get around 5 -10% open rate for your emailers and if you hit 20% or more, you should be in email marketing heaven!

12. Google is the only way to advertise online

Ok. So you have got some budgets for getting visitors to your site and you decide to put all that into Google's Adwords program. Why? Because everyone else is doing it?

Wrong.

Most of the bigger web properties have their own sales teams and would at best be running Adwords ads as a backup, to finish off surplus inventory. So, it is likely that the target audience you are looking for – particularly if they are not the adventurous types - may not be even seeing your ads if they are run only on one network.

Even if you are looking for ad networks, - services that place your ads on multiple websites, there are a number of other ad networks out there that you need to explore, if only to find out if any of them would offer you a better deal. And chances are that you may even get better targeting, better click-throughs or even better conversion rates.

13. Adsense will make me rich

This is the other side of the "Google is the only ad network" argument. There are any number of content creators, publishers and aggregators who believe that all they have to do is subscribe to Google's Adsense advertising program and their site will be full of ads and they will be laughing all the way to the bank.

They are partly true. Their site will be almost full of ads (There are some limits to the number of Adsense ads you can serve per page). But it is highly unlikely that your banker will have to deploy extra manpower to keep track of your account.

To put it bluntly, it is highly unlikely that you will even break even with just Adsense. Adsense is designed for Google to make money, and for small time websites to get some pocket money. It is not for businesses that will depend on online advertising for significant revenues.

At best Adsense can be used by small websites that cannot afford their own sales teams or to fill in unused inventory and generate a supplemental income, something that will not even make a significant difference to your P&L.; You will need your own sales team to bring in advertising revenues if that is your business model.

14. People will buy stuff online

There is a lot of retail happening online and you should easily get a small percentage of that pie. Right? Lets get our facts right first. According to internetworldstats.com, just 3.7% of India's billion population had Internet access in 2007. And a Survey by Visa in November 2008 across six countries in Asia Pacific placed India fifth in per capita spends online.

And what do they buy online? According to the same Visa survey, "In India, purchasing digital downloads was the most popular form of consumer e-commerce. Seventy-six percent of respondents from India, the highest among Asia Pacific, have bought a form of digital entertainment over the Internet in the last 12 months. Music downloads (63 percent) emerged as the most popular digital entertainment purchase".

What else do they buy?

Going back to the Visa survey, the top three on the list of transactions online are airline tickets, travel agents and travel accommodation.

How much was it that you were planning to sell online?

15. Collecting payments online is easy

Payment gateways make life easy for the online seller. Or that atleast is theory. Practice like with everything else is slightly different. First you need to tieup a payment gateway. And if you are a startup or a small business, then your problems start there. Banks that provide payment gateway services demand a hefty deposit or a large enough transaction commitment that straight away rules out the option for smaller business. And options like Paypal are not really popular this side of the ocean.

By the way, have you taken online fraud into consideration? Or the cost of providing for security against online fraud?

16. Visitors will create all the content I need

There are quite a few websites that thrive on content that visitors create. Digg for instance is solely about links that users provide and comments that others provide. So does Stumbleupon and Technorati. Facebook, Flickr, youtube and Orkut depend completely on user generated content. All of them have fabulous valuations. Digg for instance had a valuation of over 300 million dollars, before it fell to around 200 millions due to the tough economic conditions. The problem is in the business model. Almost all of them are struggling to develop viable business models. The only viable business model seems to be that some one else buys them out for their user base or user stickiness. Digg in particular has had buyers (Google) walk away during the late stages of negotiations, and Kevin Rose now says that they have the best ever 12 month roadmap now!

Another fact to keep in mind is that for every user generated content site that makes it big, there are a few thousand others that bite the dust. Even as Youtube did a 1.65 billion dollar sale to Google, hundreds of video hosting sites bit the dust, unable to get enough users. For every Stumbleupon that succeeded, the number of those who stumbled along the way are simply too large.

Users will create content, but only a handful of sites have managed to get momentum from that.

17. I can pull all the content I need from other web sites

This is the other side of the user generated content coin. This can be as screenscraping, or as subscribed webservices.

My concern here is not just with copyrights or fair use. Pulling content from other websites is the surest way of ensuring that you loose search engine traffic.

Why?

Search engines (read Google, as the others do not reveal anything about their ranking methodology) rank pages according to authority. A page that puts out a given piece of content (article, news, etc.) first is taken as the original and all others are taken to be copies. The original gets highest authority and copies get lower authority. And if a website is seen to be consistently "copying", then search engines have been known not to crawl them as frequently and also not to list them prominently in search results.

So, think thrice about business models that relay on content from other websites.

A recent outage that we got away easily from

I was getting ready to call it a day, when I got an SMS saying that our servers were down.

A quick call to Binesh and we were up checking what was wrong. Unable to reach the server, we decide to reboot it.

This server is hosted at Serverbeach and they provide a tool for automatic reboot. Over to the login page, only to find that that is also not accessible. Even the "mail Serverbeach" page is inaccessible. We have another server at Serverbeach and a quick check confirms that that too is down.

By now panic sets in. Having a server down is one thing. Having all your servers down is alarming. having your datacentre down is disaster. A datacentre has multiple levels of redundancy and if it goes down completely , it has to be some thing serious.

We hunt down the helpline number to find out what has happened when luck seems to be with us and we get an alert that the main web server is up again. Check it and yes, indeed the website is up as if nothing has happened.

Meanwhile the other server is also up, but the application had shut down, requiring a restart. Easier if we can login to our account at the datacentre. While the home page for the datacentre is now up, we cant login.

Tried to chat with the site operator (they have liveperson implemented) and here is what I got :

jenriquez: there is a known issue in our Virginia datacenter and our engineers are looking into this

How long will it take?

Dont know. we will post a message at the serverbeach blog.

It is midnight here, should I wait?

we will restart the server.

But the server is up; the application has to be restarted....

<No response.>

?

<No response>

I give up.

Waited for an hour, intermittently trying to login to the account or find the post at the forum. Finally went into chat mode again and got a URL for the forum posts.

Turns out that the url was wrong!

Asked again and this time got the correct URL.

It is 1:32 in the morning by now and my last thought for the days is that whoever thought that managing a website is a 9 to 5 job does not know what they are talking about!

(this content is from the DARE blogs)

18. Managing a web site is a 9 to 5 job

A website is not like your regular storefront that you shut down after business hours. It is more like an airport hotel that has visitors checking in and checking out round the clock and has maintenance work going on all all hours. Remember that visitors to your site can come at all hours and from all corners of the world. So, you cannot afford your servers to be down at any time.

Typically, you set up alert mechanisms that send you an sms when your servers are not reachable or when the applications running on them are slow or not responding. And this SMS can come at any time of the day. They do not respect any 9 to 5 schedules or weekends or holidays. I personally have lost count of the number of times I or others in my team have been woken up at night with an SMS saying that one or more of our servers are down or not responding as they should.

19. You can scale your business constantly

Most web based business plans that I have seen rely on constant and steep scaling of visitor numbers, page views, transactions, what ever.

Most of the time, this does not happen. Visitors to websites increase in steps and not in a steep growth line. Why? Because it takes time for people to get familiar with you site, because it takes time for you to get your search engine indexing right, because it takes time for people to start adding your pages to social book marks.

And finally because online browsing and buying habits have a seasonality to them, and you cannot always be the flavor of the day, even if you are dealing with alltime favorites like Bollywood or porn.