



# Book Net Profit

## How to Succeed in Digital Business

David Soskin  
Wiley, 2010

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### Recommendation

David Soskin’s primer about how to start and run a digital business is comprehensive, which is both his book’s strength and its weakness. At times, the book becomes a choppy laundry list of do’s and don’ts, but Soskin’s citation of case studies of Internet successes and failures, and his tales of running the UK online company Cheapflights Media, will hold your interest. Soskin, a web entrepreneur, begins with the birth of the Internet. He explains various business models, marketing platforms and best business practices. He looks at the digital industry around the globe and provides a glimpse into its future. This is a worthy introduction for the online entrepreneur and an excellent update for the seasoned professional. *BooksInShort* suggests that wannabe online moguls read this overview and then supplement it with texts covering each topic in depth.

### Take-Aways

- Understanding the Internet’s history provides a foundation for any digital business.
- Early Internet entrepreneurs experienced several problems figuring out the new medium.
- Digital media offer a range of platforms and tactics for earning revenue.
- Monetize your Internet offering by employing e-tailing, data mining, subscriptions and “freemium” strategies. You can also advertise on the web or set up an online store.
- An Internet company needs four components: a great idea, a user-friendly website, an innovative culture and secure intellectual property rights.
- Starting an Internet business does not require a lot of cash, though digital companies do require strong financial planning and solid business practices.
- If your offering is unique, the viral nature of the Internet will drive users to your site.
- Promote your company with a combination of online marketing and social networking.
- Best practices for expanding in the US include doing research, hiring locally, getting a good lawyer, controlling costs and sticking to a familiar product.
- In the New Economy, like the Old Economy, watch your money, learn your customers’ needs and build a top management team.

### Summary

#### The Origins of the Internet

The Internet as a business medium is only in its third decade, and no certain formula or model for a successful Internet business has yet emerged. Understanding the formation of the Internet, and its early failures and successes, offers entrepreneurs a foundation of applicable knowledge.

“At no time in the history of business have there ever been global businesses created quite so quickly.”

The Internet began when the US Department of Defense’s Advanced Research Projects Agency (ARPA) sought to link its research centers in various parts of the country via ARPANet, founded in 1969. The centers used packet switching technology to transmit small units of data between computers. This formed the basis of Internet technology.

“Today, the nerds have indeed had their revenge, surviving the cantankerous criticism of the ‘dot-com’ collapse to become the rock stars of business.”

In 1981, the National Science Foundation (NSF) created the Computer Science Network (CSNET), which connected to ARPANet, as well as to computers in Europe and Asia. Its users sent the first emails through this network. A few years later, the NSF funded five supercomputer centers, phasing out CSNET and introducing NSFNET. In 1990, Tim Berners-Lee, who was working at CERN, the European Organization for Nuclear Research, invented the World Wide Web, “a system of interlinked ‘hypertext’ documents accessed via the Internet.” The first website appeared in August of 1991. Prior to the World Wide Web, the Internet was the domain of scientists, researchers and academics. Berners-Lee made it universally accessible. The development of user-friendly browsers, such as Mosaic, brought the Internet into ordinary life.

“There was no Eureka moment for the Internet.”

In 1993, the NSF dropped its “Acceptable Use Policy,” opening the Internet to commercial use. Several of today’s most successful Internet businesses began during the Internet’s early days in the 1990s, including Amazon, Yahoo, eBay and Google. Other companies showed early promise, but many eventually failed. Some, such as Alta Vista, diversified imprudently and strayed from their core competency. Others, such as Webvan, were too ambitious or lacked a strong business plan. Value America had a hugely successful IPO in 1999 but failed due to its executives’ inattention to basic business deliverables.

## Lessons from the Crash

Analysts may categorize the dot-com crash of 2000-2002 as the Internet’s growing pains. Though enthusiastic, many early entrants suffered from “overhyped business plans, inexperienced management, limited user access, the slow performance and high cost of Internet use, the bubble element, and a surfeit of investor exuberance.”

“The Internet has been a liberator for entrepreneurs.”

The companies that succeeded used several tactics to fulfill their promises to their users: They promoted their businesses via online media, offered something unique, and monetized their products or services. Contrary to popular opinion, digital media success does not depend on lots of investor cash, a computer-geek personality, a home office in Silicon Valley or a huge advertising budget.

## Making Money

Several models have emerged for making money in digital media, and several have fallen by the wayside. “One of the great weaknesses of early Internet businesses was poor budget planning,” but Internet firms with businesslike practices have leveled the playing field in many industries. Monetizing models that work include:

- **Niche businesses** – Companies that strive for a small number of very interested customers reside on “the long tail,” a term author Chris Anderson popularized in his book by that name. For example, Netflix pleases subscribers by offering many films in obscure genres. A lot of niche film lovers, combined, create a vast, varied and loyal customer base.
- **Corporate sites** – Traditional companies use the Internet to supplement their “brick and mortar” businesses. The UK supermarket chain Tesco sells groceries online as well as in stores. Even luxury businesses follow this model. For example, customers of the perfume retailer Ormonde Jayne can order their favorite fragrances online rather than travel to London to visit the shop.
- **E-tailers** – These retailers sell solely online. Online clothing outlets have become enormously successful, from the custom-made men’s shirts of ShirtsMyWay to the wide array of shoes and other clothing products sold by Zappos. [All web addresses use .com unless otherwise noted.]
- **Subscriptions** – Publications generate revenue from paid subscriptions. Customers pay monthly fees for online access to the *Financial Times* and *The Wall Street Journal*.
- **“Freemiums”** – These sites offer free basic content but charge for extra features. For instance, online gaming company Jagex offers a game called *RuneScape* at no charge, but players who want access to higher levels of play must pay a monthly fee.
- **Online advertising sales** – This business strategy follows the revenue model of traditional media firms, and offers banner and display advertising. Search advertising, dominated by Google, produces the most revenue.
- **Data-mining** – These companies search the Internet to develop their product – accurate, highly targeted data about website users – and then they sell the information. For example, Hitwise monitors the Internet activities of millions of users and provides this data to fee-paying clients.

## What Are You Selling?

Successful Internet marketing requires four components. First, to become a “market-driving” company, you need a great new idea. And if you are not the first to come up with a concept or the first to bring it to market, then you must execute the idea better than anyone else. A market-driving firm is one that attracts users and exceeds expectations while changing the face of the market. Predigital market-driving companies include IKEA, Starbucks, Swatch and CNN.

“It is much easier to be successful as an Internet company if you have a radical proposition rather than a ‘me too’ product – and one that truly delights users so that they will recommend you.”

Second, create an attractive, easy-to-navigate website that appeals to users. For example, Cheapflights invented and uses the “Aunt Agatha” standard. The fictitious Aunt Agatha represents the average Internet user who lacks the technological savvy, time or patience to figure out a website. If Aunt Agatha can’t manage a feature, it goes back to development. To avoid befuddling your auntie, “make searching easy, ensure your pages are visually appealing, give every page a single purpose” and “write for the web.” Track your users over time so you can see what your audience wants.

“Relentless focus on getting the website right is common to all successful Internet companies.”

Third, successful digital companies are nimble, responsive and ready to react to the market. They are constantly and consistently creative. Amazon’s founder Jeff Bezos stated, “There’s no bad time to innovate. You should be doing it when times are good and when times are tough – and you want to be doing it around things that your customers care about.” Fourth and finally, secure your intellectual property (IP) rights so you don’t lose your edge to a competitor.

## Capital Concerns

Internet start-ups do not require a lot of cash. Consider Martin Lewis, the founder of MoneySavingExpert, who relates the story of how he started his business with only £100. His website attracts more than eight million monthly users, and his subscribers number almost four million. In lieu of cash, invest “sweat equity” – that is, your hard work and time – and control your costs. If you don’t raise money, you don’t have to answer to investors. However, raising capital lets you “achieve scale as quickly as possible,” “attract a high-grade team,” gain “technology leadership” and “develop a cross-border business.”

“Too many companies in the early years of the Internet failed because they were unsuccessful at managing their cash.”

Digital businesses demand astute financial planning and monitoring. Fast-growing but inexperienced Internet companies must apply common business sense. Creating and sticking to budgets, understanding the cash flow cycle, saving for down times, and tracking spending are all smart business practices. Scrutinize cash collection. Don’t rent space you don’t need or hire people you can’t support. Instead, use college interns, freelancers or outsourced staff. As you build your business, consider your exit plan. Your options include selling to a corporation, a trader, or a financial buyer, or floating an initial public offering. IPOs are lucrative, but complex, detailed, costly, and time consuming.

## We’re Here!

If you offer a differentiated product or service, the Internet’s viral effect will drive users to your website. You can create a story or campaign to distinguish your company. The insurance price comparison website Comparethemarket experienced a market upsurge when its ad agency invented an animated character, a meerkat named Aleksandr Orlov, as the face of the company. He became an Internet hit, with hundreds of thousands of fans on Facebook and Twitter. Aleksandr the meerkat also boosted the company’s market share by 75%.

“The Internet business is highly competitive, and every good idea attracts imitators like bees around a honey pot.”

Learn search engine optimization (SEO) techniques to ensure that your company’s name will rank high in Internet searches. This should attract users to your website who don’t know about your company but use search terms and keywords to seek a product or service in your field. Strategies for SEO include using well-constructed html titles, header tags and keywords.

“Working in an Internet company is like playing squash blindfolded. You never know from where the next high-velocity shot is going to come.”

Pay-per-click (PPC) is online advertising in which users click on an ad situated on a third party’s website. Advertisers pay only when a user clicks through to their site, so PPC is easy to measure and cost effective. Email marketing campaigns and social networks such as Facebook, Twitter, and YouTube can also drive traffic to your site.

## The World Market

Successful companies often attempt to expand into other countries. They often find that “global expansion is anything but straightforward despite the huge opportunities that the Internet has brought.” The strategies for entering digital marketplaces in the US, Canada, Europe, China, and Japan are all different because each country has its own set of obstacles and regulations. To take one case, here are 10 best practices companies can use to expand into the US:

1. **“Do your homework”** – Conduct exhaustive due diligence.
2. **“Go native”** – Hire local business people.
3. **“Stick to what you know best”** – Diversifying in an unfamiliar market will only create complications.
4. **“Adapt quickly to the local market”** – Know the culture, language and behavior of your market.
5. **“Start cheap”** – Mitigate your risk by keeping costs as low as possible.
6. **“Hire the right people”** – Employ people who know the business and are familiar with the market into which you are expanding.
7. **“Don’t give up”** – Any expansion will hit a few bumps at some point. Stay true to your strategy.
8. **“Get yourself a great lawyer”** – US firms are extremely litigious.
9. **“Choose the right location”** – When considering a US location, consider costs, availability of talent, time differences and travel.
10. **“Control the purse strings”** – Enact airtight financial controls.

## The World Wide Web Revolution

The Internet revolutionized business around the globe. It forever changed the way people communicate, thus changing the best methods businesses use to converse with their consumers. For example, digital ads allow companies to target a highly segmented audience, build interactive relationships with customers and track the performance of all online advertising.

“The Internet revolution has only just started.”

Solid business practices still apply. As eBay’s former CEO Meg Whitman explained, “People ask me, how is managing in the New Economy different from managing in the Old Economy? It’s a lot the same. It’s about the financial discipline of the bottom line, understanding your customers, segmenting your customers by their needs and building a world-class management team.”

## About the Author

**David Soskin** is the former CEO of Cheapflights Media and current chairman of mySupermarket.co.uk and Swapit.co.uk.

