

Great Expectations: What Make's Money on the WEb

Posted At : January 23, 2009 7:42 PM | Posted By : Mark Kruger

Related Categories: Business Of Development

About two or three times per month I am presented with an idea from a visionary business person who wants to start something new. Some of these ideas are unique and some are not. Many of them involve a web based application or service that the individual wants to sell. Whether it's an actual product, information, or a service of some kind, this person has convinced themselves that the idea has the potential to become a thriving and profitable business. They come to me for general advice and possibly, to see if CF Webtools would like to develop the product for them.

In some cases they are underfunded and they ask if we would take an equity stake in the venture in lieu of some or all of our development fee. I have declined to do so up to this point - mostly because we need projects that are profitable and funded to meet our own business goals, and any capital we want to risk we tend to use to expand CF Webtools. In any case, all of these ideas have something in common. An individual or group of individuals believe they can leverage the web to make a pile of money.

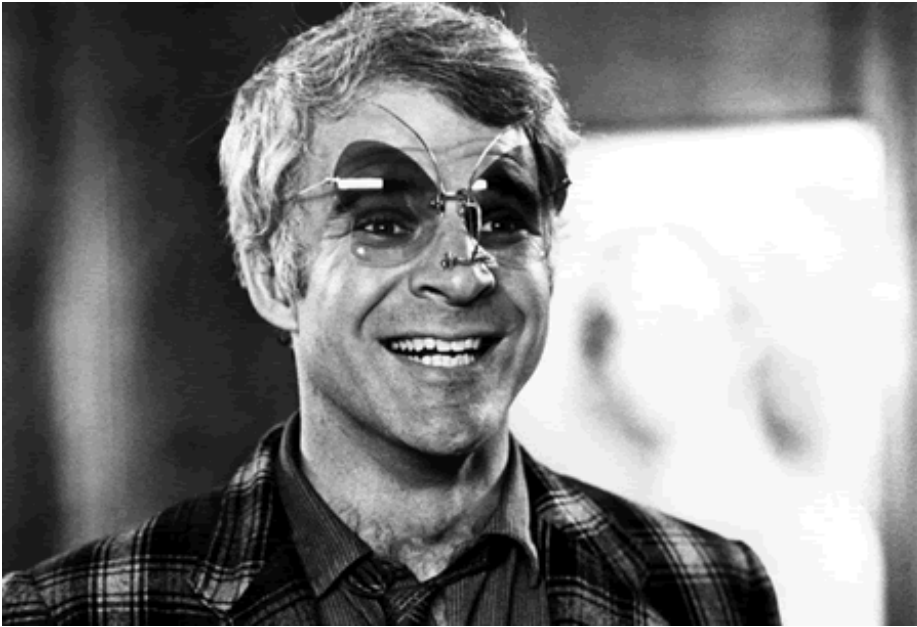
Now let me say at the outset that I am sometimes amazed at the ideas that end up succeeding. CF Webtools has built a few crack-pot applications that we felt had no chance of success, only to see them take off and exceed expectations right out of the gate. On the other hand we have seen some applications that we thought were startlingly innovative die with a whimper. Still, there are some hard earned lessons that we try to share with our customers to give them the best shot at success.

So this series is designed to help consulting companies or independent contractors better assist their clients in making good choices. It is also an excellent read if you are one of those visionaries and would like to know exactly what you should focus on to get your idea off of the ground. Unless you are a follower of motivational speakers Anthony Anthony (If You Can Do It Any Idiot Can) or Walter Mollusk (Seize the Self-Help Book of the Day), you will know intuitively that there is no one formula for success. But there are some obstacles you would do well to avoid.

[Listen Here](#)

Will You Be Meeting a Need or Creating a Need?

This is really a marketing idea. Is there a demographic out there that is walking around saying to themselves, "...dang, if only I had *your idea* life would be so much easier". If there is such a group, then you are extremely fortunate and your idea has a leg up - especially if no one else is meeting that need. Remember Steve martin in "The Jerk"? He invented a nose bridge to take the pressure off of the upper part of the nose for folks wearing glasses.



His character managed to meet a need that people felt intuitively. Of course had it come twenty years earlier his invention would have caused that nice young man in "Twelve Angry Men" to get the chair, but that's beside the point (talk about 2 wildly different movies).

Unfortunately, this **better mouse trap** approach doesn't always work. Many products - especially new, innovative ones - are brand new combinations of ideas. They don't come with a ready made need that can be exploited. So success depends on your ability to tell your story and "get the word out". That means marketing marketing marketing. "Wait," you say, "It's the Internet so what I really need is to be listed highly on search engines". Unfortunately that is probably not going to do it. SEO will only help you if people are already searching for your product.

Let's say you invent a new bread slicer to sell over the Internet. It's the greatest thing since ... since... uh... sliced bread. Anyway, you create a site and optimize it for search engines. Ask yourself this question, "who is looking for a new way to slice bread?" What if no one needs your product? What if they are content with the old way of slicing bread? If no one perceives a need for a bread slicer then you, as the product manager, must find a way to create that need. So a marketing plan must be part of the equation. You have to tell your story. You have to find ways of getting that story out there. When you create your business plan you need to account for a marketing plan and allocate enough resources to build your initial customer base.

Does it Have To Catch Fire To Make Money

Are you depending on everyone seeing your idea the same way you see it? People with ideas are visionary and easily fall into the trap of believing only the positive aspects of their idea. An ugly cliché for this is "drinking the Kool-Aid" - a reference to folks lured to their doom by the charismatic and wrong headed Jim Jones. Now marketing has a certain amount of "drinking the Kool-Aid" about it. Marketing is tasked with down-playing negatives and boosting positives. The trick is that you as a business owner or product manager must not fall into the trap of believing your own PR.

Ask yourself this question. What if my product is only mildly successful? Will you be satisfied with a small business that earns a living for you? Is it ok if the business is not

profitable for a year or so? Do you mind waiting three or four years before you can buy that Mercedes? Or do you need your new idea to rocket off the pad and rise to meteoric heights before you sell it off to Microsoft and retire to the Hamptons? Too many plans I see contain wildly speculative promises of a payback in a short amount of time. Idea people seem to always believe that if *they* like the idea every one else will respond in the same way as soon as they catch wind of it. In their mind, the idea will "catch fire and sell like hotcakes".

Of course everyone hopes their product will take off like that, but the grand can be the enemy of the good. You should plan for typical growth - not just growth that is possible only if the stars align a certain way. Entrepreneurs have great faith in their products - they have to in order to stay energized about the project through the 18 to 24 months it takes to launch a typical online business. They assume that once the word is out the product story will spread like a virus through emails, twitter, blog posts etc - until everyone can see how great it is. The reality is more mundane. Most products have a "that's nice" quality about them but do not inspire users to dizzying heights of admiration. So it behooves the business planner to account for both ends of the spectrum. If your financing is so light that it only focuses on development and assumes the product or site will catch fire in the first year - you may have a rude awakening in store for you. You will probably need to sell folks on your product no matter how compelling it is to you personally.

Planning for Critical Mass

This is an issue I see played out over and over again. Many online "products" are really connection ideas. You might have an idea to bring folks together for car-pooling, to trade baseball cards, coordinate baby sitting, sell vinyl records to each other or some other "bring together" idea. The current Internet buzz is all about community. Sites like mySpace.com, FaceBook.com and Twitter.com are all wildly successful ways of bringing folks together and allowing them to make connections. LinkedIn.com (which I use), merchantCircle.com and angieslist.com all have a similar focus with a bent toward business. About 3 out of 4 ideas that cross my desk are "hosted service" ideas, and of that lot, more than half of them involve coordinating interaction between users with common interests.

The big (really big... ginormous) problem with services like this is what I like to call critical mass. As an example, let's say you have a site that allows users to buy and sell bobble head dolls. You require a small fee of 2.95 per month to subscribe to the site and you handle the transaction and escrow. It sounds like a terrific idea - a mini bobble head EBay. You spend a few months developing the site (with your crack team at CF Webtools of course) and then you launch. You have a great marketing plan too. The word is out and bobble head believers know about your site and your service. It sounds like a recipe for success doesn't it. Well... not exactly.

You see the problem is that folks are not going to pay money (even a paltry 2.95 per month) to be the first user - or even one of the first few hundred users. They will wait till they see a reasonable number of folks trading before they jump in themselves. But of course, if most people feel that way it is going to be very difficult to get momentum. You will need users in order to get bobble heads posted and you will need bobble heads posted in order to attract users. I call this the "critical mass" problem. For the site to be successful it must reach a critical mass of users. This is true of every "user to user" community site on the web. Even if you are nothing much more than a forum you will need to reach critical mass to be effective.



If you can identify this as a problem there are a few tips that may help you.

- **Don't Charge Initially** - the big sticking point is the fee. Even at 2.95 users will balk if they see no activity. No one wants to throw away money on something that may not take off. So instead of charging, it is advisable to offer free trials, free membership for a year, free and easy registration, free n number of trades or sales, free free free. You have to make it painless and easy to get users signed up. That means forgoing whatever revenue your overly optimistic business plan projected for subscriptions during the first year or so.
- **Pre-Seed the User Database** - if possible, partner with someone who already has a list of users interested in your service and give all of them a free account automatically.
- **Pre-Seed the product Database** - In our example, the site owner could purchase a few hundred bobble heads and offer them for trade or purchase as a user - or even as more than one user.
- **Affiliation** - approach businesses with similar interests and make deals that benefit them in exchange for memberships to your application. In our example the site owner might approach a toy company, an athletic team, or a company that manufactures bobble heads etc.
- **Be Patient** - as stated earlier, the growth curve is often slow and steady. You may have planned for adding 5000 users a month but you might get only 50 a month for the first few months. Be prepared to "wait it out". You will only hit pay-dirt if you let that critical mass build.
- **Consider a Different Model** - perhaps your revenue model is unrealistic. Regarding our bobble head example, the web is replete with "free" subscriptions to this and that. People are quite accustomed to signing up for something and creating a username or password. They are not accustomed to paying for such things. Getting them to do so is difficult and you have to have a truly compelling

application to cross that chasm - unless you are a dating site of course.

Why Did you Choose the Web - Cost?

Here's an ugly truth (ok... maybe not ugly - we'll call it homely). People bring their ideas to the web because they perceive a lower start up cost. Consider the cost of a retail location. You need a building, a POS system, full inventory, staffing during business hours, utilities, etc. You might need parking. You need a customer service policy. You will need advertising in the phone book, the local paper, signage, circulars etc. Even a small store might cost you several hundred thousand to set up - right?

Everyone grasps the cost of physical infrastructure and inventory. Now ask this question - did you choose the web instead of brick and mortar because you believe it is cheaper? Or because you believe it is the right medium? If it is because it is cheaper, how much cheaper do you expect it to be? If a successful brick and mortar operation has a startup cost of 500 thousand, do you expect your web effort to cost 10% of that... or 20%? Yes, the web is cheaper. You can carry lower inventory and fewer staff. Your "store front" is the whole wide world. But that does not mean you are going to be able to stand up a thriving and profitable web site for 2 or 3 thousand dollars. I routinely tell folks who have such expectations to check out EBay or Yahoo stores. If you want a unique, custom product based on your bang-up idea then you need to prepare your expectations for development costs to build it, fully test it, launch it and market it. These cost usually do not rival the costs of a brick and mortar operation, but that does not mean they are trivial.

Why Did you Choose the Web - Automation?

There's another reason that folks turn to the Internet. There is a sense that you can build a product that "runs itself". Such a product, if constructed correctly, would entertain a never ending stream of folks with credit cards who sign up, log in and start using your product automatically. Because your product is so unique and so intuitive users will have few questions. What questions they do have will naturally be answered by your excellent FAQ page and the nifty screen capture videos you created to tutor them (users simply love those things).

The truth is that no site on the Internet is immune from customer service issues. I would bet a key lime pie that Google has a few hundred or thousand folks who call them every day asking "how do I use that big text box thingy... do I type in there are what?" No interface, no tool ever devised, no suite of applications dreamed up in the bowels of Silicon Valley has ever come close to matching the bewilderment of the average user at large. Unless they are Apple users (who can't ever admit they need help since Apples "...are so easy to use") they will call you, email you, text you, chat with you and possibly show up at your door to ask you about your applications.

So ask yourself this question - Am I expecting the Web to absolve me of the need for customer interaction? If the answer is yes, get ready for a rude awakening. A wise planner will expect virtually any service driven product to generate customer service issues. Here is the Muse formula for CS planning:

- **L** is the complexity of your product or Idea
- **C** is how much the user pays for it.
- **D** is the average age of the expected user (1 for gen X or younger, 2 for boomers, 3 for senior citizens).

- E equals the effort you should expect to exert

$$L * D * (C \times 3) = E$$

So if your service targets boomers or the elderly and cost quite a bit, you need to spend some time on customer service planning. You will need patient (and living) customer service people. You may need live chat, and simple help files. You will need to be flexible and accommodating. The more folks pay for your service, the more hand-holding they will expect. On the other hand, if your service is free then email support may be sufficient. Yahoo, for example has very little live help - and how can we complain since most things we use on Yahoo are free.

The Winds of Fate

Finally let me say that in the long run, whether or not a product succeeds is really a roll of the dice. In "American President" Michael Douglas (playing the president) was opining to his friend Martin Sheen (playing his chief of staff) that he wanted to date Annette Benning (playing a hot lobbyist... meaning attractive, not a steamy atrium). He tells Martin that his dating life is not the business of the American people. Martin replies, "With all due respect, sir, the American people have a funny way of deciding on their own what is and what is not their business." That's a good contrast between hopefulness, expectation and the winds of fate. When it comes to making money on the web Users have "a funny way of deciding on their own" whether your application is the next Facebook or the next Friendster. For those wanting to leverage its power the web can often fall far short of its promise.

I believe I will be writing more on this topic in the coming month. As always I welcome comments, criticisms, dialogue, discourse and anecdotes. Just remember as you comment that you are a guest.