

**SMALL BUSINESS BRIEF**

**MODELING A SUCCESSFUL E-BUSINESS USING  
ESSENTIAL PRINCIPLES FROM NETSCAPE**

**Robert J. Mills**

Utah State University  
*Mills@b202.usu.edu*

**David Paper**

Utah State University  
*DPaper@b202.usu.edu*

**James Rodger**

Indiana University of Pennsylvania  
*jrodger@iup.edu*

**ABSTRACT**

*The purpose of this study is to explore 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 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 empirical research on best practices, Yoffie & Cusumano (1999) provide a foundation for building a successful large-scale E-business through their investigation of Netscape Corporation. The authors use their principle framework to systematically examine the practices of a relatively new E-business, Anthill.com. They then compare Anthill.com practices with those developed by Yoffie and Cusumano in their research with Netscape to enable articulation of a set of lessons for other e-businesses struggling for success.

## **DATA COLLECTION**

Data were obtained for this case through a number of interviews with top management of Anthill.com. Respondents included CEO Curt Matsko, President Scott Alexander, and Director of Operations Brad Thurber. Interviews were conducted during two 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 of the organization. The questionnaire consisted of a set of open-ended general questions. 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**

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

The authors set up the research methodology for two purposes. First, in-depth data gathered from a real case allows for determining factors that really work, at least within the limited context of one organization. Second, generalizability may be increased by comparing Anthill.com results with those from another organization within the same industry (Yin, 1994).

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 external resources. Specifically, Yoffie and Cusumano (1999) developed four conceptually independent principles as follows:

- Create a compelling, living vision of products, technologies, and markets 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 four principles described by Yoffie and Cusumano (1999) will also be described in more detail throughout the manuscript. 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**

Initially, Anthill.com was funded with 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 (Figure 1).

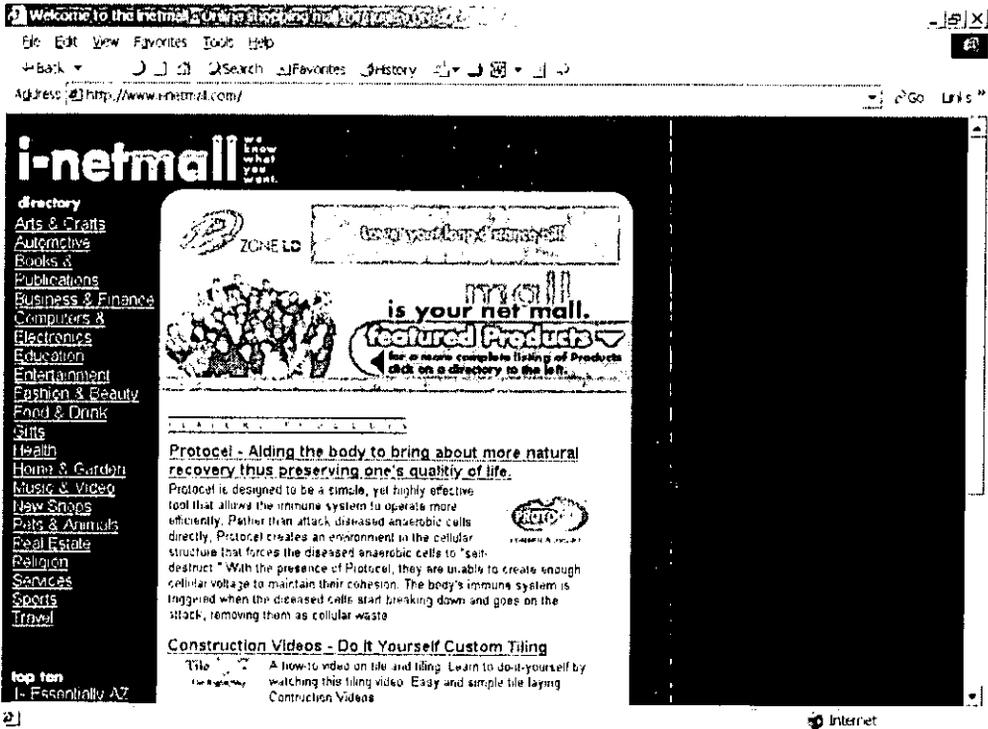


Figure 1. Homepage of Anthill.com's I-Netmall.

Revenues from the web-mall 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 (Figure 2). 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. The latest custom programming is called Anthill Blaster (B. Thurber, personal communication, June 28, 2000). Anthill Blaster allows commerce sites to upgrade and include a variety of audio and video capabilities. This upgrade allows e-commerce sites on Anthill.com to better promote their products and services by providing a multi-sensory experience for Internet customers.

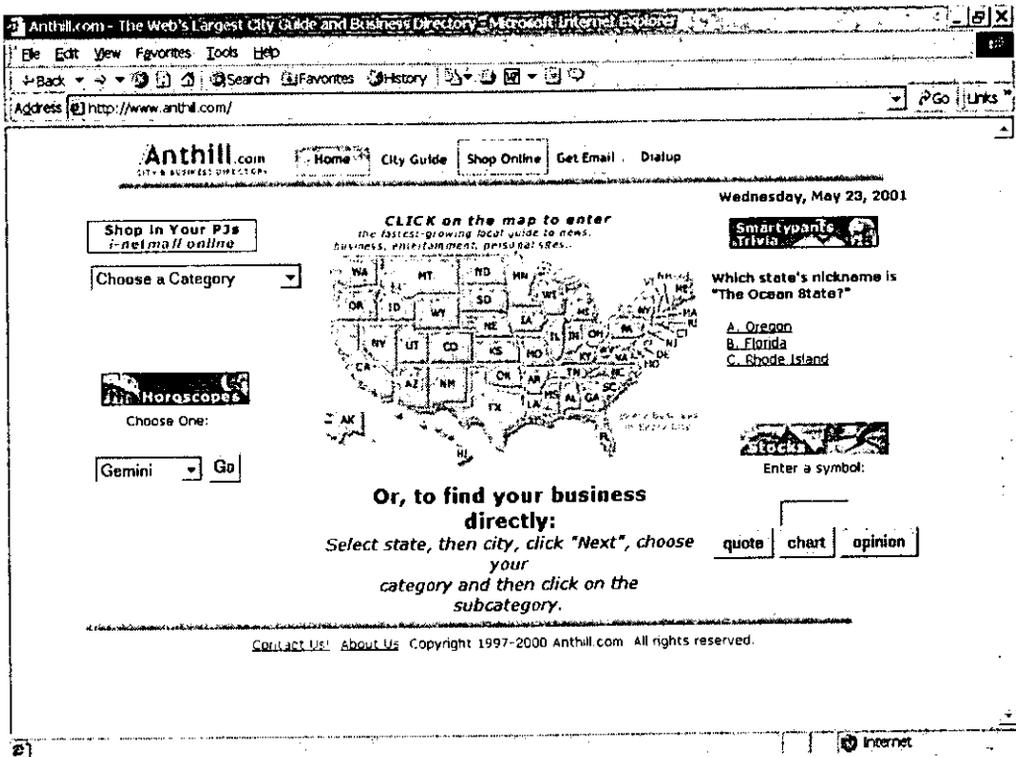


Figure 2. Homepage of Anthill.com.

Additional revenues are acquired through providing Internet access to customers via an active Internet Service Provider (ISP). As a result, Anthill.com provides a way for individuals and businesses to access the Internet and access their commerce sites. Anthill.com grew from a fledgling organization of two employees in 1998 to around 50 in 2000. Since 1998, revenues have increased 10 fold while net profits have increased nearly 15 fold.

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.

### DATA ANALYSIS

In this section, the authors use the principles developed by Yoffee and Cusumano (1999) (in their case study of Netscape) to systematically analyze the practices of Anthill.com. With the paucity of guiding frameworks for successful e-commerce, the authors felt that the framework was an appropriate first step for rigorous analysis of the case.

**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 1998. 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 included cities between 10,000 and 250,000 people.

Anthill was an early adopter for conducting business on the Internet that attempted to capture the small-to-medium markets across the United States. It was able to establish a web presence at the beginning of the dot.com revolution and therefore provided itself with an advantage over the competition. The Internet provided a channel for promoting Anthill's living vision to thousands of individuals. This communication channel acted as an integrator of Anthill's customer base to a central commerce location. The channel enables Anthill executives to dynamically communicate their vision to all of its customers. Anthill customers are able to communicate instantaneously with Anthill executives or other customers via the Internet site. Moreover, customers 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. Details on how Anthill's living vision was realized are provided in principles 2, 3, and 4.

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 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.*

Anthill was pleased with company growth, but realized that 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 that coincides with Netscape's principal 2. As a result, Matsko and Alexander 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 accepting 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 relatively 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. "Employees that have joined the Anthill believe in our business model and are eager to obtain stock ownership in the organization over competitive salaries which we cannot offer" (C. Matsko, personal communication, November 5, 1999).

**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. By aggressively traveling the country and contacting literally thousands of companies and individuals, Anthill.com is building tremendous internal resources that make it appear to be a large company. However, the organizational infrastructure is still very small. Anthill will continue to pursue the "travel and conquer" strategy as long as customers are attracted to join the Anthill colony. Another advantage of this strategy is that Matsko and Alexander interact continuously with their customers even though they are the top executives of Anthill. This personal interaction provides the coziness of a small business even as Anthill 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 in the future. Matsko underscores this by stating, "Our Company realizes the importance of staying abreast of the rapidly changing

technologies associated with the Internet" (C. Matsko, personal communication, November 5, 1999). 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. These technological changes drastically increased the need to be able to 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 and technical areas. In addition, he wants individuals that can build unique business relationships with people that do not directly work for Anthill.com.

One unique strategy utilized by Anthill.com to improve business practices is the use of independent contractors and Anthill affiliates. Anthill.com currently has over 1000 active contractors (individuals who have purchased a commerce site from Anthill.com) that sell Anthill commerce sites to other businesses and individuals for profit. Anthill affiliates are compensated for each new business they bring to Anthill.com. The affiliates use an identification number when adding a business site to Anthill.com to receive compensation. The use of independent contractors and Anthill affiliates permits Anthill.com to develop a formidable workforce similar to a large organization.

**Principle 4: Build external relationships to compensate for limited internal resources.**

Netscape would have been unable to keep up with the demands of the Internet 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.

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 BedandBreakfast.com, LotteryUSA.com, Mapquest.com, Sisna, FilmFrinzey.com, CardServicesInternational.com, Astrologynet.net, Travel.com and Barchart.com. These relationships help to enhance the quality of 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).

## LESSONS LEARNED

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 emerge 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." All must hear the voice of a customer, and customer responsiveness must be a top priority (El Sawy, Malhortra, Gosain, & 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.

Thurber indicates that communication is a major challenge of a fledgling e-commerce site. "Our employees each have unique skill sets which makes it difficult to obtain mutual agreement" (B. Thurber, personal communication, June 26, 2000). Anthill.com is currently attempting to take a proactive approach to improve communications in the organization. For instance, Scott Alexander has decided to no longer travel with the company and stays at headquarters to help with communications. In addition, managers from each department hold weekly meetings to discuss progress status and special needs from other departments.

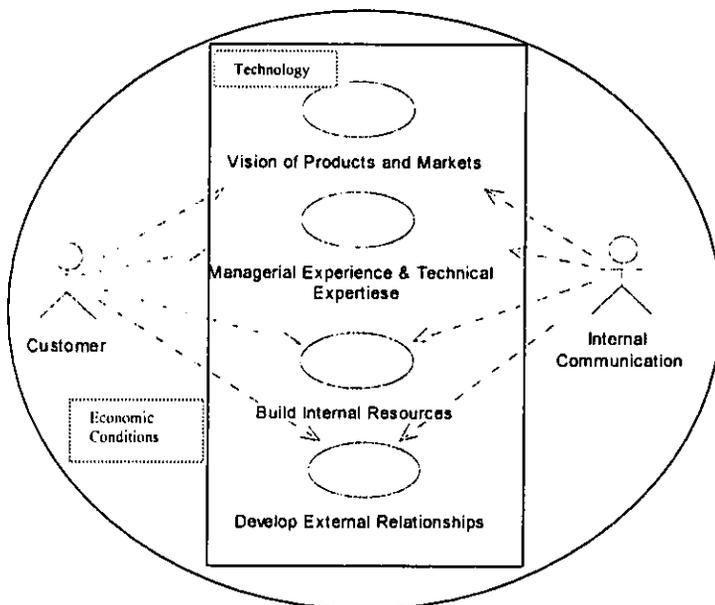
Another unanticipated challenge facing Anthill.com is the tremendous cool down on major Internet companies such as Yahoo and Amazon.com. "In our business we market directly to business owners. These business owners become hesitant to spend money for Internet solutions when the dot-coms of the world are struggling. As a result, our job of conveying the vision and benefits of partnering with Anthill.com becomes very difficult" (D. Thurber, personal communication, June 26, 2000).

The challenges of Anthill.com include communication, incorporating appropriate technology, and being adaptive to fluctuations in economic conditions directly influence Anthill's use of

the four-principle framework of Netscape. Figure 3 describes the relationships between Netscape and Anthill.com business strategies following the four principles. The figure was developed using a use-case diagram from the Unified Modeling Language and suggests that alignment with the four principles of Netscape are dependent upon customer demands, internal personnel, appropriate technology, and economic conditions.

### CONCLUSION

The authors have found that the four key principles of Netscape provide valuable insights when applied in the context of Anthill.com. They found that creating a compelling vision of the company, recruiting and attracting top employees, building internal resources for the company, and developing external relationships have proven to be central to Anthill's success. For instance, the founder's vision for Anthill.com expanded not only with technological advances but also with a drastic increase in small business participation on Anthill's website. Likewise, Anthill chose to attract employees who had experience in specific areas that could immediately benefit the company. Securing experienced employees helped Anthill quickly build internal resources. Moreover, Anthill's ability to attract outside resources to its web site turned out to be an exceptional beginning to building lasting external relationships.



**Figure 3. Netscape Principles and Challenges of Anthill.com.**

The authors found that Internet start-up companies must focus on their organizational (business) roadmap and not charge forward with technology for technology's sake. That is, start-up companies must have a sound business plan and plan of action to create a successful business because technology is only a facilitator of information flow, not a panacea.

Although Anthill.com is committed to being a dynamic organization prepared to embrace new opportunities, 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. "Innovative electronic commerce practices have created new marketing opportunities for companies that have a strategy in place to take advantage of them" (McCarthy and Aronson, 2001).

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*Robert J. Mills is an Assistant Professor of Business Information Systems & Education at Utah State University. Current research interests for Mills include e-commerce, computer-based learning environments, software evaluation, and electronic performance support systems. Dr. Mills has consulted on many technology-based projects including John Deere Tractor, EDS, Mitsubishi, Techmatics, US West, and The United States Air Force.*

*David Puper is an associate professor at Utah State University in the Business Information Systems department. He has several refereed publications appearing in journals such as Journal of Information Technology Cases and Applications, Communications of the AIS, Long Range Planning, Creativity and Innovation, Accounting Management and Information Technologies, Journal of Managerial Issues, Business Process Management Journal, Journal of Computer Information Systems, and Information Strategy: The Executive's Journal. He has worked for Texas Instruments, DLS, Inc., and the Phoenix Small Business Administration. He is currently consulting with the Utah Department of Transportation. His teaching and research interests include database management, e-commerce, business process reengineering, and organizational transformation.*

*James A. Rodger is an Associate Professor of Management Information Systems at Indiana University of Pennsylvania. He received his Doctorate in MIS, from Southern Illinois University at Carbondale, in 1997. Dr. Rodger teaches Network Administration, System Architecture, Microcomputer Applications and Intro to MIS, at IUP. He has worked as an Installation Coordinator for Sunquest Information Systems, and presently does consulting work on Telemedicine Connectivity for the Department of Defense and Management Technology Services Inc. Dr. Rodger has published several journal articles related to these subjects. His most recent article, "Telemedicine and the Department of Defense" was published in Communications of the ACM.*