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DirectPet : life in a dot.com startup

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DIRECTPET:
LIFE IN A DOT.COM STARTUP

A Project Report

Presented to

The Faculty of Graduate Studies and Research

San José State University

In Partial Fulfillment

of the Requirements for the Degree of

Master of Arts

By

Joe Hertzbach

December 2004

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ABSTRACT

DIRECTPET: LIFE IN A DOT.COM STARTUP

By Joe Hertzbach

This project report examines the story of my experience taking an Internet company – DirectPet.com – from initial conception to conclusion of the venture over a four-year period from 1997-2001, during the height of the dot.com boom in Silicon Valley. The mission of DirectPet was to transform the pet industry by simplifying the distribution process between manufacturers, distributors, and consumers through use of the Internet. This report summarizes the history of the enterprise, chronicling the major activities that I undertook to establish it; analyzes the business and societal factors that led to its demise, including my struggles to maintain my original vision for the venture in the face of hyper-optimistic financial expectations in the pet-related industry; and concludes with reflections about five key lessons that I learned from this experience, including what I plan on doing differently in future start-up ventures.

ACKNOWLEDGMENTS

The ability of the Internet to transform so much in my life in such a short time period has not gone unnoticed by my friends and colleagues. I have spent little time with you during the life span of DirectPet and the years recouping. First and foremost, I would like to thank Jan for seeing me through two degrees and guiding my ability to see; and Bill for introducing me to a new way of thinking and bearing in mind the forest and the trees – without both of you, I would have never pursued this business venture or undertaken my Master's degree. I would also like to thank Robin for making my words coherent and readable to those outside of the Internet circle.

I need to thank Jason for having the vision, guts, and strength to establish the dot.com revolution and for your twenty years of friendship. I would also like to thank my friends and advisors who had faith in me and tolerated my absences and my frenzied life: Jasmine, Don, Marie, Tom, Bubby, Bruce, Andrew, Larry, Victor, Steve, Audrey, Sharon, and Dave - your support was always noticed. Last, but by far not least, I would like to thank Linda and Elizabeth for four and a half years of love and support – you are my heart.

TABLE OF CONTENTS

Abstract	iv
Acknowledgments	v
Chapter 1 – Launching a Dot.com Start-Up	1
Background	1
The Idea	3
Preliminary Activities	3
Development	7
Adjustments	11
Final Efforts	15
Chapter 2 – Internet Realities	19
Outcomes	19
Evolution	19
Business Transformation	21
Societal Changes	26
Reasons for Failure	28
Reasons to Shut Down	31
Chapter 3 – Lessons Learned	36
Major Lessons	36
Information Gathering	36
Focused Flexibility	38
Relationships and Networking	40
Leadership	42
Self Care	44
Conclusion	46
Bibliography	47

CHAPTER 1

LAUNCHING A DOT.COM START-UP

Background

This project report examines the story of my involvement in an Internet company – DirectPet.com¹ – from initial conception to conclusion of the venture. The paper begins with an overview of how the idea for DirectPet originated and expanded into a realizable business, then continues with a look at the expansion and modification of the company’s business concept as the marketplace changed, and concludes with an analysis of the reasons why the company failed.

I began working with an early version of the Internet in 1982 at the University of Delaware, while conducting research for a science fair project. I continued using it as a medium for research at school as well as in several jobs over the next decade. In 1994 Jason Olim, my best friend, and I were talking about what we were going to do with our future.² We both believed that the Internet would be a great medium for distribution and sales. Olim originally wanted to sell sheet music, but ended up selling music CDs; his company – CDNow! – became one of the earliest dot.com start-ups on the Internet to sell a product to the public. Shortly after that conversation I left ZD Labs, where I had been working as a project manager testing computer equipment, and began consulting for

¹ DirectPet.com is trademarked in lowercase letters (directpet.com), but for the purpose of this paper it will appear as DirectPet.

² Jason Olim is the founder, President, and CEO of CDNow!, and a lifelong friend of the author.

companies that produced Internet-related services and products or for companies that were interested in creating an Internet presence. During the next three years I worked at nearly two dozen companies, many remotely, providing me with the freedom to complete an undergraduate degree, begin my master's degree at San José State University, and spend time exhibiting my photography at well over 100 galleries.

By 1997 I knew that I wanted to start an Internet company. It took a while to come up with an idea for my venture, but in May of that year an inspiration came to me at a friend's birthday party, at which she said she did not want any presents. Her best friend suggested that we should buy presents for her cat instead. At the time I did not know much about pets, so I went to PetSmart and PetClub to look for presents. I spent about \$30 on a few small gifts, including bowls for food and water, a scratching post, organic catnip, and a cat-sized birthday hat. Other party-goers bought beautiful artisan-type gifts from a number of gift shops. The gifts included Christmas ornaments, mugs, expensive cat food, toys, ceramic and metal sculptures, and gift baskets with fancy treats.

During the party we discussed where the gifts were produced. The majority of the products were created by artists in the San Francisco Bay Area, Monterey Bay Area, San Diego, Seattle, Portland, Denver, and New York. The average price of the gifts was \$45. I was stunned that people would spend that much money on pet gifts.

The Idea

After attending the party I continued to think about how much money people spent on pet gifts, including how and where they shopped for these gifts. As a professional photographer I knew how hard it was to obtain representation and to exhibit work at stores and galleries that had decent foot traffic. I began to wonder if the artisans who created unique pet gifts also had a difficult time finding a place to display and sell their work. If that was the case, I felt that it was also likely that people who were interested in purchasing unique pet gifts had a difficult time finding a convenient place to purchase them.

That's when the idea came to me: I would create an Internet-based pet gift company. The plan was to find artisans with unique products who could sell their products online, providing them with customers from around the world. The site would be designed like a gallery, where consumers could browse and purchase products. My belief was that consumers who were interested in unique and special products would be willing to pay more money in exchange for finding the products in one location. Although there would be additional shipping charges, they would save time and money by shopping through their computers. The company was eventually called DirectPet.

Preliminary Activities

In May, 1997, I spent three days searching the Internet for companies and individuals who sold, distributed, or manufactured pet gifts. What I found were individual artisans selling their products on their own websites or at web malls. The majority of these websites had problems with their design and functionality. One problem was that many

of the sites did not have electronic shopping carts to ease the purchase of products. Instead, there was either an email link or a form to fill out and fax to the artist. Another problem was that there were numerous sites which provided little descriptive information regarding the product and also did not provide contact information. I continued to get the feeling that there was a need for a company like DirectPet.

A number of things had to be done simultaneously to get the company going. These steps included assessing the need for the intended services; researching on-line and off-line competition; contacting suppliers and friends with usable skills; preparing business, technical, and marketing plans; designing the website; creating requests for proposals to develop the site; building web servers; and finding a hosting company. Much of the next two weeks was spent looking for and traveling to stores that sold pet products or crafts in California, Oregon, and Washington. I would drive to a store at night and spend the following day researching its products. While driving, I contacted friends and former workmates who had skills that might be able to help me with the company. I spent nearly every free moment writing an initial business plan and mapping out elements of the website. These tasks were preliminary, in that the company idea was not complete, but there was enough of a foundation to begin.

The search for products began with a focus on artistic quarters, gift shops in high rent neighborhoods, local pet stores, and pet store chains. I spent time speaking with store owners and managers about their clientele, sales, how they found new artists, and the type of mark-ups they put on products. The majority of store owners were friendly and willing to talk. I found that sales varied depending on location and time of year, ranging from an

average sale of \$25 during the low season to \$45 during the high season such as Christmas. Owners obtained new merchandise by attending trade shows and art festivals, artists bringing their wares to the store, and word of mouth. Several owners mentioned that their regular customers wished there was a wider variety of high-end items.

I was looking for products that were unique; easily shippable; required little-to-no customer support; and, if possible, had an interesting story. I was also looking for products at four price points: \$15-\$50, \$51-\$100, \$101-\$200, and \$200+. I figured that gifts over \$200 would be for customers who were looking for one special item; below that price line there would be a better chance for multiple purchases.

In addition to checking out pet stores, I also attended numerous art and wine festivals. I took notes on pricing and how products were displayed, as well as on the way products were grouped. In August, 1997 I brought a friend into the company to serve as Vice President of Marketing. She went with me to the art and wine festivals and also reviewed the product pricing of the Internet companies. We compiled a list of a few hundred artisans that included information about their representatives, where they sold their wares, product lines, inventory levels, and shipping capabilities.

In between the weekend festivals I attended a few industry pet trade shows, which gave me the opportunity to meet with a number of pet product companies. The majority of the companies I spoke to sold products specifically for pets. The range in quality and pricing was incredible. One artisan sold pet collars that ranged from \$200 to over \$20,000. He and his wife could not find a distributor or a store willing to carry their line of goods. Other company owners said that they were too small to obtain distribution.

The small and mid-size stores were not interested in selling their products for a number of reasons – including that they had signed exclusive distribution deals with distributors; that the products were too expensive for them to pay resale prices and maintain an inventory; and that cheaper products were available from companies which imported goods from Asia. Some distributors and stores admitted that the quality of their products was not as good as those from artisans, but it was easier and more affordable to obtain the lower quality and cheaper products.

In order to become familiar with the industry I was joining, I purchased subscriptions to industry magazines including *Pet Product News*, *Pet Food Industry Magazine*, *DMV News*, and *Pet Business* and looked for trends in the marketplace and market statistics. I spoke to people from the American Pet Product Management Association (APPMA), the Pet Industry Joint Advisory Council (PIJAC), and the Pet Industry Distributors Association (PIDA) and purchased their market information. I also spoke to several senior managers from long-standing pet companies, including Mark Hirshberg and Larry Cobb of Vo-Toys, who were willing to talk about their experiences (Cobb, 1998-2001; Hirshberg, 1998-2001). I learned that unique products and gifts are a hard sell for stores because of the inventory requirements. It is easier for stores to work with distributors rather than one-off companies.³ In July, 1997 I analyzed the information I had obtained

³ Small scale manufacturer that sells one single product or a mom-and-pop company whose products are produced at home.

to see if there was a need in the marketplace for DirectPet and if the idea for DirectPet would be strong enough to create a viable company in the current business climate.

Development

The initial development of DirectPet took longer than I expected. Based on past web development initiatives that I had managed, I expected the site to be live from business conception to attracting customers in three to four months. Instead, development and revision of the business objective until there was consensus with all interested parties took nine months.

I spent several days reviewing the marketplace data, preparing a competitive analysis, and starting to write a business plan. Based on research and number crunching, I decided that the idea was not sound enough at the time to go forward in its current form. I verified my convictions with several financial and business friends: CDNow! founder Jason Olim (Olim, 1997-2001), merger and acquisitions consultant Derek Koecher (Koecher, 1998-2001), and merger and acquisitions analyst Olga Koecher (Koecher, 1998-2001). They agreed that relying on a bunch of small companies and artisans would be too risky. I needed a distributor to fill out the inventory with cheaper and less exotic products. I also felt this would increase the likelihood of continuous repeat business.

I went back to the industry magazines and market material, looking for a distributor that carried high-end pet products. I found several that I was interested in meeting at the next trade show. At the same time, I was looking for an available domain and company name that fit in with the service of the company. Doing this quickly was important because domain names were being gobbled up at the time.

By the fall of 1997 the Internet boom was in full-swing and companies were moving too quickly to obtain sound advice. This was especially true here in Silicon Valley. The excitement of the Internet boom created an atmosphere that made it very difficult to find dedicated support staff. Attorneys, financial people, and computer programmers were constantly changing jobs in hope of finding a company offering stock options that could make them rich. Therefore, I decided to work with people outside Silicon Valley and sought out law firms in Washington D.C. and Philadelphia; I believed they would be more dedicated to DirectPet than local firms, and I felt their connections to financiers would be valuable to the company.

In October, 1997 I flew to Washington, D.C. to meet with the legal team that would be setting up the company. Unfortunately, the team's members did not understand the Internet and the need for speed as much as they claimed. They established the company up as a Limited Liability Corporation (LLC) and explained to me how this would help with tax issues. Unfortunately, they overlooked the need for offering stock options to employees – a need that I did not learn about until months later.

During my travels east I spent evenings searching for software that could be customized to meet my website's needs. I did not want a completely customized solution like those that CDNow! and other early web companies had to develop. Instead, I wanted a product that was based on a platform that would attract ample developers. I selected Miva Merchant (www.miva.com) as the software backend.⁴ I had used its products

⁴ The software backend is the underlying software product that drives a website.

before on simple websites. Miva Merchant was used by thousands of websites, and there were plenty of developers listed on the Miva website. During breaks between meetings with DirectPet attorneys and accountants, I reviewed bids for development and negotiated with a number of web-development companies to develop different parts of the website. I let the companies know that development would begin by May, 1997 and that I would provide mockups of the design and process documents for the website.

I also spent time working with lawyers and accountants on contract templates and the best way to develop the company. They gave me advice on how to speak with angel investors and venture capitalists. I had previously purchased a list of various investors and began making phone calls to the financiers to see if there was any interest in DirectPet.

A number of investors were located on the East Coast and, although they were interested, they wanted to see a completed business plan. This was different than what was going on in California, where some companies had received up to \$100,000 in seed money to develop a business plan in order to see if the business idea was viable. Accepting seed money also meant giving up large portions of a company, thereby, potentially losing control over the intended vision and direction of the company. I did not want to take this risk and therefore did not pursue seed money.

I also spent a substantial amount of time reading about business and Internet trends in similar and other industries. I continuously spoke with Olim regarding my issues, as well as about what he saw occurring in the marketplace. I knew Olim had problems obtaining funding – largely because he was not a recognizable figure, because the Internet was too

new, and because of odd demands if he accepted funding. I did not want to step aside and see my vision changed, so I took a two-day detour from meetings with the attorneys to meet with an investment firm in New Jersey.

The firm was interested, but said that the sales potential was not large enough. The firm was interested in investing a minimum of \$55m and suggested that I expand our business concept so that DirectPet would become the largest player in the market. I did not believe that the financial projections floating around the pet industry were accurate. I felt the numbers were much too high and several pet industry insiders concurred (Cobb, 1998-2001; Hirshberg, 1998-2001; Myers, 1997-2001). I did not believe a company could achieve these radical numbers; therefore, I was unwilling to change my financial projections in order to match the numbers that other companies were using.

The firm suggested that I expand the company's direction and, if the revised company idea was large enough, I would be able to get the cash I needed. The people at the firm were helpful and recommended several angel investors and go-betweens to raise smaller amounts of cash. I spoke to several other people in the financial world, as well as in mergers and acquisitions. They also recommended that I expand the business idea.

I headed back to Washington, D.C. to finish meeting with the lawyers. DirectPet became an LLC and I had contracts written with numerous distributors, marketers, and sales representatives. I then flew to Florida to attend another pet industry trade show in order to meet with potential distributors.

Adjustments

At the trade show I realized that DirectPet could work with a number of distributors that had multiple distribution points. Three deals were negotiated with distributors, along with 13 contracts with artisans and manufacturers of high-end products. The essence of the company idea had changed again, potentially making DirectPet the company with the largest selection of products available on the Internet. Furthermore, the contracts that I negotiated were exclusive meaning that the distributors and manufacturers could not partner with any other online-only websites. I assumed this would give me time to develop the website, prepare a team, obtain financing, and keep competition at bay.

Unfortunately I was wrong. My funds began running low in September, 1998. In order to raise additional cash, I went to what is known as FFF: Family, Friends, and Fools. I was able to raise approximately eighty thousand dollars. I had two people working on the marketing plan and competitive analysis while I worked with the developers; contacted more distributors and artisans; traveled the country checking out the distribution centers, and built the company infrastructure.

I wanted DirectPet to be a virtual company. I did not want a permanent office space but preferred a management team that could work anywhere. My goal was to have the servers for the DirectPet website hosted at two ISP's in the United States – one series on the Mae West line and the other on the Mae East line, with developers and designers

subcontracted around the country.⁵ Unfortunately, I only had funding for a cluster of servers on Mae West. I partnered with a hosting company in Portland that would manage the servers I configured. Later in September I prepared the servers and drove them to Portland. The servers were installed, and the existing site was removed from the rented servers.

I began working nearly 24 hours a day, seven days a week. The servers were maintained remotely and web technology at the time caused crashes. The hosting company was helpful, but there were times when they got stuck while the DirectPet site was being built. The staff did not have the Internet expertise that I had hoped for and, like many other companies, this one had revolving doors as staff continuously left for better – compensated jobs. In order to fix one problem, I had to fly from San Jose to Portland. A number of other times I had to drive seven hours from Medford, Oregon (where I was staying with a friend) to Portland. Distributors called me between 3:00 A.M. and 8:00 P.M., Monday through Saturday. Developers called around the clock, seven days a week. I was always available by cell phone and answered all calls, since they were from people who were working for me and with me.

Through meetings with numerous distributors, I realized that they did not understand the importance of the process for ensuring customer satisfaction. I demanded that customers always know where their purchases were, with the website showing everything

⁵ MAE West, MAE East and MAE Central are the 3 major interconnection points for the Internet's national commercial backbone in the US.

from inventory levels to the pick-and-pull of the product to the shipping of the goods. If a customer purchased an item before 3:00 P.M., the item needed to be shipped the same day. The distributors did not understand this. The majority had planned on getting to the DirectPet orders after their large customer orders were completed.

After further research I realized that the distributor's inventory systems were extremely disparate, with many being customized software packages. Since I did not expect the distributors to be technically savvy, I asked questions that I thought would help me determine whether or not they had the technical capability to partner with me. I also began to realize that the pet industry might not be ready for the Internet. The attitude of the industry was very relaxed, which fit in with my personality, but it did not fit with the high demands that I had for customer satisfaction.

I spent nearly a year working with developers to create solutions that would enable the manufacturers and distributors to connect their systems to the DirectPet system. Unfortunately, there was a constant outflow of developers to other companies that provided more money and stock options, so progress was continually falling backwards as the needs of DirectPet had to be re-explained to new developers. In the meantime, the company's business plan was modified to include the adjustments being made. The vision had changed to something larger than I wanted, but I believed it could be made to work.

At this same time development houses began to prioritize projects differently. Many were dropping existing projects for other projects on behalf of companies that were willing to pay more for their services, and the Miva Merchant-specific developers could

not complete the DirectPet project correctly. Finally, in April, 1999, I terminated the developers and threatened legal action if they demanded further payment. DirectPet switched to a new base-product called AbleCommerce (www.ablecommerce.com). This product was based on Macromedia's ColdFusion (www.macromedia.com), which was a well-known development language.⁶ The negotiation process began again and I contracted with a development company in Southern California to design the first stage of the website.

In June, 1999, I began working on the third version of the business plan. DirectPet would change the way manufacturers, distributors, and stores worked together. DirectPet would simplify the process by creating a solution that would enable disparate systems to work together through the web. Through the consolidation of product selection, people would be able to find unique pet products easier. Artisans and small manufacturers would have a place to sell to a large market, while the consumers would have one location for all their pet and pet-related gift needs. Sales would build a revenue stream from which DirectPet would be able to create change within the business-to-business distribution marketplace. Between August, 1997 and February, 2001, DirectPet signed 179 contracts with distributors and manufacturers in the United States and Canada.

⁶ A development language is the code used to develop software products using predefined specifications.

Final Efforts

With DirectPet's ability to provide over 200,000 product choices, I believed that we would be able to offer reduced pricing to medium-to-large scale customers. Additionally, I felt that distributors and manufacturers that were selling products regionally might do better selling nationally or internationally. Non-profit and government organizations (such as National Parks, law enforcement, shelters, and ranches) would also be able to pick up excess or end-of-year inventory at reduced prices. Distributors and manufacturers would be happy to clear end-of-life products from their shelves.

DirectPet was always different than the other competitors coming into the marketplace. DirectPet was not in the business of selling dog food and other products that were already in stores; rather, DirectPet was originally formed so that artists had a new and effective way to sell their products. After a year-and-a-half, DirectPet was being developed with the goal of finding a way to change the entire pet industry by working within the pet industry. Unlike DirectPet, other companies such as Pets.com, Petstore.com, and PetQuarters.com were developed to be cash cows and bypass the pet industry infrastructure (Cobb, 1998-2001). DirectPet differentiated itself from traditional stores that were new to the Internet by combining its expertise in e-commerce with its distributors' and manufacturers' expertise in animal products. The modified DirectPet.com was established to be the animal health and well-being portal for people who care about and work with animals. DirectPet.com was not just another on-line store with products similar to those at other Internet sites. It was not merely a site with a collection of medical information and health-related assistance; nor was it a way for

manufacturers to bypass their distributors and stores. Rather, it was a site with numerous integrated services that streamlined the health and product procurement process in order to deliver products and information to the consumer.

By August, 1999 funding was getting low again, as development costs were draining the company coffers. During the third iteration of the company, my focus was on developing a business plan geared towards investors rather than towards the needs of the company. I rewrote the business plan with a focus on financial issues, not on technical and marketing concepts. I then contacted potential investors who I had spoken with during the past three years and showed them the new business plan. Some were interested, but others had already lost interest in the Internet and moved on to telecommunications. The biggest obstacle was that I did not want to step aside and allow someone else to drive my vision. I watched as companies in other industries were already beginning to fold, often because pressures from the venture capitalists were causing internal turmoil. Once again, I said no to offerings of seed money and tried to figure out what I was going to do.

As technology improved, I modified the technical portion of the plan. DirectPet's time line kept changing due to problems with development and as more applications were needed for the services DirectPet was going to provide. The marketplace was changing as large numbers of competitors entered the market and received funding. This onslaught of competitors willing to spend large amounts of money flooded the market, and the early entrance of DirectPet into the Internet had been lost.

Speaking with advisors and friends, I realized that some rapid changes needed to be made if DirectPet was to survive. By the end of August, 1999, we had dropped the attorneys and accountants on the East Coast and retained a new law firm in San Jose. The new law firm changed the company from an LLC to a C Corporation, allowing for stock option offerings as well as for the development of a Board of Directors. I invited three individuals to become part of the Board of Directors and all three accepted. Board meetings were held to discuss strategic direction. Competition had increased, developers continued to slip schedules, and I was getting tired even though I was still driven to see my vision become reality. In addition, some of the companies that I had been negotiating with – especially information resource companies – were holding out to try and get other bids that offered stock options or percentage ownership in a company. I was also receiving numerous offers to develop and host websites from many of my manufacturing partners and other pet manufacturers that saw our expertise in design and web development. I added a number of servers, as DirectPet also became an ISP and web development hosting company for many pet industry companies.

To bring in some desperately-needed revenue, I continued to expand web service offerings (including information management, data reporting, storage, and retrieval) as well as secure communication services (including email, paging, faxing, and video conferencing). This money helped keep my own finances afloat, as I was now paying most of my business and personal bills with credit cards. In the meantime, I drove to Beverly Hills to visit an advisor friend who had venture capital and angel contacts. While waiting for a meeting with one of his investor connections, he grilled me relentlessly on

the “what ifs” and contingency planning. The investor showed up, and we discussed the business more deeply than I had with any other financier. He requested that I mail him some additional information and meet again in a few weeks. I was given so much information that I needed time to digest it, as well as to review what information I was going to provide to the financiers whom I had met.

I made the fourteen-hour drive from Los Angeles back to Medford. During that long drive I realized DirectPet could not survive in the current marketplace. There was too much competition in the marketplace, contracts would need to be renegotiated with several of the distributors, and I did not trust that consumers would receive the customer support that I demanded. So I shut the website down and notified everyone involved that DirectPet was no longer in business. I was heartbroken.

CHAPTER 2

INTERNET REALITIES

Outcomes

The evolution of the Internet has gone through radical changes in a short period of time. Innovation occurred in the infrastructure and technology of the Internet, with its adaptation to business and individual use as well as its extension into other technology sectors. The Internet became a center of communication through which consumers could contact producers of product and supplies, businesses could contact one another, and people could use it as a forum for discussing numerous aspects of society. During the late 1990s, as Internet use exploded and technology improved, the behaviors, attitudes, and perceptions of companies and individuals changed (Wikipedia, 2002). While these changes were both positive and negative, they ultimately led to DirectPet being shut down.

Evolution

The technological evolution and social acceptance of the Internet occurred concurrently at the business and individual levels. Some technologies were used by business first, while other technologies were used by individuals first. As such, some technologies and features of the Internet were driven by businesses, while others were driven by individuals. Early use of the Internet by businesses with established computer infrastructures was often only minor modifications of the previously-installed infrastructure. Radical changes spurred by the Internet did occur for some businesses, but

this was because the companies joined the Internet revolution at a later development stage and were implementing dramatic process changes in these organizations. The number of individuals who owned and used computers grew rapidly as computer prices continued to drop, the speed and power of computers increased exponentially, newer models were being introduced more rapidly, and the Internet grew in offerings (Internet Demographics Directory, 2002).

As Internet technology became more accessible to the public, its diffusion increased rapidly. The value of the Internet to existing businesses as both a product and as a process was not really understood until the dot.com boom collapsed. As a product, companies helped shape the Internet and how it could be used. As a process, the Internet enabled change in how communication occurred. Additionally, many companies in high-technology centers did not understand the voluntary nature of the Internet. Some companies demanded that all actions occur through the Internet; closed down fax lines and customer support call centers; and made e-mail the only way that customers could communicate with companies. Software companies sold their products, updates, and manuals only through the web. In many cases these companies were mandating customer usage of the Internet before the consumer or the business had the ability or desire to do so. As a result, many consumers and businesses shifted their business to companies that still maintained a more traditional presence (Roper Research, 2001).

Many businesses, venture capitalists, consumers, and the media believed that traditional business market development was no longer necessary because the Internet enabled market development on a local scale as easily as on a global scale (Akkeren and

Cavaye, 1999; Hubbard and Cleveland, 1998; UCLA, 1999; UCLA, 2000). Businesses with large resources were able to dictate the use of the Internet's functionality. They were trying to define market space over the needs of the marketplace (White, 2000). Unfortunately, businesses that did not have the necessary computer infrastructures to incorporate the dictated demands often failed. Smaller manufacturers and distributors could not compete, and those who worked with "short on resource" businesses floundered. Subsequently, DirectPet became one of the many fatalities that occurred during the implosion of the Internet.

Business Transformation

The Internet provided businesses with the ability to shorten supply-chain lifecycles, expand and improve processes and infrastructure, and provide more effective customer service opportunities. As the Internet expanded, companies developed strategies to make effective business decisions and collaborate with each other (Hubbard and Cleveland, 1998).

As society embraced the dot.com revolution, the media hyped its potential benefits for consumers. These benefits included the opportunity to invest in Initial Public Offerings (IPOs) that could multiply people's investments. This led people to invest heavily in companies that did not have sound business infrastructures. Increased product availability by consumer-oriented stores such as CDNow, Amazon, and eToys – along with the increased availability to find bargains - gave consumers leverage to push for lower prices. Numerous websites provided people with a venue to express their ideas and opinions about performance and service. EBay enabled buyers and sellers to rate their

online experience (www.ebay.com). Internet customers were willing to provide information that in the past had been considered private. Businesses shared consumer information which, in many cases, was intended to be confidential (US Search, 2001).

Many businesses transformed their computer infrastructures to compete with Internet-only businesses. Large sums of money were spent investing in poor quality companies in an attempt to annihilate competition (Vaknin, 2001). The Internet brought several major changes to business that transformed the way businesses could operate. The most radical change was the ability to communicate instantaneously. Businesses were able to establish immediate communication with employees, partners, customers, and prospects; this reduced the “time to market” of new products and significantly reduced down time. The Web enabled products and service accessibility to occur 24 hours a day, seven days a week. With instant communication and global access, businesses were now able to effectively shrink distribution paths to the marketplace. Goods and services could be offered in real-time. Finally, the electronic shopping environment enabled businesses and consumers to review, compare, select, and purchase products instantly with no need to travel and pick up items.

Business costs were reduced, operations became more efficient, and companies were able to work more proficiently with other organizations. The cost of entry and time to enter became lower for new companies (Akkeren and Cavaye, 1999; Locke, 1999). It also became much easier for companies to partner together and share information. Improved communication, collaboration, customer service and support, and cost and

resource effectiveness enabled companies to forge relationships that had not been feasible before the Internet (Hubbard and Cleveland, 1998; Tower Group, 2001; White, 2000).

The Internet quickly grew into a highly competitive market space. Companies spent huge percentages of their income on marketing activities and forming collaborative partnerships. Many of the business relationships were created by incubators and venture capitalists that partnered their companies together in order to promote faster growth and acknowledgement by the public.⁷ Often these partnerships were established to prevent other competitors' presence in a market space.

Many business relationships were defined through existing relationships with companies, or by starting from scratch and going around the current industry infrastructure with select partners. For example, Pets.com built its own warehouses in downtown San Francisco instead of working with distributors. This allowed it to bypass the industry distribution network and obtain products directly from manufacturers (Cobb, 1999; McLemore, 1999; Wainright, 1999).

Successful business process implementation was based largely on the ability of companies to change their business processes in order to achieve the value of collaboration: sharing of information, alliances in customer support, and product compatibility. The ability for real-time collaborative communication allowed business

⁷ An incubator refers to a physical location where emerging companies are concentrated in a limited space sharing common services, financial help, and the collection of knowledgeable people and managerial staff that enable these new companies to bring their products and services to the market.

activity to occur remotely. Infrastructure was connected through the Web, and resources were significantly reduced by these business partnerships.

The Internet was viewed by some as a living system and structured so that if one subsystem breaks, it would reorganize and continue rather than halting the entire operation (Morgan, 1997; Sahtouris, 2000). The Internet assimilates the broken subsystem and continues. Weak companies that partnered with other weak companies created a domino effect: as one company fell, the other companies associated with the failed company fell as well. The companies that survived had the flexibility and the resources needed to maintain a place in the market. The strongest companies survived – those with the financial resources, strong teams, and flexibility to handle change. Those who could not, died.

The Internet affected virtually all aspects of business relationships (Hubbard and Cleveland, 1998; Malik, 1999; Tower Group, 2001). Business partnerships were able to dictate the pricing of products from manufacturers, shipping rates, and the collection of information. Easy access to accurate, timely, and targeted information by businesses and their suppliers, partners, and customers fostered one-to-one relationships, rather than one-to-many. These relationships were reinforced in ways that were not possible in the past (Hubbard and Cleveland, 1998; Tower Group, 2001).

The Internet also gave customers the power to determine when they shop, what they shop for, and how they want to receive the goods (mail, truck, pickup at the nearest store, etc.). At the same time, information collected about customers' buying habits assisted retailers in tailoring product offerings and promotions to individuals. The collection of

information enabled businesses to be customers focused and responsive to the customers' wishes. Passive customization was employed by many companies which used dynamic database-driven websites that modified themselves as a customer shopped.⁸ One company with impressive passive customization is Amazon.com, where data mining has enabled it to provide customers with what they want.⁹

Many business partnerships failed for similar reasons including egregious spending, disparate infrastructures that did not function seamlessly, over-marketing, and over-growth without a readily available infrastructure (Meyercord, 2001; Monk, 2000; Richie, 2000; Scully, 2000; Sherman, 2000; Suutari, 1999). Partnerships also failed because of financial backing being withdrawn or lost, causing the companies to have no cash flow. Additionally, large stable companies flocked to the Internet trying to join the fray. Companies such as Intel and Microsoft launched new divisions or bought companies that were completely different than their core products or services; while Intel, Oracle, and Sun Microsystems launched venture funds and incubators for startups (Boulton, 2000; Oracle, 1999).

A domino effect occurred when many companies did not have redundant system processes in place that could have protected them from failure.¹⁰ For example, SuperPetz

⁸ Passive customization refers to tailoring products and services through data mining techniques and non-registration oriented activities in which customers are not specifically asked for direct interface or information.

⁹ Data mining refers to extracting customer information to define patterns of use and need in order to provide customers with a more individualized experience.

¹⁰ Redundant system processes are technical and informational infrastructures that enable continuous operation in the event of individual component failures.

(a regional pet store chain) accepted partnership with Pandesic (a data hosting and web development provider). SuperPetz spent millions of dollars and over a year building their web infrastructure at Pandesic's data hosting facility (Cobb, 2000; Phillips, 2001), but Pandesic shut its doors with no forewarning and stranded thousands of businesses which lost untold millions with this closure (Hall, 2000; Kontzer, 2000). Many of these companies were never able to get underway again (Hall, 2000).

Societal Changes

The Internet's impact on society changed the dynamics of how many people interact in both their social and business lives. Social interaction through the use of web applications enabled people to communicate virtually anywhere in the world. Tools such as instant messaging, voice over Internet protocol (VOIP), and chat rooms enabled the expansion of the classroom from an agrarian model to an advanced place of learning. Remote areas became less isolated as they were able to connect to the Internet, allowing them to become part of global change and growth (Locke, 1999; Locke, 2001; Monroe 1999; UCLA, 2000). Work schedules became more flexible as people were able to telecommute, allowing families to spend more time together and reducing congestion on the highways (UCLA, 1999; UCLA, 2000).

With the availability of information at one's fingertip came the perception that productivity went down in the workplace (Purdue, 2003). People were able to spend time on their interests and needs during the workday, which included participating in activities that in the past may have been considered private – such as reading/sending personal

email and trading stocks (Olsen, 2001; Simpson, 2000). In turn, privacy became an issue as businesses sold or exchanged customer information.

People initially believed that the Internet was an anonymous communication system; in fact, every movement on the Internet was tracked (Caterinicchia, 2000; UCLA, 2000; Simpson 2000). Changes in business and public policy such as company-initiated privacy policies occurred as people voiced their outrage (Livraghi, 2000; Peterson, 1998; Tweney, 1999).

The catalytic effect of the Internet gave new meaning to social capital; that is, people are the most important part of the system (Pandestic, 2000). With the freedom of the Internet allowing anyone with Internet access to voice his or her opinion, democracy has become more achievable as participation has increased (UCLA, 1999; UCLA, 2000). Citizens became able to make better informed decisions as the government became able to provide information and policy, as well as being able to receive feedback from the citizenry. The Internet gave people an avenue to get together and engage in social networking.

Development initiatives expanded from the boardroom to the economic development of communities. Entrepreneurship did not just occur in the cities and research centers. Small communities were also able to be effective forces in creating growth and change. The sharing of ideas for economic development grew at speeds that had been previously unattainable (UCLA, 2000). Media attention played a big part in bringing much needed funds and other resources into resource-poor communities, particularly in rural areas (International Fund for Agricultural Development, 2004).

Reasons for Failure

The Internet, much like society, is a flexible and expansive system that relies on its effects as well as the constantly changing environment. The Internet challenged the rules of sales and marketing by removing physical and cultural barriers, which enabled faster adaptation to the demands of contemporary society. The Internet became a synergistic exchange of experience, ideas, and energy. For businesses to survive, they needed to be extremely open and flexible.

Successful business using the Internet required increased flexibility due to the dynamic and competitive nature of industry. Many businesses had a difficult time understanding the marketplace and looking past short-term objectives. Business development requires the need to focus on both short and long-term strategic goals, as well as maintaining customer relationships that are profitable and competitive. Businesses must invest in solutions that drive efficiency and performance, ensuring that customer satisfaction is maintained and organizational accountability is present. With the explosive growth of venture capitalism into the Internet marketplace, many businesses did not follow these traditional practices. The most common response to why dot.coms failed is a combination of greed, overspending, and not enough cash flow (Meyercord, 2001; Monk, 2000; Richie, 2000; Scully, 2000; Sherman, 2000; Suutari, 1999). Business models did not generate enough revenue and businesses were living on capital that ran out. Many enterprises did not gain enough traction in the market and their business plans proved to be overly optimistic. This over-optimism, along with insufficient revenue, caused many business startups to run out of capital.

For the most part, poor planning was the main reason for failure (Meyercord, 2001; Monk, 2000; Richie, 2000; Scully, 2000; Sherman, 2000; Suutari, 1999). Companies should have developed comprehensive business plans which should have included a competitive analysis; financial analysis; team growth guidelines; infrastructure development; marketing; sales; partnership potential; business process and growth; and exit strategies. Breakpoints in development and growth process, where changes could occur within smaller systems without harming the overall system, were not discussed nor planned (Meyercord, 2001; Monk, 2000; Richie, 2000; Scully, 2000; Sherman, 2000; Suutari, 1999). Companies flocked to sectors with similar products and services, eliminating their competitive edges. Many products and services were similar; the only difference being how much money the company was spending on advertising. Businesses were unable to differentiate themselves.

The Internet explosion led to increased marketing pressure and an increased cost of goods and services, causing many businesses to be undercapitalized (Meyercord, 2001; Monk, 2000; Richie, 2000; Scully, 2000; Sherman, 2000; Suutari, 1999). Underestimating the costs of getting a business up and running, as well as the costs of maintaining the business, often resulted in poor cash flow. With marketing costs skyrocketing, companies continued to fund their marketing programs by overspending. Some companies received capital to fuel growth from angel investors, venture capitalists, and by going public. Business development was dictated by financiers and public perception, rather than by creating sound products and service. With the large influx of cash, companies threw money at people and at problems with the hope of obtaining

temporary solutions. Strategic planning was lax and did not cover foreseeable growth, contingencies, and radical changes in the marketplace. Implemented solutions were not sound, as large sums of money were spent on branding initiatives in order to obtain customers, and on building luxurious offices to showcase the viability of their presence to the public and financiers (Olim, 2001; Walters, 2001; Useem, 2001).

Hiring the best staff was not always possible, with the need for bodies often seen as more important than spending the time to find the best staff available. Human resource departments were responsible for getting bodies rather than skills, and people who did not have the necessary skills were hired and given executive titles. Scully and Sherman indicated that greed was rampant at that time, as staff regularly left for more stock options and better titles; moreover, management was often young and inexperienced with respect to how to include others in sharing a vision and how to show appreciation for a job well done (Scully, 2000; Sherman, 2000).

Because of fierce competition and short timelines, very little managerial training was given. With the Internet still in its infancy, there were not many “experts” at the leadership level or within support personnel. Support system personnel (such as attorneys, accountants, boards of directors, and advisors) should have been well educated in good business practices and the need to be flexible. In-course adjustments are critical to maintaining an edge in any marketplace and, with the brisk advance in infrastructure technology and the rapid influx of new competition, businesses needed to be able to adapt to change more than ever.

Partnerships with weak companies, not working well with partners, and working with previously established industry structures created fractures within sectors (Meyercord, 2001; Monk, 2000; Richie, 2000; Scully, 2000; Sherman, 2000; Suutari, 1999). Process problems and a strong public desire for products over the Internet created inventory issues. The Internet enabled customers to communicate with companies twenty-four hours a day, which required businesses to provide more support personnel. But many companies had poor support systems in place. Often, support personnel were not trained on how to ensure customer satisfaction and did not have an understanding of the products and services sold (Meyercord, 2001; Monk, 2000; Richie 2000; Scully, 2000; Sherman 2000; Suutari, 1999).

Marketing strategies focused on branding, rather than on identifying customers and showing the benefits and differences of companies in the same niche.¹¹ Products and companies overlapped in types of advertisements. Customers contacted the wrong companies for support because the names were similar and they forgot from which company the purchase was actually made.

Reasons to Shut Down

These developments illustrated why DirectPet.com was shut down. The realization that it was time to shut down occurred when I discovered that DirectPet's distribution network would not be able to support the consumer through the browsing, purchasing,

¹¹ Branding refers to creating a product or company identity through its name, logo, product designs, advertising, and sales campaigns in order to separate and distinguish a product or company from similar products or companies.

and shipping process. Accountability was demanded by all parties involved to ensure that customers knew where their purchased products were, from the time they were purchased to the time that the product arrived. There were too many potential breaks that could create unhappy customers, and the costs of fixing the problems were too high.

There were several reasons why the supply chain process did not work. Many of the distributors did not have the requisite technical understanding needed to supply DirectPet with the information so that we could connect to their systems and they would not give us access to their computers for fear of information theft. The fear increased as Pets.com changed industry dynamics by building their own distribution centers, which allowed it to bypass existing channels and work directly with manufacturers. Pets.com was able to ship products to regions where existing distributors had exclusive regional shipping and sales agreements. Additionally, Pets.com sold products below cost in order to gain traction and put competition out of business. Manufacturers and distributors were less willing to work with an Internet company due to Pets.com's mistreatment of the industry. A number of manufacturers and distributors went out of business due to increasing competition with Pets.com (Cobb, 1999; Lechtener, 1999; Markham, 1999; Poindexter, 1999; Schlueter, 1999)

Increasing competition from well-funded players hurt DirectPet in a number of ways. Product availability became limited as manufacturers could not produce enough products to meet the demands of DirectPet's online consumers. In addition, many manufacturers did not have the infrastructure needed to ship to multiple locations rather than directly to distributors. Costs were skyrocketing as well-funded players paid more to get their needs

met first before competitors and other companies introduced to new marketplaces, including getting their products first, and being able to compete in the market space as advertisement costs soared. Distributors raised their prices as they suffered financial hardship due to Pets.com's and Petstore.com's penetration pricing policies that led to a flooding of the market and generated brand recognition.¹²

The costs of operation continued to climb. Product prices were raised as distributors and manufacturers raised prices. Hardware, software, development, and hosting costs soared as competition for product dominance and the demand for these products increased. Many marketing options, such as online, print, and radio advertising became unrealistically expensive. Additionally, advertising in the pet industry became difficult because there were now many players with similar names and business plans selling the same products. Name recognition was depreciating. I received mail and product with the wrong company's name on almost a daily basis.

My ideal company was one with a small, core staff that could work remotely and hire contractors and consultants for specific projects as needed. This did not work since we could not control what other companies were doing. Schedules continually slipped due to revolving doors at development houses. Every couple of days a new developer was put on a project, and the learning curve to get the developer up and running was making it nearly impossible to get DirectPet's website completed. Additionally, development

¹² Penetration pricing policy is a sales technique used by in new markets in order to set artificially low prices (often below cost) in order to attract customers and increase sales volume.

houses were getting greedy, as well-funded companies spent large sums of money to get their projects bumped ahead of others in the pipeline.

In order to continue to survive in this environment, I needed to obtain further capital. I again approached friends and relatives who had the skills I needed or who could provide financing. The hiring of friends and relatives returned little-to-no investment value. It also created a change in the dynamics of our friendships, resulting in the loss of several friends. I ran out of friends from whom I could obtain financing, and I returned to the venture capitalists.

I found that many venture capitalists were arrogant; wanted to put their people in place of management; lacked understanding of the marketplace and market space; and were too focused on industry numbers that were not real. Venture capitalists pushed for expanding DirectPet's mission from a niche-oriented company to one that encompassed the entire industry – from pets to livestock – and revamped the entire supply chain infrastructure.

The DirectPet idea became too broadly-focused, which caused more confusion when trying to explain the mission of DirectPet. Our distributors simply did not understand what we were trying to do; there was also a lack of understanding by people outside of the Internet. The attorneys and accountants did not understand the need for speed and the requirements for a company to prepare to go public from the start. These firms were also continuously losing their staff, many of whom left for dot.coms.

My sole source of income at this point was web and infrastructure development for other pet-related companies. DirectPet began only serving as consultants for other

companies. The consideration to close the doors of DirectPet was based on the fact that the debt-to-asset ratio rose so much that the company was not only over-leveraged, but I was personally over-leveraged. Money was being spent to retrain new employees at development houses, law firms, and accounting offices rather than on the completion of the project. Losses were increasing at every stage, and the business was no longer realistic without knowing if the business model could ever truly work. DirectPet did not seem viable any longer.

CHAPTER 3

LESSONS LEARNED

Major Lessons

One of the major contributions to entrepreneurial success involves gaining knowledge that can be used in future endeavors. When I first envisioned DirectPet, my goal was to change the pet industry by creating more efficient mechanisms of distribution between market players. DirectPet began to make a change in how some distributors and manufacturers worked with one another by using technology to reduce personnel costs and increase the speed of transactions. Unfortunately, DirectPet was unable to achieve this goal due to the issues outlined in this paper. I do not consider DirectPet to be a total failure however, because I learned five valuable lessons from my experience with this dot.com startup.

Information Gathering

The first lesson that I learned was the importance of information gathering. Businesses gather information to evaluate an idea's potential success – including an understanding of the current marketplace, factors of entrance, and competition – and ultimately to establish whether or not an idea is viable. The vision for DirectPet was meticulously studied from several perspectives. These included the needs of the consumer, the most appropriate technology to deliver the idea to the consumer, the makeup of the competitive landscape in the industry, and the financial requirements needed to predict a successful venture.

Since DirectPet entered the market during the Internet's infancy, there was little information available regarding the viability of selling pet-related products and services through that medium. Information was gathered from "expert" sources that were available at the time. Trade associations such as the Pet Industry Joint Advisory Council (PIJAC), the Pet Industry Association (PIA), the Pet Industry Distributors Association (PIDA), and the World Wide Pet Supply Association (WWPSA) provided yearly industry assessments and projected growth. Trade publications such as *Pet Product News*, *Pet Food Industry Magazine*, *DVM News*, and *Pet International Magazine* provided information on leading distributors and manufacturers, major insiders, trends, projected growth, and regional variations. The federal government also provided information on regulations affecting the importing and exporting of pet-related products. I attended trade shows where I met with long-time industry insiders in hope of gaining insights on the readiness of the pet industry to adopt the web.

The information that I gathered provided a path for developing DirectPet. With this information it became easy to figure out which companies DirectPet should partner with and which ones it should avoid. The trade magazines and trade associations also provided information regarding the players who were forward thinkers about using modern methods of business communication, including the potential use of the Internet and who had been part of the industry for years. Without being directed to these manufacturers and distributors by the trade magazines and trade associations, finding the best potential partners would have been hit or miss.

Reviewing industry literature projected growth figures that I felt were unrealistic; however, new Internet companies (such as Pets.com and Petstore.com), as well as traditional brick and mortar stores (such as Petco and Petsmart), were using these numbers to predict their future growth when forging relationships with venture capitalists. DirectPet remained the only player that did not use the numbers the industry was floating around. This created a harder “sell” when trying to advertise in trade magazines and at trade association conferences.

In retrospect, I spent too much time on exhaustive information gathering. I should have stopped when I knew enough to decide whether the DirectPet idea was worth pursuing. In future endeavors I will stop information gathering when the information begins to repeat itself.

Focused Flexibility

The second lesson that I learned was the importance of organizational flexibility. Organizations that are able to integrate adaptability into their organizational plan are better able to handle problems that arise and to change as the market place changes.

DirectPet was designed to be naturally flexible. The infrastructure topology was mirrored and built with redundant features to handle high levels of traffic or problems with the Internet’s hardware.¹³ The DirectPet servers were located in three parts of the country: San Jose, California; Portland, Oregon; and St. Louis, Missouri. There was also

¹³ Infrastructure topology refers to the framework and design of an integrated computer system including: computers, networking components, software, databases and the interactive interfaces and maintenance of those systems.

a small, shared server in England that had a basic website in case the entire US Internet backbone went down. All three US locations connected to different portions of the Internet backbone.

The database and website design of DirectPet were created to be flexible enough to add, remove, and modify features as the needs of the marketplace changed. The website pages were sectionalized to allow individual sections to be moved to many locations within the website.

One advantage of having a redundant infrastructure was that it allowed DirectPet to be up and running 100% of the time, unless the entire Internet went down. On November 7, 1998, Mae East went down for approximately 6 hours. During this time DirectPet remained connected to the Internet through the servers located in Portland and San Jose. It took weeks for the Internet to return to normal, but DirectPet never went down. Additionally, having exact duplicates of the system at three different locations enabled one location to try a new piece of hardware or software without putting the other servers at risk. If the new technology worked, the hardware or software would then be installed at the other locations.

With its flexible database and website design DirectPet was able to add new features quickly and easily, based on recommendations made by DirectPet's advisors as the marketplace changed. DirectPet was being prepared to be the one-stop shop for everything related to animals.

There is a cost that comes with focused flexibility. Maintaining redundant networks required training the administrators from three different companies to follow exact logic

processes and to document all modifications and additions that were shared by all three server locations. The financial cost of having three servers in three locations was more than triple the cost of running a single server, but a redundant network provided an insurance policy in case there was a failure.

Future ventures that I undertake will be simpler. I plan on offering a product or service that will spark consumer interest and create a cash flow, and then expand the features as it becomes financially feasible. Internet hardware and software have become cheaper, so shared servers and open source (Perens, 1997) solutions will be the basis of any future endeavor. This would enable me to gauge what the market is looking for, rather than predicting what the market wants or might want in the future. I will also have a proof of concept to show that what we are doing works before we choose to partner with additional companies, helping to avoid unnecessary conflicts. In addition, less cash will be spent upfront. Finally, by growing the company in stages, new competitors will not be able to use our work to bypass us in the market.

Relationships/Networking

The third lesson that I learned was the necessity of networking and building business relationships. Networking refers to partnering with companies, attending industry events, and even working with competitors to better the marketplace (Hertzbach, 2003). Networking and forging relationships requires structure in order to ensure that the relationships formed are built on trust and confidence.

The leader of a company defines a vision and then motivates others to transmit that vision inside and outside of a company. DirectPet's vision was to change the way

manufacturers, distributors, and consumers connect by using Internet technology. The core team of DirectPet (the senior staff) agreed with the vision. This team was comprised of people who I trusted and knew well, and their beliefs and business philosophies mirrored mine. Some of the problems that DirectPet encountered may seem obvious to outsiders because they were removed by degrees of separation and do not know or understand the full scope of what was occurring. My team and I built relationships with experts who were in the pet industry longer than us and had more knowledge of the industry.

During the beginning stages of DirectPet I attended trade shows and spoke with industry leaders to acquire an understanding of the technical capabilities of pet manufacturers and distributors, as well as to identify where and with whom DirectPet could begin to work. By working with industry veterans and being visible at trade shows and conferences, the name “DirectPet” began to have meaning and a level of authenticity. As DirectPet began to shape relationships and gain visibility, partnerships were formed through references. DirectPet continued to increase its role within the pet-industry community by attending trade shows and conferences, and by companies learning that DirectPet was created by hi-tech veterans. With DirectPet’s increased visibility in the pet-industry came the ability to form partnerships, as companies came to DirectPet for assistance and to learn about what the web could offer them.

DirectPet was able to quickly gain a dominant position in the market by structuring close partnerships with distributors and manufacturers, thereby disabling other potential competitors from entering the arena. The value of building and forming these business

and personal relationships was that they enabled reciprocity: DirectPet was the expert on technical innovation; while the distributors and manufacturers provided guidance on what products to sell, whom else to partner with, and what DirectPet's competitors were doing.

Networking and relationship building also had a downside. There is a level of reciprocity involved in information gathering, and at times an unequal distribution of information can occur, creating turmoil with business partners. Furthermore, recognition as an expert means that more time may be spent providing information rather than gathering information at trade shows and conferences.

Leadership

The fourth lesson that I learned was the importance of leadership. Leadership requires an understanding of what is idealized and what is obtainable. Successful leaders help provide a clear vision and direction for the company. There are five tools that leaders use to ascertain organizational direction and maintain a clear path to achieve a vision. These five tools are planning, organizing, influencing, leading, and controlling. Leaders build mechanisms for trust, feedback, and goodwill, which help to keep employees and partners interested.

DirectPet's business to business goal was to be a leader in integrating a modernized technical infrastructure that removed proprietary systems and improved work flow between manufacturers, distributors, and stores. DirectPet partnered with 179 distributors and manufacturers across the USA and Canada. To create the integrated web-enabled system that could provide continuous and instantaneous feedback, all partners had to integrate their infrastructure with DirectPet's infrastructure. By partnering with so many

pet-related companies, DirectPet created a large-scale change in how distributors, manufacturers, and stores in the pet industry worked with one another.

Since DirectPet was launched early in the Internet wars, DirectPet was not part of the problems that occurred later during the dot.com boom and bust. DirectPet's goal was to reduce the number of proprietary infrastructure topologies that caused communication problems between pet industry players, such as problems of database connectivity and repetitive tasks, by providing a solution through use of the Internet.

DirectPet signed exclusive partnership agreements with 179 companies in order to prevent other competitors from entering the marketplace. Fourteen of the partners had solid technical staffs and a modern computer network that allowed for easy connection to DirectPet's servers.

By partnering with well-known and respected companies, DirectPet was more easily accepted by other manufacturers and distributors as experts in the Internet. Owners and senior staff of other companies requested to meet us at trade shows and conventions. As such, they were more willing to cooperate and partner with DirectPet than they were to partner with other competitors such as Pets.com and PetStore.com.

The majority of the pet industry was behind the times in terms of technology. It took tremendous amounts of time to explain to DirectPet's partners how the integration would take place, as we had to hold the hands of a number of companies during the integration process. Planning is only effective if it is natural and flowing. By working with so many partners, the industry leadership that DirectPet sought was tarnished because it could not

achieve its objectives due to the poor infrastructure and lack of technical teams at those companies.

Plans should be formed knowing that others are going to follow their own beliefs. Divergence will occur and a leader needs to understand that, even if all involved accept a plan, there may be differing view points. If everyone involved can come to a working agreement, then the project can proceed; but if the viewpoints are too disparate, the project cannot continue.

Future endeavors with projects or services that attempt to initiate change will include more phases, making the project more modular. A project will be broken into tasks that are complete functioning entities and, once complete, can be put aside to work on the next phase of a project. By completing a phase, a smaller scale of success can be achieved and parlayed into a larger project that is functioning and attainable.

Self Care

The final lesson that I learned in starting and trying to keep DirectPet operating was the importance of self care. There is a perception that entrepreneurs take big risks to reap huge rewards – that in essence, they are gamblers. In fact, entrepreneurs are not gambling so much as weighing risk. Ideas are weighed through a process of educated questions and subsequent answers. An entrepreneur must have total and unwavering commitment to the success of a venture. The commitment to an entrepreneurial venture usually includes long hours and the exclusion of other facets of life, including family and friends. One of the major lessons that I learned as an entrepreneur is that business goals are tightly linked to setting personal limits and taking care of oneself. Starting a business that is contrary to

one's lifestyle will not work. I have many interests that I was unable to partake in for three years – including photography, traveling, and hiking in remote areas. These three activities were my main form of relaxation, but I could not enjoy them because I was bound by the need to be connected through my cell phone, pager, and laptop.

DirectPet was set up to be a business without an office. The goal was for DirectPet to be a virtual company where employees and subcontractors could communicate from anywhere in the world through cell phones, email, instant messenger, wireless-enabled palm pilots, and on-line group chats. Partnered distributors and manufacturers were located in almost every US state. Hours of operation had to become round the clock for people to communicate effectively.

The notion of always being available creates capabilities that enable businesses to develop and produce around the clock, with smaller teams. This saves on the cost of hiring and training numerous people to complete tasks, plus it shortens timelines. Unfortunately, working 20-hour days, seven days a week, and being available by phone 24 hours a day, created psychological and physical stresses that could have been easily avoided. I was not able to relax, nor did I have time to assess whether or not DirectPet was moving in a good direction. DirectPet became reactionary rather than action oriented. Time was spent dealing with problems and looking for solutions rather than moving forward.

If I had turned off my cell phone and did not check email, others would have taken more responsibility and implemented solutions on their own. By reducing hours of operation, we would have created a less stressful lifestyle and helped us to be ready for

the next problem to occur. The situational reality of DirectPet was constant distraction with constant interruptions. Scheduled projects took longer than planned because of these interruptions. Hours of operation or scheduling staff to work specific hours would have created times when different tasks could take place, such as having a two to three hour window one a day a week where problems could be solved. Future endeavors will probably still be virtual, without a clear physical public space assigned to the company. However, rather than facilitating constant flux, the company will be structured so that more intensive and longer shifts will occur only when absolutely needed. Personal time limits will be stated up front and will become company policy. Setting daily goals and personal limits will enable me to make better choices and remain focused. Integrating forms of stress management such as physical exercise, sleep, and proper nutrition will help keep my mind and body sharp, allowing me to function as a leader, as well as a human being.

Conclusion

For over four years I spent nearly every waken moment of my life addressing issues related to the launching and operating of DirectPet. In order to do this I sacrificed many things that I enjoyed doing, and lost friends due to business conflicts. And although DirectPet cannot be looked at as a success because it is no longer in operation, I acquired many valuable business skills and learned many valuable lessons about business, people, and myself in my experience with DirectPet. So while DirectPet did not have the success that I had hoped it would, I believe that the lessons I learned from DirectPet will prove to be invaluable when I build my next company, and as I continue on with my life.

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