

ZIFF DAVIS

# SMART BUSINESS

FOR THE NEW ECONOMY™

## Instant E-Business

From old economy to new economy in 2 to 8 weeks. p. 130

## Easy Office Intranets

Tests of the top intranet services—plus how to build your own. p. 144

## Dot-Com Factory

Lessons from the most successful Internet incubator. p. 120

DECEMBER 2000 | ZIFF DAVIS MEDIA | [www.smartbusinessmag.com](http://www.smartbusinessmag.com)

# SECRETS OF THE TOP E-COMMERCE COMPANIES

**OUR LABS TEST 20 TOP HOLIDAY RETAILERS  
HEAD-TO-HEAD TO FIND OUT WHAT WORKS  
(AND WHAT DOESN'T) ON THE NET.**

DISPLAY UNTIL DECEMBER 18



\$4.99 / CAN. \$6.99 / U.K. £2.95

FORMERLY **PCComputing**

## 130 Instant E-Business

Can you really trust another company to handle your e-commerce strategy? Nabisco did. So did Vertical Networks—faster and for a fraction of the cost of doing it in-house. Plus: Take your company from old economy to new economy in as little as two weeks. A guide to the top commerce service providers. **BY MARTY JEROME**



## RADAR

### 42 / Privacy Rides Again

Will Uncle Sam step in to clean up the Net?

### 44 / Kick-Start Your Startup

All you need is a little help from some friends.

### 48 / Traffic Patterns

Enterprising businesses exploit the typo for profit.

### 52 / Say Again?

I can't hear you over the roar of my PC.

### 59 / Trash Talk

One man's junk is SalvageSale.com's business.

### 62 / Fooled for Love

Entrepreneur makes Net flirting a lucrative sideline.

### 64 / Small But Loud

B2B independents protest e-marketplace monopolies.

### 66 / Cons for Hire

Crime may not pay. But outsourcing to inmates is saving companies a bundle.

### 68 / Carnivore Bites

How one ISP got around the FBI's surveillance system.

### 74 / Sign Here

Digital signatures: new Net gold rush or security nightmare?

### 80 / Business Plan 2.0

How one dot-com tore up its business plan and started over.

### 90 / Charge It

Disposable credit card numbers promise to end online fraud forever.

### 92 / Scope

Lunch special of the future: superfoods customized for your DNA.

## OPINION

### 35 / Letters

### 46 / Risk Factors

Will they Yahoo?

By Jeffrey Rothfeder

### 54 / Net Currency

You may have already won millions! Click here

By Wendy Taylor & Marty Jerome

### 76 / Inside the Dot

The most valuable person in high tech.

By Dan Webster

### 88 / And Another Thing ...

Death by robot.

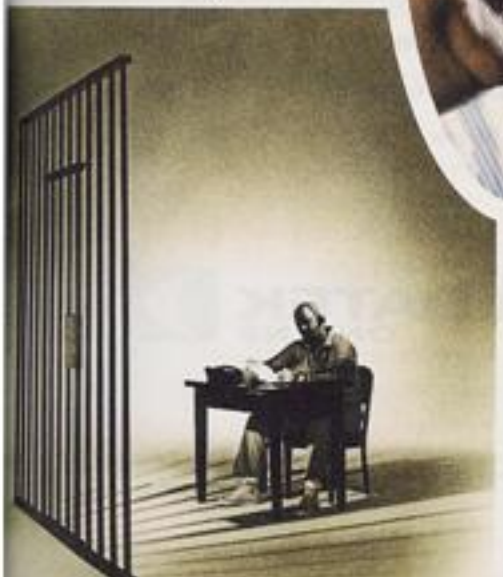
By Paul Somerson

## RESOURCES

24 / Company and People Index

176 / Marketplace

194 / Ad Index



ZIFF DAVIS

# SMART BUSINESS

FOR THE NEW ECONOMY™

DECEMBER 2000  ZIFF DAVIS MEDIA

From old economy to new economy in as little as two weeks. How today's smartest companies are doing it—and how you can too.

# Instant E-BUSINESS

Never underestimate the power of an Oreo.

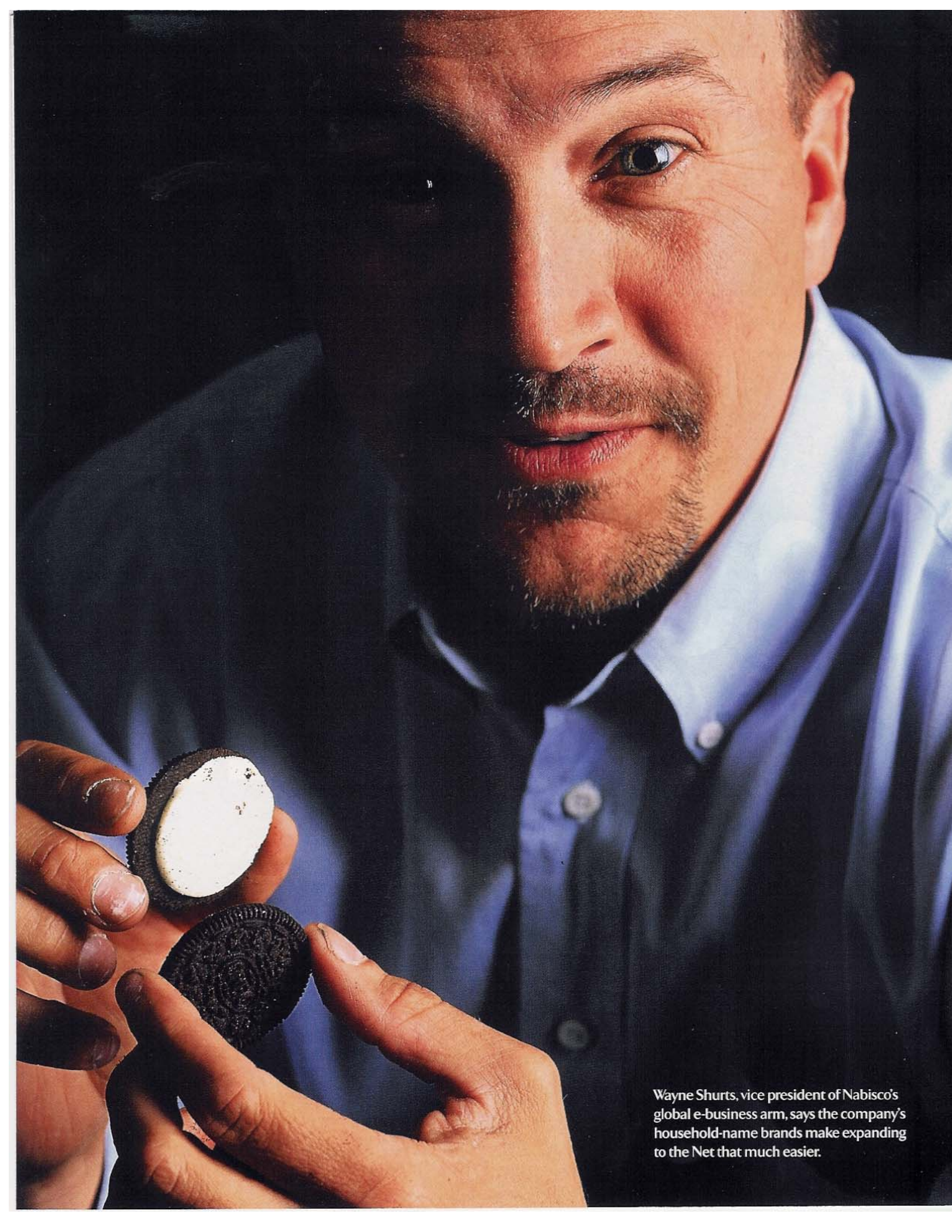
"Faces light up," exults Norma Larkin, vice president of e-marketing for Nabisco. The wattage in her own smile spikes as she explains what is unquestionably one of the most successful branding stories in the history of consumer packaged goods.

But branding wasn't enough to carry Nabisco into the new economy. Nor were the company's processing plants and distributors, its sales channel and formidable deep pockets.

No surprises there. After all, food packagers are little more than an evolutionary link between the medieval grain mill and the Wendy's drive-through. They're not old economy so much as *old* old economy: factories, delivery trucks, and retail distributors. This is one reason Nabisco turned to outside professionals for help with its e-commerce efforts.

The journey was no simpler for Vertical Networks, a venture born and bred in the

**By Marty Jerome**



Wayne Shurts, vice president of Nabisco's global e-business arm, says the company's household-name brands make expanding to the Net that much easier.

fevered throes of the new economy. Vertical's key product—integrated communications platforms—is the very tool that enables hundreds of enterprises to put the Web to work.

John C. Zimmerman, Vertical's vice president of finance and operations, doesn't mince words: "R&D is our core competency." Yet despite the company's enormous technical resources, experience, and know-how, Zimmerman hired out when it came time to develop a Web business.

Why would a company like Nabisco, with near-bottomless financial resources and a palace-guard approach to its brands and channel, trust outsiders with its Web business? Even more intriguingly, why would a technology-driven company like Vertical Networks, whose stated goal is to integrate the Internet into 100 percent of its business, turn to a canned technology over which the company has no ownership or control?

A new breed of one-stop e-commerce service providers offer the answers: speed to market and phenomenal cost savings. Bricks-and-mortar enterprises can find themselves open for business on the Web in as little as two weeks, though typical projects span six to 12 weeks. Costs vary widely depending on the scope of the project. Most service providers charge a setup fee, often in the neighborhood of \$50,000, then a monthly maintenance fee. Other providers take a cut of transactions. (For more details, see "How to Choose a Provider," page 6.)

Companies can save 70 percent to 80 percent of the price of an in-house commerce solution. And the savings in aspirin can make it even more worth your while.

### SMART COOKIES

Wayne Shurts looks far too youthful to be a 19-year veteran with Nabisco. But the vice president of the company's e-business unit quickly points out that he was hired right out of college. In fact, almost everyone in Nabisco's one-year-old global e-business arm counts tenure with the company in decades, not months.

This isn't your only tip-off that the Parsippany and East Hanover, New Jersey-based company is an old-economy enterprise. Is bricks-and-mortar a drawback? Hardly. Shurts explains: "If [Nabisco] wasn't bricks-and-mortar, my job would be

a lot harder." As things stand, "I don't have to create a new name."

In fact, the company's branding is the envy of the industry. Nabisco counts in its product stable LifeSavers candies, Planters nuts, Grey Poupon mustard, Ritz Crackers, Barnum's Animals Crackers, Chips Ahoy cookies, and, of course, Oreos. Generations have grown up on the packager's snacks. It is this branding that "puts us in play on the Internet," Shurts says. "And there's tons of learning to do."

He's right. While hundreds of companies hope to use the Web to build brand recognition, Nabisco faces the enviable challenge of translating its already formidable brands into cash. Sharon Fordham, president of Nabisco's global e-business unit, all but sighs in relief at this advantage.

"In areas like e-commerce and e-productivity, the financial returns are quite clear," she explains. "However, in areas like Web site communications, e-CRM [customer relationship management], and online media, there is not a direct link between

never will be able to. For all the care and nurturing of its brands, the company is even more protective of its extensive retail distribution channel. Nabisco retailers who suddenly found themselves competing with the food giant for sales on the Web would not stand for it. Shurts is quick to point out that packaged goods is a cutthroat business. Big retailers everywhere, including heavy hitter Home Depot, have put the screws to suppliers who try to sell anything on the Web.

So what's a food packager to do if it can't sell product directly to customers? Fordham and Shurts immediately focused on its gift division. The catalog business the company had been running since 1995 sold baskets and boxes filled with Nabisco goodies, uniquely packaged and unavailable in retail outlets.

From the start, the food packager decided to outsource the fulfillment part of the business. And in 1998 it sent the catalog front end out-of-house as well. Long before the term was coined, Nabisco's gift operation was on its way to becoming a new-economy business.



## NABISCO FACES THE CHALLENGE OF TURNING ITS BRANDS INTO CASH ON THE WEB.

online exposure and a purchase at retail. Until the industry develops a test for this, arguments for greater investment spending will always be difficult."

Fordham should know. Nabisco's Candystand.com and NabiscoWorld Web sites were early players on the Web. Together they attract more than 3 million visitors a month. What's more, surfers hang around these sites for more than an hour at a time, thanks to the free games and other content they find.

Legions of Internet startups would view the volume and stickiness of Nabisco's Web traffic as a magic elixir for profitability. After all, as late as 1999 the conventional wisdom in Silicon Valley was that if you attract eyeballs, profits will follow. At the time Nabisco's sites were already well established. But they weren't designed to turn a profit.

You can't order a box of Oreos through any of Nabisco's Web sites. And chances are, you

Nabisco had been taking in a modest \$5 million a year in revenues from its gifts franchise. But printing and postage costs were enormous given the relatively small sales volume Nabisco's gift operation fetched.

The catalog operation had other problems too—especially where customer service was concerned. Botched orders and delayed shipments were an entirely new experience to a company that spent 88 years cultivating the Oreo cookie as an American icon.

"I wouldn't characterize anything we did as a mistake," Fordham says in her unit's defense, but "we did a lot of learning . . . which we believe will lead us to success this time around."

Fordham's specialty lies in picking up the pieces after managerial missteps. As senior vice president of marketing for Nabisco Biscuit Co., she was credited with defending the company's market share during the cookie wars of the late 1980s and later with the turn-

around of Nabisco's more than \$2 billion cracker business. She became president of LifeSavers Co. at a time when sales were slumping and helped steer the candy back into the market's sweet spot.

Fordham ordered a reevaluation of the gift business, asking Shurts to find a new fulfillment house. And in early 2000, they decided to move the entire business to the Net under the name of NabiscoGifts.com.

Timing was critical. "We really wanted to get some experience during this year's holiday season when gift-giving is at its peak," Fordham says.

Tom Garvin, director of e-business, began work with Shurts to develop the site using internal IT resources—which were certainly plush. After all, Nabisco is an \$8.3 billion-a-year enterprise. "We got about halfway down the road planning to build it internally," Garvin says. But it soon became apparent that the creaky wheels of corporate IT wouldn't get the site launched by this year's target holiday season.

Garvin is quick to defend those creaky wheels. IT shops, after all, are generalists. Security, bandwidth, scalability, redundancy of servers, shopping cart front ends—all the pieces of e-commerce would have to be bought or invented in-house. The costs and time involved were staggering, so Garvin recommended the group go out-of-house. After all, dozens of service providers had already

meant that NabiscoGifts could be open for business in time for the holidays. Digital River's fraud-protection technologies were vastly superior to what Nabisco could cobble together quickly. Digital River's server farms—stocked with redundant Sun computers—promised the reliability, scalability, and bandwidth Nabisco wanted in place from the get-go.

## "OUR BUSINESS STRATEGY? DON'T SPEND A PENNY ON E-COMMERCE. OUTSOURCE IT TO US."

worked out these details and could deliver solutions faster and cheaper.

The company began evaluating the major players in April. It looked at more than a dozen service providers before narrowing the field to four possibilities. In July the company settled on Digital River, the service provider behind sites for 3M, Fujitsu, Siemens, and thousands of others. The reasons? The company's storefront templates

Fordham was sold. "The major driver for me," she explains "was their front-end expertise—the large amount of e-commerce experience they had, their ability to link seamlessly with our fulfillment partner, and their ability to partner with us in developing online marketing programs."

So what about costs and time to market? Setup cost less than \$250,000, and monthly fees will run less than \$10,000. If Nabisco decides to make major enhancements to the site, it will pay extra. But chances are Digital River will have worked on similar projects for one of its other clients and can spread out the costs. Nabisco also plans to tap Digital River for online marketing campaigns—another area where its expertise is greater than Nabisco's.

"From a cost perspective, it's difficult to compare an in-house alternative," Fordham hedges. "The way we thought about it was that Digital River was giving us a much more capable, attractive e-commerce site for similar dollars."

Perry Steiner, president of Digital River, estimates that most companies will spend \$50,000 to \$250,000 up front and \$10,000 to \$40,000 per month for hosting when they go out of house for their e-commerce solution. That price of admission buys you 24/7 management of your site. "Our business strategy?" says Steiner with a laugh. "Don't spend a penny on e-commerce. Outsource it all to us."

By September the NabiscoGifts site was up and running in a controlled test: ordering and shipping gifts across the country. The site was on target to open for business in November—in time for the holidays. "Our goal for the first year," Shurts says, "is for every customer who orders

### How It Works: NabiscoGifts.com

Nabisco's gift franchise won't ever pull the kinds of revenues its Oreo and Fig Newton factories do. So senior management was understandably reluctant to commit large resources to the company's Web venture. Solution: outsourcing. This approach keeps a lid on costs, lets Nabisco maintain control over quality, and uses the company's extensive network of distributors to market the products.

- 1. Compare Costs** Nabisco did a cost analysis and realized it would be more cost effective—and much quicker—for the company to farm out the commerce front-end than to build an in-house solution. The company turned to Digital River, which provides proven security, better bandwidth and redundancy, and the kind of customer and sales analysis that would have taken Nabisco years to develop in-house.
- 2. Integrate Partners** When a customer selects a gift basket from NabiscoGifts, Digital River pipes the order directly to the Jay Group, its fulfillment house. The Jay Group provides toll-free customer service, 24/7 operations, and same-day shipment. Nabisco irons out glitches between its partners with a weekly conference call.
- 3. Involve Retailers** Major retailers threaten divorce whenever their suppliers make noises about moving to the Web. Nabisco's solution is to offer its partners a piece of the action. Retailers who want to sell Nabisco's gifts need only include an icon at their sites. Customers who click are whisked to the Nabisco site at Digital River. Retailers get a transaction fee but incur no costs.



from us to be thrilled.”

Fordham is less categorical about their expectations for profits. “Our experience is still limited,” she says. But based on the e-business initiatives of others, she expects the site to “pay back very quickly, generally within the year.”

Nabisco’s bricks-and-mortar distribution channel could throw a wrench in the works if it senses a competitive threat from the site. Shurts explains that for now, the company is walking gingerly around the problem by selling Internet-only products from NabiscoGifts. Eventually, gift recipients could find in their cookie baskets coupons for . . . bricks-and-mortar retailers.

Nabisco plans to encourage its distributors to sell Nabisco gift baskets from their own Web pages. When customers click on a wheelbarrow of Oreos at Walmart.com, say, they could be whisked transparently to the Nabisco site on Digital River’s server. Wal-Mart would take its cut for the referral. Alternatively, Nabisco could include a gift-finder utility on its home page that would point customers to retail distributors like Wal-Mart. The possible synergies are endless.

And what if Nabisco’s distributors beat the company at its own game by selling more Nabisco gifts than NabiscoGifts? “That would be fine,” Shurts replies. “No problem,” he says, all smiles.

### **PARTNERING THE WAY TO THE WEB**

It’s not much of a stretch to describe Vertical Networks as a new-economy company that builds new-economy companies. So why can’t you buy its products off the Web?

“When will demand be sufficient to justify the return on investment?” asks John C. Zimmerman, Vertical’s vice president of fi-

nance and operations, volleying the question right back. He’s not referring just to financial ROI. He includes strategic ROI—time and resources. “We have to ask if there’s any business reason to sell this product on the Web.”

The answer is yes, although it’s not quite as simple as selling one-off items like books and CDs online. The product in question is Vertical’s InstantOffice, an integrated communications platform that single-handedly manages ICP, PBX, voice mail, LAN and WAN routing, and all the other communications that keep small businesses humming. The Internet is a huge part of the buying process, but value-added resellers or Vertical’s direct sales force still make the initial sales calls.

At first blush, this approach seems ironic. Vertical Networks is a quintessential new-economy company, built on an elaborate web of strategic partnerships: NCR manages installation and support at the front end. Flextronics International handles manufacturing and distribution. Marketing is run by AT&T, Bell Canada, Telecom Italia, and ITT (Japan), among other companies. Vertical even outsourced the company’s own IT shop—to Corio.

Corio will also provide Vertical’s e-commerce solution. You can chalk it up partly to lucky timing. “In 1998 not too many companies offered IT support,” Zimmerman says. The ASP was one of the first to recognize that it had to do more than rent applications to its customers. “Corio integrated applications across our entire value chain—from our suppliers to our customers.”

This certainly put Corio in a good position to offer Vertical Networks an e-commerce solution. But costs and quality cinched the

deal. “To acquire an e-commerce system ourselves would have cost between \$1 million and \$2 million,” Zimmerman says. “Implementation would have run between \$500,000 and \$1 million. And ongoing support would add another \$100,000 to \$500,000 a year.” The Sunnyvale, California, company estimates that by going out-of-house, it saved some 60 percent to 70 percent of that total bill.

With Corio, “we spend less than \$50,000 a month,” Zimmerman says. “And that includes all of our IT.”

Those are very round numbers, of course. “A company our size couldn’t afford and wouldn’t have access to a best-of-breed e-commerce solution,” he says. As senior management saw it, an off-the-shelf suite of applications provided a smarter path to the Web.

It’s also a faster path. At the heart of Vertical’s decision to partner with Corio, Zimmerman explains, “We had to ask how fast can they move and what level of support can they offer.”

To that end, it is pursuing a three-tiered strategy, modeled—unashamedly—on Dell Computer. “We want the Web to provide a better understanding of our product,” Zimmerman says. “Then it should allow customers to configure and buy it. And finally, it should offer better service and support.”

How much of the company’s sales will ultimately truck through cyberspace? “Our goal is 100 percent,” Zimmerman says, though he waves away the invitation to make forecasts. “It’s a gut feel. Small companies don’t have the detailed analysis of revenues for the Web that big corporations have.”

Specific predictions aside, Vertical expects to grab a sizable share of the estimated \$5 billion industry. ■