

# STRATEGIES FOR THE DIGITAL ENTREPREUNERSHIP

## *How to survive in the actual dotcom reallity*

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Abstract: This article approaches the importance of business plans development for Information technology companies, wrapped up into an extremely fast and dynamic reality of the globalized world transformations. A recent approach was given about the mistakes made mainly by the companies based on the Internet, well known as dotcoms, before the crash of NASDAQ in 2000. It was searched to trace a parallel among the mistakes made by these companies thanks to inefficiency of its business plans, also identifying their flaws, suggesting a reflection for entrepreneurs and futures managers, who see in the Business Plan development a way to enlarge its business and attract investors, as weel through electronic means as for conventional means.

## 1 INTRODUCTION

Nowadays exists an avid market for new solutions involving the most different processes through electronic roads integration. A great search of new solutions for a range of customers more and more thirsty for technology. It's exactly what DeMasi (2002) describes as a society more and more dependent of technological attributes, that allow to have more time to do what really matters individually for each one. And the Internet has been showing like the great star of this technological wave that appeared on these last years. How to ignore, according to E-Consulting Group, a mass media that grows faster and faster which will have till the end of the 2003 year more than 500 million users, and more than 1,8 trillion dollars traded? It reveals the whole potential of this market, that is still far away from reaching its maturity, showing that there is a wide space to grow.

The Internet is truly a world full of opportunities, and many countries, as well as Brazil, are countries with a high level of entrepreneurship. But it is worth

to stand out the Brazilian example in this case, where about 90% of the new companies don't last more than 5 years in agreement with Salim et al (2001). According to the author, in United States, in agreement with a Gartner Group study, only in the Internet field, new companies have the probability of 75% to crash.

By this time, another reflection about the reason that took most of the dotcom enterprises crashes all over the world is necessary. The reality is that the Internet is not, by itself, a magic world, where everything is possible. It is nothing else than a mass media, as well as the telephone and the television. Perhaps its power had been lightly overestimated because of the frenzy that its fast ascension woke up in the market, after all, according to Vieira (2003), while the telephone needed 80 years to range more than 50 million users and the TV took 40, for the Internet five years was enough to reach this number.

## 2 UNDERSTANDING THE START-UPS REALITY

Start-ups can be understood as rising companies based in new projects, generally formed by entrepreneurs that identify a great opportunity in a very specific market, and starting from this opportunity, they decide to create a new company. Salim et al (2001) confirms this statement when define that a start-up company can be understood as a vision of a group of entrepreneurs, which joined to develop a new project. In this cases, doesn't exist infrastructure, customers' wallet, list of products and services for example. Everything should start literally from the beginning, and the main tool to turn possible the accomplishment of this project is, without a doubt, its Business Plan, where they should put the main guidelines and goals of the new company, turning possible place the project in practice.

The entrepreneurs should clearly define the business objective, and whenever is possible, they should also try to link their personal objectives to the business goals. According to Bhide (2002), to create a successfully enterprising strategy is extremely necessary making entrepreneurs involved make this reflection. After all, do not exist a correct or incorrect approach of business, there is not a ready recipe for it. It is essential for the entrepreneur get identified with the company business model. Its personal longing can be placed from the will of setting up a Start-up to sell it later with a good profit, until creating a solid model of business capable to be noticed in the market for many years. After all, they should clearly know where they want to go, and what they want to do.

If the new business is based in a new product, market or process, it will need to be better explained than if it was already based on products, markets or processes already established. Inside of the IT companies reality, as the Internet for example, its importance is still larger. Kotler (1998) confirms this situation suggesting that business plans are tending more and more to be guided for consumer and competitor markets. This implies in a more realistic analysis, suggesting a discussion in comparison to works that were already accomplished in the past.

In many occasions, too much time is spent in the planning stage, instead of placing the own strategy drifted in practice, losing a precious time. In these cases, the planning tends, sometimes, to being seen as something more important than the own projects. If that happens, alert Kotler (1999), the entrepreneur should not have in mind the mistaken idea that the planning process is something static. He should not overestimate the longevity of its planning, and

should be ready to change their plans at every moment. The company success will also depend of his perception, creativity, the qualifications of the team, and their capability of assuming and manage risks. Bhide (2002) confirms this situation when comment that most of the time, the planning is not a task that should be adapted for most of Stat-ups. These companies, in its majority, don't have enough money to invest in researches and development of new products, in way to analyze an opportunity of business completely. And in a lot of times, when the research have been completely investigated, the opportunity must not exist anymore. The entrepreneur should have in mind that a planning without a posterior action won't work in any effective result.

## 3 INVESTMENT SEARCH

If the question is how to attract investors for the enterprise, is important to give an emphasis to the study of the investment. It should esteem the amount of capital revenue that will be necessary for its execution.

Before the Nasdaq crashes in 2000, a lot of money was given to people who didn't have any technical capacity or profile for its business type. The dotcom entrepreneurs at this time didn't gave attention to the consequences that a great and unnecessary capitalization could bring for their projects. Bhide (2002) calls this event as the *occult costs* of capitalization.

Venture capitalists tend to do not pay attention for investments that don't demand a lot of capital. Most of times is easier to get 5 million than 1 million dollars for an enterprise. In this case 4 million dollars that would not need to be there exists, and can be spent. However this incites the entrepreneur to unnecessarily run risks. In this case, the entrepreneur needs to define its capitalization strategy clearly. For Bhide (2002), he should opt for using the bootstrapping (own financing or of friends and relatives) or for looking for external investment.

## 4 BULDING A BUSINESS PLAN

For Degen (1989), by the moment of the Business Plan development, the entrepreneur should suggest some managerial guidelines on what to do, or not, to obtain the success desired. Independent of the plan type to be developed the entrepreneur should be brief and objective, not use technical jargons, base their sales in the market and not in the production

capability, avoid empty statements, test the possible risks, and sell his image as an entrepreneur.

It's also necessary know that whole investor gives a lot of attention for the financial analysis, wich is based on the sceneries construction. But it won't be enough for the capitalists. However, Sahlman (2002) suggests that before the financial analysis, four key-questions should be answered about the business:

- Who are involved in the project?
- Which is the opportunity?
- Which is the business market reality?
- Which is the risks?

After answered these questions, the entrepreneur tends to be more prepared to develop their Business Plan in a more objective way, being able to be questioned by the investors about his enterprising capacity. For Degen (1989), Business Plans can possess a different structure, depending not only of the enterprise type in subject, but essentially of its objective. And this may be reached faster if the entrepreneur could easily answer these questions.

## 5 OPPORTUNITIES OF THE DIGITAL WORLD

The Internet generated a series of deep modifications in the society ways of interaction. However it is noticed that the processes didn't change, only the used means are just different, and accomplished through routines based on the Information technology, generating an enormous economy of time and money. Drucker (2003) checks this placement when affirming that the becoming of the electronic trade and the Internet it is for the Information revolution, as well as the rail way and the vapour machines were for the industrial revolution. In the same way is believed that the economic phenomenon is not necessarily in the activity as itself, but in the modifications that it causes in the whole society.

Several companies already surrendered in front of the great amount of solutions based on electronic trade. New examples of administration of managerial processes through electronic seams to appear every day, and the cases of success are constantly growing. A good example can be seen recently through the joint venture created by GM, Ford, Daimler-Chrysler, Renault and Nissan. These assemblers decided to join in an web portal to integrate all its process of purchase of several inputs, and saving by this a lot of money. General Motors,

Ford and Daimler Chrysler, for example, were responsible of 81% of the trades on the site. Together, with Renault and Nissan, they intend to buy in 2005 more than US\$ 240 billion in tires, screws and uniforms in the whole world, everything through the Internet. It's, at least, a nice number, if you compare with 2002 year, when the amount didn't pass through US\$ 45 billion.

## 6 CONCLUSIONS

Entrepreneurs should know that to manage success in the Internet or out of that, doesn't exists magic formulas. The secret lies in a responsible management, mainly when refers to the creative capacity along the time, building a self maintainable model of business. It is necessary to pay attention and carefully seen that not everything in the virtual world tends to be different when compared to the traditional ways. This problem solution should be based on the engagement of the involved business entrepreneurs. Even in the clear definition of the company focus, its business model, who will wrap up, and the opportunities and menaces analysis for example. As well as through any other media, doing business through Internet is already something viable and extremely lucrative, nevertheless enterprises without a minimum of planning will be not capable to survive in any place.

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