Globe and Mail
June 24, 1999

99

Keep cool when assessing hot Internet ventures



E-BIZ

JIM CARROLL

Many entrepreneurs are exploring ways to become involved in some type of Internet or electronic commerce venture.

Their sudden rush is fuelled, to a large degree, by the relentless hype that surrounds Internet stocks. Some small-business operators, afraid of being left behind, are scrambling to ensure they're in on the action.

Yes, the Internet and E-commerce are hot — hotter than the Sahara. And there are opportunities for entrepreneurs to become a part of the emerging wired economy.

But extreme caution is warranted. In this business environment, it's quite easy for an otherwise intelligent entrepreneur to make some pretty dumb decisions. Remember: Don't base your activities on blind faith. Think of the Internet craze as a bandwagon the investment community wants to jump on — and the wheels may not be on solid ground.

A few years ago, many gold analysts were telling us great things about the investment phenomenon known as Bre-X Minerals. They were saying that when it came to assessing gold stocks, investors had to throw out all of the old methods and come up with a new scheme to value what a play was worth. All too many bought into that thinking.

Today, high-technology analysts are telling us that when it comes to assessing the value of Internet and E-commerce companies, investors need to throw out all of the old methods and assumptions, and come up with a new valuation scheme.

Be careful not to get caught up in the spin coming from the Street about the Internet and E-commerce. Recognize the situation for what it is — an opportunity for the investment community to earn big commissions on hot properties. Instant technology "experts" abound — and that many of them probably couldn't have told you the difference between a server and a waiter a few years ago.

If you're considering getting involved with some type of Internet or E-commerce situation or company, use your head. Stick to fundamentals, and don't get caught up in the hype. Evaluate the opportunity to determine whether it has potential. Get qualified external expertise if you need it.

Adding the Internet to the mix doesn't mean abandoning sound business judgment. Assess the venture on its merits and nothing else. Here are some questions you should ask:

- Does the business plan make sense, assuming the company has one?
- Is the opportunity real, or is it simply a hope?
- What is the basis for revenue?
- Does the product or service have a competitive advantage, or could the field become crowded tomorrow?
- Are others already actively involved in the market that the company hopes to pursue?
- What risks exist that could quickly obliterate or alter the strategy?
- What external threats may affect the likelihood of success?

There are many other questions to ask, ones that are based on logic and rigorous analysis. Don't get caught up in a dream world and throw common sense out the door — otherwise, you are guaranteeing yourself a fall when this latest craze has run its course.

Jim Carroll is co-author of Small Business Online — A Strategic Guide for Canadian Entrepreneurs, *and can be reached by E-mail at jcarroll@jimcarroll.com*