

# **The Anatomy of a Dot.com Enterprise: Adaptation, Selection and Reinvention of a Business Model at 360.com**

*Antti Ainamo*

*Ph.D.*

*University of Tampere*

*antti.ainamo@uta.fi*

In the 1990s and the year 2000 many studies glorified the rise of venture capital investor and electronic commerce entrepreneurs. More recently, with the collapse in the value of e-commerce stocks and shares, interest has shifted to how venture-capital investors cope with the collapse in the value of e-commerce stocks and shares. While the interest in the problems of venture-capital investors is surely warranted, it is surprising that there has been a lack of research about how entrepreneurs in e-business, at the grassroots of e-commerce, are coping with the transition into the less lucrative times in terms of venture capital, and the resulting pressure on their entrepreneurial ventures. What drove entrepreneurs in the upturn, and boom, and, now, the recent downturn? How did they react to the downturn? What, if any, are lessons of the recent history for entrepreneurs of the future?

To address these questions, this paper builds on recent advances in the competitive strategy to look at the case of 360.com, a dot.com enterprise. The paper's has been gathered with the help of participant observation and insider access to 360.com. The story that unfolds from 1999, five months before the idea to establish 360.com was conceived. The original business model was to reengineer the buying and selling of advertising media space with the help of Internet applications and to be able to sell the space to advertising agencies and advertisers at a lower cost. The enterprise was hard-wired into the Internet hype. The upturn in the value of Internet stocks in 1999, the boom of 2000 and the downturn in 2001 could not but reflect on the enterprise. There was a coevolution of changes in entrepreneurial beliefs, actions, and the social enactment of the global context. The enterprise reinvented its business model several times both to benefit and to cope with these many changes, but failed to avoid bankruptcy in the autumn of 2001.

The paper frames the above story in terms of strategy to conclude that peer and contextual pressures resulted in a strategy that failed to work in effective positioning. At 360.com, the business model was originally stitched together from ideas and techniques in the entrepreneurial team's peer and contextual environment. Strategy was only in the backseat. While this balance between perspectives worked initially, it hindered the enterprise from proceeding to the implementation of its business model without peer and institutional pressure to change that model. Topics for further study

include why and how entrepreneurs ought to “talk strategy”, while focus on operations and implementation that make strategic changes impossible in the short term.

## **STRATEGY AND INSTITUTIONS**

According to the earliest research on strategy before the 1980s, there are minimum efficient scales of operation- On the other hand, returns on investment decrease after a threshold level of investment. To create competitive advantage, the challenge is to create a core competence, exploit it at optimal scale, and move into new product and market areas.

The problem with the above kind of strategy that has been noted in literature is that it fails to lead to competitive advantage, when many firms follow this very same model. Instead, these firms become increasingly similar to one another and competition resembles the economic concept of ‘perfect competition’. Corporate profits approach the average firm’s level of costs and the selective forces of competition begin to weed out ‘weak’ firms. Because all firms are similar, all firms in the industry may turn out to be ‘weak’; that is, the whole industry will decline.

One obvious conclusion is that industries differ, and some are more attractive than others. Both demand and competition tends to be lacking in a new or emerging industry infrastructure. On the other hand, there are first-mover advantages in terms of access to resources. In an attractive industry, demand emerges and competition intensifies with time, while many first-mover advantages will remain. The learning curve means that the firm’s competitive advantage will grow with accumulation of time, experience, solutions to problems, efficient routines, and reputation. Once demand and competition arrive at their highly developed state, those firms typically survive that escape the dangers of perfect competition by positioning themselves in terms of differentiation of their product from that of the average firm, development of a superior cost position, or location in a protected niche.

Technological leadership is one solution whereby to create both first-mover advantages and a protected niche and to escape the most intense competition in the long term. The technological frontier of the industry is liberated from the trade-off between differentiation in the eyes of customers and cost. A firm in a leadership is in a position to have bargaining power by which to shape the competitive forces and the industrial structure as a whole, rather than only be shaped by the industrial structure.

Yet, technological leadership is a strategy that has divided strategy scholars. Some strategy scholars abandon the traditional economic idea of a decreasing rate of return after a threshold investment in technology, claiming that it is no longer valid in information products that can be cloned free of charge.<sup>1</sup> In contrast, others are more conservative and claim that the threshold may be higher in the case of information

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<sup>1</sup> ‘Increasing return’ is an economic concept that means that returns on an investment increase at a rate that is greater than the increase in the investment.

products but what is still valid is a two-stage model: first, increasing returns and, second, decreasing returns.<sup>2</sup>

In the latter view, firms that follow the strategic logic of increasing returns may find that cycles of increasing returns turn very suddenly and surprisingly for participants “back” into conventional decreasing returns, when there are changes on the market that are competence-enhancing for the firm.<sup>3</sup> Studies of the creation and destruction of technological dominant design have found that winning technologies are not always optimal, but reflect infrastructure and institutional settings in which they are embedded. When institutions and infrastructure change, perceptions of what technologies are efficient change.

Within this context, a firm’s lock-in to new or emerging industries may thus start out favorably as a virtuous cycle, but turn into a vicious one. The internalization of the rules of the game – the standards, the norms, and benchmarks – may mean that the renewal of the firm’s strategy or direction is not possible or efficient from the perspective of institutional stakeholders, with that group sometimes including the owners of the firm.<sup>4</sup>

The conventional strategy framework is built on the assumption of stable markets that change slowly on the basis of underlying competitive forces. While recent advances in strategy allow for rapid change, they still build on the premise of position, and that even rapid sudden ought to be managed building on existing operations or routines. While earlier work on declining industries proves that this is an inherent failure of the strategy framework, the recent lack of interest in this path of inquiry is a research gap.

The strategy framework has recently portrayed industries either working on the basis of the premise of efficient markets or, alternatively, there being buffers to entry. It has been about managing position at the level of industry, firm, or product. At least not recently has it considered that sometimes high but subtle barriers to entry.

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<sup>2</sup> At the turn of the millennium, new technological advances such as computers, the Internet and mobile telephony have pushed forward the trade-off between differentiation and cost on the American market. Emerging markets such as Asia and Central and Eastern Europe have had a similar effect. The increasing interconnectedness of markets have intensified communication, accelerated information flows and amplified the effects of news about advances of globalization. Nonetheless, the underlying strategic framework remains the same. The generic sources of competitive advantage generic strategic alternatives still number three as they did in the 1970s. A firm can base its strategy on product variety, customer variety, or access to information about the interaction of the two. The first of these requires the development of superior platform and modular technologies. Customer variety as the source of competitive advantage is based on the formation of an integrated customer database and its analysis. Access to information flows from products to customers, and vice versa, is the source of the third kind of competitive advantage.

<sup>3</sup> For example, while the imitation of the American management principles were largely responsible for the rise of Japanese firms in the 1950s, 60s, 70s and 80s, the failure of many Japanese participants to control the forces evolution that were unleashed by the putting into practice of those principles contributed to Japan’s decline in the 1990’s.

<sup>4</sup> For the last hundred years, developments on the American market have diffused worldwide and into Europe, in particular. During the last recent thirty years, the debate about decreasing and increasing returns has been affected by cycles of boom and bust on the American financial market and the liquidity of American institutional investors. While advances in production or marketing still remained important especially in industries that are not particularly demanding of external finance, both the American model and its worldwide diffusion took a financial turn in the 1970s after the oil crisis. Similarly, the end of the Internet boom in 2001 will have effects on how producers, marketers and financiers think about strategy.

On the one hand, there may be barriers to entry because some institutional forces buffer forces of change having an effect within the industry. On the other hand, some institutional forces may favor the existence of the firm, even while others do not. When a firm represents an important institution in one way or another, institutional forces in support the same institution may choose to subsidize the existence of the firm. In the case of a firm, the owners of the firm may represent important institutions, the firm may have already existed long enough to have become an institution in itself, or the firm represents an investment into a boundary object that bridges between current identity and new ideals considered worthy of pursuit.

The combination of these forces can make for sudden booms and bust, in the case of an individual firm.

## **METHODS**

The paper's initial data was gathered with the help of participant observation and insider access to 360.com, a dot.com enterprise. The author participated in the brainstorming before the formal establishment of the enterprise, as well as in the forming of the top management team, the recruitment of personnel, and negotiations for venture-capital finance.

In the second stage, after this planning stage, the author maintained insider access but turned from intense participant observation to observation at a short distance. This included collection of initial and on-going interview data within and outside the enterprise with internal documents, as well as with secondary data about the enterprise and its environment.

Finally, there was a very short period intense participant observation for the author. This was a period that was short also for other participants, since the enterprise was already at its "death gate", and the enterprise went under within 10 days.

The author was a minority owner in the enterprise. He has compiled the story of the enterprise under study from documents that he gathered during the 1-year-and-ten-month process. He has also used his insider access to the people in and around the enterprise, and triangulated between different views and facts, much like a detective. The paper is on-going research but the case itself, as well as preliminary findings.

## **THE CASE OF 360.COM**

In July 1999, in Rome, Italy, it dawned on Jukka Järvinen, sitting on his patio, that he would want to achieve a "second round" of success as an entrepreneur with Mika Järvinen (no relation). In 1992, Jukka had established Publico, a publishing house, with his student friends from the Helsinki School of Economics. Now, almost ten years later, Mika and he found that their ideas about business and life, more generally, have almost perfect fit. On the spot, they decided that they would establish

“Media Shop”, a web-based site for media buying in the advertising industry. Their backgrounds were very different but perfectly compatible. Jukka was an entrepreneur in a small niche player, while Mika was a professional who knew the ins and outs of large media industry multinationals at different levels of operation. Both were in the media industry.

## **Jukka Järvinen**

When he was still at the Helsinki School of Economics studying economics, Jukka’s friends had asked him to join Publico (short for “publishing company”). The mission of Publico was to build in what in Finland were called export publications. These were specialist publications targeted at well-focused audiences in foreign companies, foreign governments, and international organizations.<sup>5</sup>

In 1990, Publico was founded with almost perfect timing. Being newcomers to the industry, they had no printing houses or repro-facilities for editing or turning creative work into text and pictures on paper, as did the incumbents. There was a technological revolution underway in the publishing industry, whereby integrated creative, editing and printing, and distribution were giving way to decentralized networks of personal computers organized around brokering houses like Publico. They soon found themselves to diversify also into handling the production process for also other publishing houses than themselves, as well as for other newcomers that were slower to learn or less able to see the upsides of risk than Publico.

Incumbent publishing houses did not see Publico as a threat because they served an existent clientele that preferred slow, incremental and controlled learning rather than revolutionary jump into a new industry standard. The incumbents were both unwilling and unable to be aggressive in their mature market.

True to its nature, Publico had aggressively constantly diversified. For example, it had begun to publish an English-language business magazine for the Baltic region, which also turned out to be successful.

Jukka had been responsible for sales and marketing at Publico. This enterprise prospered in its niche. However, it was hard work. In 1999, Jukka had come to the conclusion that he needed a six-month sabbatical and moved to Rome, Italy. He remained as owner in the prosperous Publico venture. There, pondering about whether he would like to return to work at Publico or do something else, he had friends come over and eat good Italian food, drink good Italian wine, read books, play chess, and talk him about the meaning of life.

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<sup>5</sup> This was an institution dating back to the 1950s in Finnish society, when Finland had begun to orient its trade toward the West markets to benefit from the upturn in the Western European market. The Finnish government and Finnish exporting companies shared the costs of the undertaking. The copies had long been distributed to foreign business people and embassies as brochures of the benefits of trading with the Finns

One of the people that came over was Mika Järvinen, whom Jukka previously knew only through his wife, who was a good friend of Mika's wife. One day at a dinner table Mika started telling what he did for a living.

## **Mika Järvinen**

Mika was a graduate of political science from the Helsinki University. However, he had never worked in politics or public administration. He had always been more interested in communications, PR, and advertising.

It was through this interest that he had become a salesperson at Carat, one of the leading media houses in the world. Media houses broker media space and content between media and advertisers. A media buying agency is a consultancy for media space decisions and logistics, acting only on the basis of specific customer order but in its own name.

Mika had found how inefficient was the way that Carat worked. Most of the traffic of advertising material was done on paper by hand, and little of the potential that modern information technology enabled had been adopted. Especially the buying and selling of the "last advertisement" was hugely inefficient. This meant that buyers and sellers often did not know whether the space was full before the newspaper, magazine or TV program was almost ready, and then it was too late. If somebody could just think of a way to make the system more efficient... Mika said he could imagine somebody doing something about this someday.

## **The Unfolding of the Business Plan**

In the back of his head, Jukka had long been thinking about setting up an Internet-based venture. He asked Mika why not set a media buying agency of their own. A name popped up in his head - "Media Shop". Mika thought it was a great idea and a great name.

Almost instantly setting themselves to work, Jukka and Mika began to devise a business plan. What was the size of the market? Was Finland an anomaly in terms of market structure, or were structures on all country markets similar? What resources did they need to implement their business plan?

One of the initial insights was that they could use the business concept and transfer it, almost one to one, in any country. The business idea was simple and brilliant. Instead of a media buying agency with a large office full of "traffic secretaries" mailing or faxing pieces of paper, their clients would carry each transaction on their computer screen. All that was needed was a working technological platform that would operationalize the business concept.

They needed to move fast, because their business idea was so good that there was a danger somebody would steal their idea. Jukka negotiated with his co-owners at Publico that they jointly owned would provide initial seed money. He resigned as sales director for Publico, and remained only as a member of the board.

“We [Media Shop] must have our own office first. There is no credibility without an office,” Jukka said. Mika resigned from Carat and joined Jukka in the effort to grow the business.

Close to Christmas, they decided to hire a technology manager. They also gave him shares and asked him to help implement the business plan into a working technology platform. They asked the new technology manager was asked to write a proposal to a national institution responsible for funding new technologies and product development.

They registered “Media Shop” as the name of their company, but [www.mediashop.com](http://www.mediashop.com) was not available as an Internet-address. They had a designer working on their logotype and visual style, who suggested “360com”. The name pointed to the popular management idea of whereby a manager ought to have a willingness for listen and take into account “360 degree feedback”. In organizational terms, this meant listening and taking account feedback from peers, subordinates, and superordinates, for example. In marketing terms, this meant listening and taking account feedback from customers, suppliers, and partners, for example. The name’s drawback was that it resulted in a partly nonsensible Internet address called [www.360com.com](http://www.360com.com) (non-operational from October, 2001). Another, potentially more serious problem was the media buying industry meant by 360 degrees all media, while their media buying agency was interested only in “180 degrees”, “above-the-line” or mass advertising (the part that does not involved direct “personal” advertising in the recipient’s name).

However, the benefit was that the enterprise’s message translated well from one country to another. Many thought that the name sounded good. It was easy to remember. They adopted it, which proved to be a wise move, as they found the company easy to promote with a name like that. It was interesting, both for novices and experts of the media industry.

January 1, 2000, was the “go” date for their enterprise, or when the 360com formally started. They immediately started on gathering more finance for the company. Looking for that finance, they noticed that some customers (advertisers, media space providers, advertising agencies) considered that they lacked sufficient experience of all the three customer types. Their top management team was simply too “shallow”.

Learning this to be the case, Jukka and Mika quickly began to hire more people into the top management team. These came from competing media houses, from media space providers, and from advertising agencies. Thus, the size of the top management team grew to a size that threatened efficient decision making. Each top manager had their own agenda. Yet, it worked surprisingly well. There was a positive cycle were there were a lot of new ideas, outsiders heard about these ideas and wanted to join in, too. The personnel grew almost too fast, but there would surely be a need for them soon in the day-to-day operations.

Side by side with the day-to-day operations, they negotiated with venture capitalists about funds to bridge the gap between the required investment to develop the Internet site and the time it would take to get high returns from the sales.

### **Negotiations with venture capitalists**

Jukka and Mika explained in their first presentation to venture capitalists how their original idea had been to buy “last advertisements” on order, but that this was clearly too trivial. Jukka and Mika explained that one ought to carry out all the media buying through the Internet. The venture capitalists politely agreed.

When Jukka explained to the venture capitalists that, in the future, they might set up an auction site, where buyers and sellers could bargain for media space, the venture capitalists said that the design and development of this facility ought to be started right away.

Some months later, one venture capitalist asked at a meeting that have Jukka and Mika considered taking their Internet site compatible with mobile applications. Thinking and talking at the same time, he added: “I have this one fixed idée, and it is ‘mobile’.” After half a second of reflection, he shouted “Mobile! It has to be mobile!”, with great passion.

At another meeting, a venture capitalist asked Mika and Jukka: “How much would it take to buy 30 media buying agencies around Europe? We ought to make some calculations. Money, of course, is not an issue here.”

360com was on the roll. They had competing offers. In May, they chose an offer for almost ECU 1 Million. They did have an offer for a larger sum from a competing venture capitalist, but this involved stricter demands for control and guarantees.

### **The day-to-day operations**

Jukka and Mika soon found out that the technological platform was more difficult to design and implement than what they had conceived. As they would say by hindsight, “We found that we would have needed a hundred times more money than what we ever got.”

There were never any real sales, because they could not get the basic service of media buying through the Internet to work. They could not get the basic service to work, because they had been too focused on the mobile application.

### **Conclusions**

At 360.com, the business model was originally stitched together from ideas and techniques in the entrepreneurial team’s peer and contextual environment. Strategy was only in the backseat. While this balance between perspectives worked initially, it hindered the enterprise from proceeding to the implementation of its business model without peer and institutional pressure to change that model.

Topics for further study include why and how entrepreneurs ought to “talk strategy”, while focus on operations that make strategic changes impossible in the short term. Strategy is about how to position a firm’s operations effectively. One of the avenues for the further development of the paper is neo-institutional theory, which is generally informative about why peer and contextual pressures sometimes result in unintended strategies that nonetheless are difficult to question or change.



*From Idea to Knowledge*