

The Dotcom Report Card

February 27, 2001

Preface

Call it the US\$1.755 trillion dot.com-investing lesson.

In America, it's hard to think of a publicly traded Internet company that is not down at least 75 percent from its 52-week high and that hasn't trimmed its expenses or laid off workers. While industry groups have always drifted in and out of favor on Wall Street, it's rare to see an industry evaporate as quickly and completely as Web stocks did.

The collapse of the Internet bubble, perhaps one of the largest financial fiascoes in economic history, came after a three-year period, starting in January 1997, when investors would buy almost anything even vaguely associated with the Internet, regardless of valuation. Investors ignored huge current losses and were willing to pay 100 times expected earnings in fiscal 2002. They were goaded by bullish reports from sell-side securities analysts and market forecasts from IT research firms, such as IDC, Gartner and Forrester Research.

The high rates of consolidation and failure that Web companies are going through now is typical of many newly emerging industries throughout economic history. Whenever a new technology comes along that has the potential to dramatically change the competitive landscape, hundreds of companies are formed to try to exploit that opportunity, including many with weak management or poorly thought out business plans. Intense competition ensues, returns on capital fall, and most of the new entrants either merge or go bankrupt.

Locally, the scenario has yet to fully unfold, given that most Internet companies in Malaysia are still at their embryonic stage and none actually made it to the holy grail of getting listed. What began with so much hype and aplomb has now been replaced with harsh reality, as a falling stockmarket and slowing economy have combined to hurt earnings. Far worse, are the negative perceptions that now stigmatise dot coms, a situation worsened by the almost daily reports of layoffs and cutbacks from the sector.

Amidst all the debris, it is worth noting that the present state of consolidation represents only the first stage in the development of the Internet economy, as it struggles through its teething pains. More change is surely to come as big business embrace technology and the Internet becomes interwoven with the fabric of our social and economic lives.

For now, however, we need to digest the lessons and experiences of the past year. What business models are more viable and which are those that just don't work? Are all dot coms destined to be swallowed up by bricks-and-mortar companies? More importantly, what can we look forward to in the coming year?

THE PANELISTS



Asgari Stephens [AS] (Mayang Imbang Sdn Bhd)

Asgari Stephens is currently a partner at Mayang Imbang Sdn Bhd, a locally incorporated private equity fund for high net worth individuals. Prior to this, he spent one year as a special officer to the National Economic Action Council, advising the council on issues relating to the finance industry. He was also a partner at Kumpulan Sentiasa Cemerlang, a fund management company managing over RM250 million in assets. His stint as an internal auditor and investment manager at Usaha Tegas Sdn Bhd also saw him directly responsible for the company's RM200 million portfolio of publicly traded securities, development of Tanjong's new headquarters building and representation on the operating boards of KLCC. Asgari holds a Bachelor of Commerce (Hons) and an MBA from Cranfield.



Koay Keng Teik [KT] (GrowAsia.com Sdn Bhd)

Keng Teik is the head of advisory of Crosby and is currently on secondment to Growasia.com, an associated company of Crosby. Keng Teik is an ex-investment banker with Salomon Smith Barney, Schrodgers and Arab-Malaysian Merchant Bank with more than four years of experience in Mergers and Acquisitions and fund raising experience. Keng Teik holds a Master of Science degree in Economics from London School of Economics.



Tengku Farith Rithauddeen [TF] (Alam Teknokrat Sdn Bhd)

Tengku Farith Rithauddeen is the person in-charge and responsible for the strategic vision, overall management and leadership of Skali. With more than eight years of management and business experience from previous career stints at Commerce International Merchant Bankers and Road Builder (M) Holdings Bhd, Tengku Farith is instrumental in driving the growth of Skali. He is also an advisor to Venture 2001 and co-founder of the New Economic Forum. Tengku Farith obtained his Bachelor of Arts in Economics from Carleton University in Ottawa.



Nic Lim [NL] (Catcha.com Sdn Bhd)

Nic Lim is one of the four co-founders of Catcha.com and currently holds the designation of Managing Director for the Malaysian operations where he assumes bottom line responsibility. He is also a co-organizer of First Tuesday Kuala Lumpur and board advisor to the McKinsey, Mesdaq and MIM Venture 2001 Business Plan Competition. Nic graduated with a double degree holding a Bachelor of Commerce/Management from the University of Western Sydney in 1997 and a Bachelor of Law from the University of Technology, Sydney in 1999.



MODERATORS:

Rajen Devadason [RD], (RD Book Projects)

Rajen Devadason is an award-winning journalist. As staff writer, of *Malaysian Business* magazine, he won the Malaysian Press Institute's award for best economic journalism in 1992 and the Citibank Pan-Asia business journalism award, which included a stint at New York's Columbia University and visits to the White House, World Bank and the US Federal Reserve. His first book *Your A-Z Guide to the Stock Market* was published in 1997 and since then he has seen a new book out each year. Devadason holds a Bachelor of Science (Hons) degree in Physics and Computing from King's College, University of London, and is a member of MENSAs UK. He currently writes two distinct financial planning columns - a print column for *Malaysian Business* magazine and an online one for zoomFinance - and is overworked as a financial planning trainer-cum-consultant.



Steven K C Poh [SP], (i2Media Sdn Bhd) Ex-journalist

Steven Poh is the CEO of i2Media Sdn Bhd, an integrated marketing communications specialist. He is formerly business correspondent for *Asiaweek* magazine and General Manager/Senior Consultant of a KLSE-listed software development house. He won the 1992 Malaysian Press Institute prize for best magazine writing while still at *Malaysian Business*. Also a former Press Fellow of Wolfson College at the University of Cambridge, Poh graduated with a degree in Communications (Journalism) from Southeast Missouri State University. He completed his Master of Science degree in Speech Communication from Southern Illinois University at Carbondale.

Below are excerpts of the discussion

zoomFinance - Round Table Forum

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The Dotcom Report Card



RD: All of us could remember the fiasco of last year, the US\$1.8 trillion dotcom meltdown in the America. It is very hard to think of a publicly traded internet company that has not fallen perhaps 75% from its 52-weeks high. You have got companies that are cutting expenses and people; essentially this whole industry has gone from darling to dog quite quickly. What happened externally has also hurt Malaysian companies very badly. Global tech valuations have plummeted from their peak a year ago. Even in Malaysia, MOL.com is 70% south of its peak and EG.com, formerly known, as Daiichi Enterprises is 77% down. Are Malaysian Internet stocks fairly valued now? Can or should their prices fall further?

KT: First of all, let me stress that all the listed Malaysian dotcoms are merely taking on the looks of 'real' dotcoms. From my understanding, none of them are pure dotcoms. In fact, most of their online businesses are merely diversification from their core businesss. For example, MOL.com was a manufacturer of lights, fittings, electrical components and switchgears but has since gone into portal services. I wouldn't use any of them as a gauge for dotcom valuation in Malaysia. However, there is no question that the dotcom valuation has come down tremendously globally. An interesting study shows that, on average since 1962, investors have been willing to pay a historical P/E of about 33 times. At the moment, the average historical P/E of Nasdaq is still higher than 33 times (approximately 38 times). Now that analysts have downgraded the earnings and cash flow forecasts of many dotcoms , the valuation of these companies should drop. I think some of these dotcoms may still be overvalued given that their share prices have not fallen as much as the theoretical valuation adjustment due to the downgrading of their profit and cash flow forecasts.

RD: So your bottom line feel is that there is room still for further collapse?

KT: Yes,, there is still room for further adjustment although this may not apply across the board. Some companies will do well and will enjoy growth in their values



AS: I think many listed companies got caught up in the hype. They probably backed some very dodgy dotcom plans. Can they fall further? I think a lot depends on their burn rate. If a company is breaking even and it has some sort of steady revenue stream and more importantly not losing money, it is going to survive. But if it is losing money month after month, I think the access to the capital market has been cut off now. You might find that if you have run out of money, you just have to close shop or be sold off really cheap.

RD: So coming from a different direction, you are fairly pessimistic as well?

TF: I must agree with them. However, let us take away the issue of being listed in the capital market. Two years ago, the capital market was wrong as you can see right now. So, looking forward, the capital market might also be wrong this time. So, let us get rid of this issue about getting listed on exchanges such as Kuala Lumpur Stock Exchange, Nasdaq and so forth. Now, let us look at the basic things. Do these dotcoms have something to sell? Do they have something of a value to their clients? The fact is when you answer these questions; the answer is yes. All these dotcoms do have certain values to sell. They do have monetary and economic selling points. In the past, investors came and invest in dotcoms that could provide extraordinary returns. We saw what kind of returns that they were demanding and also what kind of returns the dotcoms were able to generate. Two years ago, that is a total mismatch but we are seeing some sort of equilibrium being reached here. If we were to put the capital market issues aside, dotcoms do provide value added services especially those that are servicing traditional old economy companies. The traditional companies require information technology to service their clients because of increasing competition due to globalisation. These traditional companies need to reduce their costs. All these are needed and new economy companies, the dotcoms, can satisfy them.

RD: So, you are saying that the winners are those that are able to provide services to serve those traditional brick and mortar companies?

TF: Yes. This is very true. Well, you will see a lot more failures but you will also see faster successes. Yes, there are a lot of consultation services going on. Well, we are talking about changing of resources here. Remember, we are talking about people who went over to the new economy companies, learnt from them and then go back to the old economy companies. This people bring along with them certain knowledge to add value to these traditional companies.



RD: Which presumably will give the traditional companies certain competitive edge?

TF: These traditional companies are converting themselves to use the Internet to fight the new economy companies. That is why we see a big change in valuation of these pure dotcoms. Now, things are changing. But, we must really get away from the hype that we were involved two years back and start looking into the basic things. Do these companies have a value to sell? Yes or No? The answer is yes.

RD: Before we move on, you talked about position of disequilibrium reaching the point of equilibrium. I think the crux of this question is if there is a readjustment going on now, do you think that we have hit that point of equilibrium or do you agree with Keng Teik and Asgari that we will continue to see further downward movement on dotcom valuation?

TF: I think there will be some slight downward movement on valuation but I am not so pessimistic. Looking at the depressed prices of some of these dotcoms, it is not because of their business model but it is rather due to the economic downturn. We

have to discount this factor out. Assume, if there is no economic downturn, ask yourself whether these companies have valid business propositions and the answer is still yes.

NL: When you look at all these dotcoms, what you need to look at the possibility of secondary placement or additional funding options. If they need to raise more cash, how are they going to do it and whether it is possible or not? This might not be true for Malaysian dotcoms but it is crucial for other dotcoms. Now, when you talk about whether listed Internet stocks in Malaysia are fairly valued, you have to look at the gestation period of these businesses. EG.com is a business which primarily involves the government sector. This is going to take them a fair number of years to try to realise their business model. So, now it is really the case of whether the capital market will appreciate what they hope to achieve in the future. Someone else like MOL.com, which is also a listed entity, are pretty fluid in terms of their business model and the ways they want to make money. And given their ties with other listed companies and businesses, they will find a way to ensure that their business entity is viable.



RD: So, what you are saying is because they are not pure plays, they will have a buffer in terms of their economic value?

NL: On the positive side, they have a buffer. But on the negative side, the capital market will find it difficult to appreciate what they are trying to do. Moreover, whether the capital market will attach a suitable timeframe to allow them to do what they want to do. Investors are already starting to say that they are not going to wait any longer. So, when you ask what the share price is going to look like, it is safe to say that in such a high retail punting capital market such as Malaysia's, these companies' share prices are probably going to stay somewhere around current level. If it goes down further, some retailers will just come along and buy them. This is unlike American capital markets, which are mostly held by mutual funds and insurance companies that are very smart investors.

RD: Nic, you also talked about the need and the uncertainty as to whether or not these dotcoms can raise capital from the capital market a second time. Asgari talked about the burn rate of a company, which is of crucial concern. Are you saying that these dotcoms need to raise capital again to sustain their ongoing burn rate to see whether they can get pass the next eighteen months or so. Is that the main concern?

NL: What happens is when you do a reverse take over, there is no fresh money being injected hence everyone prefers to do a new listing. When you list, you literally inject fresh money into the company. I will give you an example. Australia is traditionally a very bad secondary market. This is because you have all these mining companies, which really kill the capital market there. They list and when they do not find any deposits, is the public going to pour in more money so they can look for another well? Listed companies in Malaysia have found it very difficult to gain fresh capital given market conditions and the general sentiment towards the sector.



RD: Let's touch on some issues that are of great concern to most people who click on to websites, such as the general day to day surfers. Without sounding

too critical, there is no doubt part of the problem in Malaysia is that we have slow and often unreliable Internet connection speed that our day to day surfers have to contend with. As a developing country, are Malaysians entitle to expect better? Is this current situation anybody's fault? And, what needs to be done to correct the situation?

NL: We have to look at the time when the Internet and also the Multimedia Super Corridor started coming through. Then, the mandate was to give people cheap access to the Internet. One is to make it as cheap as you could possibly make it. When you force all the licence holders to offer cheap Internet access, it is going to take a far longer time for their initial capital to be recouped since it still cost the same for them to set up the whole network infrastructure. This will hinder them from investing into state of the art network infrastructure in the future. This is happening to Telekom now. You have the Government forcing the company to sell access very cheap and they could not recoup their investment. Therefore, this takes away the Internet access quality. Now, it is in the interests of the Internet Service Providers to offer everyone the best and fastest access. The more they push technology, the higher they can charge a premium for its usage. In other countries, you can pay more for better quality services and at the same time you also have lower rates for lower quality services.

KT: Obviously infrastructure is very important. But, current conditions of the capital market in Malaysia are not providing the best of environment for companies to raise funds to build their infrastructure. This is not a problem that is specific to Malaysia. Globally, telecommunication companies are facing problems raising funds to build infrastructure given that their credit ratings have been slashed partly due to their huge spending on 3G licences. In Europe, there is a trend that some of these telecom companies are trying to share the cost of building this infrastructure.



RD: Does anyone here have any thoughts on how management strength or failings might play a part? Even though we are talking about new economy companies, I really do not think one get away from the basic building blocks of running a business, of sustaining it or making an intelligent decision on what is viable, what you can afford and what you cannot.

TF: You are totally correct. Whether you are a new economy company or you are simply selling burgers on the street, you still have to make money. And the people who lend you the capital still have to make a return at the end of the day. But the public in general should be expecting first class service from the telecom companies. Maybe we need to have a re-look at how our telecommunication industry is structured. I think the Multimedia Commission is looking into the areas of infrastructure facilities and how some resources could be shared. This is a good move but we need to figure out how these facilities can be inter-connected to provide good quality services as well as competitive pricing policy to the end-users.

RD: But in terms of primary last mile connection problem; no one has actually said anything. It seems to me that the bulk of the blame must lie on the shoulder of the Telekom Malaysia. Is that fair or unfair?

TF: That is not fair. Telekom Malaysia has been around for many years. So that is

why you have the last mile problem. If you want to compete in the last mile, that is fair and reasonable since their copper wires were laid long time ago. Thus, their costs were a lot higher then. For the benefit of the whole country, we do need to share these costs and that is what the Government is saying. But how do you share? What is the price?

AS: To me, it is an economic decision. I looked at one proposal by this person who wants to wire up a whole residential area. The thing is when they actually surveyed all the users; no one was willing to pay what it would have cost and what they would have needed to charge to make an economic venture.

RD: How much would that be? A ballpark figure perhaps?

AS: Approximately RM 3,000 per month.

RD: I can understand why people refused to pay then.

AS: It is like a chicken and egg story. You do not realise you need it until you have it. But once you have it, you cannot live without it. It is like the mobile phones. Hence, it is a big risk. Of course, they are asking a venture capital to fund it. But unfortunately, when they did the survey, hardly anyone is willing to pay.

TF: But RM 3,000 per month is not a competitive pricing.



AS: Yes, but the US companies are going broke too. All the companies there, which are rolling out DSL, are not making any money. They are funded with cheap money from venture capital funds.

NL: I think it is a marketing issue. If you do not have demand for the service, it is pointless to have supply. So, if we are talking about wanting people to use the services, we need to have the marketing initiatives together with the services which people really need to use. When you have marketing initiatives such as "Click with me" and "Suft this and that", it does nothing for the consumers. It is more important to promote services, usage and benefits as opposed to the medium. We should be promoting the applications which are made possible by the internet and not the internet itself.

AS: I think all these are economic in nature. For example, someone may be willing to get connected if they have to pay RM 200 a month if this in turn saves them RM 500 a month. So, for RM 3,000 a month, it may save them RM 10,000 a month!

RD: But if we are looking at a per capita basis, Malaysia is not there. This just isn't viable in Malaysia. What can the Government do to encourage this and move it to the next level or should they?

AS: I think part of this lies in the strategy that one chooses. For example, Singapore's strategy is to be at the forefront of information technology and finance. I think it fits into their strategy perfectly. Malaysia is still pretty much plantation and manufacturing based. We like to have a place where we can do multimedia development but that is not a key part of Malaysia's strategy. It is not critical to us. It is critical to Singapore and if the Government is willing to spend that kind of

money and then people utilise it, then that make sense.



RD: In the past, the venture capitalists hurled money at any entity with the suffix dotcom. The magic has definitely worn off. Qualitatively, how has the venture capitalists scene changed internationally and locally?

KT: At GrowAsia.com, we help a lot of start-ups and thus I have quite a good-feel of the venture capital market. They are becoming very sceptical towards the dotcoms. In the past, the venture capitalists will invest in dotcoms and list them as part of their exit strategy plan. Now, they are struggling to find an exit for their investments. Now, before they invest, they will scrutinise the dotcoms' business model, management, and track record in terms of what they have managed to achieve so far. Generally, they would prefer to invest in businesses that already have revenue streams. **RD:** So, the requirements now are more emphasised on the people managing the dotcoms and they can no longer come up with just a concept?

RD: So, the requirements now are more emphasised on the people managing the dotcoms and they can no longer come up with just a concept?

KT: Yes.

TF: In terms of quality of venture capitalists, venture capitalists need to be more involved in the dotcoms' business and also able to guide the dotcoms to higher levels. Venture capitalists are looking for revenue streams and they have every right to demand that. When it comes to the crunch, they want their returns too. Now, looking at the depressed market conditions at Nasdaq and others, there is no more return on the exit. Couple of years back, they were looking at eyeballs, page views and so forth.

RD: Anything except the bottom line?

TF: Yes, anything but that. Now, the venture capitalists are demanding and expecting the dotcom entrepreneurs to return RM1.50 or more for every RM1.00 spent. Remember, these are people with great ideas. However, they need guiding principles. This is where the venture capitalists can come in and play an important role. They can look for possible synergies between all the dotcoms which they have invested in. By doing this, the venture capitalists can help expand the market and also reduce costs for the dotcoms at the same time. These are the important elements, which the venture capitalists need to address to re-define and re-position themselves to compete with other venture capitalists.



AS: I don't think Malaysian venture capitalists ever threw money at anyone!

RD: Nic, perhaps you can shed some light here since Catcha.com has had a few rounds of fund raising.

NL: First of all, our first three rounds of funding were in the space of six months. Now, I do not know of any industry in the world whereby you can raise that many rounds of funding in such a short period time. If you asked me whether my current

business could justify the valuation of my first round of funding, the answer is absolutely yes. This is only a year and half ago. In other industries, such as manufacturing, how many rounds of funding do you think they actually have? Very few. So, what you do is you raise money, prove your business model and justify your valuation. That is great and you quickly move on to the next round. Therefore, you always have a basis for your valuation. But when you talk about the dotcom era at its peak, you are talking about the time when venture capitalists and financial analysts kept pushing for maximum valuation of these dotcoms. All they are interested in is to drive valuations up. Hence, as a businessman, let us assume they value Catcha.com at RM50 million. Well, I will take it. Two months later they tell me it is worth RM500 million. Given the conditions at that point in time, the tendency for many would be to accept the valuation but who is really driving the valuation? For me, I am still doing my business based on my original plan. Because they are forcing me to have a valuation ten times higher, I will try to extrapolate horizontally and vertically as much as I can to try to justify their valuation. So, you go geographic and you go deeper though the value chain but you certainly appreciate the difficulty in managing investor expectation, the capital markets, financial analysts and industry trends in relation to the fundamentals of the business.



RD: To clarify, you said you have three rounds of funding in the space of six months. How much did you raise in those three rounds?

NL: Unfortunately, I am not able to disclose such information to you.

TF: For Skali.com, we raised a reasonable amount of money.

RD: Can you tell us how much? And, is that sufficient?

TF: RM35 million over four years and it is sufficient. We raised the sum from local corporate venture capitalists. In fact, Malaysia Airports Berhad was talking to us six months prior to actual investment. They approached us and asked us to integrate their services.

RD: This seems more like a joint venture.

TF: Yes. It is a joint venture. And from now, you are going to see more new economy companies working with traditional ones.

RD: So, is the day changing when you are no longer looking at the venture capitalists just for the money but also some kind of strategic tie-up?

KT: In the past, dotcoms tend to prefer independence because they do not want a strategic partner to dictate their growth. But, now that they are no longer able to find funding from venture capitalists, they will look for strategic partners who see value in their products or services.

RD: So, a typical dotcom entrepreneur would take on a strategic partner because he no longer has a choice now?

TF: For dotcom entrepreneurs, if they can get cash, it is good. Bu, if they can get

cash and a strategic partner, it is better. With cash and also a strategic tie-up, it comes with a ready market, business development partnership and also infrastructure. Hence, they can go a lot faster.

RD: So, we have some level of divergence here?



NL: At the end of the day, I think both are important. Say, if a strategic partner only takes a 20% stake but at the same time able to provide the necessary infrastructure, then I think it makes sense to have both cash and a strategic partner.

AS: I think if you were to ask whether anyone wants intelligent money, the answer would be yes. I think if you have a choice between going to Asgari Stephens or a large international venture capitalist, you would be a fool if you choose the former. I mean the latter is able to open doors and markets for you. In addition, he also endorses your product. In this instance, your second or even third round of funding is pretty much a done deal. Obviously, this is valuable to a company.

RD: In the last six months, how much local and global venture capitalists money has actually been pumped into Malaysian dotcoms?

AS: Under RM100 million.

RD: How about between eighteen and twenty four months ago?

AS: The only one that has really put money into local dotcoms is MSC Ventures. Commerce Ventures got the money from the Government and it has not been drawn down. Likewise, Mayban Ventures got the money from the Government and it has not been drawn down yet. Other than that, WI Walden has put some money in Jobstreet.com. MSC Ventures claimed that they have invested RM60 million out of the RM130 million available to them.

TF: Besides the venture capitalists, I think local corporations have invested slightly more than RM100 million in the dotcoms too.

AS: For the past eighteen months, corporations such as MOL.COM claimed to have invested around RM100 to RM200 million and AKN Technology another RM10 - RM15 million, I think the corporations were a lot more active than the venture capitalists. I think local corporations just got a little bit too excited over the hype. In those days, you do a dotcom deal, your stock price goes up and everyone gets excited. But, when a venture capitalist does a dotcom deal, they have to live with the dotcom for the next seven years. While it sits there trying to run the business and thinks about an exit, he does not get the immediate benefits such as seeing its stock price goes up. That is why I think many local corporations jumped into the dotcom scene where as the venture capitalists were more circumspect.

RD: Typically, if you are a hands-on angel investor, what kind of time frame are you looking at for payback?

NL: Anywhere from one to three years.

AS: Actually, most venture capital funds are open for seven years plus three. The plus three is the extra time for them to unwind their investments.

RD: Wireless Application Protocol or WAP was supposed to have been the next big thing. Obviously, it has not taken off as we all thought it would! Why is that?

NL: It is a marketing issue again. People have to understand that WAP is not about getting the Internet on to the mobile phone. It is a case of whether you can check your stock prices with your mobile phone. It does not matter whether it is a STK, SMS or WAP. What is important here are that you must push applications and services to the consumers, make it easy for them to use and charge a reasonable price. The consumers do not care about what protocol you are using because it is none of their business.

RD: So, you reckon it is a marketing deficiency? I want to take a more conventional approach here. Has WAP fail? Is it because the keypad is too small, the connections too slow or the display screen on the mobile phones too tiny?

TF: I think WAP is not given enough time to be exploited and capitalised. WAP has only been introduced recently. As you can see now, everything especially time seems to have shrunk. Now, you hear things like 3G and GPRS coming soon. People are beginning to migrate to these new standards.



KT: Lets take a look at a comparable technology. The Japanese I-Mode for example. The reason why I-Mode has really taken off is because it is able to offer a wide range of content, services and etcera. I think they should have push out more value added services through WAP and that would have attracted more users to it.

NL: You must love the application and the service. Not the medium.

TF: That is correct. Technology is not the issue here.



SP: Some of you mentioned about pure-play dotcoms. Now the dotcom fever has already fizzled out, are we looking at business models that are actually traditional business models or still dotcom models? When venture capitalists or corporations want to put money in a business plan, are they going to distinguish between putting money in a dotcom business plan or a good business plan?

TF: There is no such thing as a traditional or dotcom business plan. It is all about cash and whether they can make money from the cash.

AS: I think when people invested in a dotcom, what really attracted them were its scalability and low marginal cost. It was believed that you could grow a dotcom company quickly hence profits generated are exponential. But what they found were marginal costs were not low and it is not as scalable as they thought. This actually makes the dotcom more like a traditional business and Internet is just a facilitator.

RD: Does that mean future valuation is going to follow conventional style valuation?

AS: That really depends on how much technology can facilitate you to lower the marginal costs and how it can scale the business. For example, Yahoo can come here and therefore it is scalable. But Yahoo still has to advertise to get clients here. They still have to employ people to do marketing. So, the incremental costs are not low.

NL: For Catcha.com, we are in five countries. Hence, we are concentrating on these five countries. What we are looking at is which country will be the first to be cash flow positive and dominates the market. So, let us say Malaysia does it in six months. When this is achieved, then things will become easier. Lets compare between Catcha.com versus The Star publication. The Star cannot grow that much further anymore. But on the other hand, Catcha.com's business model which has shown its success in Malaysia can then move on to Thailand or Singapore.

AS: But, even in this example, it is not the same scalability. The reason being when Catcha.com goes to Thailand, you still have to localise your content. And, you still have to advertise there.

NL: But the basic capital for infrastructure would have been spent. It is already a sunk cost. Most overseas offices of major portals act as sales and marketing outlets. Technology usually sits in centralised locations.

AS: To me, it is not a new business altogether. Perhaps, at a slightly lower cost. It is still the same old media business like TV broadcasting.

RD: The biggest losers, especially in the US, are those who depend on online advertising for revenues. But, this clearly is not work. Every time there is an economic downturn, whether it is old or new economy companies, advertising industry is the one that gets hit the worst. This is because advertising is the first thing companies can slash very quickly. What is the future of online advertising?



NL: To be honest with you, with regards to online advertising, Catcha.com registered a 99% revenue growth from first quarter to second quarter of Year 2000, 73% revenue growth from second quarter to third quarter of Year 2000 and 80% revenue growth from third quarter to fourth quarter of Year 2000. Last year, we earned RM4 million largely from Internet advertising. The beauty of this is that it is a market whereby dominant players will take a huge margin. Lately, you see Motorola and HP cutting staffs. Everyone is cutting staff. However, the problem is if they do not market themselves, there is no catalyst for their business. You don't see these companies taking their regular full-page advertisements off from the local dailies. You don't see Acer doing it because the advertisements are catalysts for their business.

RD: My understanding is that advertising dollars have been cut. What we are noticing now is companies becoming more selective in where they advertise. They have to make sure that they get the correct audience. I am

sure all of you remember during late 97's and mid 98's, the Sun and the NSTP are the ones that get hit the most. The reason being that people realise if they have to advertise on a newspaper, they would rather go with the Star because it has the widest coverage and circulation. My question is how online advertising, as a whole will fare in the coming years?

AS: I think the future for online advertising is quite bright as a new advertising medium. I just do not think it is very well understood at the moment. Companies do not understand yet how to effectively advertise on the Internet. With banner advertisements, the problem is no one notices them. You have to find a smarter way to advertise on the Internet.

RD: Not well understood by the advertisers?

AS: Both. The advertisers and the advertising companies who tell the advertisers how to place their advertisements.



TF: I agree with Asgari. Certain feature from online advertising, which has not really been used, is customer service management applications. Then, online advertising will be brought to a higher level, such as one-to-one advertising. But all this is evolving and it takes time.

RD: In the search for viable business models, e-solutions seem to be the thing, which many dotcoms are moving into. They provide some sort of consultancy services to help traditional companies migrate to the Internet. Is this a trend that is likely to continue? And, how much consolidation do you see? Note that many such e-solution companies in US have closed down recently.

NL: I think dotcoms are able to provide these consultancy services because they have the cutting edge technology and also lower costs of replicating it. That is why you see Yahoo providing consultancy services to corporations and as a result they are taking away market share from other smaller players.

RD: Human civilisation has always showed a tendency to evolve, not necessarily always something better but always something different. The rate of change is actually accelerating. Each of us is aware of this. The catalyst of this change from a technological point of view is likely to be the Internet. What changes do you see the Internet bringing about? What can we do to profit from these impending changes?



TF: The Internet will bring about competitive advantage to companies which best utilise it. Companies will be more specialised in what they are good at. The Internet is going to enforce this like it or not.

AS: For most people, the Internet is just like TV. When do you find the time to use the Internet? Read email perhaps? Or read information which you cannot get on the local newspapers? Internet is also similar to satellite TV. You can download CNBC and Far Eastern Economic Review online with different views. For business, I think the

Internet will bring about price deflation. Things are going to get tougher. Price discovery is going to get faster. Changes in technology and the time information takes to be disseminated will also be faster. The pace of change will be rapid. From now on, business needs to be more focused on what they do because things are going to get a lot tougher. The Internet makes business tough. It does not make business easy. It is great for the consumers but just imagine if you run a business, everyone knows your prices. Thus, you cannot run away from charging just a little bit more because the time it takes for information to pass on is quicker. The adoption of technology is also going to be faster thus the investment cycle is shorter.

RD: Last question to each of you gentleman. Which is your favourite local website and why?

NL: My favourite website, for personal interest, is Asianauto.com because it is a very good online magazine and the content is great. Otherwise, I think some of the job sites have great prospect ahead of them. Those websites that operate payment gateways are also going to do very well for various transactional services.

TF: From an investment perspective, I think those websites that power up traditional companies are going to do well. Those websites that help traditional companies expand their market, sell more of their products, service their customers faster and also reduce costs.

AS: A lot of times, I do not look at local websites due to lack of time. Sometimes, I do check CNET Malaysia website just to keep in touch with the local technology circle. Which local website will survive? I think the gaming companies, which are on the Internet, will survive. Companies such as 4D online will succeed if they do it right. Also, some sports websites will survive. People who are very interested in sports will take time to look for them. Most important of all, these website have to be transactional for them to survive and prosper. Others such as the brick and mortar companies which go online and the big portals that have the numbers will survive.

KT: My favourite websites are those providing content such as Catcha.com. But, in terms of websites that will make money, those websites, which have local content that cater specifically to local audience are going to do well. Those that do not compete directly with international content providers. In times to come, big foreign websites such as Yahoo and Ebay will come to this part of the world. So, you have to be able to differentiate yourself from those players. The best way to do this is to localise your content thus automatically forming a cultural barrier.



end
