

INTRAWARE: IMPROVING ON THE MODEL.

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STRATEGIC ASSIGNMENT

We have been assigned to evaluate the IntraWare model and make recommendations.

In so doing, we have identified the strengths and weaknesses of this model, compared it with another highly successful one (Amazon), and proposed a next-generation “Network Plus” model.

The Network Plus mode, it is felt, will permit EarthWeb to carry multiple lines of business without defocus, and to respond rapidly to the evolving needs of IT professionals without endangering already existing businesses.

Ultimately, we believe Network Plus can be the basis for a clear path to building a billion-dollar company.

INTRAWARE

The Core Business

Software reselling is what IntraWare does, being responsible for over 90% of its FY1999 revenues. This may be a low-margin activity (14% and expected to drop well below 10%), but the sums are huge, and the spending is concentrated with comparatively few buyers.

Importance of Value-Add

This gives IntraWare its opportunity to add high-margin services: to an IT buyer responsible for six- to seven- figure budgets, even a marginal source of help is worth one to four grand a year. That doesn't compare with the cost of consultants or research organizations.

The Services

IntraWare counts two major value-add profit centers:

SubscribNet

This software license management and maintenance service is a natural upsell, much like extended warranties on consumer appliances. The margins are similarly high – in the 70-80% range.

Knowledge Center

This site is a source of knowledge about products and technologies. This knowledge is reference-style at the free end, while the paid knowledge focuses on answering specific questions – from user-specifiable product comparisons, to human expert interaction, to models, templates and other evaluation tools.

The Amazon Comparison

The H&Q analyst report of 3/23/99 makes an explicit comparison between Amazon and IntraWare. It's an apt one.

While Amazon doesn't sell its content and community features, it relies on them for differentiation. Clearly, there is value in "guided discovery", which is what IntraWare is trying to provide too.

Less obviously, Amazon built a web-wide affiliate network that immunized it against quick counter-attack. It's nearly impossible to uproot a web of tens of thousands of referral links.

AN EARTHWEB MODEL

The Network Models

1. IntraWare leverages its core business of software resale into additional activities that themselves can assist the core business.
2. Amazon is mining its customer base for additional lines of business built along the same lines as the original.

Both these models are *network* models, much like the Internet in that the additional activities can stand or fall without destroying the main activity.

These two examples can help us distill an even better model, that one might call *network plus*.

A Better Model: Network Plus

The Network Plus model recognizes that it's possible to BOTH:

1. Sell up from a base line of business to marginal activities (which Amazon doesn't do much of¹, but is IntraWare's main thrust).
2. Cross-sell to other main lines of business (which Amazon is working hard at, and IntraWare doesn't do at all).

Done right, this will result in a powerful network effect, while promoting a market-style learning process, and maintaining the survivability of the whole.

Much of this architecture is in place already at EW. In fact, its strength is in its friendliness to our existing culture, and to where we are already going.

Three Types of Business

Three different types of business interact with each other at EarthWeb. For convenience, I have labeled these Alpha, Beta and Gamma. (Please see diagram at Appendix A.)

This lettering, while arbitrary, reflects the fact that everything starts with focused customer segment relationships – Alpha.

The Alpha Business

An Alpha business is one that owns a specific, generally narrow audience. Often burdened with legacy business practices, this business nonetheless is special because it services its audience with products or services that it understands.

Examples of Alpha businesses are SupportSource², PERL Journal, and, from EarthWeb's own origins, the legendary Java sites beginning with Gamelan.

Alpha businesses can be bought or built, but they are added through a learning process that accepts there will be failures. The failures, however, won't bring down the whole.

The Beta Business

A Beta business is horizontal; it serves wider audiences. It can be said that a good Beta business is universal to IT Professionals.

¹ Amazon's rare books service is a conspicuous exception to this rule.

² Editor: Support Source was a leading content subscription service for tech support professionals, which came with EarthWeb's acquisition of Micro House International in 1999.

Examples of Beta businesses are DICE³ (jobs), ITK⁴ (IT books), and our conference, training and auction initiatives.

Beta businesses can start light, often as brokered offers, and compete with other betas for the business of the core customers. They too are learning experiences, and the loss of a Beta is not critical.

Alpha/Betas

There can be businesses that have core audiences (Alpha), but are so powerful that they can be leveraged across many other audiences (Beta). These businesses are home runs for the company, and are prime candidates for Gamma status.

Our DICE business is an example of an Alpha/Beta crossover success. Another is EW's own early Java sites, which ultimately built our developer community site business.

The Gamma Business

At some point, a Beta business becomes so successful that a carefully weighed decision is made to invest in it long term to build a major business, perhaps a Strategic Business Unit (SBU).

Gammas have proven themselves within the company. They are capable of being category killers. Being proven, they aren't allowed to fail: they're not experiments anymore.

A Case Study

To explain how these businesses interact with each other, let's walk through a fresh imaginary acquisition:

Acquire an Alpha

Let's imagine that we want to go into the software reselling business to compete with IntraWare. We look around and find Sunbelt Software (<http://www.ntsoftdist.com>), "The world's first and largest distributor of Windows NT System Management Utilities". A viable business, with a 250K list of NT system administrators; and very focused⁵.

³ Editor: DICE, at www.dice.com, is a leading IT job service.

⁴ Editor: ITK, or IT Knowledge, was EarthWeb's collection of IT books, made available digitally and through subscription.

⁵ Editor: Under Stu Sjouwerman's able management, Sunbelt Software has since grown its loyal list to nearly a million IT professionals, and made the Inc. 500 in 2001. They would have been an outstanding acquisition for EarthWeb.

This will be our Alpha. We like how it could anchor our software reselling play, so we acquire it.

EW Integration Process

The company is integrated with the standard actions always taken to integrate any new company. There are three major parts.

1. Integration Kit.

This standardizes the company's own processes as an EW company.

- ✓ The company's products and services are standardized and fully brought online, with support for legacy users.
- ✓ The website is upgraded to become a major hub for its audience.
- ✓ Tools are implemented to enable rules-based interactive marketing.
- ✓ Major new marketing campaigns are rolled out to turbocharge the company's ownership of its audience.

The business is standardized as to administration, HR, facilities, etc.

2. Tailored Products from Betas.

Meanwhile, the manager of each Beta business has been tasked to create specific products for the new Alpha.

This is an array of free and paid services that specifically target the audience the Alpha controls using mass and personalized marketing campaigns.

Let's say a Sunbelt customer looks up "system tuneup". The standard Sunbelt page for a utility called Autopilot comes up, but in addition, the customer is offered a free editorial, and invited to subscribe to a system tuneup journal, or to virtually attend an NT performance conference, or...

Bringing these products to bear from the Betas is actually part of the integration. It broadens the products the audience is exposed to, and multiplies the revenue per customer.

3. Mining the Alpha's Shareable Assets.

Many Alphas might have technology, products or services which can be used by one or more Betas.

For example, Micro House's Education unit already has a strong foothold in the IT Learning industry and could contribute to an IT Learning business.

As another example, SupportSource content contracts might include some book deals that could benefit the ITK book library.

So this is the third major part of the integration – mining the new Alpha's shareable assets.

Seed Users for the Betas

Step 2 of integration results in a flow of users to each Beta.

In our case, marketing to Sunbelt's 250K System Administrators has generated seed customers for ITK, DICE, Conferences, Journals, Learning, etc.

These customers now get offered the standard services lineups of these units. For example, the System Administrators who signed up for a short course on NT Security now get offered a full array of courses to get certified as MCSEs, etc.

It's also possible that the old Sunbelt could actually become a Beta and resell software to the full array of existing and future Alphas.

The Gamma Phase

Now expanded into a successful Beta, the old Sunbelt has an opportunity to become a Gamma, that is a major business of EarthWeb.

While it isn't a requirement, let's assume a Gamma would be a Strategic Business Unit (SBU). One benefit of this model is that you can pick and choose who becomes a Business Unit, which solves the "all or nothing" issue of SBUs.

Survivability of System

When we acquired it as an Alpha, we thought Sunbelt would make it. But there is provision in the system for failure. Let's say that we realize it had no legs, and that we had to also acquire Beverly Hills Software (<http://www.bhs.com>) to round out the business. This ultimately made sure the Alpha was solid.

Similarly, a Beta might not work out as a business we want to be in. It isn't the end of the world if this unit goes down or has to be repackaged.

It gets serious when it comes to Gammas. A failure of a Gamma would be vicious, much like losing one of the gigabit links on the Internet. Survivable, but nasty.

Utility of this Model

This model is useful for the following reasons:

- 1) Segmentation of Business Types. This model differentiates clearly between vertical and horizontal businesses.

This makes the working relationship of an ITK to a SupportSource clear: ITK is horizontal; SS is vertical.

- 2) Simplification of Product Hierarchies.

This model creates clear product hierarchies:

- a) The core businesses of the Alphas, which get normalized as part of the integration.
- b) The free/paid seed offers by the Betas to create new customers from the Alphas.
- c) The full array of products offered by the Betas, either as Betas or as full-fledged Gammas.

- 3) Pricing Enabled.

With this model, it's possible to implement functional pricing for the different product hierarchies.

- 4) Customer Focus Retained.

With this system, highly focused audience-specific units are compatible with horizontal, universal businesses. Both coexist; customer centricity is retained, and the horizontals can expand by mining the verticals.

Enterprise Information Systems

All these units must be given the benefit of the same standardized information systems, from communications to marketing to finance.

This is especially true in marketing, because the same IT professional is likely to pop up repeatedly on different Alphas, and the efforts to reach that professional must be coordinated. That means a centralized customer marketing database that is updated by all activities company-wide, and a sophisticated rules-based marketing engine that allows smooth implementation of interactive marketing campaigns.

NEXT STEPS

This model is submitted for debate. Should it be adopted in some form, it will have implications that must be worked out, especially for organizational structure.

*Excerpts from a Hypothetical Planning Document.
No Element Of This Document Was Adopted By EarthWeb.*

However, if it can be implemented, this model will permit EarthWeb to carry multiple lines of business without defocus, and to respond rapidly to the evolving needs of IT professionals without endangering already existing businesses.

As such, it is suggested this is a model which can work over the long term to make this a billion-dollar, highly profitable company. That it will communicate well to press and analysts can't hurt, either.

Marketing Evaluation Team
5/10/99
Edited December 10, 2001

*Excerpts from a Hypothetical Planning Document.
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APPENDIX A

Chart: The “Network Plus” Business Model

