

NET PROFIT

How to Invest and Compete in the
Real World of Internet Business

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MAIN IDEA

Thousands of businesses are in the process of migrating to the Internet because the entry barriers are so low at the present time. The leading Web players, however, are those companies that have shaped their business strategy so as to gain control of the choke points and economic levers within their respective industries.

While there is a lot of hype about Internet businesses and everyone is struggling to decide precisely how to value such a business, the Internet actually follows the same patterns that have marked the introduction of other significant technologies throughout history. On that basis, the most valuable Internet companies of the future will:

1. Enjoy economic leverage -- that is, provide a rare product or service that is highly valued by the customer.
2. Offer complete or closed-loop solutions, providing everything required to add value and realize the potential benefits.
3. Be guided by an experienced management team who can change business strategies rapidly as the Internet evolves.

Over the longer term, the Internet business world will ultimately become subject to the same fundamental rules of economics that apply everywhere else in the world of commerce. That means there are some outstanding bargains available at this stage of the Internet's growth -- stock in today's start-ups that will generate significant capital gains in the future as the real value of these companies becomes more definitively established.

Sifting through the barrage of hype and frenzy that currently cloud the world of the Internet is the major challenge of the present time. However, investors and managers who are aware of important changes occurring in technology, customer needs and Internet business strategies will be well positioned to generate the high investment and stockholder returns of the future.

Section 1 -- A Framework for Assessing the Value of Internet Based Business Models Page 2

To make business sense of the Internet and the valuation given Internet based businesses, three frameworks can be used:

1. Net Profit Evaluation -- for investors
2. Net Business Phases -- for Internet business managers
3. Net Application Phases -- for non-Internet managers

Section 2 -- The Profit Potential of Nine Internet Business Segments Page 3

A successful and profitable Internet company will generally satisfy three basic criteria:

1. It will be positioned in an industry that has economic leverage.
2. It will exploit a strategy by which it offers a closed-loop solution.
3. It will have an adaptive, fast moving management team.

The nine Internet business segments are:

1. Net Infrastructure
2. Web Consulting
3. Internet Venture Capital
4. Internet Security
5. Web Portals
6. Electronic Commerce
7. Web Content
8. Internet Service Providers
9. Web Commerce Tools

Section 3 -- How to Evaluate an Internet Investment Opportunity Page 8

From an investor's perspective, the key task is to screen any potential Internet business opportunity for:

1. Economic leverage
2. Closed-loop solutions
3. Adaptive management teams.

For companies that pass that screening test, there are presently six key rules of Internet business investing:

1. The market values top-line growth more highly than profits.
2. There will be significant private-public market arbitrage.
3. Volatility increases with the amount of private ownership.
4. Internet stocks appreciate quickly and depreciate slowly.
5. Growth rates will vary among Internet industry segments.
6. The market and investors reward market leadership.

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