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D/B/A Art By Tech
www.ArtByTech.com

November 12, 2001

Starting and Running a Web Design Business in Times of Economic Crisis

In a recent article entitled “Entrepreneurs Brace for More Bad Times,” Wall Street Journal staff reporter Bernard Wysocki, Jr., states, “The entrepreneurial economy, already hurting badly before the September 11th terrorist attacks, has taken a sharp turn for the worse.” (Wysocki). The dot com industry’s recent problems, the weak economy, and the looming recession support this observation. Although it is not an ideal economic environment in which to start up a Web design business, I have been striving to begin one over the last few months. After the events of September 11th, I wondered: Is it realistic to expect that a new business in the Web industry can grow, flourish and survive? That is the question this paper will answer. First, I will take a brief look at what went wrong with previous Web firms. Then, I will do case studies of three different Web industry entrepreneurs, observing how they have overcome crisis in the past and what their plans are to weather a recession. Finally, I will sum up with my own look at how I can succeed as a small business entrepreneur in the Web industry.

WHAT CAUSED THE DOT COM FAILURES OF 2000?

The dot com venture capital craze of 1999 led to an enormous number of failed business start ups in the year 2000, such as Priceline.com and Pets.com. AdvancingWomen.com, formed in 1995, is an organization widely recognized in the Internet business industry that supports the advancement of professional women. According to an article in their business section, “Revisionist

Theories of Profitability on the Net,” instead of viewing the Internet as a device to complement an already reliable business plan, many of these companies saw it as a way to revolutionize traditional methods of doing business. Unfortunately, inventing new business models was not a reliable way to keep customers coming back. Spending millions on branding, without a trustworthy product to back it, doomed a company like Pets.com, adorable sock puppet notwithstanding. Another example is Priceline’s “name your own airfare” strategy, doomed because customers were not able to pick their own flight times or see which airline was booked. The airline companies eventually stole this advantage away from Priceline by offering their own competitive pricing online (Kalin, p.64).

In many ways, the dot com rush of 1999 resembled the Gold Rush of 1849. Firms thought they could get rich quick by either being the first on the block with a new way of doing business, overspending on branding, or attracting talent without spending money. Having worked in a Web design shop for four months, I noticed an emphasis on keeping employees happy with “perks” rather than pay: parties, foosball tables, decks overlooking Manhattan, etc. In the end there was too much wasteful spending, and not enough business acumen, and most of us were laid off. Not a single employee in a staff of over 200 either held an M.B.A or had any practical business expertise. This type of mismanagement was (and in some cases, still is) fairly common practice among many new technology firms. (In fact, there is an entire Web site, NetSlaves.com, dedicated to publishing tales of incompetence from the New Media business.)

Now let’s see how real-world small business entrepreneurs survived the fall of 2000, and how they plan on moving ahead in the difficult business era that lies ahead. I interviewed the owners of three Web services companies. These businesses are all owned by women, but vary in size of profits and business structure.

CHRIS MADDOX, LEAPFROG DIGITAL DESIGN (<http://www.leapfrogdigital.com>)

Chris has operated her home-based design business for six and a half years. She operates a digital print design business, which she says “naturally” grew into Web design services a few years ago. She runs LeapFrog as a sole proprietorship and also has a reseller license, which allows her to sell taxable goods.

Chris does not generally employ print advertising. In fact, she does have a one-line ad in the yellow pages, but has not gotten any calls from that investment. Instead, she drums up business using “word-of-mouth.” I asked her how she used this marketing technique in times of crisis. Chris’s first two years in business were: “touch and go. I had just enough saved up to float the business,” she says, but uncertainty still loomed. She handled this by increasing her visibility in the community. She joined her local chamber of commerce, her local chapter of Business Network International and several other networking groups. She has helped one of her business networking groups by designing small, pro bono Web sites for them, thereby benefiting her image as well as the community.

Chris has also maintained customer interest with her particular branding method. She is known as the “Frog Lady.” “At the start,” Chris says, “I wanted a unique and memorable name. I always liked frogs and I had a collection of frog pins that I would wear.” The name “LeapFrog” seemed like a logical choice, considering that her slogan is “How high shall we jump?” At the end of every initial client consult, Chris repeats her slogan and jumps, a unique way for potential clients to keep both her and her business name in mind. “Sometimes I forget to jump on purpose,” she laughs, “so that someone will ask me to do it!” The extra attention pays off in making her even more memorable.

For the future, Chris believes that E-commerce will continue to grow, because of the convenience. She says that 75% of her own shopping is done online. The future of E-commerce

companies, though, will depend on how they are run. “The dot bombs were overcapitalized and overextended.... They had no reliable business model,” she says. Chris believes that her business has grown because of the model she uses. “I don’t offer customer service,” she claims. “I give customer *care*.” It’s the difference between simply producing a product and staying up all night to fix an error from the printing shop for a client, even on the eve of a 7:00 A.M. meeting for another client. She has sustained steady income by continually checking in with her regular clients at appropriate times, “foreseeing” their business needs, and looking after their best interests. “It’s not good business for me if they can get their job done elsewhere for cheaper, so I will let them know that. A lot of times they’ll want me to do the work anyway.”

Keeping her clients well advised often involves using her diplomatic skills which, she says, have grown since owning a business. She once had a potential client who photographed a fast food restaurant and wanted to mass produce the photo to sell to other food chains. Obviously, he did not understand that the restaurant had exclusive rights to the use of its name and picture. Chris took the time to explain the legal issues involved and asked her client to speak to the restaurant’s marketing department. “Sometimes people don’t have the slightest clue!” she said. “But you have to be nice to everyone, because you don’t know who they will refer you to.”

In gearing her business to face any downturns resulting from September 11th, Chris says that she will increase visibility and client contact, and try to be as prudent with spending as she can. Directly following the attack, some of her current clients were “on the fence” about jobs they had been previously ready to commit to. She again used her diplomatic skills to contact her clients and remind them, “If we don’t get back to business as quickly as possible, these terrorists have won.” Calming her clients’ fears is all just part of the job for this entrepreneur.

BRETT RABIDEAU, PERIWINKLE COMMUNICATIONS LLC (<http://www.toto.com>)

Brett Rabideau runs a Web hosting and Internet consulting firm. Her company focuses on providing high-performance Web application solutions, and has earned clients from all over the globe. Brett has been in business since 1995, first as a partnership, then since 1999, operating as a Limited Liability Corporation (LLC).

Like Chris, Brett also utilizes word-of-mouth marketing. She initially made contacts through former employers, who already knew her professional abilities. Brett now networks through newsgroups and email lists, both within her industry as well as from her outside interests. Her participation in the University of Connecticut basketball team's email list has generated clientele. Some subscribers join email lists because they "just want the sales, and they don't want to help other list subscribers," but Brett does not believe this is an effective way to be a part of a list community. If you subscribe to an email list, Brett says, "you have to be willing to HELP others." Aside from getting to be known as an expert in the field, you are generating good will and an altruistic business image.

In order to maintain and grow her client base, Brett believes that you have to "offer something superior to everyone else." Periwinkle succeeds, she says, because they respond to their clients in human terms and offer high quality service. Much of the failure of the dot com industry, she maintains, was due to an unreliable business model. "There are two types of business models. One is to offer the lowest price and oversubscribe your client base." This model allows you high growth rate and is beneficial if you seek to sell off your company quickly. This is similar to what a service like AOL did in the early days. If you used AOL in 1993 or 1994, you were frequently unable to access your account at certain periods of the day because they had subscribed more accounts than their systems could handle.

AOL is one of the few dot coms that managed to survive this type of poor business planning because they turned around their business model into the second type of business model:

“Reasonable prices and superior service.... Service is number one.” Brett admits that her Web hosting services are not the cheapest, but that because she has limited the number of clients who can subscribe, her service is fast and highly reliable. This allows her to remain highly competitive in her field.

Brett also attributes her business’s success to her discretion in financial matters. Periwinkle was built on “zero deficit.” By cautiously preventing her client base from growing too rapidly, she did not overextend her capabilities and was able to build up sustainable profitability. Her lack of confidence in Internet market growth prevented her from hiring full time staff as she grew, and instead, she primarily utilizes consultants.

How has Brett faced crisis times in her business? Early on, she was doing her own bookkeeping, as well as all the work. It was very difficult and she got discouraged. “I almost said, forget it!” Her husband asked her, “What is the problem? Is it something you are doing, or do you hate running a business?” She sat down and thought about it, and realized that she enjoyed running the business, but hated doing the accounting. She hired an accountant and gave up the books. “If something is not working and making you miserable, you need to look at the real issue that is behind it.” Another time, Brett claims, she “fired” a client. “He was a very nice person...but (the work) he asked me to do wasn’t reasonable. What he wanted was a full time employee, not a contractor.” It was hard to do, but Brett handled it tactfully, and still gets projects from this client that are far more manageable in scope. “Even if you feel like you need the money,” she says, “bad clients can hurt you.”

When business is less readily available, she uses the time to work more heavily with resellers and focuses more on her marketing efforts. She researches successful competitors and tries

to figure out what is putting them ahead: Was it their pricing or their strategy? Or, was it because of a market trend, rather than what they offered? She maintains that it is important to keep up on email lists and industry news and magazines to discover what people are talking about, what clients are attracted to, and why.

Another element that contributes to Brett's success is her communication skill. She says that it's vital to: "Make a connection.... Keep (your clients) in the loop.... They're important." Brett believes that "the ability to listen to and translate the true intent of what someone says" is key in keeping customers happy. "It's important not to interpret what your client says to the worst case scenario. Listen to their true meaning; don't assume. And learn how to ask the right questions."

When asked about the after-effects of September 11th, she says that, while it's too early to make predictions, she does not see another Great Depression looming in our economy. She admits that some of her potential clients are afraid to spend right now. "The next step is making them want to get the job done." Regarding her current clients, she says, "As long as they weren't affected, they stayed" However many of them did scale back their projects. She has tried to assist them by offering them flexible, interest-free financing plans for the short term.

In the future, Brett believes that Web hosting services will continue to grow on the whole, as will disaster recovery services, which encompass back up systems that support the information technology of major corporations. There will be a trend towards company consolidation for companies who are not committed to providing service full time. She believes that people running on the overextended business model, those that focus on making "comfortable profit margins," will be hurt. "Accountability will become more important," Brett says. "People want to see longevity." After being in business for six years in a relatively new industry, Periwinkle has the longevity it needs to stay successful in the days to come.

LISA MARTIN, LEAPFROG SOLUTIONS, INC. (<http://www.leapfrogit.com>)

LeapFrog Solutions, Inc., is a strategic marketing and digital communications corporation run by founder and president, Lisa Martin. I wanted to interview Lisa after finding an article that she had written on the Wall Street Journal's Start Up Journal Web site, entitled, "How One Small Firm Survived a Tough Year." In March of 2000, LeapFrog was still a home-based business, but Lisa had been planning to incorporate and to move into an office. Unfortunately, before she was ready, she ran into a legal problem. She explains, "A disgruntled neighbor sent a county inspector to notify me that I had thirty days to come into compliance with a law prohibiting more than one non-resident employee in my home" (Martin). She had added two people for a few months to help with a project. If she did not comply, her business would be shut down.

Lisa explained that at the time office space was particularly difficult to come by, and her workload was at a peak. Although all her neighbors and employees were supporting her, the pressure to evict so quickly was taking its toll. Finally, she told her husband, "I'm closing up shop." He looked at her and said, "Why? This person is not worth it." She agreed. Her project manager gained her a 45-day extension, and despite the tension, she managed to find an office space. Then, just as she and her company were settling in, a client decided that all the approved work her firm had done designing a Web site for him was not what he wanted. He informed her he was going to take legal action against LeapFrog.

She knew that LeapFrog was in the right, and consulted with her attorney. He told her, "Yes, you are right, but are you willing to spend \$30,000 to prove you are right? Are you based on principles, or are you based on business?" Lisa says that while it pained her to settle out of court knowing that she had done no wrong, in the end it was the best business decision for her company. "It's all part of business.... A lot of people said 'congratulations' to me afterward because the potential lawsuit is a sign of success.... You don't sue unsuccessful people."

How did LeapFrog survive such a difficult year, and what will it take to survive fallout from the September 11th disaster? Over the years, she has organized many charitable and volunteer functions and events, donated design and marketing services to many organizations, taught seminars, spoke publicly, and written articles. This sort of helping hand visibility has led her to clients and projects. I asked how she made time for so many volunteer efforts in her hectic schedule. “Time management is very important,” she replied. “It can work for or against you.” She says you have to tell your clients what you are doing and know in advance how to say “no” if they ask you for something you can’t fit into your schedule.

Lisa is also very dedicated to both her staff and her community. On September 11th, she sat with her staff in their Virginia offices over boxes of pizza to make sure they were all okay before sending them home early. She wanted to make sure her employees were comforted. Afterwards, she had one-on-ones with her staff, and is still trying to be sensitive to their lows during this stressful time. By keeping morale high among her staff, she has been able to recruit them across departments to pull together and broaden their networking and marketing efforts.

Taking into mind the size of her firm and its humble beginnings, I asked her how LeapFrog had landed that first big client. In the very beginning, she focused her personal efforts on selling, and hired some talented consultants to create a design, which she tested on focus groups. She then tapped into her own savings and mass-produced a five-color brochure. Through a referral, she sent a copy of the brochure to the campaign contact for MACWorld, the annual Apple Computer conference and exposition. The contact loved the design and contacted her, and they “hit it off.” She bid on MACWorld’s campaign, never thinking that she would land it, but based on the design of the brochure, she got the job. Lisa worked around the clock to make sure she was available to her new client all the time, and was awarded the show the following year as well. In fact, she

laughs, the contact had no idea that the business was home-based until two months later, but was so pleased with the work that she did not mind. “Image is everything,” she quips.

Lisa keeps her company fiscally conservative, never borrowing and never going overboard with spending, even in profitable times. After five years in business, she is still debt-free. Last year, she thought she should have taken more risk, but is now glad that she didn't. She keeps her staff intentionally small, employing not just full-timers, but also part-time employees, freelancers, and consultants when necessary. “We were a lean company to begin with,” she says. Until this year, they have doubled their revenue every year. Lisa also takes a cautious approach to signing clients, ensuring that they are stable firms with the means to pay their bills. She has seen other businesses lose significant income and risk their firm's operations by signing clients who could not pay upon delivery.

Lisa keeps clients coming back by showing them how to generate revenue. She measures the clients' temperature for taking risks and makes their campaigns “mission critical” by carefully analyzing client needs. She cautions again about “choosing” your clients. “If they have no concrete goals, and just want a Web site ‘for the sake of having one’, they will never be satisfied with the work.” Her opinion is that you are better off without clients like these, who will cost you more than you will earn from them.

As a result of recent events, Lisa believes that Internet security is going to experience a boom in business. Companies that don't have one will start hiring Webmasters, or put more investment into programming and software technologies that safeguard their intellectual and physical property.

In wrapping up, Lisa gave me a few key words of advice about running a business. “Know when to quit,” she said. “A business consumes your entire life.” She laughs as she calls running a business “a disease. If I had known what I now know before, logically, it doesn't make sense.”

But, she notes, the best thing is that there is no such thing as a business failure. “Even if you go out of business, it will make you a better employee. You’ll know your strengths and weaknesses.” It doesn’t look as though LeapFrog is going to go out of business any time soon, which is good news for Lisa Martin, who claims, “I can’t do anything else!”

SUCCEEDING IN THE WEB INDUSTRY

After conducting these interviews and the research, I realized that the current economic conditions are going to affect any business, but they need not mean disaster. Thoughtful planning, creative marketing, and keeping both long and short-term goals in mind help a business run through good times and bad. I learned many useful concepts, and after my interviews, I now have a formula for effectively starting and running a business.

1. Run a lean company. I was surprised to find that all of these entrepreneurs ran their businesses out of pocket, without taking loans or grants. They put money where it was important, such as Lisa Martin’s costly but successful marketing brochure. They were also extremely cautious on the details of spending. For example, Chris Maddox makes sure to consolidate her business excursions together to save on transportation expenses.
2. Know what you want. I was surprised to learn that none of these women had a formal business plan. Lisa Martin had a very informal one that she had written to enter a contest for “Best New Business.” She claims that she “made up” the forecasting goals she wrote into the document off the top of her head, and surprised herself by exceeding every one of them. She advised me that if you “put it in writing...it’s very powerful.” However, a written business plan is not as essential as knowing your goals and your company’s mission, and sticking with them. All these entrepreneurs had a clear vision of their businesses, and that confidence has led them to business success.

3. Networking, community interaction and good will build a strong business. Another surprise was that these businesses were all launched on word-of-mouth. Each of them generated client relationships through their charitable or altruistic efforts. This suggests that building strong personal and community relationships is key to building a business. As Brett commented, “You have to be willing to HELP others.”
4. Use a tried and true business model. All of these business owners considered their customer relationships to be their primary concern, rather than acquiring the largest client base, or the latest technology. This has allowed them to earn repeat business, increased referrals, and competitive pricing rates.
5. Persistence and determination are necessary. I admired the way each of these women incorporated a philosophy of “never surrender.” For Brett, it was important to get perspective and discover the real issue behind every difficulty. Lisa says that persistence is her top personal attribute. She believes that we are in a recession right now, and is increasing her sales and marketing efforts until, “I get more clients or run out of money.” Chris said that her determination not to work for someone else again helped. She says, “I thought, I can do this and I can make it happen.”

All three of these Web entrepreneurs felt that one effect of the September 11th tragedy would eventually be to grow different areas of the Internet industry to grow, although investors will be more cautious about investing and funding. I, too, believe that the Web industry is here to stay, and is going to become an even more vital marketing tool for any company in business in the near future. People want to be closer to their homes and families when working. This will lead to increased business in Internet security, telecommuting, E-commerce, video conferencing, and related fields. The next boom in the Internet industry, I believe, is on the horizon. This time,

however, the businesses and entrepreneurs who will succeed need to run leaner, smarter companies based on classical business models which have withstood the tests of time and crisis. As our country tries to find its route back to “business as usual,” I feel now that I can help in my own small way, by pursuing the true American dream of becoming an entrepreneur with my own small business.

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