

# Dot-Gone

There seems to be no end in site for the carnage in the e-commerce world. A century from now, Internet archaeologists may look back at the last several years and liken them to an electronic Precambrian era: a time when new life exploded in spectacular abundance. But as in that prehistoric era, not all the creatures emerging from the fecund swamps are equally adapted for survival; there are crocodiles and then there are dodo birds.

Even in the West, they're dropping like flies. Dot-coms peddling everything from dog food to vitamins are shutting down or reorganizing at a brisk pace, as nervous venture investors continue to back away from money-losing companies and critics wonder whether many of the businesses made sense in the first place.

When the Net in Lebanon was still new and mostly potential (about a year ago), it seemed that practically everyone who had a half-baked idea or worse was starting a dot-com enterprise, hoping to become a millionaire. Some actually prospered because investors, emulating the gold rush mentality of the West, were willing to buy into companies with losses on promises of great future returns.

This could not go on forever. And, in fact, since the summer of 2000 it has become clear that the venture capitalists are skeptical of promises of fabulous future earnings and are starting to tighten the capital flow to e-tailers as many of the fledgling sites have failed to live up to the hype. The pull of real-world gravity has been widely felt. From Internet service providers like Cyberia to community sites like Yalla!, e-businesses have seen their revenues sink. But the punishment has been particularly brutal to retailers that do business solely on the Internet. Not only do those merchants have to contend with an increasingly crowded field, but they also have to battle clicks-and-mortar retailers like Getforless.com and 460 The Multimedia Store who, though slow to enter the Internet game, will want to wield their well-established brand names like clubbed tails.

Despite the convenience offered by Internet shopping, Lebanese surfers have not, by and large, been drawn to buying online. Why not? Principally because, unlike the West, there is a justified perception that there are no real bargains out there in Lebanese cyberspace. A computer, say, or a bottle of wine from a dot-com-dot-lb site is priced exactly like its high street model. Compare that with the West where drugstore sites, for instance, will sell a large package of disposable diapers, a tube of toothpaste, vitamins and athlete's-foot powder, all for \$3.50 (only a small exaggeration); and electronics sites will sell DVD players for \$169.95 each, less than their cost, and then ship them free overnight. Of course selling goods at a loss or giving them away is, in essence, a short-term measure of buying customers and of building market share at any cost. And while Lebanon simply doesn't have the mass market to undertake such cash-bleeding measures - which explains some homegrown dot-com dreams of foraging into the wider Middle East - not enough is being done to draw the existing customer base and sell to those eyeballs.

The problem, according to executives and industry analysts, is that investors had been treating electronic commerce as a popularity contest, giving the sites with the most visitors

the highest valuations. As a result, many Internet merchants have concentrated more on their Web-traffic figures than on the standard measures of long-term retail success, like gross margins, customer acquisition costs and customer retention rates.

But now that investors are seeking evidence that dot-coms can show profits at some point, many Web retailers are getting down to the dirty work of squeezing income from their operations. "More and more, the focus is now on what will drive near-term revenue," says Jacques Hakimian, Internet analyst with Dialog. "There's clearly a sense of urgency around the efficiency side of the equation, which for a long time was ignored quite explicitly."

Another problem with the existing e-tailing model is that most shoppers do care about price, but they have other concerns, like credit-card security, familiarity and reliability - priorities that retailers overlook in their chase for advertising dollars rather than sales dollars.

And while buying in cyberspace also remains a stretch for many Lebanese consumers who are more comfortable living in what is still very much a cash-based society, the use of Internet credit cards - with a fixed monthly credit - is on the rise aided to a large degree by those banks that have set up online branches. Credit Libanais, for instance, is pushing an all-in-one package that includes an online bank account, a PC, unlimited access to the Internet, and a MasterCard with which to make purchases from B2C stores - from e-tailers, that is, that are way more likely to be Amazon.com or eBay than homegrown dot-coms.

The suspicion, though, is that Lebanese sites haven't done enough of the right stuff to evolve into successful crocodiles. "E-commerce is still not geared up for prime time in Lebanon," complains Hakimian. "We simply haven't embraced and kept abreast of the new technology."

Hakimian and others say the focus on near-term revenue probably means the temporary abandonment of some prominent retail initiatives, like building sites devoted to regional Internet users. "A lot of e-tailers and portals had aggressive plans to expand into the Middle East that they've put off," says Hakimian, "because that would require a big near-term investment with no revenue hit."

Given the dismal performance of dot-com retailers, what the market seems to be in the mood for now is some old-fashioned e-fficiency.

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## **E-tails of Woe**

Pity the humble Lebanese e-tailer. First it has to contend with one of the smallest local markets in cyberdom - even e-tailers in the West that cater to a niche market (of dog vitamin tablets, say) will have a target audience running into the hundreds of thousands.

Then, again in relation to the West, Lebanon's cash-based customers are relatively unsavvy when it comes to buying off the Web, still convinced that cyberspace is awash with hacker pirates looting lists of credit card numbers.

And lastly, the nail in the coffin as it were, is that the Lebanese e-tailer has to face a poor press - such as this article - that draws attention to its moribund sales in the wider context of the death of dot-coms.

Little wonder, then, that homegrown B2C's are doing so badly.

Less than a year ago, Lebanese entrepreneurs rushed to set up stores that they inevitably promised would be the Amazon or the Yahoo! or the eBay of Lebanon. They never were of course - a local marketplace could never compare with a World Wide Web.

And besides, most of these stores focused on a startlingly narrow array of merchandise. LebanonShop, for instance, revamped its site in October 2000 and increased its inventory from a paltry six categories to a trifling 15 - of which some, quite honestly should not even count. If you click on their books, for instance, you're taken straight (and quite cheekily) to the US bookseller, Barnes & Noble. Libanmall has gone for the same trick to beef up its category list: their book links go directly to Amazon.

Eshop.com.lb has passed on to cyberheaven - if such exists for defunct dot-coms - as has Yazbek.com, which used to just sell beehives and other beekeeping products. Future candidates for the e-morgue include BuyLebanese - more of a virtual stall than a full-fledged bazaar that sells nuts and argileh pipes - elsouk, purveyors of handicrafts and BeirutMall, with the extraordinary distinction of being the first e-mall where you can't actually buy anything (only some of the products have prices, and there's absolutely no facility to order online).

And though these dead/dying sites are still on the Web like spectral remains, they are clinically dead/dying because they were in businesses where profit margins were too thin to make sense. "E-businesses without high gross-profit margins will not succeed," says Georges Hajj flatly, Internet analyst with Compudata. "It's a tough lesson that everyone - from Beirut to Bangalore - is finally coming to terms with."

Venture capital is drying up. The little financing that remains is, more often than not, going to ventures that facilitate commerce among businesses, a rather more stable proposition. Business-to-business, the sale of goods and services to other companies rather than to the public, has flourished for centuries. But the Internet has lent the sector a cachet that has generated the income required to stay afloat. A case in point is FiberLink whose recent cash injection of \$700,000 by Al Mawarid Bank has gone into financing corporate services in the wireless Internet field.

As for local e-tailers, the big lesson from the West is that a long-established brand name is an unmatched asset. All the new Internet retailers that have no connection to or history in the physical world look more vulnerable than the clicks-and-mortars. In that latter category is the newcomer, 460 The Multimedia Store, who were not rushed into building a Web site in the first wave of startups. The company, which sells computer accessories, is expected

to go online within the next months. General manager, Antoine Abi Nassif is upbeat about their e-venture. "We already have a local presence and brand loyalty," he says. "The risk isn't that of an Internet-only startup." Though it is easy to say that traditional retailers are lagging behind because they are not yet able to operate at Internet speed, bigger retailers have more at stake than Internet start-ups and are justifiably more cautious about risking their reputations with a site that may not be ready for prime time. In this strategy of proceeding with extreme caution, Abi Nassif, like bricks-and-mortars ABC and BHV-Lebanon, are acting as Western established companies that are wary of sullyng their brands with a weak Web site. "There's a lot more to consider as you put the model together," concedes Abi Nassif.

Start-ups, on the other hand, often underestimate the difficulty of building a good site and miscalculate how long it will take to break even. Online malls like SoukLoubnan and Soukna expected an online buying binge when they were launched last year. SoukLoubnan is now in its death throes - the list of categories are still posted but with so many empty goods (with the telling display of "Check this category later") that it looks and feels very much like the woodworm-eaten shelves of a Russian supermarket in the Soviet era. Soukna is only marginally more appealing. Just after its launch in 1999, Soukna was recording sales of some \$2,000 a month on clothes, CDs and office equipment - the income has been halved and the product list has dropped from the post-launch exuberant slogan of "over 3,000 items for all occasions", to about 1,100 in 8 categories. Here, the many out of stock items are highlighted with the message of, "No matching items were found, please try another search."

Another search which would prompt the average Lebanese surfer to abandon Lebanese e-tailers altogether and click onto healthier e-malls in the West, or to the Jordanian Arabia.com, which was voted the most popular Arab shopping site by Nua Internet Survey, used by the US Department of Commerce for online estimates.

Bucking the downward trend, a few Internet companies are finding sources of revenue inside their own marketing departments. The primary marketing vehicle for Yallashopping, an offshoot of the portal, Yalla!, and an online-only retailer is its own database of customer e-mail addresses, whereby featured products are sent to their subscribers in the hope of generating extra sales. And, though the sales figures cannot be high, that approach goes some way to stabilize a company's marketing costs.

It's a marketing technique that's also been adopted by GetForLess.com, a purveyor of direct mail order catalogs that carries over 1,000 products ranging from such items as espresso machines and cameras, to computer software, music CDs, and pool tables. "We're able to create more of a buzz about our products by sending circulars to our subscribers," says founder, Alain Arab. Online orders average at 10% of total orders, or roughly \$2,500 per month - an e-sales figure that, unappetizing though it is, singles out GetForLess as the most successful e-tailer in Lebanon.

On the whole, then, as the dot-com survival game unfolds, it's becoming clear that executives at struggling Web sites have missed the e-commerce train. According to Michel Kilsey, IT consultant and general manager of Internet Facilities, there is a fundamental

lack of vision at play in the Lebanese B2C sector. He is down on merchants who take a "build it, and they will come" approach to e-commerce. "They put their products on the Web and hope everyone will visit," he chides. "A lot of this comes down to the mistaken belief that building a site is an easy thing to do."

Of course he has a point. For instance, who can be bothered to wait for the download of poor-grain images of pseudo-Louis XV armchairs at Gallery King - a traditional brick-and-mortar furniture store that's hoping to generate online interest and sales? No-one, really. Not when you can surf on down to the snazziest furniture at the US-based furniture.com where more than 50,000 items are for sale, as well as online advice from design consultants and personal shoppers.

There are ways to drive surfers and potential customers to your site - bludgeoning their eyeballs is, by general consent, not one of them. "If you want to create something that will last, you have to go about it the right way," says Hajj. "And whereas growth at any cost used to be the biggest imperative, companies have now been forced to focus on the bottom line."

Kilsey concurs. "The market's now saying pretty clearly that it's not just growth anymore," he says. "It's about overall efficiency of operations. The only problem is, in most cases, the skills to get that done are sadly lacking."

And there, in the final analysis, lies the main reason why you should pity the Lebanese e-tailer.

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## **Where Have All the Portals Gone?**

If a typical Lebanese Internet portal were compared to a car, it would be an old-style Volkswagen Beetle: quirky and quaint to a few, spartan and out of date to most.

A year ago, with Internet merchants projecting losses well into the foreseeable future, it seemed the only consumer-oriented companies that might actually profit from the World Wide Web were portals and other popular gateways to the Internet. But those businesses, too, have proven generally unprofitable, given the proliferation of such Web sites and the mammoth marketing budgets required to attract users.

Web portals, the jumping-off sites for many Internet surfers, grab a piece of the e-commerce pie by offering retailers prime real estate on their sites. In exchange, the portals receive tenancy fees. Sites like Data Management's Yalla!, Lebanonlinks, Libanis, LebHost, the business-oriented 1stlebanon, and Californian-based Lebanenet flourished initially, as retailers sought top billing within the portals' shopping categories. In the wake of dot-com investment last year, those deals cost companies like the Financial Funds Advisors (FFA) and Mint between \$250 and \$300 a month for every portal they signed with. "At the time, the spending made sense," recalls Mihran Boudromian, Internet analyst

with Expervision. "Portal deals provided direct access to customers, offering a buzz to both the dot-coms and their portal hosts."

But since e-tailers in particular have become personae non gratae, they have had to begin thinking of marketing budgets as something that must actually serve the purpose of attracting hard-core revenue - not just casual hits on an e-commerce site. And so portal deals have been the first line item on the budget to come under the microscope of e-tailing executives.

Analysts and e-commerce executives predict that the new scrutiny has affected all the homegrown portals. "There's a clear symbiosis going on between portal sites and dot-coms - when the e-tailers suffer, so too do the portals," says Boudromian. "A year ago, people were still pulling numbers out of the air, trying to figure out how the deals would perform. Now they have some data."

And most of the data is not pretty. "Many of the links in these portals are no longer valid," says Jacques Hakimian, Internet consultant with Dialog. "The error message that the surfer gets is either due to a change of address, or because the dot-com being sought has folded - either way, it's a sign that portals can't be bothered to update their sites." A sign, believe several analysts, that is the first symptom of portal-death. "In a way, it's like opening a phone book only to find that many numbers have been disconnected because the phone bills haven't been paid."

A prime example of portal-death is waynak.com - meaning 'where are you' - part of E-commerce's (the company) online family. Where is it indeed? Launched last year, waynak hoped to become Lebanon's Yahoo!, rivaling Data Management's Yalla!. Instead, it was soon buried in the sea of portals offering emails, chat and message boards - cut dead in its tracks even before it had time to launch its sister site, waynik.com. But then, given the irritating political correctness of it all, that might have been a blessing in disguise.

Now, with financing for new portals dried up, a fresh spin on the idea is emerging. And analysts say this novel approach could breathe new life into the whole portal concept.

Rather than spend thousands of dollars persuading dot-coms to come to a portal designed for them, companies are now working with associations that already cater to such groups to build portals aimed at their own memberships. In theory, at least, this approach puts a sane ceiling on marketing costs, ensures a loyal user base and promises a free flow of revenue from advertising and commercial transactions.

In Lebanon, the company with the most momentum in this area is French-based eBiz Production, which rolled out its portal in 1999. Grandly called 1stlebanon, it's a business portal that brings together 360 Lebanese organizations sorted in 36 main fields ranging from airlines to banks to travel agencies. "It's essentially a promotional campaign which aims to bring Lebanese businesses to the fore in the global market," says Yann Rotil marketing manager of eBiz Production. "But there are news and features so that it's as much about offering a foreign businessperson a taste of corporate Lebanon."

For a flat fee of \$480, companies get to have their logos, short company profiles and contact addresses printed on 1stlebanon for 17 months. Following on their success in Lebanon, eBiz Production is wrapping up agreements in other Middle Eastern countries - the UAE and Jordan are next - with a view to creating a 1stmiddleeast.com portal within the next two years.

Carla Haddad, marketing manager for Exotica, the clicks-and-mortar flower shop, said she looked into tenancy deals with all of the portals last year, but signed only one because the rest were either drawing very few individual clicks or were "economically not viable."

"We chose 1stlebanon," says Haddad, "because we feel it to be the most serious business portal in town."

However, even with a captive audience to rely on, portals often have a difficult time retaining a consistent and active user base. That, in turn, undermines long-term revenue hopes. "The biggest risk of all is that portals do all this work and no traffic materializes," says Boudromian. "They're betting that users will start with their groups - but my bet is that our region will never have anything that even comes close to a Yahoo or eGroups."

A prime example of a portal dream turned sour is with Cyberia.

In November 2000, Cyberia's troubles came to a head when, having already sunk a significant capital into their new portal site at thisiscyberia.com, it realized that the experiment was going nowhere. By the end of that month Abude Omari, the CEO and co-founder of Cyberia, resigned in a sign that was quickly interpreted as an acknowledgment of the company's problems in a difficult competitive landscape.

Cyberia had been trying to refocus itself in an online service market increasingly dominated by regional expansion. It launched its "news center" in July as part of a revamped service that would appeal to a wider Middle Eastern audience and which included quality news and entertainment features. Some analysts praised the ambitious strategy, but wondered how such an expensive editorial department could generate enough returns to keep afloat.

"They got going too fast," says Sam Lutfallah, general manager of Inconet. "They got unfocused." The changes drained cash and wiped out any chance of profitability. Whereas Lutfallah does see the need for ISPs to play more of a portal role in tomorrow's e-landscape - Inconet itself is working on long-term plans to reposition - he maintains that Cyberia rushed headlong, almost impulsively.

Cyberia has since refocused on its original mission: attracting basic dial-up access clients and holding on to subscribers as life itself - all but abandoning Omari's portal dreams.

Other newcomers to the portal jamboree are WAPs (wireless application protocol) and their ambition to turn every e-transaction into its mobile counterpart. Mideast Computer Solutions and Systems (MCSS) launched its Internet portal, Mobilenow, in October 2000. "In the next couple of years, almost every phone will be Web-capable," says MCSS's

deputy general manager, Naji Rizk. "And that's because there's so much benefit to having a wireless Web link."

But beyond the hype of a sizzling-hot technology - and the instant thrill of being connected while on the move - the jury is still out as to whether local m-portals will be able to improve on their 'e' predecessors.

Traditional Lebanese newspapers are also getting into the portal act. Both an-Nahar and L'Orient Le-Jour have consolidated their content into Internet portals that blend news with entertainment listings, and other local information. Unfortunately, they have created sites that are about as enticing as a trip to the dentist's. Beyond simply erecting an online version of a broadsheet, the idea should be to make the portal site hip and yet oriental to seduce regional surfers - easier said than done.

And even if - miraculously - Lebanese portals were given a clean bill of health, they would still have to fight for attention in a region crowded with well-known adversaries.

According to the most recent Nua Internet Survey, only about 2 million of the more than 270 million Arabs in the Middle East have regular Internet access. Gradually, with trips and stumbles, the Internet is coming of age in the Arab world, and investors look toward a future that the Nua survey group says could see 12 million Arab users in this region the next two years. But, for now, the Web sites compete for a small pool of users and, therefore, skeptical advertisers.

The battle for cyberspace supremacy has already begun - and everyone's goal is to become the Yahoo! of the Middle East. In a Middle Eastern arena, Lebanese portals have to vie with such rivals as Arabia.com, AiwaGulf, California-based PlanetArabia and Jordan's al-Bawaba, to name but a few.

And winning users without spending much money is a tall order. Think of Arabia.com, the self-proclaimed leader of the regional pack commanding some 30 million hits per month. In an effort to increase a Middle Eastern audience, Arabia.com launched a million-dollar ad campaign in October 2000 plugging the site throughout the region, from newspapers in Egypt to billboards in Saudi Arabia. The ads were targeted at young people because, in the words of editor in chief, Osama El-Sharif, "They are the ones who will affect change in the future."

Another contender for the Yahoo!-of-the-Middle-East award is Yahoo! itself. "Arabic Yahoo! as well as msn-Middle East have already set up portals in Dubai," says Kamal Noun, Internet business development manager, who is responsible for setting up a B2B portal for the UAE national oil company, Eppco. "In fact msn-Middle East is a major drive by Microsoft today with logistics operations set up in places like Jebel Ali Free Zone and Dubai Internet City. They'll be a force to be reckoned with."

Ultimately, everybody wants to become a portal, a cyber-hub, an all-in-one gateway to the Internet offering all kinds of services and features. The unappetizing truth, though, is that not everyone can turn crawling Beetles into sleek Jaguars.

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## A Piece of the Auction Action?

One of the biggest Web crazes of the last couple of years has been person-to-person auctions. More people than ever are flocking to eBay, Yahoo!, and dozens of other auction sites and are turning that junk in their attics into cold hard cash (or exchanging it for new junk). Allowing customers to sell to one another is, in theory at least, a path to easy money. That's the beauty of being a middleman, and that's why the eBay model has being duplicated widely around the globe.

In practice, though, the equation is far from straightforward. "Lebanese startups read up on the theory and believed there would be an online fervor that they could cash in on," says Degaulle Azar, deputy general manager and Internet analyst with Bond Communications. "With hindsight, they've come to the cold realization that they were quite wrong."

Hoping to emulate eBay's success, Lebanon has - or rather had - two online auctioneers: Mazadi, part of E-commerce's family of companies, and el-Mazad. Both were looking for a piece of the auction market. Except that - and here lies the flaw in their calculations - neither is the Lebanese market skyrocketing with e-commerce, nor can Lebanese surfers sustain a Lebanese auctioneer.

Mazadi, launched last year, is all but dead with product lists that are down to an embarrassing cipher in every category. "We've had to abandon in face of the stiff competition from el-Mazad," concedes Mazadi's general manager, Walid Hanna. "We just didn't have the advertising budget to make it a winner." The irony is that Mazadi sold its auction software at - well you might have guessed - the auction giant, eBay.

El-Mazad adopted the auction format several months after Mazadi, coming online in May 2000 with 18 categories that ranged from books to consumer electronics to toys. "I want el-Mazad to be the best place to sell anything," says Walid Tamari, el-Mazad's general manager. "The marketplace is what we focus on, the exchange between buyers and sellers, while most others focus on being a shop or a collection of shops."

Both the optimism and an advertising campaign that included radio and billboard plugs has helped to attract surfers. The auctioneer has some 4,500 registered users, up from the 2,300 who rushed to the site at the launch, but still a trifle when compared with the 10 million users who regularly consult and bid at eBay. And el-Mazad is still having problems generating enough revenue from its middleman fees to be called a success.

So what's going wrong? Is a Lebanon-only market too thin on the ground to feed a local auction house? Partly, says Azar, but more damningly is a general dissatisfaction that leads to a lack of any real intent to use auction sites. "Online auction sales have been touted as one of the biggest merchandising trends in e-commerce today," he says. "Yet unless site managers study their customer satisfaction, auction sites could be 'going, going, gone' sooner than they believe."

In Lebanon, the top two complaints from auction users are high minimum bids and low product selection - at its peak, Mazadi only had

65 products in 10 categories; el-Mazad's lineup of roughly 1,000 items at any given time in 23 categories, though considerably better, does little to remedy the difficulty in locating desired products. Other complaints from consumers include poor to non-existent product description and graphics.

What should auction sites do to grow their use? Improving product selection and making it easier to navigate the auction experience are key, believes Azar, as is spending some money on the site to inform and attract consumers. "Of course, trustworthiness is also an issue," says Azar. "Especially for paranoid e-commerce shoppers like the average Lebanese surfer."

All dot-coms also dream of adding an element of "stickiness" to their sites. eBay is not only the thirteenth-most popular site on the Web, according to the US-based Forrester Research, but its users tend to visit the site more often and stay longer than they do on other e-commerce sites. "Local auction houses also need to evolve into a hybrid form of portal," says Azar. "Without deadening the senses with useless information, they should try to look at ways to aggregate eyeballs - one relatively straightforward technique, for instance, is to post a review next to the product being auctioned."

And other than internal organization, any purely Lebanese site will also have to face off against some stiff regional competition that is trying to get in on the auction game, like MazadMaktoob.com and Kunoozy.com, a subsidiary of AtArabia.com Inc.

Where el-Mazad's efforts have been national, both MazadMaktoob and Kunoozy target a wider Arab community by creating country-specific vertical exchanges and by bringing together multiple buyers and sellers either in a consumer-to-consumer, business-to-consumer and business-to-business relationship in the Middle East. Users can buy and sell their items in various categories that are broken up by individual countries in the Middle East region - Kunoozy's country-specific auction sites include the UAE, Saudi Arabia, Bahrain, Kuwait, Egypt and Lebanon; MazadMaktoob adds Jordan, Syria and the North African countries to Kunoozy's list.

And unlike el-Mazad, both have gone for the global strategy by creating fully bilingual, English/Arabic platforms, thus - so the theory goes - opening themselves up to millions of consumers for both the Arab and Arabophile markets.

But for the time being, at least, el-Mazad has still got the edge in terms of number of products being auctioned - always an indication of online popularity. Kunoozy is so far the smallest of the three sites with a dozen categories, compared to MazadMaktoob's 15 and el-Mazad's 23. It remains to be seen how long el-Mazad will be able to hold on to its slim lead.

In the right circumstances, and with a balanced marketing mix, auction sites have proved that they can come into their own and see their listings grow. By the end of the year, eBay averaged nearly 3 million daily auction listings, while Yahoo, which rushed to add

auctions to its services, had more than 1 million. And even e-tailing giant, Amazon, has had some raw gavel sense knocked into it and has become the third-leading auction site, and a primary alternative destination for eBayers. But until Lebanese auctioneers are able to generate enough interest in their sites, their e-ventures will always look more like insubstantial baubles than profitable bazaars.

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