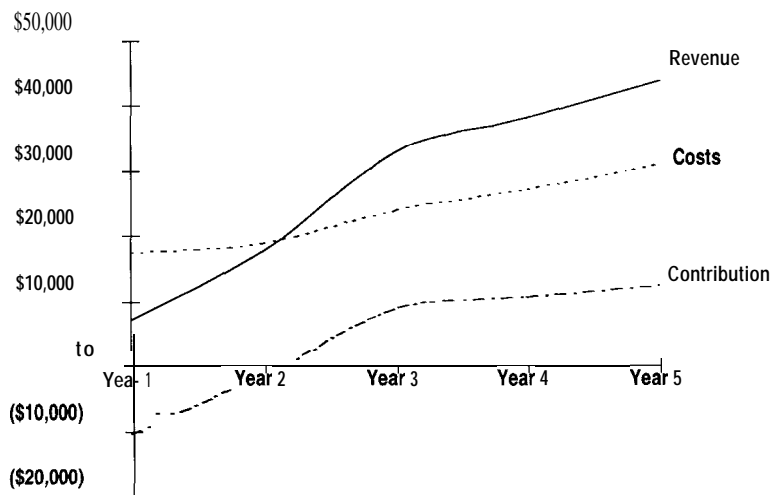


Chapter 7: Valuing network publishing companies

The vortex of economic transformation unleashed by Silicon Valley has become so awesome that nothing in its path can escape untouched. – Michael Rothschild ¹

Valuing an electronic information company is difficult. Nevertheless, staggering prices are paid. One reason is the type of performance curves certain properties achieve. Consider the figure below. It presents data gathered over a period of five years from studies conducted by the author.² (The scale is for illustrative purposes only and does not reflect the performance of an actual company).



[1] 'Cornucopia or Black Hole?' *Upside*, October 1995, p. 20.

[2] These data are gathered, normalised and entered into a database maintained by Arnold Information Technology. The curves reflect an average behaviour of successful new electronic information products. The dollar scale has been adjusted for purposes of this illustration. More information about this financial model may be obtained by writing to AIT, Postal Box 300, Harrod's Creek, Kentucky 40027, USA.

After investments in the first two years of the product's life, revenue begins to build. After the third year, the successful product yields healthy margins, often in the 25% range. An Internet publishing property, our term for information in electronic form that can be delivered for a fee via an Internet or an Intranet, generates a stream of cash and enjoys margins that are larger than those in many other business sectors. In the successful network publishing company, costs stabilise while revenues grow. An entrepreneur or company with a number of properties performing in accordance with this idealised model is positioned to capitalise on the high multiples paid for entities in this business sector. A sound strategy is to have each company at a different point in its life cycle so that payback and selling price can be maximised.

The press is filled with stories of phenomenal sums paid for companies that have little or no visibility outside a narrow technical niche. America Online paid a seven figure sum for a company that had not generated revenue or shipped a product. The acquisition of NaviSoft, a firm that developed a Web page database product, has proven that a company can command a high purchase price and a windfall for its owners without having ever shipped a product.

A high-multiple acquisition such as this one is not an anomaly. Dozens of Internet-related businesses are finding themselves demonstrating their products and services to venture capitalists, bankers, wealthy individuals and acquisition-hungry multinational corporations. Some of these are liquidations; the idea did not fly in the marketplace and a company's technology or people may be acquired at a highly competitive price. Others, the ones that will be the focus of this section, are successful enterprises and are investment worthy.

Assets alone are not a sufficient yardstick for evaluating Internet publishing companies. Dozens of financial books are readily available that describe the basics of establishing the 'worth', or its 'fair market value' of a company. The precepts, formulae and guidelines are useful for a wide range of valuation projects. Traditional yardsticks lack reach when applied to information-centric companies.

Consider this typical start up. An entrepreneur invests \$100,000 of his own money in an Internet software business. The entrepreneur involves two key people who are promised a share of the company when it becomes profitable. In exchange, the employees develop the software product for the entrepreneur.

The tangibles the company owns are minuscule. There are three low-cost computers, some commercial software tools and some used office furniture. The company has costs. The only asset the company has is the source code for the product.

In the case of Navisoft, these assets were enough to warrant a seven figure buy out.¹ How? Why? What caused the management of America Online to see an opportunity where others saw vapourware or a long shot?

[1] Information about this company and its products is available at <http://www.navisoft.com>. The firm is part of America Online and offers preview versions of its network publishing tools.

Consider this next example: four people joined together with minimal assets and a vision of an informative index to World Wide Web sites. Although there were many indexes, none of them provided the user with a rating of the site along the lines of a restaurant or movie review. After eight months of operation, the entrepreneurs sold the company for about \$3 million in cash and securities to a larger firm eager to expand its Internet holdings. At the time of the sale, the start up company (Point Communications) had attained revenues of about \$400,000, primarily from the sale of advertising space on its popular Web pages and a book deal with a major publisher. Sounds unbelievable. It is not. Two members of the group that invented Point provided information for this Briefing.

Is success confined to the Internet? No. In a deal valued at more than \$9 million, Intuit, maker of the Quicken financial software, purchased Galt Technologies. Galt is one of the major publishers of mutual fund data. Galt's information is available in print and electronic media. Its NETworth service provides price quotes and prospectus data on more than 6.5 mutual fund companies. Based in Pittsburgh, Pennsylvania, Galt had revenues of about \$3 million. It sold for a multiple of three times earnings.

Has the opportunity to build, sell and buy Internet and other information-centric companies peaked? Are the best days of Internet publishing behind us? The answer is not difficult to discern. The opportunities for financial gain are beginning to be understood by many. The landscape has not fully formed in the new world of Internet publishing. The land remains unexplored; its riches not yet discovered.

Many of the most skilled publishing executives have a sixth sense for a technology or an information-anchored property. Other organisations such as Reed-Elsevier and Bertelsmann have an institutionalised process that its executives exercise effectively. These systems work; Bertelsmann, for example, took a minority position in America Online and captured a seat on the company's Board of Directors and has used that investment to push into an online venture in Europe.

The purpose of this chapter is to outline some of the criteria and reasoning used for valuing an Internet-related company. The points explored in this section are not designed to replace traditional financial tools. The inclusion of these other elements in the financial analysis can help shed light on what value to place on a company with modest or no revenues. Many firms find that the best way to explore the new medium is via acquisitions.

The checkpoints

Most companies' values boil down to tangible assets. Bankers and accountants know that real estate, hardware, cash reserves, certain types of financial instruments, certain contracts have a value that can be determined in the open market. When a business fails, the assets can be expected to generate a certain amount of cash.

The majority of traditional asset analysis tools are anchored in machinery, buildings and other hard assets. The typical information company presents some immediate problems, particularly if the company is losing money or slightly above break even.

Most Internet information companies lack hard assets. A company's products and services often exist in digital form or are provided on hardware and network systems that are owned by others. Some Internet companies have no tangible assets or presence. The owner may work from any location. The product or service can be provided directly to customers via a server. Funds are collected by telephone. Payments are made by credit card.

The word *virtual* has been used to describe a company with few of the trappings usually associated with a viable business. To place a realistic value on the products or services of a company that operates with a handful of employees, leased equipment, some telephone lines and a cadre of contract workers, can be extremely difficult. Until recently such companies were not taken seriously. One outcome of the Netscape initial public offering has been to raise awareness about these new media companies.

When a potential buyer or investor examines an Internet-oriented company, for example, or an Internet access provider, what does one look at? The standard list of items might include:

- Financial performance
- Tangible assets
- Contracts
- List of customers
- Backlog.

Other items include staff, key relationships and the all-encompassing *goodwill*.

These data must be collected and a range of financial ratios calculated. The idea is that healthy companies fall within ranges achieved by other healthy companies. Some of the calculations are straightforward, such as the ratio of revenue per employee. Others are esoteric, making use of regression analysis and proprietary algorithms.

For many information properties, calculating standard ratios and following guidelines developed for established business sectors may lose some of their usefulness when applied to an Internet property. The most visible example is the valuation of Netscape, a firm that has captured **about** two-thirds of the World Wide Web browser market. At the time of writing, Netscape has begun to generate revenues. It has not had a profitable month in its short history. Nevertheless, the company's initial public offering of stock valued the fledgling company at more than \$70 per share within hours. The stock has settled down to a still dizzying \$50 per share.

Some established electronic publishing companies may yield a comparatively gloomy financial picture. Consider a database firm with about \$3 million in revenues, virtually no tangible assets and no cash in the bank. After the traditional financial work-up, analysts often say: "There's nothing here". When looking only at dollars, the description is more often than **not** accurate. But how often do the dismal traditional criteria cause an investor or potential acquirer to miss a major financial coup?

The factors that influence what might be termed 'off the balance sheet' values require a different angle of attack. The principal factors influencing the Navisoft-type of acquisition include:

- The company's technology
- Rights and permissions, contracts, patents or other intellectual safeguards
- Editorial systems
- Distribution channel or media diversity
- Staff and expertise
- Strategic alliances
- Margins on certain types of products and services
- The organisation's market share
- Its position with regard to its major competitors.

These items also influence the valuation of traditional companies. The key difference is that they are used as checkpoints for Internet publishing enterprises. It is not that the yardstick is different, but that emphasis differs. Certain elements are looked at more closely at a finer level of detail. Those analysts unfamiliar with the basics of electronic publishing finance often lack the intimate knowledge of the information business to make some of its peculiarities part of the standard business work-up. They may be unaware that while margins on electronic products can increase if the source information is created for a more traditional medium such as magazine, book or newspaper publishing, a company that does not produce its own primary information is burdened with two potential cost pitfalls. The primary information producer may cut off the secondary publisher, endangering revenue. More troublesome is that the cost to create an alternative source of information may exceed the financial capabilities of the secondary publishing company. Such rules of thumb and precepts are part of the warp and woof of network publishing. The valuation of an information company with network publishing revenues must be made with a sensitivity to these and other financial factors. The evaluation process for such companies typically has three phases:

- *Foundation Phase.* Data are gathered through interviews with management, examination of existing financial data and information about the current activities of the organisation, including current financial reports.
- *Infrastructure Phase.* The Internet and electronic publishing analysis consists of a technology assessment, staff assessment, analysis of distribution channels, a review of rights and permissions and examination of strategic relationships.
- *Valuation Phase.* The process begins with the preparation of financial projections based on opportunity identification. These data are consolidated and converted to new product financial projections. The existing financial data and the projected financial performance are recast as financial statements indicating performance of existing lines of business, projected performance from new products and the costs

associated with these activities. The valuation is based upon known revenues, new products and cost assumptions anchored in the organisation's operational processes.

The remainder of this chapter reviews the five key metrics that are off-the-balance sheet items for financial analysis of network publishing companies. Many of these elements may also be applied to software, multimedia and other types of electronic publishing activities.

After reviewing the key checkpoints, one interesting feature of the network publishing environment becomes evident: each of these issues is interlinked with the other elements. The more seamless the linkage, the higher value of the property.

Technology

The key to Microsoft's astounding market success is its grasp of technology. Internet publishing is a technology-centred activity. Consequently the application of technology becomes a key indicator of an organisation's health. The know-how of a company is embedded in its staff and its operational procedures. Thus, the concept of 'technology' is necessarily ambiguous and is defined by the particular type of Internet publishing property that one is examining.

A key factor, regardless of organisational structure, is that an organisation possesses a technology infrastructure that allows rapid new product development. A firm that cannot deploy new products is likely to have a strategic weakness that must be identified and understood. The technical infrastructure becomes a key indicator of the firm's competitiveness. Just as important is the demonstrated ability of that infrastructure to perform effectively over time.

Consider the fictional Internet publishing company Alpha Data that has an editorial systems infrastructure that is robust, scaleable and flexible. These features are observable in its flow of new products to the market. The Alpha firm makes use of low-cost open systems and workstations that are PC-compatible. Its software comes from established companies but has been tailored using industry-standard tools to develop specialised processes. The infrastructure has been tweaked to support the processing of many types of electronic objects. The system moves bits, not paper. The company's management views electronic storage as less costly than more traditional archiving techniques.

Contrast this situation with Beta Computing. Beta uses a number of different systems and software products from many vendors, not all of whom are supporting their previous products. The system works but it cannot easily be changed. The firm's principal Internet-oriented product has not been updated in the twelve weeks since its introduction. Staff must make changes manually to the database containing information included in the new product. Work flow processes move a blend of paper and electronic information. Most of the software developed by staff has been created with programming tools that came with the original software. The storage of information makes use of traditional paper-based archives as well as electronic mechanisms.

These two firms represent opposite ends of the technology spectrum. The firm that builds systems and processes closer to the Alpha company is likely to provide a higher return potential for several reasons:

- The open nature of the system provides a buffer against unexpected changes in technology or software.
- The technology supports automation efforts.
- Software developed with industry-standard tools is less expensive to maintain than software developed with proprietary tools.

Editorial systems and other aspects of the network publishing company's software infrastructure affect the new product development process, various measures of quality and numerous other factors in the organisation.

Rights, permissions, contracts and agreements

No area of network publishing poses as many short-term and long-term challenges as issues associated with rights, permissions, contracts and agreements.

Without content, there can be no information product or service to market and distribute. An organisation with content – that is, rights to content or a content-creation engine – has an advantage over an organisation with technical resources and no content. The evolution of Internet publishing has come in the selection of services that add value to content. Content is all too available; making the content useful commands market attention.

The primary publishers are organisations involved in the creation or commissioning of original information. A primary publisher as recently as 1990 was a traditional publishing company such as The New York Times Company or John Wiley & Sons. The secondary publishers were firms such as H.W. Wilson and University Microfilms International. The secondary publishers provided indexes or post-publication retrieval services to the library and research community.

The particular relationship between a secondary publisher and primary publishers was, at best, governed by a contract or letter of agreement. The secondary publishing community had for hundreds of years created indexes and abstracts of the primary publishers' products. Until recently the market for these secondary products was libraries, research centres and some individuals.

The halcyon days of the pre-Internet world made several key assumptions about the primary publishing world:

- Primary publishers were not in the electronic publishing business; that is, the majority of their revenues flowed from paper-based products.
- Copyright, traditions of fair use and research conducted by organisations or individuals provided secondary publishers with a protective force field.
- Primary publishers have sometimes assumed that they owned all rights to the information in their books, magazines and newspapers. When a writer

either on staff or under contract delivered a manuscript, the primary publisher used this material without having to obtain permission from the author. The principal exceptions have been for additional film and television rights. These were governed by an understanding that the sums of money might well be substantial. Contracts included language to handle these subsidiary rights.

- Internet and electronic publishing were not options for the vast majority of authors, organisations and companies. Online and CD-ROM publishing were narrow areas of interest and did not generate substantial sums of money.
- Secondary publishing provided some significant benefits to primary publishers. For example, customer requests for single copy reprints could be referred to the secondary publishing community. Primary publishers would handle the more lucrative multiple copy reprint orders. Also, primary publishers' research staffs used the reference products produced by secondary publishers and viewed them as evidence of the value of the publishing company's products and a type of publicity.

Today, primary publishers want to be in the network publishing business. They want to have revenues flow from any re-use of their information in any media. Many publishing companies are setting up their own electronic publishing operations and competing directly with secondary publishing companies who have been active participants in the electronic publishing arena.

Publishers are discovering, as noted elsewhere in this Briefing, that the authors are asserting their rights. The agreements between authors and the publishing companies are not as one-sided as the publishing companies believed. Authors want to derive revenue from their intellectual property regardless of media.

The fundamental change making rights so pivotal is the deep appreciation of the fact that revenue may flow from non-print media. As a result, a scramble for rights, permissions, new contracts and revised agreements is underway. Many publishers considered themselves to be repackagers, not creators. Creators in the form of individual authors have not been electronic publishers. The secondary publishers who have long been recyclers of the primary publishers' repackaged information are challenged by the once somnolent primary publishing community.

To add spice to the stew, new entrants such as America Online and Microsoft Network are playing multiple roles at the same time. These firms license original information. They also sell services to primary publishers to allow them to publish their information in electronic media. Microsoft, like Bloomberg Financial, is creating its original content using dedicated staff with traditional newspaper, magazine and television journalism experience.

What does this have to do with the valuation of a network publishing property? Quite a bit. Stated succinctly, the firm with a mechanism to produce primary information and obtain agreements for the specific re-use of information produced

by other primary publishers, has greater value than an organisation without such a mechanism.

The highest value is placed upon exclusive, long-term rights with comparatively modest financial burdens. Examples include long-term agreements for content from authors working under contracts favourable to the publisher, as well as the type of agreements that many database publishers negotiated with primary publishers before the explosion of interest in the Internet. The least value is placed upon organisations without specific rights. Many secondary publishers provide document delivery services. The firms that have specific, written agreements with primary publishers to provide these services and procedures for paying the publishers directly, have a stronger position than organisations who pay centralised rights agencies such as the Copyright Clearance Center. Occupying a middle ground are organisations that develop their own content but rely almost entirely upon a costly in-house staff of professionals.

The strongest position is to have specific contracts or letters of agreement in place with the original authors of the material and the primary publishers of the material. When combined with a proprietary distribution system, rights, permissions, contracts and agreements have considerable financial value.

Editorial systems

The 'manufacturing plant' of an Internet publishing company is its editorial system. If the product is software, the process used to create new code is the manufacturing plant for the organisation.¹

Many approaches to information product creation exist. Most companies invent a production system that matches the organisation's particular requirements. However, when one looks at a large number of Internet publishing companies, three approaches can be identified. They are:

- *Outsource most of the work.* The benefit of this approach is cost control. Competitive bidding by suppliers can help keep certain costs down. This type of information manufacturing can be described as 'hollow publishing'. A central core of management supervises the contractors who produce the product. The company is, therefore, hollowed out of unnecessary staff. The disadvantage is that the expertise associated with the information product or service may not be resident in the company.
- *Produce the product or service in-house with a flexible mixture of full-time or part-time staff.* This approach is becoming increasingly common. It strikes a reasonable balance between in-house expertise, and contract work for peak loads or for highly specialised activities. The benefits of

[1] Information manufacturing is explored in more detail in the author's October 1992 essay 'Information Manufacturing: the Road to Database Quality', *Database*, pp. 32-39.

this approach are its flexibility. Its principal drawback is one of co-ordination of the efforts and the production processes.

- *Handle the tasks within the organisation.* Staff may be located at one or multiple sites. Many of the largest publishing companies make an effort to handle certain Internet publishing companies with existing staff. Consultants provide specialised expertise when required. The benefit of this approach is that a product may be kept secret for a longer period of time and expertise developed in the course of the project remains inside the organisation. The drawback is the cost and the time required to develop the property.

For the purposes of valuation, the infrastructure supporting each of these models must be examined. The systems, software and operating procedures are key elements. Many Internet publishing systems have been hand-crafted over time and then applied to a new task: for example, re-purposing information prepared for a book into a Web-compliant format.

If the legacy system contains proprietary software or is anchored to an inflexible computing platform, it is likely that considerable investment and effort might be required to modernise the system. A successful Internet publishing product might extend the system beyond its limit, thus losing revenue and opportunity for the company.

Many companies involved in the information business do not have a separate editorial system function. The activity is embedded in information technology or supported by contractors. The quality of the staff, the design of the system, the selection and use of software and the format of the information objects are essential to an understanding as to whether the editorial system is an asset or a liability. A robust editorial system can support other products and may be, by itself, a significant asset.

Distribution channels

The advent of the CD-ROM and the Internet have changed the nature of information distribution. The CD-ROM has become the floppy disk of the present day. The drives are standard in most desktop systems. Both the technology and the systems required to create ISO 9660 standard discs are readily available and dropping in cost. CD-ROMs are available at retail stores, via direct mail and in many other distribution channels, including taped on the front of computer magazines in France, England, Japan and the United States. Both America Online and CompuServe are giving away their Internet browsers and an assortment of Internet publishing tools on a free CD-ROM distributed by direct mail and magazine insert.

The Internet has become a new publishing medium characterised by low entry cost. It is unique because the distribution system and content exist as one seamless whole. The tools for creating information in a format suitable for distribution via the Internet (network publishing) are becoming ubiquitous. Even starving artists and writers can use public access Internet terminals at public and academic libraries in

most major cities in most developed nations. The creator has a flexible medium in which to distribute text, images and compound complex digital documents for no investment other than time.

These two electronic media do not exhaust the distribution channels that are cutting through markets. Xerox Corporation and other digital imaging firms are moving rapidly to devices that can seamlessly connect to the Internet. An author can transmit a document using such equipment via the Internet to an output device. The hard copy output is prepared on that device and can be picked up by the purchaser or distributed locally.

The potential for this type of on-demand printing is significant. Authors residing in one country can transmit a single copy of a complete document to a customer in another country. The purchaser goes to the local output centre – for example, a franchised copy chain such as Alphagraphics or Kinko's -pays the bill and collects the document. Variations of this on-demand network publishing model have been tested from college textbooks and certain types of corporate insurance and health benefits information.

An Internet publishing company that has the systems and procedures in place to support this type of on-demand publishing and distribution model has a higher value than a company that does not have the infrastructure. In order to generate revenues from on-demand publishing, the property must have the editorial systems and rights in place. Without a publishing or production system in place to create these materials with a minimum of re-working, the costs for customised on-demand documents are prohibitive. Without rights, the potential risk from the holder of the copyright is too great for most organisations.

Staff

A growing trend in publishing as well as many other industries is to hollow out the organisation. Staff are eliminated and contract workers or out-sourcing firms take over the work. The benefits are an immediate payoff on the bottom line. Staff are usually the largest expense item. The other benefit is that outsourced work can be handled through competitive bidding. The hollowed out company gains better control of its costs.

The downside, of course, is that the staff of an information-intensive organisation represent its principal asset. When staff leave, knowledge walks out the door. For some firms this may not pose a problem. For others, the loss of subject-specific expertise can be significant.

In an emerging and fast-changing arena such as Internet publishing, expertise becomes out of date rapidly. Nevertheless, the staffing situation should be examined with several considerations in mind:

- Are there individuals on staff who know the key processes and can replicate their knowledge in co-workers, however defined?
- Are staff members who can perform the key system and software-related functions part of the organisation?

- Does the management team understand the core business as it relates to network publishing?
- For temporary, outsourced, or contract workers, have agreements been put in place to provide flexibility for the employer and protection from poaching by competitors?

Work flow analyses can be helpful for re-engineering a network publishing operation. The value of the company pivots upon the staff in place. A firm with an expert, flexible staff may have considerable value when rapid change and new technology must be integrated into an operation.

A publishing operation that makes extensive use of contractors and prides itself on its marketing ability may be vulnerable. The contractor or the contracting firm may decide that it can compete effectively against its client.

Which has higher value: a network publishing company that outsources virtually all of the 'work', or one that has in-house capabilities? The answer is that each model has advantages and disadvantages. One metric is the speed with which new products can be introduced. If the time to market is slow, the staffing situation is ineffective regardless of its model. A firm that has no corporate memory or repeatable processes in place is at risk. Each night the assets of the company walk out the door.

Strategicalliances

Information companies are rarely able to provide a vertically-integrated, stand-alone service.' Information, particularly in electronic form, is a distributed business.

Even large organisations such as the multi-billion dollar publishing and information empires find themselves dependent upon other organisations. The frenzy of mega-mergers that seem to point to a consolidation of media companies are often efforts to vertically integrate all the different information businesses into one conglomerated whole.

What is the value of strategic alliances? The highest value linkages are often easy to identify. A small company forges a mutually-beneficial agreement with Microsoft, Fujitsu, France Telecom, America Online, or one of the telecommunication companies. The value of this deal often becomes more important than the revenue that appears on the books. The small company benefits because of intangibles that accrue to what amounts to a blessing from a revenue divinity. A personal connection or access to a key technology can make a significant difference in Internet publishing, as in other businesses.

[1] Several firms have embarked on a global domination strategy. The *Canadian Business*, November 1995 issue, contains information about one international firm's vision of total integration via acquisition and aggressive innovation.

The most difficult strategic alliances to value are those that appear to be among equals. The litigious actions of US West to stop Time Warner from acquiring Turner Broadcasting are one more example of how large organisations often find alliances less than satisfactory.

One way of evaluating alliances pays attention to the actual revenues contributed by the relationship and to key factors offering a glimpse of other financial payoffs including:

- Identifying the number of prospects and customers that the alliance has brought and will bring to the network publishing company.
- Cataloguing the specific marketing activities that the alliance partner contributes and their estimated cost to duplicate.
- Capturing the value of the exposure the alliance brings the information partner: for example, coverage of the deal in major newspapers stated in terms of the cost of a public relations effort's cost to achieve similar lineage .

A final key factor to consider is the pattern of behaviour of the partners in other alliances. In many alliances, the relationship is a prelude to a decision to acquire or divest a property. Many large acquisition-oriented companies use an alliance as a data gathering exercise. If an outright acquisition is not possible, then the alliance can continue. These nuances should be factored into the potential the alliance offers to its partners, stake holders and competitors.

Margins

The margins on electronic products should be higher than those for tangible products. This statement depends upon the following assumptions:

- The Internet publishing company is re-using information produced for another medium. If the Internet publishing company must create content solely for electronic delivery, the cost of information acquisition and development can be high.
- Management has the expertise to build, maintain and upgrade the product or service. If the Internet publishing company lacks the resources to refresh and enhance the product or service, competitors will rush to exploit this weakness.
- The product or service fills a specific need and meets the standards for interactivity set by the users. Market acceptance of the product or service is needed to pull customers. Push-marketing is more difficult in the network environment than in other market sectors where traditional advertising and marketing can create sales.

The margins depend upon management's ability to generate significant revenue at low incremental costs. New products must flow into the market rapidly and without

unnecessary investment of human and financial resources. Thus, creating a new information product must rely upon some type of automation, machine-assisted value-adding, or some combination of computer-based capabilities. Handcrafting will erode margins and ultimately profitability.

A company that makes efficient use of existing material via appropriate and clever use of computer technology and software has a decided advantage in certain circumstances. Thomson's electronic publishing initiatives are an example of effective synergy.

What about a company with no resources and a wealth of content? Content is important, particularly if re-use rights accompany the content. In this instance, the valuation must be made on the basis of the content itself and how it can be re-purposed in a computer-enabled environment. Manual re-work may prove to be prohibitively expensive, thus lowering the value of the content asset.

Market share

Market share in the Internet environment is virtually impossible to assess. However, software from A.C. Nielsen, Aurum Software and other companies promises to provide hard data about what Internet properties are performing well and which are not, in terms of traffic.

The key element in valuation may well be restating market share as 'mindshare'. A company that enjoys a high profile and is attracting considerable attention may be more appealing than a firm with a technology that is invisible. The lesson of Netscape is clear: a high profile equals a high valuation. Unless the technology is an undiscovered gem, perception carries significant influence in the Internet environment.

Competitive position

Like market share in the emerging world of Internet publishing, it is difficult to determine who is a competitor and who is a partner. Within a span of two weeks, Netscape made and broke an alliance with Oracle. Oracle formed relationships in the same span of time with Open Text, and with Spyglass Technologies. Almost simultaneously, Netscape linked with Informix and acquired Collabra, a maker of groupware.

The tangle of alliances, investments and partnerships is wide and thick. Unlike some traditional industries where friends and foes can be identified to some degree of precision, Internet publishing does not make such classifications easy. The landscape is changing on a daily basis.

The significance of the environmental flux is that a new entrant can have a significant impact in a short period of time. The key to the analysis becomes the likelihood that the product or service will have an impact on a specific market segment where competition is weak or disorganised. If the product or service can define a new market segment, there may be no competition for some period of time.

Long-term competitive position may be difficult to determine for Internet publishing properties.

The valuation

Internet publishing properties have garnered high valuations and selling prices for a number of reasons. There is a growing awareness that a new medium has taken the stage. It is a medium that complements other existing media and offers the potential to reach a highly desirable audience of educated, affluent individuals throughout the world. There is a considerable gold-rush mentality in evidence in the hardware, software, networking, information and entertainment business sectors. The catalogue of perceived reasons to buy or sell includes:

- Good ideas may be increasingly hard to come by.
- Market share is the issue, not technology.
- Technology is the issue, not market share.
- What one company has, a competitor cannot obtain as easily.
- Content is king; therefore, prospect content engines.
- The market is a new one and we can sell our existing products and services to it.
- Software that can add value to digitised information can find a ready market for Internet and Intranet applications.
- Firms with established brand identify have a base upon which another organisation can build and expand.

Are these hopes anchored in reality? In general, yes. Building revenue from the new medium of network publishing is a prudent objective. The expectations for the size of the revenue streams must be tempered. However, the estimated size of the global network publishing market ranges from \$10 billion in 1999 to more than \$100 billion. Regardless of which soothsayer one consults, these figures are of a respectable magnitude.

The competitive arena and the risk of following, not leading, are also powerful motivators. With the massive changes taking place in the nature of work and employment, the network publishing revolution looks like good news. It provides opportunities to individuals as well as to giant multinationals.

Unlike the textbook valuations performed by investment bankers with only a dim understanding of the technology of network publishing, valuation makes explicit what specialists and industry insiders often have difficulty in expressing. In short, network publishing is the most significant revenue opportunity to have appeared in the global marketplace in a number of years. It will run its course, but that course will not be a sprint. Considering the marketplace, the revenue opportunities are certainly among the middle-distance runners, some of whom might prove to be of cross-country mettle.

Outlook

The market for Internet properties is overheated and will cool down over the next twelve months. Companies with attributes such as those reviewed in this chapter will have staying power. Effective Internet companies will be able to expand into the emerging intranet market as the much-publicised Internet market loses its lustre.