

"The best book for any budding internet entrepreneur"

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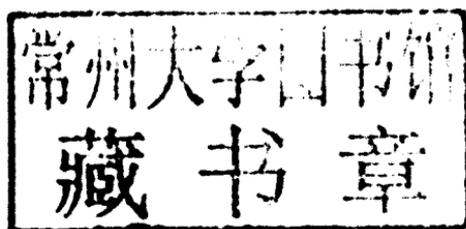
**NET  
PROFIT  
HOW TO  
SUCCEED  
IN DIGITAL  
BUSINESS  
DAVID  
SOSKIN**

Former CEO,  
Cheapflights

# Net Profit

How to Succeed in  
Digital Business

David Soskin



 **WILEY**

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Net Profit

## Further praise for *Net Profit*

*"A readable, up-to-date and highly practical guide to running a successful e-business."*

**John Quelch** – Lincoln Filene Professor of Business Administration, Harvard Business School

*"Soskin is something of a Godfather to Britain's digital economy. So Net Profit is an essential read for anyone looking to start or improve their internet offerings."*

**Ian Wallis** – Editor, *Growing Business Magazine*

*"Real words of wisdom from someone who can explain both 'the forest' and 'the trees' based on experience. Net Profit offers priceless advice not just for digital entrepreneurs but also for any executive or professional with an interest in the digital economy."*

**Dan Bricklin** – Co-creator of VisiCalc, the pioneering electronic spreadsheet, and author of *Bricklin on Technology*

*"Really practical advice from someone who has been there and done it! Soskin's deep experience of what works and what doesn't work for internet businesses shines through on every page. A fascinating read with hugely valuable insights for e-entrepreneurs."*

**Adrian Beecroft** – Founder, former Chief Investment Officer and Senior Managing Partner, Apax Partners

*For Alexandra*

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The life of an entrepreneur can often feel lonely; so talking to other entrepreneurs can be both reassuring and encouraging as many issues are common across different businesses. One entrepreneur in particular whom I would like to thank is the enormously talented Victor van Amerongen, who has been a great friend since my Oxford days and whose comments about this book have been very helpful.

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together exploring the dynamics of a then nascent digital industry. We learned much together.

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Most importantly of all, I am indebted to my wife Alexandra to whom this book is dedicated. Alexandra read all my drafts and her comments, critique and support were invaluable. My love and gratitude, as ever.

David Soskin  
London, 2010

# PREFACE

Back in 1994, I returned to the campus of Harvard Business School to attend my 15th reunion weekend. These reunions are held every five years. They act as networking events designed both to keep graduates in touch with each other and for Harvard Business School to ensure that its fundraising activities enable it to remain as one of the best-endowed academic institutions in the history of mankind. Part social, part study, the reunions are always well attended.

The welcome party, held on the sun-dappled lawns outside the school's imposing Baker Library, was the first opportunity to greet my classmates, many of whom I had not seen in the 15 years since graduation. I immediately spotted Dan Bricklin. Though he no longer sported a pony tail, he was still dressed in the same uniform of faded jeans and a tee shirt that he had worn throughout his two years of classes.

Twelve years earlier, and just three years after graduating from the Harvard Business School, Dan had been named by *Time* magazine as runner-up for their Man of the Year Award. His financial spreadsheet Visicalc was certainly one of the most important software inventions in history. Not only did it turbo-charge the growth of

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the personal computer, it revolutionized the ability of business everywhere to plan and to model.

Dan was asked to moderate a panel discussion at this reunion. The subject was 'Cruising the Information Superhighway'. The other panel on offer was 'Buyouts and Industry Restructuring'. For me, this was like the movie *Sliding Doors*, the plot of which revolves around the slightest happenstance providing a life-changing moment. Maybe if I had opted for the other panel discussion, my career would have been very different. And I would almost certainly not be writing this book.

Happily (for me), as Dan was a friend and I was fascinated by the Visicalc story, I decided to opt for his session, albeit with some trepidation. I imagined that the complexity of its content (brainy Dan had inevitably done his Bachelor's degree in Electrical Engineering and Computer Science at MIT, the Massachusetts Institute of Technology) would prove too much for my liberal arts-trained mind.

So it was that at 9.20am on Saturday 4 June 1994, I joined the audience in the austere, windowless surroundings of Aldrich Room 109. I do not recall what the other panellists said. But I do recall Dan's dazzling performance. He gazed into a future where digital technology would revolutionize the world. He argued in the plainest of terms that we were going to see it transform society.

He talked of course about the 'Information Superhighway' (the original name for the internet) and gave example after example of what the future would look like. He described how a motoring

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accident would be attended by paramedics able to receive expert guidance from a top surgeon supervising their work, in real time, aided by screen images sent via a digital camera. He talked too about something called an 'internet browser'. He explained this was a device enabling anyone to find what they wanted on the World Wide Web quickly and easily. It was called 'Mosaic' and had been developed over the previous couple of years by Marc Andreessen.

Many business careers move ahead in a straight line: you get a promotion; you manage more people; you are allocated a bigger budget. But there are few 'light bulb' moments. For me, after listening to one of America's most celebrated technology stars spell out his vision of the future, in the very place where, 15 years earlier, I had completed my MBA, life would never be the same again. The light bulb was switched on and burning brightly.

I was determined then to understand this digital revolution better and to see if there was within it a business opportunity for me. What excited me more than anything was the prediction that it could change forever the way we consume media. For I had been fascinated by the media from a very young age.

To take the story back a bit, some of my earliest childhood memories are of my regular weekly visits to the *Observer* newspaper, the oldest Sunday newspaper in the world (founded in 1791). It was then headquartered in a vast block which it shared with *The Times* in Blackfriars near to the River Thames. My aunt was the *Observer's* political correspondent and, on Saturdays, she used regularly to invite me to see the paper being 'put to bed'. The print room, the

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rolling presses, the photographic 'dark rooms', the erudite conversation among the paper's journalists, all carried out under the direction of the charismatic editor and proprietor David Astor, gave me a taste for media which I never lost.

Years later, on going to Oxford University, I immediately joined the staff of *The Cherwell*, the student newspaper. There I progressed from advertising sales manager (this, in the main, required visiting Chinese restaurants and not leaving without a cheque for the advertisements they had been placing all term – an early lesson in income recognition and cash management) to general manager and then to director of Oxford Student Publications Limited, the parent company of *The Cherwell*, on which board I sat for nearly three years.

After Oxford, and my Harvard MBA, my career was diverse, often hovering around the edges of the media industry. I worked for Redland, an international construction products company, and was involved in a consortium which applied for local and national TV franchises – I was unable to rid myself of the media bug.

In the 1990s, I worked as a policy adviser to Prime Minister John Major in Number 10 Downing Street. Whilst there, scribbling policy papers, I often thought about Dan Bricklin and his predictions. Then a friend, a TV producer, gave me a book which he said was a 'must read'. Called *Being Digital*, its author was the founder of the Media Laboratory at MIT, Nicholas Negroponte. Like Dan, he too predicted the future. In the intervening decade and a half since the book was published, much of what he foresaw has actually happened.

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To take just one example: Negroponte predicted in the book that paper would be replaced by screens and that books as we know them would be superseded by electronic reading tablets. Fast forward to 2010 when Kindles, Sony E-readers, iPads and other electronic book devices are already being sold the world over by the truckload. As I read the book, I thought of my own experience in the TV world and of that newspaper print room of my childhood. The world was about to change and I wanted to be part of that change. By early 2000 I had achieved my goal. I found myself at Cheapflights sitting in a tiny room in Wandsworth, South London, above Foxtons the estate agents. We had just £20,000 in the bank, and the team was small – just three of us.

Just a few weeks before, I had been running ABN AMRO's global media team. At that time, ABN AMRO had over 100,000 employees, with 12,000 in the investment banking division alone. The London office where I worked was a vast green plate-glass edifice shaped, rather appropriately, like a slice of Dutch Gouda cheese. It was three years since I had joined ABN AMRO, and I was yearning to get into the digital economy.

But none of the many new digital ventures at which I had been looking appealed to me. They all seemed to have fatal flaws: inexperienced, weak management (not that there were many experienced digital executives in the late 1990s) and too many young people with lots of energy and creative input but little or no idea about either business or the sectors which they planned to conquer. Worse, the plans called for huge amounts of cash. \$100m was a common number. Why \$100m? I do not know. It was a nice fat, round number. That was about it.

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To compound the problems, none of these companies seemed to be able to make money any time soon – the common model was emerging as one of years of losses before arriving at the eventual promised land of profits.

By late 1999, I was feeling a bit despondent about finding the right internet opportunity.

And that's when I received a telephone call from an old friend. *'David', he said. 'Look, I can't really talk. I am at a funeral and they are just about to bury the deceased. But there is someone here I have been chatting to. He is called John Hatt. He owns a company called Cheapflights and he wants to sell it.'*

From the graveside to the birth of a new career.

Well, you need a bit of luck in this world.

# ABOUT THE AUTHOR

David Soskin is a seasoned internet entrepreneur and business commentator.

Currently Chairman of mySupermarket.co.uk and of Swapit.co.uk, David was, for eight years, CEO of Cheapflights Media and remains on its board of directors. In that time he grew the groundbreaking company from an attic-based operation into an award-winning international leader in online travel search with tens of millions of users worldwide.

David is also co-founder of Howzat Media LLP, which invests in early-stage digital media companies on both sides of the Atlantic.

He is a regular speaker on the subject of internet business and writes a monthly column in *Growing Business Magazine*.

Prior to Cheapflights, David held senior roles in industry, banking and government.

He was educated at Oxford University and the Harvard Business School. David is married and lives in London.

# INTRODUCTION

You may have shied away from starting an internet business because you fear that you do not have the technology skills; or that you need a lot of money to get started; or that internet businesses are by definition loss-making; or that you are simply too old. Shed your misgivings. I will show in this book that this is not only an excellent time to start an internet business, it is also much more possible than perhaps you might think.

I have written the book around eight key themes:

- The commercial internet's early years and what can be learned from them
- The central role of the customer even in the digital world and how different types of revenue models continue to multiply
- The importance of building a great team
- The product and how crucial it is to get the website right
- Raising money, prudent financial management and exits
- Driving traffic
- The global potential offered to businesses by the massive expansion of the internet
- The future