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## What is e-entrepreneurship? – fundamentals of company founding in the net economy

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**Abstract:** Internal and external information and communication processes at enterprises across almost every industry sector have been increasingly supported by electronic information technologies. The fundamental advantages of such technologies insure that this trend will continue in the future. The constant development of technology in the accompanying Net Economy has had a significant influence on various possibilities for developing innovative business concepts based on electronic information and communication networks and realising these by establishing a new company (e-ventures). Against this background, the term 'e-entrepreneurship' respectively describes the act of establishing new companies specifically in the Net Economy. Therefore, this article focuses on answering the following questions: which environment and which possibilities does the Net Economy offer for new and innovative entrepreneurial activities?

**Keywords:** e-business; e-entrepreneurship; net economy, phases of development; success factors.

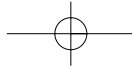
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### 1 What is e-entrepreneurship? Fundamentals of company founding in the net economy

During past years, internal and external information and communication processes at enterprises across almost every industry sector have been increasingly supported by electronic information technologies. The fundamental advantages of technologies such as



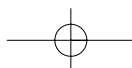
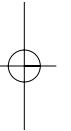
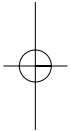
these (e.g. internet), especially in regard to their efficiency and effectiveness, assure that this trend continues into the future. The constant and rapid development of technology in the accompanying Net Economy has inevitably had a significant influence on various possibilities for developing innovative business concepts based on electronic information and communication networks and realising these by establishing a new company (e-ventures). Against this background, the term 'e-entrepreneurship' respectively describes the act of establishing new companies specifically in the Net Economy (Matlay, 2004). The expansion of the classical use of the term 'entrepreneurship' raises, however, several questions that will be answered by this article:

- which environment and which possibilities does the Net Economy offer for new and innovative entrepreneurial activities?
- what is different or what unusual features can be found in establishing companies in the Net Economy?
- what are the building blocks and phases of development involved in setting up a company in the Net Economy?

## 2 The Net Economy

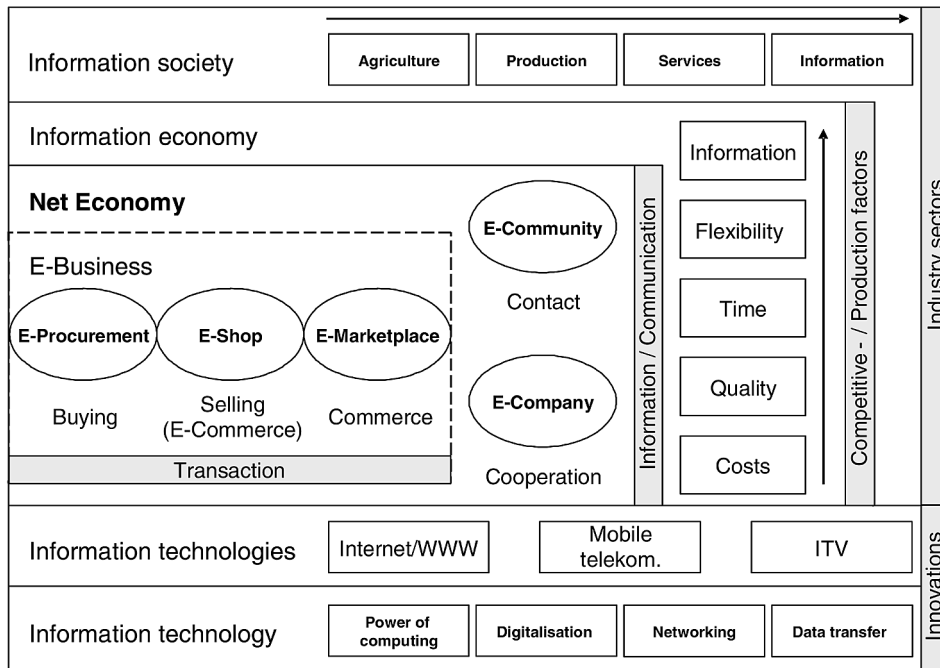
The basis of the Net Economy is formed by four technological innovations: telecommunication, information technology, media technology and entertainment (the so-called TIME markets). These innovations had, and continue to, significantly impact the possible ways in which information, communication and transactions are managed (Kollmann, 2001). The increased support of business processes using electronic systems takes centre stage here. There are a number of terms for this that can be identified (e.g. e-business, e-commerce, information economics, network economics), which can, to some degree, be used synonymously (Jelassi and Enders, 2005). It is easiest to structure and clarify the terms, define their boundaries and field of application by using the Shell Model of the Net Economy, which will subsequently be described in more detail (see Figure 1).

The initial assumption in the Shell Model is the general development towards an information society (see Figure 1). Since the beginning in the 1990s, innovative information technology induced a structural change in both social and economic spheres especially through the digitalisation of information and the networking of computers (Hagel and Singer, 1997; Tapscott, 1996). Whereas just a few years ago, computers and networks were reserved for only a few specialists, today they are already an integral part of daily life: digital technologies and their influence on the transfer of information are ubiquitous. The results of this development are clear – innovative information technologies such as the internet/WWW, mobile telecommunications and interactive television (ITV). These technologies are changing the world as radically as the steam engine, loom, railways and tractor once did (Pruden, 1978). The digitalisation and spread of information via electronic data pathways or networks serve as a pace maker for future economic growth that is comparable with the significance of the printing press in the 15th century or motorisation in the 20th century. The information society is respectively characterised by the intensive use of information technologies and the resulting change from an industrial to a knowledge society (Evans and Wurster, 1997). Analogously, from a global economic

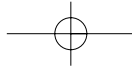


point of view, there is an obvious shifting from the traditional economic sectors of agriculture, production and (non-virtual or rendered) services towards the information industry sector.

**Figure 1** The shell model of the net economy



Against this background, one of the central characteristics of the post-industrial computer society is the systematic use of information technology (IT) as well as the acquisition and application of information that complements work-life and capital as an exclusive source of value, production and profit. Information becomes an independent factor of production (Porter and Millar, 1985; Weiber and Kollmann, 1998) and thus establishes the information economy (see Figure 1). From a historical perspective, initially only the product characteristics (quality) and corresponding product conditions (e.g. price, discount) determined if a product was successful (Kirzner, 1973; Porter, 1985). At that point it was important to either offer products or services to the customer that were either cheaper than (cost leadership) or qualitatively superior (quality leadership) to the competitor's product. Thereafter, the first major successes, two additional factors joined the scene—time (speed) and flexibility (Meyer, 2001; Stalk, 1988). At this point, it was important to offer products/services at a certain point in time at a certain place (availability leadership). Additionally it became crucial to allow for customer-oriented product differentiation of important product characteristics (demand leadership). Information technologies have now created an environment in which information is more easily accessible and can be increasingly used for commercial purposes. The source of a

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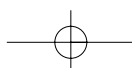
competitive advantage will be determined in the future, as a result of the technological development presented here, by achieving knowledge and information superiority over the competition (information leadership). Those who possess better information about the market and their customers (potential customers) will be more successful than the competition. Whereas information previously held merely a supporting function for physical production processes, in the future it will become an independent factor for production and competitiveness (Weiber and Kollmann, 1998).

The growing relevance of IT and the expansion of electronic data networks have created a new commercial/business dimension that can be called the network economy or the Net Economy (see Figure 1). It is especially influenced by the area of electronic business processes that are concluded over digital data pathways (Kollmann, 2001; Taylor and Murphy, 2004; Zwass, 2003). Due to the importance of information as a supporting and independent competitive factor, as well as the increase in digital data networks, it must be assumed that there will be a division of the relevant trade levels on which the world does business in the future (Weiber and Kollmann, 1998): in addition to the real level of physical products and/or services (Real Economy), an electronic level for digital data and communication networks (Net Economy) will evolve. The commercial possibilities resulting from this development can be called, in this context, e-business (see Figure 1), which means the use of digital information technologies for supporting business processes in the preparation, negotiation and conclusion phases (Kollmann, 2001). The necessary building blocks, including information, communication and transaction are in this case transferred and respectively concluded between the participating trade partners over digital networks (Kollmann, 2004).

Three central platforms have been formed which serve as a basis for these electronic business processes in e-business (see Figure 1) that include the exchange of all three building blocks (information, communication and transaction).

- E-procurement enables the electronic purchasing of products and services from a company via digital networks. This uses the integration of innovative information and communication technologies to support and respectively conclude both operative and strategic tasks in the area of procurement.
- An e-shop allows the electronic sales of products and services by a company using digital networks. This allows innovative information and communication technologies to be used in supporting and concluding the operative and strategic tasks for the area of sales.
- An e-marketplace allows electronic trade with products and/or services via digital networks. This represents the integration of innovative information and communication technologies to support and conclude respectively the matching process of the supply and demand sides.

Certainly it must be understood that these terms are subject to overlapping. As a result of this, electronic procurement can most certainly be offered as a marketplace solution. In addition to this, two further platforms exist that are also attributed to the Net Economy, which, however, do not emphasise all three building blocks equally – but concentrate rather more heavily on information and communication.



- An e-community enables electronic contact between persons and/or institutions using digital networks. What occurs here is an integration of innovative information and communication technologies to support the exchange of data and knowledge.
- An e-company enables electronic cooperation between companies using digital networks. This involves an integration of innovative information and communication technologies to link together individual business activities to form a virtual company that presents a bundled offer.

In view of the topic area of establishing a company, it appears suitable to hereafter view the entire field of the Net Economy and, thus, all platforms, as a basis for new business ideas. This builds upon the fact that website operators in the internet can generate income with all platforms and, in doing this, establish new companies. Against this background, the following definition can be determined:

“The ‘Net Economy’ refers to the commercial use of electronic data networks, that is to say, a digital network economy, which, via various electronic platforms, allows the conclusion of information, communication and transaction processes.”

### 2.1 *The electronic value chain*

With the establishment of the Net Economy and the heightened importance of the factor, ‘information’, new possibilities emerged with respect to how enterprises create value (for further details see Amit and Zott, 2001; Lumpkin and Dess, 2004). An enterprise can create customer value not only through physical activities on the real level, but also through the creation of value on the electronic level. The value chain of the Real Economy, represented by the first case, is based upon the approach used by Porter (1985): the value chain divides a company into strategically relevant activities and identifies physically and technologically differentiable value activities (see Figure 2), for which the customer is prepared to pay. Value activities are, according to this, those basic building blocks from which the company produces a ‘valuable product’ in the eyes of the customer. This product can then form the basis for establishing an enterprise in the Real Economy (see Figure 2). In this model – a sequence of value generating or value increasing activities – the individual steps are analysed in order to efficiently and effectively structure and develop primary and supporting processes. Even here, information is extremely important when striving to be more successful than the competition. Information can be used to better analyse and monitor existing processes. The crucial point here is that information has previously been regarded only as a supporting element, not however as an independent ‘source of customer and/or corporate value’.

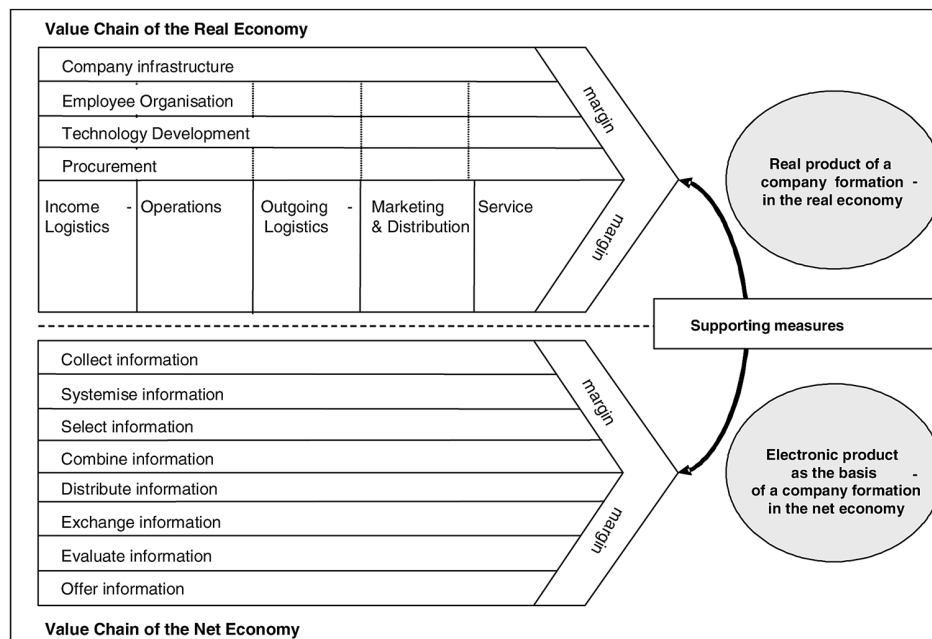
The value chain of the Net Economy presented in the second example is based on the approach proposed by Weiber and Kollmann (1998): through the newly created dimension of information as an independent source of competitive advantage, value can be created through electronic business activities in digital data networks independent from a physical value chain. These electronic value added activities are, however, not comparable with the physical value creation activities presented by Porter (1985), rather they are characterised by the way in which information is used. Such value activities might include, for example, the collection, systemisation, selection, composing and distribution of information (see Figure 2). An ‘electronic value chain’ manifests itself through these specific activities of

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creating value within digital data networks that originates in and impacts only the Net Economy. The result: based on this new value creation level, innovative business ideas evolve through the use of the various platforms and new 'electronic products' are created. Customers are willing to pay for the value created by this product and the product can form the basis for establishing a company in the Net Economy (see Figure 2).

**Figure 2** The concept of the electronic value chain in the Net Economy



An example of the electronic value chain can be seen in *Autoscout24.de*. In an electronic marketplace, car sellers and buyers deal in used cars offered over the internet (e-marketplace). User value is not necessarily just the used car. Value also rests in the provided overview, selection and mediation functions of the information related to the car and its availability, regardless of temporal and spatial restrictions. This 'electronic product' is made possible only through the use of information technologies. The website *Autoscout24.de* is therefore a company of the Net Economy, as the creation of customer value only occurs at the electronic level. This is similar to the example of *Amazon.com*, in which the object 'book' does not create added value, but by the way in which the electronic selection and ordering process are performed online does. However, this is an information product (overview, mediation, transaction) and thus *Amazon.com* is a Net Economy company with its e-shop. This does not mean that companies such as *Autoscout24.de* and *Amazon.com* do not require real resources (personnel, logistics, etc.). They also possess a real value chain, but it has a supporting role (see Figure 2) in order to successfully offer the electronic creation of value. These correlations do not apply to an offer such as the one at *Seat.com*. In this case, value is created for the customer through the real product 'car' and the shop in the internet is 'merely' an additional distribution

channel. This simplifies the ordering process yet there is no independent value created for which the customer would be willing to pay extra. The car is not purchased due to the company's website. Its internet presentation plays a supporting role for sales as a part of the real value chain (see Figure 2). Thus, *Seat.com* is not a company of the Net Economy.

## 2.2 The electronic creation of value

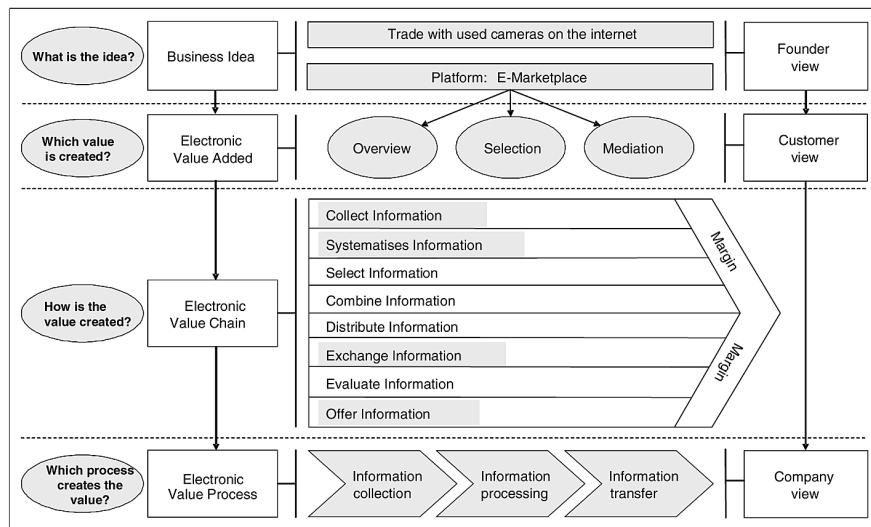
Building upon the underlying value chain in the Net Economy (see Figure 2), it must also be determined what form of electronic value is 'created' in the eyes of the customer for which he would be prepared to pay, i.e. what makes an online offer attractive in the first place (from the customer's point of view). The most pertinent question for the company in the Net Economy (e-ventures) is the question (see Figure 3): what value is created for the customer within the Net Economy? In the example of the electronic creation of value, this might include the following aspects.

- **Overview:** the aspect that an online offer provides an overview of a large amount of information that would otherwise involve the arduous gathering of information. By offering an overview, the e-venture creates value through structuring.
- **Selection:** by submitting database queries, consumers can locate exactly the desired information/products/services more quickly with an online offer and, thus, more efficiently. By offering this function, the e-venture creates selection value.
- **Concluding transactions:** this aspect refers to the possibility created by an online offer to design and structure business activities more efficiently and effectively (e.g. from the cost aspect or payment possibilities). The e-venture creates, in this way, transaction value.
- **Cooperation:** this aspect deals with the ability, using an online offer, for various vendors or companies to more efficiently and effectively interlink their service or product offers with each other. By doing this, the e-venture creates matching value.
- **Exchange:** in this case, an online offer allows different consumers to communicate more efficiently and effectively with each other. Through this, the e-venture creates communication value.

Considering these aspects, it is certainly possible that an e-venture creates several different types of value and that both structuring value as well as selection and mediation value are created. After the identification of the creation of value, the perspective changes to the entrepreneur's point of view. The question then remains (see Figure 3): How is this value created? For the purpose of answering this question, the previously presented electronic value chain can once again be applied (see Figure 2). The electronic value chain separates an e-venture into strategically-relevant activities in order to better understand cost behaviour and recognise present and potential sources of differentiation. Thus, the electronic value chain represents respectively those value activities which, for example, involve collecting, systemising and distributing information (see Figure 2). Through specific value activities such as these within digital data networks, an 'electronic information product' is created that presents value for which the customer is hopefully willing to pay. The electronic value chain embodies therefore, the total value that is generated by the individual electronic value activities plus the profit margin. Now, those

value activities within the value chain will be identified that are especially relevant for the creation of value. These value activities, once identified, form, in turn, the basis of an electronic value creation process within a company (see Figure 3). Thereafter, real work processes must be conceptualised to realise the electronic process of value creation.

**Figure 3** The electronic creation of value



Should an idea be based upon, for example, dealing in used photo cameras in an e-marketplace in the internet (founder's point of view), there is a typical way in which value can be electronically created (see Figure 3). This value creation is directly reflected in the resulting added value for the user (customer view) and refers centrally to, in the example presented here, the overview, selection and mediation functions. An example is that a supplier would be prepared to pay especially for the mediation function, whereas the customer would be eventually willing to pay a fee for the overview function. In order to realise this creation of value, companies use the value chain to identify particularly those value activities that form the core of value creation (see Figure 3). In order to do this, information on the object must be first collected; secondly, the location and the seller of the used camera must be determined and, in the third step, systematically stored in a database. Using this database, information is then offered to the potential buyers who can formulate a query using appropriate search mechanisms. If a match is found through the query process, then the accompanying information pertinent to the request is exchanged. If all of this occurs, the final product is a transaction. The electronic process of creating value, from the company's point of view, is thus collecting information, processing and transferring it.

### 2.3 The electronic value creation process

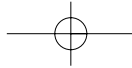
The electronic value creation process describes especially those information activities and/or the sequence of information activities, which in total create added value for the customer. This involves both the core and service processes. Core processes hold a true function in the creation of value, whereas service processes support the business processes along the value chain. As a general rule, the electronic value chain process begins with the input of information for the e-venture. In order to provide the targeted added value (e.g. overview function), the required information must first be gathered (e.g. who demands what at which level of quality and who offers this?). In the next step, the information is processed internally such that it can then be transferred on to the customer in the desired form as information output and in a way that specifically adds value for that customer. This process can be called the electronic value creation process and describes thus the core processes of most e-ventures. When considering e-ventures, it is then possible to formulate a representatively typical electronic value creation process (Figure 3) (Kollmann, 1998):

- The first step is the acquisition of information which involves gathering relevant data that serves as information input for the additional creation of value. This results in the collection of useful data stores. This step in the value creation can also be called information collection.
- The second step involves information processing which means the conversion of the collected data stores into an information product for the customer. This step along the value creation process can also respectively be called information processing.
- The third step involves the information transfer. This means actually implementing the newly acquired or confirmed knowledge obtained from collected, saved, processed and evaluated data for the benefit of the customer. The result is an output of information which creates value. This step in the value creation can also be described as the information transfer.

It is important to recognise that it is not sufficient to go through the sequence of this – here presented in its most ideal form – electronic value creation process just once. Rather, it is the continual process of acquiring, processing and transferring information which is necessary. This is even more essential, when the data – from which information is created – is constantly subject to change. Thus, the data must be continually checked so it remains current. Against this background, several examples of the electronic value creation process in the Net Economy are presented in Figure 4.

## 3 Establishing a company in the Net Economy

If one takes a closer look at the new companies in the Net Economy (e-ventures) equipped with electronic value chains and electronic processes of value creation (Figure 4), there are a number of noticeable, common traits with regard to the way the company was established. Most often it is a so-called original company founding, meaning that



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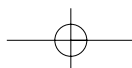
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a completely new company is established without relying on any previously existing or available company structures. Additionally, one observes that these cases were most often so-called independently established companies initiated independently by the company founders seeking self-employed/full-time employment in the newly established company. Furthermore, establishing the company was a means to securing one's independent, entrepreneurial existence. Finally, it can be seen that established e-ventures were most often innovative companies, i.e. not established to imitate an existing company. An innovative start-up presents a situation in which the initiating factors, in the classical sense proposed by Schumpeter (1911), are combined in a new way. This new combination can involve material or immaterial factors. The increasing importance of 'information' as a significant factor in the competitive advantage has recently increased particularly the significance of the immaterial factors (e.g. knowledge, know-how etc.). Due to this, a number of newly formed companies in the Net Economy are established consistently upon new knowledge-based and conceptually creative factors (the way in which information is dealt with and processed in the context of electronic value creation to form an electronic product (Figure 3).

**Figure 4** Examples of the electronic process supporting the creation of value in the Net Economy

	Information collection	Information processing	Information transfer	Value added
google.com	Information about web sites and search queries (=Input)	Matching of search strings and web content	List of appropriate web sites (=Output)	Overview Selection
webmiles.de	Information about products, customer and web offers (=Input)	Allocation of incentive points for the usage of web content	Information about points, options for exchange, customer information (=Output)	Transaction Cooperation
delticom.de	Information about tires and customer requests (=Input)	Matching of demand and supply	List of adequate offers and their possibility for online ordering (=Output)	Overview Selection Transaction
guentiger.de	Information about product prices and customer requests (=Input)	Structuring of product prices, matching of demand and supply	Product information, price information, customer information (=Output)	Overview Selection Mediation
travelchannel.de	Facts about destinations, online booking and travel reports (=Input)	Matching of demands and supply, structuring of travel offers and travel reports	Travel offers, destination information, travel reports (=Output)	Overview Selection Transaction Exchange

In addition to having an electronic product when establishing an e-venture, it was and is necessary to have an e-management, i.e. members of management who have specific knowledge about the correlating factors within the Network Economy. In this case, special emphasis is placed on the combination of management and computer science



(informatics), to establish the company and guarantee the necessary technical processes. This is particularly important considering that information can change very quickly and along with it the company's basis for the value creation activities in digital data networks. There is a further special characteristic trait of the Net Economy in addition to the electronic value chain – namely that this is a considerably new area of business and lacks the years of experience on which established business sectors can rely. Accordingly, the electronic creation of value and the business which is based upon are oriented especially towards future innovations and developments. Furthermore, there is a high level of uncertainty on the customer side with respect to the amount and the timely presence regarding acceptance of innovative information technologies (e.g. internet start-ups' use of electronic procurement (Kollmann, 2004)). The conditions outlined in such cases as presented here, underline the high level of risk involved with the development of the Net Economy and the influence this has over investments in this area.

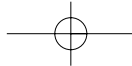
This risk is countered, however, by the fact that the Net Economy and its underlying technologies represent a central growth sector and are therefore linked to numerous opportunities. This is seen in the continuing, rapid expansion and use of the internet in the USA and Europe. Further, the level of investments in information technologies are still quite high, whereby two aspects that are particularly pertinent for new companies become very clear:

- information technologies require a certain amount of capital or funding for the initial development and/or company
- information technologies are subject to continual change and constant development thus requiring subsequent investments.

In addition to the need for capital to develop the technology, additional investments for the establishment of the new company in the Net Economy are necessary (e.g. personnel, organisation, establishing a brand, sales, production, etc.).

This concludes the description of the basic conditions and requirements for establishing a company in the Net Economy. In particular, four central characteristic traits can be identified that clearly distinguish the process of establishing a business in the Net Economy from the 'classical' company establishment in the Real Economy (see Figure 5):

- Type of company established: an e-venture is often an independent, original and innovative company established within the Net Economy.
- establishing environment: an e-venture is characterised by enormous growth potential and, yet, is also marked by uncertainty of its future development concerning the true success of its information technology – technology that requires significant investments.
- reference for establishing the company: an e-venture is based on a business idea that is first made possible through the use of innovative, information technologies. The idea itself focuses strongly on 'information' as a competitive factor within the Network Economy.
- Basis for the establishing the company: an e-venture is based upon a business concept that involves the electronic creation of customer value offered on an electronic platform of the Net Economy. It requires continual, further development and administration.

**Figure 5** The distinguishing characteristics of companies established in the Net Economy

	Type of company established	Establishment environment
Establishing the company	Original Independent Innovative	Growth potential Risk Capital
	Reference for establishing the company	Basis for the establishing the company
Net Economy	Information technology Information economy Net Economy	E-value creation (concept) E-platform (realisation) E-management (operation)
<b>Establishing the company in the Net Economy (E-Venture)</b>		

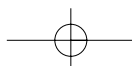
In view of these conclusions and based on the circumstances, the following questions arise from the company founder's point of view: what information do I need in order to create value for a customer? What type of platform should I use to present this information? How can I guarantee that my information product will remain attractive for the customer also in future? How do I achieve this in a way so that my innovative company can grow independently? Due to these questions, companies established in the Net Economy tend to be heterogeneous and more complex. They differ from companies established in the Real Economy in many aspects. This justifies an isolated and separate approach to researching how companies are established in the Net Economy (e-venture). Against this background, the term 'e-entrepreneurship' can be defined as follows:

"E-entrepreneurship refers to establishing a new company with an innovative business idea within the Net Economy, which, using an electronic platform in data networks, offers its products and/or services based upon a purely electronic creation of value. Essential is the fact that this value offer was only made possible through the development of information technology."

### 3.1 The success factors

A number of studies have shown that, at first glance, success factors for establishing a company in the Net Economy do not particularly differ from those in the Real Economy, although, one does find specific differences in the realisation of and development of these success factors that are directly dependent upon the particular conditions in the Net Economy. These differences will be presented in the following section and cover the areas of management, product, market access, process and finance.

The building block of 'management' (see Figure 6) places emphasis on founders of the company, who, through their personality and motivation, strongly determine the activities of an e-venture. Studies on the influence of technical, social and methodical



skills and capabilities possessed by business founders determined that these have a positive influence on the successful realisation of the activities involved with establishing a company (Walter et al., 2002). This also holds true with respect to the motivation of the founder or the team of founders. A high stress limit, pressure to succeed, self-confidence and awareness of risk, influence and characterise the actions during the sustainable phase of conception and thereafter in the realisation phase. Whereas creativity, on the one hand, and analytical and conceptual thinking, on the other, dominate the first development phases of a new company, experience in the net industry, knowledge of the interrelated aspects of the Net Economy and real experience in operative management are increasingly the points that truly matter when establishing an e-venture. In view of this, establishing a company in the Net Economy is very complex and the knowledge required to achieve this must be drawn similarly from the areas of computer science, information management (study of information systems), business administration and entrepreneurship. Accordingly, the founders must possess competence and know-how in all three of following areas to a certain extent. This involves the following aspects:

- **Computer Science** – the technological aspect of the Net Economy makes it necessary to have a substantial understanding and knowledge of technologies, systems, databases, programming and the architecture of the internet.
- **Information Management** – the technological basis, provided by computer science, must be assessable with respect to its content and relevance for business issues. For this reason it is important to have knowledge in the areas of management information systems, IT security, data warehousing and data mining or even electronic payment systems. It is just as important to understand fundamental platforms in the Net Economy, as it is to have a sound overview of current existing business models and possibilities of creating value electronically.
- **Business Administration** – at the business administration level, it is essential to have a solid business knowledge. Topics which should be especially emphasised in connection with this, include marketing, business organisation, management, financing or investments.

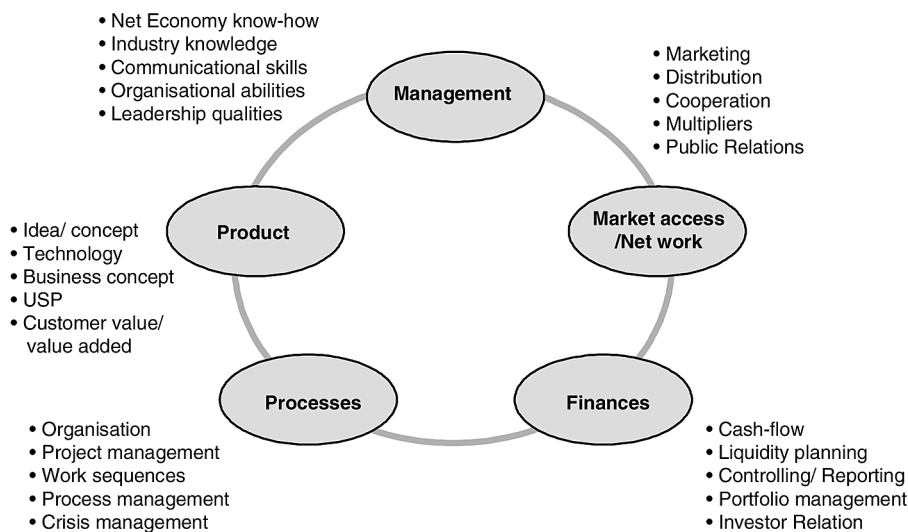
Seldom does one person possess all of these skills such that it is more often the case that an e-venture was established by a team of founders.

The building block 'product' (see Figure 6) refers to the configuration of the services and offers of an e-venture. In this respect the electronic product and/or service offered must be specified and communicated based upon its electronic added value. Thus the essential question is, whether or not the customer needs the electronic offer/service provided by the e-ventures based on IT and, if so, is the customer willing to pay? Further, it is the aim of the company to achieve added value for the customer through the realised output with electronically created value. But, it is also the company's aim to assure its offer possesses a unique characteristic which differentiates it from the other competitors. In addition to this, most e-ventures are dealing in new forms of business ideas and/or business models. From the customer side, initially it takes some time to get acquainted or to acknowledge the effect provided as value added that results from such new ideas and models. For this reason, a regular reconnection with customers and users must take place because it is, in the end, customer acceptance that determines if the electronic business idea is a success or not (Kollmann, 2004). Establishing a business in the Net

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Economy is, apart from the aforementioned, additionally singled out by the fact that an e-venture and its electronic business idea must not only satisfy a need but also do this in a superior way compared to existing solutions in the Real Economy. Thus, the need for books is already fulfilled through real book shops, however, *Amazon.com*, with its e-shop, can offer overview, selection and transaction functions creating additional electronic value in the marketplace (Figure 4).

**Figure 6** Success factors of establishing a company in the Net Economy

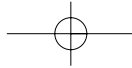


The building block ‘processes’ (Figure 6) refers particularly to the need for a newly established company to quickly move out of that critical stage where its activities are informal and uncontrolled. This applies especially to work, finance and organisational processes which form a solid operative foundation in a newly established company. This essentially means that core processes must be firmly established and must also harmonise with the evolving company organisation. Further, in this context it is also important that not too many activities are initiated simultaneously. Otherwise, there is an ensuing danger that some of these activities may not receive the full attention they require. Therefore, it is necessary to have a logical and effective project and process management. When dealing with an e-venture, sophisticated development and presentation of concrete work flows should be based on a model example of the value creation process that was previously determined (Figure 3). The company’s business processes can then be conceptualised in parallel to the electronic process of value creation. These business processes should be understood as activity bundles necessary for realising the value offer. They can be described as those targeted activities which are performed in a timely and logical sequence and whose aim is directly determined by the company strategy (Hammer and Champy, 1993). Business processes thus describe the realisation of the electronic process of creating value with the help of electronic resources within an e-venture.

Particularly in the Net Economy, which is characterised by a high degree of virtualisation, the knowledge of concrete process flows is extremely important. Many business models in the Net Economy are based upon taking advantage of the 'effects of economies of scale'. This is possible only when a large number of users can be serviced by either very few or even with just one basic process (e.g. at online auction houses). The complexity of value creation, especially if the creation of this value involves the participation of multiple companies, requires reducing the process down to the most essential steps. Weaknesses in core processes can then be more easily recognised. Especially regarding the steps of the process which are electronic and thus automatic, mistakes can significantly impact the success of a company. Moreover, the process is externally visible to customers. The quality of process flows influences, therefore, the customer's use behaviour. Supported by the virtual quality of information products, process flows become representatives of the quality image. The customer rates a company based upon the functionality and security of its processes.

The 'market access' building block (see Figure 6) in an e-venture means not only assuring market entrance and establishing a product and/or brand, but also means reaching the customer via an electronic communication channel (e.g. online/viral marketing). The focus here is the question: how do I reach the customer with my information product? Hereby, it is possible to achieve market access through company-initiated marketing and sales activities. However, this seems to pose a signification problem considering the lack of resources of start-up companies. Market entrance in the Net Economy is – in most cases – characterised by the fact that most e-ventures are unknown, have limited capital, lack, for the most part, resources, and do not have an established network. Particularly, the lack of financial means often leads to deficits for a newly established company in the area of service or product performance, communication/sales and market positioning. In order to eliminate these deficits, especially when dealing with e-ventures, potential cooperations play an elementary role in supporting the market entrance and positively steering the company's further development (Kollmann, 2004). In view of the current state of the internet's development and other online media, the idea of capturing a market alone with the existing limitation is unfathomable. Examples of such cooperations are the so-called 'affiliate programmes', which have developed alongside the establishment of electronic business ventures. This is predominantly understood to be marketing and sales concepts that are directly based upon a partnership-like relationship and profit-scheme compensation. The e-venture (merchant) concludes an advertisement and/or sales agreement with a cooperation partner (affiliate), who in turn integrates the merchant's service/product offer on their internet presence or website. If this results in a successful transaction, the affiliate receives a commission on sales which is normally somewhere between 5 and 15% (Rayport and Jaworski, 2002). In this way, a newly established company can reach, from the very beginning, a wide range of customer segments and establish a comprehensive sales network.

The building block 'Finance' (Figure 6) is concerned with guaranteeing the activities from a liquidity point of view. There are two essential aspects which are of importance here. On the one hand, there is a significant need for investing in technology and in establishing the company in the beginning phase; whereby, on the other hand, the free-cash-flow cannot be too negatively influenced. The financing and cash planning is often a significant weak point at companies in the Net Economy. Often there is a lack of necessary realism, if investors or financiers are to be convinced by euphoric turnover



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forecasts or make decisions based upon underestimated investment requirements. Hence, there should be a continually updated finance planning that can provide, at any given point in time, a realistic estimate of the financial situation of the company and also present the actual financing requirement. The financing of a company in this case becomes increasingly a mixture of equity (own capital) and various forms of participations. In situations such as these, risk capital should be strategically used for investments (e.g. sales), i.e. for generating cash flow. The financing of the company furthermore requires proof of a solid controlling especially of the cost-side of the business. A further aspect concerns the communication with investors (Investor Relations), who want to be informed on a regular basis about the development of the company (Kollmann, 2004).

### *3.2 The phases of development*

The future development of a company in the Net Economy can be outlined by just one simple question: what will happen to the idea with the passing of time? At the very core, when a new company is to be founded, there is an idea for a possible business concept. This idea must first be discerned and then assessed for its probability and potential for success (phase of idea finding). In a subsequent step, the idea must be transferred to a plausible and sustainable foundation and a corresponding business plan for the idea must be prepared (phase of idea formulation). This must be done in order to actually realise the idea in the next step (phase of idea realisation). Success of the e-venture is, however, not only dependent upon the initial realisation of the business model, but especially depends upon the continued development and appropriate adjustment to market demands (phase of idea intensification). Finally, the idea must be capable of continually growing with the market and developing into a long-term business (phase of idea continuation). In each of these phases, it is essential that certain tasks along the previously outlined building blocks for establishing a company are fulfilled (Figure 7). The individual phases and specific questions, which are of significant importance throughout the development of a company in the Net Economy, will be described in more detail in the following section (see also Ruhnka and Young, 1987).

The phases of finding, formulating and realising the idea are considered, in the context of the financing of a new company or start-up, to be the early stage. Generally they are divided up into the pre-seed, seed and a start-up phase. In the pre-seed and seed-phase the company has not yet been founded. These phases reflect more specifically the time in which the future founders of a company are searching for the idea and planning the realisation of their business model (Figure 7). Even if there is no company and no marketable product in existence at this phase, there is nevertheless a need for capital as, for instance, market studies or acceptance and feasibility studies must be performed (costs for preparation). If the company is to be established based upon a business plan (idea formulation), then the start-up phase begins, in which production capacities are established, personnel is sought and the market entrance is prepared. For an e-venture, this most often means the programming of the internet platform and its functionalities (development costs). When a successful online start can take place and the product/service offer is introduced into the market, the start-up phase ends. Following this comes the time when the idea must be intensified and the expansion stage begins. Especially during the 'early stage', the building blocks 'product' and 'management' play an essential role as there will surely be no further progress without them.

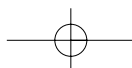
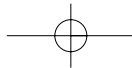


Figure 7 Building blocks and phases of development for companies in the Net Economy

<b>E-Venture-Activities</b>	<ul style="list-style-type: none"> <li>• Product / Marketing concept</li> <li>• Market / Competition analysis</li> <li>• Basic development</li> <li>• Business concept/ model</li> <li>• Establishing the company</li> <li>• Development of business model</li> </ul>	<ul style="list-style-type: none"> <li>• Online- start</li> <li>• Market entrance</li> <li>• Adjusting business model</li> <li>• Conducting cooperation</li> <li>• Creation of internal processes</li> <li>• Usage of multipliers</li> </ul>	<ul style="list-style-type: none"> <li>• Traditional USP</li> <li>• High market penetration</li> <li>• Stable customer relationship</li> <li>• Comprehensive controlling</li> <li>• High efficiency in core processes</li> <li>• Modification of business model</li> </ul>
<b>E-Venture-Building block</b>	<b>Management (+++)</b> <b>Product (+++)</b> <b>Finance (++)</b> Market access (+) Processes (+)	<b>Management (++)</b> <b>Product (++)</b> <b>Finance (++)</b> <b>Market access (+++)</b> <b>Processes (+++)</b>	<b>Management (+++)</b> <b>Product (+++)</b> <b>Finance (++)</b> <b>Market access (+++)</b> <b>Processes (+++)</b>
<b>E-Venture-Idea</b>	Idea finding ↓ Idea formulation ↓ Idea realisation	Idea intensification	Idea continuation ↓ Idea diversification
<b>E-Venture-Development</b>	Early Stage	Expansion Stage	Later Stage
<b>Financing-steps</b>	Pre-Seed ↓ Seed ↓ Start-up	2nd Round — 3rd Round	Bridge IPO MBO / MBI
<b>Financing-tools</b>	Own funds Public subsidies Venture Capital	Venture Capital Outside finance Public subsidies	Venture Capital Outside finance IPO
<b>Financing-sources</b>	Entrepreneur Business plan competition Loan program / house bank Business Angels Venture capital - company	Venture capital - company Strategic investors Loan program / house bank Business Angels	Venture capital - company Strategic investors Private investor House bank

If the start-up phase is completed then the actual online-start of the e-venture can occur with a market introduction or launch of the product or service (Figure 7). Beginning here, one of the central, strategic targets of the company is to expand the presence of its product/service on the market and achieve constant turnover growth. The newly formed company then enters the expansion stage and the first stable income is earned. In this phase, it is absolutely necessary to expand production and sales capacities. In order to achieve this, it is possible to form cooperations. As a general rule, the further expansion of the company cannot be solely financed through its cash-flow. The company is thus confronted with additional capital requirements. At this stage, potential investors can be offered far more security for their investment as compared to the early phase of the business development. Considering this, the management is nevertheless challenged then by an entirely new problem of properly steering the growth of the company. This is the point where internal processes must be established. Within the expansion stage, the building blocks of 'market access' and 'processes' are particularly important as – without them – further growth can most certainly not be achieved.

As soon as a company can rely upon an ever-increasing growth rate and guaranteed business income, the later stage of the company's development has been achieved. From a turnover perspective, the company is stable in its business development and there is



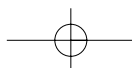
eventually the opportunity to consider a diversification of the original idea (Figure 7). The company has established unique selling aspects for its product or service that separate it from the competitors and has achieved a significant market penetration. This means that even the future growth of the e-venture can be calculated and risks can be much better defined than in the previous phases of the business development. When there is a significantly high level of growth potential, the break-even point can be achieved through 'bridge financing' or possibly an IPO can be prepared. Investors from the previous financing rounds also have the option of a 'trade sale' to a strategic investor as well as selling their shares back to the founders or the management in a management buy-out, or respectively a management buy-in. During the later stage, all of the building blocks play a significant role due to the fact that, generally, growth can only be obtained when all of these elements are functioning seamlessly.

#### 4 Summary

The creation of new ventures plays a decisive role for the social and economic development of every country. This is due to the fact that with each new venture created a market participant comes into existence which potentially stimulates the competition and drives the economy further. The formation of new companies within the Net Economy (e-entrepreneurship) is therefore – in spite of the current market turbulence – a key topic for every national industry. Consequently, e-business must not be ignored by decision makers; its technological advantages are obvious and therefore will most certainly lead to new business processes and business concepts as well. Because of those circumstances there will be a solid basis for new venture creation within the net economy in the future, too. As this article has shown, the competent processing of information has to be the foundation of such entrepreneurial attempts. The electronic value chain and the value oriented processing of information thus serve as the starting point for every net economy venture.

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