Lots of Shake Left in the Dot−Com Shakeout

By Michael Mahoney
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One analyst said that the length of the shakeout will depend in part on how firm a deadline private and public investors have placed on demanding profitability.

Layoffs. Consolidations. Tumbling stock prices. When will the madness end?

According to industry analysts, the dot−com shakeout is going to get much worse before it gets better −− and it won't be getting better anytime soon. More shutdowns and layoffs lie in wait for the online world.

"If you look at venture capital funding for e−commerce companies, the second and third rounds of financing really tapered off for [the] third/fourth quarters of 2000," Steve Butler, business analyst for eMarketer, told the E−Commerce Times. "This leaves dot−coms with very little cash to last on a month−to−month basis. The majority will go bankrupt or consolidate by the middle or end of this year."

Grass Isn't Greener

Mitchell Levy, president of e−commerce management firm ECnow.com and author of the book, "E−Volve−or−Die.com," told the E−Commerce Times that "although we are already mired in the New Economy, we are just at the beginning of the changes, as brick−and−mortar companies race to be successful online, and dot−coms try to dethrone established companies' brands."

Levy added that the overall health of the economy will also play a large role.

"It's not just a shakeout in the dot−com world, but a shakeout in the regular business world," Levy said. "Currently we're moving alarmingly fast in the direction of an economic recession −− this means that all business entities are affected and the ability to create new capital for ongoing businesses gets limited. A number of entities that have good business ideas today may not succeed because of this fact."

Lots of Reasons

Boston Consulting Group e−commerce research director James Vogtle believes that several factors will help determine the length of the shakeout.

"If the venture capitalists or public markets have a fairly firm deadline in mind on how long they're willing to continue investing in pure plays until they see profitability, that may impose the deadline on the retailers," he said.

The growing prominence of offline brands may also play a role in the timetable.

"Over the holiday season, online consumers gravitated towards better known brands in the traditional world," Vogtle said. "If that accelerates or continues, it could precipitate the consolidation as it leaves less market share for the pure plays."

Turning The Channel

Not all the news for pure−play e−commerce companies is bad. When the consolidation smoke clears at the end of 2001, some dot−coms will still be standing, analysts say.

"I would predict we start seeing an upturn in this cycle towards the end of the year," Levy said, "and start seeing a number of entities getting higher valuations again and excitement on things they've been able to do."

However, with offline brands leveraging their established names to building online presences, e−commerce will never look the same again.

Tremors and Aftershocks

"At the end of 2001 we'll see a lot of brick−and−mortars take a greater share of the business−to−consumer pie," Butler said. "We'll see a lot more multichannel retailing, where the Internet is only one of many channels. To the extent that companies can support that one channel, they will meet with some success."

Added Vogtle: "Now that the valuations have come down on the pure plays, it presents an opportunity for traditional retailers to acquire assets or capabilities tailored to the online market, instead of building them all in house."

Ultimately, however strong the shakeout is, there is a finite number of companies left to shake.

So sometime, somehow, the shakeout should end. However, it might take the rest of the year or longer for the shaking to be done.

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