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WEB PISTON: CHOOSING A NEW STRATEGY

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Teaching Case

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Abstract

Web Piston is a successful enterprise that provides its small business and individual clients with automated web design and web hosting services. Owing to the rapidly changing competitive environment, however, the company's founder, Ricardo Lasa, feels that a change in strategy is necessary. The case describes the competitive environment for web hosting and outlines four alternative strategies: 1) becoming a "freemium" player, 2) becoming a custom web site developer, 3) creating a marketplace to match web clients and developers, and 4) focusing on developing portals for deployment on social networking sites. The principal objective of the case is to provide a rationale for making the decision, or to offer an alternative strategy. A teaching note may be obtained from Dr. T. Grandon Gill (grandon@usf.edu).

The case is almost entirely undisguised and was specifically intended to focus on building judgment/evaluation skills in the presence of considerable uncertainty.

Keywords: Digital business model, E-business, Web 2.0, Website design, Case study/studies, Customer retention

WEB PISTON: CHOOSING A NEW STRATEGY

Introduction

> *Once the bad times are over, we are in big trouble…*

Ricardo Lasa, founder of Web Piston, Inc. reflected on this counterintuitive statement. His company's principal offering was a tool that allowed clients to develop quality web sites rapidly. It also hosted those sites. In recent years, business had been good. The small businesses that were the company's main clients increasingly viewed a web presence as indispensible. It was also very affordable. As a result, when the current recession—the worst in the past 70 years—began in 2007, demand for the simple but visually impressive web sites that could be created with Web Piston technology grew significantly. By 2010, the company provided ongoing hosting services for between 5,000 and 10,000 web sites, each of whom paid a fee of $19.95/mo for the service. With only modest expenses, the company had become very profitable.

Lasa could see major changes to the industry were inevitable. Indeed, all of five of the forces that could impact an industry (see Exhibit 1) seemed to be in play. At the bargain end of the industry, "freemium" competitors—site building companies who offered a free product that could be upgraded to a low cost premium product—were rapidly expanding, and could be expected to erode the price-conscious segment of Web Piston's customer base. At the high end, companies that managed a network of site building professionals were expanding. While these offerings were more expensive than Web Piston's, they also offered greater flexibility. Finally, there was an emerging group of companies that offered specialized ecommerce services, such as form handling and online shopping carts, but were also starting to sell hosting services. While these companies tended to be particularly good at a small set of activities, not all customers needed much more. To further complicate matters, some of these potential competitors could also become potential partners, as many of their services could be incorporated into web sites hosted elsewhere, through a process known as mash-up. Broadly speaking, Lasa felt that there were 5 options that Web Piston might pursue. The first, of course, was to continue doing what they had been doing, since the serious market concerns that worried him had yet to materialize. The other four were as follows:

1. *Reposition the company as a freemium player.* This option would require relatively little effort on Web Piston's part, since its existing tools operated at little or no cost. The disadvantages were entering a market already populated by large competitors and potentially cannibalizing existing customers.

2. *Become a full service custom site developer.* With the company's existing contacts in low cost countries, such as Mexico, Lasa felt that they could compete with existing players very effectively—perhaps specializing in global and non-English site development. This would require Web Piston become a very different type of company, since the management of 3rd party developers could not be entirely automated.

3. *Create a web site building marketplace.* Rather than manage the development of custom sites, Web Piston could act as a market in which companies seeking a web site could be matched with developers. Using Web Piston's automated tools, it would be possible for independent builders to put together complete or prototype sites from which customers could then choose, with Web Piston getting a share of the transaction. The obvious risk was that this approach had never been tried before.

4. *Develop a suite of tools specifically oriented towards the rapidly expanding social networking segment, offering a freemium service that leveraged these tools.* Essentially, this would involve becoming a specialized ecommerce player with a social networking focus. Risks included the challenges of building a revenue base in this heavily targeted, and rapidly changing, segment as well as concerns that the large players in the social networking sphere, such as Facebook, might become competitors if Web Piston demonstrated the validity of the approach.

Lasa was also aware that there might be other alternatives that he had not even considered. His intuition told him, however, was that if he waited until the best choice was unambiguously clear, the opportunity would no longer be available. Thus, while staying the current path was a viable strategy, he was only prepared to pursue it if he was convinced that the other alternatives were premature or destined to fail.

Website Development and Hosting Industry

In order for a web site to be visible on the Internet, it needs to be placed on a web server. Web development is the process of creating websites. Web hosting is the service industry that provides these web servers to companies, organizations and individuals that choose not to maintain their own private web servers. Today, the vast majority of web sites are hosted by these 3rd party companies, at least 90% according to Lasa's estimate.

Domain Name Registrars and Hosting Companies

Hosting a web site is a very generic, low value-added activity. This segment of the marketplace tends to attract two classes of customers. The first is complete newbies to the web space—attracted by the low cost of registering a domain and unaware that building a custom web site is a complex, time consuming process. The second group is professionals who know the tools of website construction and are concerned about deploying their sites on cost effective, reliable and secure platforms. Web hosting firms in this segment often provide a suite of ancillary services and features that distinguish them from their competitors, as described in Exhibit 2.

Website Builders and Designers

The other general category of customers are those seeking to develop a web site from scratch, often having little idea at the outset what it will look like. These customers sharply divide into two categories, those who want to do it themselves using a vendor-provided tool and those who wish to acquire the services of a designer.

Site builder tools

Site builder tools consist of web-based applications that walk the customer through the process of building a professional website. Web Piston participated in that particular segment of the web hosting industry that combined web site development with web hosting. Two categories of participants were competing in this space:

- *Freemium companies*: These provide an opportunity to create and host a website at no cost, as well as the ability to upgrade to a premium product. What normally differentiates the free and premium version is the domain name: the free version is a subdomain of the host (e.g., http://MySiteCaseExample.weebly.com) while the premium version, for about $50.00/year, would offer the appearance of a true domain (http://www.MySiteCaseExample.com).

- *Traditional model*: Companies such as Web Piston offer site building tools and a way for the customer to preview the site before committing to it. In Web Piston's case, this was done by creating a mock up of the site while it was being developed. Other companies instead offered 30-day free trial periods. Competitors in this space included Homestead (acquired by Intuit, who had started aggressively advertising the service on U.S. television) and CityMax. Lasa estimated that these companies probably had customers numbering in the 10,000s, making them somewhat larger than Web Piston, but not strikingly so. Services from companies in this category were paid for with monthly hosting fees, ranging from $10 to $50/mo.

When successful, firms in the site builder segment providing automated site building services often evolved to a point where they choose to contract for the actual web hosting, and concentrate on selling customers with their services.

Website designer/developers

Full service, consultative, web designers could also be hired to develop complete web site solutions. These services fell into three general categories:

- *Basic design*: Depending on the scope and customization required, prices typically ranged $500 to $3,000, with hosting provided at a fairly nominal price (e.g., $20/mo).

- *Design and marketing*: The most rapidly growing segment in this market was occupied by Reach Local and Yodle, who combined premium design/development with hosting and charged fees upwards of $500/mo. Between the two companies, Lasa estimated that $70 million in capital had been raised between 2008 and 2009. They were aggressively marketing their services to small businesses, combining web presence with other forms of advertising.

- *Premium custom design*: There was also an extreme high-end designer segment, which might start at $25,000 and rapidly move upwards. Naturally, this space was far outside of the Web Piston small business customer base.

Web Piston

As described on the company's web site, Web Piston, Inc. was a privately held corporation established in 1998 by Ricardo Lasa as a custom web design and e-commerce firm. Shortly after its inception, it became a premier web solution firm in Southwest Florida, working on a vast array of projects.

The Founder

Ricardo Lasa was originally from Madrid, Spain. He grew up in an entrepreneurial environment as his father Jose Luis Lasa built a large and successful real estate development firm, building in Spain, Mexico, and Houston. Lasa came to the United States to finish his undergraduate degree in MIS, and went on to complete a Masters degree in MIS and an MBA from the University of South Florida. He sat on the board of directors of his father's company along with other investors and real estate professionals from Spain and Mexico.

He had a wealth of business experience prior to establishing Web Piston. He was the founder and Chief Executive Officer of Rivergy, Inc. a leading web developer in the Tampa Bay area. Rivergy developed hundreds of websites and Internet applications in the early days of the Internet. Ricardo Lasa gained some critical experience in understanding the Software as a Service business model.

In founding the company, Lasa not only raised venture capital and secured other avenues of financing for Web Piston, but he also developed state-of-the art site building platforms that were currently commercialized in North America - platforms such as Web Piston Site Builder. In doing this, he integrated two distinct skill sets: business (e.g., financial analysis, strategic planning, project management, product development and business process reengineering) and technical (e.g., software architecting and programming, including SQL, database design, C, and ASP).

The Company

Web Piston was originally established as a web design firm in 1998, near the peak of the Internet boom in the U.S. Within a few years it had over 25 full-time employees and had established itself as the largest web designer in the Tampa Bay region. At the time the Internet bubble burst, just after the turn of the millennium, the company refocused on doing intensive web-based development in specific industries, such as medical services. It was successful in maintaining a strong client base during the decade that followed, but the project approach was very labor intensive and demanded continuous management attention. Lasa decided that he preferred an approach that relied more heavily on technological innovations in automated design and less on per-hour revenue. The result was the introduction of the Web Piston suite in 2003. The company closed out its last consulting engagement in 2009.

By the time of the case, Web Piston, Inc. consisted of 4 principals and 2 part time employees. In addition to Lasa, the principals were Jesse Baynard, Matt Munday, and Chris Lord. Jesse Baynard was the chief technology officer, Matt Munday was the programming lead, and Chris Lord was the lead systems engineer of the organization. Lasa, Baynard, Munday, and Lord had worked together close to ten years. In addition to the core team, Web Piston had technical support representatives and accounting staff.

The Product Suite

Because web hosting itself was a pure commodity, what distinguished Web Piston from its competition was its site builder suite of products. Its first site builder product, known as Web Piston, was introduced in 2003. Web Piston was designed for small business users and focused on getting non-technical users to build a professional looking site with good content that was search engine optimized for them.

The company's current product suite at the time of the case is summarized in Exhibit 3. The key product was its Site Builder. Beyond that, however, the company had developed number of other niche and experimental products. These included Web Piston Baby, a website builder for baby websites that predated the massive adoption of social networks. It allowed parents to share with their relatives and friends pictures and videos of their children with ease.

Another product developed by Web Piston was Frupee, one of the first do-it-yourself social network builder that allowed users to easily build a custom social network for groups of any sort. Frupee has grown to host thousands of social networking communities in the United States and abroad.

Finally, Web Piston developed Web Piston ICE, a custom social networking platform designed for companies to establish their own professionally designed social network. Later on, Web Piston ICE, was integrated with prediction market technology to form AgorX, a leading social networking and prediction market platform.

The Site Builder Product

The product that really distinguished Web Piston from its competitors was its Site Builder. Lasa described the motivation for the product as follows:

> The driving goal for the technology was to allow small business owners to generate a custom looking site that was search engine optimized, efficiently and easily. We accomplished the goal by building assistants that guided our users step by step in generating their website.

Web Piston offered a custom template builder assistant that allowed users to build a completely custom looking website easily. It allowed users to select pictures and themes for the website with sufficient variety so that sites did not look as if they were developed with a template system. Furthermore, it offered a search engine optimized content generation engine that guided users through generating the content for their website. Nearly always, a Web Piston site would appear on the first Google search page. Quite often, it would be at or near the top position when the product or service being sold was narrowly defined. Finally, Web Piston was natively integrated with PayPal, allowing users to sell their products and services online seamlessly.

The Current Situation

By early spring 2010, Lasa felt pressed to make a decision. Although business was currently good—the legacy stream of hosted sites generated excellent cash flow and new sites continued to enroll—he judged the present situation to be precarious. Information systems competition was rarely good to those companies that occupied the middle ground between low priced entrants and high service/high priced competitors. In the 1990s, the mini-computer industry had essentially been squeezed out low cost PCs and mainframe companies like IBM that had reinvented themselves as service companies. In the late 1990s, networking companies such as Novell and premium UNIX-based products such as Sun's Solaris had been sandwiched between the premium-priced but feature rich Windows server tools and the open source Linux tools. During the same period, database competitors that had formerly occupied the middle of the price range, such as dBase and a host of other entrants, had found themselves squeezed out by expensive server tools, such Windows SQL Server and Oracle on one side, and by free tools, such as MySQL and tools bundled with other desktop software (such as MS-Access), on the other.

At the present time, Web Piston occupied that dangerous middle ground. He did not expect it to remain fertile for much longer. This concern was strengthened by inroads being made by the competition, emerging technologies that could impact the landscape and a series of broader concerns highlighted by recent events in the headlines.

Competitive Inroads

Over the past two years, several new competitors had made serious inroads into the web design/web hosting segment of the industry where Web Piston currently competed. In the past few years, the freemium segment of the marketplace had virtually exploded. Two of the major players in this market were Weebly and Yola. Lasa roughly estimated that Weebly was hosting somewhere in the range of 3 million sites (95-99% being free) and Yola was hosting about 1.5 million. In addition, Jimdo was a special purpose site offering an e-commerce package and Wix, a company out of Israel which had raised a total $18.5 million in venture capital, was starting to become visible. Hard numbers were almost impossible to find in this marketplace, but industry rumors suggested that Yola (out of South Africa), had received around $25 million in startup funding. Competitors, such as Weebly (out of San Francisco) had raised around $650,000 from prominent angel investor Ron Conway. If these companies invested heavily in their site building tools, it would be very difficult for Web Piston to compete with them head to head. This was particularly true in the case of Weebly, whose "premium" version was priced at a $50.00 one-time fee, as opposed to the $20/month fee charged by Web Piston.

There was also increasing competition from entrants more closely resembling Web Piston in their business models. Intuit, for example, had acquired Homestead and was now advertising for business on cable TV. Other competitors, such as Yahoo Sitebuilder benefited from greater name recognition. There was also the ever-present risk that Google, the giant of the web industry, might seriously focus on the market segment. Were it to do so, it could potentially become a major player and perhaps dominate the market, as it had done in other areas such as search and email.

Emerging Technologies

Another force driving the industry in new directions was the rapid growth of new technologies that had the potential to transform web design. In this segment, Google was already a major player. The technologies could be broken into a number of categories: technologies that added functionality, technologies that changed how the web was used, and technologies that changed the way we access the web.

Added Functionality

The history of the web consisted of a series of waves. Mosaic, the first graphic browser had been introduced in the early 1990s. The mid-1990s was dominated by "browser wars", as vendors rushed to introduce new (and often incompatible) features into their browsers. Dynamic web pages with embedded scripting languages (such as JavaScript) and the ability to interact with servers (through the common gateway interface) became commonplace, By the late 1990s, the emphasis had moved to complex interactions with servers using advanced programming tools such as Java (Sun Microsystems) and ActiveX (Microsoft). With the new millennium, these tools become more sophisticated and embedding Internet access and web tools into applications had become commonplace, driven by standards such as XML, web services and supported by new tools such as Microsoft's .NET development environments.

Traditionally, incorporating advanced functionality had required substantial programming. Over the previous 5 years, however, the amount of functionality that could be added to a web site without programming had expanded dramatically. Using techniques sometimes referred to as mashing, it had become progressively easier to embed functionality supplied from other sources (such as an online shopping cart or mapping application) within a client web page. The number of potential applications that could be mashed or accessed through an API (application programming interface) was growing every day.

While mashing was relatively easy, making mashed applications available to clients in a general way presented a formidable obstacle to automated site design tools such as Web Piston. Incorporating automatically generated text, creating customized styles and providing image uploading were all actions that a client could easily comprehend while building a site online. Little guidance was needed. Setting up a shopping cart or incorporating an automated payment system was likely to present a far greater challenge to the typical small business owner that represented the bulk of Web Piston's clientele (see Exhibit 4).

Web 2.0: Social Networking

Web 2.0 generally refers to using the web for interactive communications between individuals. Starting about five years before, social networking sites such as Facebook, MySpace and, most recently, Twitter had changed the way people thought of the web. They had also grown to the extent that they represented major potential business opportunities. Using lists of friends as a marketing tool, for example, allowed the same type of credible communications that once could only be accomplished through word of mouth. Because of the personal nature of these sites, it was almost as easy to damage your reputation through marketing mistakes (such as overt advertising or violation of privacy) as it was to enhance it.

Access to the Web

Over the previous five years, a number of non-computer devices for accessing the web had grown in popularity. Most significant of these was the smart phone, which incorporated both cell phone and web access into a single device. Key competitors in this area included Blackberry, Apple's iPhone and, most recently, Google. Increasingly, individuals were choosing to access the web through these devices which, according to Gartner Group projections, were expected to reach 43% of the cellular device market by 2013. Web pages suitable for a desktop or notebook screen were not, however, equally suited to the small smart phone display. Thus, companies increasingly had to

think about deploying both standard and mobile content. This would obviously increase the complexity of any automated web design tool, since creating a mobile web site was not merely a matter of shrinking down a normal web site. On the other hand, it opened the possibility of a new revenues source since organizations often hosted mobile content on a separate domain or subdomain.

Broader Concerns

In addition to specific issues related to the site building/web hosting market segment, there were a number of recent events that Lasa felt might ultimately impact everyone doing business on the web and web hosts in particular. Both had involved Google, the largest participant on the web.

Security

In early 2010, Google announced that its site had been attacked by hackers originating in China. The purpose of the attack was, apparently, to access email accounts of dissidents. The situation had become so severe that, at the insistence of Sergei Brin (one of Google's founders, the company had decided to stop censoring its search content in China. Effectively, that meant nearly abandoning the largest potential market in the world.

This episode highlighted the challenges presented by security. As long as the bulk of its clients presented only simple, static web pages, issues of hacking and denial of service were unlikely to pose much of a problem to Web Piston. If it began to embed electronic commerce components and a variety of payment systems into its sites (it already supported PayPal), the potential implications of security breaches would become much greater. How could Lasa ensure that the components it offered did not expose Web Piston to potential liability?

Privacy

Recently, an Italian court had ruled that several Google executives were guilty of invading an autistic child's privacy by virtue of a video posted on YouTube, a video hosting service that Google had recently acquired. This conviction rendered moot a long-standing assumption that web hosting entities would not be held responsible for content posted to their site provided that they did not have a policy of actively screening their content. Web Piston had already been exposed to the problem, having been threatened with legal action in the event that they did not take down a client web site that included copyrighted images. How much more pressing would the privacy issue become if the company became heavily involved in marketing through social networks?

Potential Options

As Lasa thought about Web Piston's current situation, he felt that the company had a number of options that could be implemented. Each had features some features that were attractive, and others that were less compelling. There was also, of course, the possibility of combining some options or coming up with alternatives that had not been considered.

Wait and See

The easiest option would be to delay making any changes until the pros and cons of the remaining available choices become clearer. For the time being, the company had solid cash flow from existing customers and was still acquiring some new customers. Because Web Piston's business model relied on recurring monthly revenue streams from customers, and because inertia tended to prevent these customers from abandoning or radically changing their web sites, it was quite possible that the current situation could translate to making payroll for years, with minimal effort. Weighed against this, obviously, was the risk that by waiting, other opportunities would be lost. Thus, the wait-and-see option seemed most appealing only where none of the other options thrilled him.

Become a Freemium Competitor

At the present time, Web Piston charged for all its hosting services. Lasa had no doubt that it was losing some business to its competitors who offered options that were "free" as well as paid. Why would a customer who was not taking his or her web site very seriously want to spend hundreds of dollars a year on a web site just to have a top level domain instead of a subdomain?

To compete effectively in the freemium marketplace, Web Piston would need to figure out how to position itself against entrenched and much larger competitors. This would require decisions with respect to:

1. *How much to invest in developing the company's tool set?* The freemium model depends heavily on converting clients from free to premium services. Lasa felt the company's site builder tools were already better than the offerings of existing competitors. However, by going freemium the company would be changing the purchase equation. Under the current plan, Web Piston potential customers had the choice of paying for the site they created (at no cost) or abandoning it. A freemium strategy would provide a third option—deploy the created site under slightly less favorable circumstances. Existing freemium competitors found that only a tiny fraction of their clients (1% to 5%) actually chose to pay. Lasa felt that the key to increasing the conversion rate would be to make the site produced so compelling that even a tiny defect (such as being hosted on a subdomain) was viewed as unacceptable to the customer. This would be most likely for customers who embedded a lot of functionality into their sites—perhaps through mashing other capabilities using Web Piston-supplied site building tools—and were counting on it to generate business far in excess of the modest cost of hosting. To allow end user clients to build this type of site without extensive technical support would require a lot of design work and testing.
2. *How to distinguish the "free" product from the "premium" product?* Lasa could think of different ways to make premium versions superior to free versions. The first would be the domain/subdomain distinction, already widely used. The second would be making additional functionality available on premium sites (e.g., shopping carts, forms, etc.) that could not be incorporated into free sites. That could lead to a more complicated pricing model, however, since some of these external services themselves would need to be paid for.
3. *How to price the premium product?* Presently, even the premium site option offered by most freemium products was substantially less expensive over time than Web Piston's sties. Did Web Piston want to bring its price more in line with that of competitors? What would be the risk that existing clients would then switch to the new model, cannibalizing the company's current revenue stream?

One attractive feature of going the freemium route would be that it could be accomplished very quickly. While moving towards the more sophisticated tools (as discussed in item 1 of the list just presented) could take a lot of time, changing pricing and implementing new options such as free hosting on subdomains was something the company could implement in days. Unfortunately, the closer the first implementation of the freemium strategy was to the existing strategy, the greater the risk of the cannibalization that was the concern of item 3.

Enter the Customized Web Design Segment

At the other extreme, Lasa felt that his company had the skills, tools and connections that would allow it to compete effectively within the international segment of the custom web site design market. In the U.S., the custom site design market was fairly saturated and the developer skill set required was relatively expensive. Such was not the case in many parts of the world, such as Latin America. Particularly in non-English speaking countries, the web hosting/site building market was much more open and, particularly in developing countries, web developer skills were much cheaper. Lasa had already developed relationships with developers in Mexico and believed that he could potentially establish a very profitable line of business creating Spanish-language custom sites using these developers as a resource and marketing to clients in these countries. Web Piston had a clear advantage over new startups in this arena, since its already sophisticated web site building tools could be used to increase the productivity of developers. These would need to be translated, however, since Web Piston's current visitors were mainly from English-speaking countries, as illustrated in Exhibit 5.

The international strategy would leverage a particular characteristic of building web sites: there was little need for the developer to be co-located with the client, particularly for web sites that did not tightly integrate with the client's IT systems. Indeed, with international phone calling rates having dropped dramatically in recent years and with technologies such as eBay's Skype that allowed international calls to be made for free, the final obstacle to communicating with clients from remote locations had been removed.

While Lasa was optimistic that this option could succeed, he also recognized that it presented a number of challenged and risks that could not be ignored. First and foremost, it could fundamentally change the nature of the Web Piston business, changing it from tool-based selling to service-based selling. To ensure quality, the company would need to track and manage developers that could, eventually, be spread across the globe. Beyond the question of quality control, this could also require consideration of each individual country's labor laws. For example, would

a developer earning his or her livelihood from building Web Piston sites be considered an independent contractor (in which case local labor laws would probably not apply) or an employee (in which case they would). One way to address this would be to partner with a local firm. That, of course, would mean that Lasa and his other executives would need to change their focus from development to relationship management. Given his own cosmopolitan background and extensive skills, Lasa was confident he could make the transition successfully. The question was: did he want to?

Create a Web Builder Marketplace

One option that Lasa had come up with that would make the company's product quite unique would be to create a market in which web designers and clients could come together. In this option, Web Piston would create a site where clients could request a web site and developers could submit prototype or fully-developed sites as proposals. The idea was inspired by a company called 99 Designs, which used a similar approach for graphic artwork.

Lasa's vision was that the marketplace would work along the following lines:

1. Clients would fill in a form identifying the key features that they would want in their web site.

2. Web Piston would set a price for the site based on the characteristics of the request.

3. If the client accepts the price, they would upload key resources (such as logos, photographs, product information) with the understanding that they could also provide such materials later.

4. Web Piston would contact Web Piston Certified Designers and offer each the opportunity to prepare a site meeting the requirements of the client. Once two designers accepted the invitation, each would be given a specified time interval in which to prepare the site using Web Piston's tools.

5. The client would choose between the two alternatives and the winning developer would be paid, splitting the fee with Web Piston.

6. Client sites would then pay Web Piston for hosting, perhaps at a discounted rate for the first 6 months.

This particular approach offered a number of potential advantages over the freemium option. First, a much higher conversion rate could be expected (particularly if a non-trivial client deposit was required). Even if the deposit were waived, many clients would be reluctant to walk away from completed sites knowing that individual developers had invested time and energy into constructing them. The client incentive to follow through would also be much stronger than for the freemium model since, like Web Piston's current model, they would get no site if they chose to reject both alternatives. Second, under this plan the enhanced site building tools that Lasa's developers would be creating could be targeted at experienced web designers—who would need little hand holding when complex functionality such as shopping carts needed to be added—as opposed to small business owners who might know nothing about web design. That would mean the planned tools could be constructed with greater functionality and leaner interfaces. It would take much less time to build these tools.

The obvious drawback of this approach was that it had never been tried on a large scale. During the summer of 2009, Lasa had assigned two interns (neither of whom were computer experts) to become power users of the Web Piston tools. By the end of the summer, they could take existing customer content and transform that into a new web site in as little as 15 minutes. They had then tried to sell these redesigned sites to existing clients, with a very high success rate. There were risks however. Would the supply of designers willing to risk creating sites with no guarantee of payment dry up if the economy started booming? What would happen to the plan if the client conversion rate were 10%, as opposed to the 80-95% that Lasa felt might be achievable? Even initial success would have its risks. What would happen if Web Piston's innovative approach was emulated by existing competitors or, even worse, attracted a giant like Google to start taking the market seriously? Lasa wondered what approaches, if any, might be used to get a better handle on the likely answers to these questions.

Aggressively Expand Into the Social Commerce Marketplace

Much of the excitement generated by the Internet over the past few years came from Web 2.0 applications. Lasa felt there were considerable opportunities for commercial expansion into this space. The social commerce option involved fundamentally rethinking what the company was selling. Today, its product was—in essence—a web site that was vastly superior so similarly priced options paid for with a slightly above-market hosting fee that potentially

continued to perpetuity. Under the social commerce option, instead of making the client pay extra for hosting, Web Piston would establish portals on social networking sites such as Facebook and clients would pay a monthly fee for their positioning on those portals. Clients were already familiar with this type of business model—it was the same basic scheme that the yellow pages had employed for a century. To be attractive, it would depend on Web Piston's ability to employ effective social network marketing techniques—very different from normal web advertising approaches—to justify paying for position. On the other hand, by combining web hosting *and* favorable positioning on portal pages it might be easier to convince clients that they were getting value for their fee.

According to the website TechCrunch, the social commerce market was taking off. The site reported:

> Online storefronts for retail goods are popping up all over Facebook, with the social network fast becoming a virtual shopping mall. We recently wrote about Payvment, a startup that implements PayPal's Adaptive Payments API to let anyone set up a retail storefront on Facebook. Today, BigCommerce, a company that provides ecommerce software to online retailers and merchants, is adding the ability to create a storefront on Facebook pages.

> Called SocialShop, the application allows merchants to display products on a Facebook Page. Merchants just have to add the application to their page, enter their store URL and then choose which products they want to display on the page. The retail platform will show up in a "Shop Now" tab on the page, and allows visitors to share products with their friends Facebook users can then click on a product to learn more but in order to buy the product they will be taken away from Facebook to the merchant's store (which is also powered by BigCommerce). (Source: http://techcrunch.com/2010/03/24/bigcommerce-turns-to-facebook-to-socialize-online-storefronts/)

Implementing this strategy would require that Web Piston develop both a general web site and social network presence for the client, as well as building portals where clients in different businesses could be featured. This would involve some reworking of the company's tools but might also allow the company to charge higher fees or, at a minimum, maintain its current fee structure. In fact, cannibalization of existing client risks for this option might be substantially reduced since Web Piston could offer to add the additional social networking presence at no cost for existing clients. In fact, doing so would be an important part of the implementation strategy since it would allow existing portals on the social networking sites to be populated. That would reduce the risk that the portals would start out empty of clients *and remain that way*—a major risk in any attempt to build a portal.

The risks associated with the social commerce option were similar to those of the marketplace option: such an undertaking had not been tried before. Moreover, what will work and what will not work tends to be very tricky to predict in social networking environments. As mentioned earlier, clumsy social marketing can actually work to the detriment of the advertiser. Having worked extensively on developing social networking tools and being familiar with the environment, Lasa felt that he was in a far better position than most individuals to design a workable approach. But could anyone really be sure what would happen if the company chose the strategy?
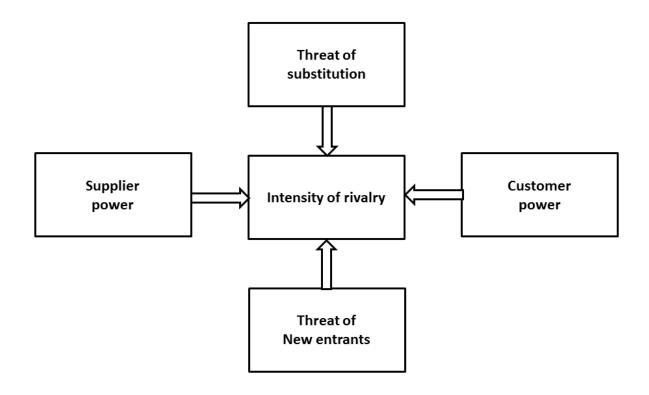
The Decision

Armed with his collection of viable alternatives, Lasa felt that the time for a decision had come. In a series of tables presented as Exhibit 6, he had summarized the four potential options he was considering using certain key criteria:

- How customized would the resulting web site be?

- How many sites would be anticipated (compared with current levels)?

- How much personnel change would likely be required?

- How likely would the plan be to cannibalize existing business?

- How large an additional investment in the company's existing development tools would be required?

- What type of setup fee revenue might be expected? (Presented as a range)

- What type of recurring monthly fee revenue might be expected? (Presented as a range)

- Where would customers be located?

What was going to be his next move?

Exhibit 1: Michael Porter's Five Forces

Source: Adapted from Porter, M.E. 1985. *Competitive Advantage.* New York, NY: Free Press

Exhibit 2: Ancillary Web Hosting Services

Service	Description	Cost Range
Domain name registration	Web hosting firms often register a domain name for the user. These names must be registered periodically.	$0 to $50/year per domain
Email and SMTP services	Email accounts are often included as part of a web hosting agreement. These include both the ability to receive email and to send it (using SMTP)	$0 – small fee for extra accounts
Web statistics & analytics	Tools that can be used to analyze traffic at the customer's web site, including how many hits and where they came from.	$0 to $500/year
Pre-built component tools	Tested components, such as blogs, discussion groups, forms, shopping carts, maps, and so forth that can be embedded into web sites with minimal programming.	$0 to varying price based on component
Website building tools	Tools for constructing web sites without programming, such as Web Piston	$0 and up
Database access	Most commercial web sites that feature e-commerce store information in a database. Web hosts may allow users to access the database, which might include MySQL (open source), Microsoft SQL (on Windows servers) or Oracle.	$0 (simple MySQL setup) and up for more advanced access
Server-side scripting and programming	For advanced web sites, the ability to program layers between the customer's browser and the database is often required. Web hosts may provide access to various tools (e.g., PHP, ASP, Java) that allow such programming and also allow commercial and open source packages to be installed on the server.	$0 and up. May require database access and specific server features.
Virtual & Physical servers	Most web hosts share many sites on a single web server. For more advanced users, a virtual server (which isolates the server from other applications on the same computer) may be offered or even an entirely separate server. Some hosts also offer choice of operating system (e.g., LINUX vs. Windows) and predefined configurations (e.g., a LAMP server comes with an open source configuration consisting of Linux-Apache Web Server-MySQL-PHP)	$100 to $2000/year, depending on server

Exhibit 3: Web Piston Product Descriptions (from company web site)

Web Piston Site Builder

Web Piston is the leading Small Business site builder that allows small business owners to build professional websites on their own. Tens of thousands of small business owners have used Web Piston to build their online presence and e-commerce store. Web Piston has quickly became one of the most innovative site builders in the market due to its patent pending form of technology. This site builder provides step-by-step instructions that guide users though-out the building process. **Users do not need to know HTML in order to build a professional and functional web site**, thanks to Web Piston.

The **Web Piston site builder is an all inclusive web solution product**, offering hosting, e-commerce capabilities, e-marketing tools, customized email, statistics, search engine optimized pre-generated content, customer service and so much more. Web Piston provides their clients with unparalleled customer support, being available via email as well as telephone. Perhaps this is why Web Piston is one of the fastest growing site builders, with thousands of clients. More than 100,000 websites have been built using Web Piston technology. Furthermore, the Web Piston site builder has been translated into the Spanish language, making it the first international site builder.

Web Piston ICE

People are indeed flocking to social networking communities, however, these communities remain extremely broad, there is no underlying theme, no commonalities and no set purpose besides personal interaction via the Internet. This is why Web Piston created the niche social networking software, I.C.E.

Web Piston I.C.E. is evolving into the fields of media, sports and other entertainment avenues. The I.C.E. platform is also comfortably suited for corporations looking to increase their brand awareness and customer loyalty. There is a base model of ICE which includes all the necessary features for a social network such as: member profiles, internal mail, blogs, commenting, groups, statistics and an advertising engine. Web Piston also offers customizations of ICE communities, so if a client wants additional features or functionalities, we build them a social network that suits their desired and often unique requirements.

Web Piston Baby Site

The Web Piston Baby site builder allows its users to share their pictures and stories with family members and friends. Built on the same patent pending formula as Web Piston 9, users can create a baby website with the help of a guided assistant and no HTML knowledge. The Web Piston baby site builder is an all inclusive solution that offers hosting, media uploading, diary/journal entries, template bank, e-cards, unlimited pages and customer/technical support. The Web Piston Baby site builder is currently getting updated and the new version will include more features and functionalities.

Frupee

Frupee was created to help empower the new wave of online entrepreneurs by offering them a free social networking platform. The Frupee application allows individuals to build their very own social networks, at no cost. Whether you are looking to build a social network for your business, your family, a sports team or your hobby, the Frupee software is an ideal tool. Frupee provides its users with all the features and functionality necessary to create a fully functional and interactive community. Moreover, the building process is extremely user friendly, even for those less familiar with web applications.

Exhibit 4: Web Piston Customer Survey

1. Type of business

		Total	Percent
Side business; complements my day job		1753	39%
Main business; I work full-time for the business		2703	60%
	Total	4456	

2. Why do you need this website?

		Total	Percent
Market my services		2583	58%
Sell up to 50 different products		499	11%
Sell more than 50 different products		479	10%
For my interest		466	10%
Other		411	9%
	Total	4438	

3. How many people do you employ?

		Total	Percent
Only me		1975	44%
Less than 5		1472	32%
6-15		526	11%
16-50		234	5%
51-200		96	2%
Over 200		174	3%
	Total	4477	

4. What industry is your business?

		Total	Percent
Accommodation and Food Services		1004	19%
Other Services (except Public Administration)		772	15%
Retail Trade		562	11%
Arts, Entertainment, and Recreation		528	10%
Construction		397	7%
Information		275	5%
Professional, Scientific, and Technical Services		217	4%
Wholesale Trade		198	3%
Health Care and Social Assistance		184	3%
Educational Services		163	3%
Manufacturing		134	2%
Transportation and Warehousing		111	2%
Finance and Insurance		102	2%
Agriculture, Forestry, Fishing and Hunting		93	1%
Real Estate and Rental and Leasing		84	1%
Management of Companies and Enterprises		64	1%
Utilities		57	1%
Public Administration		43	0%
Administrative and Support and Waste Management and Remediation Services		29	0%
Mining, Quarrying, and Oil and Gas Extraction		16	0%
	Total	5033	

5. Company history

		Total	Percent
New business (start-up)		2520	56%
Been in business 1 to 5 years		980	22%
Been in business more than 5 years		930	20%
	Total	4430	

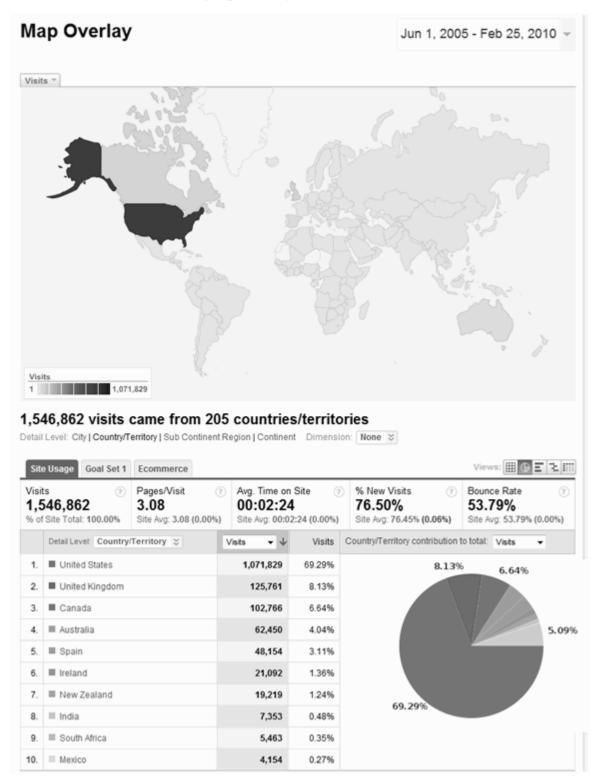**Exhibit 5: Visitors by Geographic Region**

Exhibit 6: Options Considered by Lasa

Option	Custom Level	Number of Sites	Personnel Required	Canniba-lization Risk	Investment in Tool Building	Setup Fee Range	Monthly Fee Range	Target Market Region
Freemium	Low	Very high	Low	High	High	$0-$50	$0-$20	English speaking
Comments	Of all the options, the freemium option was expected to be the easiest to initiate. It would also be the option that most directly competes with large existing players. The long term strategy would involve incorporating more advanced functionality (e.g., through mashing and APIs) into client sites, but the interface would require careful design since most Web Piston client are not particularly expert in web design.							

Option	Custom Level	Number of Sites	Personnel Required	Canniba-lization Risk	Investment in Tool Building	Setup Fee Range	Monthly Fee Range	Target Market Region
Customized web design	High	Low	Large	Low	Low	$100 - $500	$0-$10	Non-English
Comments	This option would initially function on Spanish speaking web sites developed through contacts that Web Piston had already started acquiring in countries such as Mexico. Eventually, the company could expand to other locales. Setup fees specified represent the expected share that would be realized by Web Piston. Given the nature of the developers, it seemed unlikely that large hosting fees would be realized.							

Option	Custom Level	Number of Sites	Personnel Required	Canniba-lization Risk	Investment in Tool Building	Setup Fee Range	Monthly Fee Range	Target Market Region
Developer Market	Medium	High	Low	Medium	Medium	$50 - $250	$5-$15	English speaking
Comments	Setup fees specified represent the expected share of the contract cost that would accrue to Web Piston for acting as agent between developer and client. Estimated tool investment would be reduced from freemium option (and functionality potentially expanded) based on the assumed skill set of users, which would be high.							

Option	Custom Level	Number of Sites	Personnel Required	Canniba-lization Risk	Investment in Tool Building	Setup Fee Range	Monthly Fee Range	Target Market Region
Social Marketplace	Low	Very high	Medium	Low	Medium	$0	$10-$25	English speaking
Comments	Assumes a functionality level similar to existing Web Piston site builders with additional capabilities for building social presence sites and managing portal sites. Social networking based marketing expected to require more ongoing monitoring than existing sites, which require virtually no ongoing intervention.							

Estimates and ranges have been disguised.