OnLine Case 7.1
Lastminute.com

This case on Lastminute.com opens with a discussion of issues relating to the new businesses that emerged with the growing popularity of the Internet and the beginning of the twenty-first century.

As the world entered the new millennium, cyberspace and e-commerce were providing another Klondike gold rush. Using the ‘gold-rush’ metaphor is interesting; it conjures up thoughts of huge fortunes and, without question, these fortunes are being made. The Internet is a wonderful and attractive opportunity, but it will prove disappointing, even cruel, to many of those would-be entrepreneurs that it attracts. The commercial potential of new creative, innovative ideas is always difficult to evaluate.

Brady (1999) argues that the success of any e-commerce business is dependent upon several factors. The idea must be innovatory, and while the business should be clearly focused it must be able to change and evolve speedily if it is to sustain growth. The people behind the business, their plans and their grasp of the issues, together with their ability to raise the necessary finance, are obviously critical issues. It is also essential that they develop a strong brand and, on the back of this, create and maintain very high levels of service. The site must be readily accessible, orders must be simple to place and then easily tracked while they are in the system, and deliveries should be on time.

How, then, might we evaluate these new businesses, remembering that many of them have not proved to be profitable? Partly concerned not to be left behind in this new gold rush, some financiers and venture capitalists have been willing to back some very high-risk proposals if they believe in the idea and the entrepreneur. Amazon.com, the most substantial and famous e-commerce company in the world, has secured enormous funding but has yet to declare a meaningful sustained profit. The theoretical value of the company, a reflection of its current share price, varies dramatically – and many analysts have suggested that it is overvalued because of the relative uncertainty. It is perhaps significant that three of the most profitable businesses - Hotmail (e-mail services), Google (search engine) and E-bay (on-line auction) are not selling products in the way that Amazon is.

Management Today (see Gwyther, 1999) offers the following set of evaluation criteria.

Three factors which determine the extent and value of the opportunity

1. *The concept or idea*
   - How *value* is created and built
   - The potential for profit, based on costs and revenues
   - The size of the potential market
   - The potential to establish an advantage and reap the rewards, specifically the presence of effective barriers to entry by direct competitors.

2. *Innovation*
   - The initial difference and the potential to build new values and thus sustain any early advantage.

3. *Engagement and implementation*
   - The ability to set up the infrastructure and the business, which inevitably depends on the people behind the business.

Three further factors which reflect the project or business outcomes

4. *Traffic*

   Numbers of customers generated – linked to the extent of repeat business, which in turn is dependent on service levels achieved. Although web congestion can be a constraint, the fact that people recommend websites by word of mouth is a major opportunity.

5. *Financing*
   Financial resources secured, to fund continued expansion as well as start-up. Setting up a robust business and infrastructure on the web is expensive.

6. *Visibility*
   The critically important brand identity and image remembering that a strong public profile and visibility can also act as a barrier to entry. This will often be in the form of media coverage for either an exciting new idea or the recognition of a new, successful entrepreneur or even web millionaire.

Lastminute.com

Once described as 'Britain's best known listed dotcom', Lastminute.com deals in products and services with a finite shelf-life that are close to their sell-by date and are sometimes candidates for distress pricing. Seats for flights, sporting events, theatres and holidays would all qualify. Events in the UK, France and Germany are included. The business model is simple: Lastminute.com brokers a deal and then takes a commission. Clearly this web company is not the only potential outlet for the products in question, and consequently its success will depend on the variety it can offer, the extent of the business it can generate through its site and its ability to bring buyer and seller together. The target market is cash-rich, time-constrained professionals who would like a bargain but who cannot invest the time and effort to find it personally.

The company was founded in November 1998 by two ex-consultants in their late twenties, Brent Hoberman and Martha Lane Fox. The basic idea was Hoberman's, who had become increasingly irritated with the process of price haggling with individual hotels and airlines when he was travelling. Mid-way through 1999 the two partners had raised over £6 million from, amongst others, Intel and Deutsche Telekom, and they were constantly seeking new backers to help to develop the scope and extent of the business. At this time it was being speculated that the company would be floated in 2000. A potential valuation of £400 million was featured in the reports. The two partners would be able to retain 45% of the equity. In mid-1999 Lastminute.com was declaring 300,000 registered subscribers with an average of almost 15 site visits per month. Revenues amounted to some £6 million, and no direct American equivalent had been identified.

Having expanded its activities into France, Germany and Sweden, the company was floated in early 2000. The valuation was now some 50% higher than the 1999 indication and the shares were oversubscribed. Investor allocations had to be rationed and the price soared immediately. The uncertainty of this sector ensured that they fell just as quickly and soon they were trading at just one-third of their post-flotation high. After all, for some, Lastminute.com is 'nothing more than an up-market bucket shop'. Brent Hoberman reacted to the adverse publicity that the company was beginning to attract and commented: 'People have chosen to focus on personalities and the share price, but the results should focus people's minds on the business and we have shown real growth'.

By 2004 Lastminute had accumulated losses amounting to some £200 million. The figures for 1999-2004 respectively are: £5 million, £35 million, £30 million, £48 million and £77 million. All the time the company was growing and a number of related businesses, mainly in Europe, were acquired. By 2004 Lastminute accounted for 17% of the European on-line travel market. Ebookers and Expedia each had 16%. The shares were trading at around 20% of their value shortly after the flotation.

Late in 2003 Martha Lane Fox announced her departure from the company.

In 2005 Sabre Holding of the US, owner of Travelocity, bought Lastminute.

http://www.lastminute.com

References
Brady, G (1999) The new rules for start-ups, e-business, December.
Gwyther, M (1999) Jewels in the web, Management Today, November.
Wheatcroft, P (2000) Britain's 50 most powerful women, Management Today, April.

Questions:

Is Lastminute.com a successful company? If yes, on what criteria are you judging it? If not, why not?

Access the website and look into the activities and organisations with which Lastminute has reached agreements. Do you believe the package is too diversified or are there opportunities to grow and maybe diversify further?