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TECHNOLOGY

Buh-Bye, AOL!

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Nor do I feel bad for Vonage, which made tall boasts while burning through untold millions in venture capital and pretending to be more than they were. Those who believed the hype took a bath in its IPO, and its customers are just beginning to learn the meaning of "bad service."

To look at both on the surface is to see Internet hype, arrogant management, bad decisions and foolish investors. But it would be a mistake to see these as just another set of post-Internet boom failures. Both provide important lessons to small businesses emerging today, and to the accountants who serve them.

HERE ARE FIVE LESSONS THEY DRIVE HOME:

- **Businesses Based On Fads Die With The Fad.** Both America Online and Vonage rode the wave of popularity of the Internet, though separated by 10 years or so. In both cases, however, little attention was paid to things like business planning, trends analyses or even consumer research. Both were sold on the concept that they were so cool that they simply had to succeed. In truth, both were failing for years, which any decent business plan would have clearly shown. Hint: Make clients create and read business plans.
- **Bad Accounting Is ... Bad Accounting.** Why is it that companies that are successful in the long term don't engage in high-risk, speculative and creative accounting? Or to put it another way, why do so many companies that do engage in these behaviors fail to thrive? If you are serving clients that are betting the farm on a different wrinkle in their interpretation of accounting, chances are the clients won't survive. There's a reason why the accounting profession is conservative.
- **Exit Strategies Are Critical.** Neither Vonage nor AOL had a comprehensible exit strategy for their respective businesses. AOL bought Time Warner for no other reason than it could — it had too much value on paper not to buy something. Vonage had an exit strategy for its owners but none for the company. Now Vonage will be tied up for years in shareholder suits, while AOL searches desperately for a viable business model. As any accountant can tell you, if you don't know how you will exit the business, you shouldn't be in the business.
- **You Must Have A Market Advantage.** I must look at a couple hundred new businesses each year, and each time I ask three basic questions: Does the company have a unique market advantage? Do you know who will actually hand money to you in payment for your products and services? Can you control your market advantage against competition? If the answer is "no," as it clearly was for both Vonage and AOL, their time on this earth is limited. AOL was a dial-up ISP with little to differentiate it from 7,000 others. Vonage had little or no control over the telephone networks with which it had to interface. In both cases, the lack of control meant a lack of a future. Hint: Patent everything possible.
- **Free = No Revenues.** More than a decade of good documentation clearly shows that Americans don't want to look at more advertising. The Internet industry is littered with the corpses of companies that insisted they could survive by forcing their subscribers to view ads. From free dial-up to a plethora of portals, those companies are dead. Yet both Vonage and AOL

have claimed at one time or another that they could exist as free services, either through advertising or other charms.

I don't really know what will happen to AOL or Vonage, but I suspect that both will be gone shortly, having expired under the weight of their own boasts and bad planning. If and when they do, the only people who will become rich from either will be the ones that have a collector's edition of the Vonage phone some 50 years from now ... or someone who has a complete set of every AOL CD ever mailed to consumers.

The important thing to remember is that the rules are the rules for a reason. Just because the Internet is the next great thing ... or Voice Over IP (VoIP) is the next great thing ... doesn't mean that the rules of accounting, business or common sense should be set aside.

Legitimate new ideas, new strategies and new companies enter the marketplace every day. And the thing that makes these new companies survive and thrive is not their "wow factor," not their ability to harness new technology, and not their cache with consumers. Rather, it is solid business planning backed by solid accounting and even more solid audits. □

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