Seattle tech scene changing rapidly

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SEATTLE – Cubitz.com founder and chief executive Elie Finegold had no problem raising capital for his company, which matches those seeking office space to those who have it to lease.

Since the company was founded in 1998, Finegold managed to raise $3.5 million. But in August, when his business plan called for a final round of funding - for use in the company's official launch - it wasn't there.

So Cubitz.com laid off 17 of its 39 employees and pushed back its October launch date.

Across Lake Washington in Bellevue, Usama Fayyad was in a different situation. His 6-month-old company, digiMine, had to choose which venture capitalists to take money from.

"It was really unexpected, because they actually came to us," Fayyad said. "I didn't realize we were going to grow so fast, but they drove the process and it was wrapped up in all of two weeks."

The difference illustrates the changes that have taken the Seattle technology industry by storm in 2000. Gone are the exuberant dot-coms, hoping to sell everything from t-shirts to beauty products online. Gone too are the venture capital dollars for such ventures.

However, venture capitalists are quick to point out it's still possible to make it big in e-commerce. But there's a new emphasis out there, a term unheard of in the heady days of, well, last year: fiscal responsibility.

"There was so much enthusiasm, and there were a lot of different business models out there that got funded," said Tod Francis, a partner at Trinity Ventures. "There truly was a feeling out there that the rules had changed, but the rules are actually the same. You need a good product or service, a good management team, and a clear path to profitability."

Path to profitability - the new buzzphrase of the post-Internet economy. The Seattle stalwart of the world's e-commerce sites, Amazon.com, has even started using the phrase to appease angry Wall Street analysts who feel the company hasn't been forthcoming enough with its plans to actually make money.

For smaller companies, it's been even harder, especially after April 14, when the Nasdaq fell 355 points and the Dow plummeted 617 points. The dot-coms were hit hard, and many plans for initial public offerings were shelved.

One of those postponed IPOs belonged to Rival Network - formerly Rivals.com before the "dot-com" became unfashionable. The company laid off 40 people in July, even though it had received $35 million in venture funding in February. Small business Web site OnVia.com, which went public in March before the correction, has seen its stock price fall from a first-day high of $78 per share to under $5 per share this week.

Just this week, OnVia was among three Seattle dot-coms that laid off a total of 173 people. OnVia.com laid off 85 people, including 80 in Seattle, while sporting goods retailer Gear.com let go 23, including its president, Ken Blue. And approximately 65 employees of OnHealth.com lost their jobs due to streamlining at their new parent company, Atlanta-based WebMD.

All three companies have decent financial pictures, but Seattle tech companies are looking for profit. For example, despite laying off 10 people earlier this year, online jeweler BlueNile.com is still going strong.

Of course, part of that comes from the peculiar nature of the jewelry business. Jewelry is a high-margin business to begin with, and even with insurance, shipping costs are low. Plus, the company doesn't have to deal with the usual commissions that other jewelers pay their sales staff.

"We have a very different business than most e-commerce sites," said BlueNile chief executive Mark

Vadon. "We have great margins on what we do, and that will bring us to profitability a lot more comfortably than other businesses out there."

In the meantime, deals are still being made with new startups.

"But I think since April 14, you're finding that there are better deals being made. The entrepreneurs are coming up with better plans," said Jon Staenberg, a venture capitalist and founder of Staenberg Venture Partners.

Today, the smart money seems to be heading toward Web services - complex programs that can be accessed and used by businesses and consumers over the Internet.

DigiMine, for example, is a Web service that provides datamining and database housing for small to mid-size companies. Instead of such companies having to pay for expensive database software and the computers to house it, they pay digiMine to not only keep the data, but to make it accessible over the Internet as well as provide the tools for those companies to "mine" the data to find trends and other information.

In additon, CrossGain Corp., headed by long-time Microsoft executive Tod Nielsen, and Westside.com, another enclave of Microsoft alumni, are both making tools that will help bring unprecedented interactivity to the Internet, much in the same mold as Microsoft Corp.'s .NET strategy.

These firms are working to help others link their current computing networks to the Internet, making it easy to do just about anything online, from anywhere in the world. Imagine, for example, having access to everything in your office, online and at your fingertips instead of tucked away in filing cabinets.

"I don't think Seattle ever went away," Nielsen said. "I think it just changed and evolved, like it should."

Newcomers and old-timers on the Seattle tech scene

Newcomers

• CrossGain Corp.: With a $10 million round of funding in the bank and close ties to Microsoft Corp., CrossGain will be around a while. The 10 founding employees are all taking just $24,000 in salary in exchange for a bigger chunk of the company. Fiscal responsibility is stressed, as is customer interaction. CEO Tod Nielsen is pioneering a 10-1-1 policy for employees • 10 months of work, one month's vacation time, and one month of time set aside for visiting and working with customers.

• Westside.com: Another former Microsoft haven, Westside.com is developing easy-to-use tools for use in making Web service programs. For example, a journeyman Web developer could use Westside.com's tools to make customized services that can pull information from throughout the Internet and onto a single Web page. Think of it as the building blocks of the next generation of the Internet.

• DigiMine: Yet another former Microsoft enclave, headed by former researcher Usama Fayyad. The company is expanding rapidly and just closed another $20 million in funding, during which Fayyad said he was turning down offers of venture capital. The company creates a service in which electronic commerce companies can not only house all of their important data on digiMine's servers, but can also use digiMine's services to "mine" the data for market trends and other useful business information.

Struggling

• Cubitz.com: Formed in 1998, Cubitz.com was created to help companies looking for a home and commercial real estate vendors come together. The site was first due to launch in October, but after failing to raise the necessary capital in August, Cubitz.com had to lay off 17 of its 39 employees. The launch is still uncertain.

• Rival Network, formerly Rivals.com: The sports enthusiast Web site lost $21.4 million in 1999 on sales of just $1 million.

Despite receiving a $35 million investment in February, Rival Network laid off 40 employees • a fifth of its workforce • in July.

Employees at the time estimated that the company had only $12 million left in the bank. Founder and CEO Jim Hickman abruptly quit the company in June to "pursue other opportunities." Newspaper reports, however, said he was ousted by the company's board.

Survivors

• BlueNile.com: While most e-commerce sites struggled, BlueNile.com was in the unique position of selling very expensive products with very low shipping and handling costs. Although the company laid off 10 employees this year, CEO Mark Vadon said the layoffs were due to a shift in the company's technology, and not due to business problems. With sales climbing to a record $10.1 million in the first quarter of 2000, the company may still glitter down the road.

• OnVia.com: On Thursday, OnVia.com announced it would cut its Seattle workforce by 20 percent, laying off 80 people and another five workers in its Canadian office. OnVia lost $34.7 million in the second quarter of this year. The company took in $29.3 million in sales, a 36 percent increase from the prior year, and company officials said it still has $180 million in the bank. The company hit its all-time high of $78 per share on its first day of trading on the Nasdaq Stock Market. It closed Sept. 26 at $4.86 per share.