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ABC NEWS

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HEADLINE: GOLDRUSH-DOT-COM, SEVEN MONTHS IN THE LIFE OF A STRUGGLING START-UP;
BIZMETRIC'S STRUGGLE TO GET STARTED

ANCHORS: TED KOPPEL

BODY:

Announcer: May 9th, 2001.

Unidentified Reporter #1: (From unidentified news show) The opening bell unleashed a race to the exits today.

TED KOPPEL, host:

The Nasdaq was in freefall...

Unidentified Reporter #2: (From unidentified news show) The Nasdaq had plunged nearly 200 points in panic selling.

KOPPEL: ...and the Internet bubble was about to burst.

Unidentified Man #1: (Trading stock) ...250 bid, 275 bid, 300 bid, where? Now three and a quarter...

Mr. FRANK DeFILIPPIS: Some people, including my mother, think I'm crazy for doing what I'm doing.

KOPPEL: It was a constant effort to beat the odds.

Mr. VIK CHAUDHARY: Just timing. The market conditions are bad, e-commerce is a dirty word.

We're looking at the--at the Web site.

KOPPEL: But through it all, an entrepreneur with an idea was determined to attract big money.

Mr. CHAUDHARY: Like changing from Clark Kent to Superman.

We need about two and a half to \$ 3 million to get to March.

Mr. KEVIN HARTS: (ph) Essentially, we--we turned them down.

KOPPEL: Tonight, Goldrush-dot-com, Seven Months in the Life of a Struggling Start-up.

Announcer: From ABC News, this is NIGHTLINE. Reporting from Washington, Ted Koppel.

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KOPPEL: If you were going to start up a company--the traditional, old-fashioned variety with a real location and actual goods, as distinguished from the virtual reality world of dot-coms--and if you were going to seek out some investors to put up the money, they and you should probably know that the chance of success, statistically speaking, is somewhere in the neighborhood of 20 percent. Roughly two companies out of every 10 are likely to make it. I tell you this just to put into context a recent report by the Rosen consulting group, which estimates that 80 percent of the remaining dot-coms in the Bay area of California will fail this year.

The mathematically astute among you will already have figured out that a success rate of 20 percent is essentially the same thing as a failure rate of 80 percent. Investing in new companies, in other words, is a risky business, be they dot-coms of the old bricks and mortar variety. Still, the extraordinary success of dot-coms, telecommunication companies, computer soft and hardware firms was so dazzling during the mid- and late-'90s, the dizzying ascent of stocks on the Nasdaq was such that it seemed for a while that making money the old-fashioned way was just stupid. We have learned otherwise.

Late last summer, independent producer **David Ewing Duncan** had a hunch that if he could track the progress of an Internet start-up, he might capture, in miniature, the profile of an industry in turmoil. He was right. So cast your mind back about eight months. Summer of the year 2000 is almost over.

Mr. CHAUDHARY: Our company's at a very critical, interesting, scary, wonderful stage at the moment. It's the stage where I've sort of dreamed, you know, the last year we'd be at.

KOPPEL: (VO) A 34-year-old engineer from Silicon Valley, Vik Chaudhary, wants to turn an idea into gold.

Mr. CHAUDHARY: (Talking on phone) If you just could send me a quick summary, e-mail with the costs.

KOPPEL: (VO) He has left a secure job and a six-figure salary to launch Bizmetric, a new Internet company.

Mr. CHAUDHARY: We put in our own money and we raised money from other people--angels, as we say in the business--to a tune of almost half a million dollars.

We're actually in an old mortuary. It's a...

Offscreen Voice: OK.

Mr. CHAUDHARY: ...100--100-year-old mortuary. Hope we don't come to rest there. But...

My prediction is that by January of 2001, we'll be still very small, maybe 10 people. I think we'll have raised 2 to \$ 3 million.

KOPPEL: (VO) They toil in San Francisco's working class mission district. dot-coms have flocked here in search of cheap rent.

(Protesters chanting)

KOPPEL: (VO) Locals are angry as dot-coms force out longtime residents and businesses.

Unidentified Man #2: Shut it down? Have you seen this new sign-up page? Oh, yeah. You--you had a look at it. Reopen it. We go to Amazon and see if the buymeter really did install.

Mr. CHAUDHARY: The business that we are in is helping online retailers...

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Man #2: That's the buymeter.

Mr. CHAUDHARY: That's the buymeter.

And other businesses that sell physical products online to figure out how fast they get the products to New York, San Francisco, Geneva.

KOPPEL: (VO) Vik's idea is to measure how long it takes for amazon.com to bring you a book or Victoria's Secret to bring you lingerie; from click to delivery. Vik believes that online companies will pay thousands of dollars a month to know how they compare to the competition.

Mr. CHAUDHARY: If it can be delivered, we can measure it.

KOPPEL: (VO) It's a tall claim for a company that so far has nothing to sell.

Mr. OLIVER MULARNEY: I think it's really strange that you can set up a company like this--a bunch of guys get together, a bunch of people get together--and go and ask people for money. And they can get very large amounts of money handed over.

KOPPEL: (VO) Oliver Mularney is Bizmetric's computer whiz.

Mr. MULARNEY: To get to the stage that we want to be at by the end of this year, I would estimate we'd need to write 30 to 40 thousand lines of code.

KOPPEL: (VO) Frank DeFilippis is in charge of attracting customers.

Mr. DeFILIPPIS: What do we do first? Is it a series of press releases? Do we roll out a product? Do we launch our product without letting people know who we are? Operate in stealth mode for a little while?

KOPPEL: (VO) Greg Howes organizes the office and helps Vik run the business.

Mr. GREG HOWES: Yes, because we interact a lot. I'm supporting a lot of things he does, as he is the CEO.

(Clips shown from dot-com commercial)

KOPPEL: (VO) Bizmetric is born in the final days of the dot-com frenzy in San Francisco, when everyone wanted to be a dot-commer.

Mr. DeFILIPPIS: Some people, including my mother, think I'm crazy for doing what I'm doing.

Mr. MULARNEY: We're all very aware that the vast majority of companies like this fail and people are lucky to walk away with anything left in their savings account if they even had anything there to begin with.

KOPPEL: (VO) On a road trip to Silicon Valley, 30 miles south of the city, Vik goes to meet with Umang Gupta, Vik's mentor and CEO of the \$ 50 million Keynote systems.

Mr. UMANG GUPTA: Hi, guys. How is it going?

KOPPEL: (VO) Gupta is a so-called 'angel' investor. He and another angel provided \$ 300,000 to get them started.

Mr. GUPTA: I'm going to step back and basically say maybe you should use the word that you originally had, which is 'e-businesses that deliver,' and--and that would solve the problem.

KOPPEL: (VO) But all is not well with dot-coms.

Unidentified Reporter #3: (From unidentified news show) The stock market goes for such a ride today.

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Unidentified Reporter #4: (From unidentified news show) The Dow had plunged more than 430 points. The Nasdaq nearly 200 points in panic selling.

Mr. CHAUDHARY: Apple computer here, 52-week high of \$ 75, and now down to 16.

All this puts a huge sense of reality on the picture.

Ask Jeeves went from \$ 190 to \$ 9.

You know, forces us to, when you write a business plan, to think about profitability.

Mr. HARTS: Vik, very nice to meet you.

KOPPEL: (VO) Needing more cash, Vik and Frank visit I-mines, a venture capital firm. Kevin Harts and Steve Bennet listen, but warn Vik and Frank that the market for dot-coms is souring.

Mr. HARTS: You may not be able to get, you know, the different e-tailers because they're--you know, pets.com and so on isn't necessarily spending the money right now. They're in survival mode.

Mr. HARTS: How much money do you need to get to that launch?

Mr. CHAUDHARY: We need about 2 1/2 to \$ 3 million to get to March.

Mr. HARTS: You're still saying, 'Well, we don't actually have any paid--paying customers,' and so on. You have--you'll have some good...

Mr. STEVE BENNET: Last year that worked fine.

KOPPEL: (VO) But Kevin Harts is interested enough to invite them back in three weeks for a formal presentation to the firm's senior partners.

Mr. CHAUDHARY: Jennifer and I used to have Sunday night dinners at least once a month. Lately it's just been very hard for me, you know, with--what with the work and everything.

KOPPEL: (VO) Jennifer Murphy is Vik's girlfriend of eight years. She's a public relations advisers to dot-coms.

Ms. JENNIFER MURPHY: I think he's doing the right thing by starting his own business, so I try and be very supportive of that.

KOPPEL: (VO) Vik and his friends are asked how many of them work for Internet companies.

Unidentified Reporter #5: This whole industry has been definitely downturned. Is anybody here worried or nervous about that?

Unidentified Man #3: Well, the climate in terms of selling our product, financing our company, has certainly gotten much worse.

KOPPEL: (VO) Worried about their dwindling cash...

Mr. CHAUDHARY: It's like changing into--from Clark Kent to Superman.

KOPPEL: (VO) ...Vik and company prepare to meet again with Kevin Harts.

Mr. CHAUDHARY: I wonder what kind of tough questions they're going to ask.

Want to go to e-commerce, and then customer service, and then you might come back to e-commerce again.

KOPPEL: (VO) Kevin Harts introduces the firm's partners.

Mr. CHAUDHARY: And what we'd like to do today is give you hopefully a not too long pitch about the business.

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Unidentified Man #4: In January, we're coming out with back end fulfillment ratings on the top 15 companies, and the idea is to create a huge stir. 'Who are these guys? What are they doing?'

KOPPEL: (VO) Harts promises to get back to them.

Mr. MULARNEY: I think we managed to keep them from falling asleep, though.

Mr. CHAUDHARY: Yeah, definitely, I think so. I think they were pretty interested.

KOPPEL: (VO) With the future of the company on the line, they anxiously wait for an answer from Kevin Harts.

Mr. CHAUDHARY: We don't exactly know, you know, when the money's going to come in, when the customers are going to come in.

We raised \$ 400,000. We're going to spend 250 to \$ 300 thousand. We should have, you know, \$ 100,000 left, which is--which is only enough money to take us a couple more months. Because funding options are drying up in certain areas, and this kind of stuff makes you nervous a little bit, you know? And I think that's been sort of rubbing off on this group here. And it's going to get much worse.

Announcer: This is ABC News: NIGHTLINE, brought to you by...

(Commercial break)

KOPPEL: (VO) Bizmetric's worsening financial situation is on Frank's mind.

Mr. DeFILIPPIS: There's a lot of pressure. We've got to kind of make things happen because the--the money we've raised will--will run out in a couple of short months.

KOPPEL: (VO) As if this isn't enough pressure, Frank's wife, Noleen, is expecting their first child in just three weeks.

NOLEEN: You going to have time for a bagel this morning?

Mr. DeFILIPPIS: A bagel? There'll be no bagel today.

Ms. MURPHY: We leave the house by 6:15. I usually have to prod Vikrum because he's not a morning person at all.

Mr. CHAUDHARY: Lot of prodding.

Yeah, the tea's important. It keeps me going, you know?

KOPPEL: (VO) Back at Bizmetric, they nervously wait to hear from I-minds, the venture capitalists.

Mr. CHAUDHARY: We need to--we need to get money by December. We need to have a couple people saying, 'Sure, we've got--we've got more money for you.'

KOPPEL: (VO) The answer from Kevin Harts is not what they hope for.

Mr. HARTS: Essentially, we--we turned them down. And if they came back to us, showed us how that this could open up to a company that could hit 100 million in revenues in, say, three years, we certainly wanted to leave the door open.

Mr. DeFILIPPIS: Yesterday, we got the word that there was another Internet company that was kind of going belly-up. And sure enough, these guys are selling everything, you know, software, lots of furniture.

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KOPPEL: (VO) Bizmetric hunkers down to build the software they hope will validate their idea.

Mr. DeFILIPPIS: Focusing on more of the technology experiment, which is the word we're getting from the investment community, which is, 'Prove to me that this works.'

KOPPEL: (VO) Just as Oliver plunges into writing code, he receives terrible news from his family in Ireland.

Mr. MULARNEY: My father died and I got the news on Wednesday of last week. Certainly wasn't expecting the news when the phone call arrived.

Mr. DeFILIPPIS: Oh, there's just a lot of technology things that are happening that are a little bit stalled with him not being here.

Mr. CHAUDHARY: Instead of working on the business plan, I was actually working on the Web site myself, you know, writing code.

KOPPEL: (VO) A week later, Oliver returns from Ireland for a final push to write the software. Vik has set a deadline for the launch. It's now less than four weeks away.

Mr. DeFILIPPIS: The goal was to get about 60, 70 people to test our software. And that will roll out the Monday after Thanksgiving.

Man #2: All right. All right!

Mr. CHAUDHARY: We've now just reached our first milestone, which is to be able to allow people to come to the Web site, register, sign up, download software. We're in business, almost.

Unidentified Reporter #6: (From unidentified news show) The Nasdaq is marking a new low for the year after another brutal sell-off.

Unidentified Reporter #7: (From unidentified news show) Anybody feeling queasy? Our chat room is open at...

KOPPEL: (VO) As the market crashes, high-flying dot-coms begin to die.

Mr. CHAUDHARY: We had this list of 30, 35 online retailers that we were going to be measuring. And every few days we keep crossing people off that list, you know. Mother Nature is off that list, Petopia was off that list, Eve.com is off that list.

Mr. DeFILIPPIS: You know, we could be having our baby literally any time now. We're hoping it's soon, though, because there's a lot of anxiety. It's hard to focus for more than, like, 15 minutes in a row on anything.

KOPPEL: (VO) His wife, Noeline, has given birth to Mason, their first child. With Frank gone, the workload intensifies.

Mr. HOWES: Lately, it's been just the worst week this week. Just, we've got too much to get done.

Mr. CHAUDHARY: I was up to like 2:00 in the morning last night. And we noticed a pretty serious software problem.

KOPPEL: (VO) When the launch date arrives, a major bug remains--the software is not working on certain computers.

Mr. CHAUDHARY: We're having a ton of problems. So he suggested, you know, wisely, that perhaps we aren't ready to launch yet. And it was a sobering moment, but...

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KOPPEL: (VO) Vik decides to launch anyway. At 11 PM on November 27th, the company goes beta, meaning that their Web site is live and ready to be tested.

Mr. CHAUDHARY: Yeah, it's been a great day.

Mr. DeFILIPPIS: Thing's working.

KOPPEL: (VO) Vik called Umang Gupta, Bizmetric's chief investor.

Mr. CHAUDHARY: (Talking on phone) Well, pleased to--pleased to tell you that our--we're in beta now.

Mr. GUPTA: (On phone) Excellent. Congratulations.

Mr. CHAUDHARY: Yeah. Thanks.

There's a lot of personal sacrifices that all of us have to make, you know, in order to get this kind of thing done, you know? But you then realize that this is why you're, you know, in a start-up. In a way, it's kind of rewarding. In a strange, masochistic kind of way, it's very rewarding, yeah.

(Commercial break)

Mr. CHAUDHARY: I have no idea what the date is. Time's blurred. I think it's the week of December the 4th.

KOPPEL: (VO) With Christmas approaching, Bizmetric tests its software by buying toys, books and socks.

Mr. HOWES: I mean, I'm trying to order, and I'm going through all these sites, doing that all day. You would think I would--it would be easy. But it's--it's--it's a complete mess. It's re--it's hard to cancel orders if I don't like them. It doesn't go through, I'm waiting, I'm confused, shopping.

Man #2: Yeah. So, what--what are we buying?

Unidentified Man #5: Lingerie. Lingerie.

Mr. HOWES: Yeah. I have three new Dr. Seuss books.

KOPPEL: (VO) Doing their own tests to rate companies, they discover what many shoppers already know, just how difficult it can be to shop online.

Mr. MULARNEY: Greg seems to be spending an awful lot of his time on the phone these days, claiming that he didn't understand that the shipping would be far in excess of the costs of his pair of socks.

KOPPEL: (VO) It's a grueling four weeks. They struggle to keep the finicky software working while tracking hundreds of gifts ordered online.

Mr. CHAUDHARY: It started off right when we first went live with the beta and suddenly got a lot--you know, a huge number of registrations coming in, and then immediately problems, you know, the database not staying up, problems with registration. We had to scramble really fast and try to fix problems that we actually hadn't expected.

You know they say that you're too old to do certain things like running an Internet start-up. Seems like maybe only the 20-year-olds do it anymore because they don't have girlfriends, they don't have a life.

Ms. MURPHY: Every time I come in here, it's more crowded and chaotic looking.

Hey, Greg.

Mr. HOWES: Hey.

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Ms. MURPHY: It would be nice to have some time with him occasionally. It's hard to get Vikrum to put that time aside. Because there's always--I mean, with the business, there's always something that needs doing.

Mr. CHAUDHARY: I'm going to deny that, that it's not going to get worse and it's just, you know, I'll manage.

Ms. MURPHY: If your business turns into what you want it to be, it'll get worse.

KOPPEL: (VO) Just before Christmas, they wind up the testing. They create charts that rate the best and the worst delivery for online businesses.

Mr. DeFILIPPIS: We got all these really juicy statistics about, you know, Amazon and Barnes & Noble. And it's a great way for us to get some ink, which will help us get an audience.

KOPPEL: (VO) They issue a press release.

Mr. CHAUDHARY: Yeah. Got an e-mail from a small e-retailer.

KOPPEL: (VO) It gets picked up by a major online news service.

Mr. CHAUDHARY: He said, 'I was glad to learn about your company today from a story on CNET.'

Unidentified Man #6: He's who, from where?

Mr. CHAUDHARY: (Unintelligible)...from Garment Care.

Man #6: Garment Care?

Mr. CHAUDHARY: Yeah. They do, like, online dry cleaning, I guess. Hey, I found it. "But there is news for e-tailers to get excited about." Hey, we think so. "According to fulfillment measuring company Bizmetric, the average time it took when an e-tailer took an order and when it arrived in the customer's hands was about four days."

I'm calling Jennifer, my girlfriend. She's--she's a PR expert, so she's got to be excited about this.

Hey, Jen.

Ms. MURPHY: (On phone) Yes?

Mr. CHAUDHARY: It's me. OK, go to www.cnet.com.

Ms. MURPHY: Hey! I see you guys got...

Mr. CHAUDHARY: Yeah.

Ms. MURPHY: ...picked up by CNET.

Mr. CHAUDHARY: We did.

Ms. MURPHY: This is...

KOPPEL: (VO) But the money shortfall is becoming critical.

Mr. CHAUDHARY: I'm becoming very money-minded right--you know, given that we only have a month or two months of funds left. So it's important for me to put everything we have now towards funding.

By the end of December, we're going to have \$ 99,775 left.

KOPPEL: (VO) Vik and Oliver return to Umang Gupta to show him their progress. He remains supportive, but warns Vik that he must find other investors.

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Mr. GUPTA: Enough for me to want to say, 'Fine, you need some more money to go a few more months, great.' But your next milestone is to convince others.

Mr. CHAUDHARY: To convince others.

Mr. GUPTA: And while I can help you, at the end of the day, you will need to make that convincing yourself.

KOPPEL: (VO) Yet he is impressed by their technology.

Mr. CHAUDHARY: It's amazing how he never says '100 percent,' does he?

Mr. MULARNEY: I wasn't expecting 100 percent. I didn't see a checkbook, so I knew it wasn't going to be 100 percent.

KOPPEL: (VO) While Vik and others struggle to hold onto their jobs, thousands of San Francisco dot-commers are being laid off.

Unidentified Woman: And unfortunately the company went under. And I actually got laid off about two months ago.

Unidentified Man #7: About five hours ago 25 of us were laid off.

KOPPEL: (VO) Hundreds of the jobless gather at a night club near Bizmetric for a pink slip party, to network with companies that are still hiring.

Woman: I had offers like crazy. People were trying to set up interviews with me. I didn't even have enough time in the day to actually handle all the interviews. And now I can't even get people to respond to me at all.

Unidentified Man #8: It's kind of a shame that a lot of our neighbors have now packed up and gone away.

Mr. CHAUDHARY: It's just timing. The market conditions are bad, e-commerce is a dirty word.

Mr. DeFILIPPIS: I mean, there's no way I'm banking on Bizmetric for--for the future of our family.

Mr. CHAUDHARY: No, I don't have any money left.

Mr. MULARNEY: I look at my mortgage payments every month and I think, 'We really need to torture some people with some deep pockets.'

Mr. CHAUDHARY: I can show you a graph of my personal net worth. From the time the company started to the time--to today, it's--it's a good reason why not--never to be an entrepreneur. It's T-minus six right now, which is--T being when we run out of funding, you know, six weeks to that.

KOPPEL: It's a relentless search for money. Will Bizmetric beat the odds? A preview of tomorrow's NIGHTLINE when we come back.

Announcer: To receive a daily e-mail announcement about each evening's NIGHTLINE and a preview of special broadcasts, logon to the NIGHTLINE page at abcnews.com.

(Commercial break)

KOPPEL: (VO) Tomorrow, the push is on, the clock is ticking and the investors become more tight-fisted. Bizmetric struggles to make it.

Mr. CHAUDHARY: We're--we're telling investors that we only have about a month--month left just to create that sense of urgency.

Mr. HOWES: I think it's a really tough market, especially for companies of our size.

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KOPPEL: (VO) This is the meeting at which Umang will make the final decision on Bizmetric's fate.

Mr. DeFILIPPIS: This is our investor presentation.

KOPPEL: (VO) At first, it goes badly.

Mr. CHAUDHARY: The bags under the eyes are not going to go away for a while. I think it does take a toll on me physically.

This is my new vice.

We're supposed to see them on Tuesday, now they want to see us on Monday.

Mr. MULARNEY: What are we going to show them, or talk to them about?

Mr. CHAUDHARY: We were going to--we were going to try to figure that out on Monday, actually. But...

Mr. MULARNEY: I thought we were taking the day off on Monday.

KOPPEL: Part two of Goldrush-dot-com, tomorrow on NIGHTLINE.

That's our report for tonight. I'm Ted Koppel in Washington. For all of us here at ABC News, good night.

LANGUAGE: English

LOAD-DATE: May 12, 2001