

THE GREAT WIDE

OPEN

A new batch of open-network startups are challenging the destination sites.

By CARA CUNNINGHAM

YOU KNOW THIS sounds familiar: all you need is a PC and a phone line and you can communicate with anyone else similarly equipped.

That was the promise of the Internet in its infancy, back when the word *portal* referred to part of a building. That was before companies like America Online

and Yahoo built themselves into user-friendly intermediaries that provided access to their hand-picked content in exchange for a monthly fee and the chance that you would cast your eyeballs on the displayed banner ads. Then, one was more likely to sell his or her 1956 Austin Healey directly to a buyer by first posting a notice on an Internet newsgroup than at an eBay auction.

Now a small but growing group of entrepreneurs wants to turn back the clock, replacing brand-name destination sites with self-organized distributed networks (see "Antidestination League," page 44). They are selling software and services designed to put Web users in direct contact with one another, bypassing the portals. "It's the future of the Internet," predicts Alain Hanash, cofounder and CEO of **Multicity.com** in Tysons Corner, Virginia, undeterred by

the irony of looking to the past to shape the future. The two-year-old company that Alain and his brother, Patrick, started sells simple Web tools for chat, auctions, and polling. Multicity doesn't sell directly to the folks who will be doing the chatting and auctioning; instead, it markets the tools to Web sites. In the battle plan that the Hanash brothers and other open-network revolutionaries outlined, each Web site

becomes a portal through which users interact.

For an average price of \$45,000 a year, the Hanashes will provide Web sites with the tools necessary to put their users in contact with those on any other site that uses Multicity's tools. So when a visitor to a site equipped with Multicity's chat tool launches a session, a directory pops up that connects him or her to all the active chat sessions at all other sites that use that tool. And Multicity provides users with instant machine translation (with about 70 percent accuracy) into six languages. There goes one of the Internet's biggest communication barriers.

Let's say a user joins a chat room on a site for fishing enthusiasts in Chile. When she tires of discussing Chilean sea bass, she can click over to a conversation about the Beatles on a Web site in

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NOWHERE MEN: The cofounders of Multicity.com, (from left) Alain and Patrick Hanash, are using the power of distributed computing to build the antideestination Internet.

England, participating in an organic, self-organized network of users (see “Free Radical,” page 45). “Multicity is following the Internet principles of building a large, global network,” says Jim Lynch, managing partner of Draper Atlantic Management, a venture firm that invested in both rounds of the company’s \$16 million funding.

But will Internet users abandon the walled gardens of their well-worn portals to participate? Some of them will, and, in fact, there may be room in the future Internet landscape for both the destination sites and the open networks. But nobody’s predicting a mass exodus from the portals. Look at the daunting challenge: in January, AOL alone captured 32.7 percent of all U.S. Internet users’ online time, according to a report by Jupiter Research, a market research firm, and 74.8 percent of U.S. residents with home Internet access visited sites within AOL’s community. On one hand, these figures suggest that the portal sites are impenetrable. On the other hand, if the history of high tech has taught us anything, it is not to minimize the disruptive potential of grassroots efforts.

The open-networking plan also involves attracting consumer and business buyers and sellers who would rather deal with one another directly than through an online exchange or portal. Some critics have claimed that AOL and Yahoo contributed to the disappointing performance of e-commerce by imposing hefty fees on business sites in their portal communities. Do-it-yourself networkers hope their system will generate more profitable transactions, particularly for auctions, because buyers and sellers will not be limited to the participants on just one destination site.

Rusty Braziel, founder of one of the most successful online exchanges—a type of destination site—has joined the ranks of the antideestination entrepreneurs. In 1996, he founded Altra Energy Technologies, a pioneering B2B exchange for the energy industry (see “Revenge of the Bricks,” August 2000, www.redherring.com/mag/81/bricks.html). This February, he launched Netrana, a company that helps buyers and sellers skirt such exchanges. Netrana follows the philosophy that Mr. Braziel learned while working with exchange startups. He discovered that while exchanges make sense for large-scale trading, they can be overkill for three types of market segments: those with only a few participants, those that have unique products, and those with participants who trade sporadically. This summer, Netrana plans to release Spot Dealmaker, client software that lets buyers and sellers contact each other directly.

“If I want to do business with company XYZ, there’s no reason why it must be a member of the same online exchange that I’m a member of to do a transaction,” says Mr. Braziel. “Right now, people get on the phone and say, ‘Hey, are you willing to buy 30 rail cars of lumber?’ To me, that’s the ultimate distributed network.” Netrana will market its software to trade associations, intermediaries, and online exchanges that want to operate in a hybrid model by adding an option for spontaneous, direct transactions.

Based in Houston, Netrana will maintain a central directory so that buyers and sellers can find each other, not unlike Napster. But unlike the music service, Netrana will charge for the client software and offers consulting services to help exchanges evaluate whether they should operate in a centralized market model or spot market model, or both. Mr. Braziel is banking on the consulting end of the business shortening the path to profitability. Having seeded the company’s launch himself with an unspecified amount of capital plus investments from business partners, Mr. Braziel is not looking for venture funding. “I’d much prefer to fund the company with revenues,” he says. “It’s a radical notion, I admit.”

SAME NEW THING

The idea of distributed, open networks is not new. Remember Tribal Voice’s Pow Wow? It was founded by John McAfee and claimed 4 million users at the height of its popularity in 1998 until CMGI bought it and ran it into the ground. Or what about Third Voice, a business that didn’t work out? What is new are the

ANTIDESTINATION LEAGUE

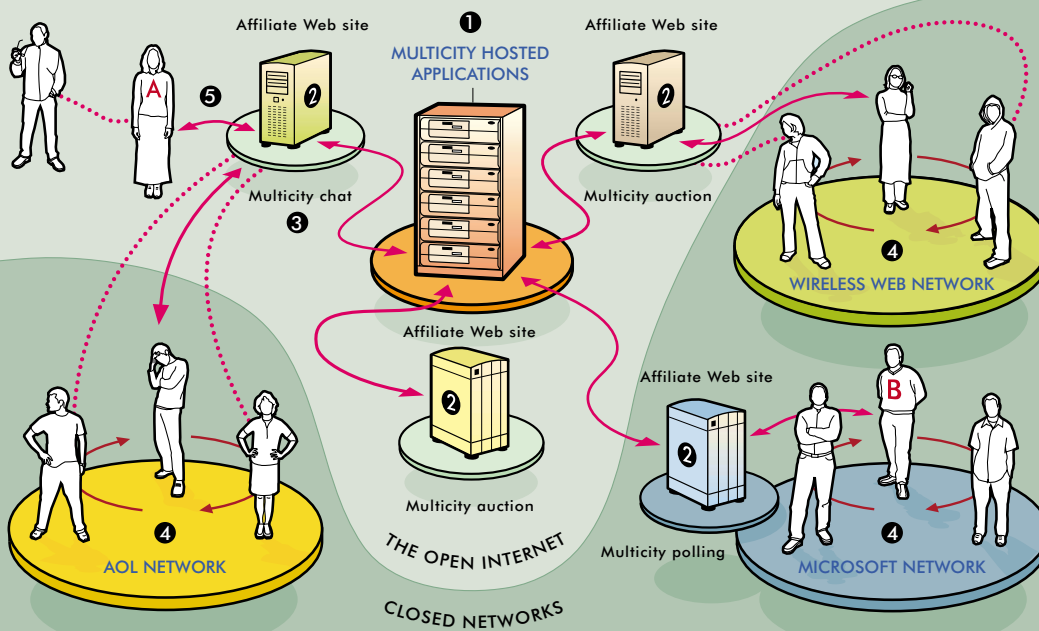
Open-network startups are at the vanguard of a once and future notion: tearing down closed networks to make the Web free and open to all.

COMPANY	YEAR FOUNDED	PRODUCT
Multicity.com	1999	Basic tools for things like chat and auctions, the building blocks of a distributed network of Web sites
XDdegrees	2001	Directory service for peer-to-peer and Internet distributed systems
Netrana	2001	Software for buyers and sellers to conduct spot exchanges

SOURCE: RED HERRING

FREE RADICAL

Multicity's applications create a distributed network by letting users communicate directly.



- 1 Multicity offers Web tools that enable chat, auctions, and polling in a hosted model.
- 2 Interested Web sites subscribe to the tools, becoming affiliated Web sites.
- 3 Visitor A to an affiliated Web site joins a chat session using Multicity's tool. She can also use a directory to access any active discussion on any other affiliated Web site.
- 4 Any user who can type a URL into their browser can access these affiliated Web sites, even if they're part of a proprietary network like AOL or the wireless Web.
- 5 Even users who don't have a browser can participate: visitor A sends an email, which contains access to a chat session, to friend B. When friend B opens the email, the chat is launched—he logs into the chat room and participates from within the email program.

advances in computing that now make such services potentially profitable. The average PC's bandwidth and computing power is rising at the same time that the per-bit cost of storage is decreasing. One of the benefits of this is that individual, connected PCs can now do more of the heavy lifting required to communicate and exchange information across the Internet (see "Desktop Software," March 6, www.redherring.com/mag/93/desktop.html). This limits the need for large Web servers that send data in response to visitors' queries or that put one chat user in contact with another. If two chat users can find each other on the Web, the reasoning goes, why do they need a destination site?

These advances have been the basis for such antideestination startups as OpenCola, which is successfully using the model in the area of software development.

To gain a foothold in the network-building business, **Multicity** has made its software available in exchange for banner ads on customers' Web sites. As of February, Multicity claimed to have 345,000 Web sites in its network. The company recently signed a deal with VeriSign to provide Multicity's home page-building tools to visitors of VeriSign's Network Solutions Web site, and last summer cut a similar deal with Homestead.com, a Web page-building site. Multicity cofounder and president Patrick Hanash says his company still has a significant chunk of its \$16 million in funding in the bank. With plans to start charging posting fees for its auctions later this year, Multicity expects to be profitable this fall.

In another effort to bypass portals, startup XDdegrees wants to turn the Internet browser into a bidirectional communication tool that is a gateway not only to Web servers, but to just about anything on the Web. The Mountain View, California, company was first

unveiled in February when cofounder and CEO Michael Tanne announced that it was building an extension to the concept of the Internet's Domain Name System, which gives addresses to servers. XDdegrees hopes to label each resource on the Internet—be it a PC, server, object, person, file, or piece of data—with a unique name. The company will manage this directory and start selling access to it this summer. It will also sell to software developers tools that will enable them to link their applications to the directory.

Say you're on a soccer Web site. If the site bought XDdegrees' service, then you would be able to search for anything on the XDdegrees directory—a photo of a particular soccer ball, for example. To be available to the user, the photo would have to reside on a directory-enabled device. XDdegrees raised \$8 million in its first round last fall from Redpoint Ventures and Cambrian Ventures.

Venture capital firms like Draper Atlantic Management, the Grotech Capital Group, and Redpoint Ventures have been eager to fund companies that back the distributed-network concept with a solid business plan. Yet they take pains to distance themselves from the "peer-to-peer" label. That's because until now, the term has been associated not with profits, but rather with radical technologists, copyright infringement, and lawsuits. As peer-to-peer evolves and new business models are built around it, however, there will be opportunities. Look at InfraSearch, the peer-to-peer search infrastructure company raised just less than \$5 million in a seed round last year from private investors like former Netscapers Marc Andreessen and Mike Homer (see "Can Peer-to-Peer Grow Up?" December 4, www.redherring.com/mag/86/infrasearch.html). In March, Sun Microsystems bought the company for a sum described by Sun as "immaterial" and plans

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to include its technology in Bill Joy's Project Juxtapose, an effort to explore new methods of distributed computing.

Despite the shortcomings of well-known peer-to-peer initiatives like Napster and Gnutella, the computing model has certainly gotten a lot of attention, and many believe that it portends the future of the Internet. The new distributed-network startups are riding that popularity while attempting to improve the model. Their founders are more entrepreneurs than technologists—XDegrees' Mr. Tanne was the founder of AdForce and a pioneer in the business of ad serving on the Web. They have no qualms about taking the organizing principles of today's Internet—central directories, for example—and applying them to the P2P model so that information can be easily found and directly exchanged. Multicity's Web site offers a directory that lists all the chat, auction, and polling activity throughout its network.

DESTINATION UNKNOWN

But wait a second...doesn't that make Multicity.com a destination site?

Yes, but it's a distributed one. "Our technology is key to getting you into this network," says Patrick Hanash, but he adds that because entries into the network are available on more than 300,000 Web sites, Multicity is more about access than control. Draper Atlantic's Mr. Lynch adds, "What Multicity wants to do is provide an organizing link or layer, but it doesn't want to own or control the network." And Netrana's Mr. Brazil agrees that buyers and sellers looking to circumvent central exchanges will be dependent on his company's software to find one another, but no more dependent than they are on a telephone directory today.

Still, there are 27 million subscribers who log on to AOL before typing in a URL and surfing the Web. Nearly \$2 billion of the company's \$6.9 billion fiscal 2000 revenue came from advertising, transaction, and partnership fees—the majority of which were generated from within its proprietary network. Open-network proponents criticize Yahoo, MSN, and other portals for limiting visitors to the content, services, and communication tools that they provide and for selecting which partners can be part of their portal community. They also fault online exchanges, which often charge both membership and transaction fees, for limiting trading to members only.


In the world of the newly open Internet, these content-organizing destinations become irrelevant. Such sites are like a bow tie—the masses of people look-

ing for information, services, or transactions enter through a handful of sites and then fan out to find what they're looking for, explains Peter Sealey, an adjunct professor at the Haas School of Business at the University of California at Berkeley. "That bow tie will be eliminated, and arrows will go directly from the people to the information," he predicts.

Sarah Lefko, a product manager at MSN, disputes charges that users are persuaded to stay within its network. She also says MSN will continue to serve as a destination site even after Microsoft rolls out .Net, its distributed Web services plan. "MSN's objective is to provide consumers with a great Web experience and to continue to deliver content and services that they want. MSN will be the consumer front of .Net," she says. Officials at AOL and Yahoo declined to be interviewed for this article.

For the Hanash brothers, starting Multicity was partially a response to the poor job that U.S. Web companies like AOL and Yahoo were doing in exporting their services to other countries. The Franco-American pair maintain that there is significant backlash against AOL's European services. "It doesn't work, this American model of creating a huge network by partnering with affiliates," says Alain Hanash, adding that Europeans would rather access content that is independently created by other Europeans.

Like the other open networkers, XDegrees' Mr. Tanne doesn't believe that destination sites face extinction, but he does feel that their success will be based more than ever on the quality of content and services, rather than the ability to keep users within their walls. Mr. Tanne and the others are convinced that once their giant competitors comprehend the power of distributed networks, they will be forced to build or buy their own. Predicts Alain Hanash: "It's only a question of time; they're going to have to move in this direction." And Mr. Sealey adds, "When you have the bandwidth, the processing power, and the storage available, then there's no way you can keep that puppy locked in a cage. It's going to spur creativity and entrepreneurialism."

It will also spur competition. Alain Hanash reports that although Multicity has been approached by potential acquirers, he isn't interested in selling at this early stage. Mr. Brazil worries that an established online exchange maker like Commerce One will catch on to his idea and build its own version of spontaneous market software. "All I can do is move as fast as I can," he says. That, and focus on profits. 

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Multicity.com
AT A GLANCE

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FOUNDED 1999
EMPLOYEES 36
PRODUCT Web-based, multilingual communications tools that plug into a distributed network
COMPETITORS America Online, Microsoft, Yahoo
PROFITABLE? No
FINANCING \$16 million
INVESTORS Grotech Capital Group, Draper Atlantic Management
THE HERRING TAKE Multicity poses a threat to the walled-garden business models of entrenched portals. It's unlikely this startup will undermine AOL or Yahoo, but it could force these behemoths to embrace P2P computing across the Internet.



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