



e-business case studies

Direct Stock Market:

Using e-business to bring investors and emerging companies together



Putting e-business to Work

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OVERVIEW

e-business case studies: Direct Stock Market

Direct Stock Market (www.direct-stock-market.com), based in Santa Monica, California, provides investors, entrepreneurs and investment professionals with information about public and private offerings over the Internet. DSM offers companies that are issuing stock in a public offering, as well as those completing a private placement, a centralized Web site from which to electronically distribute their documents, thus reducing distribution costs for prospectuses, annual reports and marketing materials.

This case study shows how DSM uses Lotus Domino and Notes to bring order to the fragmented low end of the capital market.



DSM grows as IBM's e-business solutions are implemented.

Direct Stock Market

The Company

Headquarters:
Santa Monica, CA

- Internet marketplace provider for public offerings and private placements
- Database of over 12,000 registered Web site users
- CEO and founder: Clay Womack

The Web Site

www.direct-stock-market.com

- Centralized Web site from which offering companies can distribute corporate information
- Electronic lead generation
- Pay-per-view Webcasting
- Live streaming video
- Chat rooms

Business Benefits

- Nearly 300 percent return on investment
- Time to market cut 70 percent
- Initial development costs were one-fourth of a custom platform
- 90 percent growth of customer base expected in 1999

DSM'S MISSION: AN ORDERLY MARKET

“We needed to collaborate [electronically] because we were a thinly capitalized company that didn’t have a lot of money for office space.”

— Clay Womack, CEO,
Direct Stock Market

DSM’s core business model is to provide a centralized marketplace for capital buyers and sellers, focusing on “early stage” companies (defined as either start-up companies or those in early growth phases). DSM refers to this capital market as the “vortex market,” since intermediaries serving this sector bring together a highly fragmented niche market of buyers (e.g., companies) and sellers (investors). In addition to enabling private companies to go public through non-underwritten public offerings (i.e., those performed without investment bankers), DSM serves public companies that may not yet have active market makers for their stock.

CEO and founder Clay Womack points out that at this bottom tier of the capital market, DSM has no real direct competition. This lack of an historical marketplace attests to the challenges involved in creating a common platform to facilitate capital formation. “The companies that list are generally small start-up or emerging growth companies that for some reason don’t fit the venture capital profile. They have the management team necessary to articulate a business mission and execute a plan, and they need to get their story out,” says Womack. According to Womack, the most successful companies at gathering capital are the ones that have an established business and an existing customer base.

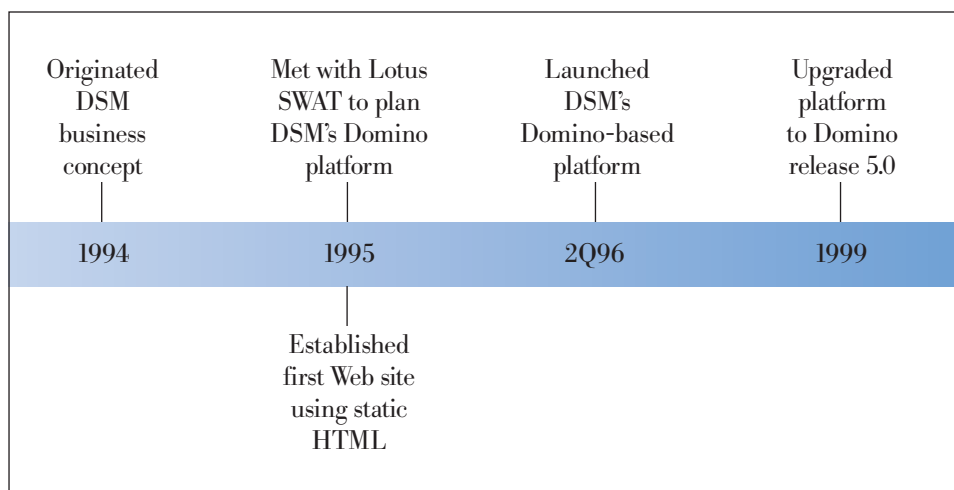
Womack believes that the importance of the Web and collaborative technology to DSM’s business model cannot be overstated. His selection of Domino and Notes as DSM’s platform of choice represents a strong endorsement of Lotus technology. “But for the Internet and our servers and systems,” says Womack, “we wouldn’t exist.” According to Womack, Domino and Notes technology have allowed DSM to bring together geographically dispersed investors who have an affinity for a certain type of company. Womack believes that DSM’s Domino and Notes-based platform exposes the investment community to small start-up companies of which they might not otherwise be aware.



ADOPTION TIMETABLE AND STRATEGY

Womack's association with Lotus technology began early, before DSM had moved much beyond the concept stage. While identifying potential distribution platforms for DSM's service in 1994, Womack learned about a company called Entrepreneurs Online, which was using Notes to support a geographically distributed workgroup. "I was more fascinated with the groupware technology than I was with the company itself. That's when I made the decision that if I was going to do any kind of virtual company, or was going to have a large base of collaborative users, I was going to use Lotus Notes." At the outset, the ability to collaborate over a wide area was crucial, since DSM's employees were operating out of their homes in Houston, San Francisco, New York and Santa Monica. "We needed to collaborate because we were a thinly capitalized company that didn't have a lot of money for office space."

After seeing Entrepreneurs Online's Notes implementation, Womack attended a commerce exposition and spoke with Lotus representatives about his business model and his interest in a collaborative application to support it. The Lotus representative referred Womack to Lotus's Strategic Web Applications Team (SWAT), which assisted DSM in constructing a Domino-based Web solution that became the core platform for its business in 1995. "We were one of the first pure Internet companies to use Domino as the core of their Web solution," says Womack. "We spent a lot of time discussing the solution with the SWAT," says Womack. "They gave us a lot of support and help in getting it set up." Figure 1 charts DSM's implementation timetable.



Source: Direct Stock Market, 1999

Figure 1. Implementation Timetable for Direct Stock Market

"I made the decision that if I was going to do any kind of virtual company, or was going to have a large base of collaborative users, I was going to use Lotus Notes."

— Clay Womack

DSM'S DOMINO PLATFORM ELEMENTS

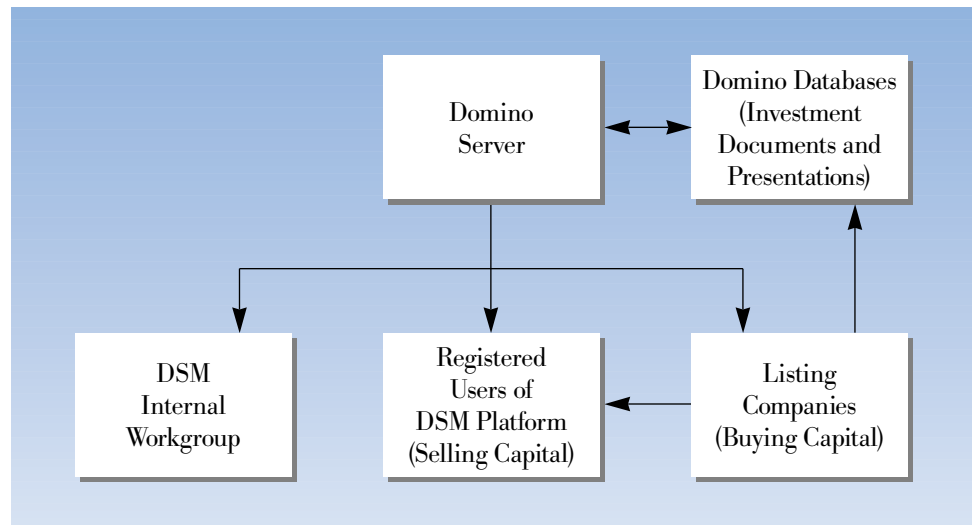
“One of the things that was way ahead of its time, even two years ago, was the ability to edit the Domino Web site through a browser. This is convenient since I travel a lot. It allows us to remotely do all the things we need to do to manage content.”

— Clay Womack

At present, DSM's core Domino application is posting and distributing documents as well as generating and routing Web-based leads. Specifically, the system alerts DSM's customers when a prospective investor inquires about them through the DSM Web site. When a prospective investor views or downloads an investment document, such as a prospectus, an agent embedded in the application notifies the listing company. In addition to a simple notification, DSM's automated agent provides the listing company with contact information from the prospective investor that had been stored in a registration database at the DSM site, thus providing the listing company with the ability to subsequently contact the prospect. “This [application] shows the real value of Domino's extranet capability,” says Womack, “and it shows how Domino can help a company harness the Web to unite buyers and sellers of capital.”

Under a typical scenario, a listing company pays DSM a fixed fee of \$1,500 for which DSM will post their documents as well as compose a press release and send it out via e-mail to DSM's database of 12,000 registered users (growing at a rate of about 30 per day). When any of these registered users views a listing company's document, the listing company is automatically notified and provided with contact information from the inquiring parties. This information transfer provides the groundwork for discussion and negotiation between the listing and inquiring parties. If a deal is transacted, the prospect-turned-investor sends capital directly to the listing company. While its business model does not presently generate revenue from the transaction, DSM expects to restructure its fees to capture a share of deal volume in the future. Figure 2 depicts DSM's basic system architecture and process flow.

While publishing and agent-based notification constitutes the core of its platform, DSM also uses Domino for internal collaboration, such as supporting discussion groups for various projects that are ongoing within the company. Womack maintains that while Domino's collaboration and workflow capabilities alone were enough to sway him to the platform, other features – such as the ability to manage content remotely – were also key. “One of the things that was way ahead of its time, even two years ago, was the ability to edit the Domino Web site through a browser,” says Womack. “This is convenient since I travel a lot. It allows us to remotely do all the things we need to do to manage content.”



Source: Direct Stock Market, 1999

Figure 2. System Architecture and Process Flow: DSM's e-business Solution

DSM also uses Domino.Merchant to enable such transactional capabilities as pay-per-view Webcasting, for which users enter a credit card number to register. Thus far, DSM has used Domino.Merchant to support Webcasts for *Forbes* magazine's CEO Forum and other high-end Webcasting initiatives. In the future, DSM plans to expand its range of transactional applications, including providing analyst and/or credit reports for its listed companies, which it may offer in conjunction with Standard & Pooors.

Another element that DSM has integrated into its Web site is live streaming video and chat room software. Through DSM's Virtual Roadshow, as many as 200 potential investors can simultaneously view live video presentations stored in Domino databases on topics such as a company's strategy and vision. "These tools are allowing company executives to tell their stories better than ever," says Womack. He sees DSM's Virtual Roadshow as a cost-effective alternative to traditional, often expensive investor roadshows. "I can... do a live roadshow from my office for about \$5,000 for an hour of broadcasting," says Womack.

Participating companies can target their offerings by pre-announcing their show to investors or mutual funds of their choice. For example, a company could alert microcap mutual fund companies that they're seeking \$10 million in investment and provide a URL, time and date to log onto the site for more information, allowing analysts to participate through the chat line.



Featured IBM Products

Lotus Domino Server

The Domino Server Family is an integrated messaging and Web application software platform for growing companies that need to improve customer responsiveness and streamline business processes. The only solution built on an open, unified architecture, Domino is trusted by the world's leading companies to deliver secure communication, collaboration and business applications. Domino Servers set a new standard for rich Internet messaging, ease of administration, integration with backend systems and reliability.

www.lotus.com/domino

Lotus Notes

If you need a simple way to harness a world of information, Lotus Notes is the software that lets you securely, easily and efficiently manage information and collaborate — anytime, anywhere. Notes is the leading integrated software for the Internet, offering an easy-to-use, open powerful way to work.

www.lotus.com/notes

Domino.Merchant

Domino.Merchant is a complete, customizable software solution that helps businesses take maximum advantage of the new frontier of electronic commerce. It provides everything needed, including the powerful DominoWeb Server, to deploy an e-commerce application quickly and easily, and with minimal Internet programming experience.

www.lotus.com/merchant

RETURN ON INVESTMENT

“We could not have done this with any other platform. That’s the biggest ROI for us — the speed of development.”

— Clay Womack

For DSM and Lotus Domino, traditional approaches to measuring return on investment (ROI) do not apply, since the entire DSM business model is linked to its technology platform. Figure 3 highlights the ROI benefits of DSM’s Domino platform. According to Womack, “Notes/Domino was critical to the viability of the business.” Nonetheless, Womack views certain aspects of Domino to be especially crucial to DSM’s success, including Domino’s ease of development. The speed to market of their Web site was critical, and the whole development took less than 90 days. “Most people were spending six to nine months putting together e-commerce solutions,” claimed Womack. “We could not have done this with any other platform. That’s the biggest ROI for us – the speed of development.” Womack estimates that by cutting development costs and time to market by 70 percent Domino has provided DSM with an ROI of nearly 300 percent.

Costs – both initial and ongoing – are also key issues for a startup like DSM. In terms of initial development costs, Womack sees a clear advantage in Domino. “We had the opportunity to spend X amount on a Domino-based commerce engine or 4X on a custom platform that had all the basic elements of the Domino system,” says Womack. “The choice was clear.” Womack believes Domino’s cost benefits are even more compelling as DSM expands into new segments and the volume of business ramps up. “The beauty of the system is the ability to scale up at extremely low marginal cost. This lays the groundwork for extremely high ROI as we add secondary market trading and start to list more small-tier public companies.”

Overall ROI Benefits	
Function	Benefit
Platform Development	Low costs Short development cycles
Lead Routing and Management	Low-cost, high-efficiency lead routing and management platform
Sales and Marketing	Domino’s scalability facilitates extremely low-cost growth of DSM customer base
DSM Customers	Low costs for Initial Public Offerings Low costs for investor promotions (roadshows)

Source: Direct Stock Market, 1999

Figure 3. Benefits of DSM’s e-business Solution

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IBM Corporation
Internet Division
Route 100
Somers, New York 10589

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