

## Staying Alive

*LetsTalk.com ran through a dot-com minefield this year, and lived to tell about it.*

By SHARON CLEARY

SAN FRANCISCO—Delly Tamer is fielding tough questions in a packed conference room.

Ten days earlier, the president and chief executive officer of LetsTalk.com unveiled a revised business strategy to the closely held company's venture-capital funders. Now he is sharing it with his team, many of whom are seated in the conference room's beanbags and folding plastic chairs.

The linchpin of the new strategy is to boost revenue by adding corporate customers to the consumers who buy the cellular phones and wireless-calling plans LetsTalk.com sells online. But some people in the room clearly aren't thinking about business strategies.

"Are we still going to have an IPO?" asks Will Taylor, the regional merchandising manager. "How are we going to get out?"

Mr. Tamer sighs. Over loud, nervous laughter from the rest of the employees in the room, he says, "We're in this together. ... I'd say there's a 50% chance we have an IPO, a 50% chance we find another exit strategy. My preference: IPO, no question."

### Brick Didn't Click

LetsTalk.com ([www.letstalk.com](http://www.letstalk.com)) is an anomaly among the litter of Web retailers: It is in relatively good financial shape while an older brick-and-mortar sibling is reorganizing under Chapter 11 bankruptcy proceedings. The online company's president and co-founder went back to Let's Talk Cellular & Wireless—which sells cell phones and wireless-calling plans in malls—to lead the reorganization. Let's Talk Cellular has considered selling its stake in LetsTalk.com to raise money.

There are no guarantees LetsTalk.com will ultimately fare any better than its beleaguered sister. The online company initially struggled to get its business up and running in time for the crucial Christmas shopping season last year. It has had to amend its business model to broaden its target market. It has twice slashed its marketing budget. To reassure employees in the wake of

the Nasdaq Stock Market's April crash and the subsequent evaporation of venture-capital funding for retail dot-coms, it instituted frequent company meetings.

Partly as a result of these moves, however, LetsTalk.com still has money in the bank—about \$10.5 million—which the company expects will last it through the next year. It also has a seasoned executive team; a new, improved business plan in a high-visibility market segment; good employee morale—and venture capitalists who are still interested in the company's future, a rarity among online retailers today.

"We've all seen what's happened to [struggling] companies like Pets.com and eToys.com, and we hear about new ones every day," Mr. Tamer says, "but that's not us. We're going into this with our eyes open—and wireless is still hot."

### Lost Advantages

Many online companies have had advantages similar to those of LetsTalk.com but have quietly shut down because they couldn't make enough money from their own operations or raise sufficient venture capital to survive.

There have been some spectacular failures, including retailer Boo.com Inc., whose shutdown grabbed headlines both online and in print.

Then there is online golf-product retailer Chipshot.com Inc., which filed for Chapter 11 bankruptcy in early October, only four months after closing a \$24.5 million round of funding. And jewelry purveyor Miadora.com Inc. closed this fall after it squandered its marketing budget on gimmicky promotional campaigns and failed to diversify its product line to keep up with more ambitious competitors.

LetsTalk.com says it has enough money to continue operations while waiting for the market to come around—and it has already shown it is willing to conjure a new strategy if the market doesn't change.

One of Letstalk.com's assets is the experience its founders have chalked up in both online and traditional businesses.

In 1996, Mr. Tamer, 45 years old, left computer maker Tandem Computers (which was bought in 1997 by Compaq Computer Corp.) to join Internet Shopping Network, the online branch of St. Petersburg, Fla., cable-television company Home Shopping Network. The

following year, he became the vice president of strategy and business development at Compare Net Inc., a Web-based comparison shopping company that was sold to Microsoft Corp. in March 1999 for an undisclosed amount.

Brett Beveridge, 36, was the co-chairman and president of Let's Talk Cellular and Wireless before becoming the co-founder and executive vice president of LetsTalk.com. Mr. Beveridge co-founded the brick-and-mortar business in 1989. About a decade later, he had the idea of forming the dot-com. "It was an obvious direction for the business to go," he says.

In July 1999, Let's Talk Cellular attracted \$21.5 million in cash from venture-capital firms Brentwood Venture Capital, Accel Partners, H.I.G. Capital Management and Goldman Sachs to form a separate Web company in San Francisco. Mr. Beveridge moved to the new business because, he says, after 11 years running the brick-and-mortar company he wanted to try something new.

LetsTalk.com opened its doors with seven employees about a month later, on Aug. 23. It had a different management team but shared Let's Talk Cellular's 33,000-square-foot distribution center in Dallas. The shared facilities saved LetsTalk.com time and money: It didn't have to create a costly distribution system from scratch.

Venture capitalists own 42% of the e-commerce firm; Let's Talk Cellular controls 33% and the dot-com's executives and employees own the rest.

### Prelaunch Rush

With money in hand, LetsTalk.com set out to answer the same questions plaguing many dot-com retailers last summer. First, it needed to create a working Web site to launch in time for the Christmas shopping season, just a few months away. Second, it had to ensure that its business would be No. 1 in its sales niche: "The whole thing in late 1999 was no one can be No. 1 but you," Mr. Tamer recalls.

At the time, being No. 1 meant spending heavily on marketing, and LetsTalk.com's backers fully supported the idea. LetsTalk.com set aside 84% of its funding—\$18 million—to promote its products and services.

With the venture capitalists' encouragement, LetsTalk.com spent \$1.5 million in October to purchase print advertising for the holiday season. The company then pegged its Web site's



*Delly Tamer*

launch—"when we were not ready"—to its advertising schedule, Mr. Tamer says. The situation was nerve-racking because "I couldn't guarantee we would launch," he says. "We were putting it together until the last possible second."

LetsTalk.com pulled off the trick: On Dec. 2, its initial site went online, and by Dec. 7, the date its first ad appeared, the full site was in business. "We were feeling good, that we had accomplished our main goals," Mr. Tamer says. But almost immediately, LetsTalk.com faced a new roller-coaster ride of surprises.

On Dec. 15, brick-and-mortar Let's Talk Cellular announced that it had retained a unit of Merrill Lynch & Co. to sell its stake in LetsTalk.com. The offline business was in trouble—so much so that it needed to raise cash fast. Selling the online business appeared to be the best alternative. (Mr. Beveridge says the sale is now on the back burner.)

Then on Jan. 21, Let's Talk Cellular was delisted from the Nasdaq Stock Market because it failed to file its earnings statements in a timely fashion, Mr. Beveridge says, adding that this occurred more than six months after he had left the brick-and-mortar company.

### Shaping Up

In February, Mr. Tamer heard from two of his venture-capital backers, Accel and Brentwood, that online business-to-consumer companies were having a harder time raising money. Later that same month, Mr. Tamer got more bad news: His co-founder, Mr. Beveridge, revealed his intention to return to the brick-and-mortar company, which wasn't meeting its sales forecasts, to try to get it back into shape.

This was a big loss for LetsTalk.com. Because of his tenure with the brick-and-mortar sibling, Mr. Beveridge had long-term relationships with telecommunications-carrier and hardware companies that eased LetsTalk.com's business negotiations. When he left, Mr. Tamer was concerned; how could Mr. Beveridge be replaced? The vice president of finance, Lance Frey, ultimately stepped into the role.

By the end of March, LetsTalk.com, like many other small-business startups, had yet to show a profit, despite steady revenue from phone sales and wireless contracts. Meanwhile, the Nasdaq stock market began to slide. It quickly became clear that the next round of funding would be very hard to secure.

"Put yourself in the mind-set of an employee," Mr. Tamer says, "A major correction is happening. One of the founders had left. We were hurting a little bit."

### Applying a Tourniquet

The company took immediate action. It cut its marketing budget to \$2 million

from the original \$18 million and held a staff meeting to explain where LetsTalk.com stood in light of the e-commerce downturn. Mr. Tamer found himself facing new questions from employees: Are you planning to fire anyone? Will you still spend money on ads? How are you going to raise money?

Raising money wasn't an immediate problem; LetsTalk.com had \$14.3 million left from its initial funding and was burning through it slowly. At the beginning of May, the company had a total of 24 employees—a small number considering that many dot-coms quickly inflated employee ranks shortly after receiving first rounds of financing. (As of late September, LetsTalk.com had 51 people on staff.)

But LetsTalk.com was thinking long term. It cut its marketing budget again in June to \$100,000 from \$2 million and decided to focus advertising on just two test markets: Chicago and Dallas.

Mr. Tamer also instituted frequent company meetings to sustain morale—something many struggling dot-coms have ignored. Knowing LetsTalk's employees could no longer assume that their stock options would make them rich—at least not in the short term—Mr. Tamer encouraged communication among his staff; any question about the state of the company was fair game. He began taking "four or five employees out to lunch" each week at a nearby snazzy eatery, he says. Lunch lasted as long as it took to answer their questions.

Six junior employees have left, Mr. Tamer says, but the original crew is still there. Why? "It has a lot to do with Delly," says Kim Barnes, vice president of business development. "He's a good leader."

### New Targets

LetsTalk.com also decided to broaden its business plan to encompass corporate customers such as Web portals, airlines, brokerage firms and banks. The company is now targeting "huge, well-financed partners who want to provide wireless products to their customers," Mr. Tamer says.

One of its new customers under this strategy, Charles Schwab Corp., offers a free Web-enabled phone and a few commission-free trades to customers who register a \$10,000 or greater account with its online brokerage.

LetsTalk.com fills and ships Charles Schwab's orders from the Dallas distribution center it still shares with Let's Talk Cellular, programs the phones with a Schwab wireless-Web bookmark and replicates the look and feel of the Web-phone ordering pages on the brokerage's Web site.

LetsTalk.com is paid for each order it fulfills and for its Web design and infrastructure work. Schwab markets the program under its own brand name.

LetsTalk.com also modified its consumer business to add a free service: It will program the telephones it sells, so if a customer wants her mother as speed dial No. 2, wants a specific ring tone or needs wireless Web sites bookmarked, LetsTalk.com will send out her phone with these features.

"LetsTalk is the only Web-based company personalizing phones," says Richard Siber, head of the wireless group at Andersen Consulting in Boston. "It's a needed service that sets them apart: People don't like to take the time to program their phone."

### False Report

The bad news kept coming, though. At the end of May, Let's Talk Cellular filed for protection under Chapter 11 of the U.S. bankruptcy code. The filing didn't have any direct effect on the e-commerce company, but some people didn't realize that it was the brick, not the click, that was reorganizing. "Certainly there is a stigma associated with it," Mr. Tamer says.

Almost four months later, the company had another crisis. On Sept. 1, F\_\_\_edCompany.com, a Web site that tracks dying dot-coms, posted an inaccurate report that LetsTalk.com, not the offline retailer, had filed for bankruptcy protection. Mr. Tamer learned about the posting first thing that morning from horrified employees concerned the posting was true.

Corporate headhunters had also seen the report. Throughout the morning, before Mr. Tamer convinced F\_\_\_edCompany that the post was incorrect and had to be removed, his top four executives each received numerous calls from ambulance-chasing recruiters. None of the officers left.

The roller-coaster ride still hasn't ended for LetsTalk.com. There is speculation among analysts that wireless may be the next Internet-market segment to implode. But Andersen Consulting's Mr. Siber says LetsTalk.com provides a valuable service for mobile-phone users: the ability to sift through the vast variety of calling plans and phone choices with ease. "The future is uncertain," he says, "but people need phones—and I have faith in Delly's ability to adapt."

Back at the company's business-strategy meeting, project manager Suzanne Lee cuts to the chase: "What if wireless is the next bubble?"

Mr. Tamer takes a deep breath. "I want to be very, very clear. A lot of great news today about us is because the wireless buzz is still on," he says matter-of-factly. "If the bubble pops with wireless, we'll see."

Then he pauses, looks down at his shoes and adds quietly, "Maybe we'll do something else." ■