DataNaut Incorporated: Growing Pains of a Small Company on the Verge of an Internet Revolution

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This case was written for the 8th annual Kogod School of Business Case Competition at American University. It discusses a small, locally run company that faced several strategic decisions at the end of 1999: marketing its new high-tech products, securing sufficient venture capital financing, and creating a profit-sharing plan for current and future employees. The case involves an actual corporation (although some of the employee names have been changed) and the issues that confronted the management team at the end of 1999. The case includes a complete description of the company's products, a glossary of terms, a list of Web sites summarizing existing radio market research, detailed operating expenses and pro-forma financial statements (numbers have been altered for confidentiality). This case combines new technology development, HR decisions, marketing and finance, which makes it a true cross-disciplinary case that can be used in several different courses.

EXECUTIVE SUMMARY

At the end of 1999, a small software development company located on the outskirts of Washington, D.C. is faced with several strategic decisions regarding the marketing and financing of its high-tech products. The principals of the company must decide the type and dollar amount of financing they will try to secure, which of their two products should be the focus of their marketing efforts and how they should structure an equitable compensation plan for their existing and future employees. Cash flow has been an ongoing problem for this small company, which began as a one-person technical consulting company and has grown into a consulting and product development company with several full and part-time employees. While consulting has traditionally paid the bills, the CEO is interested in becoming a part of the "Internet Revolution" with the development of multimedia streaming applications.

BACKGROUND

On the evening of September 3, 1999, Mark Snuffin and his small staff sat around the living room of Mark's house, which also served as an office, and contemplated the future of their company, DataNaut Incorporated ("DataNaut").

DataNaut was at a critical stage in its development. The three-year-old consulting company had just completed a business plan for a new product idea and was in the early stages of developing a demonstration model (a "demo") that would be used to illustrate the product's features to potential investors. Although Mark and his team were confident that the new product would be a success in the marketplace, they were also aware that raising sufficient capital to finance the development of this product at such an early stage would be a challenge.

Since its inception, DataNaut had financed its daily operations with a steady flow of income from consulting work. Mark's goal in founding DataNaut was to create a company that would focus on developing next-generation technologies for the Internet. Mark started the company with an advanced concept for broadcasting audio and information, and the resulting product was extremely innovative. Mark had always been "ahead of the curve" with his inventions, and he was sensitive to timing issues with respect to Internet technologies. His team was also acutely aware of the importance of timing, and the product issue had become an increasingly important topic of discussion within DataNaut.

DataNaut's reputation for expert consulting services was growing, and Mark was involved with several simultaneous projects that consumed the majority of his time. The existing contracts were scheduled to last into the following year, and Mark remained busy planning his life around these contracts. Even though the consulting revenue was increasing steadily, DataNaut often found itself in a cash-crunch. The management of cash flow became a delicate issue in Mark's small company, as the receipt of payments for consulting services rendered did not always correspond to the payment of bills and payroll. In addition, Mark subcontracted much of his consulting work to individual software developers, and the cost of doing so was high (Exhibit 1). Mark often felt that the time spent on consulting was an opportunity cost to pursuing product development.

Mark knew that he could maintain his consulting practice and grow it steadily over time, but his passion was in product development. DataNaut's situation had changed dramatically over a period of four months, and Mark had recently hired a strategic consultant to help him sort out the various issues that confronted his company. It was time to make a decision.

SETTING THE STAGE

Prior to forming DataNaut in May 1996, Mark had worked for several years in prestigious consulting firms. By 1996, the Internet had exploded, becoming a legitimate environment in which to conduct business. Mark decided to venture out on his own and form a consulting company that would specialize in extending Microsoft technologies to the Internet, while maintaining a product business that would focus on the development of turnkey Internet applications called "Weblications".

For the past three years, DataNaut has operated as a virtual corporation, using an outsource model to support business operations. DataNaut has utilized outsourcing partners to assist with software development, telecommunications and visual imagery, as well as functional areas such as accounting and legal services.

In October 1998, Mark hired a full-time software engineer, Eric Lorenzo, to assist with the consulting practice. In May of 1999, Mark hired two MBA students, Monique LaChance and Paul Lee, to handle the business aspects of the company's operations, including marketing, business development and financial planning. In hiring the MBA students, Mark hoped to rekindle the product development side of his business, which had become a lower priority due to an increase in consulting work.

CASE DESCRIPTION

DataNaut is divided into two core businesses, one dedicated to Weblication (product) development and the other focused on consulting services for Microsoft BackOffice solutions.

As of September 1999, DataNaut outsourced a portion of its consulting and Weblication development to five different consultants, four of whom lived between Washington, D.C., and Baltimore. The fifth consultant lived in Australia and assisted mainly with highly technical graphic

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