

# Interview

## Net Profit – an interview with David Soskin

Interview by: Giles Metcalfe



David Soskin is currently Executive Chairman of Swapit.co.uk and Chairman of mySupermarket.co.uk. He joined Cheapflights Media as Chief Executive Officer upon the management buy-in with Hugo Burge in March 2000.

He was previously at ABN AMRO Corporate Finance, where he was Head of Global Media. Prior to ABN AMRO, David held senior roles in industry and government.

He served as Cheapflights' CEO until 2008 when he became a Non-Executive Director. Under his leadership, Cheapflights Media grew from an attic-based operation into an award-winning international leader in online travel search. The company has been included in *The Sunday Times* Microsoft Tech Track of the UK's 100 fastest-growing privately owned technology companies for six years in a row.

His book, *Net Profit*, is published by John Wiley & Sons Ltd.

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**GM: What was the driving factor behind you writing *Net Profit*?**

**David Soskin:**

Wiley pointed out that digital media books are written by journalists or academics, rarely by practitioners. They asked if I would write a book offering practical advice based on my experience expanding Cheapflights. I am keen on fostering entrepreneurship, so I wrote the book hoping that it would help stimulate new enterprise and provoke interest and excitement in the digital economy.

**GM: Should our readers pack in their jobs immediately and become e-entrepreneurs?**

**David Soskin:**

The digital revolution has only just begun, so the opportunities are immense. I also emphasise that many of the skills required are common to the old economy. But, I also stress that some new expertise is required – one is the ability to cope with very rapid change and a constantly shifting technology and competitive landscape – so, its not for the faint hearted.

**GM: You write, "Internet companies should be clear who their users (traffic) are and who their customers (revenue generators) are, and thus how to establish robust and profitable business models." Is having a great business model even more crucial than having a great "Big Idea" in the first place? Do you feel that too many nascent entrepreneurs have a great idea but weak or non-existent business models?**

**David Soskin:**

Companies need to think very carefully from day one about how to monetize. I have looked at dozens of digital businesses that seemed like great ideas but I can't imagine how they go from there to profit. One of the most bizarre ones was a sort of online virtual reality 'keep fit' site perhaps trying to emulate the success of Jane Fonda's video cassettes – how was that supposed to make any money?

**GM: Should the inventor-entrepreneur's first port-of-call be the bank or the patent office?**

**David Soskin:**

I would avoid banks like the plague, especially in the current environment. Most entrepreneurs know the grim reality bears no relation to the banks' soft sell advertising, which promotes them as the friend of small business. Dip into your own savings, try friends and family and best of all try to devise a business plan that minimizes up front investment and maximizes revenue.

On the other hand, get your intellectual property patented as quickly as possible and understand what the value of it could turn out to be. Even eBay when buying Skype seemed to forget the value of the coding, which, it is alleged, they failed to buy, leaving these rich resources in the happy hands of the Skype founders.

**GM: Could you expand on your statement that "Too many internet companies forget the other side of the business: that is, the paying customer"?**

**David Soskin:**

This is a hangover from the roaring nineties when internet companies got funding simply because they could get eyeballs. They got into a "doom loop". They used that money to advertise. Those ads brought in spectacular traffic and the management teams felt really good despite the absence of revenue. It was the digital equivalent of being hooked on drugs... Consequences were horrid for those who indulged. There are some spectacular examples in my book.

There is an additional complication in digital media, which is that early stage companies are often run by tech people who fall in love with the technology but forget about who pays the bills. So, there is a lesson from the old economy. Know who your paying customers are, treat them well and make sure you understand how to foster their loyalty. This is a common characteristic of the best internet companies, whether they are like Amazon in e-commerce or internet media companies looking after their advertisers or subscribers.

**GM: How important is trust, and word-of-mouth recommendation when building an e-business?**

**David Soskin:**

If you want one take-away bit of advice from my book, try to become a market-driving company – a concept that is particularly suited to the internet. These companies do something radically different and then achieve the 'buzz factor'. Interestingly, if you look at many of the star players they got there by doing exactly this: how did you get to hear about Google, eBay or Facebook for example – surely not by seeing an advert on TV or a billboard. There are a plethora of smaller players too who have successfully achieved this buzz effect.

Cheapflights went from an attic start-up to global player without the need to spend millions on ads. I cite many other examples of successful and profitable companies such as TrustedReviews who did this very well. Look at the current crop of hyper-

growth companies such as Spotify and consider just how crucial word of mouth can be.

**GM: You say “It is much easier to be successful as an internet company if you have a radical proposition rather than a ‘me too’ product”. Is it better to be the first to market than to try to compete with established players?**

**David Soskin:**

It is good to be first to market – Amazon is perhaps the classic example. Jeff Bezos kicked off when the commercial internet was in its infancy. But it's not essential. Google wasn't the first engine. In the travel sector, which I know very well, Tripadvisor was a pioneer with its user generated hotel reviews. Tripadvisor is a huge and profitable business. But, that did not stop Howzat (the digital media investment fund which Cheapflights' Chairman Hugo Burge and I founded) from investing in a small European competitor called Trivago. Well Trivago has grown like a weed because it does some things better than Tripadvisor so there is demonstrably room for more than more than one player. Likewise, Expedia was the first online travel agency but there are now scores of others who have large and successful businesses.

**GM: How big a setback to online business was the trend for Flash-based websites that looked great but were non-intuitive and difficult to use (failed the ‘Aunt Agatha’ test)? Has e tailing recovered from that now?**

**David Soskin:**

You would be astonished at just how many really lousy websites there are. I have recently looked at a well-known, well-funded property website (not RightMove, which is rather elegant, or Zoopla which is packed with innovative features). This website was appalling, truly appalling, so I gave up. We have come along away since the early days but then so have consumer expectations. Millions now use the great e-tailing sites – look at Amazon, Net-a-Porter, ASOS to see how it can be done well.

**GM: What, for you, are the most heinous website design crimes?**

**David Soskin:**

Things I hate: 'skip the intro', overcrowded home pages, advertising that pops up and smothers content, navigation which rivals the Hampton Court maze, and feedback/ask us pages which require you to fill in some silly form.

**GM: You state, “Paranoia is a prerequisite for successful internet companies” - how so?**

**David Soskin:**

If you snooze you lose. The old economy has been asleep at the wheel for years. The traditional media companies were amongst the worst offenders, but even now in 2010, there are huge companies that have not embraced the digital revolution. I was thrilled to see that the newly appointed CEOs of Morrisons and Marks and Spencer have said that, at last, online will become an area of focus – but come on guys it is 2010 not 2000! Internet businesses do not benefit from the 'cash cow' effect of traditional companies. These companies, enjoying high market shares, which have been around for years can enjoy a period of grace if they fail to innovate. Not so for stand-alone internet businesses. Those that failed to be paranoid are no longer around to tell the tale: Altavista used to be the world's most prominent search engine.

**GM: Which case study example in your book impressed you the most?**

**David Soskin:**

It is hard to say. In the dot com 'collapse' the whole industry got a really bad name. Yet today it thrives, employing vast numbers worldwide with profitable and growing businesses across the globe. From a management viewpoint Amazon is hard to match. I admire Google but it is now so large that it is facing some difficult strategic issues as it tries to maintain its growth.

**GM: How can start-ups become market-driving companies?**

**David Soskin:**

Either come up with a radically new digital proposition or tweak an existing product so effectively that you can achieve the 'buzz effect'. This is precisely what the Cheapflights founder achieved when he launched in 1996. It took Silicon Valley a full three years to launch their own version, but by that time, Cheapflights was very well established.

**GM: How important is it to hire the right people and build a team of cohorts that share the vision?**

**David Soskin:**

As say in my book, hire for where you want to be not where you are. You need to build a team that works well together and has complementary skills.

**GM: How much did you rely on networking your friends, acquaintances, and contacts when getting your venture off the ground?**

**David Soskin:**

My network was certainly valuable in putting the buyout finance together. It was quite useful too in getting the right professional advisors. My IP legal advisor was the same person who I had used at another start-up many years previously. On the other hand, I was entirely new to the travel industry.

**GM: There are some very happy coincidences in your career - how important was serendipity in your success?**

**David Soskin:**

However hard you plan, serendipity does play a part. I was actively looking for a digital media company in which to invest but Cheapflights came across my desk as a friend of mine had been to school together with its founder.

**GM: Do you have to be (or know) a good accountant to be a successful start-up?**

**David Soskin:**

Understanding accounting is very important. Much of accounting is plain commonsense. If you do not understand the difference between income and cash, you will be dead in the water. If you don't understand accounting don't move without getting a reliable advisor.

**GM: What should you do if you want to take your business international? Do geographical boundaries matter in e-commerce anyway when your site is only a Google search away?**

**David Soskin:**

Boundaries matter less but don't ignore them. Some internet businesses are much harder to expand across borders.

The European betting sites' problems in the USA and Google's issues in China demonstrate that boundaries do matter even in the virtual world.

**GM: Anecdotally, I heard a story about a famous independent record store that moved into selling CDs and vinyl via an embryonic e-commerce site some years ago (pre-Amazon). They rejoiced when they got bulk orders from Central America, then wept when they realized that all of the credit card transactions were fraudulent after thousands of pounds worth of stock had been dispatched! What are the common pitfalls nascent e-businesses should avoid?**

**David Soskin:**

Fraud is a common problem for all early stage companies and the traditional economy is just as vulnerable as e-commerce. So strong financial controls are vital whatever your line of business. One pitfall for e-commerce businesses to avoid is being dependent on one form of traffic, be it search engine listings, pay per click or offline advertising.

**GM: With an eye on the future, what do you see as the "next big thing"?**

**David Soskin:**

Smart phone applications that make consumers' lives easier. We are just at the beginning of that particular revolution.

**GM: Which e-business areas do you feel are untapped and ripe for exploitation?**

**David Soskin:**

Two areas I have always liked are price comparison and consumer generated reviews. I believe there are many more sectors to exploit these in the years ahead. Any complex and disparate industry – about which consumers find it hard to get good data on – is fallow ground.

**GM: Finally, are there any closing comments you would like to make?**

**David Soskin:**

As I conclude in my book, there has never been a better time to launch a digital business, especially with smart phones providing an additional platform.

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