

Hey, my broker hijacked my Web site

By Peter Goldman

Ingrid Johansson calls me from the south of France where she now lives, telling me how her Web site business was 're-implemented'. While professing to broker the sale of her site, a major Internet player found a buyer, hijacked her concept and sold it to the intended 'client'. Ingrid Johansson feels royally cheated, having received only SEK 50,000 (USD 5,500) from the broker, intended as severance pay for her employee. She tells me her Web-site idea with 60 man-months of development time, turned into a project failure – and a money-making success for the broker and his 'client'.

Ingrid Johansson is an entrepreneurial lady with 38 years of business experience. During the course of her career, she rose to management positions in banking and insurance. In the mid 1980s, she pioneered a banking segment, skillfully opening her bank to the increasing money streams of professional women. After early retirement 5 years ago from Sparbanken, Sweden's large mutual savings bank and insurance group, having gained particular niche-knowledge of 'the women's segment', Ingrid Johansson decided to venture into a new business, entirely different from banking and insurance.

CHALLENGE AFTER RETIREMENT

Ingrid Johansson was aiming at the Internet and intended to build a site strictly for women. Her core audience was a group of active and motivated females in search of a secure communication platform reserved for women's talk. After building up Web site services, she planned to commercialize the site to attract advertisers and e-business.

Ingrid Johansson's personal ambition was to feed and manage the site, be able to draw a decent salary from the business, and attract investor's money, with a view to cash in. What she lacked was one major, or several private, investors believing in the commercial viability of her

gender project, and particularly important for advertisers, belief in her segment of the website audience. She teamed up with a family member running a computer software company, and soon branched into teaching women new to computers how to use the Internet.

Ingrid Johansson traveled up and down Sweden holding half-day seminars on the theme of "The Internet on women's terms", charging SEK 10,000 (USD 1,100) each time. Her Internet lectures paid SEK 300,000 (USD 33,300) and covered her first year's expenses, supplemented by her early retirement pay. As a result of her lecture activities, her relative's software company got swamped with responses, and an additional fax machine had to be acquired to handle the vast inflow of office communications.

Ingrid Johansson's constant seminar exposure to the users, further refined her Web site concept, where women aged 35-55 would be able to chat, meet, learn and shop. Posturing as a politically correct business venture for women by women, the publicly funded Innovationscentrum, whose primary purpose is to promote technical innovations, promised to give the project SEK 400,000 (USD 44,400) to fund the start-up costs.

On a purely verbal promise, not waiting for an official decision, Ingrid Johansson hastened to procure the services of two companies run by women, a Web agency and an advertising agency. With joint efforts, within a month she had her 'Qnet' site up and running. (Q is the first letter of the Swedish word 'qvinna' – woman, spelt the old-fashioned way.)

When the assisting agencies' invoices where due for payment, the promised state funding had not arrived because Innovationscentrum had changed its mind, now claiming that anybody can put up a Web site for women. With the project facing SEK 300,000 (USD 33,300) in unsponsored bills, the governmental agency for local busi-



INGRID JOHANSSON

Born: In Luleå 1945, in the far north of Sweden.

Employment: Starts working at Sparbanken, the local Savingsbank in Luleå at the age of 18.

Promoted: Marketing manager, Sparbanken Luleå in 1972.

Transferred: Stockholm, to Svenska Sparbanksföreningen, the Swedish Savings Banks Association, where she develops and introduces the banking business concept 'Women & Economy' 1985–90

Promoted: Senior vice president, Svenska Sparbanksföreningen, 1986

Appointed: Marketing manager for the life insurance company SparLiv/SparFond, 1990-95

Early retirement: Leaves the world of banking and insurance in 1995, to create the women's Web site www.qnet.se

Present occupation:
IT consultant with
Scribendi SARL,
in France, since 1999.

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ness development, Almi in Uppsala, stepped in with a repayable loan of SEK 350,000 (USD 38,800) against Ingrid Johansson's personal collateral.

However, Ingrid Johansson managed to settle her accrued Web site bills without using the SEK 350,000, as she cautiously did not want to have her private assets associated with the business risk of her venture.

QNET LAUNCHED WITH PUBLIC FUNDING

The 'Qnet' women's website was officially launched in grand style at the end of the second project month, in 1996, with Ingrid Johansson making the news. She was interviewed live in prime time on the public service channel TV2's news

program, Rapport. As a result, new members and users signed up, virtually flooding the system.

Six months down the line, the recently established 'KK Foundation' handed Qnet SEK, 700,000 (USD 77,700) with no strings attached. Reputedly, this was because the Foundation wanted to score political points showcasing a 'women's project', warranted by a low level of IT activity among women. At that time, KK was a two-year-old, state-run foundation established to promote education and economic growth, and had seven billion Swedish kronor to spend, originating from re-allocated corporate taxes. At the same time, Qnet was selling banners to corporate advertisers, generating SEK 50-70,000 (USD 6-7,700), and attracting 1,000 paying members, adding another SEK 300,000 (USD 33,300) to the project's coffers.

At this stage a young talented Brazilian-born woman, through the governmental employment agency Arbetsförmedlingen, became Qnet's first employee, with a state-subsidized salary, replying to members and preparing a weekly newsletter for Qnet's 2-3,000 patrons and contacts.

IN BED WITH THE ENEMY

After a year, as the Web site had matured, Ingrid Johansson shifted her thrust from seeking public finance to courting private investors, and found that business people were harder to interest and reach. Decisions appeared to take longer, and she was warned by an experienced businessman to be cautious about providing company information, since it could easily find its way to the competition.

Following many futile presentations to corporate investors and venture capitalists, a new company, only a few months old, expressed a sudden interest in Qnet. Close to two years into the project, they proposed to act as an intermediary, either to broker financial backing, or buy Qnet outright.



In 1996, Ingrid Johansson and her Qnet were making the news.

The brokerage firm asked Ingrid Johansson to sign their pre-drafted Exclusivity Agreement, as well as Non-Disclosure agreements, committing the parties to stay faithful to each other and not to retain another broker, or develop a competing business concept.

Following these agreements, Ingrid Johansson volunteered to transfer all her confidential business notes to the broker, telling the firm that a business match with a golden handshake had to take place within no less than 3 months, as she confessed that her funds would have hit bottom by the end of the quarter. The broker was successful and claimed he had found the ultimate and 'ideal client', letting Ingrid Johansson assist in the background in preparing the project presentation, but without inviting her to meet the potential client.

Following the broker's presentation, there was a period in which proper communication was almost impossible, the people Ingrid Johansson regularly spoke to within the firm appearing to be hard to reach, and she was given the run-around when seeking clarification on the project's status.

In retrospect, Ingrid Johansson has understood that this was presumably the time when the broker decided to detach Qnet and Ingrid Johansson from the project and run it alone. Since Ingrid Johansson had confessed to the broker that she was hard pressed for cash, the firm offered her SEK 50,000 (USD 5,500) to cover the final month's salary and

severance pay for her employee. Ingrid Johansson further demanded to be released from her signed agreements, so the Exclusivity Agreement was willingly, and immediately, cancelled by both parties.

60 man-months into the Web site project, the business broker of good repute, effectively walked away to the bank with a mega-deal to be executed in his company's own name – leaving a side-stepped Ingrid Johansson with missed opportunities and crashed high hopes.

Ingrid Johansson was taught a business lesson to be contemplated under the warm sun of southern France. With proper professional back-up, particularly related to contacts with the broker's company, she would have been better able to foresee and correct several claimed wrong-doings, and would have stood a chance of leaving the project with something more substantial than just a lesson. □

The author is internationally engaged in contract design, negotiations, and arbitration.

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INGRID JOHANSSON'S QNET STORY, FINAL PAGE



11 February 1998.

After Ingrid received word on 3 February, that the 'ideal client' ends merger discussions with Qnet, the broker firm's project manager calls Ingrid to inform her that the firm is going to invest in Qnet according to original plans. The project manager intends making an in-depth study and will get back to her in 14 days.

16 February.

A member of the broker's firm calls Ingrid to say he is looking forward to be working with her and proposes a meeting on the 20th.

20 February.

Ingrid goes to the broker's firm for the meeting. The staffer is busy in another meeting. A new date is set for the 23rd.

23 February.

Ingrid meets the staffer, who announces that the firm has neither the time nor the money for Qnet. Ingrid had believed in a continuation and launched activities after the firm's verbal "yes" and the go-head given on the 11th. Ingrid will call the staffer the next day to find out if the firm is going to pay SEK 50,000 (USD 5,500) related to her expected costs for the month of March.

24 February.

The staffer phones and says yes to the payment.

27 February.

Ingrid phones the staffer. She is asked to call again after 3 p.m. Ingrid calls the staffer 4 times after 3 o'clock. Engaged!!

4 March.

Ingrid phones the CEO of the brokerage firm and leaves messages. Nothing happens.

6 March.

Ingrid phones the CEO again, and leaves messages. Nothing happens.

9 March.

Ingrid phones the staffer and complains that the CEO does not return her calls. Ingrid needs clarification about the money, etc. The CEO is presently reported to be in a meeting with the firm's owners. The staffer says he will urge the CEO to phone Ingrid.

10 March.

Ingrid phones the CEO and leaves a message.

10 March.

Ingrid phones the firm and informs them that she is coming to them on the 11th at 2 p.m. She wants information about the money, and wants to be released from the signed agreements.

11 March.

Ingrid meets with the CEO. Both sign the immediate cancellation of the Exclusivity Agreement. The CEO is presented the SEK 50,000 (USD 5,500) invoice from Qnet and promises to make the payment. The CEO informs Ingrid that the 'ideal client' is going to conduct their own activities. The CEO promises to phone Ingrid in the evening of the 31st about possible cooperation with her Web-site members, as Ingrid now intends to close down. The CEO also speaks about possible project assignments for Ingrid with his firm.

31 March.

Ingrid calls the CEO and reminds him about possible project assignments. The CEO laughs sarcastically and ends the conversation. Ingrid promises herself never to talk to him again.

AVOID 10 QNET BUSINESS BLUNDERS

1. Secure your source of early long-term finance.
2. Retain a business consultant, or a lawyer.
3. Have your lawyer draw up contracts with service providers outlining your objectives with provisions such as broker's terms and conditions of engagement, related to the sale, or non-sale.
4. Incorporate into the contract the length of the assignment, time-lines, quantitative and qualitative targets to be met, and intervals for the delivery of formal progress reports.
5. Do not respond to verbal promises although legally binding, that are not followed in writing.
6. Always be honest, but do not deliberately expose your financial weakness in a selling situation.
7. Screen your classified business documentation, and provide it on a need-to-know basis.
8. Do not yourself ask to cancel broker-breached loyalty agreements, particularly if your intention is to close down the Web site. Do not respond to unsubstantiated promises of future compensation.
9. When a business broker in breach of signed Exclusivity and Non-Disclosure Agreements hijacks your idea, immediately seek measured and proportionate compensation relevant to the damage to you.
10. Call in your lawyer to outline a compensation package to be presented and agreed upon.