

# Mercantec returns to its roots after a run at high-flying dot-com stardom

By Mark Brohan

**W**hen Bill Tait, a long-time e-commerce entrepreneur and Internet technology executive, bought back Mercantec Inc. in early 2003, the deal couldn't have closed at a more opportune time.

Mercantec, a company well-known for both its innovative shopping cart technology and established market share with smaller to medium-sized web retailers, had fallen on hard times, another victim of the dot-com investment bomb, a faltering economy and a flawed business model.

## Changing focus

Tait, who started Mercantec in 1995, sold a majority interest in 2000 to Divine Inc., a Chicago high-tech development group with a \$2 billion war chest for acquiring or growing e-commerce companies. Divine invested almost \$24 million in working capital in Mercantec with a strategy of changing its sales focus.

Tait had built the company with a core business strategy of developing shopping cart and other e-commerce tools for small web merchants. It sold its software through a large network of Internet

service providers and web hosting, telecommunications and credit card companies. Divine had the notion of rebuilding Mercantec into a vendor of enterprise applications with software fees starting at \$250,000.



Bill Tait, CEO, is banking on a revival of Mercantec after a failed acquisition during the high-flying dot-com days.

But the business base never materialized and Tait, along with several new private investors, reacquired the company. Today, Mercantec is rebuilding. The company has annual sales of about \$1.5 million, an installed base of more than 70,000 mostly smaller Internet retailers

worldwide and it expects to regain profitability this year.

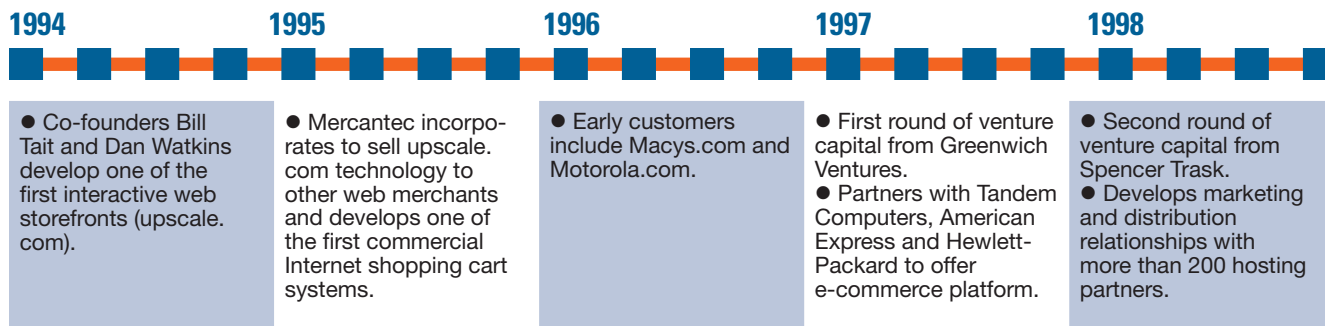
## Labor of love

"Divine tried to make Mercantec look more like BroadVision, and that strategy just never worked," Tait says. "I bought the company back as a labor of love and now we are heading back in the right direction."

To re-energize the company and with a goal of \$10 million in annual sales within three years, Tait, who is CEO, is busy refocusing Mercantec on its core customer base and developing new payments processing products and alliances that he thinks will appeal to smaller web retailers needing affordable e-commerce applications and services, especially those wanting to sell on eBay and other online auction sites.

For instance, Mercantec in November introduced PowerCommerce 2005, a web storefront package for individuals and businesses selling merchandise on eBay. The company is also forging new marketing alliances with organizations such as Lightbridge Inc., an analytics and e-commerce technology firm, which operates

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Authorize.Net, a payments processing and gateway service with links to a number of third-party auction sites.

For Mercantec to grow, Tait says he and his new management team, which includes fellow co-founder Daniel W. Watkins as chief technology officer and Curtis Sahakian as vice president of business development, are focusing on selling software and services to the thousands of new small businesses that want to open independent web stores or sell on eBay, Amazon and other third-party marketplaces.

### Mushrooming market

The market is mushrooming. Each year eBay attracts more than 100 million visitors who spend more than \$23 billion, giving many established multi-channel merchants and start-up operations new ways to sell merchandise. Best Buy Co. Inc., for instance, uses eBay to sell liquidated inventory and other merchandise. By 2007, according to Forrester Research, third-party marketplace and auction sites such as eBay could account for about 25% of all e-commerce sales. Tait is staking Mercantec's future in part on selling eBay and third-party marketplace merchants a hosted package.

Mercantec's PowerCommerce 2005 is a new suite of storefront applications that includes a variety of tools and programs to help merchants sell on third-party sites. The program includes integrated site and

store builder applications, lets users register shoppers, track inventory, create content and manage online coupon programs. It also features several third-party marketplace tools. For instance, a marketplace manager program lets a merchant operate a new storefront or link an existing store site directly to eBay.

The marketplace application also helps merchants create their eBay seller account, e-mail a customer when they've won an auction, create a shopping cart for each successful bid and track individual orders. The checkout process, which can be integrated with an existing storefront, lets merchants automatically calculate shipping rates and sales tax and use an optional third-party payments gateway to send transactions through various processors, including PayPal Inc., eBay's payments arm.

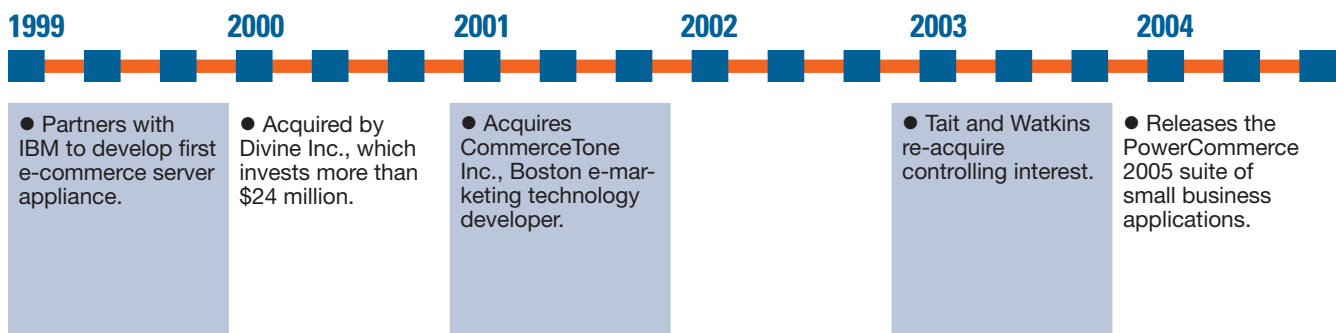
Offering merchants options to operate on third-party sites represents a burgeoning opportunity for vendors such as Mercantec. Today, there about 500 retailers that link their storefronts or operate a separate web store on auctions operated by eBay, Amazon.com, Overstock.com Inc. and others, according to Scot Wingo, CEO of ChannelAdvisor Corp., which provides technology to allow individuals and retailers to sell on eBay, and author of "eBay Strategies: 10 Proven Methods to Maximize Your eBay Business."

But Wingo says that number will easily reach 1,000 in 2005

and could double each year for the foreseeable future. Today, online consumer electronics retailers are the web merchant category making the most of online auctions and other third-party sites to sell discounted and liquidated merchandise. However, Amazon.com is drawing more diverse categories of merchants selling what Wingo calls "in season" merchandise, and those retailers' use of auctions is growing. "Retailers can't help but notice all the people using eBay to bid on all sorts of merchandise," Wingo says. "The number of merchants using these sites will double each year for quite a while."

### Seeking differentiation

The burgeoning number of merchants operating on eBay and other third-party sites bodes well for e-commerce technology companies such as Mercantec, provided they can differentiate their turnkey services from other applications and sell to their existing user base. "Retailers are more likely to seek out a third-party who can help them integrate to a third-party marketplace than try to do the job internally," Wingo says. "But there are a lot of vendors offering services and the market will mature at some point. Successful companies will have to develop their products and vendor teams carefully and provide a real value-added service to their retailer customers."



Tait believes his new approach to running Mercantec will help differentiate Mercantec from its key competitors, which include LaGarde Inc., an Olathe, Kan., e-commerce application and shopping cart development company, and Kurant Corp., a San Francisco-based Internet and web retailing program developer that last month was bought by eBay.

Traditionally Mercantec has developed marketing and reseller or distribution agreements with companies that host storefronts and maintain retailing databases such as Internet service providers, web hosting companies and other telecommunications organizations. Today Mercantec's biggest value-added sales and distribution agreement is with Verio, a division of NTT Communications and one of world's biggest providers of Internet

to-consumer e-commerce market since 1996. With Lightbridge, Mercantec's shopping cart and e-commerce technology is now certified to perform on the company's Authorize.Net system, an Internet Protocol-based payments processing gateway used by nearly 100,000 web retailers and other online businesses. In addition to being a certified Authorize.Net technology vendor, Lightbridge will also help market Mercantec's PowerCommerce 2005 and SoftCart5 applications to its large user base.

Mercantec has a similar arrangement with e-onlinedata, which sets up and maintains merchant accounts for web retailers and specializes in processing transactions for eBay merchants and other online auction sellers. "In this market it's very important not be a one-trick pony,"

refocused Mercantec is building up a base of about 1 million users within the next several years. For a small company with just 12 full-time employees that is only now returning to profitability, the goal seems unrealistic to some observers, particularly if it is staking its future against a slew of other technology companies selling to eBay merchants. "Companies coming in now are a little late," Wingo says. "It's already a hot market with multiple parties looking to capitalize on developing turnkey packages."

### The long haul

But Tait says Mercantec can differentiate from the competition because of a decade of developing and pioneering affordable e-commerce packages for smaller retailers. For instance, Mercantec is pricing PowerCommerce at just \$25 to \$250 per

## 'It's a hot market with multiple players.'

Protocol services to more than 5,000 enterprise customers worldwide.

But paramount to Mercantec's growth is diversifying its sales and marketing base. "These days web retailers want their vendor to deliver all aspects of payments and the handling of transactions," Tait says. "Through new alliances with third-party marketplace sites and others we are trying to diversify distribution and offer an updated suite of applications."

### New relationships

Recently Mercantec entered into a pair of marketing and sales relationships with Lightbridge and e-onlinedata Inc., a Powell, Ohio, merchant account and payment solutions provider in the business-

Tait says. "New relationships with companies such as Lightbridge and e-onlinedata complete our applications package and create a product that will be enthusiastically embraced by our merchants and resellers."

Altogether, e-onlinedata maintains more than 18,000 mostly web retailer merchant accounts, including about 1,000 retailers operating on eBay. "It's a good fit for both companies," says Sloane Bouchever, president of e-onlinedata. "Mercantec gives us access to a large base of their traditional web merchants and we can help them sell to a marketplace such as eBay, which has more than 100,000 eBay Power Sellers who sell at least \$1,000 of merchandise per month."

Tait's goal with a reborn and

month depending on the features the merchant wants or a range of \$250 to \$2,500 for retailers who want to purchase their software outright.

Mercantec isn't ruling out the possibility of being acquired or over time bringing in larger investors, but for now Tait says he's concentrating on diversifying and building sales—and profits—for the long haul. "Since taking the company back we focused on the technology and upgrading it and now it's time to concentrate on distribution and diversity," Tait says. "We've been in business for more than a decade and expect to be here for a long time to come." ●

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*Mark Brohan is principal of the Milwaukee, Wis.-based Brohan Group, providing consulting and editorial services to publishers.*



**Mercantec, Inc.**  
900 E. Diehl Road, Suite 110  
Naperville, IL 60563  
(630) 305-3200  
www.mercantec.com