At the beginning of 2009, Betazeta Networks (www.betazeta.com) was already the second largest independent Internet community in Latin America and also at the cutting edge of the Web 2.0 movement in Latin America. For Leo Prieto and Francisco Sandoval, the founders of this online network community where people interact with others to share information and entertainment interests, Betazeta represented a culmination of more than 25 years of combined experience in the industry (and with the experience of 6 other start-ups).

Leo y Francisco founded Betazeta in March 2008 as a way of capitalizing on Leo’s successful technology blog, FayerWayer. Since then, Prieto and Sandoval have focused on building additional communities in their blog network, characterized by a warm welcome with high-quality content on various subjects and powerful brands such as FayerWayer (a blog dedicated to technology), CHW (a blog dedicated to computer hardware issues), Niubie (a video game blog), Belelú (a blog dedicated to the feminine world), and Saborizante (a blog devoted to culture and leisure time). By the end of 2009, Betazeta had expected to open their communities to User Generated Content (UGC), allowing anyone, anywhere in the world, to become a voluntary contributor, writing their own topics of interest to a wide audience.

Betazeta had set a goal to increase traffic from 12 million pageviews per month to 80 million, by the end of 2012, making the company profitable by taking advantage of the growing online advertising market in Latin America, which was expected to exceed U.S. $1.4 billion in 2012.

Betazeta was positioning itself by developing a business model that could dramatically change the way digital information was created and disseminated in Latin America. However, Leo and Francisco faced difficult challenges the following year. Correctly identifying these challenges and responding appropriately, took away their dream.
The Origins of Betezeta

Leo and Francisco understood the Internet from B to Z. Leo Prieto (29) has been obsessed with technology since his father brought home a computer; he founded and developed his first company during his secondary education at the age of 16: Imagemaker Studios, a web design company that he developed during his secondary education and into his first year of university. Leo dropped out of university in the first year to devote time to his endeavor, and never finished his studies. After selling the company in 2004, he founded another company that provided software and application development for the web, AardvarkLabs, and launched FayerWayer, a technology blog. The latter became the most widely read in Latin America, but Leo had difficulty making money with his product.

Meanwhile, Leo met Francisco Sandoval (35), a successful entrepreneur with an MBA from the Instituto de Empresa de Madrid, with experience of four start-ups, among which were a real estate investment fund and I2B Technologies, a software development company with over 45 employees. In 2007, Francisco approached Leo seeking help in obtaining new clients, plus to create new and innovative services for I2B clients like ENTEL PCS, the leader in cellular telephony in Chile. But once Francisco and Leo began working together, they realized that their talents and skills were complementary, and as a team had great potential. Francisco had business insight and a record of success in his undertakings; Leo was known for his creativity and entrepreneurial energy, as well as attaining regional and national recognition. In 2006, Chile’s largest daily newspaper designated him as one of 100 young leaders of the country and for his success with FayerWayer; he had become a point of reference with respect to technology issues in Latin America, being frequently quoted in the mass media such as CNN, The New York Times, and Reuters.

In 2008, Leo and Francisco formalized their collaboration by creating a new company: Betazeta Networks S.A. (see Table 1 for Organizational Chart and Table 2 for Ownership Structure.) Leo offered FayerWayer and other blogs to Betazeta, and along with Francisco, began to redefine their approach to online content.

They decided that, to surpass the other online media networks in Chile and Latin America, Betazeta had to transform their communities into information sources generated for and by its users, for any individual in the world to provide views and comments on topics of interest, on a high-quality network with a guaranteed higher number of readers. By promoting user content generation, that is to say voluntary contributions, Betazeta followed a model similar to Gawker Media in the U.S. and preempted its competitors. This required, however, the development of sophisticated technology platforms, which in turn meant substantial increases in capital.

By contracting an editorial team, and with the purchase of several other online communities (thus obtaining nine sites during the first year of operation), Leo and Francisco established the necessary foundation to jump-start their strategy, reaching a market share of close to 5% of total Internet users in the region. In parallel, also thanks to having become the second independent online community, Latin America’s largest, with the most read blog in the Spanish speaking world,
Betazeta attracted advertising from corporations such as Coca Cola and Sony. For 2009, Betazeta estimated sales of U.S. $719,000, a significant figure for the industry. The ultimate goal was to build the largest online community in Latin America, which would be well positioned to take advantage of the emerging segments: classified and contextual advertising.

One of the significant aspects of the development of the company was strengthening its management team. Leo and Francisco managed to attract some key people to Betazeta, for the organization’s future.

Olav Carlsen (43), an expert in finance and technology, was named CFO of the company. Carlsen had lived more than 10 years in Silicon Valley serving as CFO of several technology companies gaining experience in initial public offerings (IPO), and mergers and acquisitions (M&A). While working with the Betazeta office, Carlsen simultaneously participated on several Technology Advisory Councils with companies in the U.S., Canada and Chile.

In mid-2008, Leo and Francisco invited Juan Francisco Diez (26) to join the Betazeta team. Juan Francisco contributed CHW, the most read site about hardware in Spanish, which was created 5 years previously. As Editor of CHW since its inception, he had extensive experience in public relations in the hardware industry. Juan Francisco went on to lead the team of editors at Betazeta.

Although Betazeta was at an early stage of development, the company seemed to meet all the ingredients for an amazing success: an attractive industry, the proper timing, and appropriate entrepreneurial leadership. In less than a year, Leo and Francisco had achieved significant sales, in an industry where this level was unprecedented; they expected sales to exceed $10.2 million dollars after three years. Francisco Sandoval commented:

"The problem we have today is a matter of strategy. What do we do? First, how do we reach our pageview goal? We set a target of 80 million pageviews, so, how do we get to there considering that we have 12 million pageviews per month and 5.5 million diverse people. We said, if we reached 80 million pageviews and 40 million diverse people, at 10 cents per pageview, although that's a bit naive as you could never sell your entire inventory would, give an idea of the magnitude of the strategy."

In 2009 Leo and Francisco contacted Endeavor, a global organization for entrepreneurs with a very active affiliate in Chile, in search of guidance and financial assistance.
The Business

Products and Services

The business of Betazeta consisted of administering the creation and maintenance of online portals segmented thematically and identified by a distinctive brand (see Table 3). In Latin America some of their websites were recognized as leaders in their respective areas.

Each site functioned similarly to a professional blog and was created by Betazeta’s team of editors. One exception to this was Zimio; it was a classified ad portal where all content was organized around a specific topic of interest. As a result of editorial work, about 40 daily articles were published on Betazeta websites, with an average user return rate of 60%.

Betazeta’s revenue came from the provision of advertising services, mainly composed of:

- **Standard Online Marketing (62% of sales):** the company sold online advertising to its corporate clients for prices ranging from U.S. $10. to $60. per 1,000 pageviews.
- **Premium Services (24% of sales):** taking advantage of Leo’s reputation in Chile and South America, Betazeta offered marketing consultancy services via the Internet to large multinational companies. The service began with an initial offering from Leo, worth U.S. $20,000, which was followed by a longer duration consulting project, usually charging between $50,000 and $200,000 a year. However, Leo and Francisco considered this to be a source of income only for the initial stage of business and needed to be discontinued or separated from the core business. Certainly, they thought that growing knowledge about the Internet, among major Latin American companies, would help create a favorable environment for Betazeta. Additionally, many of these clients ended up buying advertising on Betazeta sites.
- **Content Syndication (14% of sales):** a service that licensed content to other websites, such as the Chilean retail giant 'Paris'. Although this service was not part Betazeta’s core business, it was a cost-free source of income that promoted brand awareness.
- **Sponsorship (recently released):** for six month periods, Betazeta offered 100% of advertising inventory to specific sites, at a price of U.S. $10,000 per month. At the end of the period, the company could choose to maintain their sponsorship, at the same monthly cost but with only 50% of the inventory. This service had just been launched and would apply primarily to new sites.
Betazeta’s biggest innovation came in mid-2010 when they opened their communities to User Generated Content (UGC). Betazeta’s business plan assessed that 90% of the content of their communities came from contributions from its users, and that only 10% was generated by company editors.

Leo and Francisco saw this as a major change by industry standards which habitually allowed comments and contributions on dispersed sites, but didn’t give Internet users the access to integrated areas with high-quality graphics and technology, with quality for the reader.

This strategy would achieve two objectives: increase traffic and generate greater diversity and quality content on Betazeta sites. All sites would be supported by a software algorithm which would publish only the best contributions and allow the identification of potential editors among the user base and incorporate them into the Betazeta team. Francisco Sandoval commented:

"We wanted simplicity; we wanted people to interact with content. It’s not of interest to us any more. For starters, YouTube, Facebook, and Twitter, use UGC. Leo and I wondered why people use Facebook. To put up a picture that shows how your hair has grown! We’ll create a Facebook page, but with content, where people will share their thoughts. If we give them relevant platforms, on good brands, that people identify with and believe that their views will be heard, and solve the technical problem of how to encourage people to participate, it should work."

The transition to the UGC was a challenge considering the maintenance required on high-quality content blogs. Opening UGC blogs could jeopardize the quality of vertical communities, particularly without immediate reaction to protect brands that were so very carefully built.

Leo and Francisco were developing a series of software advances, measures that would prevent publication of articles deemed irrelevant, and a monitoring system with a user ID, to monitor history.

**Future Revenue for Betazeta**

While revenue came mostly from Betazeta advertising on their websites, the company had near-future plans to implement an innovative suite of paid services, built around their blogs and Zimio site classified ads, which were projected to represent between 60 and 70% of revenue.

Thus, depending on resource availability, they expected to launch Zimio Pro, Sub Zimio and Zimio Ad Network (ZAN) sites the following year.

Leo and Francisco were developing a new pricing platform called singular Zimio-Pro, which allowed individuals to post as many classified ads as they wanted for an annual payment of U.S. $50. With respect to Zimio-Pro, Leo pointed out:
"We hope to attract a greater volume of more attractive ads thus encouraging user loyalty at low risk. In paid online classified ads industry, there are two models. The one used by newspapers that charge publication fees are usually priced per word or space; while brief and cryptic, good for the person paying, but the reading doesn’t understand a thing. The other system is a fee per transaction where the buyer or seller pays a percentage of the value once the transaction is executed (as on eBay and MercadoLibre). The problem here is how to avoid fraud."

Sub Zimio would be priced at U.S. $50. per month, clients could create their own "virtual store" within Zimio. For example, a university might create a transactional space where students and teachers could buy and sell goods. The platform would be user friendly so that individuals could set up shop with only a few clicks.

Once Zimio Pro and Sub Zimio were operational, Betazeta would develop Zimio Ad Network (ZAN), a platform to publish Zimio ads on its other sites. This platform would be built on the basis of contextual advertising technology: users would buy keywords and for the price of 100 pageviews, or a period of 3 days, the ad would be issued each time a relevant discussion topic appeared in a Betazeta community. For example, a person who wanted to sell an iPhone could post an ad on Zimio and buy the keyword iPhone. Every time this topic appeared on FayerWayer, it would connect to an ad to be posted to the Zimio classified ad. This service would be available for both individuals and for corporate clients who wanted to promote a specific product. Once this technology was developed, Betazeta could offer contextual advertising on all its sites.

Business Model

Betazeta was in the business of utilizing the Internet, primarily in the business of online advertising in any form of promotion that used the Internet in order to deliver marketing messages to gain clients by connecting buyers and sellers, around targeted communities. Forms of online advertising include, among others, banners, contextual ads, social network ads, email marketing, and online classifieds.

Betazeta’s development strategy had four stages:

Creating a Community: Betazeta’s team created online communities around topics of interest to its users. Surveys were sent to users to determine what issues could have the greatest potential for traffic generation. Once the topic was determined, a team of web developers and graphic designers worked together to build an attractive and friendly design. Developing a new site took between 30 days and six months. Francisco Sandoval commented:

“What are the niches, and where do we fit? Soccer, show-business entertainment... In the case of soccer, there are throngs of fanatical fans; we touch the issues that touch the passion. There’s a coach in Brazil who has 600,000 followers on Twitter. There’s a site in Chile called Charla Técnica (Tech Talk) with 600 comments on one post. That is something big. Reaching that level in the Latin America without
copying and pasting news from EFE, but with passion and strength, I have no doubt." He added: "Another possibility that was raised at Endeavor. An investor told us, 'You have to have millions of sites', but we don’t agree: many sites would dilute the brands."

Leo Prieto gave his opinion on the last point:

"Today, we have 9 communities. For people interested in writing, we have to have strong brands. It makes you want to write for the Wall Street Journal, but you don’t feel like writing in a place that nobody’s aware of. Our brands have been developed, they’re recognized, we must take care of them."

Content Development: A team of 45 editors worked hard to ensure that Betazeta communities had the best and most updated content available on a given topic. The majority lived in Chile, although 15 worked from other markets, where Betazeta users were. An additional 20 individuals collaborated sporadically. It was around this content that users gathered looking for a source of entertainment and/or information. The company planned to allow its users to generate content on their sites which posed a major challenge in terms of content quality. To avoid diminishing quality, the company had created a unique identification system (Beta ID) that allowed the identification of quality content users and thus permit them to write on those sites.

Advertising and Sale of Paid Services: Once steps one and two generated an attractive amount of visits and pageviews, Betazeta was able to profit from this traffic by providing a wide range of advertising services to both corporate clients (source of current income), for individual users, and for small to medium sized enterprises (future source of income). The company employed a small sales team that worked directly with corporate clients, rather than using a media agency (usual in the industry), which meant higher profit margins and payment terms of 30 days compared with the industry standard of 90 days. Leo Prieto commented:

"We have an audience of 5.5 million people and we haven’t spent one peso on marketing. We’ve never done any traditional advertising and have an audience that any media company would kill for."

New Product Development: The new products team at Betazeta consisted of six programmers developing technology platforms within the company, similar to Google Adwords, to enhance Zimio, Sub Zimio and ZAN services. Once these platforms were developed, most sales would be automated through the Betazeta website. This team of engineers would be responsible for the technology platform maintenance, the creation of new services, and applications that would generate additional revenue.
All services provided by Betazeta functioned as catalysts for subsequent development on vertical communities. The services offered by Zimio and its applications would increase the number of interested users within Betazeta communities, and the number of visits, as these users would have a growing interest in visiting various communities to check the status of displayed ads.

Betazeta would develop all other paid services following the same framework, with added value provided to its vertical communities, as the primary focus. Additionally, the access to advertising and highly relevant services in vertical communities would be most attractive for users of the sites, encouraging a higher number and frequency of visits and, ultimately attracting more advertisers. In this regard, Leo Prieto said:

"We generate 4 to 5 times the level of participation generated by the competition. On average we generate 50 comments per article and our competitors have an average of 10 to 15. Why? ...because we have 25 years of combined experience creating websites for a number of large clients such as LAN, ENTEL PCS and Banco BCI. We know how to make sites that people want to use with easily understood interfaces that encourage participation. We are constantly experimenting with important issues; when something doesn’t work, we try something else; we work with it until we find the correct way."

The Market

Trends in Blogging

The development of blogging began in the '90s as a way to generate political views in the print media or for individuals who wanted to develop virtual newspapers. It eventually became the dominant form of information sharing in the world, with a sharp increase over the last five years. Although estimates on the volumes of blogging differ greatly, and there are no hard numbers, sources such as Wired and The Economist estimated that the number of blogs in the world have been growing from 130 to 180% annually, and continued to increase.

The amount and relevance of information created by bloggers and other contributors with user generated content had led to Time Magazine selecting “You” as Person of the Year for 2006.

The Global Internet Advertising Market

Online advertising was growing rapidly in the world, having surpassed radio advertising revenue in 2008, according to a study by PricewaterhouseCoopers, "Global Entertainment and Media Outlook 2008-2012“. The same source suggested that the worldwide market for online advertising would grow at an annual rate of 19.5% from 2008 to 2012, increasing $64 billion to $120 billion. At the same time, PricewaterhouseCoopers projected that the future of advertising was segmental, with buyers and sellers gathering around niche markets highly segmented by audience...
interest. The classified advertising sector appeared to be particularly sensitive to this trend.

Geographically, Betazeta had defined its target market as advertising via the Internet and blogging worldwide in the Spanish and Portuguese communities, with a focus on Latin America, but including Portugal and Spain, with 45 million people forming a strong and growing force with a rising Hispanic population in the U.S.

Latin America was a potentially profitable, considerable, and unexplored target market with more than 160 million Internet users, with a user growth rate of 660% since 2002 (the second largest growth rate in the world); including the power to purchase, and literacy rates higher than Asia or Africa.

Between 2008 and 2012, Latin American online advertising was expected to show a CAGR of 26% (the highest worldwide), an increase of the total value of U.S. $581 million to $1.4 billion. Brazil accounted for 71% of the total online advertising investment in the region.

The Clients

Betazeta clients fell into three categories: individual users, corporate clients and small companies.

Individual users were Betazeta’s main clients; those who visited their websites for their content. This group did not produce direct revenue for the company, but it was the critical mass necessary for company success. Betazeta had 5.5 million users and over 12 million monthly pageviews. Through investment in new communities, editorial strategies, and user generated content, Betazeta expected to reach 80 million pageviews in late 2010. This growth would come mainly from a strong boost to the Brazilian market, where FayerWayer was already established and growing rapidly. But, as Betazeta was also developing classified ad services, many of these users could become future clients. They were mostly young (84% between 18 and 34 years old), highly qualified (65% higher education graduates) and very familiar with e-commerce (56% regularly bought products online), so representing a very attractive market for new paid services (for current and future geographic distribution of Betazeta’s individual users, see Table 4).

Betazeta’s client advertising services also included medium and large enterprises as well as multinational and national, or regional companies. These corporate clients represented 100% of Betazeta’s income (for a list of major corporate clients and their share of Betazeta’s total sales, see Table 5). However, as Betazeta developed Zimio and contextual ad services, an important part of their clients would be small to medium enterprises. Ideally, some of these new clients would come from individual users and/or user growth. Within the next two or three years, Betazeta estimated this would represent between 60 and 70% of their income.
The Competition

Betazeta was at the forefront of Internet trends in Latin America and had an exceptional capacity for growth. However, competition in the market in which it participated was intense and there were no significant entry barriers to protect the business, in the case of an independent company such as Betazeta, beyond the creation of a captive audience, faster than its competitors. Therefore, Betazeta had to quickly grow to secure his position vis-à-vis. competitors.

Direct Competitors

Betazeta’s most direct competition consisted of independent online media communities, i.e., all "vertical communities", blogs, forums or other forms of independent Internet communities that bring people together around a topic of interest to inform or entertain. In the region, its main competitors were Weblog SL and Hipertextual.

Weblog SL was a network of blogs in Spanish, created in late 2005, with 9 million users and 41 million pageviews. It was the most read independent media in Spanish, with a strong core of users in Spain, a common user ID, and a diverse range of topics on their blogs. However, Weblog did not have a strong presence in Latin America; the interfaces were generic and relatively slow. There was a lack of focus as it had over 38 blogs and did not permit much user participation.

Hipertextual was a Mexican independent media community, created in 2002, with over 4 million users. It was the third largest network of independent Spanish language media. With a strong presence in Mexico, none of its brands had achieved the recognition of FayerWayer or CHW (the most read blog with only 3 million pageviews as compared to Betazeta’s 12 million). Additionally, Hipertextual continued to multiply their blogs ad-hoc (and had 18 communities) and were not considered to have strong brands.

Betazeta’s direct competitors were the companies that published online classified ads via the Internet. The market consisted of a few strong international competitors and a lot of local companies in each national market.

National competitors included all classified advertising targeted at a specific national market, such as regional newspapers and national online classified services such as El Mercurio, and specialized classified services such as Vivastreet.cl. Local newspapers generally benefited from strong brand recognition, but lacked thematic focus, while other online classified services were the focus and dominated the Internet, but lacked the necessary national and international perspective to achieve critical mass and make their services attractive to other clients. Leo Prieto commented on those competitors in Latin America:

"The model for buying and selling classifieds has its limitations: newspapers that have been business owners are still living in the paper editions, they charge per letter, hence a cryptically brief ad, all the better for whomever is paying, but the buyer
who’s reading, doesn’t understand a thing, never really sure of what they’re buying. With the publication of these same ads on the Internet, communication began to improve. But the Internet doesn’t share the same DNA as newspapers, it’s going to cost them a lot; they’ll buy four businesses before being able to achieve it."

On that matter, Francisco Sandoval added: "In fact, El Mercurio has tried to buy us to protect their business."

One brand that had created a strong position was Craigslist, an independent community of online classifieds, with property 'postings', jobs, movies, etc., had more than 50 million users and 20 billion monthly pageviews, with 90% of traffic generated in the United States. Speaking of Craigslist, Leo said:

"This brand is the closest to what we want to do at Zimio. Craigslist is incredibly popular and is killing the newspaper classified business. If you want to place a property ad in New York, Chicago or San Francisco, it costs U.S. $25. That allows volume to be accepted everywhere and with an extremely high demand. But the CEO of Craigslist, Jim Buckmaster, said that it is governed by what he calls "nerd values." He has an office staff of 12 and has had the same design since 1999. He has not added any functionality: you cannot sort by price; you cannot find what you’re looking for fast... the guy doesn’t want to improve. He’s rejected multiple investors’ offers to raise capital. He says it works and doesn’t want to upgrade. Therefore, he’s given us the opportunity to do better. If Craigslist worked in Latin America, we’d have to forget Zimio, but we’ll adapt, improve, and integrate with Facebook, YouTube, and Twitter."

On the other hand, there are outstanding international competitors, the most popular being eBay and MercadoLibre (or DeRemate in Chile and Colombia), who have revolutionized the way people buy and sell things.

The biggest online marketplace in the world, in 2007, was eBay with 84 million users and more than U.S. $60 billion market share. It had a strong presence in the U.S. and since 2001 its Latin American operations were carried out through DeRemate or MercadoLibre. Additionally, it had 25% ownership of Craigslist.

MercadoLibre (or DeRemate in Chile and Colombia) was the market leader in online classifieds in Latin America with strong regional brand recognition and more than 10 years of experience. By 2008 they had more than 33.7 million registered users and more than 21.1 million items sold. However, their websites were not user friendly and the pricing model (percentage of sales executed) required constant communication between users to prevent fraud. Leo Prieto commented on these competitors:

"Something similar will happen to these companies that happened to the online classified ad companies. Take DeRemate for example, these people solved the problem relatively well because they knew technology and put together a platform that worked very well. But they assumed that people wanted to sell everything, and over time realized that people didn’t want to wait three weeks to buy a cell that was available today so they invented a ‘buy now’ button. They had to change their model
and are slowly becoming a classifieds site, but the new business is based on intervention and commission. You are obligated to buy; if I want to buy a Jaguar from you, I have to go through the website, send the request and then remember to follow up in the afternoon to see if there’s a reply. The client doesn’t want that, they want to contact the Jaguar seller now. Classifieds sites are complicated because they use this model and will always require intervention. We can forget about them."

Other direct competitors for Betazeta were traditional online national and regional media companies, using the Internet to distribute information and entertainment to their readers. These competitors had a great captive audience and represented the bulk of online advertising in Latin America. Nationally, it included TV channels, newspapers, etc.; they had online versions of their content. Although these competitors had large and loyal audiences, they had little expertise in running their online Internet marketing business.

Despite being independently operated in Chile, in just over a year Betazeta had established itself as the third largest online media, after EL Mercurio y Terra. Regionally, the major competitors were Terra and UOL, with 15 and 60 million visitors, respectively. How is it these companies did not require user identification and had no rate of return records yet recorded only site visits? In 2007, Terra reported a net income of U.S. $500 million, and UOL $109 million.

And finally, internationally it was the search company competition like Google and Yahoo that captured a growing share of online investment advertising and will probably remain as the major players in the online business into the future. However, these companies had a limited regional focus and did not cultivate user loyalty.

*Indirect Competitors*

Since early 2000, conventional advertising channels had begun to lose ground in relation to advertising via the Internet; this trend was expected to continue. It was hoped that ubiquity and the capacity to segment the Internet would continue tipping the balance toward online advertising.

However, the traditional media (television, radio, billboards, print, etc.) were still significant competitors for Betazeta on a regional level. As Latin America had adopted online advertising on a much smaller scale than other regions, these companies were still unaware of how to best use this new tool. Leo Prieto commented:

"Interestingly, we have a very clear, well aligned goal, one that is well-defined that is both financed and profitable; we also have another dream behind all that. It’s because we realized we had something that was working, something with relative success that had great potential — something we could do from Chile. And on top of that, we realized that if we did this we could change the way media works: radio, TV, and the press. We are convinced that all media have died. TV died, radio died, when you look at the signs, you wonder... why is LUN the most read newspaper in Chile? ...because it's all about celebrity, because that's what everybody sees on television."
Everyone sees it on TV because there are only seven channels with very limited offerings; they have to attract the masses because they can’t be specific, talking about subjects we all share: sex, action and comedy; the foundation that all humans share. Therefore, TV has to offer lower level content, to generate volume, for their business that doesn’t allow for specificity or niches. Then, they did that and everybody said, if LUN wanted to grab the traffic all they had to do was use a picture of Platoon the following day and immediately capture everyone’s attention — those who were watching Platoon — they would buy the newspaper the next morning. The media are caught in a problem that the can’t escape from. The Internet doesn’t have that problem, conversely, the way we compete with them, is our greatest advantage, we can be specific: to have interesting definable niches. They are fighting over that piece there and we have all the rest to ourselves.”

**Expansion Problems**

**Time Management**

Nevertheless, despite their accomplishments, the company faced multiple problems, typical of rapid growth, which related to the partner’s time management and other organizational difficulties. Leo and Francisco had a bad feeling that time had taken advantage of them; ‘they had a chaotic house’. They also felt pressure from situations that they faced in terms of company management. Francisco Sandoval commented:

“I have to put out 'fires' everyday. For example, last week hackers hacked into FayerWayer when we were working on the soccer development project and we had to stop everything to resolve the problem. So at any moment: nothing but fires to put out. ”

With this in mind, Leo and Francisco had discussions on pending projects which were noncompliant and overdue. Distractions also worried them. Leo Prieto commented:

"We can easily dream. We went to lunch and came back in the car talking about the radio... we talked about PC’s that fit into the space for the car radio; with display,... we could have 3G car radios with GP and web browsing, for less than U.S.$500. In other words, we realized that we are able to reinvent the radio. That is an extreme case, but it happens all the time, we’re distracted. "

**Organizational Development**

Another significant problem due to rapid growth at Betazeta was recruiting and contracting key people; imperative to future business development. Although Leo and Francisco had the resources to hire, time pressures delayed decision-making. Regarding that, Leo Prieto said:

"There is a phrase we both love: 'Be slow to hire, be quick to fire. ’ We follow that. We have heard it in the U.S., at the Endeavor conference, and other conferences
from individuals in large organizations that said: ‘In the beginning I dedicated a third of my life contracting because it’s so crucial to the foundation that will later attract people.’ The team is growing fast: a year ago we had 3 people, a month ago 10, today 13. I have a lot of email from people who already interviewed and are asking for the results. I tell them: ‘forgive me, last week we had a massive security crisis and had to stop everything’, and on top of that, two guys had to work Saturday and Sunday, we gave them three days holiday; we ended up having a week without two of our key engineers for three days."

Francisco Sandoval added:

"As well, we had to do something else. We had to invent a ‘stock option’ mechanism. We had to be very careful as it was legally binding but we had to do it in order to attract good people, given the low salaries. We’re always faced with challenges of this type."

In the following, Leo Prieto summarizes another problem related to the organization:

"We have 13 people sitting in an office with a total of 58 people around the world, working as freelance writers from home or wherever. The problem we have is that we provide this gigantic showcase, for example, FayerWayer, is read by 2 million people. They start as tech-savvy types who can write, and end up as leaders giving opinions on technology. Over time they’re invited to speak in Miami and create their own network of contacts; they assemble the competition. It’s already happened with two people that we gave the entire showcase to, the whole platform. They became leaders and after a while began working poorly, creating conflicts within the company. We ended it by telling them: ‘thank you very much; we cannot continue working like this. Less than a month passed and they had a site with all the contacts that were made within our company, with all the know-how. Thanks to the Internet, this is allowed; people can create their own sites.”

Francisco Sandoval supported it with this comment:

"For that, we have UGC. We said; let’s open up a question so that everyone will have the possibility of becoming “Zero Zen” (one of the editors made this famous on FayerWayer). In addition, we created a mechanism which will give points to users: those who write today on the main site get a thousand points and if, for example, one of those people lowers their score, and another who begins writing after the launch of UGC reaches the points necessary to become an editor on FayerWayer, we’re going to give them that chance. With that, we run a contest to create high-quality content on our homepage and we’ll allow anyone in the world to write on our site. From all angles, we geo-locate content, specifically, the person in Cancun will have the ability to say how it’s going with his IPhone in Cancun and the lady in Recoleta will have the power to say how it’s working for her. With this strategy, we will expand the amount of content, users, and viewers. And we’re doing it purely to increase volume and mitigate the problem Leo commented on earlier.”
The Vision of the Entrepreneurs

Betazeta had clear objectives and a clear strategic map of how to accomplish them. However, the company needed capital to develop technology platforms that would transform Zimio and to offer innovative ways of advertising, and paid services. Having the operations based in Chile and raising capital were the biggest challenges for the company. Francisco Sandoval commented:

"When Olav Carlsen arrived, he put something on the table that we hadn’t thought of, he said, ‘We’re going to build this business and then sell it.’ Olav lived in Silicon Valley and got bored. He came to Chile and we met through a group of angel investors; he said, these guys have something... he joined our team and worked for about 6 months as we defined the relationship. Olav told us 'I believe in you' and invested capital in the company, U.S. $ 50,000, very little. I don’t know if it’s only a story or if it’s true, but he has always said he wants to keep a small margin, not to push with money. With the strategy we have been working on, that is, the Latin American vision, leaving Chile. That’s the first thing that stuck in our heads. We don’t want to be the next Agustín Edwards of the Internet media, we believe that with this we are revolutionizing the way people produce and consume content in the world. If this works, we will generate a change that will affect traditional media. So we said: Who can exploit this change? It has to be an American or European who comes to Latin America, saying 'I need critical mass in Latin America to implement this change and we want to be a candidate to purchase. So we are building this to get to a point where we have a product that we can go and sell in Europe or the USA, to a media investor who wants to buy traffic in Latin America. In Latin America, there’s a very special situation in that there isn’t any independent regional media. El Mercurio, El Tiempo and Clarín, have power in each country, but only locally. Regionally, there’s only Terra (part of Telefonica), that’s worth many millions of dollars, so buying it would be costly; UOL, a company in Brazil with a portion in Latin America, and Time Warner’s America Online. So we said, if we have critical mass in Latin America, and we increase the number of people moving around this, we have a tremendous opportunity to sell to Time Warner, Europapress or any media conglomerate that could take advantage of this audience; with the backing and the capital."

Leo Prieto added:

"Then we realized, to be a good candidate for a buy-out we needed a wider variety of topics and a more diverse audience in Latin America. Being number one in technology is fine but we also needed to address a few feminine topics, some sports and other subjects; perhaps the guy who you want to do the buy-out is not only interested in technology, and has the ability to make them grow. We need a widely mixed audience. Besides, the interesting thing is that Latin America shares Spanish. If we solve the problem of being the first truly regional media, for example, Terra Chile doesn’t share with Terra Argentina, who doesn’t share with Terra Brazil; we will have something of value. Once we understood this and saw that our sites were ok, in March of last year we contacted U.S. investment banks to explore opportunities. We wanted to understand what the goal was; where we wanted to go. Then, we met with investment bankers in Silicon Valley and New York, who gave us cases on previous..."
business operations, matters that investors were looking for, what they would be interested in, what the figures were that companies were looking for: if there were sales, profitability, if there’s an audience."

Francisco Sandoval commented on the above:

"They send us semiannual reports with information on companies being sold, reporting on the status, including particular features. We’re making the adjustments required to be a potential acquisition ‘target’.”

In this regard, Leo Prieto said:

"We have three possibilities. The first one is that we are doing incredibly well and want to become independent from here forward, which is obviously very difficult, we’re doing it although the competition is growing as we expand; that’s very hard. The second possibility is to partner with a company, not sell, but have another company purchase a portion of what we are doing. The third possibility is to be absorbed and sell the company entirely.”
### About Us

Our team, and who we are.

### Who we are

We are a network of communities where people gather around their entertainment and information interests.

### Who we are NOT

We are not an ad-Network, a network of blogs, a new fizzy sugar-free drink, a "portal", an online magazine... and, we are definitely not traditional media trying to play the Internet.

### The Team

We are a group of people deeply passionate and highly experienced in what we do. We live and breathe the Internet and together we build communication of and for the future. What is our difference? Being one hundred percent digital. We enthusiastically work on things everyday that we firmly believe changes the way in which we all encounter and interrelate with thousands of people around the world through a network.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Francisco Sandoval</td>
<td>Product Director, Top Cat</td>
</tr>
<tr>
<td>Leo Prieto</td>
<td>General Manager, His Holiness</td>
</tr>
<tr>
<td>Juan Francisco Diez</td>
<td>Director CHW, Assistant Director Operations</td>
</tr>
<tr>
<td>Felipe Figueroa</td>
<td>Communications and Content, BBQ</td>
</tr>
</tbody>
</table>

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Table 1: Organizational Chart: from “Nosotros” (About Us) on www.betazeta.com
<table>
<thead>
<tr>
<th>Name of Shareholder</th>
<th>% Ownership</th>
<th>Position in the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leo Prieto</td>
<td>42.5</td>
<td>Founder &amp; General Manager</td>
</tr>
<tr>
<td>Francisco Sandoval*</td>
<td>31.5</td>
<td>Founder &amp; Product Director</td>
</tr>
<tr>
<td>Felipe Figueroa</td>
<td>8.5</td>
<td>Shareholder (ex shareholder CHW)</td>
</tr>
<tr>
<td>Juan Francisco Diez</td>
<td>8.1</td>
<td>Content Chief</td>
</tr>
<tr>
<td>Olav Carlsen</td>
<td>5.4</td>
<td>CFO &amp; Strategic Advisor</td>
</tr>
<tr>
<td>Luis Felipe Castillo</td>
<td>1.0</td>
<td>Shareholder</td>
</tr>
<tr>
<td>Felipe Encinas</td>
<td>1.0</td>
<td>Shareholder (ex shareholder CHW)</td>
</tr>
</tbody>
</table>

* Francisco’s shares belong to I2b Technologies S.A. where he owns a 20% stake, the rest belong to his family.
<table>
<thead>
<tr>
<th>Sites Administered by Betazeta</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technological site in Portuguese</strong></td>
</tr>
<tr>
<td><strong>Technological site in Spanish</strong></td>
</tr>
<tr>
<td><strong>Computer Hardware</strong></td>
</tr>
<tr>
<td><strong>Mobile Telephones</strong></td>
</tr>
<tr>
<td><strong>Video Game Community</strong></td>
</tr>
<tr>
<td><strong>Classified Advertisement</strong></td>
</tr>
<tr>
<td><strong>Sustainable Lifestyle</strong></td>
</tr>
<tr>
<td><strong>Leisure and Culture</strong></td>
</tr>
<tr>
<td><strong>Feminine World</strong></td>
</tr>
</tbody>
</table>
Table 4 Geographical Distribution — Betazeta’s Individual Users

Hoy
12 millones de pageviews

España 15%
México 12%
EE.UU. 2%
Chile 34%
Argentina 12%
Colombia 6%
Perú 5%
Venezuela 4%
Otros 10%

Mañana
80 millones de pageviews

España 19%
México 14%
EE.UU. 13%
Chile 9%
Argentina 7%
Colombia 4%
Perú 2%
Venezuela 4%
Brazil 28%
<table>
<thead>
<tr>
<th>Client</th>
<th>Industry</th>
<th>Type of Service</th>
<th>% Total Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENTEL PCS</td>
<td>Telecommunications</td>
<td>Standard Advertising, Premium Services</td>
<td>22.6</td>
</tr>
<tr>
<td>Almacenes París</td>
<td>Retail</td>
<td>Content Syndication</td>
<td>13.9</td>
</tr>
<tr>
<td>VTR</td>
<td>Media y Communication</td>
<td>Standard Advertising</td>
<td>7.3</td>
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<tr>
<td>GM</td>
<td>Automotive</td>
<td>Standard Advertising, Premium Services</td>
<td>6.1</td>
</tr>
<tr>
<td>Intel</td>
<td>Technology</td>
<td>Standard Advertising</td>
<td>4.2</td>
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<tr>
<td>Samsung</td>
<td>Technology</td>
<td>Standard Advertising</td>
<td>3.5</td>
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<tr>
<td>Sony</td>
<td>Technology &amp; Entertainment</td>
<td>Standard Advertising</td>
<td>2.7</td>
</tr>
<tr>
<td>Unilever</td>
<td>Consumer Products</td>
<td>Standard Advertising</td>
<td>2.6</td>
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<tr>
<td>Telefónica</td>
<td>Telecommunications</td>
<td>Premium Services</td>
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<tr>
<td>Movistar</td>
<td>Telecommunications</td>
<td>Standard Advertising</td>
<td>1.3</td>
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<tr>
<td>Coca Cola</td>
<td>Beverage Industry</td>
<td>Standard Advertising</td>
<td>0.6</td>
</tr>
<tr>
<td>Microsoft</td>
<td>Technology</td>
<td>Standard Advertising</td>
<td>0.5</td>
</tr>
<tr>
<td>Others</td>
<td>Diverse Industries</td>
<td>All types of services</td>
<td>32.2</td>
</tr>
</tbody>
</table>