

Case Prospectus

LYCOS

Background: This case describes the Internet search and portal company, Lycos, as of June 1999. At that time, the NASDAQ stood at 2,686 having risen from 1,185 (an increase of 126%) just two years prior. Internet companies with no earnings and little operating history commanded large market valuations, as investors seemed to have an insatiable appetite for technology stocks. Lycos, which began operations in June of 1995, had an established brand name among Internet users but was clearly facing many interesting business challenges. Lycos was operating in an industry with a short history and an unpredictable future. In such situations, the extent to which prior experience can be relied upon to provide useful benchmarks for assessing performance and forming expectations for operating and financial results is, at best, unclear. Systems thinking, however, can be extremely useful in such a situation. The Lycos Case, therefore, is a good vehicle for exploring the usefulness of strategic-systems thinking in the context of auditing and financial analysis. (Note that the analyst community was split at this time between those that claimed, *the world has changed* and those who argued that economic fundamentals still mattered and thus, might be labeled *the don't get technology types*. Ironically, with the benefit of hindsight it now is apparent that *the world has changed* analysts very well may have been wrong, but according to news reports were richly rewarded nonetheless.)

Case learning objectives:

This case will help students to understand the following:

1. The Lycos business model;
2. Lycos' ability to protect its revenue streams;
3. The nature and extent of the competitive threats to Lycos posed by larger Internet competitors and traditional media companies;
4. The influence of market volatility related to technology on Lycos' ability to acquire the requisite content, financial, and technology resources;
5. Complexities related to accounting for revenues;
6. The stresses on Lycos' financial reporting system and how these stresses might feedback into the rest of the company's operations; and
7. How one can employ *systems thinking* in an environment of rapid change to form valid expectations about operating results and ultimately, financial-statement assertions.

Level of use: This case is suitable for undergraduate and graduate auditing courses. The case also may be used in undergraduate or graduate (MBA) strategy courses to highlight the role of strategic alliances in management practices. And, the case may be used in undergraduate or MBA courses that focus on business valuation or financial-statement analysis.

Time to complete: The case can be used in either one or two 90-minute classes, depending upon the background of the students and the instructor's goals (i.e., how comprehensively the instructor plans to be with respect to the six learning objectives above. The two-class approach is most appropriate for students with limited prior exposure to strategic-systems auditing (SSA) as it allows for greater in-class discussion of SSA fundamentals.