

Pew Internet Tracking Report

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**Risky Business:**  
*Americans see greed, cluelessness*  
*behind dot-coms' comeuppance*

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**Major Findings**

In the midst of dropping share prices, layoffs, and closings among Internet companies, most Americans attribute dot-com difficulties to overeager investors looking for quick payoffs and to the poor business plans of dot-com entrepreneurs. According to a Pew Internet & American Life Project poll conducted in February, 67% of the Americans who have heard about dot-coms' financial troubles subscribe to an "irrational exuberance" view of the cause of dot-coms' troubles, namely that Internet companies are struggling because investors' desire to turn quick profits led to too many business risks. A solid majority (56%) of those who have heard about Internet firms' problems say that Internet companies lacked clear plans for attaining profitability and that this is a major reason behind their recent financial problems. Some 39% blame the youth and inexperience of some of the Internet firms' executives.

Causes of "dot-com" shakeout			
<i>The percent of Americans aware of the troubles with Internet firms who say the cause of the dotcom turnaround was...</i>			
	<i>A major reason</i>	<i>A minor reason</i>	<i>Not a reason</i>
Risk-taking investors looking for the fast money	67%	21%	5%
Poor business plans	56%	27%	9%
Youthful and inexperienced management	39%	38%	15%

*Source: Pew Internet & American Life Project, Feb. 2001 survey. Margin of error is ± 3 points.*

With dot-com layoffs totaling nearly 35,000 workers since December and 66,000 in the past 15 months, most Americans (67%) are aware of the reversal of fortune among Internet companies. *About 57 million Americans, or 30% of all American adults, have followed these developments very closely, with 43% of Internet users deeply engaged with stories of dot-com woes.*

Although many people are following dot-com developments, Americans seem cool-headed about the shakeout's overall impact on the economy and the Internet itself. *Only one-quarter (26%) of Americans who have heard about online business troubles think that the dot-com slowdown will have a major impact on the economy.*

*As for Internet content, about three-fifths (57%) of the Americans who have heard about dot-com troubles agree with the proposition that closing down some Web sites is a good thing because the Internet had too many sites with too little to offer. This is twice the number (28%) who believe that the loss of these Web sites is bad because it would lessen the amount of choice available on the Web.*

Nonetheless, approximately 31 million Americans say they have been affected directly or indirectly by the dot-com downturn. Some 9% of Americans say they know someone who is victim of a dot-com layoff; 7% of Americans say their family has lost money in a dot-com investment; and 8% of Internet users say one of their favorite Web sites has vanished because of the financial trouble at Internet firms.

### **The Internet Elite are Most Likely to be “Dot-Glums”**

Not surprisingly, the Internet elite—the 20% of the most highly wired Internet users who have been on the 'Net the longest and who log on daily—have felt the dot-com tumble the most. A sizable minority of this elite, call them the “dot-glums,” have lost money on a dot-com investment, know someone who has been laid off from an Internet company, or have seen a Website they like shut down. In fact, the dot-glums make up 38% of the Internet's elite users, or about 8 million Americans. Nearly one-quarter (24%) of dot-glums know someone who has lost a job at an Internet company, 14% either lost money on an Internet investment or have a family member who did, and 15% are missing a Website that no longer exists.

Who are the dot-glums? They are mostly male (69%), well-off (26% have household incomes over \$100,000 compared with 7% of the overall population), and well educated (51% have college degrees). And if this group is commiserating over the Internet with fellow travelers who have suffered from the dot-com downturn, they are doing so at high speed. Fully one-third (33%) of the dot-glums have broadband Internet connections at home compared with 12% of all Internet users.

### **Different Generational Perspectives**

The popular perception is that the young are leading the Internet revolution, so it is no shock that young people see the sagging fortunes of Internet companies differently from their elders. In general, Americans do not see the inexperience of Internet entrepreneurs as a principal reason for the current downturn. When asked whether the youth and inexperience of the management of Internet companies is a major reason for their financial problems, 39% of all Americans agree with that, but an equal number (38%) say it is a minor reason. However, older Americans are much more likely than young Americans to blame young entrepreneurs for dot-com troubles. Fully 44% of those over age 50 say the youth of these companies' leaders is a major problem, compared to 34% of those between ages 18-29 who say so.

The difference is more striking in those who thought inexperience is a minor factor. Nearly half (46%) of those between ages 18 and 29 say youth and inexperience are minor factors in the financial problems of Internet companies, while only about one-quarter (26%) of those over age 50 agree it is a minor problem.

A similar generational division exists when people are asked whether Internet investors took too many risks in their eagerness to make money. Most Americans (67%) agree that this is a major reason behind dot-coms financial woes. But Americans between age 18 and 29 are less likely to blame greed than their elders are. Fully 78% of those between 50 and 64 say investors' risky behavior is a major cause of the downturn, while 58% of Americans between 18 and 29 feel this way.

Some 21% of Americans think investors' risky behavior is only a minor factor in dot-coms' fading fortunes. Young Americans are much more likely to say this than older Americans. One-third (34%) of those in the 18-29 age group say investors' risky behavior

has been a minor problem for dot-coms, while only 11% those between ages 50 and 64 are willing to downplay that issue and call it a minor factor.

The generational divide extends to people's perceptions about the business plans of dot-coms, although it is less pronounced. About half (49%) of Americans between 18 and 29 agree that ill-conceived business plans have been a major reason for dot-coms' decline, compared to about 61% of Americans between 50 and 64 who cite poor business plans as a major problem for the dot-coms. As with perceptions about risk, young people feel more strongly than their elders that poor business plans have *not* been a major factor behind dot-coms' decline. Two out of five (39%) of Americans between 18 and 29 say poor business plans have been a minor factor in dot-com financial problems; this is twice the number of older Americans (19% between 50 and 64) who see poor business plans as minor factors.

**Education, Income, Internet Use Drive Perceptions about Economic Impact—  
*Except for the Dot-Glums***

Americans with higher incomes and higher levels of educational attainment are less likely to see dire economic consequences from the dot-com decline than Americans at lower income and education levels. Three in five Americans (61%) think the slowdown among Internet firms will have a minor impact on the economy, and only a quarter (26%) believe its impact will be major. Only a fifth (20%) of people whose annual household incomes exceed \$75,000 think the impact will be major. That compares with the more than one-third (36%) of those in households whose incomes fall below \$30,000 who think the impact will be major. On the other side of the coin, 51% of American households making less than \$30,000 think the impact will be minor, compared to 68% of households that make more than \$75,000 who say so.

In broader terms, Internet users have a more sanguine view of the likely economic impacts of the dot-com slowdown than non-users. Twenty-three percent of Internet users believe that the slowdown in dot-coms will have a major impact on the economy, compared to 32% of non-Internet users. Conversely, 67% of Internet users think the impact will be minor compared with half (51%) of non-users.

When the pain hits close to home, however, perceptions about larger economic consequences change. The dot-glums—the educated, wealthy, and experienced elite of the Internet who are more likely to have first-hand experience with the dot-com downside—are about as likely as those living in \$30,000 households to think the Internet shakeout will have a major impact on the economy. Fully one-third (34%) of the dot-glums believe the Internet downturn will have a major impact on the economy.

**Gender**

Men and women have somewhat different views on the causes, impacts, and likely consequences of the financial difficulties of the Internet industry. The starkest contrast is in attention paid to dot-com financial news. By a 38% to 23% margin, men are far more likely than women to be following the travails of dot-coms very closely; among Internet users, the numbers are 51% for men and 34% for women.

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In thinking about the causes of the shakeout, men are more likely than women, by a 70% to 64% margin, to believe risk-taking among Internet investors has contributed to the dot-com slump. Likewise and by the same margin (59% to 53%), men are more likely to believe weak business plans have played a role in the downturn. As for youthfulness of dot-commers being a problem, men are more likely to say this played a major role in firms' problems (by 42% to 36%).

### **Methodology**

This report is based on the findings of a daily tracking survey on Americans' use of the Internet. The results in this report are based on data from telephone interviews conducted by Princeton Survey Research Associates between February 1, 2001 and March 1, 2001, among a sample of 2,096 adults, 18 and older. Of them 1,198 have access to the Internet. For results based on the total sample, one can say with 95% confidence that the error attributable to sampling and other random effects is plus or minus 2 percentage points. For results based Internet users, the margin of sampling error is plus or minus 3 percentage points. In addition to sampling error, question wording and practical difficulties in conducting telephone surveys may introduce some error or bias into the findings of opinion polls.

The sample for this survey is a random digit sample of telephone numbers selected from telephone exchanges in the continental United States. The random digit aspect of the sample is used to avoid "listing" bias and provides representation of both listed and unlisted numbers (including not-yet-listed numbers). The design of the sample achieves this representation by random generation of the last two digits of telephone numbers selected on the basis of their area code, telephone exchange, and bank number.

New sample is released daily and is kept in the field for at least five days. This ensures that complete call procedures are followed for the entire sample. Additionally, the sample is released in replicates to make sure that the telephone numbers called are distributed appropriately across regions of the country. At least 10 attempts are made to complete an interview at every household in the sample. The calls are staggered over times of day and days of the week to maximize the chances of making contact with a potential respondent. Interview refusals are recontacted at least once in order to try again to complete an interview. All interviews completed on any given day are considered to be the final sample for that day. The final response rate for this survey is 38%.

Non-response in telephone interviews produces some known biases in survey-derived estimates because participation tends to vary for different subgroups of the population, and these subgroups are likely to vary also on questions of substantive interest. In order to compensate for these known biases, the sample data are weighted in analysis. The demographic weighting parameters are derived from a special analysis of

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the most recently available Census Bureau's Current Population Survey (March 2000). This analysis produces population parameters for the demographic characteristics of adults age 18 or older, living in households that contain a telephone. These parameters are then compared with the sample characteristics to construct sample weights. The weights are derived using an iterative technique that simultaneously balances the distribution of all weighting parameters.

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## Survey Questions

**DOT1** How much, if at all, have you heard about the recent financial problems of many Internet or "dot-com" companies? Have you heard a lot, a little, or nothing at all about this?

<u>FEB 2001</u>		
%	30	A lot
	37	A little
	32	Nothing at all
	1	Don't know/Refused

**DOT2** Which of the following two statements comes closer to your own view, even if neither is exactly right...(ROTATE 1-2)

**Based on those who have heard of Internet companies' financial problems [N = 1,455]**

<u>FEB 2001</u>		
%	57	Having some Internet companies close is a good thing because there are too many web sites that had too little to offer
	28	Having some Internet companies close is a bad thing because there will be fewer sites and services to choose from
	4	(VOL) Both/Neither
	11	Don't know/Refused

**DOT3** As I read each of the following, please tell me if you think this is a MAJOR reason many Internet companies are having financial problems, a MINOR reason, or not a reason at all. (First/Next)...(INSERT; ROTATE) Is this a major reason, a minor reason, or not a reason at all that many Internet companies are having financial problems?

**Based on those who have heard of Internet companies' financial problems [N = 1,455]**

	MAJOR REASON	MINOR REASON	NOT A REASON AT ALL	DON'T KNOW/REFUSED
a The owners of many Internet companies are young and inexperienced	39	38	15	7
b Internet investors are eager to make a profit and took too many risks	67	21	5	7
c Many Internet companies did not have a clear plan for how they would make money	56	27	9	9

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**DOT4** Do you think the recent financial problems of many Internet companies will have a MAJOR impact on the nation's economy as a whole, a MINOR impact, or no impact at all?

**Based on those who have heard of Internet companies' financial problems [N = 1,455]**

<u>FEB 2001</u>		
%	26	Major impact
	61	Minor impact
	9	No impact at all
	3	Don't know/Refused

**DOT5** As far as you know, have any of your favorite web sites gone out of business?

**Based on Internet users [N = 1,198]**

<u>FEB 2001</u>		
%	8	Yes
	89	No
	3	Don't know/Refused

**DOT6** Do you, PERSONALLY, know someone who has been laid off by an Internet company or by a company that provides services related to the Internet?

<u>FEB 2001</u>		
%	9	Yes
	90	No
	1	Don't know/Refused

**DOT7** Have you or your family recently lost money investing in Internet or "dot-com" companies?

<u>FEB 2001</u>		
%	7	Yes
	92	No
	1	Don't know/Refused