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E-Commerce and the Entrepreneur

The Internet remains a place where you can start with nothing and soon challenge the gods.

—Mark DiMassimo

The sure way to miss success is to miss the opportunity.

—Victor Charles

LEARNING OBJECTIVES

Upon completion of this chapter, you will be able to:

1. **DESCRIBE** the benefits of selling on the World Wide Web.

2. **UNDERSTAND** the factors an entrepreneur should consider before launching into e-commerce.

3. **EXPLAIN** the 12 myths of e-commerce and how to avoid falling victim to them.

4. **DISCUSS** the five basic approaches available to entrepreneurs wanting to launch an e-commerce effort.

5. **EXPLAIN** the basic strategies entrepreneurs should follow to achieve success in their e-commerce efforts.

6. **LEARN** the techniques of designing a killer Web site.

7. **EXPLAIN** how companies track the results from their Web sites.

8. **DESCRIBE** how e-businesses ensure the privacy and security of the information they collect and store from the Web.

9. **LEARN** how to evaluate the effectiveness of a company's Web site.

As a student of business, you are fortunate to witness the early stages of growth of a tool that is reshaping the way companies of all sizes do business: e-commerce. E-commerce is creating a new way of doing business, one that is connecting producers, sellers, and customers via technology in ways that have never been possible before. The result is a whole new set of companies built on business models that are turning traditional methods of commerce and industry on their heads. Companies that ignore the impact of the Internet on their markets run the risk of becoming as relevant to customers as a rotary-dial telephone. The most successful companies are embracing the Internet, not as merely another advertising medium or marketing tool but as a mechanism for transforming their companies and changing *everything* about the way they do business. As these companies discover new, innovative ways to use the Internet, computers, and communications technology to connect with their suppliers and to serve their customers better, they are creating a new industrial order. In short, e-commerce has launched a revolution. Just as in previous revolutions in the business world, some old established players are being ousted, and new leaders are emerging. The winners are discovering new business opportunities, new ways of designing work, and new ways of organizing and operating their businesses. Yet one lesson that the dot-com bubble burst in 2000 taught entrepreneurs is that business basics still apply, whether a company is on the Web or not. Companies engaging in e-commerce still have to take care of their customers and earn a profit to stay in business.

Perhaps the most visible changes are occurring in the world of retailing. Although e-commerce will not replace traditional retailing, no retailer, from the smallest corner store to industry giant Wal-Mart, can afford to ignore the impact of the World Wide Web on their business models. Companies can take orders at the speed of light from anywhere in the world and at any time of day. The Internet enables companies to collect more information on customers' shopping and buying habits than any other medium in history. This ability means that companies can focus their marketing efforts like never before—for instance, selling garden supplies to customers who are most likely to buy them and not wasting resources trying to sell to those who have no interest in gardening. The capacity to track customers' Web-based shopping habits allows companies to personalize their approaches to marketing and to realize the benefits of individualized (or one-to-one) marketing (refer to Chapter 6). Ironically, the same Web-based marketing approach that allows companies to get so personal with their customers also can make shopping extremely impersonal. Entrepreneurs who set up shop on the Web will likely never meet their customers face-to-face or even talk to them. Yet, those customers, who can live anywhere in the world, will visit the online store at all hours of the day or night and expect to receive individual attention. Making a Web-based marketing approach succeed requires a business to strike a balance, creating an e-commerce strategy that capitalizes on the strengths of the Web while meeting customers' expectations of convenience and service.

In the world of e-commerce, the new business models recognize the power the Internet gives customers. Pricing, for example, is no longer as simple as it once was for companies. Auction sites such as eBay and Priceline.com mean that entrepreneurs can no longer be content to take into account only local competitors when setting their own prices. With a few mouse clicks, customers can compare the prices of the same or similar products and services from companies across the globe. In the new wired and connected economy, the balance of power is shifting to customers, and new business models recognize this fact. Consider, for example, the challenges auto dealers face when selling to customers armed with dealer cost and pricing information gathered from any one of dozens of Web sites. Because they know the dealer's wholesale cost of a new car, these informed customers are taking price out of the buying equation, causing dealers to emphasize other factors such as service or convenience to build long-term relationships. Net profit margins on new cars average just 0.7 percent, compared to 1.7 percent on used cars, which are harder for online shoppers to pin a precise value on.[1] Auto dealerships are not the only companies facing this reality. One study by Ernst & Young found that 64 percent of Internet users research products online before buying them in stores or by telephone.[2]

In this fast-paced world of e-commerce, size no longer matters as much as speed and flexibility do. One of the Web's greatest strengths is its ability to provide companies with instantaneous customer feedback, giving them the opportunity to learn and to make necessary adjustments. Businesses, whatever their size, that are willing to experiment with different approaches to reaching customers and are quick to learn and adapt will grow and prosper; those that cannot will fall by the wayside. The Internet is creating a new industrial order, and companies that fail to adapt to

it will soon become extinct. For instance, as profit margins on new cars have shrunk over the years due, in part, to the Web, smart auto dealers are finding ways to use the Web to make money.

Linda Cerrone, owner of a Nissan dealership in Tewksbury, Massachusetts, has created a Web site that allows customers to schedule service appointments or to order parts for their cars, both of which offer much higher profit margins than do car sales. An e-mail system automatically sends out reminders to customers for periodic maintenance or extended warranty offers. Shoppers also can peruse the dealership's inventory online, calculate monthly payments, and complete loan applications, reducing the time they must spend at the dealership when they purchase a car. Subscribing to four sales-referral Web sites generates an average of 10 sales a month. Cerrone also places ads for her used car inventory on specialty sites such as AutoTrader.com and Cars.com. Because of her Web-based marketing strategy, online sales comprise 10 percent of Cerrone's sales volume.[3]

By creating innovative, easy-to-use Web sites, auto dealerships such as Cerrone Nissan are changing the way traditional companies must compete.

High-volume, low-margin, commodity products are best suited for selling on the Web. Indeed, the items purchased most often online are books, music, videos, computer hardware and software, consumer electronics, and travel services. However, companies can—and do—sell practically anything over the Web, from antiques and pharmaceuticals to groceries and drug-free urine. The most commonly cited reasons among owners of small and mid-sized companies for taking their companies to the Web are (1) to reach new customers, (2) to sell goods and services, (3) to disseminate information more quickly, (4) to keep up with competitors, and (5) to reach global markets.[4]

Companies of all sizes are establishing a presence on the Web because that's where their customers are. The Department of Commerce reports that 54 percent of Americans are using the Internet, and the number of users continues to grow at a rapid pace of 2 million new users a month.[5] Consumers have adopted the Internet much more quickly than any other major innovation in the past. It reached 50 percent penetration in the United States in just seven years, compared to 30 years for the computer, 40 years for electricity, and more than 100 years for steam power.[6] Online shopping currently accounts for just 4.5 percent of total retail sales in the United States (nearly $100 billion), but online sales are growing by 30 to 40 percent a year, far faster than the 4 percent growth rate of off-line sales.[7] Although this torrid pace of growth will not last indefinitely, the Web represents a tremendous opportunity that businesses simply cannot afford to ignore.

BENEFITS OF SELLING ON THE WEB

As we saw in Chapter 6, only 33 percent of small companies have Web sites, and of those, only 24 percent actually generate revenues from online sales.[8] However, those small businesses that are doing business on the Web experience many benefits (see Figure 7.1). We now examine some of these benefits more closely.

- *The opportunity to increase revenues.* For many small businesses, launching a Web site is the equivalent of opening a new sales channel. Companies that launch e-commerce efforts soon discover that their sites are generating additional sales from new audiences of customers.
- *The ability to expand their reach into global markets.* The Web is the most efficient way for small businesses to sell their products to the millions of potential customers who live outside the borders of the United States. Tapping into these global markets through more traditional methods would be too complex and too costly for the typical small business. Yet, with the Web, a small company can sell its products efficiently to customers anywhere in the world at any time of day.
- *The ability to remain open 24 hours a day, seven days a week.* More than half of all retail sales occur after 6 P.M., when many traditional stores close. Extending the hours a brick-and-mortar store remains open can increase sales, but it also takes a toll on the business owner and the employees. With a Web site up and running, however, a small company can sell around the clock without having to incur additional staffing expenses. Customers never have to worry about whether or not an online store is "open."
- *The capacity to use the Web's interactive nature to enhance customer service.* Although selling on the Web can be highly impersonal because of the lack of human interaction, companies that design their sites properly can create an exciting, interactive experience for their online visitors. Customers
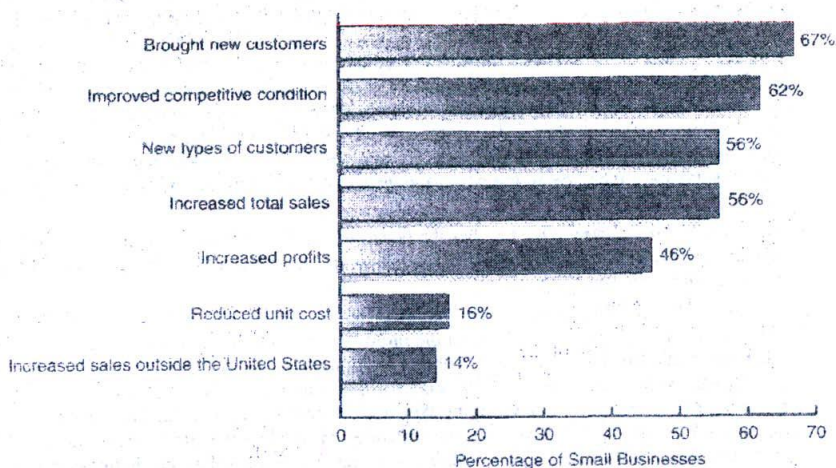
Benefits to Small Businesses of a Web Site

Benefit	Percentage
Brought new customers	67%
Improved competitive condition	62%
New types of customers	56%
Increased total sales	56%
Increased profits	46%
Reduced unit cost	16%
Increased sales outside the United States	14%

Percentage of Small Businesses

can contact a company at any time of the day, can control the flow of information they get, and in some cases can interact with company representatives in real time. In addition, technology now allows companies to "personalize" their sites to suit the tastes and preferences of individual customers. Drawing on a database containing information customers have provided in the past, modern Web sites can customize themselves, displaying content that appeals to an individual visitor. For instance, a site selling clothing can greet a returning customer by name and ask if she is shopping for herself or for someone on her personal shopping list. Based on her response, the site can recall appropriate sizes and favorite styles and colors and can even make product recommendations.

■ *The power to educate and to inform.* Far more than most marketing media, the Web gives entrepreneurs the power to educate and to inform customers. Women and members of Generation Y, especially, crave product information before they make purchases. The Web allows business owners to provide more detailed information to visitors than practically any other medium. For instance, a travel company advertising an Alaskan tour in a newspaper or magazine might include a brief description of the tour, a list of the destinations, a telephone number, the price, and perhaps a photo or two. A Web-based promotion for the same tour could include all of this information as well as a detailed itinerary with dozens of breathtaking photographs; descriptions and photographs of all accommodations; advice on what to pack; airline schedules, seating configurations, and availability; information on optional side trips; comments from customers who have taken this tour before; and links to other Web sites about Alaska, the weather, and fun things to do in the region.[9]

■ *The ability to lower the cost of doing business.* The Web is one of the most efficient ways of reaching both new and existing customers. Properly promoted, a Web site can reduce a company's cost of generating sales leads, providing customer support, and distributing marketing materials. For instance, car dealers must spend $500 on average to get a potential customer into their showrooms; for a $40 listing fee, those same dealers can list a car on the popular auction site eBay, where they get an average of eight customers bidding to buy.[10] Online customer acquisition costs, the cost required for an online company to land a paying customer, have dropped from $29 in 2000 to less than $14 today.[11]

By integrating its Web site with its inventory control system, a company also can reduce its inventory costs by shortening the sales cycle. In addition, linking Web sales activity to suppliers enables a business to cut its purchasing costs.

Brady Corporation, an 87-year-old company that makes all types of signs—from identification tags to stop signs—faced a multitude of problems stemming from its outdated order-processing, accounts receivable, and quality control systems. Managers saw the opportunity the Web offered to correct errors, lower costs, and improve customer satisfaction. The company created Web-to-Workbench, a system that sends customer orders directly to the factory floor. Because the system allows customers to design and pay for their own signs online, Brady's accounts receivable problems have all but disappeared, and its order-processing costs fell 88 percent from $16 per order to just $2 per order! Because the system allows customers to preview the final design of their signs online, errors that used to result in millions of dollars of returned signs have been reduced dramatically. Customer satisfaction is higher because Brady now ships most orders within 24 hours of receiving them.[12]

- **The ability to spot new business opportunities and to capitalize on them.** E-commerce companies are poised to give customers just what they want when they want it. As the number of dual-career couples rises and the amount of available leisure time shrinks, consumers are looking for ways to increase the convenience of shopping, and the Web is fast becoming the solution they seek. Increasingly, customers view shopping as an unpleasant chore that cuts into already scarce leisure time, and they are embracing anything that reduces the amount of time they must spend shopping. Entrepreneurs who tap into customers' need to buy goods more conveniently and with less hassle are winning the battle for market share. New opportunities to serve customers' changing needs and wants are constantly arising, and the Web is the birthplace of many of them.

- **The ability to grow faster.** The Web has the power to accelerate a small company's growth. A study by *American City Journals* found that small companies that used the Internet grew 46 percent faster than those that did not.[13]

- **The power to track sales results.** The Web gives businesses the power to track virtually any kind of activity on their Web sites, from the number of visitors to the click-through rates on their banner ads. Because of the Web's ability to monitor traffic continuously, entrepreneurs can judge the value their sites are generating for their companies. When David Scifres, vice president of Internet Services at Camping World, a recreational vehicle dealer, redesigned the company's Web site for the first time, the software that tracked the site's performance indicated numerous problems. The performance measures told Scifres that the changes made the Web site worse! He quickly revamped the changes, and the site's **conversion rate**, the percentage of visitors to a Web site who actually make a purchase, climbed immediately from 39 percent to 52 percent![14]

In essence, the Web allows small businesses to match the efficiencies of big companies by increasing their reach and the scope of their operations, by connecting with suppliers and customers to lower costs, and by measuring the results of their e-commerce efforts.

A Company Example

*Michael Bornstein, who had been running three successful skateboard stores in Southern California, wanted to expand his business and shift its focus to sell more profitable skateboard equipment and accessories. He decided that the Web was the key to success for his expansion strategy. First, he consolidated his three stores into two, and used the third as the Internet and mail-order center for **Skate America**. After spending a year developing a business plan and a Web site, Bornstein launched the company. It took a few months before his site was picked up by search engines such as Yahoo; but then sales took off. Within two years, Bornstein closed his two retail stores to focus on Web sales. Bornstein has redesigned Skate America's Web site over the years, and today it is one of the most sophisticated in the industry, yet it remains one of the simplest for customers to use. Shoppers can create custom-designed skateboards or buy prebuilt models and order parts or accessories with ease. Bornstein has linked his company's just-in-time inventory system to his Web site, which gives him an advantage over competitors because he avoids the problems of excess inventory. Because of Bornstein's successful e-commerce strategy, Skate America's sales have climbed from $1 million in its first year to more than $7 million today.[15]*

FACTORS TO CONSIDER BEFORE LAUNCHING INTO E-COMMERCE

2. Understand the factors an entrepreneur should consider before launching into

Despite the many benefits the Web offers, not every small business owner is ready to embrace e-commerce. Of those small business owners who have not taken their businesses online, 77 percent say their products and services are not suitable for sale on the Web. Another 37 percent say that they do not see any benefits to selling online.[16] Why are so many small companies hesitant to use the Web as a business tool? For many entrepreneurs, the key barrier is not knowing where or how to start an e-commerce effort, whereas for others cost and time concerns are major issues. Other roadblocks include the fear that customers will not use the Web site and the problems associated with ensuring online security.

Whatever their size, traditional companies must realize that selling their products and services on the Web is no longer a luxury. Business owners who are not at least considering

creating a Web presence are putting their companies at risk. "Any company that wants to make it in the years ahead must make the technology and the processes of the Internet part of its core competence," says one experienced venture capitalist.[17] However, before launching an e-commerce effort, business owners should consider the following important issues:

- How a company exploits the Web's interconnectivity and the opportunities it creates to transform relationships with its suppliers and vendors, its customers, and other external stakeholders is crucial to its success.
- Web success requires a company to develop a plan for integrating the Web into its overall strategy. The plan should address issues such as site design and maintenance, creating and managing a brand name, marketing and promotional strategies, sales, and customer service.
- Developing deep, lasting relationships with customers takes on even greater importance on the Web. Attracting customers on the Web costs money, and companies must be able to retain their online customers to make their Web sites profitable.
- Creating a meaningful presence on the Web requires an ongoing investment of resources—time, money, energy, and talent. Establishing an attractive Web site brimming with catchy photographs of products is only the beginning.
- Measuring the success of its Web-based sales effort is essential to remaining relevant to customers whose tastes, needs, and preferences are always changing.

Doing business on the Web takes more time and energy than many entrepreneurs think. Answering the following questions will help entrepreneurs make sure they are ready to do business on the Web and avoid unpleasant surprises in their e-commerce efforts:

- What exactly do you expect a Web site to do for your company? Will it provide information only, reach new customers, increase sales to existing customers, improve communication with customers, enhance customer service, or reduce your company's cost of operation? Will customers be able to place orders from the site, or must they call your company to buy?
- How much can you afford to invest in an e-commerce effort?
- What rate of return do you expect to earn on that investment?
- How long can you afford to wait for that return?
- How well suited are your products and services for selling on the Web?
- How will the "back office" of your Web site work? Will your site be tied into your company's inventory control system?
- How will you handle order fulfillment? Can your fulfillment system handle the increase in volume you are expecting?
- What impact, if any, will your Web site have on your company's traditional channels of distribution?
- What mechanism will your site use to ensure secure customer transactions?
- How will your company handle customer service for the site? What provisions will you make for returned items?
- How do you plan to promote the site to draw traffic to it?
- What information will you collect from the visitors to your site? How will you use it? Will you tell visitors how you intend to use this information?
- Have you developed a privacy policy? Have you posted that policy on your company's Web site for customers?
- Have you tested your site with real, live customers to make sure that it is easy to navigate and easy to order from?
- How will you measure the success of your company's Web site? What objectives have you set for the site?

Table 7.1 provides a set of questions designed to help entrepreneurs assess their companies' potential to become an online success.

TABLE 7.1

Assessing Your Company's Online Potential

Considering launching an online company or transforming a brick-and-mortar business into a "dot-com" company? The following questions will help you assess your company's online potential.

1. Does your product have broad appeal to customers everywhere?

2. Do you want to sell your product to customers outside of your immediate geographical area?

3. Can the product you sell be delivered conveniently and economically?

4. Can your company realize significant cost advantages, such as lower rent, labor, inventory, and printing expenses, by going online?

5. Can you draw customers to your company's Web site with a reasonable investment?

12 MYTHS OF E-COMMERCE

3. Explain the 12 myths of e-commerce and how to avoid falling victim to them.

Although many entrepreneurs have made their fortunes through e-commerce, setting up shop on the Web is no guarantee of success. Scores of entrepreneurs have plunged unprepared into the world of e-commerce only to discover that there is more to it than merely setting up a Web site and waiting for the orders to start pouring in. Make sure that you do not fall victim to one of the following e-commerce myths.

Myth 1. Setting Up a Business on the Web Is Easy and Inexpensive

A common misconception is that setting up an effective Web site for an online business is easy and inexpensive. Although practically anyone with the right software can post a static page in just a few minutes, creating an effective, professional, and polished Web site can be an expensive, time-consuming project. Most small businesses set up their Web pages as simple "electronic flyers," pages that post product information, a few photographs, prices, and telephone and fax numbers. Although these simple sites lack the capacity for true electronic commerce, they do provide a company with another way of reaching both new and existing customers.

Establishing a true transactional Web site will require several months and an investment ranging from $10,000 up to nearly $1 million, depending on the features and capacity it incorporates. According to a study by Jupiter Communications, setting up an e-commerce site takes most companies at least six months to complete (see Figure 7.2). The study also revealed that setting up the site was only the first investment required. Companies cited these follow-up investments: (1) redesign Web site, (2) buy more hardware to support Web site, (3) automate or expand warehouse to meet customer demand, (4) integrate Web site into inventory control system, and (5) increase customer call-center capacity.[18]

FIGURE 7.2 Time Required to Develop an E-Commerce Site

Source: Jupiter Communications.

Number of Weeks
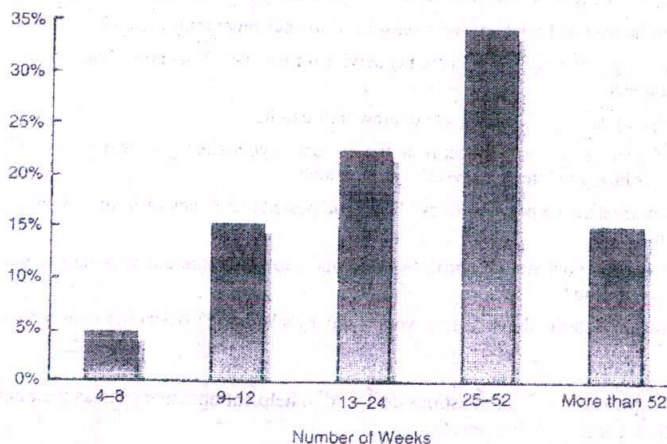
Myth 2. If I Launch a Site, Customers Will Flock to It

Some entrepreneurs think that once they set up their Web sites, their expenses end there. Not true! Without promotional support, no Web site will draw enough traffic to support a business. With more than 3 billion Web pages in existence and the number growing daily, getting a site noticed in the crowd has become increasingly difficult. Even listing a site with popular Web search engines cannot guarantee that customers surfing the Web will find your company's site. Just like traditional retail stores seeking to attract customers, virtual companies have discovered that drawing sufficient traffic to a Web site requires constant promotion—and lots of it! Setting up a Web site and then failing to drive customers to it with adequate promotional support is like setting up a physical store in a back alley; you may be in business, but nobody knows you're there!

Entrepreneurs with both physical and virtual stores must promote their Web sites at every opportunity by printing their URLs on everything related to their physical stores—on signs, in print and broadcast ads, on shopping bags, on merchandise labels, and anywhere else their customers will see it. Virtual shop owners should consider buying ads in traditional advertising media as well as using banner ads, banner exchange programs, and cross-marketing arrangements with companies selling complementary products on their own Web sites. Other techniques include creating a Web-based newsletter, writing articles that link to the company's site, or hosting a chat room that allows customers to interact with one another and with company personnel.

The key to promoting a Web site is networking, building relationships with other companies, customers, trade associations, online directories, and other Web sites your company's customers visit. "You need to create relationships with the businesses and people with whom you share common customers," says Barbara Ling, author of a book on e-commerce. "Then you need to create links between sites to help customers find what they are looking for."[19]

Myth 3. Making Money on the Web Is Easy

Promoters who hawk "get-rich-quick" schemes on the Web lure many entrepreneurs with the promise that making money on the Web is easy. It isn't. A study of e-commerce by the Small Business Administration reports that 35 percent of small businesses are losing money on their Web sites.[20] Making money on the Web is possible, but it takes time and a solid plan and requires an investment up front. As hundreds of new sites spring up every day, getting your company's site noticed requires more effort and marketing muscle than ever before. One study by management consulting firm Boston Consulting Group and shop.org, an Internet retailing trade association, found that Web retailers invested 65 percent of their revenues in marketing and advertising, compared to their off-line counterparts, who invested just 4 percent.[21]

Myth 4. Privacy Is Not an Important Issue on the Web

The Web allows companies to gain access to almost unbelievable amounts of information about their customers. Many sites offer visitors "freebies" in exchange for information about themselves. Companies then use this information to learn more about their target customers and how to market to them most effectively. A survey by Jupiter Media Metrix found that 70 percent of consumers expressed concern about online privacy.[22] Protecting online customers' privacy has become the topic of debate by many interested parties, including government agencies, consumer watchdog groups, customers, and industry trade associations. Jupiter Media Metrix estimates that if online companies adequately addressed privacy and security issues and alleviated customers' fear of breaches, online retail sales would be 24 percent higher![23]

Companies that collect information from their online customers have a responsibility to safeguard their customers' privacy, to protect that information from unauthorized use, and to use it responsibly. That means that businesses should post a privacy policy on their Web sites, explaining to customers how they intend to use the information they collect. Then they must be sure to follow it! One of the surest ways to alienate online customers is to abuse the information collected from them by selling it to third parties or by spamming customers with unwanted solicitations. BBBOnline offers a useful resource center designed to help small business owners wanting to establish or upgrade their Web site's privacy policies (www.bbbonline.org/understandingprivacy).

Businesses that publish privacy policies and then adhere to them build trust among their customers, an important facet of doing business on the Web. A study by Jupiter Communications

found that 64 percent of Web customers distrust Web sites.[24] According to John Briggs, director of e-commerce for the Yahoo Network, customers "need to trust the brand they are buying and believe that their on-line purchases will be safe transactions. They need to feel comfortable that [their] personal data will not be sold and that they won't get spammed by giving their e-mail address. They need to know about shipping costs, product availability, and return policies up front."[25] Privacy *does* matter on the Web, and businesses that respect their customers' privacy will win their customers' trust. Trust is the foundation on which the long-term customer relationships that are so crucial to Web success are built.

Myth 5. The Most Important Part of Any E-Commerce Effort Is Technology

Although understanding the technology of e-commerce is an important part of the formula for success, it is *not* the most crucial ingredient. What matters most is the ability to understand the underlying business and to develop a workable business model that offers customers something of value at a reasonable price while producing a reasonable return for the company. The entrepreneurs who are proving to be most successful in e-commerce are those who know how their industries work inside and out and then build an e-business around their knowledge. They know that they can hire Webmasters, database experts, and fulfillment companies to design the technical aspects of their businesses but that nothing can substitute for a solid understanding of their industry, their target market, and the strategy needed to pull the various parts together. The key is seeing the Web for what it really is: another way to reach and serve customers with an effective business model.

A Company Example

Founded in 1966 to publish printed guides for buyers of new and used cars, Edmunds Publications changed very little over the next two decades about the way it operated, selling its manuals to bookstores, libraries, financial institutions, and individuals. In 1988, however, Peter Steinlauf bought the small company and began making changes to realize the potential he saw in it. After moving the company to car-crazy California, Steinlauf began exploring other ways to publish the auto cost and pricing information customers found so valuable. A computer CD proved to be short-lived, but in 1994 when Steinlauf offered the information on a pre-Web text-only "gopher site" called the Electronic Newsstand, Edmunds became the first company to offer consumer automotive information (including dealer invoice prices) on the Internet. As word spread about the information Edmunds was posting, the volume of traffic on the Electronic Newsstand overwhelmed the site's capacity, and in 1995, Edmunds launched its own Web site, once again becoming the first automotive information site on the Web. Initially, Edmunds managers saw the Web site as a tool for marketing the company's print products, but they soon saw the power of the Web for transforming their entire business. Today, the Edmunds Web site contains more than 800,000 pages of information (which, unlike printed manuals, the company can update constantly) on a vast array of automotive topics, and more than 200,000 people a day visit it! The company still sells its information in print, but manuals account for less than 1 percent of its revenues. The immense volume of traffic the Edmunds site generates enables the company to provide automotive information free to users; Edmunds produces most of its $50 million in annual revenues by selling ads on its site to a wide variety of businesses targeting customers looking for automotive information.[26]

The real key to Edmunds.com's success on the Web is the knowledge of collecting and publishing automotive information its managers and employees built over the years to which they then applied the technology of the Web. Unfortunately, too many entrepreneurs tackle e-commerce by focusing on technology first and then determine how that technology fits their business idea. "If you start with technology, you're likely to buy a solution in search of a problem," says Kip Martin, program director of META Group's Electronic Business Strategies. Instead, he suggests, "Start with the business and ask yourself what you want to happen and how you'll measure it. *Then* ask how the technology will help you achieve your goals. Remember: Business first, technology second."[27]

Myth 6. "Strategy? I Don't Need a Strategy to Sell on the Web! Just Give Me a Web Site, and the Rest Will Take Care of Itself."

Building a successful e-business is no different than building a successful brick-and-mortar business, and that requires a well-thought-out strategy. Building a strategy means that an entrepreneur must first develop a clear definition of the company's target audience and a thorough understanding of those customers' needs, wants, likes, and dislikes. To be successful, a Web site must be appealing to the customers it seeks to attract just as a traditional store's design and décor must draw foot traffic. If your Web site is to become the foundation for a successful e-business, you must create it with your target audience in mind.

*In 1998, a group of real estate professionals launched **SafeRent**, an online company aimed at helping landlords and apartment owners screen potential tenants. In addition to providing its customers access to standard credit reports and eviction histories, SafeRent uses a proprietary statistical model developed at Harvard University to give them a score for each potential tenant that predicts whether or not a particular rental agreement "will end happily for the landlord," says cofounder Linda Bush. Using information from rental applications that landlords enter on the company's Web site, SafeRent returns within 30 seconds a verdict on each potential tenant—accept, decline, or accept with conditions such as an additional deposit—for as little as $7.95 per search. Property managers nationwide use SafeRent services, generating more than $12 million in annual revenues for the company.[28]*

Myth 7. On the Web, Customer Service Is Not as Important as It Is in a Traditional Retail Store

Many Web sites treat customer service as an afterthought, and it shows. Sites that are difficult to navigate, slow to load, or confusing will turn customers away quickly, never to return. The fact is that customer service is just as important (if not more so) on the Web as it is in traditional brick-and-mortar stores.

There is plenty of room for improvement in customer service on the Web. Research by BizRate.com found that 75 percent of Web shoppers who fill their online shopping carts become frustrated and leave the site before checking out.[29] The most common reasons for leaving a site without purchasing include the following: (1) Customers could not find the items they were looking for, (2) the shopping cart was too hard to find, (3) checking out took too long, (4) the site did not look trustworthy, and (5) shipping charges were too high.[30]

In an attempt to improve the level of service they offer, many sites provide e-mail links to encourage customer interaction. Unfortunately, e-mail takes a very low priority at many e-businesses, a sign of poor customer service. One study by Jupiter Communications found that 42 percent of business Web sites took longer than five days to respond to e-mail inquiries, never replied at all, or simply were not accessible by e-mail![31] The lesson for e-commerce entrepreneurs is simple: Devote time, energy, and money to developing a functional mechanism for providing superior customer service. Those who do will build a sizable base of loyal customers who will keep coming back. Perhaps the most significant actions online companies can take to bolster their customer service efforts are creating a well-staffed and well-trained customer response team, offering a simple return process, and providing an easy order-tracking process so customers can check the status of their orders at any time. Establishing a policy of responding to all customer e-mails within 24 hours and sending customers order and shipping confirmations and "thank you for your order" e-mails can go a long way to enhancing online customer service. Amazon.com's 500-plus service representatives have access to a database that contains a customer's complete history with the company so they can serve customers faster and better. The database also keeps track of customers' purchase preferences and is the source of the site's ability to make customized product recommendations to shoppers.

Myth 8. Flash Makes a Web Site Better

Businesses that fall into this trap pour most of their e-commerce budgets into designing flashy Web sites with all of the "bells and whistles." The logic is that to stand out on the Web, a site really has to sparkle. That logic leads to a "more is better" mentality when designing a site. On the Web, however, "more" does *not* necessarily equate to "better."

*Rick Edler, owner of the **Edler Group**, a California real estate company, learned this lesson the hard way. Edler's first foray onto the Web was a simple site, one that followed the "electronic flyer" approach and cost just $285. A confessed gadget freak, Edler soon decided to revamp his company's site to incorporate lots of features and lots of flash. "We were going to dazzle everyone with all of the technology," he recalls. The site, which cost $7,000 to design, literally pulsed with color and motion as spinning graphics moved around the screen. It even included movie listings. But the site was a failure, never drawing much traffic at all. The busy design with all of its features meant that the site was very slow to download. "You just stared at it like you were watching a commercial," says Edler. "We were scaring people away." Edler quickly scrapped the site and for $2,000 built a much simpler one that allows buyers to get the details on a listing and take a video tour of a house. The site also includes links to other useful real estate pages. Customer response to the newly designed site (www.edlergroup.com) has been positive, and more importantly, the site is now helping realtors close sales.[32]*

Keep the design of your site simple. Although fancy graphics, bright colors, playful music, and spinning icons can attract attention, they also can be quite distracting, and, as Rick Edler learned, very slow to download.

Myth 9. It's What's Up Front That Counts

Designing an attractive Web site is important to building a successful e-business. However, designing the back office, the systems that take over once a customer places an order on a Web site, is just as important as designing the site itself. If the behind-the-scenes support is not in place or cannot handle the traffic from the Web site, a company's entire e-commerce effort will come crashing down. The potentially large number of orders that a Web site can generate can overwhelm a small company that has failed to establish the infrastructure needed to support the site. Although e-commerce can lower many costs of doing business, it still requires a basic infrastructure in the channel of distribution to process orders, maintain inventory, fill orders, and handle customer service. Many entrepreneurs hoping to launch virtual businesses are discovering the need for a "clicks-and-mortar" approach to provide the necessary infrastructure to serve their customers. "The companies with warehouses, supply-chain management, and solid customer service are going to be the ones that survive," says Daryl Plummer, head of the Gartner Group's Internet and new media division.[33]

To customers, a business is only as good as its last order, and many e-companies are not measuring up. One study suggests that only 30 percent of e-commerce Web sites feature real-time inventory lookup, which gives online shoppers the ability to see if an item they want to purchase is actually in stock.[34] In addition, only 7 percent of Web sites are linked to the back office.[35] These figures will increase as software to integrate Web sites with the back office becomes easier to use and more affordable, but in the meantime customers will have to endure late shipments, incorrect orders, and poor service.

Web-based entrepreneurs often discover that the greatest challenge their businesses face is not necessarily attracting customers on the Web but creating a workable order fulfillment strategy. Order fulfillment involves everything required to get goods from a warehouse into a customer's hands and includes order processing, warehousing, picking and packing, shipping, and billing. In a study of the connection between online companies' order fulfillment processes and their ultimate success or failure, researchers Sergui Netessine, Taylor Randall, and Nels Rudi found an important link. They concluded "that if an Internet company chooses its supply chain type logically—if it's aligned with its strategy, products, and operating environment—it's highly correlated with success."[36]

Some entrepreneurs choose to handle order fulfillment in-house with their own employees, whereas others find it more economical to hire specialized fulfillment houses to handle these functions. Virtual order fulfillment (or drop-shipping) suits many e-tailers perfectly. When a customer orders a product from its Web site, the company forwards the order to its wholesaler or distributor, who then ships the product to the customer with the online merchant's label on it.

Spun.com, an online CD retailer, has managed to generate a profit without incurring the expense of an estimated $8 million investment in inventory by using wholesale distributor Alliance Entertainment as its virtual order fulfillment source. Founded in 1998 by brothers Andrew and Steven Gundy, Spun.com also operates a music exchange, in which customers can trade used CDs, DVDs, and video games for online credit toward the purchase of new or used items.[37]

Although e-tailers avoid the major problems that managing inventory presents, they lose control over delivery times and service quality. Also, finding a fulfillment house willing to handle a relatively small volume of orders at a reasonable price can be difficult for some small businesses, however. Major fulfillment providers include Federal Express, UPS, NewRoads, and NFI Interactive.

Myth 10. E-Commerce Will Cause Brick-and-Mortar Retail Stores to Disappear

The rapid growth of e-commerce does pose a serious threat to traditional retailers, especially those who fail to find ways to capitalize on the opportunities the Web offers them. However, it is unlikely that Web-based shopping will replace customers' need and desire to visit real stores selling real merchandise that they can see, touch, and try on. Some products simply lend themselves to selling in real stores more naturally than in online shops. For instance, furniture stores and supermarkets have struggled for success online. On the other hand, other items, particularly standard commodity products for which customers have little loyalty, are ideally suited for online sales. Virtual stores will continue to drive out of existence some traditional companies that resist creating new business models or are too slow to change. To remain competitive, traditional brick-and-mortar stores must find ways to blend their operations with an online presence to become click-and-mortar businesses that can make the convenience, the reach, and the low transaction costs of the Web work for them.

Jim McCann built a successful chain of 14 flower shops in New York and in 1986 bought the rights to the 1800-FLOWERS telephone number as part of his expansion plans. In 1992, McCann became one of the first retailers to go online, and in 1995, he launched the 1800flowers.com Web site. Today, his company, which has expanded into gourmet foods, candy, baskets, and unique gifts, has one of the most recognized brands in the gift retailing industry. Because physical locations give a brand more visibility and attract customers who do not shop online, McCann continues to add locations to the company's network of 120 stores and more than 40,000 affiliates across the United States. 1800flowers.com's network of physical stores and its ubiquitous Web presence make it a fierce competitor in the flower and gift industry.[38]

Myth 11. The Greatest Opportunities for E-Commerce Lie in the Retail Sector

As impressive as the growth rate and total volume for online retail sales are, they are dwarfed by those in the online business-to-business (B2B) sector, where businesses sell to one another rather than to retail customers. eMarketer estimates that global business-to-business e-commerce sales now total nearly $2 trillion.[39] That volume of sales is nearly seven times the amount of business-to-consumer e-commerce! Entrepreneurs who are looking to sell goods to other businesses on the Web will find plenty of opportunities available in a multitude of industries.

Business-to-business e-commerce is growing so rapidly because of its potential to boost productivity, slash costs, and increase profits. This brand of e-commerce is transforming the way companies purchase parts, supplies, and materials as well as the way they manage inventory and process transactions. The Web's power to increase the speed and the efficiency of the purchasing function represents a fundamental departure from the past. Experts estimate that transferring purchasing to the Web can cut total procurement costs by 10 percent and transaction costs by as much as 90 percent.[40] For instance, Chris Cogan, CEO of an Internet purchasing site for hotels, restaurants, and health care companies, explains, "We estimate [that] the average cost of executing a paper purchase order is $115." Businesses using his company's Web-based purchasing system "get that cost down to $10," he says.[41]

Business-to-business e-commerce is growing because of the natural link that exists with business-to-consumer e-commerce. As we have seen, one of the greatest challenges Web-based retailers face is obtaining and delivering the goods their customers order fast enough to satisfy customers' expectations. Increasingly, Web-based companies are connecting their front office

sales systems and their back-office purchasing and order fulfillment systems with those of their suppliers. The result is a faster, more efficient method of filling customer orders. So far the most successful online business-to-business companies are those that have discovered ways of tying their front offices, their back offices, their suppliers, and their customers together into a single, smoothly functioning, Web-based network.

YOU Be the Consultant . . .

Changing the Rules of the Game

In 1997, Andrew Field had grown tired of the auto repair shop he owned, so he sold it and bought a print shop in tiny Livingston, Montana, that primarily served businesses in nearby Bozeman and Billings. His personal sales calls boosted revenues to about $80,000 a month, but no matter how hard he tried, he could not get past that sales plateau. The problem was that Express Color Printing was just breaking even at that point and generated no profit. Field was frustrated that he couldn't keep his high-cost presses in operation; every hour of downtime meant lost revenue for his business. "When a plane takes off with empty seats, that's revenue lost forever," Field explains. "Same thing if I have employees standing around and no jobs scheduled for three hours."

One day while fishing in the Yellowstone River, Field thought about the problem his printing business faced with idle press time. He realized that his was not the only printing company to have that problem. Then an idea struck him. Why not use the Web to pool the idle time on his presses with that of other printing companies and then sell it to customers who needed a last-minute print job? The Web would be the ideal way to provide a marketplace for these buyers and sellers of printing services.

In March 1999, Field launched a Web site, Printingforless.com, to handle all types of color printing jobs—from simple business cards to full-color brochures and posters. Field's Web site eliminates the complexity, inconvenience, and much of the time required in the typical design and printing process. The site allows customers to control the printing process from start to finish. Customers can read design tips and then submit electronic files containing their printing jobs through the Web site, whether they are for existing company stationery or for a new advertising brochure created in Microsoft Publisher. Capitalizing on the desktop publishing revolution, Printingforless.com accepts files in practically any format, including all Microsoft, Adobe, and Quark applications, among others. The site is surprisingly simple and intentionally does not overwhelm users with lots of sophisticated design techniques. "We're not trying to be fancy or entertaining," Field explains. "We want it to be a practical tool for business people." Everything a customer needs to place an order— designing process, pricing calculator, shipping information, project details, and payment information—appears on one page! "Printers don't like to publish prices," says Field. "We got hate mail [from competitors] when we started pricing online." Customers, however, love it. Within two days of submitting a printing job, production teams send customers an e-mail that includes a project number and a link to a proof of their projects so they can view it online. Once customers approve their proofs, the site takes them to a scheduling page that displays a calendar showing the shipping and delivery dates.

It is at this point that the genius of Field's idea takes hold. Like the airline industry, Printingforless.com actually books more jobs than its presses can handle. A Web-based service Field designed called PFL-Net attempts to schedule jobs on a Printingforless.com press first. If those presses are booked, the system makes the job available to other printers over the Web. Other affiliated printers handle their jobs in the same fashion so Field can accept one of their overflow orders if his presses are not busy. The process involves no bidding; printing partners simply log onto the site, accept a job, download the necessary files, and then handle the printing and shipping from their own plants. The entire process is invisible to customers.

With the help of PFL-Net, the Printingforless.com Web site now generates 95 percent of the company's revenues, far surpassing the amount the physical storefront produces. "Even our local customers decided they liked the Web better," says Field, whose Web-based strategy has proved to be a huge success. The site attracts more than 7,000 visitors on an average day and brings in 30 new customers a day. Company sales total $8 to $9 million a year and continue to grow. Typical of an entrepreneur's response to a challenge, Field's innovative idea of using the Web to save his business has transformed the way the printing industry operates.

1. Would Field's strategy for handling excess capacity be feasible without the Web? Explain.

2. In what ways does the Web enable Field's strategy to be successful?

3. Visit the Printingforless.com Web site. Does the site accomplish its goal of making the process simple for customers? Explain. Can you make any suggestions for improving the site's design?

Sources: Leigh Buchanan and Anne Stuart, "Printing Money," *Inc.*, December 2002, p. 74; Carole Matthews, "Printing for the Masses," *Inc.*, December 2, 2002, www.inc.com/articles/cust_serv/24898.html; Rich Karlgaard, "The Medium Is the Model," *Forbes*, September 30, 2002, p. 43; Printingforless.com, www.printingforless.com/press.html.

Myth 12. It's Too Late to Get on the Web

A common myth, especially among small companies, is that those businesses that have not yet moved onto the Web have missed a golden opportunity. E-commerce is still in its infancy. Companies are still figuring out how to succeed on the Web, learning which techniques work and which ones don't. For every e-commerce site that exists, a trio of others has failed. An abundance of business opportunities exists for those entrepreneurs insightful enough to spot them and clever enough to capitalize on them.

One fact of e-commerce that has emerged is the importance of speed. Companies doing business on the Web have discovered that those who reach customers first often have a significant advantage over their slower rivals. "The lesson of the Web is not how the big eat the small, but how the fast eat the slow," says a manager at a venture capital firm specializing in Web-based companies.[42]

Succumbing to this myth often leads entrepreneurs to make a fundamental mistake once they finally decide to go online: They believe they have to have a "perfect" site before they can launch it. Few businesses get their sites "right" the first time. In fact, the most successful e-commerce sites are constantly changing, removing what does not work and adding new features to see what does. Successful Web sites are much like a well-designed flower garden, constantly growing and improving, yet changing to reflect the climate of each season. Their creators worry less about creating the perfect site at the outset than about getting a site online and then fixing it, tweaking it, and updating it to meet changing customer demands. "The person trying to create the perfect (online) store will fail," says Gerry Goldsholle, founder of two Web sites aimed at small companies. "Part of the Internet process is 'try it, learn from it, and fix it.' Delay is your biggest enemy. If you delay, someone else will do it."[43]

APPROACHES TO E-COMMERCE

A successful e-commerce effort requires much more than merely launching a Web site; entrepreneurs must develop a plan for integrating the Web into their overall business strategy. Many entrepreneurs choose to start their e-commerce efforts small and simply and then expand them as sales grow and their needs become more sophisticated. Others make major investments in creating full-blown, interconnected sites at the outset. The cost of setting up a Web site varies significantly, depending on which options an entrepreneur chooses. Generally, Web experts identify three basic pricing categories for creating a Web site: less than $10,000, between $10,000 and $30,000; and more than $30,000. When it comes to choosing an approach to e-commerce, there are no "right" or "wrong" answers; the key is creating a plan that fits into the small company's budget and meets its e-commerce needs as it grows and expands. Entrepreneurs looking to launch an e-commerce effort have five basic choices: (1) online shopping malls, (2) storefront-building services, (3) Internet service providers (ISPs), (4) hiring professionals to design a custom site, and (5) building a site in-house.

Online Shopping Malls

In the under $10,000 category, the simplest way for entrepreneurs to get their businesses online is to rent space for their products at an online shopping mall (also called a shopping portal). Online shopping malls are the equivalent of an electronic strip mall because they list on one site the product offerings from many different small companies. The primary advantages they offer are their simplicity and their low cost. To join an online mall, entrepreneurs simply provide descriptions and photographs of the products they sell. For a low monthly fee, the mall creates and maintains a virtual storefront for the company and funnels customer orders from it to the company.

The major disadvantages of using an online shopping mall are an individual store's lack of prominence and the lack of control entrepreneurs have over their sites. Most malls host dozens of businesses in a multitude of industries, and standing out in the crowd can be a challenge because all of the sites follow a similar (or the same) design. In addition, some malls are much more effective than others at promoting their resident businesses.

Storefront-Building Services

Also in the under $10,000 category are storefront-building services that help entrepreneurs create online shops that include features such as Web-hosting services, the ability to handle secure credit card transactions, databases for order fulfillment and customer tracking, advertising placement, and search engine registration—all for as little as $100 to $500 per month. Some storefront-building services offer to handle a limited number of transactions for free, although most businesses quickly outgrow the free service and end up paying the service the monthly fee for site hosting and operation. Most Internet portals such as Yahoo! (www.store.yahoo.com) and e-commerce service companies, such as FreeMerchant.com (www.freemerchant.com), Microsoft's bcentral.com (www.bcentral.com), Interland (www.interland.com), Bigstep.com (www.bigstep.com), or BizLand.com (www.bizland.com), offer these e-commerce services.

The major advantages of using these storefront-building services is their simplicity and their low cost. Setting up a store can take as little as a few hours, and the hosting company shoulders the burden of setting up and running the cyberstore, creating minimal headaches for the entrepreneur behind it. The downside of these services is that most of their sites look as though they came out of the same cookie-cutter approach because they rely on a limited number of templates to create store sites. It is extremely difficult to make a company's Web store stand out when every storefront is stamped from the same mold. Plus, most services limit the number of products they will handle at the base price on these sites to just 50 to 100.

Despite its drawbacks, using a storefront-building service offers a fast and easy way to create a virtual store that is open 24 hours a day, seven days a week.

A Company Example

After trying on his own for several months to set up an online store selling wines and spirits, George Randall turned to Yahoo! Store for help. He selected backgrounds and graphics from Yahoo! Store's templates, answered questions about the items he would sell and how he wanted them shipped, and soon had his virtual store, Internet Wines & Spirits (www.internetwines.com) up and running. Each day, as many as 7,000 customers from all over the world visit the company's site, which now sells more than 3,000 items and generates one-third of the company's sales. "Overnight we became an international company," says Randall, noting that Internet Wines & Spirits routinely gets orders from Europe and the Far East.[44]

Internet Service Providers and Application Service Providers

Another e-commerce option in the under $10,000 category is using an Internet service provider (ISP) or an application service provider (ASP) to create an online store. ISPs and ASPs provide many of the same features as storefront-design services except they offer their small business customers more design flexibility and the ability to customize their Web sites. ISP packages such as MindSpring Complete Commerce or VerioStore are not as easy to use as the templates from storefront-design services and typically require the entrepreneurs using them to know some basics of the hypertext markup language (HTML) used to design most Web sites. Although most ISPs provide basic design templates, experienced HTML users can modify them easily. ISP templates usually include shopping cart and catalog features as well as order and payment processing and report generation capabilities. ASPs' packages provide these same features. However, rather than requiring users to purchase e-commerce software, ASPs "rent" a variety of e-commerce applications, from site building and hosting to purchasing automation and accounting, to their customers on an as-needed basis.

In addition to hosting and running a company's virtual store, ISPs offer the ability to grow with a small company as its online store's sales volume climbs. Most base their fees on the number of visitors a site attracts and the amount of space it takes up on their server, so start-up stores offering a small product line can spend as little as $100 a month plus initial setup costs. Before choosing an ISP, entrepreneurs should investigate its operating history (specifically the amount of downtime the provider has experienced), the quality of its backup systems (in case of a crash), and its remaining capacity for hosting sites.

A Company Example

When Mike Dubelko launched his online store, DVD.com, in 1996, ISPs were relatively expensive, so Dubelko and his staff created and managed their own small, simple Web site (www.dvd.com). Within six months, however, orders for the movies, games, and music the com-

pany sold on the site shot up from just 50 per week to more than 2,000 per week, and the system Dubelko and his staff had built could not handle the volume. "We were totally overwhelmed," he recalls. "Our success was killing us." Dubelko located an ISP that could create a site capable of capturing and processing the thousands of orders the site generated. The redesigned site allowed customers to check the availability of any DVD and to track the status of their orders online. Today more than 100,000 online visitors browse through DVD Express's inventory of movies, music, and games each day.[45]

Hiring Professionals to Design a Custom Site

Businesses able to spend between $10,000 and $30,000 can afford to hire professionals to create their sites. The primary benefit this option offers is the unlimited ability to customize a site, making it anything an entrepreneur wants, including complete front-office and back-office integration. Just like building a custom-designed house, hiring professionals to design a site from the ground up gives entrepreneurs a high degree of control over the final result. Also, most Web development companies offer complete e-commerce solutions, including consulting and design services, Web hosting, site registration, and listings with search engines and directories.

*For most of its 32-year history, the **Lucas Group's** (an executive search firm) only technological investments were a telephone and a fax machine; the company did not get PCs until late in 1998! Recruiters kept their contact information in desktop Rolodex files and stored candidates' résumés in manila folders. When he arrived in 2000, managing partner Alex Baxter found that no one in the company was resisting the Web. "They just ignored it," he says. Recognizing that the company had fallen far behind its competition, Baxter hired a professional team to build a Web site and an easy-to-use in-house database. Now candidates can upload their résumés electronically to the company's Web site, which automatically routes them to the proper recruiter. Since going live in July 2000, the Web site has attracted more than 1,000 new corporate clients and has generated nearly $7 million in new revenues for the executive search firm![46]*

Because custom-built sites require custom programming, they are much more expensive to create than sites based on preformatted templates. The Gartner Group estimates that building and launching an e-commerce site with complete front-office and back-office integration now costs more than $500,000![47] Expenses in that range are out of the question for most e-commerce entrepreneurs just starting out, and many small companies run their Web sites quite successfully without front-to-back integration.

Building a Web Site In-House

Building a Web site in-house gives an entrepreneur complete control over the site and its design, operation, and maintenance. However, hiring and supporting an in-house staff of Web designers can quickly run up the cost of creating and maintaining a custom Web site into the $250,000 to $500,000 range. Because of the high costs involved in hiring professional Web development companies or in maintaining a staff of Web designers, most entrepreneurs wanting to establish a Web presence do so by using either online shopping malls, storefront-building services, or Internet service providers.

STRATEGIES FOR E-SUCCESS

The average Web user spends an average of 5 hours and 52 minutes online each week. Across a lifetime, the average baby boomer will spend 5 years and 6 months online; the average Generation Xer will spend 9 years and 11 months online; and the average Generation Y user will spend 23 years and 2 months online, almost one-third of a lifetime[48] However, converting these Web surfers into online customers requires a business to do more than merely set up a Web site and wait for the hits to start rolling up. You may be ready to sell, but no one knows you are there! Building sufficient volume for a site takes energy, time, money, creativity, and, perhaps most importantly, a well-defined marketing and promotional strategy. One business writer
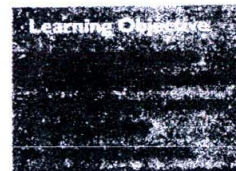
explains, "[Success in e-commerce] isn't glamorous at all. The difference between Web success and Web failure often hinges on how carefully people sift through details and fine-tune niggling plans. E businesses that actually get it . . . understand how to use the Web to push the envelope, to create new tools and business models."[49]

Although the Web is a unique medium for creating a company, launching an e-business is not much different from launching a traditional off-line company. The basic drivers of a successful business remain in place on the Web as well as on Main Street. To be successful, both off-line and online companies require solid planning and a well-formulated strategy that emphasizes customer service. The goals of e-commerce are no different from traditional off-line businesses—to increase sales, improve efficiency, and boost profits by serving customers better.

A Company Example

When longtime friends Mike Morford, Blaine Donnelson, and Shannon Stowell launched Altrec.com (pronounced "all trek") in 1999, they saw an opportunity to create "an outdoor lifestyle destination Web site that brings together everything necessary for individuals to satisfy their passion for the outdoors." The online retailer sells outdoor gear from more than 300 of the world's top makers of clothing and accessories on a Web site built around "passion points" ranging from camping and fly fishing to snowboarding and mountain climbing. The site makes shopping extremely easy for customers with detailed product information, product comparison and sizing charts, 360-degree product views that offer a zoom option, customer product reviews, and many other features. Not only can customers buy equipment at Altrec.com, but they also can book trips to exotic locations, peruse photo galleries and diaries from traveling journalists, and even find locations for getting their outdoor equipment repaired. Customer service representatives provide around-the-clock assistance, answer questions, and can even guide customers (by taking long-distance control of their Web browsers) to the correct pages on the site! Altrec's unparalleled combination of product selection, superb customer service, and convenience has produced dramatic growth rates for the company; more than 600,000 guests visit its Web site each month.[50]

How a company integrates the Web into its overall business strategy determines how successful it ultimately will become. Following are some guidelines for building a successful Web strategy for a small e-company.

Consider Focusing on a Niche in the Market

Rather than try to compete head-to-head with the dominant players on the Web who have the resources and the recognition to squash smaller competitors, entrepreneurs should consider focusing on serving a market niche. Smaller companies' limited resources usually are better spent serving niche markets than trying to be everything to everyone (recall the discussion of the focus strategy in Chapter 3). The idea is to concentrate on serving a small corner of the market the giants have overlooked. Niches exist in every industry and can be highly profitable, given the right strategy for serving them. A niche can be defined in many ways, including by geography, by customer profile, by product, by product usage, and many others.

The Web provides an ideal mechanism for reaching niche customers.

A Company Example

For instance, Dogbooties.com reaches around the globe to find customers who own sled dogs, hunting dogs, dogs with tender feet, or who simply want their dogs to be on the cutting edge of fashion. In addition to dog booties, the company, founded in 1995 by copreneurs Louise and Greg Russell, sells other dog-related accessories. "The Internet allows us to reach all over the world inexpensively," says Greg.[51]

A Company Example

Chris Gwynn also focuses on a niche market with his company, Fridgedoor.com, which he bills as "the Web's magnet store." From Quincy, Massachusetts, Gwynn sells novelty and custom-designed refrigerator magnets. Customers looking for refrigerator magnets can find virtually any design from Betty Boop to the Virgin Mary.[52]

As these two small companies prove, the Web, because of its broad reach, is the ideal mechanism for implementing a focus strategy because small companies can reach large numbers of customers with a common interest.

Develop a Community

On the Web, competitors are just a mouse click away. To attract customers and keep them coming back, e-companies have discovered the need to offer more than just quality products and excellent customer service. Many seek to develop a community of customers with similar interests, the nucleus of which is their Web site. The idea is to increase customer loyalty by giving customers the chance to interact with other like-minded visitors or with experts to discuss and learn more about topics they are passionate about. "It's not going to be a direct revenue source," says Howard Rheingold, author of The Virtual Community. "But it may offer you insight for creating new products. It may help you establish better relationships and more loyalty with your customers."[53]

E-mail lists, chat rooms, customer polls ("What is your favorite sports drink?"), Web logs (or blogs, regularly updated online journals), guest books, and message boards are powerful tools for building a community of visitors at a site because they give visitors the opportunity to have conversations about products, services, and topics that interest them.

Jim Coudal, founder of Coudal Partners Inc., a Chicago-based advertising agency, has relied on a Web log to attract customers from around the globe and to build a stellar reputation for creative ads since 1999. In addition to interesting text, Coudal's blog includes eye-catching photographs, links to articles on everything from advertising history to famous film directors, and information about the latest trends in advertising. Updated twice a day by one of the company's eight employees, the blog attracts 12,000 visitors to the site each week—and the company has never had to purchase an ad![54]

Like Coudal Partners, companies that successfully create a community around their Web sites turn mere customers into loyal fans who keep coming back and, better yet, invite others to join them.

Attract Visitors by Giving Away "Freebies"

One of the most important words on the Internet is *free*. Many successful e-merchants have discovered the ability to attract visitors to their site by giving away something free and then selling them something else. One e-commerce consultant calls this cycle of giving something away and then selling something "the rhythm of the Web."[55] The "freebie" must be something customers value, but it does *not* have to be expensive nor does it have to be a product. In fact, one of the most common giveaways on the Web is *information*. (After all, that's what most people on the Web are after!) Creating a free online or e-mail newsletter with links to your company's site, of course, and to others of interest is one of the most effective ways of driving potential customers to a site. Meaningful content presented in a clear, professional fashion is a must. Experts advise keeping online newsletters short—no more than about 600 words. Although HTML newsletters offer more eye-catching design options, 80 percent of all e-newsletters are in plain text to accommodate the large number of people whose e-mail software cannot display HTML.[56] Poor Richard's E-Mail Publishing by Chris Pirillo (Top Floor Publishing) offers much useful advice on creating online newsletters.

To attract customers to its travel planning Web site, Smarter Living offers customers travel tips and advice, articles filled with useful information, and a free newsletter that arrives at the end of each week and features a "deal alert," which details last-minute travel specials the company has discovered.

Make Creative Use of E-Mail, but Avoid Becoming a "Spammer"

Used properly and creatively, e-mail can be an effective, low-cost way to build traffic on a Web site. Just as with a newsletter, the e-mail's content should offer something of value to recipients. Supported by online newsletters or chat rooms, customers welcome well-constructed permission

e-mail that directs them to a company's site for information or special deals, unlike unsolicited and universally despised e-mails known as "spam." More than 30 billion e-mails are sent world-wide each day, and more than 25 percent of them are spam![57]

To avoid having their marketing messages become part of that electronic clutter, companies should collect visitors' e-mail addresses when they register on a site to receive a "freebie." To be successful at collecting a sufficient number of e-mail addresses, a company must make clear to customers that they will receive messages that are meaningful to them and that the company will not sell e-mail addresses to others (which should be part of its posted privacy policy). Once a business has a customer's permission to send information in additional e-mail messages, it has a meaningful marketing opportunity to create a long-term customer relationship. For example, Ticketmaster, which sells 75 million tickets to concerts and performances each year, e-mails its customers the play lists from the most recent concert they attended along with an offer to purchase a concert T-shirt.[58]

Make Sure Your Web Site Says "Credibility"

As we learned earlier in this chapter, nearly two-thirds of customers do not trust Web sites. Unless a company can build trust in its Web site, selling is virtually impossible. A study by Princeton Survey Research Associates found that 80 percent of Web users say that being able to trust the information on a Web site is important.[59] Visitors begin to evaluate the credibility of a site as soon as they arrive. Does the site look professional? Are there misspelled words and typographical errors? If the site provides information, does it note the sources of that information? If so, are those sources legitimate? Are they trustworthy? Is the presentation of the information fair and objective, or is it biased? Does the company include a privacy policy posted in an obvious place?

One of the simplest ways to establish credibility with customers is to use brand names they know and trust. Whether a company sells nationally recognized brands or its own well-known private brand, using those names on its site creates a sense of legitimacy. People buy brand names they trust, and online companies can use that to their advantage. Businesses selling less well-known brands should use customer testimonials and endorsements (with their permission, of course) about a product or service.

Another effective way to build customer confidence is by joining an online seal program such as TRUSTe or BBBOnLine. The online equivalent of the Underwriter Laboratories stamp or the Good Housekeeping Seal of Approval, these seals mean that a company meets certain standards concerning the privacy of customers' information and the resolution of customer complaints. Providing a street address, an e-mail address, and a toll-free telephone number sends a subtle message to shoppers that a legitimate business is behind a Web site. Many small companies include photographs of their brick-and-mortar stores and of their employees to combat the Web's anonymity and to give shoppers the feeling that they are supporting a friendly small business. One small online retailer includes on his Web site short anecdotes about his dog, Cody, the official company mascot, and Cody's "views" on featured products. The response to the technique has been so strong that Cody has become a celebrity among the company's customers and has her own e-mail address.

Consider Forming Strategic Alliances

Most small companies engaged in e-commerce lack the brand and name recognition that larger, more established companies have. Creating that sort of recognition on the Web requires a signif-icant investment of both time and money, two factors that most small companies find scarce. If building name recognition is one of the keys to success on the Web, how can small companies with their limited resources hope to compete? One option is to form strategic alliances with big-ger companies that can help a small business achieve what it could not accomplish alone. Describing the need for small companies to consider forming strategic alliances, Philip Anderson of Dartmouth's Tuck School of Business says, "You need to build [market] share fast, and that means you have to have more resources than you can get your mitts on by yourself."[60]

Before plunging into a strategic alliance with a larger partner, however, entrepreneurs must understand their dark side. Research shows that 55 percent of strategic alliances unravel within three-and-a-half years.[61] The most common reasons for splitting up? One study found the fol-lowing causes: incompatible corporate cultures (75 percent), incompatible management per-sonalities (63 percent), and differences in strategic priorities (58 percent).[62]

Unfortunately, most strategic alliances fail. In his book, *Partnering Intelligence: Creating Value for Your Business by Building Strong Alliances* (Davies-Black Publishing), Stephen M. Dent offers seven questions every entrepreneur should ask *before* forging an alliance.

1. What is your potential partner's business vision?

2. What are its strategies to achieve its vision?

3. Where does it want to go as a company?

4. What are its values and ethics?

5. What kind of corporate culture does it have?

6. What types of relationships and partnerships does it already have and how well are they working out?

7. Has it conducted an internal assessment of its strengths, weaknesses, and culture?

Based on the answers to these seven questions, entrepreneurs can assess how compatible potential partners are with their own business vision and goals.

Table 7.2 offers seven questions every entrepreneur should ask before entering into a strategic alliance with a partner.

Make the Most of the Web's Global Reach

Despite the Web's reputation as an international marketplace, many Web entrepreneurs fail to utilize fully its global reach. Approximately 665 million people around the world use the Internet, and almost 75 percent of them live outside the United States![63] Only 43 percent of Web users throughout the world speak English, and that percentage is declining. Limiting a global market to only a small portion of its potential by ignoring foreign customers makes little sense.

A Company Example

*When Lisa and Paul Beckham launched **BackWoods Grocery**, an online food and outdoor cookware site, they had no intentions of taking international orders because they thought dealing with tariffs, duties, and customs issues would be too complicated. An order from an English-speaking customer in Switzerland soon changed their minds, however. Lisa Beckham visited the U.S. Postal Service Web site to learn about shipping details and then let the customer (who paid the shipping charges) decide which method to use. To avoid the risks of currency fluctuations, Beckham accepted credit card payment in U.S. dollars only, and the customer's credit card issuer made the conversion. Today, BackWoods Grocery encourages foreign orders from Web customers; foreign sales account for just 2 percent of revenues but are growing fast.[64]*

E-companies wanting to draw significant sales from foreign markets must design their sites with these foreign customers in mind. A common mechanism is to include several "language buttons" on the opening page of a site that take customers to pages in the language of their choice. Experienced e-commerce companies have learned that offering a localized page for every country or region they target pays off in increased sales.

Virtual companies trying to establish a foothold in foreign markets by setting up Web sites dedicated to them run the same risk that actual companies do: offending international visitors by using the business conventions and standards they are accustomed to using in the United States. Business practices, even those used on the Web, that are acceptable, even expected, in the United States may be taboo in other countries. Color schemes can be important, too. Selecting the "wrong" colors and symbols on a site targeting people in a particular country can hurt sales and offend visitors. For example, in the United States and Asia, the "thumbs-up" gesture indicates a positive result, but in Europe and Latin America, it is an obscene gesture! A little research into the subtleties of a target country's culture and business practices can save a great deal of embarrassment and money! Creating secure, simple, and reliable payment methods for foreign customers also will boost sales.

When translating the content of their Web pages into other languages, e-companies must use extreme caution. This is *not* the time to pull out their notes from an introductory Spanish course

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Two Companies That Get It Right

FROM THE TOP OF THE WORLD . . .

Earth Treks, a small company offering professional guide services and experiences for mountain and ice climbs, has found a way to keep customers returning frequently to its Web site (www.earthtreksclimbing.com): It takes them on climbs to exotic locations such as Ecuador's Cotopaxi volcano or to the most challenging summit in the world, the 29,035-foot peak of Mt. Everest. Company guides on these semiannual expeditions use laptop computers and satellite connections to post daily to the Web e-mail journals, digital photographs, and streaming video of their climbs, and climbing enthusiasts from all over the world log on to get the latest updates. Someone who has never been on a climb, especially one as difficult as ascending Mt. Everest, cannot really imagine what it is like, but Earth Treks does everything it can to make the experience real. On a recent excursion he led to Everest, company founder Chris Warner posted the following accounts:

> **May 23**
> I pulled myself up the last of this rock pitch and there, a rise or two above me, was the summit. 100 feet away, an undulating crest . . . I made it to the top just past 10 A.M., and searched for a place to sit down. Naoki handed me his camera and I snapped some photos of him. Clouds were hiding much of the view, but Lhotse looked incredible, with the Lhotse Coulior rising straight up the black face. Makalu was capped by clouds as was Cho Oyu . . .

> **May 26**
> Hey guys. Yes we did have a near disaster on our hands, and I did find myself in the unusual situation of spending two long days at 27,400 feet crying and weakening and hoping and working hard to find a way to keep hope and progress alive. I will write about it soon, but right now, my body and mind are not quite in the same place.

As many as 50,000 visitors logged onto the company's Web site the day Warner reached the summit of Mt. Everest. Earth Treks' Web-based marketing strategy has much to do with the fact that its revenues have doubled in just two years and continue to grow rapidly. Devoted climbers are fascinated by the online journals and pictures posted there and often book a climb with Earth Treks, but the site sends a clear message to visitors: If you are into climbing, whether as a hobby or as a serious obsession, this site is for you! The unique online experience creates a sense of community among Earth Treks' customers that many other companies find so elusive. The company is now receiving record numbers of requests from serious climbers who want to scale the world's most challenging summits.
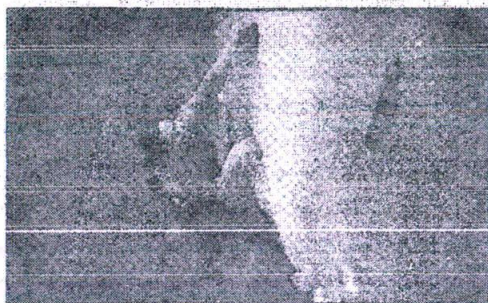
An Earth Treks customer takes on one of the company's indoor climbing walls.

Courtesy of Earth Treks, Inc.

Earth Treks also is using its Web site to cultivate its next generation of customers. With the help of two local teachers, Warner started Shared Summits, a program in which students from ages 6 to 18 can follow climbers' adventures and learn about different countries, climates, geography, and cultures as well as about leadership and teamwork, and earn school credit. Due to the success of the program, the company now hosts kids' birthday parties and has record enrollment in its Youth Rox program, which trains youngsters the basics of climbing on its indoor climbing walls.

The Earth Treks' Web site has returned many times over the original $3,000 Warner spent to create it and the $7,200 a year he spends to maintain it.

. . . TO THE GOURMET'S KITCHEN.

Spencer Chesman, founder of one of the first gourmet food sites on the Web, has built a highly successful, multimillion-dollar business aimed at gourmands everywhere. Launched in 1997, from Yorktown Heights, New York, iGourmet is more than a one-stop shop for exotic foods; it has become a gourmet food *authority*. On its Web site (www.igourmet.com), customers can see large color pictures of every product and read complete descriptions as they shop. A recipe section and a "related items" button help customers find everything they need and boost sales of complementary products. Shoppers can browse the wine and cheese tastings iGourmet sponsors across the country, can sign up for a regularly published e-newsletter, get tips for hosting a party, and even read selections from the *Encyclopedia of Cheese!*

Those searching for just the right gift can use the iGourmet Gift Finder, which allows them to select a price range, and then the site pops up a few pages of gift suggestions in that range. Because many of the items it ships around the world are perishable, iGourmet developed a special foam-lined shipping chest that keeps items cool for up to 48 hours. Just in case, the company offers a 100 percent guaranteed return policy. If a customer is dissatisfied with any product from iGourmet, the company will refund the full purchase price within five business days. It's no

and begin their own translations. Hiring professional translation and localization services to convert a company's Web content into other languages minimizes the likelihood of a company unintentionally offending foreign customers.

Promote Your Web Site Online and Off-Line

E-commerce entrepreneurs have to use every means available—both online and off-line—to promote their Web sites and to drive traffic to them. In addition to using traditional online techniques such as registering with search engines, creating banner ads, and joining banner exchange programs, Web entrepreneurs must promote their sites off-line as well. Ads in other media such as direct mail or newspapers that mention a site's URL will bring customers to it. It is also a good idea to put the company's Web address on *everything* a company publishes, from its advertisements and letterhead to shopping bags, business cards—even employees' uniforms! The techniques for generating publicity for an off-line business covered in Chapter 8 can be just as effective for online businesses needing to make their domain names more well known without breaking their budgets. A passive approach to generating Web site traffic is a recipe for failure; entrepreneurs who are as innovative at promoting their e-businesses as they are at creating them can attract impressive numbers of visitors to their sites.

DESIGNING A KILLER WEB SITE

World Wide Web users are not a patient lot. They sit before their computers, surfing the Internet, their fingers poised on their mouse buttons, daring any Web site to delay them with files that take a long time (to many, that's anything more than about 8 seconds) to load. Slow-loading sites or sites that don't deliver on their promises will cause a Web user to move on faster than a bolt of lightning can strike. Research shows that 59 percent of online customers buy from just a handful of sites that they consider safe and reliable and with which they are familiar.[65] With more than 3.6 million Web sites online, how can entrepreneurs design a Web site that will capture and hold potential customers' attention long enough to make a sale? What can they do to keep customers coming back on a regular basis? There is no sure-fire formula for stopping surfers in their tracks, but the following suggestions will help.

Understand Your Target Customer

Before launching into the design of their Web sites, entrepreneurs must develop a clear picture of their target customers. Only then are they ready to design a site that will appeal to their customers. The goal is to create a design in which customers see themselves when they visit. Creating a site in which customers find a comfortable fit requires a careful blend of market research, sales know-how, and aesthetics. The challenge for a business on the Web is to create the same image, style, and ambiance in its online presence as in its off-line stores.
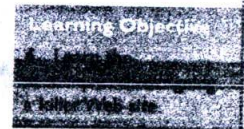
Select a Domain Name That Is Consistent with the Image You Want to Create for Your Company and Register It

Entrepreneurs should never underestimate the power of the right domain name or universal resource locator (URL), which is a company's address on the Internet. It not only tells Web surfers where to find a company, but it also should suggest something about the company and what it does. Even the casual Web surfer could guess that the "toys.com" name belongs to a company selling children's toys. (It does; it belongs to eToys Inc., which also owns "etoys.com," "e-toys.com," and several other variations of its name.) Entrepreneurs must recognize that a domain name is part of the brand they are creating and should create the proper image for the company.

The ideal domain name should be:

- *Short.* Short names are easy for people to remember, so the shorter a company's URL is, the more likely potential customers are to recall it.
- *Memorable.* Not every short domain name is necessarily memorable. Some business owners use their companies' initials as their domain name (for example, www.sbfo.com for Stanley Brothers Furniture Outlet). The problem with using initials for a domain name is that customers rarely associate the two, which makes a company virtually invisible on the Web.
- *Indicative of a company's business or business name.* Perhaps the best domain name for a company is one that customers can guess easily if they know the company's name. For instance, mail-order catalog company J.Crew's URL is www.jcrew.com, and New Pig, a maker of absorbent materials for a variety of industrial applications, uses www.newpig.com as its domain name. (The company carries this concept over to its toll-free number, which is 1-800-HOT-HOGS.)
- *Easy to spell.* Even though a company's domain name may be easy to spell, it is usually wise to buy several variations of the correct spelling simply because some customers are not likely to be good spellers!

Just because an entrepreneur comes up with the perfect URL for his company's Web site does not necessarily mean that he can use it. Domain names are given on a first-come, first-served basis. Before business owners can use a domain name, they must ensure that someone else has not already taken it. The simplest way to do that is to go to a domain name registration service such as Network Solutions' Internic at www.networksolutions.com or Netnames at www.netnames.com to conduct a name search. Entrepreneurs who find the domain name they have selected already registered to someone else have two choices: They can select another name, or they can try to buy the name from the original registrant.

A Company Example

After Becca Williams, founder of **Wallnutz,** *a small company that sells paint-by-number wall murals for children's rooms, came up with the ideal name for her business, she discovered that someone else had already registered the domain name wallnutz.com. She contacted the original registrant and purchased the rights to the name.[66] Some businesses are able to buy the rights to their company names relatively cheaply, but not every online business is as fortunate. Business incubator eCompanies purchased the rights to the domain name "business.com" from an individual for $7.5 million![67]*

Finding unregistered domain names is becoming more difficult; 98 percent of the words in *Webster's English Dictionary* have been registered as Internet domain names![68] Once entrepreneurs find an unused name that is suitable, they should register it (plus any variations of it)—and the sooner, the better! Registering is quite easy: Simply use one of the registration services listed previously to fill out a form and pay $98, which registers the name for two years. The registration renewal fee is $49 per year, but discounts for multiple-year registrations apply. The next step is to register the domain name with the U.S. Patent and Trademark Office (USPTO) at a cost of $245. The USPTO's Web site (www.uspto.gov) not only allows users to register a trademark online, but it also offers useful information on trademarks and the protection they offer.

Be Easy to Find

With more than 3 billion pages already on the Web and more coming on every day, making your site easy for people to find is a real challenge. Because the Web is so expansive, many Web users rely on

search engines to help them locate sites. Just 23 percent of Web users looking for a particular company will type the URL into a browser; the remaining 77 percent turn to search engines to locate the business or the site they are seeking.[69] Most of those surfers will type into the search engine keywords about what a company does ("industrial valves") rather than a particular company name ("Velan Valve Company"). That is why smart Web site designers embed codes called meta tags and title tags that contain keyword search phrases into their home pages that move their sites to the top of the most popular search engines such as Yahoo!, AltaVista, Dog Pile, Excite, Google, Go.com, Infospace, Lycos, Overture, WebCrawler, and others. (The key is figuring out which words and phrases your target customers are typing into search engines and then putting them into your site's meta tags and title tags; this is a never-ending process.) Unfortunately, business owners invest less than 1 percent of their marketing budgets on search engine marketing, which focuses on securing high-priority listings among search engines.[70] Search Engine Watch (www.searchenginewatch.com) offers many useful tips on search engine placement and registration as well as on using meta tags to increase the likelihood that a search engine will list a particular site.

Eventually, most search engines will find a newly posted site, but this may take weeks or even months. That's why many entrepreneurs choose to pay for search engine listings. Not only are their sites picked up more quickly, but they also move to the top of the search results list that searchers see. Rather than spend time themselves submitting their companies' URLs to search engine sites, entrepreneurs can use inexpensive software such as Traffic Builder or hire submission services such as bCentral's Submit It! to submit a site's address to hundreds of search engines. Registering with multiple search engines is critical because even the largest ones cover less than 20 percent of the Web![71]

Table 7.3 describes some techniques for getting the most out of search engine listings.

Give Customers What They Want

Although Web shoppers are price conscious, they rank fast delivery as the most important factor in their purchase decisions. Studies also show that surfers look for a large selection of merchandise available to them immediately. Remember that the essence of selling on the Web is

TABLE 7.3
Techniques for Optimizing Search Engine Use

Because of their widespread use among Web users, search engines are one of the most effective ways to drive traffic to your Web site. What can business owners do to optimize their use of search engines? The following tips will help:

- Submit your Web site to multiple search engines. To save time, consider using one of the automated search engine submission services such as Submit It!
- Consider paying for preferred placement in key search engines, but be sure the benefits outweigh the costs. Fees are usually set on a pay-per-click basis, which means you pay for search engine placement only when it works.
- Place as title tags, meta tags, and text on your Web pages keywords that Web users are likely to use in their searches.
- Find out which words users enter into search engines to find your products or services. Techniques include visiting competitors' Web sites and right-clicking to "View Source" to see which keywords they use, asking customers, using services such as Wordtracker that monitor popular search phrases, and relying on analytics software that tracks how users arrived at your site.
- Add links to other sites. Many "spider-based" search engines such as Google and AltaVista look for them.
- List your products or services separately. The more specific your Web site is, the more likely it will show up in keyword searches.
- Be patient, especially if you use free search engine placement. It often takes four to eight weeks before a site shows up in major search engines.
- Monitor search engine listing results using analytics software that tracks many important statistics such as the total number of visitors, which search engines they used, the keywords they typed in, and many others. These statistics can be valuable tools, helping business owners refine their search engine marketing techniques over time.
- Monitor search engine performance and productivity regularly. It changes constantly, and what worked three months ago may not be producing results today.

providing convenience to customers. Sites that allow them to shop whenever they want, to choose from a wide selection of products, to find what they are looking for quickly and easily, and to pay for it conveniently and securely will keep customers coming back.

Build Loyalty by Giving Online Customers a Reason to Return to Your Web Site

Typically, e-commerce sites experience 60 percent turnover rates among their customers every six weeks![72] Just as with brick-and-mortar retailers, e-tailers that constantly have to incur the expense of attracting new customers find it difficult to remain profitable because of the extra cost required to acquire customers. One of the most effective ways to encourage customers to return to a site is to establish an incentive program that rewards them for repeat purchases. "Frequent-buyer" programs that offer discounts or points toward future purchases, giveaways such as T-shirts emblazoned with a company's logo, or special services are common components of incentive programs. Incentive programs that are properly designed with a company's target customer in mind really work. A study by market research firm NFO Interactive found that 53 percent of online customers say they would return to a particular site to shop if it offered an incentive program.[73]

Establish Hyperlinks with Other Businesses, Preferably Those Selling Products or Services That Complement Yours

Listing the Web addresses of complementary businesses on a company's site and having them list its address on their sites offers customers more value and can bring traffic to your site that you otherwise would have missed. For instance, the owner of a site selling upscale kitchen gadgets should consider a cross-listing arrangement with sites that feature gourmet recipes, wines, and kitchen appliances.

Include an E-Mail Option and a Telephone Number in Your Site

Customers will appreciate the opportunity to communicate with your company. When you include e-mail access on your site, be sure to respond to it promptly. Nothing alienates cyber-customers faster than a company that is slow to respond or fails to respond to their e-mail messages. Also, be sure to include a toll-free telephone number for customers who prefer to call with their questions. Unfortunately, many companies either fail to include their telephone numbers on their sites or bury them so deeply within the sites' pages that customers never find them.

Give Shoppers the Ability to Track Their Orders Online

Many customers who order items online want to track the progress of their orders. One of the most effective ways to keep a customer happy is to send an e-mail confirmation that your company received the order and another e-mail notification when you ship the order. The shipment notice should include the shipper's tracking number and instructions on how to track the order from the shipper's site. Order and shipping confirmations instill confidence in even the most Web-wary shoppers.

Offer Web Shoppers a Special All Their Own

Give Web customers a special deal that you don't offer in any other advertising piece. Change your specials often (weekly, if possible) and use clever "teasers" to draw attention to the offer. Regular special offers available only on the Web give customers an incentive to keep visiting a company's site.

Follow a Simple Design

Catchy graphics and photographs are important to snaring customers, but designers must choose them carefully. Designs that are overly complex take a long time to download, and customers are likely to move on before they appear.

Specific design tips include:

- Avoid clutter. The best designs are simple and elegant with a balance of both text and graphics.
- Avoid huge graphic headers that must download first, prohibiting customers from seeing anything else on your site as they wait (or more likely, *don't* wait). Use graphics judiciously so that the site loads quickly. Zona Research reports that if a sight fails to load within 8 seconds, one-third of potential visitors will leave; a site failing to load within 12 seconds produces a 70 percent abandonment rate.[74]
- Include a menu bar at the top of the page that makes it easy for customers to find their way around your site.
- Make the site easy to navigate by including navigation buttons at the bottom of pages that enable customers to return to the top of the page or to the menu bar. This avoids what one expert calls "the pogo effect," where visitors bounce from page to page in a Web site looking for what they need. Without navigation buttons or a site map page, a company runs the risk of customers getting lost in its site and leaving.
- Regularly look for broken links on your site and purge them.
- Incorporate meaningful content in the site that is useful to visitors, well organized, easy to read, and current. The content should be consistent with the message a company sends in the other advertising media it uses. Although a Web site should be designed to sell, providing useful, current information attracts visitors, keeps them coming back, and establishes a company's reputation as an expert in the field.
- Include a "frequently asked questions (FAQ)" section. Adding this section to a page can reduce dramatically the number of telephone calls and e-mails that customer service representatives must handle. FAQ sections typically span a wide range of issues—from how to place an order to how to return merchandise—and cover whatever topics customers most often want to know about.
- Be sure to post prominently privacy and return policies as well as product guarantees the company offers.
- If your site is heavy on content, say, 100 or more pages, or has more than 100 products for sale, include a search tool that allows visitors to find the product or information they want. Smaller, simpler sites can get by without a search tool if they are organized properly. Setting up a search tool is easy with either a remote search service (available for a monthly fee) or off-the-shelf software.
- Avoid fancy typefaces and small fonts because they are too hard to read. Limit font and color choices to two or three to avoid a circus look.
- Be vigilant for misspelled words, typographical errors, and formatting mistakes; they destroy a site's credibility in no time.
- Avoid using small fonts on "busy" backgrounds; no one will read them!
- Use contrasting colors of text and graphics. For instance, blue text on a green background is nearly impossible to read.
- Be careful with frames. Using frames that are so thick that they crowd out text makes for a poor design.
- Test the site on different Web browsers and on different size monitors. A Web site may look exactly the way it was designed to look on one Web browser and be a garbled mess on another. Sites designed to display correctly on large monitors may not view well on small ones.
- Use your Web site to collect information from visitors, but don't tie up visitors immediately with a tedious registration process. Most will simply leave the site never to return. Offers for a free e-mail newsletter or a contest giveaway can give visitors enough incentive to register with a site.

- Avoid automated music that plays continuously and cannot be cut off.
- Make sure the overall look of the page is appealing. When a site is poorly designed, lacks information, or cannot support customer needs, that [company's] reputation is seriously jeopardized," says one expert.[75]
- Remember: Simpler usually is better.

Assure Customers That Their Online Transactions Are Secure

If you are serious about doing business on the Web, make sure that your site includes the proper security software and encryption devices. Computer-savvy customers are not willing to divulge their credit card numbers on sites are not secure.

Post Shipping and Handling Charges Up Front

A common gripe among online shoppers is that some e-tailers fail to reveal their shipping and handling charges early on in the checkout process. Jupiter Research reports that 63 percent of online buyers have abandoned an online shopping cart because they thought the shipping and handling charges were too high.[76] Responsible online merchants keep shipping and handling charges reasonable and display them early on in the buying process.

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The Amazon.com of the Pool and Spa Industry

In the 10 years that he has sold pool and spa supplies through his online stores, Poolandspa.com, Dan Harrison has tried almost all of the most common ways of driving traffic to his site. However, none has been more successful than premier placement in key search engines, which has transformed Harrison into a search engine marketing aficionado. Harrison discovered early on in his business the importance of marketing and promotion, and over the years he has applied the lessons he learned in his brick-and-mortar business to his click-and-mortar company.

Poolandspa.com started life in 1980 as a small pool service company operated out of Harrison's basement in Smithtown, New York. By 1984, he had moved the company into a small store and became one of the first companies on Long Island to sell hot tub spas. In little more than a year, Harrison opened the first "all hot tub spa" store on Long Island. In the early 1990s, an economic recession hit the company's sales of luxury spas and spa rooms hard, and Harrison shifted his strategy to focus once again on pool and spa service and on selling aftermarket pool and spa accessories. He also undertook a more aggressive marketing campaign that included newspaper ads and direct mail. "We used to send out only two flyers a year for our pool service and product offers," he recalls, "but we boosted that up to two a month."

Using the mailing list of more than 2,000 spa owners the company had, Harrison decided to start publishing a newsletter, *The Long Island Hot Tub Newsletter*, which mixed both informative articles about spas with low-key sales pitches for products and services. Customers loved it, and sales increased as soon as the first newsletter went out. Harrison knew he had found a successful marketing technique.

In 1994, Harrison began to explore something he had heard about called the Internet. "It immediately interested us," he says, "because, at last, we could greatly expand our pool and spa chemical and accessory mail-order business nationwide for a very small investment." Going from "totally computer illiterate" to becoming one of the first small companies on the Internet was a challenge, but Harrison and his employees did it. In 1995, they launched a 150-page Web site called The Virtual Pool and Spa Store. In less than a year, the mailing list of 2,000 spa owners on Long Island who received *The Hot Tub Newsletter* had grown to more than 20,000 spa owners nationwide! Sales skyrocketed. In 1998, Harrison renamed the online store Poolandspa.com.

One of Poolandspa.com's most successful marketing campaigns, both online and off-line, came as a result of taking his dog, Moose, to work every day from the time he was a puppy. The German shepherd–husky mix had so much personality that he became the company's mascot, Moose the Hot Tub Dog. The press loved Moose, featuring him in numerous magazine and newspaper articles, and he appeared in every television commercial Poolandspa.com ran. When Moose died at age 11 in December 2002, the company was deluged with outpourings of sympathy. Customers from all across the country sent cards and flowers, and an industry publication, *Pool and Spa News Magazine*, ran his obituary.

The company still publishes *The Hot Tub Newsletter* and has added *The Swimming Pool Life* for pool owners. The Poolandspa.com Web site continues to serve as both a source of valuable information for customers as well as a sales channel. The site contains detailed product information, how-to articles, troubleshooting tips, "Ask the Spa Guy" and "Ask the Pool Guy" sections, chat rooms, message boards, and a fun

and games section. The huge library of articles about pool and spa topics ("Everything you always wanted to know about pools and hot tub spas") on the Web site is a key part of the company's online marketing because most search engines pick them up, giving Poolandspa.com placement at or near the top of their listings. "Most of the traffic comes to the content, the articles, the pictures, the how-to's," says Harrison, "and we're skimming off the top of that the people who need to buy something." Because of the poolandspa.com site's longevity and Harrison's active search engine marketing strategy, most visitors arrive by way of free search engine listings. Still, Harrison spends considerably on paid search engine listings, where fees are on a pay-per-click basis. To track results of his listings, Harrison uses WebTrends, an analytics tool that gives him statistical feedback about his site's traffic—total visitor count, where visitors come from, and which keywords they use in their searches. Harrison says his goal is to make the company, which now generates more than $7 million in annual revenues, "THE place for pool and spa owners to shop for all their aftermarket needs—the Amazon.com of the pool and spa industry."

1. Why is search engine marketing so important to online businesses?

2. Conduct a Web search to develop a list of at least five techniques small companies can use to optimize their use of search engines.

3. What advice would you offer a business owner who has just launched an e-commerce company about driving traffic to the company's Web site?

Dan Harrison, founder of PoolandSpa.com, and Moose the Hot Tub Dog.
Courtesy of Long Island Hot Tubs

Sources: James Maguire, "Small Business Makes a Big Splash," Small Business Computing, May 16, 2003, www.smallbusinesscomputing. com/emarketing/print.php/22078; "The History of Poolsandspa.com," www.poolandspa.com/page810.htm; Rebecca Robledo, "A Dog's Life." Pool and Spa News Magazine, February 2003, p. 16; "Obituary: Moose the Hot Tub Dog Dies at Age 11," Poolandspa.com, www.poolandspa.com/page3016.htm.

Keep Your Site Updated

Customers want to see something new when they visit stores, and they expect the same when they visit virtual stores as well. Delete any hyperlinks that have disappeared and keep the information on your Web site current. One sure way to run off customers on the Web is to continue to advertise your company's "Christmas Special" in August! On the other hand, fresh information and new specials keep customers coming back.

Consider Hiring a Professional to Design Your Site

Pros can do it a lot faster and better than you can. However, don't give designers free rein to do whatever they want to with your site. Make sure it meets your criteria for an effective site that can sell.

Entrepreneurs must remember that on the World Wide Web every company, no matter how big or small it is, has the exact same screen size for its site. What matters most is not the size of your company but how you put that screen size to use.

TRACKING WEB RESULTS

Software Solutions

7. Explain how companies track the results from their Web sites.

As they develop their Web sites, entrepreneurs seek to create sites that generate sales, improve customer relationships, or lower costs. How can entrepreneurs determine the effectiveness of their sites? Web analytics, tools that measure a Web site's ability to attract customers, generate sales, and keep customers coming back, help entrepreneurs know what works—and what doesn't—on the Web. In the early days of e-commerce, entrepreneurs strived to create sites that

A Company Example

were both "sticky" and "viral." A **sticky site** is one that acts like electronic flypaper, capturing visitors' attention and offering them useful, interesting information that makes them stay at the site. The premise of stickiness is that the longer customers stay in a site, the more likely they are to actually purchase something and to come back to it. A **viral site** is one that visitors are willing to share with their friends. This "word-of-mouse" advertising is one of the most effective ways of generating traffic to a company's site. As the Web has matured as a marketing channel, however, the shortcomings of these simple measures have become apparent, and other e-metrics continue to emerge. E-businesses now focus on **recency**, the length of time between a customer's visits to a Web site. The more frequently customers visit a site, the more likely they are to become loyal customers. Another important measure of Web success is the **conversion (or browse-to-buy) ratio**, which measures the proportion of visitors to a site who actually make a purchase.

How can online entrepreneurs know if their sites are successful? Answering that question means that entrepreneurs must track visitors to their sites, the paths they follow within the site, and the activity they generate while there. A variety of methods for tracking Web results are available, but the most commonly used ones include counters and log-analysis software. The simplest technique is a **counter**, which records the number of "hits" a Web site receives. Although counters measure activity on a site, they do so only at the broadest level. If a counter records 10 hits, for instance, there is no way to know if those hits came as a result of 10 different visitors or as a result of just one person making 10 visits. Plus, counters cannot tell Web entrepreneurs where visitors to their sites come from or which pages they look at on the site.

A more meaningful way to track activity on a Web site is through **log-analysis software**. Server logs record every page, graphic, audio clip, or photograph that visitors to a site access, and log-analysis software analyzes these logs and generates reports describing how visitors behave when they get to a site. With this software, entrepreneurs can determine how many unique visitors come to their site and how many times repeat visitors come back. Owners of e-stores can discover which FAQ customers click on most often, which part of a site they stayed in the longest, which site they came from, and how the volume of traffic at the site affected the server's speed of operation. **Click-stream analysis** allows entrepreneurs to determine the paths visitors take while on a site and to pinpoint the areas in which they spend the most—and the least—time. These tools give the ability to infer what visitors think about a Web site, its products, its content, its design, and other features. Feedback from log-analysis software helps entrepreneurs redesign their sites to eliminate confusing navigation, unnecessary graphics, meaningless content, incomplete information, and other problems that can cause visitors to leave.

*Diana and Gregg Shapiro, co-owners of **All the Right Gifts** (www.alltherightgifts.com), an online shopping service that helps customers find gifts quickly and conveniently, use log-analysis software to manage their Web site and to keep it fresh and focused on what customers are most interested in. They can access their log reports any time of day and generate statistical analyses, tables, and graphs on practically any aspect of their site. "The data help us figure out which search engines are generating the best referrals and what keywords customers are keying in to find us," says Gregg. "Then we use this information to concentrate our marketing efforts in the best possible way."* [77]

Other tracking methods available to owners of e-businesses include:

- *Clustering.* This software observes visitors to a Web site, analyzes their behavior, and then groups them into narrow categories. Companies then target each category of shoppers with products, specials, and offers designed to appeal to them.

- *Collaborative filtering.* This software uses sophisticated algorithms to analyze visitors' interests by comparing them to other shoppers with similar tastes. Companies then use this information to suggest products an individual customer would most likely be interested in, given his or her profile.

- *Profiling systems.* These programs tag individual customers on a site and note their responses to the various pages in the site. Based on the areas a customer visits most, the software develops a psychographic profile of the shopper. For instance, a visitor who reads an article on massage techniques might receive an offer for a book on acupuncture or a magazine focusing on alternative medicine.

■ *Artificial intelligence (AI)*. This software, sometimes called neural networking, is the most sophisticated of the group because it actually learns from users' behavior. The more these programs interact with customers, the "smarter" they become. Over time, they can help online marketers know which special offers work best with which customers, when customers are most likely to respond, and how to present the offer.

Return on Investment

Just like traditional businesses, e-businesses must earn a reasonable return on an entrepreneur's investment. The difficulty, however, is that much of the total investment required to build, launch, maintain, and market a Web site is not always obvious. Plus, the payoffs of a successful site are not easy to measure and do not always fit neatly into traditional financial models that calculate return on investment (ROI). For instance, how can a business with both a click- and brick presence determine exactly how many customers come into its retail store as a result of having visited its Web site? Can it quantify the increase in customer loyalty as a result of its e-commerce efforts? Many companies have discovered that the payoff from their online sales efforts are long term and hard to quantify accurately.

Owners of e-businesses are developing new measures unique to e-commerce to evaluate the performances of their companies. In addition to calculating ROI, many online businesses compute **cost per action (CPA)**, the amount it costs to produce a particular customer action such as registering for a newsletter, requesting information, downloading an article, and others. The actions a company uses should correlate to future sales. **Cost per order (CPO)** is a common measurement for online retailers. It measures the cost a company incurs to generate a customer order and can be calculated across all product lines or for a specific product. iGo, an online retailer of mobile computing and communication accessories (www.igo.com), has created an integrated set of performance measures that includes the lifetime value (LTV) of its customers and customer retention rates as well as several traditional financial measures.[78]

cost per action—*a measure of performance that calculates the amount it costs to produce a particular customer action.*

cost per order—*a measure of performance that calculates the amount it costs to generate a customer order.*
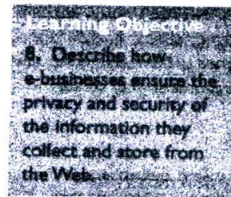
ENSURING WEB PRIVACY AND SECURITY

Privacy

The Web's ability to track customers' every move naturally raises concerns over the privacy of the information companies collect. E-commerce gives businesses access to tremendous volumes of information about their customers, creating a responsibility to protect that information and to use it wisely. According to the Pew Internet & American Life Project, 86 percent of Internet users say they worry about online privacy.[79] To make sure they are using the information they collect from visitors to their Web sites legally and ethically, companies should take the following steps:

TAKE AN INVENTORY OF THE CUSTOMER DATA COLLECTED. The first step to ensuring proper data handling is to assess exactly the type of data the company is collecting and storing. How are you collecting it? Why are you collecting it? How are you using it? Do visitors know how you are using the data? Do you need to get their permission to use it in this way? Do you use all of the data you are collecting?

DEVELOP A COMPANY PRIVACY POLICY FOR THE INFORMATION YOU COLLECT. A **privacy policy** is a statement explaining the nature of the information a company collects online, what it does with that information, and the recourse customers have if they believe the company is misusing the information. Several online privacy firms, such as TRUSTe (www.truste.org), BBBOnline (www.bbbonline.com), and BetterWeb (www.betterweb.com) offer Web "seal programs," the equivalent of a Good Housekeeping Seal of privacy approval. To earn a privacy seal of approval, a company must adopt a privacy policy, implement it, and monitor its effectiveness. Many of these privacy sites also provide online policy wizards, automated questionnaires that help e-business owners create comprehensive privacy statements.

privacy policy—*a statement explaining the nature of the information a company collects online, what it does with that information, and the recourse customers have if they believe the company is misusing the information.*

POST YOUR COMPANY'S PRIVACY POLICY PROMINENTLY ON YOUR WEB SITE AND FOLLOW IT. Creating a privacy policy is not sufficient; posting it in a prominent place on the Web site (which should be accessible from *every* page on the Web site), and then

abiding by it make a policy meaningful. One of the worst mistakes a company can make is to publish its privacy policy online and then to fail to follow it. Not only is this unethical, but it also can lead to serious damage awards if customers take legal action against the company.

KBKids.com, an online retailer of children's toys, games, and videos, (www.kbkids.com), positions its privacy policy in a highly prominent position on its site using a large tab that links to a separate page. The page provides a comprehensive description of its policy, the way it collects information, how customers can view the information the company collects, and its affiliation with two privacy programs, TRUSTe and BBBOnLine. "We established a security and privacy policy to assure our customers that we respect the information they provide to us and that its only use is to help us serve them better," says KBKids.com's marketing vice president.[80]

Security

A company doing business on the Web faces two conflicting goals: to establish a presence on the Web so that customers from across the globe can have access to its site and to maintain a high level of security so that the business, its site, and the information it collects are safe from hackers and intruders intent on doing harm. Companies have a number of safeguards available to them, but hackers with enough time, talent, and determination usually can beat even the most sophisticated safety measures. If hackers manage to break into a system, they can do irreparable damage, stealing programs and data, modifying or deleting valuable information, changing the look and content of sites, or crashing sites altogether. For instance, hackers recently gained unauthorized access to a Web server at Capetown-Rio, a small marketing communications firm in Redmond, Washington, and deleted key files containing promotional campaigns for several of the company's most important customers.[81]

To minimize the likelihood of invasion by hackers, e-companies rely on several tools, including virus detection software, intrusion detection software, and firewalls. Perhaps the most basic level of protection, **virus detection software** scans computer drives for viruses, nasty programs written by devious hackers and designed to harm computers and the information they contain. The severity of viruses ranges widely, from relatively harmless programs that put humorous messages on a user's screen to those that erase a computer's hard drive or cause the entire system to crash. Because hackers are *always* writing new viruses to attack computer systems, entrepreneurs must keep their virus detection software up-to-date and must run it often. An attack by one virus can bring a company's entire e-commerce platform to a screeching halt in no time!

Intrusion detection software is essential for any company doing business on the Web. These packages constantly monitor the activity on a company's network server and sound an alert if they detect someone breaking into the company's computer system or if they detect unusual network activity. Intrusion detection software not only can detect attempts by unauthorized users to break into a computer system while they are happening, but it also can trace the hacker's location. Most packages also have the ability to preserve a record of the attempted break-in that will stand up in court so that companies can take legal action against cyberintruders.

A **firewall** is a combination of hardware and software operating between the Internet and a company's computer network that allows employees to have access to the Internet but keeps unauthorized users from entering a company's network and the programs and data it contains. Establishing a firewall is essential to operating a company on the Web, but entrepreneurs must make sure that their firewalls are set up properly. Otherwise, they are useless! One recent study of more than 2,000 Web sites by ISCA.net, a security consulting firm, found even though every site had a firewall in place, more than 80 percent were vulnerable to attack with commonly available software because they were not properly designed.[82] Even with all of these security measures in place, it is best for a company to run its Web page on a separate server from the network that runs the business. If hackers break into the Web site, they still do not have access to the company's sensitive data and programs.

The Computer Security Institute (www.gocsi.com) offers articles, information, and seminars to help business owners maintain computer security. *The Business Security e-Journal* (www.lubrinco.com) is a free monthly newsletter on computer security, and *Information*

virus detection software—*programs that scan computer drives for viruses, nasty programs written by devious hackers and designed to harm computers and the information they contain.*

intrusion detection software—*programs that constantly monitor the activity on a company's network server and sound an alert if they detect someone breaking into the system or if they detect unusual network activity.*

firewall—*a combination of hardware and software that allows employees to have access to the Internet but keeps unauthorized users from entering a company's network and the programs and data it contains.*

Security Magazine (www.infosecuritymag.com), published by the International Computer Security Association (www.icsa.net), also offers helpful advice on maintaining computer security. For entrepreneurs who want to test their sites' security, the ICSA offers its Security Snapshot system (free of charge) that runs various security tests on a site and then e-mails a "Risk Index" score in six different categories, including the site's risk of hacker intrusion.

In e-commerce just as in traditional retail, sales do not matter unless a company gets paid! On the Web customers demand transactions they can complete with ease and convenience, and the simplest way to allow customers to pay for e-commerce transactions is with credit cards. From a Web customer's perspective, however, one of the most important security issues is the security of their credit card information.

Processing credit card transactions requires a company to obtain an Internet merchant account from a bank or financial intermediary. Setup fees for an Internet merchant account typically range from $500 to $1,000, but companies also pay monthly access and statement fees of between $40 and $80 plus a transaction fee of 10 to 60 cents per transaction. Once an online company has a merchant account, it can accept credit cards from online customers. To ensure the security of their customers' credit card numbers, online retailers typically use secure sockets layer (SSL) technology to encrypt customers' transaction information as it travels across the Internet. By using secure shopping cart features from storefront-building services or Internet service providers, even the smallest e-commerce stores can offer their customers secure online transactions.

Online credit card transactions also pose a risk for merchants; online companies lose an estimated $1 billion to online payment fraud each year.[83] The most common problem is **chargebacks**, online transactions that customers dispute. Unlike credit card transactions in a retail store, those made online involve no signatures, so Internet merchants incur the loss when a customer disputes an online credit card transaction. Experts estimate that payment fraud online is 12 times greater than in brick-and-mortar stores.[84] Research firm GartnerG2 says that one of every 20 Internet transactions is an attempted fraud.[85] A thief in Romania recently tried to use a stolen credit card to purchase eight handbags from Velma Handbags, a small company founded by Margaret Cobbs, but the company that handles her credit card transactions discovered the attempt and stopped the $380 transaction.[86]

One way to prevent fraud is to ask customers for their card verification value (CVV or CVV2), the three-digit number above the signature panel on the back of the credit card, as well as their card number and expiration date. Online merchants also can subscribe to a real-time credit card processing service that authorizes credit card transactions, but the fees can be high. Also, using a shipper that provides the ability to track shipments enables online merchants to prove that the customer actually received the merchandise and can help minimize the threat of payment fraud.

chargebacks—*online transactions that customers dispute.*

E-commerce is creating a new economy, one that is connecting producers, sellers, and customers via technology in ways that have never been possible before. In this fast-paced world of e-commerce, size no longer matters as much as speed and flexibility do. The Internet is creating a new industrial order, and companies that fail to adapt to it will soon become extinct.

1. Describe the benefits of selling on the World Wide Web.

Although a Web-based sales strategy does not guarantee success, the companies that have pioneered Web-based selling have realized many benefits, including the following:

- The opportunity to increase revenues.
- The ability to expand their reach into global markets.
- The ability to remain open 24 hours a day, seven days a week.
- The capacity to use the Web's interactive nature to enhance customer service.
- The power to educate and to inform.
- The ability to lower the cost of doing business.
- The ability to spot new business opportunities and to capitalize on them.
- The power to track sales results.

2. Understand the factors an entrepreneur should consider before launching into e-commerce.

Before launching an e-commerce effort, business owners should consider the following important issues:

- How a company exploits the Web's interconnectivity and the opportunities it creates to transform relationships with its suppliers and vendors, its customers, and other external stakeholders is crucial to its success.
- Web success requires a company to develop a plan for integrating the Web into its overall strategy. The plan should address issues such as site design and maintenance, creating and managing a brand name, marketing and promotional strategies, sales, and customer service.
- Developing deep, lasting relationships with customers takes on even greater importance on the Web. Attracting customers on the Web costs money, and companies must be able to retain their online customers to make their Web sites profitable.
- Creating a meaningful presence on the Web requires an ongoing investment of resources—time, money, energy, and talent. Establishing an attractive Web site brimming with catchy photographs of products is only the beginning.
- Measuring the success of its Web-based sales effort is essential to remaining relevant to customers whose tastes, needs, and preferences are always changing.

3. Explain the 12 myths of e-commerce and how to avoid falling victim to them.

The 12 myths of e-commerce are:

Myth 1. Setting up a business on the Web is easy and inexpensive.

Myth 2. If I launch a site, customers will flock to it.

Myth 3. Making money on the Web is easy.

Myth 4. Privacy is not an important issue on the Web.

Myth 5. The most important part of any e-commerce effort is technology.

Myth 6. "Strategy? I don't need a strategy to sell on the Web! Just give me a Web site, and the rest will take care of itself."

Myth 7. On the Web, customer service is not as important as it is in a traditional retail store.

Myth 8. Flash makes a Web site better.

Myth 9. It's what's up front that counts.

Myth 10. E-commerce will cause brick-and-mortar retail stores to disappear.

Myth 11. The greatest opportunities for e-commerce lie in the retail sector.

Myth 12. It's too late to get on the Web.

4. Discuss the five basic approaches available to entrepreneurs wanting to launch an e-commerce effort.

Entrepreneurs looking to launch an e-commerce effort have five basic choices: (1) online shopping malls, (2) storefront-building services, (3) Internet service providers (ISPs), (4) hiring professionals to design a custom site, and (5) building a site in-house.

5. Explain the basic strategies entrepreneurs should follow to achieve success in their e-commerce efforts.

Following are some guidelines for building a successful Web strategy for a small e-company:

- Consider focusing on a niche in the market.
- Develop a community of online customers.
- Attract visitors by giving away "freebies."
- Make creative use of e-mail, but avoid becoming a "spammer."
- Make sure your Web site says "credibility."

- Consider forming strategic alliances with larger, more established companies.
- Make the most of the Web's global reach.
- Promote your Web site online and off-line.

6. Learn the techniques of designing a killer Web site.

There is no sure-fire formula for stopping surfers in their tracks, but the following suggestions will help:

- Select a domain name that is consistent with the image you want to create for your company and register it.
- Be easy to find.
- Give customers what they want.
- Establish hyperlinks with other businesses, preferably those selling products or services that complement yours.
- Include an e-mail option and a telephone number in your site.
- Give shoppers the ability to track their orders online.
- Offer Web shoppers a special all their own.
- Follow a simple design for your Web page.
- Assure customers that their online transactions are secure.
- Keep your site updated.
- Consider hiring a professional to design your site.

7. Explain how companies track the results from their Web sites.

The simplest technique for tracking the results of a Web site is a counter, which records the number of "hits" a Web site receives. Another option for tracking Web activity is through log-analysis software. Server logs record every page, graphic, audio clip, or photograph that visitors to a site access, and log-analysis software analyzes these logs and generates reports describing how visitors behave when they get to a site.

8. Describe how e-businesses ensure the privacy and security of the information they collect and store from the Web.

To make sure they are using the information they collect from visitors to their Web sites legally and ethically, companies should take the following steps:

- Take an inventory of the customer data collected.
- Develop a company privacy policy for the information you collect.
- Post your company's privacy policy prominently on your Web site and follow it.

To ensure the security of the information they collect and store from Web transactions, companies should rely on virus and intrusion detection software and firewalls to ward off attacks from hackers.

9. Learn how to evaluate the effectiveness of a company's Web site.

Because the techniques used to evaluate traditional companies do not always fit e-commerce businesses, online entrepreneurs are developing new models to evaluate the performances of their companies that include measures of customer behavior and retention, financial returns, and site performance.

THE BUSINESS DISC

Launch *The Business Disc*, and continue from where you left off until you have completed Part I and are ready to begin Part II, "The First Year of Business."

BUSINESS PLAN PRO

Business PlanPro

Use the content of this chapter to update the components of your business plan. If necessary, modify your plan to incorporate your company's Web strategy.

Review the questions on page 217 to help you focus your company's Web strategy. How do you plan to create, support, and promote your site? Is the URL you plan to use available for registration?

1. How have the Internet and e-commerce changed the ways companies do business?

2. Explain the benefits a company earns by selling on the Web.

3. Discuss the factors entrepreneurs should consider before launching an e-commerce site.

4. What are the 12 myths of e-commerce? What can an entrepreneur do to avoid them?

5. Explain the five basic approaches available to entrepreneurs for launching an e-commerce effort. What are the advantages, the disadvantages, and the costs associated with each one?

6. What strategic advice would you offer an entrepreneur about to start an e-company?

7. What design characteristics make for a successful Web page?

8. Explain the characteristics of an ideal domain name.

9. Describe the techniques that are available to e-companies for tracking results from their Web sites. What advantages does each offer?

10. What steps should e-businesses take to ensure the privacy of the information they collect and store from the Web?

11. What techniques can e-companies use to protect their banks of information and their customers' transaction data from hackers?

12. Why does evaluating the effectiveness of a Web site pose a problem for online entrepreneurs?

BEYOND THE CLASSROOM . . .
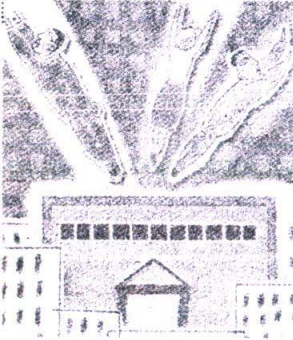
1. Work with a team of your classmates to come up with an Internet business you would be interested in launching. Come up with several suitable domain names for your hypothetical e-company. Once you have chosen a few names, go to a domain name registration service such as Network Solutions' Internic at www.networksolutions.com or Netnames at www.netnames.com to conduct a name search. How many of the names your team came up with were already registered to someone? If an entrepreneur's top choice for a domain name is already registered to someone else, what options does he or she have?

2. Select several online companies with which you are familiar and visit their Web sites. What percentage of them have privacy policies posted on their sites? How comprehensive are these policies? What percentage of the sites you visited belonged to a privacy watchdog agency such as TRUSTe or BBBOnLine? How important is a posted privacy policy for e-companies? Explain.

3. Visit five e-commerce sites on the Web and evaluate them on the basis of the Web site design principles described in this chapter. How well do they measure up? What suggestions can you offer for improving the design of each site? If you were a customer trying to make a purchase from each site, how would you respond to the design?

4. Visit the "Understanding Privacy" Web site at BBBOnLine (www.bbbonline.org/ understandingprivacy). Contact the owner of a Web-based business in your town and use the assessment tool "How's Your Privacy Quotient?" from the BBBOnLine Web site to evaluate the company's privacy policy. How does the company score on the PQ assessment tool? Use the resources on this site and others to develop a list of suggestions for improving the company's score.