

What About This E-commerce Thing?

David Paikin

President of Domains by Design Inc.

It is difficult to pick up a newspaper or watch TV without hearing about E-Commerce. Millions are made and lost; we are told our future as entrepreneurs depends on it; but what is it really all about? In the next few paragraphs I hope to give some clarity and simple ideas as to what is important and what you should know about E-Commerce.

The first issue we should examine is just what is E-Commerce? It would be hard to find a dictionary definition of E-commerce, as it is so new, so I will venture my own definition for you. E-Commerce is an Internet web based method of selling your product or service. And while a good E-Commerce strategy may include elements of advertising, market research, promotion and branding, selling is the ultimate goal. Simple as that! What is complicated however, is establishing the best mechanism for processing the sale. The buyer finds your web site, sees something she or he likes and wants to buy ... that has a nice ring to it, doesn't it - buy. But how are you going to process the sale in a way satisfactory to the customer and cost effective for you?

First, let us look at the sales transaction from the buyer's point of view. Why should a buyer trust you? When buyers shop at a "brick and mortar" store, (some would say a real store), they can see you and know where to find you if there is a problem. They enjoy the convenience of using their credit card and feel it can be used securely in a "real store". But what about a web store that has no walls or floor or visible sales staff? The big drawbacks of E-Commerce for small businesses are the buyer's concern that problems won't be corrected and their reluctance to give their credit card number to "invisible" people. Because of these fears it is important to give the buyer confidence in your operation. This can be accomplished by doing three things:

Provide the buyer information on your location and how you can be contacted by phone. By giving this information the customer feels you are real and they can contact you if there is a problem. Contacting you by e-mail alone may not be enough to make many people feel confident in your customer service.

Develop a policy on confidentiality and post a privacy statement on your site. The privacy statement can say something about respecting your customers' privacy and not contacting them without their permission. If you intend to make future contact, you can assure them that you will stop if they do not want the information you send them. Also, unless you intend to sell client lists, a statement that you will not sell their names to other businesses builds customer confidence.

Provide the buyer the convenience of secure credit card transactions. Subscribing to a three party or gateway system can accomplish this. The banks have gone through a long and complicated process to develop this system of secure transactions. Briefly, in a three party system the buyer provides her/his credit card number to a trusted third party, such as a bank. The bank in-turn pays the vendor. In this way the vendor never has access to the card number. This ensures a convenient and secure transaction on the Internet for the buyer.

Without these assurances of good customer service and the secure use of their credit card, you will be waging an uphill struggle to build buyer confidence and make the sale.

Now that we've considered the buyer's point of view, what is required for cost effective transactions? In order to do E-Commerce transactions, most web sites use a gateway third party as described above. This service is offered by banks and specialized companies. The cost and depth of services available vary widely, and you will need to shop around carefully to find the most cost-effective service for your needs. However, here are some of my observations.

As an entrepreneur, you have probably run into the problem of "THE BANK". Basically, they are not friendly to us. From the bank's standpoint, credit card fraud is 20 times greater on the Internet than in more traditional forms of business, so they need to protect themselves and their customers. As a result, banks require a security deposit that most of us small entrepreneurs can not afford. When I went to my bank to arrange Internet commerce, I was told that they do not offer that service. (Wish I had asked that question before I ordered all those personalized cheques). The second bank I went to wanted a \$7000.00 security deposit for an Internet account. Plus they reserved the right to claw back (cancel) any sale for up to 6 months after the transaction, if the buyer disputed anything. They said this was because I worked out of my home, (not a proper business location) and I had not been in my Internet based business long enough to establish credibility. They were not entrepreneur friendly. If you are in a business that can meet their criteria consider going to your bank. Some banks are cooperative and may offer the depth of service your business requires. However, there are economical alternatives you may wish to investigate.

There are gateway companies that can handle all popular credit cards through the one source. That means you will be able to accept Visa, MasterCard, American Express etc. without opening accounts with each separate credit card company. Prices can vary and you have to examine the costs very carefully. Mostly, service fees will depend on the number of transaction and the average dollar amount of each transaction you will be processing. Terms that you should inquire about include the following: Is there an initial fee? Is there software to install or buy? What is the transaction fee? (Some companies charge per transaction.) What percentage is deducted to pay the credit card company and is it a sliding scale, which is lowered as your business increases? How and when are you reimbursed? How do they handle foreign currency? What is the claw back for buyer complaints and over how long a period? (Some deduct a small percentage on each sale and hold the money for 6 months to cover their liability.)

In some cases it may not be feasible to offer credit card transactions at all. If you are selling small inexpensive items, dealing with gateway companies may be cost prohibitive. I have a small site selling lotions and most items retail for under \$20.00. Between the cost of the credit card, the transaction fee and the claw back, my costs

would be too high to actually sell the lotion. In this case, the traditional billing method i.e. by invoicing can be a solution. The customer finds your contact information on the site, and can call or email you their order.

As you begin to investigate gateway companies and compare costs, you may want to look at the following:

- Internet Secure (www.internetsecure.com)
- Planet Payment (www.planetpayment.com)
- Bag Boy (www.bagboy.com)

Finally, there are ways to offset the costs of doing business on the Internet. For example, Affiliate Programs are a tempting opportunity for E-Commerce profits. As an affiliate, you place a banner or logo on your site promoting another site. There are several methods of compensation:

- you are paid for placing their ad on your site;
- you are paid if the surfer clicks on their banner and goes to their site;
- you are paid a commission if the product they are promoting is purchased.

I have a problem recommending this form of E-commerce to some types of businesses. The question I ask is why do I want someone who has found my site to leave it so quickly? After all, a banner encourages the surfer to go somewhere else. The only affiliations I have are with a major book retailer (so I can get a commission on my own purchases) and the gateway companies that aid my business. In the case of the retailer, I have placed their logo in an inconspicuous location on my site. With the gateway companies I have not put their logo on my site. Instead, I recommend these "partners" to my clients in person.

We have looked at what E-Commerce is all about; buyer confidence and cost effective services; gateways to handle the transactions for you; and, affiliate programs. The Internet is here to stay and should be a part of any business. Cost to integrate E-Commerce into a web site varies depending on complexity, but need not be prohibitive. Investigate and compare. You can always start small and grow your web site as your business grows. Good luck to all of us entrepreneurs.

David Paikin is president of Domains by Design Inc. (www.domainsbydesign.com) a web site creation, design and maintenance company. David is a Graduate of the SEA Program. In addition to his Internet experience David has 23 years business experience in retailing and real estate brokerage. You can reached David by phone at (416) 225-1057 or e-mail david@domainsbydesign.com