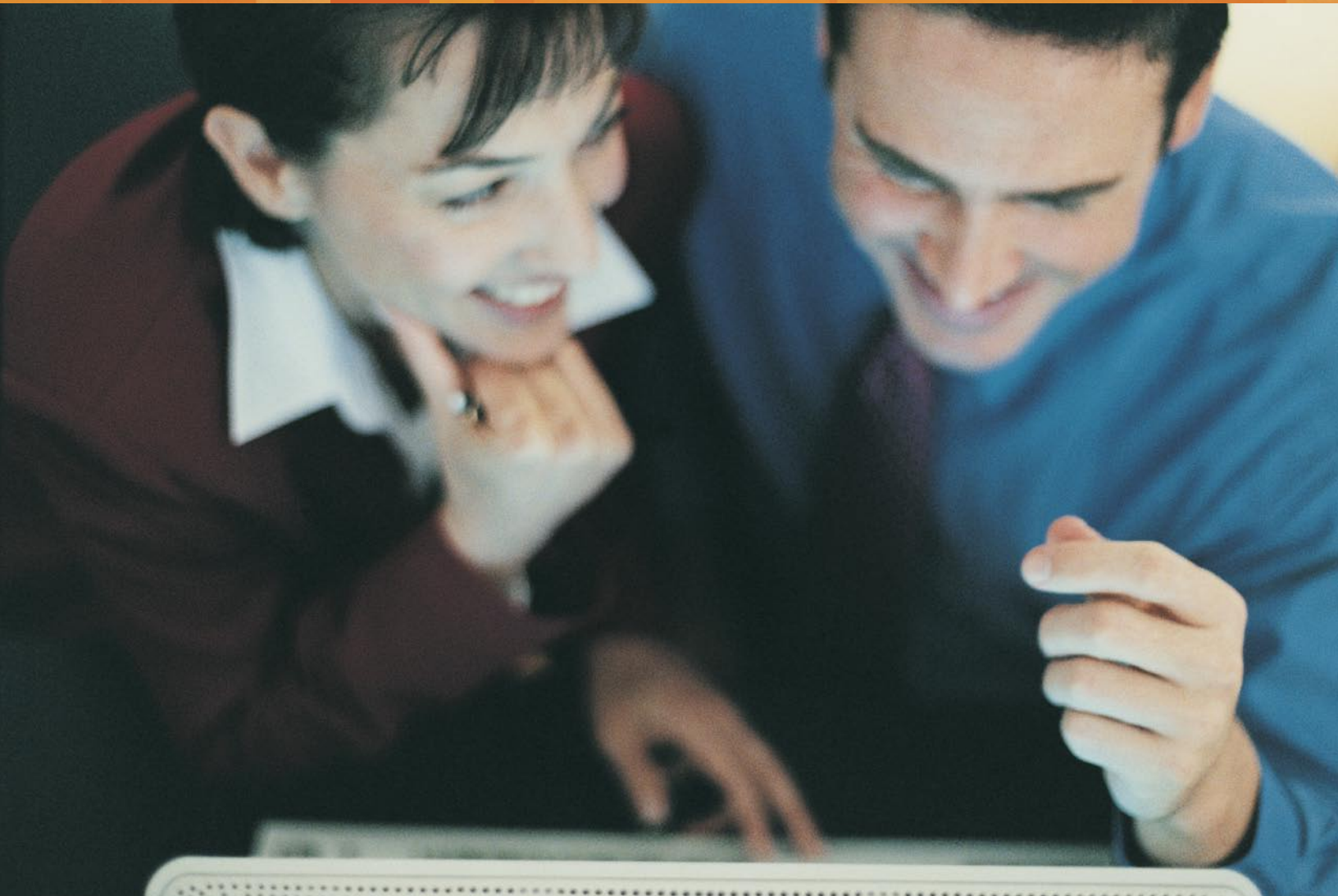


The Entrepreneur's Guide to Doing Business Online

by Rieva Lesonsky, **Entrepreneur** magazine



PayPal[®]



53 percent of online shoppers planned to buy even more on the Internet in the coming year.

Not so many years ago, when I'd meet with entrepreneurs and small business owners, we'd discuss how to move customers faster through lines – phone lines, checkout lines, fashion lines and product lines. These days, the topic generally is how to move customers faster *online*.

Small-business owners who have extended their operations to the Internet tell me it's the smartest, most productive, competitive step they've ever taken and want to know how to capitalize further on this market. Those who aren't yet online are tripping over themselves to find out if and how they can manage the move to the web.

As with any business move or expansion, considering an online presence can raise a sometimes dizzying list of questions for an entrepreneur. Exactly what must be put in place to make it happen? How does an online presence change the market for the business? What are competitors doing? How will people shop? What kind of security is required? How will customers pay online? We put together this guide, a primer of sorts, to help answer those questions.

Small businesses that have little or no e-commerce capabilities on their web sites will learn about taking the next step in converting their marketing sites into selling locations that extend their customer bases, images and sales in entirely new ways. Those entrepreneurs not yet online will discover how the Internet is likely to transform their businesses and introduce them to markets far beyond those which are currently in reach.

According to research firm IDC, the cost of setting up a web site has decreased significantly from the height of the Internet boom, when small-business owners could expect to shell out as much as \$10,000 for the design and set-up, plus hundreds more to update it. Today it can be done

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for as little as \$1,200. In 2005, though, only about half of the nation's small businesses are estimated to have their own web sites, up from about 40 percent in 2002.

An AC Nielsen survey recently reported that 53 percent of online shoppers planned to buy even more on the Internet in the coming year. Why? It seems customers – who once were reluctant to try online shopping – discovered a new level of convenience, speed, selection and security after ordering online.

The irony is that even though consumers have overcome their initial doubts about Internet shopping, many small businesses are holding back from leveraging all they can from e-commerce. The problem here is a perception – often misguided – about what it takes to start an online store that sells directly to consumers. Concerns that small business owners may have include:

- **The cost of maintaining an online operation.**
- **Fear of technology and inexperience with the online medium.**
- **Perceptions of complicated set-up processes.**

Today, entrepreneurs have access to a host of packaged e-commerce programs, online experts for hire, and most importantly a global marketplace that allows small businesses to grow. Equipped with the right tools, resources and expertise, the time has never been better for small business owners to take the plunge and make the move to the web.





The Internet is increasing the number of potential customers, but it's also driving profitability.

Why Go Online?

The most amazing aspect of e-commerce is its ability to impact sales and marketing efforts immediately. By going online, suddenly a neighborhood bakery or a home-based consulting service expands its reach to a national, or even international base of potential customers. Web-based sales know no international boundaries.

Forrester Research, which analyzes online trends and statistics, projects the online retail market for U.S. businesses to be \$230 billion by 2008. That's a full 10 percent of anticipated total U.S. retail sales.

Not only is the Internet increasing the number of potential customers that a company can reach, but it's also driving profitability, according to research from IPSOS, commissioned by PayPal. The survey discovered that, far from being an extra "expense," Internet operations boosted businesses' bottom lines.

- **Of small businesses that sell online, 64 percent said the Internet has increased their revenues or sales.**
- **48 percent felt the Internet helped to expand their geographic reach in the U.S.**
- **And 73 percent saved money by decreasing administrative costs.**

Of small businesses that sell online, 73 percent saved money by decreasing administrative costs.

Cash flow is of significant importance to a new business – online or brick and mortar. The study found that small business owners who conduct business online feel it allows them to receive payments faster and conduct business easier.

When entrepreneurs move online, they establish themselves on a level playing field with larger competitors. On the Internet, even the smallest online retailer can be as attractive and as functional as the largest big box store – without the need to have a physical presence on every street corner. Often, small shops project a “boutique” feel that attracts shoppers, who perceive smaller businesses as more distinctive than larger stores.





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What It Takes To Go Online

There are two resounding traits that help entrepreneurs overcome the challenges of starting a business and reaping the rewards of their labor. Just like opening a physical store, setting up shop online takes passion and demands a high level of optimism. The passion is the desire on the part of the entrepreneur to find something he or she loves to do and make a career out of it. Positive thinking allows a person to stay focused in the face of cynicism from banks, peers and competitors. A “yes I can” attitude quickly translates to “Wow, it’s working” as an online business opens its doors to the world.

Moving a business online doesn’t have to be an arduous process. To set up an online business, entrepreneurs should apply their passion and positive thinking to three key areas:

- 1. The planning process:** everything an entrepreneur needs to know, consider and decide before starting an e-commerce site.
- 2. Developing a marketing strategy:** determining how to get the word out and how to maintain good relationships with customers.
- 3. Understanding technology needs:** the tricks and tools that make it all happen.

The Planning Process

First and foremost, every small business owner needs a well-thought plan. The Internet is the best place to find information, learn from peers and effectively manage resources to formulate a plan that is perfect for a particular business and its owner.

The plan should look at every aspect of the proposed online business with a critical eye. There are several important questions to address here.

Does the web make sense for this business?

We've already established that the web has immense power to transform a business. With that said, sometimes a product just doesn't seem to lend itself to online sales – at least at first glance. Businesses like amusement parks, bowling alleys and utility companies either require the customer to be on-site or offer a product that is largely intangible. But even for those types of businesses, customers have come to expect an online presence. A company can sell tickets or offer discounts through its web site, show images and videos of its facilities, set up online games that relate to and increase demand for its offerings, or enable customers to make payments over the Internet.

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What will the business sell?

I'm constantly asked, "Rieva, what's a great market for me to get into?" My response is that it depends – on the condition of the economy, the size of the demographic being targeted, and a lot of other business factors that eager entrepreneurs become impatient analyzing.

Entrepreneur magazine publishes an annual "Hot List," where it looks at the upcoming markets for small business growth. In the most recent survey, it identified four strategies smart entrepreneurs are employing to find the most ideal target market and product or service to sell:

- 1. Tap the countertrend:** For every trend there's a potentially lucrative countertrend waiting to be noticed. Selling "comfort-fit" women's clothing could be of great interest to women in an era of midriff-baring tops.
- 2. Eat off the big guys' plates:** Instead of launching an online dating service to compete with the top leaders in that space, a business focused on helping people write better ads or taking better photos could strike a chord.
- 3. Switch the niche:** A tried-and-true product or service meant for one market could be tailored for a different market. Translating products and services from people to pets (kosher dog food) or from adults to kids (yoga and cooking classes) are a few ways to execute this strategy.
- 4. Borrow a business model:** Charging members set fees to rent movies by mail has worked for some companies; so too has it worked for companies renting video games or paperbacks by mail.





Online entrepreneurs must understand the competition if they hope to survive.

What are other companies doing?

Just as with their bricks and mortar stores, online entrepreneurs must understand the competition if they hope to survive. A competitive analysis will help equip online business owners with the information needed to promote and differentiate their online businesses.

The leap for entrepreneurs who open their doors on the Internet, however, is learning not just what other competitors in their physical geography are doing to spark sales, but also what the competitors who share their cyberspace are offering. Say you want to sell beauty products online. A keyword search for “lipstick” in Google, eBay and online shopping portals offers a glimpse at which competitors come up most often and highest on the list. Then a look at those competitors’ product selections, pricing structures, promotional offers and target audiences can help shape your own storefront to stand out from the gaggle of competitors.

This can be a time-consuming process, but it’s invaluable research that costs hours rather than dollars. In this instance, time is money that will be returned many times over.

If there are already businesses in this space, it’s important to differentiate. Perhaps offer a more comprehensive set of products or services. Maybe the business will have a customer service or technology advantage, or consider tailoring the product to a niche market.

What types of resources will the business need?

The doors of an online business never close. By not running a 24/7 operation, online business owners may fail to fulfill orders in the manner promised – a surefire way to lose customers and miss the chance to build loyalty.

Internet businesses need to operate full time, so entrepreneurs must be realistic about how much help they will need. It is an emotional and financial investment for an entrepreneur to expand his or her business to the Internet. With that said, it's not always easy to place trust in other people and resources, or to spend the time necessary to train and the

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dollars required to pay them. Any business owner, from a sole proprietor to an employer of hundreds, can deploy an effective e-commerce program. But, it's important to consider if and how the extra headcount will help grow the business, and how comfortable the business owner will really be placing trust in other professionals.

Typically, online business owners find that their hands quickly fill up with the chores and challenges involved in simply running their businesses. They'll often turn to web experts, or professionals who coordinate online business tasks every day. With the numbers of well-trained web professionals out there today, consider the possibilities when looking to hire:

- **Hire someone who will be dedicated solely to web management, if the nature and size of the business supports it.**
- **Hire temporary employees to help set up the business and bring them back periodically to make changes to the site, expand online capabilities or launch new ventures.**
- **Outsource the development, design and hosting of the web site and rely on an outside organization to keep it up to date and to manage growth.**
- **Use an “e-commerce in a box” product to set up an e-commerce site. These products typically charge a monthly fee (around \$25) and provide an online store with virtual shopping carts (locations where shoppers electronically place the items they want to buy). They also include online catalogs, customized product pages, tools that help merchants list their products and services on online auction and shopping sites, secure online payment options, discount coupons for customers, and technical support.**





Younger generations are suspicious of corporate marketers and don't like to be overtly persuaded.

What is the target audience?

Anytime a business opens its products or services to a new market, management must consider the geographic, demographic and socio-economic factors that determine how it will approach the consumer. Some offerings, such as toys, school supplies or nursing services may be targeted primarily to a specific age group. Other products or services, like snow blowers or swimming pool supplies, could target a specific set of geographic areas. Every audience is unique, so merchants should tailor their marketing and communications in a way that connects consumers to their businesses.

Teenagers, for example, not only like to shop online, they expect to shop online. Yet younger generations are suspicious of corporate marketers and don't like to be overtly persuaded to buy. They want to browse a store's virtual shelves, discover something new and buy it.

Seniors, on the other hand, may want more guidance on the site, with in-depth, step-by-step directions and descriptions relating to the products or services. Some seniors may be new to the web and can benefit from larger sized type; multiple photos that show all angles and aspects of a product; clear instructions on how to place an order; and assurances about transaction security and return policies.

It may turn out that the overseas market is the company's very best sales opportunity.

How far will the business cast its net?

In a global economy it's entirely possible that a small business owner could start the morning with an e-mail from Milan, asking if he'll accept payment in Euros with a CartaSi credit card. Online entrepreneurs must understand that, from day one, they are international businesses with display windows and checkout stations in every corner of the globe.

A business could tell its customers that it ships only to North American locations or accepts only U.S. dollars. But it may turn out that the overseas market is the company's very best sales opportunity. Therefore it's important for the online business to determine how it will work with customers in foreign nations. How will shipping be handled? Is the company prepared to convert currencies? How will the business communicate with customers who speak different languages?

Online businesses should consider not excluding an eager marketplace just because it seems difficult to serve. There are several services that make it easier for international visitors to order from a U.S. store. PayPal, for instance, accepts payment on behalf of merchants in U.S. dollars, Canadian dollars, Euros, Pounds Sterling, Japanese Yen, and Australian dollars. The major U.S. credit cards accept purchases from foreign countries and make the necessary monetary conversions for the buyer.

My advice to online businesses is to not be afraid to build a bridge to overseas markets. Just be sure the business can handle the foot traffic.





Shipping efficiency and pricing can be a major competitive advantage.

What about shipping charges?

Online shopping breaks down most often over shipping charges. Imagine this: A customer sees a great price for just the product she's been searching for. After entering the information on the electronic order form, she is startled to see a huge shipping fee tacked onto the price. The result? By barely lifting a finger, the shopper clicks off the site and goes elsewhere.

Some online companies absorb shipping charges; others include them in the listed price and offer "free" shipping. All the major postal carriers have web sites that allow merchants to calculate the shipping charge for any item, based on weight and location.

Shipping efficiency and pricing can be major competitive advantages or hand grenades in an online store's shopping cart. My advice is not to try to make a profit on shipping charges. The store is more likely to lose the sale than gain the margin.

Customer service a great way to build loyalty, but it's also a valuable feedback mechanism.

What are the elements of the customer service policy?

Because customers expect to be able to contact a company with questions, special requests or problems related to ordering, online businesses should offer an e-mail address or phone number for customer service inquiries. Not only is customer service a great way to build loyalty, but it's also a valuable feedback mechanism – customers are all too ready to sing your praises or call out improvements that need to be made to your product, service or image.

An important aspect of customer service is deciding how quickly the business will respond to customer inquiries and complaints (phone or e-mail). This response time should be realistic and consistent. If the policy says all phone calls will be answered within two minutes or returned the same day, that timeline becomes a pledge to the customer. Nothing frustrates an online shopper more than sending an e-mail to an address listed on a shopping site and waiting hours, days or interminably for a response. To keep customers on the site, businesses must keep them in the loop.



DETROIT COFFEE COMPANY

George Kaufman (www.detroitcoffee.com) saw an opportunity for a unique niche in focusing his business on under-represented coffee drinkers: athletes, night owls and others who understand that the best coffee in the world doesn't need to come with an expensive pedigree.

He founded the Detroit Coffee Company in January 2004 with the mission of providing the best coffee without pretense. While his two-year business plan includes opening several brick and mortar stores, investigating wholesale distribution channels and developing more mobile units, he immediately decided to launch an online presence.

"Online sales are the most efficient method for new customers to get a taste of our products and company philosophy," Kaufman said.

During the summer of 2004, the company took its mobile units on the road with the National Off-Road Bicycle Association, supporting the cycling community and offering the coffee to both athletes and fans. The site was an invaluable source for customers looking to find more information about this new coffee.

"Our web site provides a central reference point for all marketing efforts," he said.

Kaufman said he's pinning his keys to e-commerce success online in three areas: marketing, customer service, and ease of use of the site:

- **Marketing:** There are millions of e-commerce sites, and marketing is a key lever to get people to visit yours. Kaufman plans to use a range of promotional marketing techniques to make Detroit Coffee Company top-of-mind with consumers.
- **Customer service:** Customers must be comfortable and confident in the site. A real human being at the other end of a help line or e-mail address will keep customers coming back.
- **Ease of use:** Online stores exist to sell products. If a customer can't easily find those products, differentiate between them, and make a purchase, then the site is not going to make the company successful.



Every day, the average consumer is exposed to an average of 247 commercial messages.

Developing a Marketing Strategy

Once the business has defined its place in the market, the entrepreneur needs to figure out how to jump into the sea of consumers already besieged by marketing messages at every turn. Every day, the average consumer is exposed to an average of 247 commercial messages in print, on air, online, on the road and at work, according to *Consumer Reports*. The IPSOS study indicated that one of the top challenges faced by online business owners is not only keeping their site up to date, but also creating awareness of it.

Too often, small businesses and startup companies fail to plan or budget for marketing; they see it as an expense, when actually it is an essential investment that will return its costs by helping to grow sales and foster customer loyalty.



Good web sites begin with a good design that is simple to use.



The Design and Navigation of the Online Store

Good web sites begin with a good design that is simple to use. The graphic design and content on the homepage should grab the consumer's attention, and the interior pages should be easy to navigate. Information must be easily found and should be expressed in the "language" of the customer, rather than the company's internal lingo.

Here are 10 simple tips to consider when deciding on how the site will look and how customers will navigate through it:

- **Immediately tell visitors on the site what the company does.**
- **Get users to the information they want in two clicks.**
- **Consider including headers and links that give the store's name, and show a "tree" branching from the homepage to the current page. Visitors should know where they are within the web site at all times.**
- **Allow visitors to find answers to questions easily.**
- **Incorporate sufficiently large fonts and images, as well as audio descriptions where appropriate, so that content is accessible to users with disabilities.**
- **Pay special attention to the quality of information, and ensure that the text is written well and spelled correctly.**
- **Use buzz words sparingly.**
- **Include a link to the homepage on every page so that in one click, users can be led there.**
- **Develop visuals that are useful, not flashy and distracting. Useful visuals include illustrations or photos of products, graphics that separate categories of products, or maps with directions.**
- **Determine which technologies are appropriate and which are overkill. For example, developing a landing page in Macromedia's Flash technology – one that allows for complex animation and graphics – may be a nice design feature. It will become prohibitive, however, if users have dial-up, a traditionally slow Internet connection speed.**





Online shoppers expect to see what a product looks like, especially since they can't pick it up and examine it.

Product Marketing on the Web Site

The most important step merchants can take to sell almost any product online is to include a lot of photos. Online shoppers expect to see what a product looks like, especially since they can't pick it up and examine it before making their purchases. Merchants should use photos showing their items from a variety of angles and, in some cases, position them next to something else to show the relative size (a cell phone the size of a lipstick, a bench that's knee-high).

When formulating a product marketing strategy, consider the following:

- **Avoid over-describing or over-selling offerings on the site. Information should be useful to the shopper, bringing out all the positive benefits of the product or service in a conversational tone.**
- **Offer complementary products or partnerships to bolster a store's offerings. Businesses that don't carry a wide variety of products often partner with other merchants to offer packages of complementary items.**

Attracting New Customers Online

There are several methods to open up a site to new visitors – search engines and e-mail communications have become popular choices in an online marketer’s arsenal.

SEARCH ENGINES:

With hundreds or thousands of competitors, how can a business get its product up front in online search engines? Search engines are the sites where shoppers can search for products or services by entering key words that describe the offerings they want. Gaining a listing in the first page or two of a search engine’s results is often considered the “Holy Grail” of e-commerce.

So, how do merchants get to the front of search results? There are two approaches to ensuring that links to your company’s web site appear high on a search engine page: “natural search” and “paid search.”

To rank highly in natural search, the content on your company’s web site should include the keywords a consumer might type to search for what you offer. These keywords should also be included in the links to your web site from other web sites. For example, if you own an online jewelry store, you may want your company’s web site to show up when a consumer searches for the words “diamond earrings.”

There are various strategies to improving your company’s rank in natural search. Most are legitimate, but there are some vendors that don’t comply with the rules and regulations that the search engines have in place to ensure honest marketing. If you decide to work with a third-party to implement a natural-search strategy, be sure to check references, look at other companies they’ve worked with, and make sure they are forthright about their policies on working within search engine service agreements.

For paid searches, companies get to the top of search listings the old fashioned way – they buy their way there! A company called Overture, for example, allows businesses to suggest keywords that relate to their products and services, to create a description and even to choose a geographic area that they want to reach. The company’s listing appears high in the results of search engines like Yahoo! and Lycos, and the merchant is charged a fee each time a visitor clicks on the listing to get more information.

One of the most popular search engines, Google, also has a cost-per-click pricing plan based on keywords. Here, business listings (called Sponsored Links) with short descriptions appear next to the list of related search results, attracting more attention and more clicks.

Business owners should explore a variety of search engines to see which kind of program works best for their products or services.





Carried out improperly, an e-mail campaign can turn a customer off to your business forever.

E-MAIL MARKETING:

If done correctly, e-mail marketing can deepen customer relationships and add a personal touch to the sales process. Carried out improperly, an e-mail campaign can turn a customer off to your business forever.

E-mail newsletters for customers who “opt in” (request or otherwise sign up for them) are a terrific marketing tool for online businesses. Rather than being a hard-hitting price-and-product flyer, an online newsletter ideally provides useful information and/or news relating to the company’s lines of business. A popular outdoor and camping-gear store, for example, sends its customers a newsletter with information on camping trips and outdoor activities. As an incentive for opting in on the company’s web site, the store offers new subscribers a coupon for 10 percent off their next order.

In fact, e-mail newsletters commonly are used to promote special offers or discounts to their subscribers. They are an inexpensive way to place a company’s brand and products in front of a highly receptive customer base that already has demonstrated interest by signing up for the newsletter. And because it’s in digital form, the business has no printing charges for an unlimited number of newsletters, a big advantage over paper publications.

Choosing the right technology leads to profitable business.

Understanding Technology Needs

Now that the business has a plan and a strategy for its online store, what does it need to build it? Just as with a bricks and mortar store, the first two lines on the checklist are a name and a location. In cyberspace, they're usually the same thing. The address of the online business is expressed as a Uniform Resource Locator, better known as a URL. Usually the address is a name that ends in dot com (.com), which indicates a "commercial" site, or dot org (.org) for an "organization." If a business is lucky, its address will be the same as its company name, or a close reflection of it.





An ISP can speed the time it takes for online shoppers to download your web pages.

Staking a Claim in Cyberspace

Businesses can register and claim a URL for a small annual fee. Two of the most popular sites for obtaining a URL are www.register.com and www.networksolutions.com. The URL, however, is simply the address – the entrepreneur will need a piece of property that the address defines.

That plot of cyberland is the space on a computer where all the electronic files that compose the web site will reside. Numerous commercial “hosting” services, called Internet service providers (ISPs) will rent businesses space on their large computers (called servers) for a nominal monthly or annual fee. Some mid-size and larger companies host their sites on their own in-house web servers, but they remain responsible for maintenance of the site and the hardware to be sure it’s accessible 24/7. An ISP can speed the time it takes for online shoppers to download your web pages.

Another requirement for efficient online store operation is the virtual shopping cart.

Online Shopping Carts

Another requirement for efficient online store operation is the virtual shopping cart. This actually is an electronic order form that serves as the first step in the fulfillment process. Its purposes are to securely:

- 1. Enable shoppers to browse and select items, and then later decide which ones they want to purchase.**
- 2. Display a summary of items that the shopper has selected.**
- 3. Provide links to information for the shopper to consider before confirming the purchase, such as the return policy or the description page for each product.**
- 4. Allow the shopper to change the quantities ordered or remove items before checking out.**
- 5. Enable the customer to navigate to the checkout process or to return to the store to choose more items.**

This shopping cart software allows merchants to accept orders for multiple products from their web sites. It automatically calculates and totals the customer's order, including tax and shipping charges. Some shopping carts are even integrated with the fulfillment capabilities of UPS (www.ups.com) or the U.S. Postal Service (www.usps.com) to make the order acceptance and shipping process much smoother.

There are several services that offer secure online shopping cart technology. PayPal, for instance, offers a free shopping cart program to its merchant members. At checkout, shoppers indicate that they want to make their purchases through their PayPal accounts, and the process rolls out automatically. Other application service provider (ASP) companies also keep the merchant's shopping cart on a third-party site, where it is secure and regularly updated. Securenetshop.com and GoMerchant.com provide this type of service for a monthly or annual fee. Popular software packages that can be purchased include Miva Merchant at Miva.com and QuickStore at Quickstore.com.





A well-planned, secure shopping cart should make the checkout process easy, clear and flexible for the shopper.

Turning Shoppers into Buyers

Online shoppers are finicky. Those who aren't experienced customers – who haven't yet discovered the convenience of two-day delivery or easy returns – tend to be skittish during the entire shopping experience. A well-planned, secure shopping cart should make the checkout process easy, clear and flexible for the shopper.

Jupiter Research found that 54 percent of Internet shoppers have stopped buying from certain online stores in the middle of a transaction because they have concerns about service, delivery, shipping or handling. Other estimates range as high as 60 to 90 percent abandonment of shopping carts on some e-commerce sites. Sometimes it's because of confusion; other times, frustration over the process or lack of information. Some shoppers just use the cart as a place to hold items they're considering and, in the end, never buy.

When setting up an online shopping cart for a business, consider the following tips:

- **Don't force the shopper to go through a lengthy process of logging in, creating passwords and filling out voluminous forms. Privacy issues and complexity of the process can lead the buyer to end the process before even registering.**
- **Include a link to a page detailing customer service policies, such as warranties, delivery guarantees, return policy, and shipping fee structure.**
- **Provide "help" tips, a frequently-asked-questions (FAQs) page and a toll-free phone number for consumers to use if they have problems or questions relating to checkout.**
- **Offer assurance that credit card information is protected through encryption and a highly secure online transmission process.**
- **Allow customers to call up information about the items being purchased without having to leave the checkout page, with links to windows that contain the product information page.**
- **Make it easy for buyers to add or remove items, change quantities, or select different models and styles of a product once they are on the checkout page.**
- **Indicate the progress buyers are making during the checkout process, revealing the number of steps involved, showing which step they are on at any given time and allowing them to return to earlier steps to make changes.**
- **Show the shipping costs at the front end of the checkout process. For some products, these costs determine whether the shopper will buy online and the quantity they will buy.**
- **Clearly indicate a button or link to move on to the next checkout step and make it more prominent than other links on the page.**
- **Provide multiple options for payment, including credit cards, checks or an online payment service.**

BLUE JEANS CABLE

Kurt and Pam Denke credit much of the success of their home theater system company, Blue Jeans Cable, to quick return on investment. When building the company's primary source of income, the web site, the Denkes realized they needed an affordable online payment system that made sense for their growing operation.

"At the outset, we didn't know whether this was going to be a very large business or a very small one," Kurt Denke said. "We looked at all kinds of payment processing solutions. But with us just starting out, the initial fees to set up a merchant credit card processing arrangement and online payment processing gateway were just too much."

Avid online sellers, the Denkes were already using PayPal to accept payments from their eBay sales. After comparing PayPal to several merchant accounts, they decided to integrate PayPal into their business web site.

"We are basically a cash-financed business, so getting paid up front for products is critical," he said. "Especially early on, this kept us from going underwater in terms of excess inventory or outstanding receivables."

PayPal not only allowed the Denkes to quickly and affordably set-up their payment processing application but also to reinvest profits into their business rather than processing fees. With low set-up costs and easy implementation, Kurt and Pam Denke quickly increased their revenues and turned their passions for home theater into a profitable small business.

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Accepting payments online increases revenue and cash flow.

Accepting Payments Online

Cash flow can make or break a company, especially in its early stages. That's why many online businesses often encourage credit card payments, although it's also helpful to give buyers alternative opportunities to pay with checks and money orders. Offering a variety of methods for shoppers to pay online increases the opportunity for these buyers to pay in the method they prefer.

Accepting payments online increases revenue and cash flow, because money goes into the account immediately. Even more compelling is that there are more than 1.2 billion consumer credit cards worldwide. Credit card payments aren't returned for non-sufficient funds – and credit card holders tend to do more impulse buying than those who write personal checks.





During most online checkout flows, a shopper is asked which method of payment is preferred.

KOSSAR'S BIALYS

A neighborhood landmark in New York City's Lower East Side since 1935, Kossar's Bialys is the nation's oldest bialy maker. Bialys – a lighter cousin to the bagel – are tremendously popular in and around New York. After being featured in many area publications including, *The New York Times*, *The New York Post*, *Newsday*, *The Jewish Week* and *Time Out New York*, Kossar's developed an out-of-state tourist following.

Business owner Juda Engelmayer – who purchased the business in 1998 – then saw a demand for selling his baked goods to a larger market. Since he doesn't accept credit cards in his store, Engelmayer was reluctant to set up a merchant account with a bank, due to the setup charges and transaction fees that went along with it.

"It would eat up more of my profits to set up a merchant account," he said.

Having used PayPal for making purchases on eBay, he soon saw the potential for the service within his own business and quickly integrated it onto his web site.

Shipping all over the country, Kossar's has had great success from its online store.

"The growth on the web has allowed us to stay firmly planted with our store in Manhattan, while expanding all over the country," he said.

Businesses have several options when setting up an e-commerce function and accepting payments online, which include:

1. Process payments through a merchant account.

To accept credit cards online, a small business owner must first apply for a bank merchant account and then find a way to process transactions. At a brick and mortar store, the processing takes place when a card is swiped through the card reader. At an online store, the processing is done when a shopper types in the credit card information, which is then verified by a merchant account processor.

During most online checkout flows, a shopper is asked which method of payment is preferred. If the shopper selects a form of credit card payment, he or she will be redirected to a secure page within the store to enter the credit card information. After the shopper selects "submit," the credit card information will be sent to the correct merchant account, where it will be verified and either accepted or denied by the merchant account service provider.

Merchant accounts may have drawbacks for some small business owners, however. Most charge set-up, monthly and per transaction fees. Additional fees may also be involved if a business owner has a pre-existing account for a physical store, and wants to convert that account to accept payments online. Moreover, some banks won't approve small online businesses for merchant accounts, considering them high-risk operations.

It may take 30 days or more for a merchant account to be approved and the integration process can be burdensome for business owners to do it themselves. Fortunately, the growth of online sales has given rise to an entire industry of merchant service bureaus that will grant a merchant account and everything else needed to accept online payments.

A few terms to help understand this process – which occurs in seconds once a purchase is made:

- **Merchant account** is a bank-authorized transaction-processing account that allows for acceptance of major credit cards and electronic checks online.
- An **acquiring bank** is one that provides an e-commerce business with its credit card processing account. This bank sends credit card and purchase information from e-commerce transactions to a credit card association (such as VISA and MasterCard), which forwards it to the customer's bank.
- A **payment gateway** is the middleman that allows credit card information to pass securely from the shopping cart to the merchant account provider. Gateways are also referred to as “virtual terminals” because they perform the same function online that credit card swipe machines perform in brick and mortar stores.
- **Credit card processors** (or third-party processors) are those that handle the details of processing credit card transactions. They process the credit card transactions, ensures the charge is valid and then settles the funds in the merchant account. Business owners usually must first establish their own merchant accounts before contracting for credit card processing services.

There are no setup charges, monthly charges, minimums or gateway fees.

2. Integrate an online payment service.

If a business does not have access to a merchant account or the fees are just too high, one solution is an online payment service, like PayPal (<https://www.paypal.com>). PayPal allows businesses to accept credit-card transactions and payments safely and conveniently. It also allows buyers to send payments directly from a bank account.

When a buyer indicates the desire to use PayPal during checkout, that person will be directed to sign into or sign up for a PayPal account to then complete the transaction. PayPal has a network of tens of millions of member accounts worldwide. These active online shoppers transact billions of dollars per quarter.

For merchants there may be benefits for offering PayPal. There are no setup charges, monthly charges, minimums or gateway fees. PayPal charges a per-transaction fee, which ranges from 1.9 percent to 2.9 percent plus 30 cents per transaction. Instead of a gateway service, online payment services like PayPal do the work in talking to the merchant bank and its processor.

PayPal also actively fights chargebacks on behalf of online merchants. If a transaction meets all of the requirements of PayPal's Seller Protection Policy, then the merchant will not be liable to for the chargeback by the customer. Integration is simple. A PayPal account can be created and integrated in a matter of minutes.





Financial institutions have put in place significant safeguards to protect their customers.

Ensuring Transaction Security

When e-commerce itself was in the startup phase, computer users were hesitant. More than hesitant, they were downright leery of transmitting their credit-card or bank-account information to unknown entities in cyberspace. Today, however, financial institutions have put in place significant safeguards to protect their customers from errors and fraud when buying online, and consumers today are much more at ease with Internet shopping.

Armed with knowledge and caution, online shoppers in the U.S. recently told IPSOS pollsters that they plan to increase their e-commerce activities. Many said that the Internet is continually becoming an even safer place to shop.

Still, online entrepreneurs have a responsibility to do all they can to ensure their web sites offer a safe shopping experience. But they don't need to be information technology security experts to have a secure site – the techies already have developed security measures that any online small business can adopt.

There are services in this space that bring together all the security measures that an online small business needs to have in place. PayPal enables businesses to set up a web site that accepts credit cards without seeing or having to store the account numbers of its customers. This makes buyers feel even safer, because they don't have to share their personal or financial information online. Gateway services like Authorizenet.com, CyberSource or Paymentech will also handle credit card and electronic check payments securely.

Customers expect merchants to boldly exhibit their privacy policies on their stores' sites.

Developing a Privacy Policy

Consumers' fears of identity theft and the aggravation over telemarketers make privacy policies essential for online businesses. Customers expect merchants to boldly exhibit their privacy policies on their stores' sites, with links from the catalog pages and the shopping cart.

A privacy policy should describe how data, such as the customer's personal contact information and financial details, are collected and used. Consumers should be given the opportunity to opt out of having their information sold or distributed and of receiving e-mail newsletters or other company communications.

An online business must post its privacy policy – and stick to it! This type of policy shows that the business takes customer privacy seriously and will use information it obtains in a responsible way.

Businesses can obtain a “seal of approval” for their privacy policies through a company called TRUSTe (www.truste.org). For an annual fee, this California-based organization awards use of its seal to e-commerce sites that adhere to its privacy principles and comply with its verification and dispute-resolution processes. If a business doesn't have a privacy policy, TRUSTe offers models that can be adapted and even a privacy policy writing “wizard” to help with the process.





It's amazing how a business can thrive when its customers only need to lift a finger.

Ten Steps to Move a Business Online

1. **Competitive landscape review:** Look at your competitors online and decide how you will differentiate yourself from them.
2. **URL:** Register a domain name.
3. **Web development:** Hire a web site developer or buy web development software, then determine site design and navigation.
4. **Technology:** Buy a server or find an outsourced Internet service provider.
5. **Payment:** Find a secure online order solution, including shopping cart and payment service.
6. **Protection:** Fight viruses and protect the site and computers with anti-virus software.
7. **Marketing:** Develop a marketing plan which includes determining and publishing customer service policies.
8. **Contracts:** Establish alliances with crucial partners, such as product suppliers, search engine optimizers, fulfillment services, shippers, web technicians, marketing or public relations firms.
9. **Product:** Create an online catalog or listings.
10. **Maintenance:** Keep inventory, catalogs and listings up to date for your customers.

Conclusion

Starting an online store may seem like a daunting challenge, but the reality is it's never been easier. Today, many of the processes of moving a business online have become standardized and even automated. Business owners discover an entirely new meaning in their business lives when – through the process of building an online store – they realize they've optimized their new-found markets and won the trust of Internet consumers. When I encounter those who have made the transition to an online presence, I'm not surprised to see palm-heel marks on their foreheads where they've slapped themselves for not making the leap earlier. The benefits become so obvious to e-commerce entrepreneurs of all types that they consistently ask me how they can expand even further and reach even wider audiences.

The Internet, in fact, can work for any entrepreneurial personality. If an entrepreneur thinks life is just a bowl of cherries, we'll find him selling cherry bowls. Never have entrepreneurs had such a clear, easy and relatively inexpensive opportunity to reach a global marketplace for so many products and services.

It's amazing how a business can thrive when its customers only need to lift a finger.



Recommended Resources

The following are online resources recommended for information about starting a business online.

- **Books**
 - Entrepreneur’s line of books at www.smallbizbooks.com about starting specific businesses and web sites.
- **E-mail newsletters/web sites**
 - ClickZ: www.clickz.com provides targeted e-mail newsletters from marketing experts about e-mail marketing, customer relationships, and search engine marketing.
 - Microsoft Small Business Center at www.microsoft.com/smallbusiness provides both product information and actionable news.
 - Web Marketing Today: www.wilsonweb.com is the largest circulation Internet marketing e-mail newsletter in continuous publication.
 - Entrepreneur’s site at www.entrepreneur.com offers a library of articles and e-mail newsletters on a variety of topics for business owners.
- **Organizations that can provide ongoing information**
 - Small Business Development Centers, administered by the U.S. Small Business Administration, for one-stop assistance and guidance in creating a small business. Find contact information for all 63 SBDC’s in the United States at <http://www.sba.gov/sbdc/sbdcnear.html>.
 - Chambers of Commerce, which can provide market and logistical information for starting a business. To find a local or state chamber, visit www.2chambers.com.
 - CIO magazine’s E-Business Research Center at www.cio.com/research/ec offers strategies, advice, case studies, news and other help for starting and running an e-business.
 - The Small Business Administration (SBA) is a national government agency that counsels, assists and protects the interests of small businesses by offering resources and financial aid, at www.sba.gov.
 - SCORE provides entrepreneurs with free, confidential face-to-face and online business counseling through its network of chapters and volunteers. Find one at www.score.org.
- **PayPal:** www.paypal.com
 - A PayPal merchant account can be opened in about two minutes with an e-mail address and basic financial information.
- **eBay:** www.ebay.com
 - eBay provides a marketplace to buy and sell goods to the world.
 - Online tutorials, available from eBay’s Learning Center at www.ebay.com/learningcenter, provide step-by-step tips about selling online.
- **Search engine optimization**
 - Overture at www.overture.com offers advertising in sponsored search results and on web sites to gain premium placement.
 - Google at www.google.com/ads has information on cost-per-click pricing to feature sponsors in its search results.
- **Setting up a business online**
 - Entrepreneur.com’s eBay Startup Center at <http://entrepreneur.com/ebaycenter> is a guide to starting a business using the eBay auction format.
 - Find an e-commerce web site designer through the Buyer Zone at <http://www.buyerzone.com/internet/ecommerce>, which enables entrepreneurs to get quotes from multiple suppliers to create web sites.
 - Register.com at www.register.com handles domain-name registrations for business addresses, along with e-mail boxes, site hosting and other business services.
 - Network Solutions at www.networksolutions.com provides multiple pricing plans for domain names, e-mail and web hosting.
 - TRUSTe at www.truste.org, offers the seal of approval for online companies’ privacy standards and assistance in writing a company’s privacy policy.
 - Programs to remove spyware and adware from a company’s computer:
 - Lavasoft’s Ad-Aware at www.lavasoft.de
 - Spybot Search & Destroy at www.spybot.safer-networking.de
 - Bazooka Adware and Spyware Scanner from Kephyr at www.kephyr.com
 - Virus protection that enables subscribers to download the latest anti-virus programs on a regular basis:
 - Symantec at <http://symantec.com>
 - McAfee at <http://mcafee.com/us>
- **Spam legislation provisions**
 - Find an easy-to-read fact sheet from the U.S. Federal Trade Commission on its spam restrictions at www.ftc.gov/bcp/online/pubs/buspubs/canspam.htm.



The PayPal logo is displayed in its characteristic blue and white color scheme, featuring the word "PayPal" in a bold, italicized sans-serif font with a registered trademark symbol.

<https://www.paypal.com>