Chapter 12

E-Entrepreneurship

Objectives

12-1 Explain the difference between bricks-and-mortar and virtual businesses.

12-2 Discuss the scope of the e-entrepreneurship market and how to address e-entrepreneurship in the business plan.

12-3 Explain the process of creating an e-business web site.

12-4 Discuss e-entrepreneurship and the law.

12-5 Evaluate an e-business web site according to a checklist of important factors.

12-6 Discuss the myths of e-entrepreneurship.

12-7 Analyze common e-entrepreneurship mistakes.

BRICKS AND MORTAR, VIRTUAL, OR BOTH

An entrepreneur is an individual who is willing to take the risk of investing time and money in a business that has the potential to make a profit or incur a loss. An **e-entrepreneur** is defined as an individual willing to take the risk of investing time and money in an electronic business that has the potential to make a profit or incur a loss. **E-entrepreneurship** is the act of managing an electronic enterprise that has the potential to make a profit or incur a loss.

More often than not, an electronic business uses the Internet to conduct financial transactions. The business may be referred to as a virtual business, online business, e-business, or cyber business. These terms will be used interchangeably in this chapter as various aspects of electronic business are discussed.

What is the difference between a bricks-and-mortar business and a virtual business? A **bricks-and-mortar business** is one that has a material presence such as a storefront, storage facility, office space, manufacturing facility, or other tangible location where potential customers can actually walk in and interact with employees. A **virtual business** is one that does not have a material space designed to receive customers and transacts most of its business online.

Virtual businesses, which started to make their presence felt in the business world in the early 1990s, are an interesting adaptation of the basic business model. A virtual business can deal with customers from any location that offers Internet capability. This flexibility eliminates the need for a physical space, a major concern in setting up a bricks-and-mortar business.

The major advantage of a virtual business is that wherever the entrepreneur is, the business can be there also. As long as reliable telephone and Internet services exist, your business can be run from anywhere in the world. It also requires few personnel, especially in the beginning when cash flow is low. Employees can be hired as needed.

Does the emerging entrepreneur have to choose between a bricks-and-mortar and virtual business, or can he or she have both? The reality of doing business in the current Internet age is that you can start a virtual business and never have to worry about a physical space for customers to visit. If you start a bricks-and-mortar business, however, you will probably have to maintain at least a minimal Internet presence. A business that does not offer at least basic descriptive information on the Internet is at a significant competitive disadvantage.

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THE E-ENTREPRENEURSHIP MARKET

According to the most recent statistics from Nielsen//NetRatings, approximately 75 percent of Americans have access to the Internet from home. That's a 9 percent increase over the previous year. That means over 200 million people are potential customers for the entrepreneur with an Internet site.

Nielsen//NetRatings also offers some very interesting demographic data concerning Internet use. Internet home use for females 25 to 34 is 77 percent. For females 35 to 54, penetration is 81.7 percent. For males the same age, it is 80.2 percent. During February 2003, the average user visited the Internet 36 times and spent almost 20 hours viewing over 1,200 pages.

Other interesting Internet use statistics include the following:

1. According to Nielsen//NetRatings, favorite Internet sites for both home and work are Internet search engines and travel sites.
2. According to Arbitron, 74 percent of online radio listening takes place between 5 a.m. and 5 p.m. on weekdays.
3. Informa Media Group estimates that worldwide revenues from e-gambling will climb to $14.5 billion by 2006.
4. In a recently survey, the majority of Internet sites said site traffic was heaviest during work hours.
5. Another recent survey reported that Napster music-swapping software was found on approximately 20 percent of over 15,000 work PCs examined.
6. According to OneStat.com, over 15 percent of worldwide Internet traffic occurs on Monday, which makes it the most popular online day of the week.
7. According to Nielsen//NetRatings, news sites reach 35.5 percent more users at work than at home, and work users spend 68 percent longer online.
8. Nielsen//NetRatings reports that finance sites reach over 30 percent more work users than home users, and work users spend nearly twice as much time online.
9. eBay and Amazon.com currently dominate online shopping.
10. A recent survey found that over 20 percent of consumers shop online from work.

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History of E-Entrepreneurship

The e-entrepreneurship market has seen rapid growth. The events that led to the statistics listed above began in the early 1990s, when electronic data interchange was standardized and companies could reliably complete transactions among themselves. In 1992, Compuserve offered online retail products to its customers. This event represented the first time in history that consumers could buy things using their computers.

Netscape arrived on the scene in 1994 and provided users with a simple and colorful browser with which to surf the Internet. It also provided a safe online transaction technology called Secure Sockets Layer. The following year saw the launch of Amazon.com and eBay, now two of the biggest names in e-commerce.

Digital Subscriber Line   In 1998, DSL, or Digital Subscriber Line, which provided fast, always-on Internet service, was offered to customers across California. DSL service encouraged people to spend more time and money online. By 1999 retail spending over the Internet reached an estimated $20 billion. Internet sales have continued to rise every year since, attracting the attention of governments looking for more sales tax revenue. In 2004, the U.S. government extended the original 1998 moratorium on Internet taxes until at least 2009. Supporters say the moratorium is an important way to encourage the growth of the Internet in the U.S. With or without the moratorium, the Internet is rapidly becoming an everyday part of American life.

With an estimated 75 percent of Americans having access to the Internet from home, most Americans will soon be a few keystrokes away from any e-entrepreneurship site in the world. Such unprecedented access to businesses everywhere will have a significant impact on business in general. The most positive impact will no doubt be on profitability. In a recent survey of 400 small businesses by ACNielsen, 58 percent of respondents reported that the Internet helped in their growth and expansion. Fifty-one percent said the Internet helped their businesses become more profitable, 49 percent that the Internet helped them reduce costs, and 15 percent that their businesses rely on the Internet to survive.

The e-entrepreneurship market is a reality of contemporary business life. It is not just a technological trend; it is here to stay. To ignore it is to ignore the potential for enormous profitability. Mastery of virtual business is a requisite skill for modern entrepreneurs.

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E-Entrepreneurship in the Business Plan

The business planning process around which most of this text is written will ultimately form your basic business model. In other words, it will dictate how you operate your business. It deals primarily with bricks-and-mortar start-ups. If you intend to include a virtual component in your new business, you will need to add e-business considerations to each component of the business plan outline discussed in Chapter 2.

The e-entrepreneurship components of the business planning process integrate your Internet site and your basic business model. They should address web site planning, development, marketing, legal, financial, management, and special considerations. They should be designed to ensure that your Internet content reaches the right customer while leveraging the full value of the Internet as a marketing tool. They must create a process for educating and communicating with your customers.

Every successful entrepreneur has learned the importance of a traditional business plan. That lesson is often forgotten with the addition of a virtual component. Blatant in their absence are usually the various parts of the marketing plan. Are the customers the same? What about the competition? Invariably, the geographic market changes. What about pricing? Promotion of the virtual business will also be different.

The other aspects of traditional business planning are also important. Do you possess the required knowledge and skill to make the new virtual business a success? What about additional financial requirements? Organization, planning, and staffing will certainly be different and will require additional thought. The special considerations involved in a bricks-and-mortar business become considerably more important when applied to a virtual business.

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The industry analysis portion of the business plan also ratchets up a few notches. Not only should the analysis cover the basic components discussed in Chapter 6, it must also view each component from the perspective of e-entrepreneurship. Industry trends, laws or legal issues, technological issues, and barriers to entry take on a heightened level of importance.

Careful planning for a virtual business is a must. Do your homework. Look for successful companies to benchmark. Integrate what works and discard those things that do not. When you consider the high failure rate of virtual businesses over the past 10 years, you will agree there is no such thing as overplanning.

CREATE AN E-BUSINESS

The first step toward e-entrepreneurship is usually the selection and registration of a **domain name**, which is the unique name that identifies an Internet site. The selection of a domain name is a chief concern when doing business online. Although a superior domain name does not guarantee success, it will most certainly have an impact on almost every aspect of an online business.
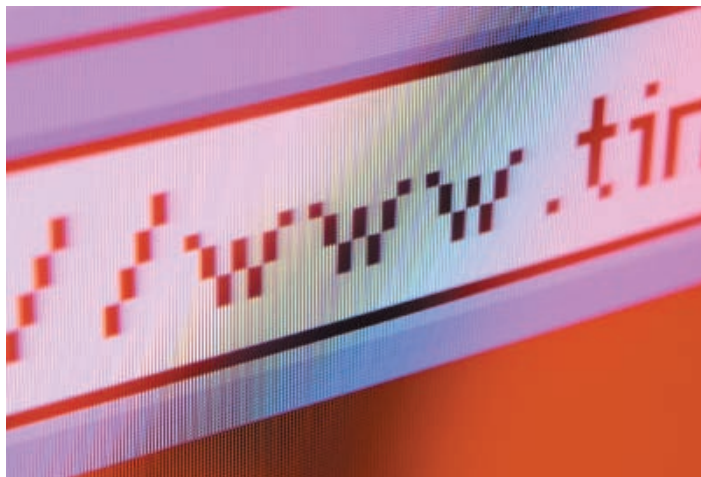
Domain Name Process

A superior domain name is one that is easy to remember and is not easily confused with other names. Before you make the final choice of a domain name, use a search engine to check for other companies using the same name or a derivation of it. An official check will be conducted during the registration process. You cannot just pick any domain name and start to use it, however. The name must first be registered. Through registration it becomes a legitimate part of the **Domain Name System (DNS)**.

Domain Name System   The DNS is a directory organized under the familiar domains ".com," ".gov," ".org," and so on. It consists of all domain names and their matching computers registered to particular companies and persons using the Internet. When you register a domain name, it will be associated with the computer you assign to it during the period the registration is in effect. From that computer you can create a web site that will be accessible to Internet users around the world.

The Domain Name System helps Internet users find their way around the Internet. Every computer linked to the Internet has an exclusive address, called its **Internet Protocol (IP) address**. Like a telephone number, an IP address is a set of numbers that computers can read. The DNS makes using the Internet easier by allowing a recognizable string of letters (the domain name) to be used instead of the numeric IP address. So instead of keying a long number, you can key the **URL** (Uniform Resource Locator), for example *http://domainname.com.*

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ICANN   Registration of domain names is controlled by a private-public partnership called the **Internet Corporation for Assigned Names and Numbers (ICANN)**. It is responsible for managing and coordinating the Domain Name System to ensure that every address is exclusive and that all users of the Internet can find all legitimate addresses. It does this by managing the distribution of unique IP addresses and domain names and by ensuring that each domain name corresponds to the correct IP address.

Numerous companies have been accredited by ICANN to act as registrars, which means they can identify and set minimum standards for the performance of registration functions, recognize persons or entities meeting

those standards, and enter into accreditation agreements that set forth the rules and procedures applicable to the provision of registrar services. Fees are charged for these services and can vary by company.

Domain names can be registered through the many different registrar companies. E-entrepreneurs pick one company to register their name. A current listing of these companies can be accessed on the ICANN Internet site. Upon contact, the registration company you choose will ask you to provide an assortment of contact and technical information. It will keep records of the contact information and submit the technical information to a central directory called the registry. You will be required to enter a registration contract with the registrar that sets forth the terms under which your registration is accepted and will be maintained.

The registry receives data concerning registrations of domain names and name servers from registrars and handles the dissemination of information concerning those registrations. Domain name servers translate the human-readable domain name into the machine-readable IP address. The unique name that identifies your Internet site provides other computers on the Internet the information necessary to find your web site.

Components of an E-Business Site

Once you have chosen and registered a domain name, you can proceed to the rest of the site development process.

Web Site Design   The first decision you must make is whether to design your web site in-house or contract the project to a professional Web design company. If you are unsure about your ability to create a top-notch site, by all means hire a professional to do it for you. The money you spend up front will be more than worth it when online orders start to roll in.

If you hire a web site contractor, set realistic budgets and timelines before you begin. Make sure you understand the process, the scope of work and commitment, what you are getting for your money, and how long the whole process will take. Ask the contractor to show you a project plan and timeline. Visit other sites the contractor has developed and check out the quality of work.

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Whether you design the site yourself or hire a professional, the most important point to remember is ease of use. If a visitor to the site has difficulty navigating it or cannot find the product for which he is searching, you have just lost a customer.

Content   The "face" of your site is its content. Visitors will either like the content or not. Content includes the actual written text, product information, graphics, and any data incorporated into your company's site. Remember, ease of use is the most important aspect of content, followed closely by uniqueness. What makes your site stand out from the thousands of others in your business? Choose a promotional appeal that fits the desired image of your new business venture. It may be informative, authoritarian, humorous, provocative, or any number of other possibilities.

One of the first things visitors should see is a brief site description, possibly in the window's title area. Tell them what the company does. This is especially important to the new e-entrepreneur who is an unknown. If you need to give the site visitor more information about the company than can be associated with the page title, put a link in a visible area, such as high left on the page.

DIGITAL VISION

What is it you want the site to accomplish? Highlight the top four to six things and provide links. These may include a product list, product information, how to order, company news releases, published articles about the company, customers' frequently asked questions, and so on. Provide the links in an easy-to-use format.

Be careful with graphics. They should illustrate real content, not just adorn your home page. If you use photos, less is probably better than more. Each photo will appear less cluttered and more pleasing to the eye if it depicts fewer people and objects. Close-up images with simple backgrounds usually work the best. Graphics are great for grabbing attention, but refrain from going over the top with them.

Once you have your page up and running, keep it current. If you feature news releases and news articles, include the dates of release. Information in your site relating to products and uses should be updated on a regular basis. Nothing is more detrimental to the e-entrepreneur's success than an outdated web site.

You can never pay too much attention to your web site's content. Remember, content is the first place consumers start building their image of your business. Better content will result in a better image.

Web Host   A service that, for a fee, allows your company's web page to be connected to the Internet is called a **web host**. During the site planning process, you need to make a decision concerning the host for your site. Different web hosts use different computer hardware that dictates which software can be used in site development. The type of web site you are planning will determine the services required, how much storage space you need, e-mail requirements, and the level of technical support you need.

Even though the term web host is often used interchangeably with **Internet Service Provider** (ISP), they are not synonymous. An Internet Service Provider is a company that provides access to the Internet for organizations and/or individuals. Access services provided by ISPs may include web hosting, e-mail, and support for many other applications. Not all ISPs, however, provide web-hosting services. Make sure you choose one that does.

There are other concerns you must address when you select an ISP. An important one is e-mail. How many e-mail accounts do you need? Is one enough? Probably not, since you are running a small business. Will your company have employees other than the owner? If so, you will need numerous e-mail addresses. Not all ISPs offer multiple e-mail accounts.

Customer and owner privacy should also be a high priority. Does the ISP have an acceptable privacy policy? Will it protect the privacy of both your company and your potential customers?

ISP technical support is another important concern. You should consider issues such as software used, download times, technical support via toll-free telephone numbers, and how the ISP responds to online problems.

ISPs are not all the same. They differ in both size and the services they offer. Local ISPs, by virtue of their location, are generally smaller, but they offer competitive rates. National ISPs are bigger and host thousands of users. You must decide which is a better fit for your virtual business.

Security and/or Firewalls   Will your web site be secure against hackers and others seeking unauthorized entry? The first line of security for most web sites is a **firewall**, a system designed to prevent unauthorized access to or from a private computer network. Firewalls can be implemented in both hardware and software, or a combination of both. They are frequently used to prevent Internet users from accessing private networks connected to the Internet, especially **intranets**, which are Internet networks inside a company not accessible to the public. All messages entering or leaving the intranet pass through the firewall, which examines each message and blocks those that do not meet the specified security criteria. Web site security is crucial for any online merchant, and firewalls are an essential part of that security. They prevent hackers from gaining access to your customers' personal and financial information or your in-house company files.

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Search Site Submission   You have created your e-business web site and chosen an ISP. Customers will now start visiting your site and the orders will start to roll in, right? Not if popular Internet search engines do not know you exist. An **Internet search engine** is a program that searches documents on the Internet for specified keywords and returns a list of documents in which the keywords are found. Although search engines are really a general class of programs, the term is often used to specifically describe systems like Google, Yahoo, MSN Search, and Ask Jeeves that enable users to search for documents. According to Nielsen//NetRatings, one in three Americans uses a search engine. In a typical month, 114.5 million or 39 percent of Americans used a search engine to find information on the Internet.

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Search engines do not automatically reference your site. Specific site reference can be a complex process. You can research the required process and submit the site yourself or use a service to complete the process for you, usually for a fee. The do-it-yourself solution is not as difficult as it may seem. After you become familiar with each search engine's compliance procedure, it is essentially a matter of typing in your URL and other applicable information required by the search engine site. Do not be disappointed if your site does not show up immediately on a specific engine search. After submission, it can take several weeks for the process to complete. Remember to factor the delay into your business planning timeline.

On-site Search Engine   Many e-entrepreneurship sites are large and contain massive amounts of content. Some consumers may be overwhelmed by all that information and cannot find the items for which they are searching. If that is a possibility, the web site should provide visitors with an on-site search engine, which is a search engine that only searches the site in question. Take Cabelas.com as an example. As many of you know, Cabela's is one of the biggest sporting goods retailers in the country. Its site is huge and contains thousands of items. An on-site search engine dedicated to searching only Cabela's thousands of items makes online shopping much easier.

If you use an outside contractor to design and develop your site, the on-site search engine can be included in the contract. Also, many companies in the world of virtual business offer free or low-cost search engines for use on your site.

Database Software   Your new e-business will need some database software to identify and maintain your customer and product data. Again, if you use a web design contractor, you can include this as part of the total package. Despite what you see on TV and read in print, most web sites still cannot process credit cards online. Many sites that do accept credit cards actually process them offline. They use the online forms to gather required customer information and then input the data manually. Make sure you understand what your software will and will not do.
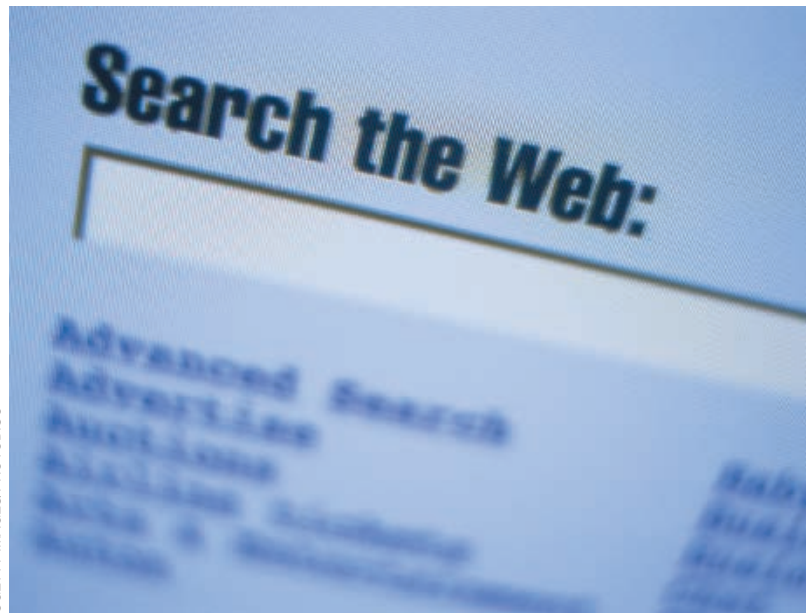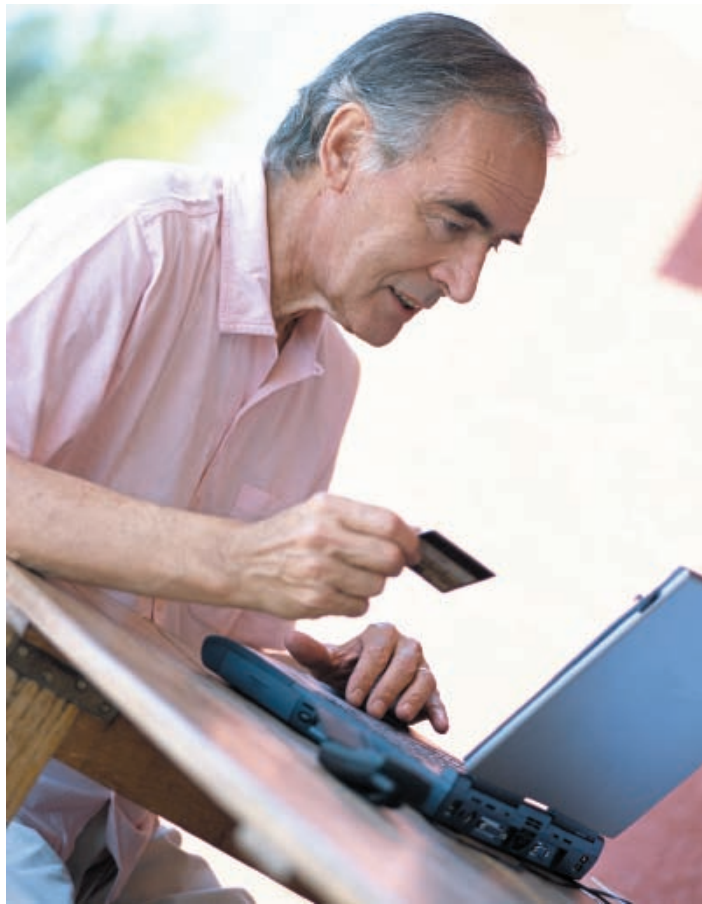
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Online Payment   If you plan to accept orders online and take credit cards or other forms of online payment as part of your e-business, you will need to plan on the web site features described below. Professional assistance is advisable as you consider these additional features.

■ **Product Catalog**   Customers should have a listing of all products offered on the site. A well-designed catalog allows you to create categories of products and manage the product list within each category. The catalog should include basic product definitions and any variations available, plus high-quality photos, product features, accessories, and consumer reviews if available.

■ **Shopping Cart**   A familiar icon on many e-business sites is the **shopping cart**. It is used online to keep track of and record customers' purchasing decisions as they are made without going back and forth to an order form. If you are considering the addition of a shopping cart to your site, make sure it is the best way to process sales (other choices are online order forms, toll-free numbers, and so on). If it is, numerous options are available, including online shopping cart services, off-the-shelf shopping cart software, and inclusion in turnkey web site building packages.

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■ **Merchant Account Provider** A bank or financial institution that provides you with a means for accepting and processing credit card transactions over the Internet is a **merchant account provider**. Referred to as a MAP, it may charge you a monthly fee, yearly fee, setup fee, and per-transaction fee. Acquiring a MAP is not easy, and the business requirements can be quite strict. Requirements include clearly displaying your return policy, having a U.S. checking account, having a U.S. postal address, not being in active bankruptcy, never having been convicted of credit card fraud, and others.

■ **Alternative Payment Options** For younger customers and others who do not have credit cards, you should provide alternative payment options that allow them to make purchases online. These options would also be helpful for international customers. In many countries, credit cards do not enjoy the popularity they do in the U.S.

■ **Order Fulfillment** To guarantee that customers get their orders, you must develop an order fulfillment system. The number of repeat customers visiting your site will be significantly impacted by the system you design. Customers ordering on the Internet may be located anywhere in the world. Remember that as you decide whether to handle orders yourself or contract out the shipping component. You need to ensure that a profit can be made after delivery costs are factored into every sale.

■ **Customer Service** An overall customer service plan must be designed for online customers. How will complaints and returns be handled? What mechanism will be in place to facilitate correspondence with customers? These and other customer service issues must be addressed.

■ **E-mail Notification** Your e-business will need an automated system of sending e-mail notification messages to your customers to let them know the status of their orders. Order tracking is another service you may need to offer. Techno-savvy consumers will want a way to log on to your site and look up the status of their order.

■ **Customer FAQs** It may be advantageous to the new business to establish a list of customers' frequently asked questions, especially those relating to orders, along with their answers.

E-ENTREPRENEURSHIP AND THE LAW

As the number of companies and consumers shopping online soars, fraud and deception have become major issues. Virtual business is not above the law, however. Fraud and deception are unlawful no matter what the medium. The Federal Trade Commission has enforced and will continue enforcing its consumer protection laws online to ensure that products and services are described truthfully in online ads and that consumers get what they pay for. According to the FTC, these activities also benefit sellers who expect and deserve a fair marketplace.

Advertising

Online consumers are protected by many of the general principles of advertising law that also apply to Internet ads. However, new issues arise as rapidly as new technology develops. In order to comply with the law, e-entrepreneurs should consider the relevant FTC policies as they develop online ads.

The same consumer protection laws that apply to commercial activities in other media apply online. The FTC

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Small Business Technology

Beware of modem redialing! According to the FTC, you can log on to the Internet and visit an entertainment site, but first you have to download a special viewer program. Your next phone bill is for thousands of dollars. What happened?

When you download the viewer software, it disconnects your computer from your local ISP and reconnects it to a phone number in some other part of the world, without your knowledge. Because the software turns off your modem speaker, you can't hear the disconnect or the dialing of an international number. To compound the problem, the program does not disconnect from the international number until you turn off your computer. It has happened to thousands of consumers who incurred hundreds of thousands of dollars in international long distance charges.

Act's prohibition of "unfair or deceptive acts or practices" encompasses Internet advertising, marketing, and sales. To avoid being misleading, to ensure that consumers receive material information about the terms of a transaction, or to further public policy goals, ads must display certain clear and conspicuous disclosures.

FTC rules and guidelines that use specific terms such as "written," "writing," "printed," or "direct mail" are adaptable to new technologies. In other words, rules and guidelines that apply to written ads or printed materials also apply to visual text displayed on the Internet.

"Direct mail" solicitations include e-mail. If e-mail invites consumers to call the sender to purchase goods or services, that telephone call and subsequent sale must comply with Telemarketing Sales Rule requirements.

CAN-SPAM Act of 2003   The Controlling the Assault of Non-Solicited Pornography and Marketing Act establishes requirements for those who send commercial e-mail, spells out penalties for spammers and companies whose products are advertised in spam if they violate the law, and gives consumers the right to ask e-mailers to stop spamming them. **Spam** is defined as unsolicited "junk" e-mail sent to large numbers of people to promote products or services.

The law, which became effective January 1, 2004, covers e-mail whose primary purpose is advertising or promoting a commercial product or service, including content on a web site. Its main provisions are:

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■ It bans false or misleading header information. A commercial e-mail's "From" and routing information, including the originating domain name and e-mail address, must be accurate and identify the person who initiated the e-mail.

■ It prohibits deceptive subject lines. The subject line cannot mislead the recipient about the contents or subject matter of the message.

■ It requires that commercial e-mail be identified as an advertisement and include the sender's valid physical postal address.

■ It requires that the e-mail give recipients an opt-out method. It must provide a return e-mail address or another Internet-based response mechanism that allows a recipient to ask the sender not to send future e-mail messages to that e-mail address, and the sender must honor the

request. There may be a menu of choices that allow the recipient to opt out of certain types of messages, but it must include the option to end all commercial messages from the sender.

Each violation of the provisions listed above is subject to fines of up to $11,000.

E-Consumer Complaints

The FTC has an online general complaint form that can be used by consumers to register complaints relating to online transactions in the U.S. Another FTC form may be used for e-business complaints involving a foreign company. The information contained in an individual complaint may be entered into the *Consumer Sentinel,* a consumer complaint database maintained by the FTC and made available to certified government law enforcement agencies in participating countries. The information is used to spot new trends, uncover new scams, and target suspect companies and individuals for law enforcement action. The FTC stresses that submitting a complaint will help law enforcement agencies worldwide in their effort to keep the Internet safe for consumers.

Global E-Entrepreneurship Agreement

The growth of online commerce brings with it the need for international cooperation. Newly established international guidelines are helping to answer many business questions for e-entrepreneurs seeking business outside the U.S. The U.S. and 29 other countries, working together as members of the Organization for Economic Cooperation and Development (OECD), have agreed to several guidelines that call for:

- fair business, advertising, and marketing practices
- enough information to allow consumers to make informed choices, including disclosures about online businesses, their goods and services, and the terms and conditions of sale
- clear processes for confirming transactions
- secure payment mechanisms
- timely and affordable dispute resolution and redress processes
- privacy protection
- consumer and business education
- international government cooperation

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The Global ENTREPRENEUR

According to recent Internet alerts and articles, online selling has developed into a perilous venture. As with most criminal activity, ignorance and apathy are the main culprits. Online merchants need to pay careful attention to the dangers and plan accordingly. If they do not, international criminals will identify the site's vulnerability and take advantage of it. Such activity could result in losses that would put most small companies out of business.

One study found that more than 40 percent of all online credit card fraud experienced by U.S. companies was committed by international criminals. Certain countries, such as Yugoslavia, Nigeria, Romania, Pakistan, and Indonesia, seem to be riskier for e-entrepreneurs than others. Of these "bad boys," Yugoslavia was the worst. The study estimated that about 13 percent of purchases initiated from that country were fraudulent, compared to the U.S. fraud rate of about 1.7 percent. Other research shows that overall global fraud rates are four times higher than domestic rates.

To avoid online losses to international crime, many e-entrepreneurs simply steer clear of overseas sales. As many as one-third of medium and large web sites do not sell to global customers.

The news is not all negative, however. Online sales to New Zealand, Switzerland, Japan, France, and Italy actually experienced lower fraud rates than domestic U.S. sales did. The point here is to remember that international e-entrepreneurship is not without risks.

In spite of those risks, many Internet experts say e-entrepreneurs should not retreat from online international selling. You should, however, pay more attention to overseas shipments and carefully review orders beforehand. If you question an order for any reason, honor your instincts and do not send the merchandise. This is especially true if the order is substantial and deviates from what you consider a normal order.

Think Critically

1. What safeguards can you implement to protect your site from international fraud?

2. Do you think e-entrepreneurs should stay away from international e-business altogether? Why or why not?

The overall goal of the guidelines is to build consumer confidence in the global electronic marketplace by ensuring that consumers are just as safe shopping online as offline, no matter where they live or where the company they do business with is based. E-businesses that adhere to OECD guidelines apply them in specific ways.

1. They follow fair business, advertising, and marketing practices. They provide truthful, accurate, and complete information to consumers and avoid deceptive, misleading, or unfair claims, omissions, or practices.

2. They provide accurate, clear, and easily accessible information about the company and the goods or services it offers. They disclose the information consumers need to understand whom they're dealing with and what they're buying.

3. They disclose full information about the terms, conditions, and costs of the transaction. They provide consumers with a full, itemized list of the costs involved in the transaction, designating the currency involved, the terms of delivery or performance, and the terms, conditions, and methods of payment.

COMSTOCK IMAGES

4. They ensure that consumers know they are making a commitment to buy before closing the deal. They take steps to protect consumers who are merely "surfing" the Internet from unknowingly entering into a sales contract. They give the consumer a chance to change the order before committing to purchase or to cancel it altogether.

5. They provide an easy-to-use and secure method for online payments. They adopt security measures appropriate to the transaction to make sure that personal information is less vulnerable to hackers.

6. They protect consumer privacy during electronic transactions. They disclose their privacy policies or information practice statements prominently on their web sites and offer customers choices as to how their personal information is used.

7. They have policies and procedures to address consumer problems quickly, fairly, and without excessive cost or inconvenience to the consumer.

8. They adopt fair, effective, and easy-to-understand self-regulatory policies and procedures. They extend to electronic commerce the same basic level of protections that cover other forms of commerce.

9. They help educate consumers about electronic commerce, thereby contributing to a consumer-friendly electronic marketplace. These businesses work with governments and consumer representatives to ensure that consumers understand their rights and responsibilities when participating in online commerce.

Better Business Bureau/BBB Online

In addition to laws and policies put forth by the FTC, the Better Business Bureau has developed its own "Code of Online Business Practices." It is based on five basic principles:

1. **Truthful and Accurate Communications**   Online businesses must not deceive or mislead potential customers.
2. **Disclosure**   Information about the business, the goods or services it offers, and any transactions conducted must be fully disclosed to the customer.
3. **Information Practices and Security**   Online businesses must post and follow a privacy policy with regard to customers' personal information, use a secure system for all transactions, and honor customers' wishes concerning spam e-mail.
4. **Customer Satisfaction**   Merchants must stand behind all claims and promises, answer customers' questions, and resolve complaints in a responsible manner.
5. **Protecting Children**   Merchants who direct advertising at children under the age of 13 must follow specific, self-regulatory guidelines for children's advertising.

WEB SITE CHECKLIST

The checklist in Table 12-1 is provided as a quick evaluation tool that you can use to determine if your web site meets the basic requirements for e-entrepreneurship success and is ready to receive e-customers.

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TABLE 12-1 SITE EVALUATION CHECKLIST	YES	NO
Your domain name is easy to remember and not easily confused with other names.		
Your domain name has been registered.		
A web host has been selected.		
The site loads quickly.		
Content is attractive and user friendly.		
Page navigation is simple and easy to understand.		
The site is compatible with most popular web browsers.		
The site has been submitted to pertinent search engines.		
An on-site search engine has been developed, if appropriate.		
The optimum number of company e-mail accounts has been determined, and accounts have been started.		
A consumer privacy policy has been established.		
Security for the site has been developed and implemented.		
Customers are notified of security measures taken.		
Database software has been purchased and installed.		
Online products have been carefully selected for their suitability to the medium.		
A product catalog has been developed.		
A simple and easy-to-use shopping cart program has been added to the site.		
A merchant account provider has been selected and the system is in place.		
Alternative payment options have been developed.		
An efficient order fulfillment system is in place.		
A customer service policy has been developed.		
The company phone number is listed in a prominent location on the site.		
An automated customer e-mail notification system has been developed.		
The e-entrepreneurship site has been fully integrated with your conventional bricks-and-mortar business, if appropriate.		
The site's functionality has been thoroughly tested.		
An e-entrepreneurship marketing plan has been developed.		
Your e-marketing is not based on spam promotion.		
Employees who will be handling e-business orders have been trained.		
Site maintenance and content updating have been scheduled.		
Your site meets all the requirements of the law according to the FTC.		

MYTHS OF E-ENTREPRENEURSHIP

A great deal of misinformation exists relating to e-entrepreneurship. The following are a few of the myths in circulation.

E-entrepreneurship is a no-brainer. There is much more to online selling than setting up a web site and a credit card ordering system. Behind-the-scenes tasks like filling orders, handling vendor issues, managing databases, and endless others make e-entrepreneurship just as complicated as any bricks-and-mortar business.

E-entrepreneurship is cheap. Just because you may not have a building or full-time employees does not mean there are no costs associated with an e-business. The cost of Web design, hosting, software, shipping, and any number of other components can put pressure on the bottom line.

The best price is always online. If you are a smart shopper, you know this is not so. Consumers often use online prices to negotiate better deals in regular stores.

E-commerce will kill traditional retail. Jeff Bezos of Amazon.com has predicted that Web retail sales will end up comprising only about 10 percent of annual retail sales, not the 50 percent or more that some people predicted when interest in e-retailing started to grow.

E-entrepreneurships make an obscene amount of money. With the growing competition online, most companies try to keep their profit margins as low as possible. Any extravagant amounts of money that have been made were the result of public stock offerings back in e-commerce's early days. Those amounts had more to do with the perceived potential of the Internet than with actual profits. E-entrepreneurship is not a shortcut to extreme wealth; it is merely another tool in successful business operation.

E-entrepreneurship is not safe. The number-one concern among consumers shopping on the Internet is and has been for some time credit card safety. The ability of e-business to encrypt orders transmitted over the Web has all but eliminated that problem.

DIGITAL VISION

E-entrepreneurship success depends on the right technology. Although technology is important, it does not eliminate the need for sound business practices.

Getting products to consumers is an e-entrepreneur's biggest cost. Although shipping and handling costs are high, they typically lag behind those for business technology. This is even truer when the business enters a period of rapid growth.

Most Web consumers are "young." This statement was true in the beginning, but no longer. Recent online research has found that the age distribution of online shoppers is almost identical to that of in-store shoppers.

If a product or service can be sold, it can be sold on the Web. Many products are ill-suited for web sales. Luxury products and products requiring a lot of salesperson interaction are not good candidates for online selling. Many personal services cannot be sold online. For products that do not fit the mold for online sales, web sites are typically used for information only.

Everyone else is selling online. According to a recent nationwide survey, only 25 percent of traditional companies employ any form of e-commerce. E-commerce is rapidly growing, but it has not overtaken traditional bricks-and-mortar commerce.

Ethics for ENTREPRENEURS

Jen Mangrum has been a professional writer for over 25 years. She worked for 10 years as an editor at a large publishing company, then freelanced as a technical writer, producing corporate reports and editing technical training manuals for Fortune 50 companies. As a sideline she wrote advertising brochures and articles for travel magazines. For the past five years she has concentrated on fiction, and one of her novels was recently published.

While lunching with a friend recently, Jen shared the many facets of writing she had experienced during her long and very successful career. Phyllis, her friend, suggested that with everything Jen knew about writing, she could probably write a how-to book. Why, she could even take it a step further and franchise a home writing business.

The more Jen thought about Phyllis's idea, the more intrigued she became—so intrigued, in fact, that she spent the next three months writing a how-to guide. Jen titled it *Publishing for $$$*. She was less sure about the franchising idea, but she thought there would be a large market for the guide. After all, who wouldn't want to pick up a few extra dollars in their spare time?

Jen started an online business to sell the guide. She registered the domain name publishingfor$$$.com, built a web page, and began promoting the guide. Since she had made $4,000 to $8,000 a month as a technical writer, she stated that anyone using the guide could potentially earn $4,000 or more per month. The guide sold for $99.99. Sales started slowly but have increased steadily the past few months.

Yesterday Jen received a letter from the Better Business Bureau. Her hands shook as she read it. The BBB had received several complaints from disgruntled customers who had made $0 using the guide. The letter asked Jen to document the methodology behind her advertising claim and case histories of all clients who had earned the promised income. What was she going to do now?

Think Critically

1. Do you think Jen broke the law?

2. Do you think Jen violated any of the five principles of the BBB Code of Online Business Practices? Please explain your answer.

COMMON E-ENTREPRENEURSHIP MISTAKES

Achieving success as an e-entrepreneur is no easier than achieving success in a bricks-and-mortar business. Some would say it is even more difficult. The path to e-business success is fraught with potential mistakes. The following are 15 of the most common.

1. **Trying to sell the wrong product online**   Just because a product sells well in your bricks-and-mortar store does not mean it will sell well in your virtual location. Evaluate your products for their suitability to sell online. Try to think as your customers will think.

2. **Misjudging the web site's potential**   Many entrepreneurs establish a web site simply because it is fashionable and therefore do no planning for it. Part of e-entrepreneurship planning should be an educated projection of sales. This projection should be compared to actual sales as the site goes online and then updated regularly. One of the most disheartening problems faced by entrepreneurs occurs when sales exceed the ability to procure and deliver the product. When that happens, the success of the business can actually kill the business because of disgruntled customers who cannot get products advertised as available.

3. **Forgetting that a first impression can only be made once**   If your site is not immediately impressive, with visually appealing graphics and user-friendly functions, potential customers will leave and never come back. Good first impressions get and keep customers.

4. **Making the site too complicated**   A web site can only do so much. Think about your target market and tailor content and functions to the appropriate level.

5. **Using a complicated navigation system**   If customers have difficulty getting around your site and cannot determine basic functions like adding to a shopping cart or completing the order, they will simply leave.


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6. **Forgetting to list your phone number**   Guess what? Many customers will use your site to gather information and complete comparison-shopping. When they get ready to order, however, they want to talk to a real person. List a phone number in a prominent location.

7. **Supporting only one browser**   A **web browser** is a software application used to locate and display web pages. The two most popular browsers are Netscape Navigator and Microsoft Internet Explorer. Both

of these are graphical browsers, which means they can display graphics as well as text. Browser incompatibility occurs when a web site is designed to support only one browser. Customers using a different browser may not be able to access the web site.

8. **Featuring out-of-date content**   Internet content should be regularly updated. Outdated product information and price lists will contribute very quickly to the demise of your e-business. Based on the nature of your business, devise and adhere to a timeline of scheduled updates.

9. **Requiring excessive download times**   Internet customers by nature tend to be impatient. They are accustomed to having information at their fingertips whenever they desire. Time is important to them. Most web site designers understand this and design sites that will download to the customer's computer very quickly. Failure to do this will drive customers away from your site before they have a chance to see your product.

10. **Ignoring customer service**   This is probably one of the most troublesome areas for entrepreneurs starting an e-business. Plan carefully and avoid this costly mistake.

11. **Not validating the functionality of your site**   Web sites by design can be technically complex. Once the site is developed, it should be tested extensively before being made available to the public. After the site is up and running for customers, test it on a regularly scheduled basis. Encourage customers to report any problems they encounter when using the site.

12. **Not merging your web site with your conventional business**   After setting up your web site, print the address on all your business cards and business correspondence. Any advertisements for the business should prominently display the Internet address. Print it on your receipts and display it by registers. Encourage your bricks-and-mortar customers to use the site. Encourage employees to mention the site to customers.

13. **Not promoting the site**   How will potential customers know your web site is up and available for business? Your e-business will need a marketing plan. Run ads on other sites, advertise the web site address, put posters in bricks-and-mortar locations—promote the site in any way you can think of.

14. **Using spam promotion**   Buying an e-mail list and sending information about your site to thousands of potential customers is probably not the best way to promote your business. The use of spam promotional techniques carries a certain disreputable connotation.

15. **Failing to deliver products**   Like bricks-and-mortar business, e-business depends on repeat customers. If your e-business does not deliver ordered products to customers in a timely fashion, they will probably become one-time-only customers.

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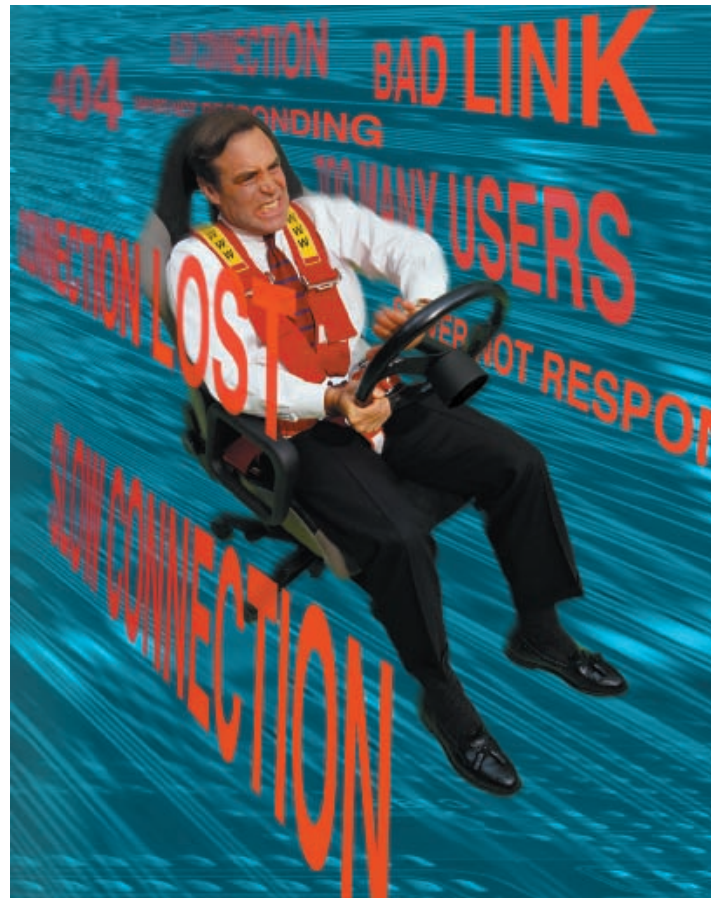
Chapter Review

Ship in a BOTTLE

Expanding the Web Site

Fred was discovering that the further he reached into his new business, the more exciting it became. His initial venture into e-entrepreneurship had proven quite successful. His web site, www.shipinabottle.com, had a clear and easy-to-remember domain name, and the site was attractive, simple to navigate, and secure. His business had grown dramatically, particularly since he had listed "ship in a bottle" as a search term with pay-per-hit advertising offered by two host services. Although he had originally achieved a good no-charge reference listing under "ship in a bottle" with most host services, he was finding that the number of reference listings continued to grow for all products and that he needed additional insurance that his domain would stand out from the competition. Since he had such a specialty listing, the pay-per-hit service was available at the minimum charge, 5 cents per hit. This fee assured him that he would hold one of the top three web site reference listings at all times. Many advertisers paid as much as $3 per hit in more competitive product listings.

It was becoming obvious to Fred that he should consider expanding his offerings. Just as in a retail store, once the customer was already visiting the web site, why not try to sell other, related products? Fred started his search by consulting with Johann. Johann had expanded into gift items, nautical apparel, weather instruments and clocks, and flags. He put Fred in contact with his suppliers for each product line.

An apparel line that had been successful for Johann proved to be less so for Fred. The apparel was European designed and nautically styled. Fred was sure at first that it would have an appeal because it was unique to the U.S. market. He featured Johann's most popular clothing but ran into problems with size translations and inventory planning. The investment to carry a full size selection for 40 apparel items was staggering, and the risk outweighed the gain. He abandoned the idea after a three-month trial.

Nautical clocks and weather instruments were more successful. The German manufacturer who supplied Johann was delighted to find an American distributor. His prices were competitive and his quality outstanding. Fred added the items to his site and reinforced them by advertising in two nationally distributed sailing magazines. Within six months, they proved to be a profitable addition.

Of some surprise to Fred was the success of historical European and German flags. Flags did not appear to fit his product focus, but Johann insisted they would do well. Sure enough, Fred found out that, like ships in bottles, historical European flags were almost impossible to find in the U.S. By creating a listing with the pay-per-hit hosting services under "European flags," he attracted enough traffic to his web site that flags became a good investment.

Fred was learning a valuable lesson: if you turn over a stone, new ideas sometimes leap out. While discussing his venture with the manager of a large museum store that sold his ships in bottles, he learned that the museum store did not have a web site for the art and gift pieces it made in-house. The manager agreed to allow Fred to list some of the museum's limited-edition art prints and one-of-a-kind gift items on his site. This connection added a whole new dimension to Fred's business.

continued

Fred reviewed his expanded web site and inventory selection and realized that his business had matured to the point where it would demand his full-time attention. A hobby business was now at the critical juncture of becoming a full-fledged enterprise with unlimited sales potential.

Think Critically

1. Create a list of other products that Fred should consider offering. Defend your reasoning.

2. Did Fred give his apparel experiment a serious enough try?

3. Research hosting companies that offer pay-per-hit listings. Do you believe it is necessary for e-entrepreneurs to use these services, or should they be content with generating interest from information reference listings?

Summary

An e-entrepreneur is defined as an individual who is willing to take the risk of investing time and money in an electronic business that has the potential to make a profit or incur a loss. E-entrepreneurship is the act of managing an electronic enterprise that has the potential to make a profit or incur a loss. Electronic businesses are also called virtual businesses, online businesses, e-businesses, or cyber businesses. A bricks-and-mortar business is one that has a material presence such as a storefront, storage facility, office space, manufacturing facility, or other tangible location where potential customers can walk in and interact with employees. A virtual business does not have a material space for receiving customers and completes most of its business online. The major advantage of a virtual business is that wherever the entrepreneur is, the business can be there also, as long as reliable phone and Internet service exist. Over 200 million people are potential customers for an entrepreneur with an Internet site.

If your new business will have a virtual component, you will need to add e-business considerations to each component of your business plan. These components should address web site planning, development, marketing, legal, financial, management, and special considerations. They should make certain your Internet content reaches the right customer and create a process for educating and communicating with your customers. Your industry analysis should not only analyze the basic components but must also view each from the perspective of e-entrepreneurship. Industry trends, laws or legal issues, technological issues, and barriers to entry become more important.

The first step toward e-entrepreneurship is usually the selection and registration of a domain name, the unique name that identifies an Internet site. The Internet Corporation for Assigned Names and Numbers (ICANN) manages and coordinates the Domain Name System to ensure that every address is exclusive and that all users of the Internet can find all legitimate addresses.

Once the domain name has been chosen and registered, you must decide whether to design the web site in-house or contract the project to a professional web design company. The "face" of the site is its content—the actual text, products, information, graphics, and any data incorporated into the site. Another important decision concerns the web host for your site. A web host is a business that, for a fee, allows a company's web page to be connected to the Internet. Other considerations include the Internet Service Provider, site security, search site submission to Internet search engines, on-site search engine, database software, and other components required for online order acceptance.

Chapter Review

As online shopping soars in popularity, fraud and deception are major concerns. The Federal Trade Commission enforces laws to ensure that products and services are described truthfully in online ads and that consumers get what they pay for. These laws benefit both consumers and sellers.

There are many misconceptions about e-entrepreneurship, such as: it is a no-brainer, it is cheap, it is not safe, most consumers are young, and others. Starting an e-business and achieving success are no easier than starting and achieving success in a bricks-and-mortar business.

The growth of online commerce has spurred the need for international cooperation. The Organization for Economic Cooperation and Development (OECD), consisting of the U.S. and 29 other countries, has established new guidelines for international e-commerce. The Better Business Bureau has also developed its own Code of Online Business Practices.

A Case in POINT
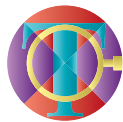
Michael Bakchos's family has been in the orchard business for 40 years. His grandfather, Makhaon, emigrated from Greece to America as a small child. Like many immigrants, Makhaon contributed to the family's livelihood as soon as he was old enough to work in the orchards of the high mountain valley where they lived.

Makhaon worked in the peach orchards until he was middle-aged. Then, through a bit of good luck, he was able to buy an orchard of his own. With the help of Michael's father he built the orchard into a thriving business. After Makhaon retired, Michael's father bought several contiguous orchards and greatly expanded the peach crop.

Two years ago, Michael's father retired and turned over management of the family business to him. Unlike his father and grandfather, Michael has a college degree, in business administration. He thinks the time is right to implement some of the things he has learned. He believes that the worldwide accessibility of the Internet offers an almost endless market for the "Bakchos Peach." Michael feels that he can sell "a ton of fresh peaches to the big-city folks back East."

As a first step in the process, Michael has registered the domain name Bakchospeaches.com. He has hired you to help him build his web site.

Think Critically

1. Prepare an evaluation of the domain name for Michael.

2. Evaluate the product Michael intends to sell online and prepare a brief report concerning its suitability for Internet commerce.

3. In the Site Evaluation Checklist (Table 12-1), what do you think Michael's number-one concern for his e-business would be?

Vocabulary Builder

Write a brief definition of each word or phrase.

1. bricks-and-mortar business
2. domain name
3. Domain Name System (DNS)
4. e-entrepreneur
5. e-entrepreneurship
6. firewall

7. Internet Corporation for Assigned Names and Numbers (ICANN)

8. Internet Protocol (IP) address

9. Internet search engine

10. Internet Service Provider

11. intranets

12. merchant account provider

13. shopping cart

14. spam

15. URL

16. virtual business

17. web browser

18. web host

Review the Concepts

19. How is a virtual business different from a bricks-and-mortar business?

20. In a virtual business plan, which component is often absent?

21. What is the first step in the creation of an e-business?

22. What is considered the "face" of the web site?

Critical Thinking

23. When reading Internet usage statistics, what strikes you about work hours?

24. Which aspect of the Internet's history do you find most interesting? Why?

25. Discuss the importance of including e-entrepreneurship in a business plan.

26. Discuss the function of the Domain Name System.

27. What is the difference between a web host and an ISP?

28. Do you think the CAN-SPAM Act of 2003 is fair to advertisers? Explain.

29. Why are global agreements necessary in international e-commerce?

30. What do you think is behind the myth about young Internet consumers?

31. Based on your own experience online, what are the three most serious mistakes an entrepreneur can make?

Project

Build Your Business Plan

Give careful thought to whether or not the Internet is a suitable way to market your product or service.

1. Does your business need a web site? Justify your answer.

2. Using a search engine, check if another business is using your domain name or something similar to it.

3. From the Site Evaluation Checklist, choose the five issues you consider most relevant to your business. Justify your answer.

Unit 3 Case Study

A Dream Retirement

Ray Heath has lived in California all his life. For 25 years he worked in the aerospace industry in Long Beach. Then, after a successful corporate career, Ray retired with a handsome retirement income.

His company had made it a policy to give employees one share of stock for every two they purchased. Beginning with his second year of employment, Ray invested 10 percent of his annual income in company stock. When he retired, his stock was worth more than $1,600,000.

Alhough Ray had enjoyed his many years with the company, he had resented the times he was affected by upper-management decisions in which he had no input. He knew that at some point in the future he wanted to be in a decision-making position. He often shared with his wife, Jill, his desire to own a business someday.

Ray's retirement meant that "some-day" had arrived. Now he could start his own business and run it the way he thought best. There would be no more corporate boardroom politics to affect decisions. He would make all decisions himself, based on what he thought was most appropriate for his business and his goals.

When Ray and Jill had dreamed about and planned for their retirement, they had discussed the idea of buying a small motel. So for the past year, as Ray's retirement date approached, they focused their attention on motels. They read everything that was available about motel management. They tried to determine which parts of the country were experiencing growth or had growth potential in the travel and tourism industry. They concentrated their research on coastal areas, since they both enjoyed the ocean very much.

Ray and Jill knew they needed to identify an area that had clear growth potential but was not yet fully developed. Property there would still be reasonably priced. They could afford to buy a small motel and turn it into a profitable retirement venture.

After much research, they found the perfect spot on a section of the Texas Gulf Coast adjacent to a high-growth zone. Within the next 10 years, Ray and Jill calculated, the area would grow to match or even surpass its high-growth neighbor. They pinpointed the small town of Port Aransas as the location that most closely matched their needs.

Port Aransas is on the northern tip of Mustang Island, about 30 minutes' drive from Corpus Christi, three hours from the Rio Grande Valley, three hours from San Antonio, and four hours from Houston or Austin. In 2000 its population was approximately 3,370. The most recent statistics Ray and Jill found estimated the population in July 2002 at 3,505, an increase of 4 percent. Further research yielded other useful information on the town: the median age of its residents was 45.1 years, median household income was $39,432, and median house value was $110,500.

Port Aransas is a working port and one of the most popular tourist towns in Texas. Numerous tourist attractions in the area include:

- Aransas Wildlife Refuge

- *U.S.S. Lexington*, Museum on the Bay, Corpus Christi

- Texas State Aquarium, Corpus Christi

- Mustang Island State Park, Mustang Island
- Texas Maritime Museum, Rockport
- Padre Island National Seashore
- Goose Island State Park, Rockport

With an annual average temperature of 71.5°, an annual average rainfall of 31.92 inches, and an estimated 600-plus species of saltwater fish in the waters off the island, Port Aransas seemed the ideal location for the Heaths.

After Ray retired, he and Jill sold their home, moved to Port Aransas, and spent the next month talking to real estate agents. Among the 23 motels in the immediate area, only two of the owners were interested in selling. After visiting both properties and talking to the owners, the Heaths decided on a motel overlooking Aransas Pass, a major shipping lane leading into Corpus Christi Bay.

The motel had 35 rooms, an outdoor swimming pool, and a spacious lobby with a view of the Pass. The stucco building was about 40 years old. The only apparent problem was that the rooms were decorated in an outdated olive green, orange, and gold color scheme. The swimming pool was in good shape, although some of the tiles on the deck were loose and crumbling. Overall, though, the Heaths fell in love with the grounds and the view. They decided to make some changes, and Jill's brother, an engineer, said he would inspect the place when he came to visit in a month or so.

After an exchange of offers and counteroffers, the owners of the motel accepted Ray and Jill's contract. A month later the Heaths moved into the motel, which was currently open for business during the quiet off-season. The start of the tourist season was about six months away. By that time, the Heaths had to make sure they had done everything possible to ensure a steady flow of guests.

Ray and Jill understood they could not keep the motel going the way it was and assume it would make money. They needed business and marketing plans to guide them through the experience of motel ownership.

Their first action was to search the local chamber of commerce listing for a marketing company to assist them. They had no luck finding a local company; the closest one was in Dallas. They did, however, discover a visitors' guide that was published locally for tourists. They needed to be listed in the guide, of course, but what should they emphasize about their motel?

The Heaths had their work cut out for them. They had to address a number of issues right away. The accuracy of their responses could mean the difference between business success and business failure.

Case Questions

1. How can the Heaths determine who their potential customers are?

2. How should the Heaths determine what to charge for their rooms and any other services they offer?

3. How do you suggest the Heaths promote their hotel?

4. Do you think the Heaths should consider Internet marketing? Why?

5. If the Heaths decide to create a web site for their motel, what are some of the mistakes they should try to avoid?