

Is your business ready for e-Commerce?

(Part 1 - Business Considerations)

Welcome to this month's issue of Interact!

The internet has opened the door to selling products and services online. In Singapore, 30% of internet users (about 700,000 customers) purchase products and services online.

However, despite the vast opportunity out there, you need to take into account some elements before setting up an online shop. In this issue of the Interact! we will focus on the business elements and continue the discussion highlighting the operational and technical considerations in our next issue.

What's your competitive advantage?

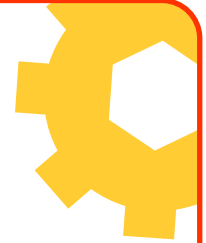
The basics of starting an online business is no different from any other business. Like in any business venture, the first questions to ask are:-

- ▶ What are you selling and is there a demand for your product?
- ▶ What is the right price?
- ▶ Where is your target market?
- ▶ What is your competition doing?
- ▶ What differentiates you from your competition?

Develop a 'Business Plan' - this encompasses cost, processes, pricing and marketing that sets you apart from your competition.



Below are some well known business models for your reference. (The explanations have been simplified, and provide only an illustration, not a detailed business model dissertation).



Ikea:

Their business model revolves around 'flat-packing'. In the furniture business, storage and transportation adds significantly to the operating costs. By designing their furniture so that they can be flat-packed, Ikea's furniture can be stored and transported at a fraction of the cost of competitors. This gives them a significant pricing advantage.

The model's disadvantage is the need for the customer to assemble the furniture, and the potentially less 'solid' feel of the furniture.

Dell:

The Dell business model is built around direct sales. Customers buy computers directly from Dell. These are assembled after the order has been made which helps reduce inventory costs significantly.

Assembling the PC after the order also enables Dell to provide more purchasing options to its customers.

The disadvantage to the model is the lower level interaction between a customer and sales staff. Dell overcomes this by;

- Initially targeting the Corporate market that is more knowledgeable and price sensitive.
- Providing toll-free numbers for consumers to call with questions.
- Reaching consumers directly via the 'Dell Bus' mobile exhibition.

When you embark on ecommerce, there are advantages and disadvantages. Consider these carefully as you craft your Business Model.

eCommerce Pros and Cons

In the internet boom years, there was considerable hype over the advantages of online commerce. These inflated perceptions still exist today. Here's a more balanced view of the advantages and disadvantages of e-Commerce:



Pros

▶ Lower cost

Compared to operating a bricks and mortar business, it is much cheaper to set-up an e-shop. An investment of a few thousand dollars will see you equipped with a fully functional e-commerce shop. Monthly maintenance is in the range of low hundreds.

You can also do without frontline staff, further reducing your operating cost.

▶ Global reach

Even the most basic e-commerce infrastructure will enable you to reach a global audience. You can even set your site up for different languages and collect payments in different currencies.

▶ Lower inventory cost

Since you do not have to hold physical stock before you put an item up for sale, you can cut down on inventory cost. Or you could place your inventory in a lower cost location.

For example, if you are selling wine (or other dutiable items), you can leave most of your stock in a bonded warehouse and pay duties only when you need to fulfill an order.

▶ 24 x 7 Availability

With an e-commerce store, you never have to be closed. Unlike human employees, computers can work 24 hrs a day, every day of the month without complains or overtime. That cannot be anything but good news for a business.

Cons

▶ Can't touch and feel

Online, your customers can't touch, feel, smell, try out for size, fit or taste. They can only view photographs, videos and written descriptions of your products. That could put you at a disadvantage compared to a brick-and-mortar store.

▶ Watch out for fraud

Most online fraud occurs with international (cross-border) transactions, because that makes it more difficult to track and prosecute the criminals. If you sell a product that has high resale value (e.g. electronics, watches, etc), you are more susceptible to fraud. Note that 'charge-back' rules (ie rules for determining who should shoulder the cost of a fraudulent transaction) work to an online merchant's disadvantage.

Some common sense safeguards are;

- Do not mail to P.O boxes or other temporary addresses.
- Conduct more checks on larger orders.
- Watch out for large number of orders to a specific address.
- Delay the fulfillment if necessary until you are sure of purchase authenticity

Most criminals operate by renting premises for a short period of time, chalk up huge orders and move.

Fraudsters change their mode of operation frequently. Check with your payment provider to understand the current anti-fraud procedures to adopt.

▶ Shipping cost

This cost component can add up to a very significant portion of the total purchase price, especially if your product is low cost but bulky or heavy. Consider if shipping cost is going to negate any cost savings from other aspects of your e-commerce operation.

▶ Servicing clients 24x7

When you have clients being able to shop around the clock, there is an expectation that they will get their questions answered by a hotline or immediate response to queries. This expectation needs to be managed upfront.

Thus far we have scratched the surface of some of the business elements of setting up an e-shop. In our next issue we will discuss the operational intricacies of running an online business.



Good luck shopping!

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