

# Costs & Issues Selling Online

## Enterprise eCommerce Online Business

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# Enterprises or Larger Business eCommerce

There is a debate about the effectiveness of selling products online for a large retail chain.

On one side of this debate is the traditionalist that measure effective retail based on foot traffic through the store. On the other side are the proponents of selling online with consumer facing systems.

At the big end of town Australia jumped into eCommerce very early and there were many failures. Why? It was primarily due to the lack of infrastructure available at the time. There was little broadband capability available, most Australian's had no access to the internet and those that did used dial-up. This was back in the late 90's and early 2000's just around the time of the "dot.com" crash. So there exists in some company's executive management a view that eCommerce (or selling online) failed in Australia.

Our focus companies will in the most part be retailers or brand management organisations. The retailers will have multiple (maybe hundreds) of outlets. There can be two different market models those that own their own outlets (bricks and mortar stores) and the franchise model where there are many stake holders with investments in individual stores.

The opportunities vary between these two different models but the core issues are very similar. In the franchise model the online store can be seen as a competitor and the franchisor competing against the franchisee. However if business transacted online can drive new traffic to the franchisee then the issue of competition might go away. The franchisee can also be given the opportunity to sell online and become part of a virtual franchise like it is part of the physical franchise. The franchise model is perfectly aligned as a "community of interest" which could result in a powerful presence.

There are very successful retailers in Australia with huge investments in infrastructure who do not sell online. This is not meant as a challenge to them as their model may be currently successful. Looking forward even the traditional retail stalwarts will move to sell online as has happened in other parts of the world. Everyone recognises the need for an online presence but this issue is about selling online.

eCommerce or eBusiness for a large corporation is a very broad subject. When we think eCommerce in a small business mostly it is about selling online and B2C. But in a large company there is much more to eCommerce. In today's business world it has to be a part of the total corporate strategy even if it is a defensive component.

Most (if not all) companies in Australia today have encompassed some part of the overall eCommerce picture. It might be ePayments or eProcurement or some form of Business to Business (B2B) capability. What we want to concentrate on here is Business to Consumer (B2C).

In a recent article Chris Hitchen, CEO of Getprice.com.au, has said that they have seen a huge increase in traffic to their product comparison portal year over year. This similar message has been delivered by numerous organisations, like PayPal and eWAY, doing business online in Australia. So search online and buy is becoming more the norm as we move forward with consumers becoming used to and feeling safer buying online.

The increase in online search and buy has been put down to various reasons; from the current economic conditions and the need to find a bargain; to the changing face of our population and the increasing activities of the Gen-X and Gen-Y demographics. As these generations age and assume more wealth they will increasingly transact online as they have engaged online in other areas from social networks to online games to music and entertainment. Or, maybe there is just not enough free time to enjoy; searching and buying online offers a faster and more time efficient alternative to queuing in traffic, waiting for public transport, fighting for a parking spot or dealing with crowds. And you can do it any time of day and any day of the week.

Establishing an online shop can, in many ways, be likened to establishing a new bricks and mortar store. The issues that we will address are:

- Systems and Integration
- Human Resources
- Establishment and Operating Cost (Budget)

The difference is the cost. It is possible to establish an online store that is fully integrated to existing systems for far less outlay in capital cost than the establishment of a bricks and mortar store.

## **How much does it cost to sell online?**

This is a question we are hearing often and the answer is not always as clear as there are many different views and opinions in the market place. There are a number of options to sell online here are some of the common ways we see:

1. Use an existing service like eBay there you will pay fees to list your products and also a "Final Value Fee" which is a percentage of the sale price. If you are selling your old books or stuff eBay is a great solution. Many businesses also sell on eBay as Power Sellers however costs can get high and there are limitations on what you can do.
2. Buy some open source online shop software, have a developer build a store and find somewhere to host it. There are pro's and con's but it is NOT FREE. The initial costs maybe lower but the longer term costs of maintenance and management can be very high.
3. Get your "friends, friend", who happens to be a web developer, to build you a website and shopping cart. This is failure waiting to happen and is the least recommended solution.
4. Use a fully hosted eCommerce Solution such as eCorner. There are many to choose from and a quick Google search on "hosted ecommerce solution" will find many companies that offer a package. My tip is that if you are based in Australia or New Zealand make sure that the hosted solution is here and not in the USA or Europe. The hosted solutions in general are based on some proprietary software but the setup and maintenance is much easier. These systems are in general also upgraded in features and functions free in the hosting environment and with a maintenance agreement if in a dedicated server.

## General eCommerce Costs

When starting an online business selling products or services there are some costs which you can expect before you make your first sale. Your online store is a sales channel and acts like a sales person for your business. Selling online can be very cost effective as there are less human resource and infrastructure costs unlike a "bricks and mortar" business. But don't be fooled selling online is not free and your results will be directly dependant on your investment, quality of service and products.

There are many costs which will not be covered in this article such as cost of products, warehousing, logistics, traditional marketing, business taxes and accountancy fees. All these traditional costs still exist and don't magically vanish if you sell online.

Successful selling online requires as much business acumen and planning (maybe more) as any traditional business. Getting started is not hard but there are so many opinions on the technology that can be confusing to a non-technically minded person. There are also many technical terms and issues which often just confuse. eCorner and all our partners use ePages which is world leading online shop software with all the features for successful online selling. It is a proprietary solution meaning that you pay a monthly fee to use the software or you can buy a license if you are a larger business with the need for dedicated servers. Following is a quick summary:

- You need a domain name
- You need a business email addresses
- You need a website with a shopping cart or you can use eBay (or similar) or both
- You will need to have a design and some development for your website
- You will need some Search Engine Optimisation (SEO)
- When your website is live you will need to do Search Engine Marketing (SEM) – pay per click (PPC) with Google Adwords as an example
- You may need an SSL Certificate (recommended if you accept credit cards)
- You will need a payment gateway or payment provider and maybe an online merchant bank account.
- You will need a shipping company - like Australia Post to deliver products
- Don't forget the traditional business costs, taxes, charges etc.
- You will need some human resources - maybe that is just you. But if you have a full time job remember that the online business will not look after itself.
- Web analytics to track visitors and business conversion data.

## The Basic Requirements

### Domain and eMail

To run a successful website you might need a domain name and business email addresses. Visitors who come to your website may want to send you messages and we highly recommend that you do not use a personal email address. So you may need a sales and an info email address at least. Expect to pay around \$99 per year for 5 email boxes, the more you get the cheaper they get. To set up a .com.au domain name you need a registered business with an ABN or ACN in Australia. You can

expect to pay \$99 for two years. Domains for .com will cost less but for Australia we recommend you get the .com.au domain. You can get cheap domain names but the service provider may not provide the DNS hosting which is necessary and will be an extra cost so check carefully. We have found with some of the really cheap overseas domain providers that the domain name is not transferrable for 12 months and is basically not usable. Check the T&Cs. There are many good Australian domain providers here are a few:

- [www.netregistry.com.au](http://www.netregistry.com.au)
- [www.tppinternet.com.au](http://www.tppinternet.com.au)
- [www.melbourneit.com.au](http://www.melbourneit.com.au)
- [www.webcentral.com.au](http://www.webcentral.com.au)

## **SSL Certificates**

The SSL or Secured Socket Layer is about providing security and confidence in your online shop. It is highly recommended that you have your own SSL if you expect to be really successful online. Many hosted solutions will come with shared SSL which means that it is secured. However when your visitors go to secured pages the URL (or your domain name) will change to that of the SSL Certificate owner who will be the payment provider or hosting company. This can cause concern and basket abandonment (or potential buyers that add a product to your shopping cart but do not complete the sale). SSL Certificates from companies like COMODO will start around \$150 / year and you may have to pay a fee to your web developer to add it to your website.

## **Graphic Design**

With a Hosted eCommerce Solution like eCorner Store Plus you generally don't need to spend anything. If you have something special in mind for a custom logo or banner then it might need to be designed by a professional graphics designer. In general we would recommend that you get started with the designs available from eCorner. These are very flexible and you can change colours, add logos and banners. If you want a special design then we can help by working with you to refine your requirements but take a look at what is available from eCorner for free first. A custom design can cost as little as \$600 - \$1,200 to produce and add to the online shop.

## **Custom Functionality**

The packages that eCorner provide come with just about anything you will ever need to run an eCommerce store. If you are starting a new eCommerce business we would recommend that you use as much of the out-of-the-box or standard functionality as possible and our stores have it all. Your online business will start to make money for you then you can look at expanding and adding new functionality.

Web development can cost over \$150 per hour but varies by provider. We recommend that you ask for a full proposal with specification and a work order that identifies the work and time for each task for your approval so you know what you will get. You should always look at the Terms & Conditions and ensure that there is a warranty period. Expect to pay some part upfront but you should always hold some part of the payment back to ensure completion as you expected. Check if the

development company has product and professional indemnity as a mistake may cost you a lot of money online.

## **Payment Gateway**

If you want to accept credit cards online we recommend that you use a Payment Service Provider and process the credit cards via a Payment Gateway. There are strict regulations around the use and storage of credit card information which are regulated by the Payment Card Industry via their Data Security Standards you can find more information at their website [www.pcisecuritystandards.org](http://www.pcisecuritystandards.org) or through your bank.

All eCorner Stores are PCI DSS compliant. Payment Gateways have to be integrated into your website. eCorner has already integrated a number of leading Payment Gateways including:

- PayPal (Standard, Express and Payflow),
- eWAY,
- Dialect Solutions,
- DPS,
- Netregistry,
- Camtech,
- SecurePay
- Worldpay.

These are made available as part of the package from eCorner. You will need to setup an account with the Payment Service Provider (and maybe also an online merchant account with your bank) to take online payments. Setup costs vary dramatically from nothing at PayPal up to \$500 for some providers. Some Payment Providers will also charge an annual fee between \$200 - \$500. You will pay transaction fees for each payment that you accept again these vary greatly but expect from 1.1% + 30 cents up to 4.5% or more depending on the Payment Service Provider.

So check this out carefully. Your bank will also charge you some fees to setup your Online Merchant Account these do not vary greatly from bank to bank but shop around and ask questions. eCorner does not charge any separate transactions fees.

## **Shipping and Logistics**

eCorner provide a wide variety of shipping methods built in which you can setup on your website. These handle just about any possibility. We also provide integration to Australia Post for calculating shipping cost in the shopping basket. The actual shipping cost to send your packages is not part of the eCommerce package and you need to make sure that you calculate and add shipping cost correctly.

**As a tip** - free shipping is a great incentive for buyers so we would recommend that your pricing absorb the shipping cost when possible and you offer free shipping. You can tie that to the value in the shopping basket which is always a good idea.

## **SEO and SEM**

Search Engine Optimisation and Search Engine Marketing can cost a lot of money. Luckily if you have decided on the right eCommerce software you will find that the websites have SEO capabilities built in. You really just need to follow the guidelines and advice in our FAQs and your website will be search engine friendly. Search Engine Marketing is a cost you need to consider carefully. We have seen good web businesses fail because they spent too much on Cost per Click (CPC) programs which were not targeted. Again we have some good advice in our FAQs.

The actual cost of programs like Google Adwords and Yahoo Search Marketing will vary dramatically based on the types of products you sell and the geography that you target. As a broad guideline for an Australian targeted large retail website, a \$1000 / day budget will get you about 500 opportunities. But this varies greatly based on the cost of each keyword and the quality of your ads and website. Remember the way this works is when someone clicks on your ad it cost you money if they buy or not. So the best result is a much targeted set of ads and keywords.

A good tip is to make sure your webstore is complete before submitting it to the search engines. You need to submit to search engines like Google, Yahoo, MSN and also take a look at the directories like Yahoo Directories, Hotfrog and Cooeonline and expect to pay a small listing fee. The price comparison engines are great if you are selling retail so check out Getprice and Shopping.com, again there are small fees involved. There is again lots of advice in our FAQs. Remember it may take 4 - 6 weeks for the search engine crawlers to go to your website.

We help our customers SEM by listing them on our marketplace at [www.ecornerstores.com.au](http://www.ecornerstores.com.au). If you want professional Search Engine Marketing (SEM) results we recommend that you engage an SEM specialist company like Hot Goanna.

## **Web Analytics - Visitor and Page Tracking**

A good online shop can often fail because the owners don't know what is really happening on the website. In order to understand the activity on the website you need to collect information about what visitors there are and what they do. This is collected by a web analytics program like etracker or Google Analytics. Every eCorner store comes already integrated with etracker but there is a cost for the etracker service. However you can also use fee analytics like Google Analytics on your online store. There are obviously many differences but the key issue is that you must, at a minimum, track activity like:

- visitors
- return visitors
- geographic location
- page impressions
- entry and exit pages

Analytics costs can vary and be more than the cost of the store in large and complex ecommerce environments but if you use Google Analytics it is free and for a service like etracker, which provides real time data as it happens, the costs start at \$50 / month for an enterprise solution.

## **Systems and Integration**

This is about connections to existing systems within the organisation these generally are:

1. Financial
2. Warehousing
3. CRM
4. ERP – encompassing all the above
5. External supply and logistics
6. Payment systems (credit cards and banks)

Most modern eCommerce Software has the capability to utilise Web Services and SOAP as a communication protocol to other systems. Some older or legacy applications might not have web services APIs but in that case other file transfer systems and even flat files can be utilised.

## **Logistics and Fulfilment**

Orders placed online need to be fulfilled (pick, packed and shipped) as quickly as possible. Part of the integration requirement is to provide an order feed to the ERP solution in use so that new orders can enter the system. This enables effective stock control and management. It might be useful to view these orders as a separate internal account for ease of identification.

Online shops may experience a higher level of returns and refunds than a physical store. So the online processes need to be well defined as do the Term & Conditions and the Refund Policy.

## **Security, Payment and Fraud**

In the current environment an online shop must be connected to an automated payment system to allow for the handling of credit card information away from the website. There are very specific Payment Card Industry Data Security Standards (PCI DSS) that define the processes around consumer credit card information. There are many compliant payment systems available and there is no excuse for manual processing of credit card data.

Payment providers have APIs and documentation that enables the seamless integration with most online shop software. So once the order is completed on the shop and confirmation is sent then the payment has been completed. Credit card data is kept by the payment provider and not on the website.

Payment providers have to comply with the PCI DSS and are regularly audited. In addition many have enabled enhanced fraud detection to reduce the potential for fraudulent transactions.

## **Human Resources**

There are similar roles required for the management of an online shop as for a physical shop. The differences are:

- Different skills are required

- Less human resources are required
- Online shops are open 24/7
- Online shops are not limited by geography or language

Just as you need someone to arrange the physical store you need a person(s) to arrange the virtual shelves (web pages) of the online store. Content like product data, images, special pricing will come from the internal systems integrated to the online store. However you still need some work to arrange the products for best sales presentation.

The help desk may need to be organised to handle new requests and over extended hours.

## **Establishment and Operating Cost**

Operating costs will vary based on the number of visitors, volume of business, amount of content, levels of integration and technology being used.

Visitors and Page Impressions directly translate to bandwidth, utilisation and performance. If the online store is a significant part of the business then the infrastructure needs to be built with that in mind. Generally large eCommerce websites are better hosted in purpose built and accredited data centres. These data centres have redundant and powerful internet connections, redundant firewalls and switches, redundant power supply and 24 / 7 systems monitoring. Failure of a website or infrastructure, so that it is not available, can destroy many months or even years of business development.

## Some Cost Estimates

Cost Areas	Business and Online Shop Size and Complexity			
Visitors / day	1,000+	10,000+	50,000+	100,000+
Products	5,000	10,000	15,000	20,000+
Integration	2	4	6	6+
Points	1	1	2	Many
Online Shops				
Infrastructure (monthly)	\$2K / mth	\$5K / mth	\$10K / mth	\$20K / mth
Integration (one time)	\$10K - \$20K	\$15K - \$25K	\$20K - \$40K	\$30K - \$100,000
eCommerce Software (One Time)	\$3K - \$10K	\$3K - \$10K	\$20K	\$100K
eCommerce Software (annual maintenance)	\$600 - \$2K	\$600 - \$2K	\$4K	\$20K
Development and Deployment (one time)	\$10K - \$20K	\$10K - \$20K	\$10K - \$50K	\$50K - \$200K
Human Resources (people) Directly related to the online store management and maintenance	2	2	3	5
Anticipated ROI	< 6 months	< 6 months	< 9 months	< 12 months
Time to develop and deploy	1 – 3 months	1 – 3 months	3 – 6 months	3 – 9 months

## Summary

It is possible to quickly and efficiently build and deploy an enterprise level online eCommerce shop operating in B2C (or B2B) mode using the latest generation of technologies.

- These are flexible and can be easily extended.
- They integrate with other systems and technology using web services.
- They come with a full set of pre-built features and capabilities.
- They run with a high level of security and reliability.
- They support many Web 2.0 capabilities.

The estimates in the above table can be used as a guide and can vary with individual situations. But in general they provide an accurate cost range for the development, deployment and management of an enterprise level online shop.

Another option for large enterprises is micro-sites that are targeted at specific products, markets or demographics. These can allow a retailer to test new markets or products quickly and efficiently with a minimal investment of potentially less than \$10,000 - \$30,000.