

SALES ECOMMERCE

CARD TRANSACTIONS

WEB

SHOP

MERCHANT ACCOUNT

SELLING ONLINE NEEDN'T BE AN EXPENSIVE OR COMPLEX BUSINESS. HERE, NIGEL WHITFIELD PRESENTS THE DEFINITIVE GUIDE TO SETTING UP SHOP ON THE INTERNET.

WHEN THE PRIME MINISTER starts championing ecommerce as the way forward for small businesses, most technically literate people will greet the news with a healthy dose of scepticism. What does a man who struggles to type his name on a keyboard know about the vagaries of online selling? Nevertheless, it would be foolish to think that small businesses can't have their space in the online super-shopping mall.

Those thinking of making the move into electronic retailing need to be aware that going online isn't a sure-fire way to make money – if you don't have a workable business plan, just putting it on the Internet isn't going to suddenly transform it into a money spinner. You might find that selling your wares online



MERCHANT SERVICES FIRMS, SUCH AS BARCLAYS MERCHANT SERVICES WILL MAKE YOU OPEN AN ADDITIONAL MERCHANT ACCOUNT FOR INTERNET TRANSACTION

makes you more money, and it could lift a struggling business out of the doldrums, but that's more to do with the increased audience and marketing possibilities. In short, don't believe the hype.

That caveat aside, how do you put your business on the web? The first stage is a website and, as with any site, you need to make sure that it's well designed and hosted on a reliable server – doubly important if it's a source of income, rather than just a marketing tool.

What exactly is an ecommerce site, though? Broadly speaking, there are two ways you can sell online. The first – and simplest – is a straightforward 'catalogue' site, with a list of products and an order form, or ordering information, so that people can place orders by post, sending a cheque or cash.

The problem with this sort of approach, of course, is that it's not very 'spur-of-the-moment'. If people are surfing with a credit card in their hand, and can just type in the details, they're much more likely to buy than if they have to print out a form and trot down to the post box with it.

The key to successful selling online then, is to

make it easy for your customers to do everything online, including arranging payment. And that means that you need to accept card transactions, whether they be by debit, credit or charge cards. Even if you already take credit cards in your business, you'll find that there are a lot of issues to consider, and it's the options surrounding processing the payments that form some of the most important issues you'll need to consider if you want to set up a real ecommerce website.

Merchants

While taking cards in a shop may seem simple – even to the point of just using a mechanical machine to take an impression – there are many more things to bear in mind when you want to accept payment online.

The first hurdle for many people will be to become a merchant, which is the term the card companies use for those with whom they have an account. Even if you already have merchant status for offline transactions, all the major merchant services firms, such as Barclays Merchant Services and NatWest Streamline, will make you open an additional merchant account for Internet transactions, so that they're kept separate from ordinary ones. The merchant services firm processes card payments for you, accepting a number of cards, including both debit and credit cards – you don't need to sign up with more than one.

Signing up is a fairly straightforward process, but there are some things to be aware of. For example, if you're a sole trader with a small business, you might put everything through a personal bank account. But to become a merchant, you'll need a business account – which means convincing a bank to open one for you. And you'll have to convince the merchant services company that you're worth the risk, too.

Since consumers in the UK can claim against their credit card company if they order goods that don't turn up, or if a firm goes bust after charging their card, it's important that the card companies are sure you will honour orders and aren't likely to go bust, leaving them to pick up the bill. They'll often want to see a business plan, including projections of the amount of money you expect to be taking over the Internet, before agreeing to grant you merchant status. You may find that a new business will have an even harder time if you don't have any proof on paper that you really are making money already.

If you can't overcome the hurdles of signing up as a merchant, don't give up! There are other options open to you, including malls and bureaux. Both are ways of allowing you to take orders online, without having to set up as a merchant – although, they'll have their own requirements before letting anyone use them.

A mall type of service is much as you'd expect:

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It offers you the opportunity to place your products in an established online shopping area. There aren't many of these systems, and they'll often have restrictions on what sort of things you can offer. Some, for example, are aimed simply at helping charities to collect donations online, while others just allow you to add your own items to a catalogue on a site.

A bureau service, on the other hand, integrates with your own website, allowing you to process transactions, often with the actual ordering page hosted on its server, but leaving everything else up to you.

Both approaches have their pros and cons, and many of the options include elements of both. Most noticeable of all, is that you'll be paying an additional fee for the services, on top of whatever percentage the merchant services, such as Streamline, would have charged you.

The catch is in the margin

It's the fees that can be the killer; if you're a business that's used to processing card transactions, you'll be familiar with the charges. For those coming fresh to the world of card payments, perhaps having dealt via mail order and cheques, or starting out from scratch, the high levels of commission may be something of a surprise – especially if you're selling things that don't cost very much.

Maximum fees for processing transactions via a merchant service are typically five per cent for credit cards. For debit cards, you may instead pay a flat fee – and that's not far short of a pound. So if you're planning on selling things that cost only a couple of pounds, you won't want to be accepting Switch cards!

While the merchant services fee is all you have to pay when you opt for the traditional ways of processing transactions – including simply typing card details gleaned from the website into an EPOS machine – if you want proper online processing, you will need to use one of the Payment Service Providers (PSP). These companies submit details securely to the merchant companies. However, they also charge a fee, which could easily be as much as another five per cent.

Those who have opted not to become a merchant themselves could face higher charges still. This is because a number of the bureaux and mall services on the web charge as much as 15 per cent on transactions – or even a flat fee of £2 for any transaction up to £10. Therefore, if your idea of an ecommerce business relies on fairly tight margins, you may well find that you'll need to sell a lot of things to reach the type of rates from credit companies that will fit into your business plan. Otherwise you risk handing over too much money simply to get the cash flowing.

The mechanics

You need more than just the arrangements to take cards to start the ecommerce ball rolling. If you're using a bureau service, there's little more involved than including links to the secure forms that it provides on your website, or simply supplying the bureau with details of the products you want to put in the online catalogue.

If you want to manage everything yourself – and for complete control, not to mention lower fees, it's the most flexible solution – you'll need to do a fair bit of planning. Fortunately, there's plenty of information available to help you. Most of the major software suppliers have worked closely with merchant services and will be able to help you configure their products and even help you fill in the forms to apply for merchant status.

Barclays Merchant Services also has two very useful guides on its website at www.bms.barclays.co.uk, called the Internet Merchant Procedure Guide and the Guide to Accepting Card Payments Over the Internet. Both can be downloaded as pdf files, and are well worth reading for anyone contemplating getting into ecommerce. NatWest Streamline, the other major merchant service in the UK, should have a website online by the time you read this.

Strict security guidelines are laid down by the merchant, and have to be followed if you want to be accepted by them; in fact, they're good practice whether or not you're planning to get involved in ecommerce. We've used the Barclays Merchant Services rules as the basis for our comments here, but others are similar.

The first step in hosting an ecommerce solution is to make sure that your website is

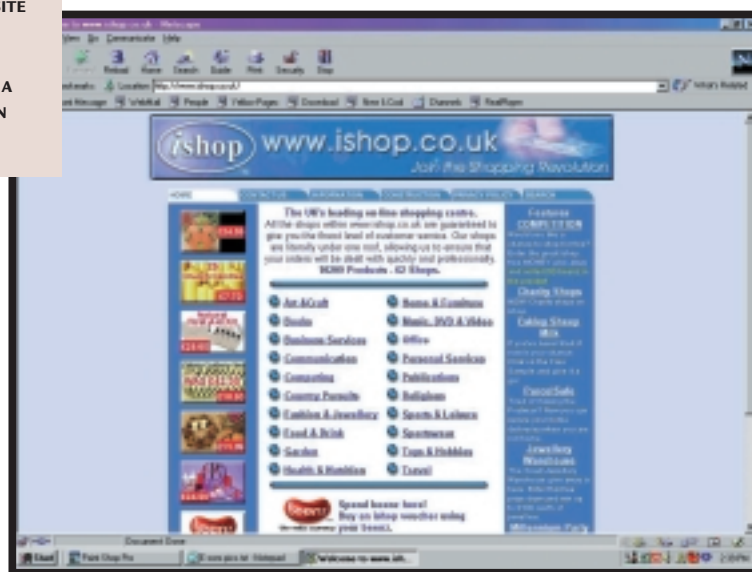
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NATWEST OFFERS A
MERCHANT SERVICE
CALLED STREAMLINE





TO RUN YOUR OWN SECURE SERVER YOU'LL NEED A WEBSITE CERTIFICATE, PROVIDED BY COMPANIES SUCH AS BT TRUSTWISE, BUT IF YOU USE A BUREAU LIKE ISHOP, YOU CAN BYPASS THIS REQUIREMENT



you'll also need software to process the card transactions and link to the payment services. Writing such software yourself isn't easy, if you want to make sure that it's secure, and the card companies will supply a list of programs certified to work with their systems – these will also include many of the security measures you need.

Some of these systems will handle the final link for you; for example, SECPay provides a solution that will interface to your website, but use its servers to pass the connection to a merchant service. That will save you some of the hard technical work – but you'll pay for it in the form of commission charges on top of the basic merchant fees.

There may seem to be a lot of things to consider – and there are certainly plenty of variables to juggle – but once you've grasped the different ways of processing transactions, then getting your ecommerce site up and running really shouldn't be too difficult. You just have to make sure that you choose the right options to begin with. The solutions covered in the rest of this feature should give you some more ideas. Read on,

secure; that means configuring a secure server, for which you'll need a website certificate. While you can obtain a trial certificate free of charge from BT Trustwise, which will at least help you test everything out, if you want a permanent one it'll cost you £259, and then an additional £199 for renewal each year – and if you're relying on an ISP to host your site, expect them to make an extra charge for configuring a secure web server in addition to the normal hosting they provide.

The next stage of security is to ensure that any systems processing card information from your website aren't connected directly to the Internet. That means that you need to keep them firmly behind a firewall, perhaps using a private address range, so that they can't be accessed from outside your organisation.

Finally, there needs to be an additional layer of network partitioning between the system that handles the transactions and the merchant service – although that can simply be via the use of an alternative network protocol, rather than a third computer system.

Nevertheless, you're already looking at two computer systems, and a security certificate. And

then decide what you can afford to do. And wait for the clicks to start coming.

The bureau option

If you don't qualify for merchant status – or you simply don't feel up to the technical aspects of configuring and maintaining a secure site for ecommerce – then the solution is a bureau service that takes some or all of the work from you.

As we've explained before, there are a number of solutions that you can use, some of which you could manage with just the most basic of Internet connections. You can, for example, build a shop online using Ishop (www.ishop.co.uk), just by filling in details such as your VAT registration number and descriptions of the products you have for sale. You can even upload images and include them before publishing your shop within an existing online mall. However, the system didn't really live up to the promise and it was pretty fiddly to construct the store.

A similar idea comes from Mercardo (www.cablenet.co.uk/pages/mercardo), but while it may be attractive to add your products to an existing site which promises additional

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benefits such as email promotion to registered users, the catch is the commission fees charged – a whopping 15 per cent, and £2 on transactions under £10. If margins are tight, using a bureau service such as this could be an effective way to squeeze them even further!

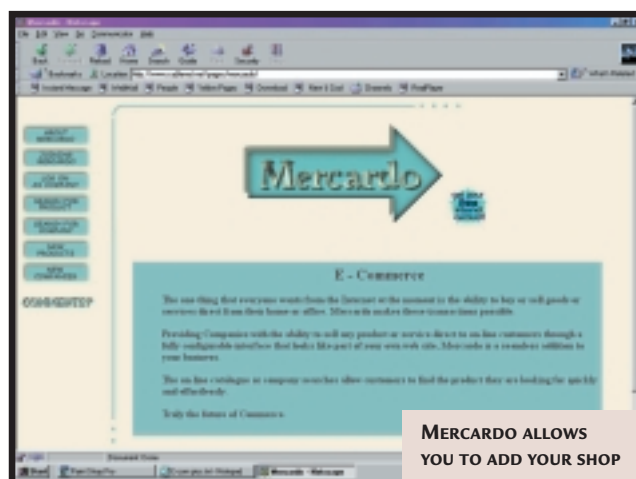
You don't have to rely entirely on someone else's existing catalogue to use their bureau, however. Some sites, such as NetBanx (www.netbanx.com) and WorldPay (www.worldpay.com), will act as a bureau for you, simply by integrating code for their ordering system into your website.

With this type of solution, you'll pay a setup fee, based on the number of products and the degree of customisation you want, starting at £75 for a single product at a fixed price and going all the way up to £500 for complete customisation.

Once everything is set up, you only have to pay a commission charge of between five and eight per cent on each successful transaction, depending on the amount of business you do each month. Obviously, the commission drops the more business you have on your site – making it important to ensure that you put effort into

promoting your business once you've set everything up.

NetBanx, of course, isn't the only such service – there are others with different payment options and you can often mix and match, using the merchant bureau service provided by a company



MERCARDO ALLOWS YOU TO ADD YOUR SHOP TO AN EXISTING ONLINE SHOPPING MALL

such as NetBanx with the shopping functions of whatever other software you like, including programs such as iCat and Shop@ssistant.

These packages are designed to make it easy to create an online store, without having to build your own shopping cart system, and you can use

Becoming an Internet merchant

Having looked at all the options, how easy is it to actually take the plunge? In the best interests of investigative journalism – and to help out my finances – I decided to become an Internet merchant.

One of the things that I spend time doing is providing information services on the Internet, in the form of mailing lists, web pages, and email accounts for community-based groups and individuals.

I do this on a non-profit basis. But many people have said they're willing to help out, and would contribute to the running costs – a web server, leased line, and so on – if it was easy. In other words, if they didn't have to write a cheque and put it in the post.

So, taking credit cards over the Internet would seem to be the solution to the problem – but would the card companies even entertain an idea such as this? And wouldn't it have to be done through a charity?

According to Tony Surridge, head of NatWest's Streamline Merchant Services, no. A sole trader can do something like this; the key is ensuring that the business plan is viable, and also that the card companies aren't going to be left with bad debts.

As a first point of call, Streamline's sales office provided a six-page fax with details of payment solution providers and other basic information about accepting cards.

Since cost is a key criteria

– the aim is to generate income, rather than increase overheads, after all SECPay's SEC Card service looked like the best bet, especially since I'm familiar with web programming.

Besides the cost, the main attraction of SEC Card is that the API is very clearly documented on the website, this allowed me to see how I needed to do things before parting with any cash. The service also hosts the secure payment form, meaning that I didn't have to splash out additional money on a website certificate for my own server.

The sequence of events, however, is a little mysterious – a non-refundable £50 ex VAT to SECPay has to be paid up front to start the process,

followed by a call back to Streamline, with no guarantee that an application to either company will be successful – so it's important to make sure you have everything necessary clear beforehand.

But once I had done all this and arranged a business bank account – like many sole traders, I had used a personal account in the past and this isn't sufficient for receiving card payments – the whole process turned out to be relatively painless.

It's difficult, however, to put a final figure on the cost because the time taken creating the necessary web forms and scripts is hard to quantify. Nevertheless, it's been a worthwhile exercise, and cost far less than I had expected.

The ones that got away

A company less thrilled with the prospects of ecommerce is XXX Cards, which specialises in hand-made greetings cards. A two-man operation, at the time of interview it was just gearing up for their first Christmas, selling cards through specialist retailers.

Ecommerce might seem a good way to help increase the profile of the company, but without even an email address, it's starting from scratch. While Internet

access is free of charge, and even a domain name can be had for next to nothing these days, there are still obstacles.

The site itself will be designed by a friend – a web designer seeking work for his freelance portfolio. But the matter of payments is a sticking point.

Even with the low charges involved in a system such as SEC Card, the setup charges, which could potentially total £250, and an ongoing commitment of £10 are, for

this small outfit, too much of a risk. Without promotion, a site may not attract enough visitors for a low-price product such as cards to even cover the ongoing costs.

If additional costs, such as professional web hosting and submission to key search engines, are added, the overall cost in the first year could mount up to several hundred pounds, and that's before a single card has been sold.

Sadly, XXX Cards ended up deciding that, for such a small company, the entry costs for ecommerce were simply too high at the moment. In the short term, however, a 'catalogue' site with a printable order form will at least let people know that the company is out there.

But it appears that, if you rely on small margins and cashflow is tight, then there are still barriers to taking your business online.

many of them regardless of how you ultimately choose to process card payments.

If you choose a system such as Ishop or Mercardo, that aim to provide everything you need, then it's worth looking around the site first. How do the other businesses hosted there look? Would you be tempted to come and visit them? And if you type the name of one of the companies featured, or its key product, into a search engine, will you be directed to its online store? Or will it be languishing at the bottom of everyone's hit lists?

If you just want to take a few steps into the world of ecommerce and are put off by the potential of a merchant sign-up fee of around £200, or simply don't qualify, then a bureau can certainly be a good way to start moving. You can, of course, always change to something else later on, when you've proved that online selling really will work for you.

But beware the charges, especially from catalogue-type sites, where your products may simply not stand out from other items listed.

For a simple ordering system, the type of solution offered by the likes of NetBanx will often be the best bet, allowing you free rein to design your website as you like.

If you do decide to hand all the hard work over to someone else, hosting your pages on a shopping mall, make sure you really are getting value for money. Having to do little more than supply details and pretty pictures of your products may sound appealing, but if the commission is too high you will need to make a lot of sales to see any benefit, which rather defeats the purpose of ecommerce in the first place, doesn't it?

The merchant route

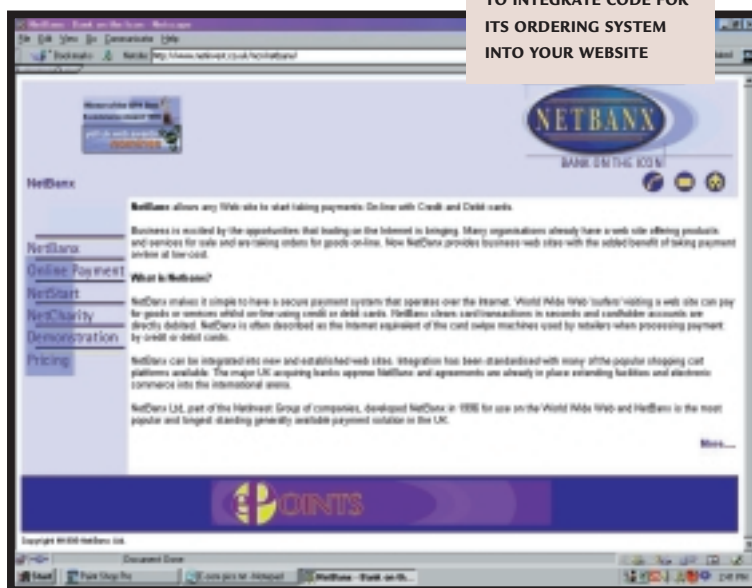
If you want to do more than dip a toe in the water, then signing up with a merchant is the best

way to proceed, and will allow you the maximum flexibility in integrating payments with your website. It's even possible to receive almost instant confirmation of transactions, allowing you, for example, to provide downloadable music, software, or other documents, without running the risk of having someone download your goods only to find that you don't get paid in the end. The major merchant services companies will provide you with lists of firms – PSPs – that are able to help with your ecommerce application, and it's well worth contacting several of them before you decide on a solution.

You'll find, for example, that some have a very clearly published Application Programming Interface (API) that will allow you to write links to your own server-based web applications, while others may prefer you to take their

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NETBANX ALLOWS YOU TO INTEGRATE CODE FOR ITS ORDERING SYSTEM INTO YOUR WEBSITE





CREATING AN ECOMMERCE SITE WITH CLICK AND BUILD IS RELATIVELY PAINLESS

software, and build a solution around it.

Features aren't always the same, either – some companies, such as SECPay, have a 'batch' facility, which will allow you to do things such as monthly subscriptions, while others don't. Similarly, some allow a 'micro-payment' option, where small fees, such as a penny to view each web page, can be collected and processed in batches.

And the cost varies tremendously. SECPay (www.secpay.com), for example, charges a £50 setup fee, then a monthly £10, and a commission of 1.9 per cent on each transaction. Remember that the commission has to be added to the fees being charged by the merchant service themselves, so you could be paying almost seven per cent in some cases.

Cable & Wireless charges a rather heftier £1,500 setup, then £50 per month, and commission of up to five per cent, depending on volumes; but that cost includes ecommerce software as well.

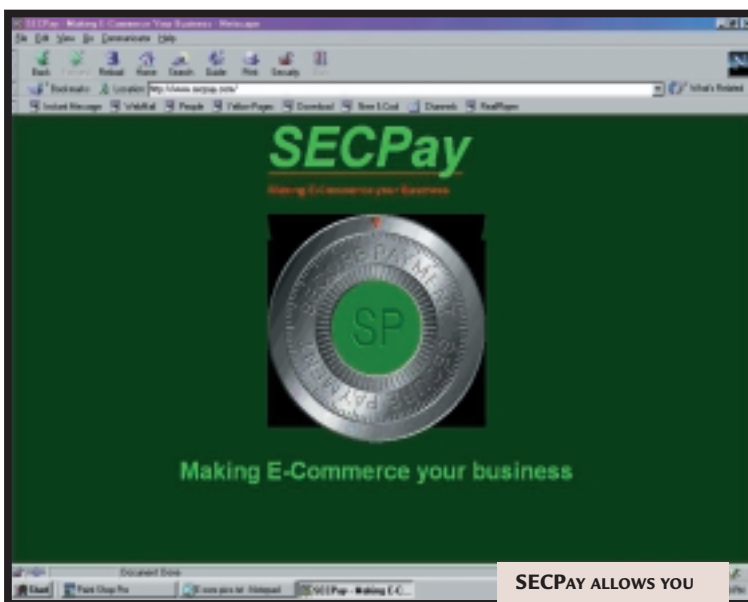
Shopping around – and the willingness to negotiate – pays dividends. But if you want to press the companies on commissions, you'll need a good business plan first. You'll typically need to choose the PSP you want to work with before applying for your merchant status. And as well as the level of fees, that choice may well be dictated by the software that you want to use.

Worldpay (www.worldpay.com), for example, has its own 'Click and Build' system, while Ardeo (www.ardeo.com) has 'Shop in a box.'

Click and Build (www.clickandbuild.com) is a good example of how creating an ecommerce site can be relatively painless; it takes a lot of the work out of designing your site – although you will have to use the templates, which could restrict your design flexibility. You won't even have to worry about hosting with this type of option – it costs £45 per month, including 10MB of web space.

Other PSPs, such as NetBanx – which act as either a PSP or a bureau, depending on your requirements – will work with most of the popular products.

Of those, the UK-written Shop@ssistant at www.floyd.co.uk (reviewed in PCW, August, 1998) is one of the most popular; for £199 it



SECPAY ALLOWS YOU TO TAKE UP MONTHLY SUBSCRIPTIONS

allows you to add JavaScript-based shopping facilities to an existing website with a minimum of effort. By the time you've added merchant services to the bundle, you'll be looking at a total of around £500 to start selling your wares online. And with downloadable modules for web-editing programs such as FrontPage 98 and NetObjects Fusion, it should be easy for anyone to set up shop.

More complex systems, such as InterShop (www.intershop.com) can link to corporate databases, allowing you to check stock levels at the same time as processing an order – but for these you'll need powerful servers, and they're not really suited to a small business. But if you really need this kind of setup and you're unwilling to invest in the technology required, your best bet may be a tie-in with a partner company that will host your entire ecommerce solution for you.