

Financial Policies For Internet Companies

By George Candella ■ *Fraud-Check, Inc.*

Electronic commerce made a significant leap forward in 2002, setting up expectations for another record year of sales as the industry swings into 2003. Meanwhile, Internet subscribers continue to grow in number, and even the number of broadband subscribers worldwide will grow this year by more than 50 percent.

In spite of this growth, profits for many Internet companies involved both in Internet access and e-commerce remains elusive. Internet companies suffer not only from the need to reinvest in infrastructure but also from generally high levels of "churn" – the number of subscribers to either depart to another service or discontinue any use of the Internet.

Some churn and low levels of profitability are clearly the result of the work required to build a business and the attendant brand equity. But in some cases profits are lower and churn higher than should be the case because of the financial policies adopted by the company.

Financial Policies and the Internet

There are so many different views of the Internet, it is easy for sound business policies to be swept aside in the rush to build the business.

In terms of use of the Internet to build a business audience, though, the most useful view is that the Internet – like television 40 years before it – offers the opportunity to target messages to a specific set of buyers. That is, the Internet uses high-quality content to draw

people and to segment them by interests and other demographics so that marketing messages can be more easily targeted to the most likely buyers.

This phenomenon, in which a specific kind of valued content enables a company to identify to whom it wishes to market a specific set of products, is hardly new. In the days of radio, stories about superheroes targeted children and were sponsored by makers of breakfast cereals. Television "soap operas" attracted largely homemakers, and were used to sell soap.

A difference between this media and the Internet is that the Internet has few barriers to entry. A company or individual with virtually no direct sales experience is able to set up shop on the Internet with a minimal investment in time, energy or experience.

These entrepreneurial retailers, however, may not have the experience needed to implement effective financial policies with regard to the e-commerce web site.

Effective Policies

Though a number of other payment schemes have been proposed or tried, electronic commerce and the sale of subscription services (including Internet access) to consumers requires a major credit card.

Because the use of credit cards is so widespread, it is critical that the merchant have effective financial policies regarding credit cards and transaction dynamics.

Here are twelve ideas to consider:

- **Negotiate better fees for key services.** Credit card processing companies vary the fees they charge based on a number of factors – including the volume of sales. And the field tends to be very competitive. Shop for a good rate, and inquire about available discounts. The same goes for shipping services – most of the express shipping services have variable rates for volume customers. It is also possible to get group rates. Virtually any service needed to operate on the Internet can be obtained at a discount with a little negotiation.

- **Take two credit card numbers for subscription services.** One of the problems with credit card transactions is that once the charge is rejected, many companies will immediately terminate service – and thus may also prematurely terminate a good customer. For subscriptions or other recurring transactions, ask for a second credit card number in the initial application. Most people carry more than one card – and most people will, from time to time, "max out" their primary card. Having a secondary card on file makes it possible to charge the customer without discontinuing service – though it is courteous to notify the subscriber of the change. Remember that customers rejected for their credit card generally do not return to shop or subscribe again.

- **If a card is rejected, keep the account open and re-bill it.** Most people eventually pay down their balance in order to use the card again. And since each customer is hard won at a rather substantial investment in marketing and administration, it may be more prudent to keep the account going, notify the customer of the problem and try running the card again at five day intervals.

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• **Write off bad debts, but also send them to collection.** If service is continued, and payment is not made, write off the expense as bad debt in order to gain the tax advantage. But also send the debt to a commercial collector – it costs you nothing, and may recover a percentage of the funds that would otherwise be lost. Remember that any funds collected then must be reported against the write-off.

• **Offer long-term, discounted contracts.** For subscription or recurring purchases, there are two ways to handle a long-term contract. The first offers a discount based on the "present value" of the sum over one or two years. For example, the value today of a \$20-per-month payment over one year is less than \$240. The second method is to offer a discount if the subscriber agrees to a contract for two years – with steep penalties for early termination. It is also possible to reduce churn in the subscriber base by offering a free month of service upon renewal of the contract. Offering a reasonable discount and a free month of service upon renewal will help to reduce churn by reducing the attractiveness of a competitor's offer to help the subscriber switch.

• **Accept checks, and process them electronically.** Leading credit card processors also offer the ability to accept electronic "checks" online. Banks process electronic transactions first, and the first checks through have a smaller chance of "bouncing." If the check does bounce, fees to you are generally less than with a paper transaction.

• **Prioritize the credit card options.** All credit cards are not created equal. Some pay the merchant faster. Some have lower fees. Generally, MasterCard and Visa offer the best terms, but this can vary. Whoever offers the best terms should be the first option the buyer sees, and the remainder should be prioritized so that the cards encouraged are those best for the merchant.

• **Track credit card numbers for chargebacks and problems.** Merchants who fail to keep track of these

risk being repeatedly hit with chargebacks when customers refuse payment for services. By tracking these numbers and customers, it is possible to make an on-the-spot decision to deny service to

repeated abusers.

• **Collect telephone exchange and zip code data for comparison and evaluation.** There is a great deal of marketing data that can be collected

"If a card is rejected, keep the account open and re-bill it."

**SMS
1/2 Island
B/W**

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without invading the privacy of individual consumers. Knowing the geographical region of buyers, for example, can help to determine where to market – and where not to. For example, it will help to focus marketing efforts in areas with high rates of response, and away from areas that have high rates of chargebacks or low response. Zip codes work slightly better than telephone exchanges, but both will yield decision-support data.

- **Track destination addresses to reduce fraud.** Similarly, keep track of shipping destinations, particularly when they differ from the billing address given for the credit card. Knowing that a shipment or service has been

sent to an address under fraudulent terms in the past can help to avoid continued losses to that address in the future.

- **Create a "member's club" with discounts.** Making a customer feel special – and offering a small discount – can build long-term brand loyalty that is critical in an area as crowded as the Internet. The program does not need to cost a lot – consider the popularity of "frequent flier" and similar programs.

- **Cross-link to related sites.** No single web site can easily accommodate the full range of consumer needs in any area. A web site selling clothes, for example, may not sell jewelry or shoes. By making agreements with web sites that

sell such auxiliary products, a single site can increase revenues. And this applies to more than retail – law firms can cross-link to accounting firms, for example.

In most aspects of business, it is an important rule of thumb not to "micro-manage" – to set general policies that can allow decisions to be made quickly without wasting time on obscure details. But in financial management, the business may be better off if the details are micro-managed. Gather as much data as possible, identify the trends, and make a decision based on the facts involved. ■



About the Author

George Candella is chairman of Fraud-Check, Inc. and a noted consultant in financial strategies for Internet companies. Mr. Candella studied at The Centre of Economic and Political Studies, London, England and has been involved in the credit and collection industry since 1965. With 30 years experience in both first and third party collections, he does workshops nationally and consults for a number of associations on accounts receivable maximization and marketing applications of collection services. He is a member of the US Internet Industry Association. The author may be reached with questions or comments via email at gcandella@att.net