

Electronic Evolution

Online Sales Take On a New Twist

By Tom Schuman





Indiana Oxygen President Wally Brant can't sell gas supplies over the Internet, but electronic welding machines are popular with online customers.

There is often a vast difference between perception and reality. For instance, it only seems that you can purchase just about anything you want or need on the Internet. The reality is that while the options increase each day, the total amount of electronic commerce (e-commerce) represents just a few percentage points of all transactions.

It can easily be argued that e-commerce is still in its infancy. VeriSign, an infrastructure services provider for Internet interactions, reports that e-commerce originated in August 1994 when a Sting CD was sold by NetMarket. Thus, the industry is less than a dozen years old.

Mark Strawmyer, an executive with Crowe Chizek in Indianapolis who has helped clients build custom solutions over the past eight years, has seen shifts in the e-commerce world.

"It's not so much an industry change, but more of a focus change. There was more of a start-up mentality in the dot.com day – do XYZ and get us up and running as fast and as cheaply as you can," Strawmyer relates. "Now, it's a different type of project, different expectations and needs. It's larger organizations that may or may not have rushed in a few years ago. They may have had one solution built that doesn't fit their needs, and it needs revamping."

One can take that a step farther. It's no longer good enough just to have an e-commerce web site that looks appealing. The return on investment must be present.

"You can certainly find those (sites) that have more bells and whistles," Strawmyer notes, "but we say, 'Why get in a feature and function war with competitors?' It's like trying to keep up with the Joneses all the time. We put the emphasis on standard-based best practices tailored to a company's strategy."

"E-commerce is not new; it's been around long enough that you don't need to reinvent the wheel."

Yet, some Indiana companies, while maybe not breaking new ground in implementation, have experienced success in nontraditional e-commerce fields. A third organization, in the popular online retail sector, just recently went through major changes in that portion of its sales efforts.

Welding on the web

Indiana Oxygen manufactures, sells and distributes gases for a variety of industries. It also sells welding equipment and machines. A surprisingly high number of customers – from what company president Wally Brant calls "garage welders" to major companies – likes to use the Internet to purchase the latter group of supplies.

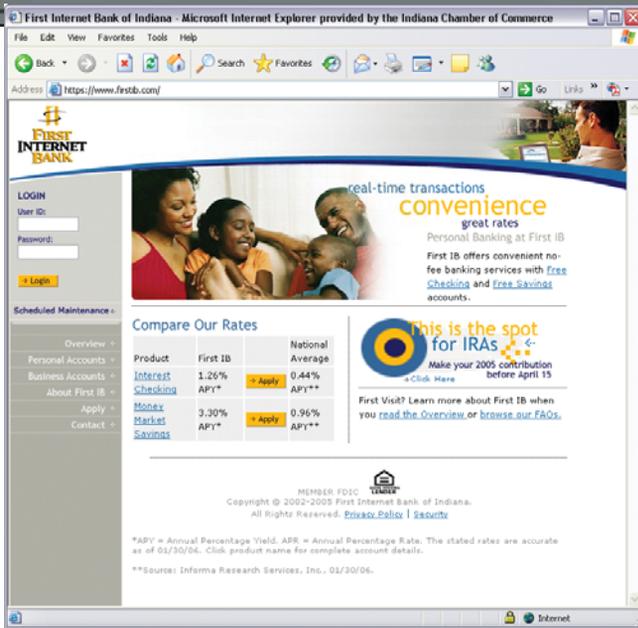
"We've been pretty surprised our electronic sales have taken off the way they have, especially since everyone else in our industry tried – mostly without success," Brant confesses. "I'm extremely proud of the team we've built here, and I'd love to say it's all been engineered, but some of it is just dumb luck."

Brant calls it luck, but maybe intuition is a better term. Ten of the 15 members of an industry buying group decided in the late 1990s to contribute \$100,000 apiece to provide seed money for a new company that would provide online products. Indiana Oxygen was one of the five group members that declined.

Weldersmall.com turned out to be, in Brant's words, a "sad disappointment." Despite the caution at the time from a customer who said, "Why would you do this? You're never on the bleeding



Mark Strawmyer of Crowe Chizek believes companies must continue to emphasize enhancing the customer experience.



First Internet Bank has been a pioneer in its field and is one of just a few true Internet banks remaining.

edge,” the company took a different approach a few years later.

“After watching that and what others had done, we thought we would try to see what we could do through our own web site,” Brant recalls. Relying on the eBay model, he adds, “If we could make it user friendly, that’s what I wanted our site to be. We wanted people to know there is a face and a phone number at the end of it, if needed.”

Although unable to sell its top product – gas – electronically, 30% of the company’s gross revenues now come from the Internet. What was \$72,000 in business when the online effort started in 2000 has increased by 120 times. Machinery and equipment is shipped to all 50 states and about a dozen foreign countries.

The bigger they are ...

So what do those weekend hobbyists and large business customers look for online? Brant says, “The biggest thing we sell – diesel engine-powered electronic welding machines – is the biggest thing we sell on the Internet.” Torches and safety gear are other popular items, but pale in comparison to the dollar value of the big machines.

The company’s reputation, pricing and ability to maintain a deep inventory are all factors in the online success.

Employees in what is traditionally not a fast-changing industry have been able to adjust. Large customers consolidating some of their purchases online and Indiana Oxygen bringing in a strong team to run the e-commerce sales actually freed up some of the other salespeople to work with new customers.

“Because we have the right people in the right spots, and those people have the ability to express their potential in their core competencies, it allows me to focus on the role of the CEO,” explains Brant, who says he relies heavily on executive vice president and CFO Dave Kaplan. “We brainstorm new projects, and it was that way with e-commerce.”

Distribution, however, was an area that initially saw major changes.

“Logistically, this completely changed our packaging,

distribution and shipping. Before, we’d hunt around, find a box, put some packing peanuts in and send it off,” he admits. “Now, we have an Internet department. We have special deals (with shippers) that we never had before because of the volume. In getting products to our own local market, we’re now much more efficient as well.”

Rural strength

Prior to the Internet presence, Indiana Oxygen sales were limited to about a 150-mile radius from Indianapolis. The regional factor may be gone in many instances, but the rural customer remains a mainstay. International activity carries a higher risk, and Brant says the company has been “burned a few times.”

“We sell to a lot of people in rural areas who don’t have access to the brick and mortar,” he states. “The convenience of shopping in rural areas by going on the Internet has not fully been tapped. The best opportunities (for growth), I believe, are right here at home.”

Despite the success, Brant realizes the margin of error is thin and the company must be ready to move forward with or without the Internet sales.

“Our business plan is built in case there are no electronic sales. It’s a nice thing to have, but if you took it away, we’d still be here tomorrow,” he offers. “A good solid company with good solid business practices will adapt and survive.”

Money in the bank

While Indiana Oxygen may be prepared to carry on without its electronic sales, First Internet Bank (First IB) is all about doing business online. Although others have come along for the ride and the online banking world is growing, few, if any, are doing it with the success of First IB.

David Becker, one of Indiana’s top entrepreneurs, and CEO and chairman of the board of First IB, had extensive prior experience working with credit unions, known for their use of remote delivery services. Plus, technology had evolved to the point where the integration of various banking services was much more feasible in the late 1990s.

“We wanted to take not only the back-office functions, but the front-office services online,” Becker states. “An analogy I like to use is Ray Kroc and McDonald’s. It was not a new hamburger he was inventing, but changing the mechanism to get it to the consumer. That’s what we did with First Internet Bank.”

Asked at the time of the 1999 opening what traditional banks have that his company didn’t, his response was, “Long lines in the lobby.”

While traditional banks are enhancing their online services, Becker notes that many web sites are more informational than transactional. A key for First IB, he adds, was not assuming that “we would necessarily be the only bank for someone.” First IB opened up the automated clearinghouse system to allow people to move money between institutions. Thousands of transactions a month take place because people, for example, want to use the automated teller machine in the lobby of their work.

“We can be a one-stop shop,” he confirms, “but I don’t think any financial institution is going to get a 100% share of



Protecting the brand and image of its wide variety of products prompted the decision for Vera Bradley to manage online sales through the company web site.

any consumer's money."

Success, of course, breeds followers. Becker estimates there were about 50 Internet banks at one time across the U.S., with maybe a dozen today remaining 'true to their roots.' Traditional banks even tried to jump into the mix. Bank One, now Chase, primarily created confusion for its customers, according to Becker, when it launched Wingspan to complement its conventional services.

Becker says, "Quite frankly, we (online banks) scared the regulators. They put the clamps on new ones."

Service and growth

First IB boasts 30,000 customers and \$430 million in assets. It was a quick ascension. Within 90 days of opening, there were account holders in all 50 states. The company spent \$7 million in the first 18 months on marketing and advertising. The international edition of *USA Today* even attracted a new set of customers – Eli Lilly workers in different countries, as well as others. Approximately \$250,000 a year is currently spent on marketing.

"We've won a number of accolades for quality and customer service," Becker offers. "Up to two-thirds of our new business is referrals from existing customers or people shopping on financial web sites. If you do a good job, the marketing almost takes care of itself."

The only disappointment for Becker is not growing fast enough. After First IB reached its five-year goal of being a \$100 million company in 18 months, he envisioned \$1 billion in assets by this time. Higher regulation, though, is a key factor, that all financial institutions must deal with.

Protecting the brand

Vera Bradley. The provider of stylish luggage, handbags and accessories has been a household name for more than 20 years. But, until early this year, the company did not have a retail presence as part of its web site.

Mike Ray, executive vice president of sales/marketing, explains.

"When I started in sales six years ago, there were 400 to 500 retailers authorized to sell Vera Bradley. They were also marketing online or selling through the Internet," he notes. "People

(customers) were contacting us when there were problems, thinking they were buying directly from Vera Bradley, but they weren't. Retailers were trying to brand to give the assumption that customers were buying directly."

A series of changes narrowed down the number of authorized online dealers and imposed graphic requirements to try and maintain some corporate control. Even though the list was eventually narrowed to 13 retailers, Ray says they were still competing with each other, including vying for the better positions in search engines.

The brand is everything to the company. Risking it through disappointed customers who may not have received the service they anticipated was too big a chance to take.

"We have significant equity in our brand. Although you won't find it on the balance sheet, it's definitely the most valuable asset we have," Ray asserts.

In 2004, the decision was made to bring the online sales in-house. But, recognizing the company was not set up to handle such a transition, a number of outside resources are being utilized.

An experienced e-commerce manager was brought on board to handle the new relationships. A firm was hired to manage the new site, fulfillment (high-volume, wholesale distribution is the internal strength) is being outsourced and customer service (which currently deals with 3,300 retailers) has seen increased personnel with backup from an outside firm. Over time, Ray says, some of these components may be brought in-house.

Sticking with the stores

Despite the investment in time and resources, Vera Bradley management does not expect to see a major increase in online activity. But that's not the goal. Significant consumer research conducted in 2005 showed that customers want the following: to know what the new products are and what's happening in their retail stores.

"They want to touch and feel – try the bag on the shoulder and see how it feels, see how it looks with their new outfit," Ray emphasizes. "Our consumers told us loud and clear that they want to buy in the stores."

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E-Commerce

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"Our model is to bring consumers into the world of Vera Bradley through our web site, let them see they've got retailers in their area and drive those consumers to the stores," he continues. "In 2005, about 3% of our sales were online. That's what we saw with other companies also, and we don't expect that to change.

"Our objective in all this is to raise awareness of our brand, take the desire for our brand and channel it back to our brick-and-mortar distribution."

Helping the customer

Whether it's welding machines, banking services or handbags, what are customers looking for and what do companies have to do to meet those needs?

"People are paying attention to integrating points," Crowe Chizek's Strawmyer reports. "Once a customer places an order, it has to be fulfilled, and there are one or more systems involved. You need standardized best practices to integrate these systems."

In direct relations with customers, companies are focusing on helping them more easily navigate the web site and learning more about their behaviors.

"We're focusing a lot on the customer experience. If they bring up your web site, they have to be able to find that widget. It's one thing to have an e-commerce solution. But if it's not strategic and working for you, why have a site," Strawmyer reasons.

"We're also looking at a more educated user base. Before, I didn't know my customer profile, how long they were spending on my site, what they're buying, what searches they're doing. That's all changing."

Search engine optimization is another area of increasing attention. This involves trying to ensure that your company's web site is high on the list when customers conduct Internet searches.

Over the next four to five years, Strawmyer predicts additional enhancements to the customer experience aspect of e-commerce.

"Guided navigation – the trend is going more in that direction," he reveals. It's more of a customer journey than just looking for a product to buy. What site truly provides me the best customer experience will be a big factor for consumers."

INFORMATION LINK

Resources: Mark Strawmyer, Crowe Chizek, at (317) 208-2578 or www.crowechizek.com

Wally Brant, Indiana Oxygen, at (317) 808-4011 or www.indianaoxygen.com

David Becker, First Internet Bank, at (317) 532-7900 or www.firstib.com

Mike Ray, Vera Bradley, at (260) 482-4673 or www.verabradley.com

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