

The CPA *An Update for Our E-commerce Clients and Friends* WebTrust Letter

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CPA WebTrust Principles

- **Business practice disclosures.** The business operating the Web site must disclose its business practices for electronic commerce transactions.
- **Transaction integrity.** The company maintains effective controls to ensure that customers' orders placed using electronic commerce are completed and billed as agreed.
- **Information protection.** The company maintains effective controls to protect private customer information from outside users.



The E-commerce Success Story

Web use is soaring — and it's expected to continue its healthy growth. Internet research firm Forrester Research believes online retail sales will surge to \$184 billion by 2004, while it says the Internet will influence consumers' purchase decisions for another \$500 billion in goods bought through traditional channels. Investment banker Goldman Sachs says business-to-business e-commerce will experience a five-year \$1.5 trillion explosion in industries ranging from automobiles to medical equipment, according to a Reuters report.

Media Metrix, a leader in Internet and digital media measurement, found that online shopping enjoyed a 35% increase during the past year, the highest growth category, followed by travel.

Other Media Metrix findings include:

- The total number of "unique" visitors increased 11.5% to 63.1 million in August 1999 from 56.6 million in the same month last year. Unique visitors are the actual number of total users who came to a given site during the month. All unique visitors are counted only once.
- Shopping soared to 42.5 million unique visitors, from 31.4 million in August 1998.
- Travel users jumped 29% in August 1999 over results from the previous year.

"Today, nearly half of North America uses the Internet. We use it to communicate, to learn, to shop and to buy. It is as integral a part of our lives as the telephone," says Mark Resch, Executive Vice President of CommerceNet, a network of Internet developers and end-users.

High Hopes

The holiday season will be a good time to test the Internet's marketing muscle. At the end of 1998, holiday Internet sales helped launch e-commerce in earnest, and this year is expected to follow suit. Forrester Research expects online holiday sales this year of \$4 billion between Thanksgiving and year end, with more sales pouring in during the new year.

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Is your company ready to join the e-commerce revolution? Industry observers agree that the stakes are high. "With 7 million new online shoppers in 1999, the time has come for online retailers to get serious about selling to digital consumers," says David E. Weisman, group director of research at Forrester Research. "To come out on top, companies have got to get their marketing, selling and service mix just right."

Is It Safe?

So, if your business hasn't already harnessed the power of the Internet, it's time to take advantage of the e-business revolution. But just because you create a cyberspace storefront doesn't mean you'll achieve success. Consumers have long been wary about the security, privacy and order fulfillment issues that have plagued e-commerce transactions. They want to know:

- Will my credit card data be secure? Will a hacker be able to get my number to make unauthorized purchases?
- Will my other personal data — address, phone number, buying preferences — be kept private?
- Will I get what I ordered? On time? And be billed accordingly?

And it's not just a small segment that worries about online security. According to Internet research firm Jupiter Communications, 64% of online consumers are unlikely to trust a Web site — even if the site prominently features a privacy policy.

"Today, nearly half of North America uses the Internet," says one Internet observer. "It is as integral a part of our lives as the telephone."

Apparently, the growth in the Internet economy has been paralleled by unyielding consumer concerns about cybersafety. Although most Web sites post some kind of privacy policy to address their use of consumer information, Jupiter found this isn't enough to assuage consumer fears.

One Convincing Way to Reassure Consumers Is a Seal of Assurance From a Trusted Professional — a CPA

One convincing way to reassure consumers is a seal of assurance from a trusted professional — a CPA. The CPA WebTrust Seal was developed by the American Institute of Certified Public Accountants, the national professional organization for CPAs, representing approximately 340,000 professionals nationwide, and VeriSign, a world-renowned provider of digital authentication services. VeriSign encryption and authentication technology and practices help assure the consumer that a CPA WebTrust Seal on a Web site is authentic and that the site is entitled to display it.


VeriSign creates a secure connection in which information is encrypted and provides a digital identification acknowledging that the site has completed the WebTrust engagement.

The Federal Trade Commission Bureau of Consumer Protection has recognized the value of seals like CPA WebTrust. The bureau announced that it will give top priority to referrals from sealing authorities that pass on information to the FTC about sites that have failed to continue to meet privacy and security rules.

In a CPA WebTrust assurance service engagement, a specially licensed CPA firm evaluates whether your company adheres to key business practices (such as shipping dates, refund policies, and so on) and controls criteria. A site can display the WebTrust Seal only if it follows its own rules and maintains controls to protect consumers' privacy, transaction integrity, security and business practices.

In a direct response to common concerns, CPA WebTrust-Sealed companies divulge how consumer information will be used and take steps to protect the personal data they gather. They post the site security rules as well as the endorsement of a trusted, independent third party — their CPA firm. Visitors to the site can access the CPA's report to reassure themselves about the site's high standards.


To keep the assurance current, the CPA must revisit the site and the Seal must be refreshed at least every quarter — and perhaps more often for more dynamic Web sites.

If you're ready to surge into the e-commerce market, ask your CPA firm about CPA WebTrust today. 

The Shape of Online Advertising

Online advertising is expected to grow to \$11.5 billion in 2003, surpassing some traditional media, according to Internet commerce researchers Jupiter Communications.

Key findings:


- Because of a burgeoning online population, more time being spent online, the spread of digital commerce and an increase in inventory sold, online advertising revenues have already surpassed those for outdoor advertising and will exceed spending for cable advertising and come to about three-quarters of today's radio spending by 2003, Jupiter says.
- By 2003, the media, financial services and automotive sectors will spend \$4.2 billion of all online ad spending. Consumer packaged goods companies, which account for 18% of off-line ad spending, will represent a much smaller segment (7% of online advertising, even into 2003). 

Can I Spend My Allowance in Cyberspace?

The e-retailing boom has spread to the world's most dedicated consumers — children and teenagers. A Jupiter/NFO Consumer Survey performed earlier this year found that among those with Internet access, 67% of teenagers and 37% of younger kids have shopped for or bought

products online. By 2002, Jupiter expects that teens 13 to 18 will be spending \$1.2 billion online while their younger siblings between the ages of 5 and 12 will account for \$100 million of e-business.

Kids and teens are the two largest growth sectors of the Internet population, though

they will directly account for less than 5% of the online shopping revenues in 2002. In 1998, approximately 8.6 million kids and 8.4 million teens were online. By 2002, 21.9 million kids (a 155% increase) and 16.6 million teens (a 97% increase) will be online. 

Using CPA WebTrust in E*TRADE's Marketing Plan

Do consumers know what sets your company apart from the competition? In the sizzling online financial services market, CPA WebTrust can help do the trick. Or at least that's the opinion of E*TRADE, which has been ranked as the No.1 online broker and the No.1 online investing site in the world. E*TRADE is trumpeting the news of its WebTrust Seal in media, print and direct mail promotional literature.

A recent E*TRADE mailing lists all the characteristics that differentiate the broker from its competitor Schwab, including "Winner of the CPA WebTrust Seal of Assurance for Internet Security." Can you — or your competition — offer potential customers the assurance of a third-party endorsement like the CPA WebTrust Seal?

The CPA Advantage

Why do companies choose WebTrust for their e-commerce assurance? The members of a licensed CPA firm have the experience and high-tech know-how that can help improve Web site security as well as hike sales and lower operating costs by harnessing the selling power of the Internet. CPA firms that offer CPA WebTrust services can help your company launch a successful entry into a dynamic and growing marketplace.

Many companies find that working with their CPA firms to prepare for a CPA

B2B Profitability

Is the business-to-business arena the place to be on the Web? As reported by Nua Internet Surveys, ActivMedia has found that:

- 42% of three-year-old U.S. B2B Web sites are now profitable.
- Another 14% expect to turn a profit within the next year.

Among B2B sites that are less than a year old, 27% are profitable, with a further 18% percent expecting profits to begin


Going Once

Buyers in the highest income group are the most enthusiastic about online auctions. That's one finding of a study by Esearch.com, an Internet market research firm, of this burgeoning market. The survey found that

- 70% of those who earn between \$100,000 and \$125,000 had participated in online bidding and selling.
- People over 55 were the most interested in online auctions, while those in their


rolling in within the next 12 months. The study found that 32% of two-year-old B2B sites are profitable, with an additional 15% confident of turning a profit in the next year.

What's the average revenue generated by B2B sites?

- For first year B2B sites, average income was \$94,000.
- Three-year-old sites typically take in \$30 million in revenue. 

early 20s had yet to tune in to this market in high numbers.

- Overall, 57% of those surveyed had participated in at least one auction — as either buyer or seller.


Another interesting fact: While men used online auctions more often than women, women report greater satisfaction with them. Nearly 85% of women are satisfied or very satisfied with online auctions, as opposed to 75% of men. 

WebTrust engagement helps them to identify weaknesses in their control systems and spot potential problems. As is noted in "One in Five Online Consumers Reports Problems," customer service and other glitches are a turn-off for Internet consumers. When discussing a WebTrust engagement, ask about related e-commerce services, such as:

- A CPA WebTrust readiness engagement. A preengagement diagnostic of your company's technology capabilities can help solve any problems or weaknesses uncovered before going on to seal the site.

E-commerce site construction. Many CPA firms have the skills to help build sites that are state-of-the-art and customer friendly.


Development of feasibility studies, site policies and procedures, and business plans. Your systems and operations must be ready to support this exciting new marketing opportunity.

Can your company benefit from these kinds of services? If so, contact your CPA firm today. The firm's dedicated professionals have the skills you'll need to reap the rewards to be found in cyberspace. 



Finance on the Net: A Snapshot

Here are more results of Jupiter Communications' study of the online brokerage, banking and mortgage:

- The number of households taking advantage of online trading will jump from 4.3 million in 1998 to more than 20.3 million in 2003. Online brokerage revenues from interest, fees and nontransaction services will soar, growing to 80% of total online brokerage revenues by 2003, up from 36% of the total in 1998.
- Jupiter analysts expect that by 2003, 41% of the U.S. households that hold stocks will have online trading accounts. Nearly one-third of banking customers will manage their bank accounts online in 2003, growing from just under 4 million in 1998 to 26 million by 2003.
- Depending on interest rate levels, the number of mortgages originated online could increase, in the best case, to 1.1 million in 2003, with a total value of more than \$155 billion. That's up from just over \$4 billion in 1998. This will represent about 16% of all U.S. mortgage origination in 2003. 

Managing Money in Cyberspace

What's hot on the Net? Financial services for one thing. Consumers have embraced the convenience and speed of making investments and managing their money online. In fact, the online brokerage market will lead the financial services sector in growth, according to Internet research firm Jupiter Communications. Jupiter expects the asset pool in this sector to increase sevenfold from \$415 billion at the end of 1998 to more than \$3 trillion by the end of 2003.

To cash in on this dynamic marketplace, many financial service e-commerce sites, including banks, mortgage originators and E*TRADE, have taken advantage of the power of the CPA WebTrust Seal.

One company that recognized the value of the Seal is Alpine Banks of Colorado, which has 25 locations mainly in Western Colorado. The bank, with assets of more than \$700 million, is offering online banking, including the option of paying bills over the Internet. To enhance the security and success of its cyberspace efforts, it is working with its CPAs, Dalby, Wendland & Co., P.C., Glenwood Springs, Colorado, to earn a CPA WebTrust Seal.

The bank wanted to earn the Seal to demonstrate that its interest in customer safety and security was first and foremost, according to Dennis Wagner, audit principal at Dalby Wendland. A secondary motivation was the increased business gained when more customers signed up for online banking services.

John Cooper, Alpine's Executive Vice President, Marketing, believes the Seal makes an important point: "We chose to get the CPA WebTrust Seal in order to communicate to our users that we want the highest order of security possible for their peace of mind. The credibility attached to the CPA profession will help convey that kind of message."

CPA Wagner thinks the Seal brings home an important message about the bank. "For

Alpine, the customer truly does come first. I think management felt that the WebTrust Seal would send customers the message that Alpine is concerned with the safety and security of their Internet banking transactions and information," Wagner says.

Location and customer demographics are other reasons that the security of a WebTrust Seal can be valuable to Alpine. "Many of Alpine's banking centers are located in the heart of Colorado's mountain resort communities," notes Wagner. "Online banking and bill-pay services provide year-round and part-time residents with a convenient opportunity to conduct banking transactions from anywhere. The WebTrust Seal can encourage existing and potential customers that Internet banking adds convenience in a safe and secure environment."

When Wagner told the bank about the WebTrust Seal, he discussed the data that

Consumers Have Embraced the Convenience and Speed of Making Investments and Managing Their Money Online

demonstrate consumer reluctance to release credit card, financial and personal information over the Internet. The bank was convinced that not only does the Seal prove that it is concerned about customer security, but "the WebTrust Seal can also raise consumer confidence and hopefully translate into increased business," Wagner concludes.

The CPA WebTrust engagement offered added benefits beyond gaining the Seal. "The process of applying for the Seal allowed us to review all our security measures, as well as those of our vendor partners," Cooper of Alpine Bank, says. "It sharpened our focus." The bank had not begun promoting the Seal at presstime, but "I believe that the effect will be very positive."

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Laying the Right Foundation

Although there are success stories, all is not rosy in this sector of e-commerce.

- Jupiter Communications also found that the financial services sector lags behind other businesses in customer service.
- Studies showed that less than 40% of financial services Web sites responded to customer inquiries within one day, a poor showing in the service industry.
- By comparison, 64% of retail shopping sites addressed inquiries within a day.

"New online financial services customers are mainstream, risk-averse consumers

who have far less tolerance for technology issues and customer service issues," says Rob Sterling, an analyst with Jupiter's Digital Commerce Strategies. "Key players are going to have to think more like retailers and invest in the infrastructure to help support a more mainstream customer base."

Many financial services companies may want to call their tech-savvy CPA firms to create sites that reassure anxious customers about online privacy and security issues. Keep in mind, too, that these professionals can also offer advice on how to build a site with top-notch customer service and other important policies and procedures. 

Policing Privacy

Does your site follow its own guidelines on security and privacy? According to Forrester Research, Inc., 90% of Web sites don't. The Internet research company labeled most privacy policies sharply inadequate, according to *E-Commerce Times*, in part because they are too vague or do a better job of protecting the company than the consumer. Only 10% of e-commerce sites address the basic fair information guidelines created to protect privacy, Forrester says.

Tech security worries aren't exclusive to the private sector — even the federal government has become involved. Treasury Secretary Lawrence H. Summers not long ago announced a new financial services information sharing and analysis center, which he said will allow firms in this industry to "better protect their computer systems from attack by sharing information about such attacks." To encourage use and effectiveness, businesses using the center will be able to pool information

anonymously and on a real time basis, so that other companies can make immediate preparations for similar attacks.

"Our increased reliance on computers and other technology raises a new set of security needs," Summers says. "A 1998 study by the Computer Security Institute found that 64% of companies polled reported information system security breaches, an increase of 16% over the prior year. The estimated total financial loss from those breaches grew 36% compared to the reported losses of 1997."


Fast Facts

- The number of Internet users over the age of 16 in the U.S. and Canada reached 92 million, up from 79 million just 9 months earlier.
- The number of women purchasing online increased 80% from the last survey.
- 13% of all online buyers made their first purchase in the preceding month.

Source: The CommerceNet/Nielsen; Media Research Internet Demographic Survey

“We chose to get the CPA

WebTrust Seal in order to communicate to our users that we want the highest order of security possible for their peace of mind,” says one bank executive. “The credibility attached to the CPA profession will help convey that kind of message.”

How can you protect your company's future in e-retailing and ensure that visitors to your site have enough confidence to become buyers? CPA WebTrust is the answer. Companies that earn the CPA WebTrust Seal must meet and maintain rigorous security and transaction standards. Ask your CPA WebTrust-licensed CPA firm about the difference the Seal can make to your business and your e-commerce customers. 

One in Five Online Consumers Reports Problems

Among the households that have placed an order or made a reservation online, about 20% experienced problems, according to Dataquest Inc., a unit of Gartner Group, Inc.

In reporting problems:

- 49% said they placed orders that did not arrive. In more than half of these households, the customer was billed for the order.
- For a quarter of the households that experienced problems, disappointed buyers said they hadn't been able to contact the merchant's customer service department via e-mail.

Another study confirmed that shoppers may be willing to buy on the Web, but customer service glitches can sour the deal. When Internet market research firm Esearch.com asked people if they'd ever attempted an online purchase but were unable to complete it, most said they had. Of this group —

- 41% had abandoned a transaction because the site was too slow.

- 20% had bailed out because the site didn't look professional.
- 16% had given up because the site didn't take credit cards.
- 14% were turned off because they couldn't find the checkout area.
- 12% said they couldn't find a return policy.

Security remains crucial to e-commerce. Respondents to the Esearch survey said that the most important consideration in an online purchase was a clear and prominent security policy (50%). This was followed by the ability to pay with credit cards (20%) and an easy-to-find returns policy (11%).

"The primary key to overall consumer satisfaction with online purchasing to date is the ease of placing orders or reservations," says Dr. Harry Hoyle, Vice President for Dataquest's The Interactive Home: Technology & Infrastructure U.S. program. "It is

crucial to remember there is no second chance to win customer loyalty."

In the rush to participate in e-commerce, some efforts have been less than perfect. Many merchants have not implemented effective links to back-office systems, nor have they given sufficient attention to online customer support. "It is vital to win customer loyalty at this early stage in the development of e-commerce. Internet merchants have the opportunity to gain competitive advantage if they can provide outstanding and imaginative online customer service," Hoyle says.

If your site's transaction processes could use fine tuning, ask your CPA firm about CPA WebTrust and related e-commerce engagements. A CPA WebTrust engagement includes, among other key elements, an examination of transaction integrity, which helps ensure customer satisfaction. 