

# **Internet Certification Company**

## **Master Business Plan**

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**Contact:**

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# **The 45-Second Business Plan**

## **What is our product?**

A sophisticated Internet-based, consumer-driven customer service, rating, and certification system for businesses.

## **Who is the customer?**

Consumers who wish to provide feedback to businesses and locate those which provide an exceptional quality of service. Businesses seeking to expand their customer base through superior ratings and certification.

## **Who will sell it?**

Internet search engines and business Web-Sites, radio and television, trade journals, consumer magazines, and newspapers.

## **How many people will buy it?**

Two thousand businesses first year.

## **What is the sales price?**

\$15 - 600 per year w/\$50-100 one time setup fee

## **When will we break even?**

After 18 months

# Executive Summary

The Internet industry is poised to be a dominant means of conducting both business and communications in the next century. International Data Corporation ("IDC") estimates that the number of Internet users in the United States will grow from 69 million at year end 1997 to 320 million at year end 2002. Internet usage is fueling an ever-increasing capability by consumers in all market segments to evaluate products and services. Internet Certification Company (ICC) was derived from a simple, yet powerful question posed by its founder: "Why is there no central place to evaluate companies or register complaints about service you get from them?"

To date, only a few companies have endeavored to address this question using the internet. There have been modestly successful attempts to provide a means of evaluating products and services. However, no one has answered both parts of the query -- evaluation and registering of complaints. The reason for this is two-fold: 1) our potential competitor companies (such as ValueStar) rely on labor-intensive methods for evaluation and 2) the idea of providing a central repository for complaints (such as David Horowitz's "Fight Back.com") seems too specialized or unprofitable.

No one has yet realized the two parts of the question can be integrated to produce a dynamic, synergistic, and extremely profitable system. To do so one must provide for useful, accurate evaluations of products and services in a manner that is cost-effective, as well as using consumer complaints made through the Internet to feed the evaluation process itself. The automation that powerful databases provide will be used with the technology of the Internet to allow consumers to both generate complaints and evaluate businesses.

ICC has developed a unique system that allows consumers to be an active, real-time part of the evaluation and certification process of any business, located anywhere. Consumers will be able to make complaints about, or praise, any company. Many websites, all using a common interface and powerful database provided by ICC, will be available for consumers to benefit from the experiences that others have had in a variety of vertical markets — from automobile repairs to wedding consultants.

This very valuable consumer-based evaluation approach has not been adopted because other companies, steeped in more traditional methods, have not discerned how it can be technically accomplished. Significantly, the simple (and brilliant) innovation lies in the extensive use of automation in the process. To put it simply, ICC intends to become a "TRW-in-reverse," allowing consumers to directly evaluate the service "creditworthiness" of companies they do business with. Based upon the success of similar certification programs, businesses will strive for an ICC rating to improve their position in the markets they service. Following the TRW model, revenue will be derived from both consumers and businesses.

It is important to stress that the process of using Internet technology to drive a consumer-based evaluation system is currently being patented. Internet Certification Company is a small corporation composed of two brothers – John I. Smith and Mark A. Smith – who are programmers, sales executives, and hands-on operators. John and Mark bring a wealth of experience and talent to this effort through their work at Time Intersect Exchange (TIE). TIE was founded by Mark, and has been in operation since 1979 as a company that specializes in the following areas:

- Business Development
- Training
- Website Development

John joined full-time with Mark in 1980 as the Vice President of Applications and Engineering, and together they have worked with a wide variety of high-technology firms in the Silicon Valley and beyond, ranging over a broad spectrum of the electronics industry. John and Mark's combined creative talents are reflected in the exceptional appeal of the work they produce for all of their clients.

After many years, the Smith brothers now intend to boldly expand their demonstrated creative abilities with Internet technology. They have envisioned a niche area of the industry that has the potential to rival the success of such companies as E-Bay, Yahoo, and Lycos.

Like many entrepreneurs, the Smiths have a driving ambition and anticipate explosive growth and prosperity of their new firm. But their approach is cautious and their expectations are quite reasonable. John and Mark have the programming and business skills to create and manage this enterprise.

For the first year, John and Mark will perform the programming, design, and system implementation work. Within three months of the beginning of operations, an office will be opened in Jones County and staffed with administrative personnel. A force of Sales Representatives will operate in two metropolitan markets in California (San Francisco and Los Angeles), from month four in the Los Angeles area, and, by month 12, in the San Francisco area. By year three, the business will expand to other major markets with offices that will accommodate other metropolitan areas of the United States. Small and independent Internet Service Providers will be approached in these areas to provide ICC with the technical services needed to expand the self-replicating service.

Sales projections for the first year are an impressive \$660,000, providing net earnings of \$94,000 after operating expenses and officer's salaries. The Smiths have no money invested and will require a line of credit of \$450,000: with \$150,000 earmarked for equipment and initial programming development. Year one proforma reflects \$388,000 of the line as hard costs, the remainder is budgeted for contingencies and operating reserve.

# The Company - Present Situation

Internet Certification Company, Inc. is a corporation with all stock jointly owned by John and Mark Smith. The company, which is in the final planning stages, is targeting an opening for the beginning of the year 2000. ICC's entry into the market will be timed to coincide with an intensive advertising campaign including Internet e-mailing, a radio advertising campaign, a print advertising campaign in both trade magazines and focused market newspapers, and an intensive business-to-business sales campaign, in which sales representatives call upon business owners and managers.

## Market Environment

Many factors make this the ideal time to launch ICC services:

- ❑ Shopping is one of the most popular activities on the Internet. IDC estimates that the total value of goods and services purchased on the Internet was \$2.6 billion in 1996 and will increase to \$220 billion by the year 2001
- ❑ 25% of US households now have Internet access, up from an estimate of 14% in 1997
- ❑ Internet users seek detailed information about products and services (86.4%) followed by price comparison (79.9%) and availability of products and services (77.6%).
- ❑ New diversity among WWW users is brought about by a group of new users (less than a year on the Net) that is mostly female (51.7%) and more likely to be under 20 or over 50 years old than in their middle years.
- ❑ The Web is used for personal purchases with a frequency 1-2 times a month (28.2%) or less than once a month (27.5%).
- ❑ 56 million people, representing 70% of the online population had shopped online in the three months preceding a recent survey.
- ❑ Consumer Protection agencies are incapable of keeping up with the need for consumers to report on problems they are having
- ❑ Companies gain both tangible and intangible benefits from handling inquiries and complaints speedily in a friendly manner
- ❑ At local Better Business Bureaus nationwide, about 1.8 million complaints were filed in 1996.

## Implementation Timing

ICC needs three months from the date of funding to develop and test the software and hardware which will comprise the ICC system. At present, the founders are completing a detailed process flow for the systems, and are developing a demonstration prototype in Director for both Macintosh and IBM-compatible personal computers. The design of the host system is based on a fault-tolerant network of PowerPC-based computers.

A critical factor in ICC's success is going to be the initiation of the service. A balance must be struck between the number of business certifications that the sales reps can handle and the amount of data processing that can be done at the corporate headquarters within the first few weeks of operations. If either the demand or processing element of ICC is insufficient on the first day of operations, the forecasted ramp-up of business may be hindered. On the other hand, even though income from consumer membership cannot be accurately predicted, the conservative estimates of membership will help to alleviate the shortfalls in revenue that may occur from starting the certification part of operations.

## Management

Most of the Company's management is in place. Management is presently interviewing candidates for key positions which will be staffed once the Company is funded.

## Financial Resources

The Company is actively seeking cash resources at this time. All out-of-pocket expenses incurred in the development of the business plan, market research, documentation, etc., have been borne by the founders and will be assumed as short-term debt by the Company to be repaid upon closing of the first round of funding. Such expenses are not anticipated to exceed \$3,000.

## Long Term

Along with services that encourage consumers to evaluate companies, ICC will be offering to the public a variety of membership services that provide added value to their on-line experience.

Long Term goals rest on three major objectives:

- ❑ **Consumer Membership** - Consumer membership is the lifeblood of ICC's business. They guide the overall principle that can be simply stated as "...the bigger the database the more powerful the company." Consumers will be offered an opportunity to not only praise or complain about businesses, but also to enjoy benefits of membership for a small fee. Such benefits will include, but not be limited to:

Discounts  
Expanded Database Search Capabilities  
Contests  
Auctions  
Mediation services over disputed services with companies

- ❑ **Client Businesses** - Companies will be rated and certified by ICC. Certified companies will benefit from increased sales because customers will seek out companies with the ICC certification. An association with ICC will ensure that even the smallest business will benefit from ICC's sophisticated customer service management capabilities. Client businesses will be able to offer the following to their customers through ICC:
  - Promotionals
  - Coupons
  - Auctions
  - Contests
  - Mediation services over disputed services with customers
  
- ❑ **International Markets** - ICC will take advantage of its pioneering automation capabilities to offer its services to both international consumers and international businesses. We will be able to easily replicate our services for a host of developed nations.

# Management and Personnel

The following are resumes of the key management of ICC. Figure 1 shows the corporate operational structure.

## **John I. Smith - President**

John I. Smith has had diverse experience in the documentation of high-level user programs for digitally based systems, and has a thorough knowledge of commercial and military standards. He possesses state of the art knowledge of computer and communications entry/acquisition equipment, systems and networks.

John has been the Vice President of Applications for Technology Media Enterprises since 1985. His responsibilities include the creation of programs for the documentation of computer systems hardware and software. He also developed Multimedia instructional processes for efficient system procedures for user and service level documentation.

From 1983 until 1995 John also worked with Computer Sciences Corporation in El Segundo and International Billing Services in El Dorado Hills, California. He supervised the operation and maintenance of communications equipment in a diverse world-wide data communications network. John maintained, installed, and operated communications hardware and software, and solid state memory devices. He provided real time customer support in the resolution of computer, terminal, and communications equipment problems.

Prior to 1983, John was in the U.S. Air Force as an Electronic Computer Systems Analyst and a Telecommunications Center Supervisor. His duties and responsibilities included analyzing and repairing computer systems and associated peripheral equipment. He also determined and performed corrective action for Integrated Satellite Network objectives, high-technology hardware hierarchy, logistic support and hardware/software documentation.

## **Mark A. Smith, Jr. - V.P. Operations**

Mark A. Smith graduated from University of California, San Diego. Between 1979 and 1984 Mark worked in management positions with several firms. In 1979 Mark left UCSD to become the founder and President of TIE, a consulting firm that specializes in business development and website development. TIE has provided such companies as Dell Computers, Hewlett Packard, and Acer Corporation with advanced databases, training, and business documentation.

## **Betsy Johnson - V.P. Sales**

Betsy Johnson, founder and president of Betsy Johnson & Associates, has provided environmental and marketing consultation in the Los Angeles area since 1977. Her consulting firm provides market research, market strategy and market development for a wide range of businesses.

From 1989 until 1998 she was the founder and CEO of Consolidated Waste, Inc. Betsy owned and operated this successful independent waste removal & recycling company until it was sold to a larger conglomerate. CWI was the first waste removal company certified by the City of Los Angeles, Woman-Owned Business Enterprise (WBE).

From 1984 until 1994 Betsy was the executive director of recycling and Jonston Recycling Services in Los Angeles. She worked on new business development with private and municipal sectors. She was responsible for implementing recycling programs throughout the Los Angeles region, and has developed award winning highrise office tower recycling programs, which can be tailor-made for residential, hotel, apartment, condo, and commercial/industrial establishments.

From 1980 until 1984 she was an account executive for advertising and public relations with several firms in the Los Angeles area. Her duties included the development of industrial advertising and public relations and corporate-wide multimedia presentations. She conducted presentations and negotiated contracts, and managed seminars, workshops, and tradeshow.

# Background Information About the Service

## Polling and Sampling

Opinion polls have been developed largely since the 1930s as a scientific way of learning what large numbers of people think and feel about various topics. They are used extensively in marketing. Many polling companies provide manufacturers with confidential information that indicates how they are viewed by members of the public. This information is often used in developing advertising programs. The results of these private polls are usually confidential and not available to the public.

Opinion polls were used as early as 1824 by two newspapers, the Harrisburg Pennsylvanian and the Raleigh (N.C.) Star, to test the strength of political candidates. In the 1920s and 1930s the magazine Literary Digest became famous for its huge political polls. It sent as many as 18 million postcards to potential voters in the United States, asking their preference among the presidential candidates. As many as 2 million replies were received, but despite their immense size these samples had two sources of error: bias and self-selection.

Unless a sample is chosen by a random mechanism, the results are likely to be biased in some way. That is why methods of random sampling have been devised. Computers are ideal for generating random samples because they ensure that entries in a list have an equal chance of being drawn.

## Certification

Government deregulation of industries and the growth of the service sector have contributed to the growing desire for industry certification. Certification is a response to the need to protect consumers and businesses from substandard products and services. A well known example of an organization specifically created to address this need is the non-profit National Institute for Automotive Service Excellence. This organization was established in 1972 to assist consumers in distinguishing between incompetent and competent mechanics.

The certification industry has arisen to address the needs of many different segments of the market from computer-related services to manufactured goods. Companies such as International Certification Services, Inc. (<http://www.intcert.com>) and the Institute for Certification of Computing Professionals (<http://www.iccp.org>) have been successful in providing third-party certification for computer industry systems. Computer industry giants, such as Microsoft and Novell each have multiple levels of certifications for their systems. Even companies like Macromedia and Adobe now offer certification programs for multimedia professionals seeking an edge in the market.

## Advocacy Groups

While certification has addressed the needs of business, advocacy groups have traditionally protected the rights of consumers. The Better Business Bureau is designed to protect business people and consumers from unethical business practices. The first bureau was set up in Minneapolis in 1912 through the efforts of business leaders disturbed by deceptive advertising techniques and selling abuses. Others were subsequently established throughout the United States, Canada, and Mexico, linked by the Council of Better Business Bureaus, located in New York City. The bureaus cooperate with public authorities to expose cheaters, to encourage consumer education and reduce the ranks of the gullible, and to promote the maintenance of high business and professional standards.

The Consumer Federation of America (<http://www.consumerfed.org>) has advocated policies and programs that help ensure a marketplace with vigorous competition, products that are useful and safe, marketing that is truthful and informative, and adequate consumer redress for more than three decades. They describe themselves as being "...particularly sensitive to the needs of the least affluent and educated consumers, who have little discretionary income to waste and are especially vulnerable to deceptive or fraudulent sales."

One can find on the Internet a plethora of groups devoted to advocacy of many kinds. The League of California Homeowners (<http://www.homeowners.org>) provides information on homeownership and improvement, residential remodeling, contractor background checks, insurance and mortgage lending. It is interesting that even though this organization has a section of its website devoted to "approved" contractors, it does not have a section reserved for complaints. Private individuals express their opinions through websites, such as "The Lemon Club" (<http://members.aol.com/lemonclub>), which is "...provided as a public resource of information relating to my experience with 'The Palms At Sawgrass Mills,' a rental community in Florida." The Waitressing Gripe Page (<http://members.aol.com/GMAGates/index.html>) is another interesting example of how the Internet is being used by individuals to air their complaints about all sorts of subjects.

One of the best known of these consumer advocacy groups is ValueStar. ValueStar (<http://www.valuestar.com>) began its corporate life as an quasi-advocacy group. Their mission statement is to "...operate a socially responsible company that makes the world a better place for consumers, by identifying for them those companies which have very satisfied customers. In so doing we help make businesses better." They rate companies on the quality of their services, conduct service audits of companies, and certify those companies that pass their audits. Their focus is on enabling consumers to quickly determine the best local service businesses. ValueStar generates recurring revenues by conducting customer satisfaction research on local service companies in 150 industries (auto, home health, personal and professional), licensing the certification mark to highly rated businesses and selling ancillary materials and services. They have only had an Internet presence since 1997. Prior to that time they relied on radio, telephone, and television to advertisement their service.

David Horowitz, the well known consumer advocate, has just recently launched a website of his own (<http://fightback.com>). This is an example of a "pure" consumer advocate enterprise that simply views the Internet as a means of informing consumers about its services and providing an electronic way of contacting them. It is significant that David Horowitz' site is referred to by ValueStar. This indicates a possible agreement between the two organizations for non-competition.

## Service Description

As its name indicates, Internet Certification Company, relies on the technology of the Internet to certify companies providing services in all segments of the market. The human-based abstract concepts of polling and advocacy must be quantified in order to convert them into a computable data set. Thus, *polling* must be transformed into computer sampling, and *advocacy* must be converted into automated certification methods. The technology that accomplishes this transformation is a sophisticated database system. ICC effectively uses this database to combine the dual need for consumers to evaluate company services and for businesses to attain a meaningful level of certification.

## Overall Operation

Any Internet user can access the ICC website main page. The main page features a description of ICC and other information necessary for the user to understand the purpose of the company and its services. The typical user is a consumer who wishes to search for a business located in their geographical area. This search is facilitated by an updated white page directory of all businesses in the United States (other countries will eventually be available). The user will be able to search by categories of services offered by individuals, as well as companies (for example, independent plumbers or a plumbing company). The user will be able to view comments, both good and bad, about any particular business that have been made by other consumers. The user can search for services by ratings (good or bad), and by specific rating categories. Consumers may post their own opinions about the service they received with any business, anywhere in the world. In addition to browsing the ICC database, consumers may take membership in ICC, which allows them access to many value-added services and privileges for a small yearly (\$15) fee. Refer to Figure 2 - Internet Certification Company Functional Description for a graphic depiction of ICC overall operation.

Businesses, whether as individuals or companies, will benefit from ICC certification and ratings. Non-client companies are listed, but do not receive benefits of certified membership. Member companies will have better visibility on the ICC website, such as advertisements, links to their web pages, and the display of ICC ratings of their services. Outstanding certified businesses will be eligible for the ICC "Platinum Club", which offers even more benefits to businesses.

## Consumer Reports

When a consumer uses the ICC Internet website to praise or complain (Figure 3 - Overall Operation ①) about the service they experience from a company the identity of the consumer is automatically reported. The screen used to enter either a complaint or praise is in the form of a survey that features many categories for rating. Figure 4 - Rate a Shop, is an illustration of a typical screen. In addition, the form has fields for consumer comments. The consumer must provide their name and a way for ICC to contact them when they initially fill out the report. The following Disclaimer is also required with any submission:

By submitting this Rating I hereby swear (affirm) that the statements contained within are true and accurate. I also affirm the following: 1) I can prove my claims beyond a reasonable doubt, and am willing to support them if challenged to do so, 2) this information is offered without duress or influence of any kind, 3) I understand that I may be contacted by ICC for verification of this claim, 4) I am not affiliated with the business rated herein in any way, 5) the opinions I express are completely my own and I indemnify ICC against any legal action brought against it as a result of any false statements made herein.

The consumer report is accepted only if the disclaimer, name, and contact information is provided. Otherwise, the report is not posted in the ICC system database for public viewing (although it may be stored) .

## Consumer Database

When a consumer praises or complains about a client company, that information is posted (Figure 3 - ①) and the consumer's record goes into a file used for cross-comparison during the certification (or recertification) process (Figure 3 - ②). Praise about a non-client company will cause ICC to contact that company to inform them of the report and inquire if they would like to become a certified member (Figure 3 - ③).

## Certification Process

Businesses may be eligible for consideration of certification under the following circumstances:

- Enough consumers praise them over a given period of time
- ICC wishes to approach them because of their performance or other criteria of excellence
- The potential client company approaches ICC for certification

Certification requirements must be completely understood, and agreed to by the prospective client company (Figure 3 - ④). These requirements include ICC's ability to conduct random and unannounced searches of their records, ICC's permission to contact their employees and their customers. In addition, ICC will conduct investigations of company's records available with governmental and other regulatory agencies such as the

Better Business Bureau and the Consumer Protection Agency. The prospective client company that ICC approaches is charged a reasonable processing fee for certification. A company that requests ICC certification must pay both a Filing Fee and a Processing Fee.

Once a prospective client company agrees to the terms of certification, an audit of the company begins (See Figure 5 - Certification Process - ①). ICC searches for cross-referenced files that have been created (Figure 5 - ②). The search is conducted by requesting records (Invoices, memos, etc.) of the dates that a consumer in our cross-referenced files issued a complaint or praise of the prospective client. ICC then must find the consumer's name in the prospective client's records of that date. Dates are used, as opposed to consumer's names, to minimize the possibility of a prospective client tampering with the Audit Process. ICC will request records (Invoices, memos, etc.) of dates other than those that a consumer in our cross-reference database issued a complaint or praise of the prospective client. This randomly selected data is combined with that from known consumers, where possible. If ICC has no records

ICC will then contact selected customers of the prospective client with detailed surveys. Incentives, such as discounts for services and prizes will be offered to the survey respondents. All records derived from the audit of the prospective client are examined. ICC will contact, and survey, those consumers who have issued praises or complaints from the cross-reference database. Other consumers from the randomly selected group will also be contacted and surveyed.

Governmental agencies, appropriate regulatory bodies, and other types of reporting agencies will be contacted for information about the prospective client (Figure 5 - ③). Companies have an opportunity to counter negative responses from such agencies.

All records derived from the audit of the prospective client are examined and verified (Figure 5 - ④). Evidence that any cross-referenced consumer did not make a legitimate praise or complaint will automatically disqualify the prospective client from Certified Status. If a statistically significant number of randomly surveyed consumers indicate a negative evaluation of the prospective client, that company will be disqualified. If any outside, governing, licensing, or reporting agency indicates a negative evaluation of the prospective client, that prospective client will be disqualified. Therefore, all criteria: 1) cross-reference consumers, 2) randomly selected consumers, and 3) outside agencies, must all indicate positive evaluations for the prospective client to be Certified.

# Market Analysis

## Worldwide Internet Usage

A report from Roper Starch issued May 5, 1999 estimates that a quarter of US households now have Internet access, up from an estimate of 14% in 1997. In contrast, the report estimates that 13% of households in Japan have Internet access, compared to an estimate of 9% of UK households, 7% of German households and 3% of French households. The study estimates that in the US, Internet usage is highest amongst those aged 13 to 19, at 41%. Usage was evenly spread amongst the other age groups, 31 percent of those aged 20 to 29 have Net access, 33% of those aged 30 to 39, and 30% to those aged 40 to 49. In comparison, Roper estimates that globally, 14% of teenagers are online, 14% of those aged 20 to 29, 11% of those aged 30 to 39 and 10% of those aged 40 to 49. Worldwide, Roper Starch estimates that 25% of consumers have shopped online with just 10 percent making an online purchase. The study also found that 16% of white-collar workers buy online, compared to 7% of blue collar workers. The findings are based on a survey of 30,000 consumers, across 30 countries.

## Overall US Internet Usage

A recent survey conducted by the Graphic, Visualization, & Usability Center (GVA) continued to signal the mainstreaming of the WWW, especially in the USA. The general demographics of the user population moved closer to the characteristics of the general population with a continued increase in the proportion of female users (38.7%), a decrease in the average income (\$52,000 in the US), slightly lower level of educational attainment (50.1% college or more), and a diversification of occupations away from the domination of computer and education-related fields. This new diversity among WWW users is brought about by a group of new users (less than a year on the Net) that is mostly female (51.7%) and more likely to be under 20 or over 50 years old than in their middle years. This process is not yet as noticeable in Europe where the shape of the age profile curve for this year is almost identical to the general profile in 1994.

Over 83 million US adults now have Internet access, representing 40% of the population aged 16 and over, according to a study by Intelliquest. An additional 17.2 million plan to go online in the next 12 months, with a overall total of 41 million saying they will go online in the future. The study estimates that 56 million people, representing 70% of the online population had shopped online in the three months preceding the survey. 23.5 million of these, 28 percent of the total, said they had made at least one online purchase in that time. In terms of usage habits, the study found that the typical user currently spends an average of 12.1 hours per week online. The most popular online activities remain email, information on hobbies, general news and business related information.

While the PC is set to remain the core means of Net access in the near future, Intelliquest predicts that by 2000 alternative means of Net access will be the driving force of Net growth. Currently, an estimated 3.7 million people use a handheld computer to go online,

while 3.1 million access the Net via a TV-set-top box or WebTV. The findings are based on a nation-wide survey of US adults, which reports a margin of error of 1.5 percent.

## **Gender**

Females represent 38.7% of the respondents to the 9th Survey of the GVA, which is virtually unchanged since the last survey (38.5% Eighth, 33.4% Seventh). Europe is considerably less gender-balanced with females accounting for only 16.3% of respondents. For the rest of the world (mostly Canada & Australia for this survey), females account for 30.5% of respondents. Younger respondents are more likely to be female: 43.8% of those age 11-20 compared to 33.9% of those ages 50 and over. For the first time, we see a category of users which has more females than males -- users who have been online for less than a year (51.7% female, 48.3% male).

## **Internet Shopping**

The following paragraphs are results from the 9th Survey of the GVA.

### **Total Spending on WWW Purchases**

The largest percentage of respondents who made purchases over the Web in the last six months spent between \$100-\$500 (32.5%) and a group almost as large spent more than \$500 (29.5%). When taking into account the location of respondents, the patterns are similar with the preponderance of the same amounts of spending. However, Europeans and those outside Europe and the USA are more likely to make smaller purchases (less than \$50) over the Web (26.3% and 28.4% versus 20.9%, respectively). When considering the years on the Internet and interesting pattern of spending emerges. The lowest category of spending (less than \$50) decreases steadily with increasing experience (from 55% with under 6 months to 15% with more than 7 years). The highest category of spending (more than \$500) is a mirror image of the lowest: it increases steadily with experience (from 2% under 6 months to 46% with more than 7 years). The two spending categories in between (\$50-\$100 and \$100-\$500) remain almost constant with time on the Internet (hovering around 10% and 30% respectively). There are slight differences in the spending patterns of women and men. They are almost equally likely to have spent at the \$100-\$500 level (30.9% and 33.5%, respectively) but women are more likely to purchase more in the under \$50 level (28.6% versus 17.5%) and less likely to purchase at the above \$500 level (21.9% versus 34.5%).

### **Personal versus Professional Purchasing over the Web**

Respondents report that they use the Web for personal purchases mostly with a frequency 1-2 times a month (28.2%) or less than once a month (27.5%). In contrast, most of them never use the Web for professional purchases (35.5%) or they do with low frequency (24.8% less than once a month and 15.8% 1-2 times a month). Women and men have similar patterns of frequency of personal purchasing except that a larger percentage of women responded that they never made such purchases (10.3% versus 4.7%). The percentage of women that never made a professional purchase is also significantly larger (44.1% versus 29.7%) but women are only slightly less likely than men to make professional purchases in the other frequency categories.

## **Type of Information - Personal**

Respondents could select more than one type of information and three categories were most often selected. The first was detailed information about products and services (86.4%) followed by price comparison (79.9%) and availability of products and services (77.6%). The same three categories of information are chosen most often by Europeans with a significantly smaller percentage than USA respondents seeking price comparison information (62% versus 80.6%).

## **Type of Information - Professional**

The same question on information seeking behavior related to professional purchases resulted in the same three categories being selected in the same order but at higher rates. Respondents sought detailed information about products and services more than any other category (92%), followed by price comparisons (82.7%) and availability (78.8%). European respondents selected the same categories most often at slightly higher rates than their American counterparts.

## **Time Spent Searching - Personal**

The largest category of users spends between 5 and 15 minutes searching before they find the first piece of useful information (35.2%). The next largest group spends less than 5 minutes (29.3%). This represents a shift of about 5% toward shorter search times from the previous survey. Experts tend to find things faster (less than 5 minutes: 33.7% experts, 15.5% novices), which represents a much larger difference than the previous survey (18.2% versus 8%).

## **Time Spent Searching - Professional**

When searching for professional reasons, an almost equal number of respondents finds it 5-15 minutes (31%) as in less than 5 minutes (30.5%). This represents significant increases toward shorter search times from the previous survey. The contrast between experts and novices is significant (less than 5 minutes: 38.6% experts, 16.7% novices).

# **The Market for Consumer Action and Protection**

## **Wisconsin State Journal Article**

A recent article printed in the Wisconsin State Journal entitled "Audit Adds Ammo To Battle Between Consumer Agencies" indicates the kind of problems consumers are having all over the nation. State auditors said the Department of Agriculture, Trade and Consumer Protection hasn't investigated cases in such areas as health services fraud and contest and sweepstakes fraud. In addition, few investigations involved telemarketing scams, according to the 48-page report from the Legislative Audit Bureau. Telemarketing has been targeted by the Federal Trade Commission as a growing area of consumer rip-offs.

The Department of Justice, which lost most of its consumer protection duties to the agriculture department in 1996, pointed to the audit as a reason why it should have the

duties back. In 1996, the number of investigators at the agriculture department increased from 11 to 15, according to the audit. But, by one account, the amount of money collected in consumer protection fines and restitution has fallen.

While the audit gives ammunition to the agriculture department's critics, Bill Oemichen, administrator of the department's consumer protection division, said it also exonerates his staff. The agency handles more than 196,000 complaints and inquiries a year, compared to 172,000 before the consolidation. Last year the agency recovered more than \$4.1 million for consumers, with much of the money coming from mediation and not reflected in the audit.

Legislative reaction to the audit was immediate, with some legislators saying the most serious and complex consumer protection issues should be handled by the Justice Department. Since the agriculture department has taken over, there has been a dramatic decline in quantity and quality of the state's consumer protection efforts, according to state Sen. Brian Burke, D-Milwaukee.

### **Gannett News Service Article**

The following is an excerpt from the Gannett News Service entitled *"In business, with customers, it's the squeaky wheel that gets oiled"*

"Many companies are quick to give customers good faith gestures, even if the customer is not complaining but just commenting," said Susan Grant, vice president of public policy with the National Consumers League. "Companies gain both tangible and intangible benefits from handling inquiries and complaints speedily in a friendly manner, simply satisfying the customer."

Among those benefits are goodwill, which leads to positive word-of-mouth advertising. Still, the most important benefit may be a spotless record with the Better Business Bureau, which keeps tabs on how well companies handle consumer complaints. At local bureaus nationwide, about 1.8 million complaints were filed in 1996. Many more are either not reported or forgotten by apathetic customers, according to business analysts.

Those same customers, experts say, are apparently beginning to understand the power of their dollars. They are voting with their feet and pocketbooks and if a company doesn't satisfy them, they simply move on. That can be a problem for businesses. If people don't complain or ask questions, it's that much more difficult for them to figure out what consumers want.

Consequently, "companies actually want people to complain and they set up all types of mechanisms to ensure they get the maximum number of complaints," said Lou Garcia, executive director of the Society of Consumer Affairs Professionals in Business.

In addition to solving their problems, Garcia said customer correspondence helps companies cultivate a loyal customer base and peddle new products. He added that

people who call a company's 800 number and fill out survey cards are unwittingly participating in market research.

"Complaints are in the company's best interest for several reasons, but mostly for better product development," Garcia said.

## Market Analysis Conclusions

An analysis of the Internet market can be summed up as : "*Growth Potential - thy name is Internet.*" Salient features of the facts outlined above are as follows:

- 25% of US households now have Internet access, up from an estimate of 14% in 1997
- Internet users seek detailed information about products and services (86.4%) followed by price comparison (79.9%) and availability of products and services (77.6%).
- The category of users who have been online for less than a year is higher for females -- (51.7% female, 48.3% male).
- New diversity among WWW users is brought about by a group of new users (less than a year on the Net) that is mostly female (51.7%) and more likely to be under 20 or over 50 years old than in their middle years.
- The Web is used for personal purchases mostly with a frequency 1-2 times a month (28.2% of respondents) or less than once a month (27.5% of respondents).
- 56 million people, representing 70% of the online population had shopped online in the three months preceding the survey.
- Consumer Protection agencies are incapable of keeping up with the need for consumers to report on problems they are having
- Companies gain both tangible and intangible benefits from handling inquiries and complaints speedily in a friendly manner
- At local bureaus nationwide, about 1.8 million complaints were filed in 1996.
- Companies actually want people to complain
- Revenues for the second quarter were up 76% over the prior year's comparable quarter for the only other major player in the market.

The single company of any consequence in the market ICC will be entering (ValueStar), is unable to capitalize on the opportunities available. This is because ValueStar still employs a very traditional approach to towards its business; it positions itself in the proactive role of advocacy for consumers -- a company "... that makes the world a better place for consumers, by identifying for them those companies which have very satisfied customers."

The "internet" consumer, although belonging to an ever-increasing subset of the larger consumer market, has very different needs that have not been addressed. Put simply, the Internet consumer does not need the bureaucracy of a company to do their shopping for them. The speed, flexibility, and power of the Internet to allow consumers to find practically anything is not being utilized in the context of on-line ratings of businesses. The culture of the Internet is distinguished by chat rooms, and powerful search engine technology. It is a party-line-like cyberspace that is populated with users who firmly believe in the freedom of speech, and are perfectly happy to exercise it electronically.

The market is ready for the "information-age" triple marriage between polling and advocacy, freedom of information and freedom of choice, and a consumer-created database and customer service.

# Market Analysis - Competition

The online certification market for services and companies is so new that the only competition presented is by companies that also have an online consumer complaints capability. An analysis of companies in the online consumer complaint market reveals that competition takes on four primary forms:

- ❑ Individuals who are so angry at a company that they post websites complaining about the service or products they received. Other individuals are usually invited to join a guestbook, contact the company, or write the individual website owner.
- ❑ Non-profit business/consumer organizations, such as the Better Business Bureau (<http://bbb.org>)
- ❑ Non-profit consumer organizations, such as the League of California Homeowners (<http://www.lch.org/lch/>), the National Fraud Information Center (<http://www.fraud.org>), the Center for the Study of Services (<http://consumer.checkbook.org/consumer>), and Consumer Reports On-Line (<http://www.consumerreports.org>)
- ❑ For-profit consumer advocacy/business rating organization. The Smart Sense Publications "Car Buying Guide" (<http://www.smartsense.com>), and ValueStar (<http://www.valuestar.com>), are examples of these kinds of organizations

## Individual Consumer Websites

Any Internet user can enter the words "Consumer Opinion" into their favorite search engine to find all kinds of information about companies and services. Such searches mostly reveal websites that are posted either by the company in question, or by people angry with the company. Judging from the plethora of such sites, it is clear that a vast need is not being met.

Several examples of these type of site have already been listed in this document. Four other examples deserve mention because they are so indicative of the deep level of frustration that consumers feel and the lengths to which they will go to express that frustration. Garry of Liverpool, UK (<http://www.garryda.clara.net/bryco.htm>) posted a sophisticated site which complains bitterly about two major sources of woe in his life: 1) Bryco windows (which he claims cause mold and condensation) and 2) the health care system in the UK. A very angry person who identifies himself as "African-American" in Fort Worth Texas (<http://web.wt.net/~gnote/rshack.htm>) accuses Tandy/Radio Shack of being populated by ultra racists. The Walmart Sucks Page (<http://www.walmartsucks.com>) is pretty self-explanatory. It identifies itself as the "Official Wal-Mart Sucks Complaint Log" which, significantly, features actual complaints by contributors. The Jiffy Lube complaint page

(<http://members.aol.com/jiffyscrew>) is a similar, well designed site with the same features.

## **Individual Consumer Websites - The Drawbacks**

Individual websites are certainly an attractive means for consumers to air their complaints. Of course, the likelihood that a company will actually seek to redress complaints made in that forum is rather slim; the website being the functional equivalent to the complainer/consumer shooting himself in the foot. That aside, the consumer who chooses to go this route suffers from several problems. First of all is a lack of exposure. Although it might be argued that such a person is likely to not want to attract too much (legal) attention to themselves, it is also true that visitors have to either stumble across their site or go through a significant amount of trouble to find them. The specificity of their complaints will work against them. Then, of course, there is the other problem alluded to above of not fostering much cooperation of the company being complained about. The likelihood of redress is slim in such a case, as is so with all other people who happen to participate on such a site. Another obvious problem is that of creating and maintaining a complaint site. The creators of several studied had posted a pointer to their sites thanking others for their contributions and saying that, while they still think "so and so sucks", it wasn't worth energy to maintain their site. It is interesting that very few indicate the possibility of lawsuits against them.

## **Non-Profit Business/Consumer Organizations - The BBB**

The only organization of this kind that is of any consequence is the Better Business Bureau. It is potentially in competition with ICC for market share. The BBB certainly has substantial name recognition. Indeed, it is the only organization that comes to the mind of most consumers for complaining about goods and services they receive from businesses.

The on-line implementation of the BBB services is good, but gives the impression that it is simply a transfer of its long-existing programs and services to the internet, rather than an innovative service. In addition to its reports of complaints against general businesses, the BBB also reports on charitable organizations and has a significant part of its organization devoted exclusively to automobile-related problems. The BBB also offers a dispute resolution service to its members in their dealings with dissatisfied consumers.

The BBB maintains files on many companies in their area and even some that are outside the area. Records are kept only on companies that have been reported to the BBB. If a company is a member of the BBB the report will reflect that fact. The report may also contain general information about the nature of the company's business, and usually covers activity for the past three years. According to the BBB, it reports on all companies that have generated sufficient inquiry or complaint activity, whether or not they are members of the BBB. If the Bureau does not have a report, it usually means the firm is

new, or it has not generated enough previous activity, or has not been the subject of any unanswered complaints.

Most consumers who pursue any further dealings with the BBB quickly come to the conclusion that the experience is much like being an elementary school student going to the principal to complain about a teacher. That experience should not surprise anyone if they are informed that the mission statement of the BBB is to "...promote ethical business standards and voluntary self-regulation of business practices." The reality is that BBBs are private non-profit organizations supported largely by membership dues paid by business and professional groups in each Bureau's service area. Much to the apparent delight of its members, the general public believes that the BBB is a quasi-governmental business regulatory and consumer advocacy agency.

In what can be interpreted as a counter to ValueStar, and a bid to capture share in this emerging market, the BBB instituted a program called BBBOnLine. BBBOnLine is a wholly owned subsidiary of the Council of Better Business Bureaus. Its stated mission is to promote trust and confidence on the Internet through the BBBOnLine Reliability and the BBBOnLine Privacy programs.

The BBBOnLine Reliability was launched in April of 1997 as a way to identify online businesses with a reliable track record in the market place. Though lofty sounding, the fact is that such companies must be in business at least one year, members of the BBB, agree to advertising standards and dispute procedures, and are visited by a BBB representative at their place of business to confirm adherence to the program requirements. The term "online businesses" is rather vague, as it can mean businesses that exist only online or "traditional" businesses that also have an online presence.

Launched in March 1999, BBBOnLine Privacy awards seals to online businesses that have been verified to be following good information practices. These practices including clearly posted privacy policies meeting rigorous privacy principals (including notice to consumer, disclosure, choice and consent, access and security), monitoring and review by a trusted organization, and consumer dispute resolution.

## **BBB - The Drawbacks**

BBB members are not rated, although the OnLine Reliability Program is an attempt to provide a quasi-certification feature. It is important to note that of the potentially many thousands that are in their organization they have only approved 2,700 companies for entry into the OnLine Reliability Program.

The OnLine Reliability Program does not offer true certification because companies are not rated, nor are they punished for not adhering to the BBB guidelines. It is not easy to be removed from the BBB once a company is in it.

There is presently no way to make a general inquiry of BBB members by any search method, even on the Internet site (limited searching is available for the 2,700 identified in the OnLine Reliability Program.) Searching for any company is cumbersome... it requires that you know the specific company you're looking for. There is no "browse" feature that allows the user to simply search for all BBB members in a particular area, for example. Conversely, there is no way provided to praise a good company, nor search for BBB companies so praised.

A consumer can file a complaint online but there is no expedited procedure for doing so, save the convenience of an e-mailed form. Significantly, the complaints are handled by the local BBB where the company is located.

Members of the BBB can remain on the board even though they may or may not have insurance, have a poor record with licensing boards, and have many dissatisfied customers. The BBB performs no proper checks in these areas. The BBB performs no customer satisfaction rating. Members can maintain a satisfactory record with the BBB simply if they respond to complaints.

## **Non-Profit Consumer Organizations**

Non-profit consumer organizations come in two flavors: 1) advocacy and 2) reporting. Of course, many such organizations have characteristics of both activities. The non-profit structure is the model for such organizations because they have traditionally sprung up to address specific issues, and therefore do not support a broad enough base of interest in the general population to maintain a profitable status. Furthermore, their staffs are devoted exclusively to the issues the organization supports. A reporting organization on the automobile industry, for example, will ferret out stories about car defects, manufacturers issues, and the like. They will not be capable of reporting on even tangential issues such as infant car seat manufacture, automobile insurance fraud, or highway construction legislation. Advocacy organizations have similar restrictions.

The National Fraud Information Center (<http://www.fraud.org>) declares that its mission is "...to identify, protect, represent, and advance the economic and social interests of consumers and workers. The National Consumers League is a private, nonprofit advocacy group representing consumers on marketplace and workplace issues. We are the nation's oldest consumer organization."

In the "What to Report" section of its website the NFIC makes the following statement:

The NFIC accepts reports about attempts to defraud consumers on the telephone or the Internet. Telemarketing fraud can involve companies calling consumers or consumers calling companies in response to a mailing or other form of advertising. It also includes telephone sales pitches to businesses. Internet fraud can include promotions found on websites, in chat rooms, newsgroups and bulletin boards, as well as via e-mail. The NFIC does not accept reports about home improvement, auto sales, or other transactions that usually take place at consumers' homes or retail stores.

Note the very specific focus of this organization and how it limits the realm of activity. The NFIC provides links to organizations that can assist the consumer in areas it does not address. Contact information for the Attorney Generals of all fifty states is provided. Other resources, such as the BBB, the National Charities Information Bureau, and Florida Department of Law Enforcement are among those included.

The League of California Homeowners, an advocacy group, (<http://www.lch.org/lch>) provides information on home ownership and improvement, residential remodeling, contractor background checks, insurance and mortgage lending. Formed in 1993 as a non-profit organization to benefit homeowners, the League sponsors seminars and workshops, produces publications and gives direct assistance to members via its toll-free information line. Members also receive access to money-saving discounts on homeowners insurance, home security systems and other benefits.

The mission statement of this organization is below:

- Provide consumer information and assistance to both homeowners as well as buyers.
- Assist homeowners in dealing with home improvement problems by providing impartial consumer advice and direction.
- Act as a consumer advocate to promote home ownership opportunities for all economic, racial and ethnic segments of our society.
- Provide educational opportunities such as consumer workshops focusing on home improvement and real estate acquisition.
- Promote and support equal housing opportunities in accordance with U.S. Civil Rights Law as well as all other applicable state and local regulation.

A non-profit consumer information and service center that operates on the "reporting" model is the Center for the Study of Services (<http://consumer.checkbook.org/consumer>). This site has many interesting features, such as the Bargains product price guide, and ratings of local service firms, derived from magazine articles from their publication called the Consumers' CHECKBOOK covering everything from auto repair shops to plumbers. It is significant that this rating system covers only the Washington DC Metro and San Francisco Bay Areas. The information about that service is presented below:

The Center publishes Washington Consumers' CHECKBOOK, a nonprofit magazine that evaluates local service firms. CHECKBOOK reports are objective and free of outside influence--the magazine accepts no advertising. It is supported entirely by its subscribers and other Center publications and services.

The evaluations of local businesses are based on thousands of ratings gathered on annual customer surveys, review of complaints files at local government

consumer affairs offices, price checks, and surveys of experts. In addition, many articles in past issues contain useful advice on how to select and deal with firms or how to solve problems yourself so that you won't need a service firm.

Although the ratings of individual firms become less useful as time passes, knowing that a firm received good ratings several years ago is generally much better than knowing nothing at all.

The Center for the Study of Services also offers ratings of health care providers, information on how to buy/lease new cars, restaurant ratings (Washington D.C. and SF areas), and a consumer-to-consumer message board. This message board is very interesting, and is similar in function to what ICC will implement (Figure 6 shows a printout of this message board). About this service, the Center for the Study of Services publishes the following:

This board will not be edited by CSS for content and we encourage each user to be a responsible citizen. Despite the unencumbered nature of the internet, libel and defamation laws are still at work, and you can be held responsible for speech that violates these statutes. Remember that truth is the ultimate defense, so labeling a firm "crooked" is more risky than saying the faucet still leaked after the repair, or the final price exceeded the estimate by more than \$1,000. A brief pause before posting may result in a more productive and safe endeavor.

Figure 7 shows the details of a typical complaint filed on this service.

Another organization that deserves mention is Consumer Reports On-Line (<http://www.consumerreports.org>). This is a non-profit organization that publishes the very well known series of "Consumer Reports" magazines. The Internet website is simply an extension of their magazine publishing activities.

## **Non-Profit Consumer Organizations - The Drawbacks**

As stated above, non-profit consumer organizations do not support a broad enough base of interest in the general population to maintain a profitable status, and they are limited in the areas they can cover by staffing problems. They rely heavily on membership, which must be inexpensive enough to attract and maintain consumers to their organization. The amount of advertisement, and the cost for such, is disproportionately high. This is partly because they employ traditional mail to disseminate information. Publishing costs for traditional printing is high. The Internet is seen as a less expensive supplement to their publishing operations, even though the potential numbers of people they can reach via the Internet is relatively low due to the number of households that have access to it. Since they operate in rather narrowly defined "vertical markets" their advertising dollars must be spent on highly targeted market segments. Because they are non-profit, they are not always able to use the latest computer technology to get their message out into the public. Non-profit organizations thus share a drawback with the individual consumer complainer -- visitors have to either stumble across their site or go through a significant amount of trouble to find them.

The non-profit organization which most successfully utilizes the power of the Internet is, by far, the Center for the Study of Services. They apparently understand how the Internet can be used for both advocacy and reporting. Their system offers a glimpse of the capabilities necessary for the more sophisticated system that ICC will employ. It is very clear that they, like other non-profit organizations, still rely on their paper-based publication (the Consumers' CHECKBOOK) and are limited to only two geographical areas of the country. Significantly, while they offer consumers an ability to praise/complain about services, and the consumer can search a message board, the CSS misses the mark by not providing a powerful search engine that drives a nationwide database. Another interesting feature of the CSS is their rating of services. Although they do not offer any kind of certification, the ratings are valuable to consumers. The drawback, as they readily admit, is that the "ratings of individual firms become less useful as time passes". CSS is apparently not able to provide an automated or real-time update of the ratings.

## **For-Profit Consumer Advocacy/Business Rating Organizations - ValueStar**

ValueStar, is by far, the most significant for-profit consumer advocacy/business rating organization operating in the US, and will be in direct competition with ICC for this market. ValueStar, a now publicly traded company, commenced operations in the greater San Francisco area in 1992 and, according to its literature, "...perfected its recurring revenue business model in Northern California." In July 1998 ValueStar launched its national expansion by expanding to Southern California. In February 1999 the greater

Chicago area became the first market region outside California. Other regions are targeted for expansion in 1999. The Company has invested heavily in adding personnel, computer systems and the infrastructure to support its national expansion. These investments have contributed to increased losses in the current fiscal year. The Company reported a loss from operations for the six months ended December 31, 1998 of \$1.3 million on revenues of \$1.1 million. After interest and other costs the net loss was \$1.5 million. Revenues for the second quarter were \$470,608, a 76% increase over the prior year's comparable quarter.

The following excerpts are from the ValueStar website. They are presented to provide a thorough understanding of how the company operates and how it positions itself in the market.

ValueStar has pioneered a new rating system and certification mark (ValueStar Certified®) - - signifying high customer satisfaction - - enabling consumers to quickly determine the best local service businesses. ValueStar generates recurring revenues by conducting customer satisfaction research on local service companies in 150 industries (auto, home health, personal and professional), licensing the certification mark to highly rated businesses and selling ancillary materials and services.

ValueStar Certified brand recognition is built through the co-branding promotional efforts of the Company and its business licensees. ValueStar's independent rating and certification format leverages the substantial experience consumers demonstrate in using product ratings and reduces the guesswork involved in selecting a service business among those businesses making competing and unsubstantiated claims.

ValueStar's proprietary branded ratings provides new content for the rapidly growing Internet shopping industry - - making interactive shopping possible for consumers purchasing local services. The Company believes the consumer enthusiasm generated by this new rating format, business acceptance evidenced by high renewals and the knowledge and experience gained from pioneering, operating and expanding throughout Northern California provide the foundation for further growth and territorial expansion.

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"Finally, ratings of services I shop for every month," trumpets Virginia Riker of Kentfield CA. More than 30,000 other consumers contacted ValueStar in the past 24 months voicing similar praise. Although half of all Americans are influenced by product ratings (i.e. J.D. Powers, Consumer Reports), only ValueStar delivers ratings on local services. With the purchase of local services so fraught with consumer risk, it is no wonder that consumers are enthusiastically using [www.valuestar.com](http://www.valuestar.com) and seeking out the ValueStar Certified rating brand to base their local shopping decisions.

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6 MILLION LOCAL SERVICE FIRMS - HOW DO THEY RATE? With ValueStar's current mix of products and pricing, each 1% penetration of the U.S. market

generates approximately \$100 million in annual revenues. The Company is beginning to expand the reach of its rating brand to new markets beyond Northern California. Management plans to deploy its rating system in 30 major markets to rapidly achieve \$100 million in revenues.

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**INDUSTRY AND COMPETITION** ValueStar's ratings are important branded content for the burgeoning Internet shopping industry. There is *no competitive mark or comparable service being promoted* across a broad range of service businesses. In the branded information business, the "first-in" brand benefits because it can leverage its reputation as a leader, stake out the optimal position and create high switching costs with customers. Much like very successful product rating organizations such as J.D. Powers, Consumer Reports, UL and others, as ValueStar grows it becomes increasingly difficult for competitors to establish a competing brand. ValueStar shares aspects with the Yellow Pages, BBB, referral agencies, service guides, other media, and industry specific certifications. None impinge on the Company's ability to execute its growth plan and many provide outlets for ValueStar's branded content. For example, ValueStar ratings are prominently displayed in business display ads in the Yellow Pages and business Internet sites.

ValueStar earns annual recurring revenues from rating local service and professional businesses on customer satisfaction and certifying those that are top-rated. Each company who goes through the rating process pays a fee to ValueStar, pass or fail. Consumers have free access to listings of top-rated companies on the Internet at ValueStar.com and in the "Consumer ValueStar Report" published and distributed every six months by ValueStar. The heart of ValueStar's operations is the four-step certification process it employs to rate local businesses.

To qualify for ValueStar Certified, and to earn a listing within the Consumer ValueStar Report and ValueStar.com a company or practice must apply for and pass all four steps of the rating process. This rating process is designed to identify those service providers that have very high customer satisfaction. Every service provider applying for ValueStar Certified must pay a fee for this rating, pass or fail (In some areas, to encourage businesses to apply, rating fees are waived). All companies that pass and earn ValueStar Certified rating, then pay another fee which allows them to continue to use ValueStar Certified. ValueStar uses these fees to police the use of ValueStar Certified rating and create their Web site. Each service provider that passes and earns ValueStar Certified must undergo a re-rating every 12 months. Service Providers that do not pass in a subsequent rating must immediately cease use of the ValueStar Certified symbol and are excluded from the next published Consumer ValueStar Report. Each non-passing firm must wait 12 months to re-apply to be rated.

The four steps to ValueStar certification are as follows:

**Step One**

Customer Satisfaction Rating - To make sure an applicant company's customer satisfaction rating is accurate and unbiased, this part of the rating is audited by

the Public Research Institute of San Francisco State University, experts in survey research.

- First, a random sample of approximately 400 customers is selected from all of an applicant company's records for the previous 12 to 36 months. A company cannot pick and choose which customers the institute contacts.
- Second, approximately 100 customers are asked to rate how satisfied they are with the value they received from the company being rated and if they would use the company again. The customers' identities and individual responses are kept completely confidential.
- Third, based on the customers' answers, the company's ValueStar customer satisfaction rating is calculated. Only if the company scores very good to outstanding by its own customers, does the company pass this vital step in the rating process. Thus, no company that scores below an eighty-five, out of a possible one hundred (a perfect score), is allowed to pass this rating step.

#### **Step Two**

The applicant's complaint status is checked with industry specific and general complaint bureaus.

#### **Step Three**

The applicant must have a valid license in good standing for the major service it offers to the public.

#### **Step Four**

The applicant's insurance agents must provide ValueStar with written certificates of insurance showing that they have worker's compensation, liability, or specialized insurance coverage where necessary.

ValueStar does not provide consumers with the exact rating of a company. In the web-based answer to why they have adopted this policy, ValueStar answers as follows:

ValueStar's goal is to identify for you those companies that are between Very Good and Outstanding. You are assured that all of the companies that earn Valuestar Certified fall into those top categories. If one plumber scores a 91.6 customer satisfaction rating and another scores a 94.2 the difference is not statistically significant. Both are top ranked and far surpass the non-qualifying plumber who received a 74.6. To best illustrate which companies qualify for Valuestar Certified, let's suppose that a bell curve represents the customer satisfaction rating scores of all plumbers in the Bay Area. Only those plumbers that score on the right side of this bell curve can earn Valuestar Certified. Thus, if you choose a particular plumber that has earned Valuestar Certified, you'll most likely be happy with the resulting work.

Similarly, when asked why ValueStar does not provide information about companies that do not pass their certification process they state, "...we are not in the negative finger pointing business. All companies are guaranteed anonymity in the rating process so they are more likely to apply to be rated."

ValueStar offers free membership in a "Consumer Club" of somewhat dubious value to consumers. Once in the club, consumers may register for rating updates, receive a free subscription to the ValueStar Certified Report, obtain special help on complaints, gain entry in all Valuestar monthly drawings for prizes from the top rated companies, and so on. ValueStar also guarantees to help members with any complaints they may have regarding a Qualified Service Provider (QSP), all companies who have earned ValueStar Certified. This includes helping to find an alternative QSP, if the consumer has contacted a QSP and they take more than 48 hours to answer a request for service. ValueStar's helpful advice on registering a complaint about a non-QSP business is to "...first contact the Company's senior manager, explain the problem and request a fair resolution. If you were not satisfied with the response you may wish to contact the appropriate agencies listed in the Consumer Help Phone List."

## ValueStar - The Drawbacks

When first presented with the online presence of ValueStar, it seems to offer a valuable service. However, after spending just a few minutes on the site a consumer may go away from it with the same question we had... "Where's the beef?" For all the hype and claims of ValueStar the fact remains that they are not very useful to the average consumer. They apparently refer to themselves as being "for profit, in the public interest", but their emphasis on certification positions them more as an exclusive club for businesses, rather than as a repository of information that a consumer may use for research. Indeed, as far as using the Internet to its full potential, ValueStar has missed the mark. The non-profit Center for the Study of Services is actually much closer.

An analysis of ValueStar's competitive position reveals the following drawbacks:

- The certification process, though thorough and complete, takes a long time to complete (over 40 hours), and is costly
- Companies who are certified are reviewed only once a year
- ValueStar can only expand slowly as a company because they are weighed down by their own bureaucracy
- Consumers who cannot see the actual ratings of companies (good or bad) are deprived of valuable information. Furthermore, because ratings for specific services are not categorized, the consumer is not accurately informed about the quality of the provider
- ValueStar suffers from the same fatal mistake that the BBB has inflicted upon itself by only providing names of companies in its program

- ❑ By not providing the consumer with interactive control over search parameters, and giving both positive and negative comments about a company's services ValueStar drastically diminishes its effectiveness.
- ❑ There is no "Phone book" feature. The consumer is unable to gain information about companies that lie outside the geographical areas where ValueStar has not certified companies. This means that ValueStar's website is not perceived by consumers as the first place they go to as an all-purpose service research tool
- ❑ By not providing even a simple rating system in geographical areas outside of their service the consumer cannot use the ValueStar website as a means of research, or more importantly, as a means of *mild entertainment*.
- ❑ Time spent in a website can be directly converted into dollars. ValueStar fails to capitalize on this very simple principle of Internet economics. The consumer is not encouraged to spend time at ValueStar's website. In fact, a consumer will not linger there once they realize that ValueStar is worthless to them because: 1) they do not offer certified service companies in their area and 2) there is no comprehensive search feature attached to their database
- ❑ Complaints can be made online, but as with the BBB, those complaints get absorbed into a large, not necessarily effective system. There is no apparent advantage in making a complaint about a company unless it belongs to the ValueStar constellation of companies. Even then, if the company operates in the very limited market areas ValueStar has identified, the ratings of companies are not *directly influenced* by their interactions with consumers *in real-time*. Put simply, although consumers may indirectly effect the certification process, they do not really drive the rating process
- ❑ Because complaints about companies are not available for review, consumers will never perceive the ValueStar website as a place where their complaints can do any good to either themselves or other consumers
- ❑ Consumers receive no value from participating in their free membership club, especially if they live outside of the ValueStar market areas
- ❑ ValueStar's statements: "There is no competitive mark or comparable service being promoted across a broad range of service businesses. In the branded information business, the "first-in" brand benefits because it can leverage its reputation as a leader, stake out the optimal position and create high switching costs with customers." reveal a woeful fuzzy-headedness. Although their certification service is offered across a "broad range of service businesses", it is definitely not offered in very many places. The "first-in" concept only works well if a company provides a meaningful service. The "high switching costs with customers" is non-existent

# ICC - The Competitive Advantage

Unlike its competitors, ICC is not limited to any geographical area, and it employs a highly automated process to identify both good and bad services provided by businesses. This higher degree of automation means that the certification process is faster and less costly to businesses, it has the same statistical relevance as other certification programs, and is more useful to the consumer. ICC will build, from the ground up, a system that is capable of providing sophisticated, interactive database capabilities for all visitors to its site, and will ensure that a consumer will use the website for multiple purposes. Consumers will receive real value from membership, and businesses will wish to be certified from ICC because certification truly reflects the customer's opinions of their performance.

## How ICC Will Capture Marketshare

ICC will gain marketshare faster and more firmly than its competitors. We will receive revenues from multiple sources at a faster rate: membership from consumer/users, certification fees from businesses, and valuable add-on services to businesses for monthly fees. Unlike our competitors, our paper-based printing will be kept to a bare minimum. ICC will not print a wasteful and expensive catalogue that must be shipped to thousands of members at a time. Anyone, anytime, will be able to access better information than our competitor's paper-published reports at our website.

A main weakness of our competitors is that nearly all their sales are directly related to the "certification" or "membership" aspect of the businesses they serve. Simply put, they will always be torn between satisfying their business clients, who pay them, and making consumers come back to them to use their websites. The BBB does not have as difficult a time with this because they have been in the market for a long time and because they really don't attempt to "punish" companies. ValueStar seeks to disguise this weakness by touting themselves as a champion of the consumer by providing information on "only the best" companies (one wonders how their strategy will adopt to the reality that in the near future most companies will be able to create their own websites, and more importantly, their own propaganda about their services). On the other hand, ICC will offer to many businesses a variety of services, from website development to mediation services.

ICC will be immune from the schizophrenia of our competitors. We will fulfill the needs of both consumers and businesses equally well because our strength is the database we will develop. ICC will be able to position itself as consumer advocate, certification service, adder of value to businesses, and impartial rating service. Unlike ValueStar, which must convey a feeling of exclusivity to add value, ICC will function as a central hub of research activity for the consumer. Unlike both ValueStar and the BBB, ICC will feature extensive links to other online consumer organizations. Our client companies will understand from the beginning that their ratings are directly tied to consumer's opinions. They will be motivated by the benefits of working with ICC for the consumer's attention span on our website. Therefore, to truly compete with ICC, the BBB and Valuestar would

be required to fundamentally change both their positioning in the market and their relationship with client companies.

## **Sustainable, Built-In Growth - ICC's Competitive Edge**

Figure 8 shows formulas for growth that illustrate the differences between ICC and its competitors.

The Better Business Bureau, like ValueStar, does not tap into revenues to be derived from consumer/members. Indeed they cannot, since they are even more tightly bound to businesses than to the consumer. Consumers will simply never have a need to join the BBB, so an essential growth factor in this market will be completely missing for them. Although the BBB has the potential to reach every business in the US, and membership dues are an on-going source of revenue, they will never abandon the businesses that they actually represent -- and programs such as the BBBOnline they have recently implemented have no chance of succeeding as long as they do not have a meaningful certification function.

As stated above, the CSS has the best growth potential of all of ICC's competitors. Aside from the fact that it is a non-profit organization, they do not charge for membership, their operations are confined to a small segment of the nation, and their rating process is haphazard, unfocused, and labor-intensive. Without question, they do not possess the computational energy that ICC will dominate the market with.

ValueStar suffers from several structural problems that limits its potential for growth. Its certification process is expensive in terms of time and cost. It does not derive any revenue from Internet consumers/members, an important source. It only operates in selected markets in the United States (three at this time). It is doubtful that ValueStar will ever rise to an international standing as long as it follows its present plans for expansion. This is not likely to change, given their insistence on maintaining the "club" aspect of their operations. Management at ValueStar apparently does not see the inverse relationship between cost of certification and sustainability.

Advertising, or the potential to generate revenue-producing contacts, is central to the success of an internet-based business. Save for ValueStar, our competitors do virtually no mass media advertising. ValueStar runs advertisements in traditional venues. Their brand is found on posters in businesses, they do selective cable TV spots, and businesses display their brand on Yellow Page directory ads. Radio commercials are an important means of getting their message out to the consumers in the areas they cover. In spite of these efforts, ValueStar advertising dollars are inefficiently used because they indirectly affect sales to their client companies. Their advertising campaigns target consumers who do not actually purchase anything from ValueStar. ValueStar uses their website as a vehicle for informing Internet consumers (which they view as a subset of the larger population) about the certification service they offer to businesses. Because consumers can only complain about a ValueStar client business online, and can only locate

ValueStar-sanctioned businesses in their area anyway, the potential for gaining more consumer awareness is dissipated.

In contrast, ICC advertises directly to both consumers and businesses. The Internet consumer will be the main focus of our advertising campaigns because we derive income from those consumers. Our business thus converts advertising dollars directly into profit because we sell an internet-based service to the consumer. On the business end of the equation we use consumers as a sales force -- a good business comes to our attention through their efforts. Businesses will be solicited through advertising, but unlike ValueStar, ICC receives more on-going revenue from them because it offers a larger variety of useful services. Eventually, ICC franchise companies will also contribute to our profits.

It will not take long for ICC to dwarf ValueStar in value, size, usage, and revenues. This will be accomplished by using the power of the Internet to attract and retain consumers, by using them as a source of revenue, by providing more valuable (and scalable) services to other businesses, by beginning the first day of operations as a multinational organization, by providing powerful search features to Internet users, by linking a company's ratings to consumer opinions of their performance, and by streamlining the certification process. The growth potential for ICC is designed for the future, it is sustainable, and it is an integral part of all ICC operations. Notwithstanding ValueStar's assertion that "...as ValueStar grows it becomes increasingly difficult for competitors to establish a competing brand" -- ICC has built a much better mousetrap!

## Market Analysis - Risks and Considerations

ICC management feels that the prospects for long-term success are excellent. Risk factors include the possible loss of investment; status of the Company as an early development stage company; status of market uncertainties; potential competition; need for additional funds; lack of control; and dependence on and recruitment of key personnel. A special consideration is the Company's desire to obtain a bank loan guaranteed by the United States Small Business Administration.

The risk elements of the Company are outlined below

Elements of Risk	Degree of Risk			Weight	Total
	<u>Low</u>	<u>Medium</u>	<u>High</u>		
Industry	1			0.25	0.25
Maturity		5		0.05	0.25
Competitive Position		2		0.25	0.50

Strategy	1	0.15	0.15
Assumptions	5	0.20	1.00
Management	1	<u>0.10</u>	<u>0.10</u>
<b>Total</b>		1.00	2.25

**Overall Risk: 2.25 on Scale of 10.0**

## Rational

### Industry

The Internet industry was selected as the focus of ICC for a variety of reasons, including its large size, and consistent annual growth.

### Maturity

Lacking more developed direct competition, the central strategic competition is the novelty of the ICC concept and the market's lack of awareness. If the general public does not perceive ICC services as useful, the concept may take longer to prove itself. Therefore, both advertising and the creation of a large consumer-driven database, are key to the success of the business.

Another maturity factor is the proliferation of personal computers among companies and individuals. Though growing rapidly, there are still some areas of the country where such technology is less commonly found, and its absence may affect the use of ICC in those areas.

### Competitive Position

ICC has no direct competition at this time and the management is unaware of any competition in development. However, the strategic competition from information providers operating in other sectors could be stiff, once they perceive the advantages of this system. The ability of ICC to enter the market first, and the patenting of its process will help to minimize competition.

### Strategy

ICC's management team has a great deal of experience in launching and developing such programs and is confident in its strategic strengths.

### Assumptions

Technologically speaking, ICC breaks no new ground and is straightforward in its design. Marketing assumptions which have been made are predicated on information obtained in interviews and other forms of market research. Lacking any existing or prior examples of similar companies in the Internet market, these forecasts are difficult to compare to any past histories.

## **Management**

The team is well versed in the skills required to successfully manage this type of operation. The founders, John and Mark Smith, have previously operated a successful firm that has been in operation since 1979. The founding team has worked together before, literally all their lives.

# **Marketing and Sales Strategy**

## **Market Segmentation**

The Company's market consists of consumers and businesses that wish to be certified by ICC. Our marketing and sales plan addresses each separately.

ICC will begin operations in two geographical locations in California: San Francisco Bay Area and Los Angeles, then rapidly build its marketing and sales activities after a short time that will be devoted to systems integration and testing. Mass media marketing is particularly suitable for the services ICC will offer. Unlike our competitors, ICC's marketing efforts will be directed at both consumers and businesses, and will generate revenue from both segments through a tiered sales structure.

## **Consumers**

Consumers are comprised of two groups: Internet users and non-Internet consumers. Mass marketing will be directed at both groups, however following the conventional practice of providing an Internet URL address, the Internet user will be appealed to in advertisements. Our marketing goals towards the consumer are threefold: 1) to persuade them to use ICC as a resource, 2) to build our database, and 3) to recruit them into our consumer membership program.

Initially, ICC will accept reports from non-Internet users, using them in its database, but will not necessarily post the reports on the internet. This is because the process of converting non-electronic media consumes more time than electronically-inputted reports. Our client businesses and Internet consumers will be the source for forms generated by ICC, which will make them available on our website. Non-Internet consumers cannot easily use our service as a consumer resource because ICC will not print or mail our information. Obviously, they cannot benefit from membership either. Their usefulness to ICC is as a means of building the database and spreading the word about our services.

Although consumer membership is important, the relationship with members is primarily through a computer interface. The website will provide values, such as discounts,

contests, auctions, and so on, that consumers will benefit from -- all of which is largely automated. A personal relationship with business customers will be emphasized.

ICC will employ the following in our marketing strategy towards consumers:

- Aggressive saturation radio advertising campaigns
- Advertisements on Television Cable channels in select markets -- particularly those where consumers also have cable modem capability
- Promotions and advertisements with major national Internet content and search engine providers, such as Yahoo, MSNBC, Lycos, etc.
- E-Mail direct mailings to Internet consumers
- Press releases as ICC services come on-line
- Membership drives offering discounts for subscribers via the Internet
- Brochures and flyers made available to consumers through our client companies
- Trade magazines, especially those representing high consumer service segments
- Local newspapers
- Telephone directories -- listing under the headings "Complaint" and "Certification" are non-existent in most telephone directories. Listings under "Consumer Protection" generally only show three entities -- the BBB, the National Fraud Information Center, and a State agency

An innovative feature of ICC is the 3-D modeled, highly graphic nature of its "Virtual Headquarters". Figure 9 shows an example of the lobby of the virtual headquarters. Because ICC is an internet-based business, it is vitally important that it possesses an emphatic presence in the Internet community. This will also allow ICC to stand far apart from its competitors. Both consumers and businesses will enter a website that provides a rich visual experience, along with superior services. As a company that derives its income from customer service, ICC must possess a system that is second to none.

## **Businesses**

ICC will market directly to businesses to offer a variety of services. The main emphasis will be to persuade potential clients to become certified. Fees for certification and fees for other services, such as business database use, website development and hosting, and mediation services will be charged. Marketing will serve to generate recurring sales.

ICC will employ the following in our marketing strategy towards businesses:

- Aggressive saturation radio advertising campaigns
- Advertising on Television Cable channels in select markets
- Trade shows and publications dealing with consumer affairs
- Contact by Telephone, E-Mail, and regular postage to businesses reported by consumers
- Contact of businesses that ICC identifies as good potential clients
- Internet Service Providers
- Offering promotionals to chambers of commerce

## Sales and Marketing Force

ICC will employ inside sales personnel who will concentrate on relationships with businesses and consumer members that can provide recurring fees. ICC wishes to create strong, consultative relationships with our customers in order to build higher value. Towards that goal, we have established the following sales practices:

- Prospective customers are welcome to visit our website and spend as much time as necessary to determine which services best suit their needs.
- A separate space in the website will be available for consumers, who will be able to take advantage of chat rooms, on-line seminars, and other activities that are familiar to the Internet community. ICC will encourage consumer-to-consumer relationships through e-mail correspondence. This not only demonstrates our commitment to consumer advocacy, but frees our sales representatives to concentrate on relationships with businesses.
- A separate space in the website will be available for businesses. Business customers will have secure and non-secure levels of interaction. Non-secure information, such as databases and ICC policies will be available. Using their own unique password to enter secure levels, businesses will be able to use ICC-developed software that will allow them to:
  - create promotional packages
  - issue electronic coupons
  - configure auctions and contests
  - change the contents of their websites
  - create custom catalogs
  - manage customer service portfolios

- ❑ Using the contact management software in our MIS system, sales representatives will be required to spend a portion of their time on outbound follow-up emails. Serious prospects will be contacted within 2 days of receiving information they request. The reps will provide any additional information and will present financing options and special pricing deals in the attempt to close the sale - without pressuring the customer. By maintaining contact and demonstrating our level of service, prospects will be converted to customers at a higher rate than if no follow-up contact were attempted.
- ❑ Although most ICC/customer communication will be by email and website-generated forms, there will be a continuing need for less efficient forms of communication, such as fax, telephones, and printed documents. To permit highly-trained sales reps to focus their time on what they do best, transactions that are not automated will be routed to a sales support administrator. Mail orders, fax orders, and information requests will be handled promptly and accurately by dedicated personnel.
- ❑ All sales representatives will be featured in the website, along with photographs and brief descriptions of their backgrounds. This will help build rapport between our representatives and customers.
- ❑ Sales compensation will be commission-based, providing an incentive for building a good customer base.
- ❑ Sales personnel will be equipped with comfortable telephone headsets and workstations, Automatic Call Distributor (ACD) routing of incoming calls, and all the tools necessary for increasing their inbound and outbound contact productivity.

## Advertising and Promotion

Advertising and promotion are of paramount importance to ICC. It is vitally important to build name recognition as quickly as possible. The Company will launch a promotional campaign including advertising, public relations, limited direct-mail, telemarketing, and an innovative, sophisticated website.

To maximize the effect of the promotion for the budget spent, the core of the promotion will be radio spots in the Los Angeles and San Francisco Bay Area, as well as the fully functioning website. Because the website will be complete enough to more than satisfy all consumers and businesses that visit it, a tremendous savings over a traditional print campaign will be realized. From the first day of operation, the ICC website will not only provide exceptional informative capabilities, but also a solid revenue stream.

## **Media Selection**

The website will allow ICC to afford the cost of a saturation radio campaign in the selected markets. Initially, ICC's marketing will focus on the dual task of creating awareness of the overall ICC site URL address and inducing businesses to become certified. Later, as the need arises, ICC will acquire other domain names and create additional websites targeted at specific vertical markets, such as automobile repair, plumbing, professional services, etc. Each of the additional websites will "point" to each other and will use features of the ICC interface (3-D modeled environment, navigational features, etc.) and database as the underlying technology to accommodate each vertical market. Eventually, as the markets are engaged in each geographical region ICC expands to, radio and television advertisements will be customized to suit the needs of that market. For example, a website specifically targeted to computer users who have complaints will work best in Silicon Valley, but will make no economic sense in a rural community where the inhabitants would be more concerned with automobile and house repair issues. The more complaint/praise ICC division "entities" that can be created in the public's mind, the better for ICC. This will have the dual effect of increasing the power of our database and making a tougher job of gaining market share for our competitors.

The placement of ICC in telephone directories will be a very important mass media goal. By having the 1-800 phone number (and where possible the URL address) of ICC listed under "Complaints", "Consumer Protection", "Certification", "Multimedia Consultants", and "Internet" telephone directories are converted from a number directory for the phone company to a powerful advertising vehicle for ICC.

Similarly, other websites and Internet service providers will be solicited for space on their servers and search engines. Banner advertisements for such services will be created, and other such cyberspace advertisements will be paid for.

## **Other Collateral Items**

An interactive CD-ROM will be created for initial use as a sales tool to introduce potential business customers to the ICC system. The benefits will be clearly demonstrated. Later, when all business functions are tested and implemented, that code will be used as the "training" portion of a CD-ROM that will be sold to businesses.

## **Public Relations**

A continuous public relations program will be a key component of ICC's overall marketing plan. Senior management will personally travel with portable computers to demonstrate the system to as many people in the corporate community as possible, and to maximize the attention given to our new service. Courtesy accounts will be provided free of charge to people important to the Company from a public relations standpoint, to allow them to experience for themselves the ease of use and benefits of the system.

Advertising and Press Release stories will be coordinated to the degree possible to assure that each roll out of a new vertical market website, each new sales office, or a new large corporate account has some exposure in the mass media.

When the management feels that the Company is ready to launch the second phase of its marketing program, creating franchises in both the US and international markets, a professional PR agency will be engaged to assist in developing exposure in the major business and financial media.

## Pricing Strategy

The pricing model represented in this section is preliminary and subject to change before the system is launched. These prices are based on market research for similar services. These numbers serve as the base assumption in the business plan financial forecasts.

### Fees to Consumers

- |   |               |
|---|---------------|
| <input type="checkbox"/> Use of phone directory, simple database searches | FREE          |
| <input type="checkbox"/> Membership                                       | \$15 per year |

### Fees to Businesses

- |  |       |
|--|-------|
| <input type="checkbox"/> Certification Fee: Client-Contacted       | \$400 |
| <input type="checkbox"/> Processing Fee: Client-Contacted          | \$ 75 |
| <input type="checkbox"/> Certification Level 1                     |       |
| One-time setup Certification Fee                                   | \$ 50 |
| Yearly Subscription  |       |
| Includes:  | \$240 |
| • white pages text based ad (name, address, telephone, and rating) |       |
| • listed with other merchants with a blank line between them       |       |
| <input type="checkbox"/> Certification Level 2 Annual subscription |       |
| One-time setup Certification Fee                                   | \$ 50 |
| Yearly Subscription  | \$360 |
| Includes:  |       |
| • half screen (320 x 480 or 480 x 320)                             |       |
| • single color graphic/photo (320 x 240)                           |       |
| • no interactivity or links  |       |
| • text based directions  |       |
| <input type="checkbox"/> Certification Level 3 Annual subscription |       |
| One-time setup Certification Fee                                   | \$ 50 |
| Yearly Subscription  | \$480 |

Includes:

- full screen (640 x 480)
- up to two color graphics/photos - 2 @ 320 x 240 or 1 @ half screen)
- one hyperlink
- directions presented in both text and on map

Certification Level 4 Annual subscription

One-time setup Certification Fee

\$ 50

Yearly Subscription

\$600

Includes:

- custom web site w/domain name
- linked to WebMechanics
- site development, starts at \$1200

Non-Certified Web Page Development

Various services and designs -- prices starting at

\$600

# Summary and Use of Funding

The management of Internet Certification Company has determined that a capitalization of \$450,000 is required for the successful implementation of this project. The funding will be staggered approximately four months apart, which will bring the initial funding requirement for launching to \$150,000, with \$150,000 each for two other rounds of funding. Figure 10 shows the phased growth plan for the first twelve months of operations.

## Investment Performance

ICC Management projections indicate that a first-round investment in Internet Certification Company Corporation of \$450,000, representing a 38% equity share, will yield a return-on-investment of 26.1% per year (after taxes) by the third year.

Future growth may be funded through earnings, additional outside investment, or stock acquisition. In funding through earnings, ROI will be reduced in the short-term. If funding through outside investment or ICC stock, shareholders will experience some dilution. In either case, the company plans to pursue a high-growth strategy to increase the overall value of the company and ROI, rather than generate cash flow through dividends.

## Liquidity

Investor liquidity will be sought either through a public offering or merger with a larger public corporation, when circumstances are appropriate.

## Employee Compensation

In support of vital cash conservation during the star-up stage of the Company, the officers and senior managers of the company have agreed to take substantial cuts in their salaries for the duration prior to ICC achieving a consistent positive cash flow. All key officers and employees will be included in a standard four-year, vesting stock option plan. After the company reaches profitability, management anticipates that a competitive profit-sharing plan will be implemented as an incentive to retain and attract top talent.

# Funding Allocation

Initial funds (Months 1-4) are to be allocated as follows:

Computer Equipment	\$25,500
Advertising & Promotion	\$32,000
Consulting Costs	\$28,600
Contingency	\$20,000
Operating Reserve	<u>\$43,900</u>
Total	\$150,000

A detailed Equipment & Fixtures Schedule is included in this prospectus.

Our Business Plan anticipates that capitalization will be funded through \$450,000 of Stockholder Equity. The Stockholder's Equity is divided between John and Mark Smith, and third party investors.

Initial draw-downs from the Operating Line of Credit are projected for September, 1999, and will continue over the first twelve months of operations. The FileMaker Pro system will arrive in October, and is expected to be fully functional early in December 1999, with approximately the first month devoted to shake-down activities. Full operations for Los Angeles is scheduled to begin in January, 2000, with San Francisco operations commencing by July, 2000.

**Complete Financial Forecasts are presented in Appendix A of this plan.**