

Why do Online Businesses carry No StartUp Risks?

What I'd like to do is give you a rapid overview of how money flows from our perspective, and specifically I'm going to look at the things that you can do, the things that you can monetize to make money. Some of them hide in the strangest places. Let me just talk briefly about online versus offline because online business and offline business need the same business concepts. You need to make a profit, which means you need to know how to calculate that.

I was chatting to a dentist in South Africa (the best dentist I've ever used by the way) about a month ago when I was in Cape Town, and he'd just done this incredible job on my teeth. I'd thought I had a major problem and booked two hours with him and he charged me R 1500 for two hours which I thought was quite spectacular. On the good side that is. We got chatting and I said 'You're so good; I want to tell the world about you.' And he said 'Well, thank you, that's wonderful. I'd love to be able to operate this practice by myself.' And I said 'Well how much money do you need to do that?' and he said 'I need R8,000 a day in turnover'. Which is quite reasonable I thought. And then I did a quick calculation - he had just charged me somewhere in the order of R750 per hour and that means that on a ten hour day the best he could do was R7500, and that included VAT. And I said to him you'll never make it, and I explained why. I said 'You must increase your rates.' And he said 'No, I couldn't do that'.

The problem with this is, he was looking at this from a dental ethical perspective (he was charging medical aid rates), I was looking at it from a business perspective. Whatever we do online suffers from the same challenges that any other business faces. It needs to make a profit that's the whole point of this exercise. Ultimately, you want to walk away with money in your pocket and a system that operates in background.

So why online versus offline. What's the difference? Well the difference is in reach, number one. Your offline business typically has some kind of physical component that reaches into your local neighbourhood, or your local city or your local province or maybe even South Africa. But you've got to be pretty darn big to be reaching beyond the borders of South Africa that involves lots and lots of people etc.etc. My business reaches across the world. I've got clients in Australia, in New Zealand and Canada - and I'm a one-man business. And so your first advantage that you have is your reach, is not into White River or to Durban. Your reach is as easy as it is into White River, as it is into White Rock in Canada. There is no difference, and it's taken me years to actually understand that.

So that's the first thing that's different. The second thing that's different is that the costs are non-existent. In the offline world when you pick up the phone to find somebody, you are bound by the rights that, for example, Telkom charges.

When I pick up the phone to phone somebody, I'm bound by whatever the internet will give me on the day. If I'm using Skype, typically it's a free call to almost any number in Europe or the United States - and I can talk pretty much for as long as I want. Try doing those 10 years ago.

Then in terms of your office, you don't need one. Your web site is your office. A pretty web site, a beautiful web site actually doesn't cost any more than a crappie web site. Believe it or not. We're attuned to look at a good looking web site and think 'Hey that's great! These people must be doing well.' We don't need staff because we can automate everything. We don't need banks because we've got payment gateways that don't demand that that we're credible. Hell, you can be bankrupt and you can go and set up a payment gateway to take credit cards for you.

In other words it's a completely new game in that respect. We still need the same facilities; we need to accept payment but for the most part we are not bound by the costs of a physical business. And we're not bound by the risks of a physical business because for you to test out an idea... Sue decides that she's into stamps and she wants to set up a philately store - to set up philately store online costs almost nothing, you don't even need stock. But if you happen to set it up on a corner in Pietermaritzburg... you need stock. In fact in a couple of moments we'll talk about setting up a store where you never have to worry about stock, and you never have to finance anything and you don't even have to ship the stuff!

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