

High Definition Retail E-Commerce

Higher Customer Conversions Through Effective Online Merchandising

August 2009

Greg Belkin

Executive Summary

Aberdeen surveyed over 100 retail enterprises between June and August 2009 to determine the pressures that compel retailers to implement, or consider the implementation of, new merchandising-based e-commerce functionality (86 qualified respondents were included in the final report). Online retail is in a transition period, moving from being considered a supplementary channel with separate processes and procedures to a truly complimentary sales tool, integrated with other multi-channel operations. Online merchandising; the process of preparing and selling products online, is a strategic enabler to this transition, backed up by 21st century commerce framework technology. Although most retailers have recognized this reality, Best-in-Class merchants are leading the way in ceding control of day-to-day web site operations from IT to merchandisers, making functionalities such as promotions, pricing, and content management an enterprise-wide operation.

Best-in-Class Performance

Aberdeen used the following two key performance criteria to distinguish Best-in-Class companies from their Industry Average and Laggard counterparts:

- Year-over-year top line sales attainment improvement: 16%
- Year-over-year average order value improvement: 17%

Competitive Maturity Assessment

Survey results revealed several salient business performance characteristics of Best-in-Class retailers:

- Eighty percent (80%) of Best-in-Class retailers are integrating product brands, categories and other product subsets online, a key enterprise-wide merchandising strategy
- Fifty percent (50%) of Best-in-Class retailers are using catalog management solutions to control online product offering data
- Forty percent (40%) of Best-in-Class retailers are analyzing consumer site search for a personalized merchandising experience

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Focus on customer loyalty as a key to increased sales
- Focus on building organization-wide, cross-channel e-commerce strategies
- Establish a 360-degree view of e-commerce operations for full quantifiable visibility

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

"One of the true benefits of the platform was the ability to put merchandising and marketing functionality front and center for the organization, and provide senior management the visibility to truly quantify our ecommerce business."

~ Larry Promisel,
VP, eCommerce
Barneys New York

Table of Contents

Executive Summary	2
Best-in-Class Performance.....	2
Competitive Maturity Assessment.....	2
Required Actions.....	2
Chapter One: Benchmarking the Best-in-Class.....	4
Business Context	4
Low Customer Loyalty is a Top Pressure for the Best-in-Class.....	4
The Maturity Class Framework.....	8
The Best-in-Class PACE Model	8
The Changing Nature of E-Commerce Strategies	9
Chapter Two: Benchmarking Requirements for Success.....	11
Competitive Assessment.....	12
Capabilities and Enablers.....	13
Chapter Three: Required Actions	18
Laggard Steps to Success.....	18
Industry Average Steps to Success	18
Best-in-Class Steps to Success.....	19
Appendix A: Research Methodology.....	21
Appendix B: Related Aberdeen Research.....	23

Figures

Figure 1: Top Three Pressures Facing Best-in-Class Online Retailers	4
Figure 2: Overall Strategies for Addressing Web Commerce	6
Figure 3: Top Strategic Actions for Retail E-Commerce.....	9
Figure 4: E-Commerce Functionality Usage by Maturity Class	10
Figure 5: Top Capabilities to Refocus E-Commerce Strategy.....	13
Figure 6: Top Enabling Technologies Needed to Effectively Merchandize Online	15
Figure 7: Current E-Commerce Functionality Basis	17

Tables

Table 1: Top Performers Earn Best-in-Class Status.....	8
Table 2: The Best-in-Class PACE Framework	9
Table 3: The Competitive Framework.....	12
Table 4: The PACE Framework Key	22
Table 5: The Competitive Framework Key	22
Table 6: The Relationship Between PACE and the Competitive Framework	22

Chapter One: Benchmarking the Best-in-Class

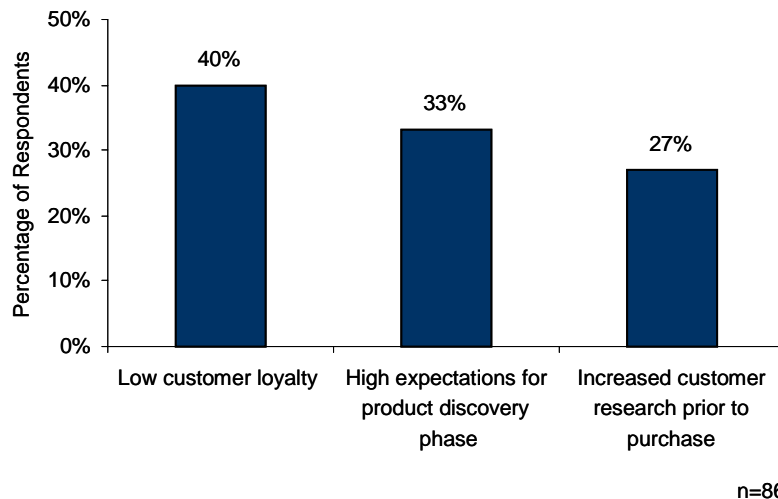
Business Context

Our survey of over 100 retail enterprises (86 qualified respondents were included in the final report) showed that Best-in-Class online retailers have distinguished themselves from Industry Average and Laggard retailers by focusing on key merchandising functionalities. Key merchandising management functionalities such as integration of product brands, subsets, and other categories, as well as catalog management solutions, give online retailers a true competitive advantage. This advantage has been translated into increased sales online, as evidenced by the distinction Best-in-Class online retailers have achieved. Case in point: Barneys New York, which is featured as a case study in Chapter Two, removed day-to-day e-commerce merchandising and marketing functionality from the hands of IT, and into business process managers. As a result, the retailer was able to achieve such benefits as tighter control over key merchandising and marketing decisions, scalability during peak holiday selling times, the ability to search and refine attributes (based on designer brand, size, style, etc.) and the ability to closely mimic their brick-and-mortar selling environment online.

Fast Facts

- ✓ Sixty-one percent (61%) of all survey respondents are focusing on incremental web investments, rather than converting to an entirely new platform
- ✓ 40% of Best-in-Class retailers are focused on low customer loyalty as a primary e-commerce pressure

Figure 1: Top Three Pressures Facing Best-in-Class Online Retailers



Source: Aberdeen Group, August, 2009

Low Customer Loyalty is a Top Pressure for the Best-in-Class

While there are many pressures brought to bear on retailers (technology, speed, customer expectations), Aberdeen research has shown that three stand out as the ones retailers are struggling with the most; the business

pressures driving them toward towards new merchandising-based e-commerce process adoption.

Figure 1 shows that the foremost business pressure is low customer loyalty (40%) that the online consumer feels toward existing retailer relationships. In a traditional brick-and-mortar store, a product is on display for a consumer who has made an effort to physically visit a retailer. In such a situation, retailers have the advantage of an existing consumer located in the store. This is not the case online. In such a medium, competition is just a click away. And, thanks to comparative shopping sites, a consumer may not even need to make multiple clicks - one click to the lowest price offering is often times good enough. Such convenience means that consumers have more information and more options in front of them, making loyalty to a specific retailer all that more difficult to establish.

Low customer loyalty online also has consequences for other channels as well. For example, customers who frequent physical stores or browse catalogs know that they have the Internet at their disposal to fall back on if they are unsuccessful in their shopping experience. Consumers can therefore limit their exposure to physical shopping locations to destinations they know there is a legitimate chance of either 1) having a superior customer service experience, or 2) find an item for less cost than what is available online.

The second highest pressure online retailers are facing is the high expectations consumers have regarding fast and accurate product discovery (33%). Consumers have a short attention span when it comes to searching for products. The way a site is presented in terms of product category trees, search result relevance, and personalized product offerings has a clear impact on overall sales results. Given the importance retailers place on this pressure, the need for accurate merchandising processes that tie together product placement, pricing, promotions and catalog management is clear.

The third highest pressure Best-in-Class retailers are facing is increased customer research prior to the purchase (27%). Customers are spending significant amounts of time researching products and services before pulling the trigger on a sale. This relates not only to price, but to product details, location, shipping costs and waiting periods, etc. Traditionally, specific product information was left to manufacturers to provide. Now, however, Best-in-Class retailers are providing this information on their own site, weaving in high levels of product data with core product display strategies in hopes to quench the consumer's taste for more product information. The longer a customer stays on a particular site to read about the product, the greater potential there is for increased selling.

The Evolving Nature of E-Commerce, and the Rise of Online Merchandising

The Internet has indisputably affected all businesses; but arguably, none so more than retail. As this medium becomes increasingly pervasive, new technologies above and beyond simple web browsing will proliferate.

Online Merchandising Defined

Online merchandising is the process of preparing and selling products or services for sale in a retail e-commerce environment. It includes such considerations as:

- √ Promotions
- √ Display
- √ Content management
- √ Pricing

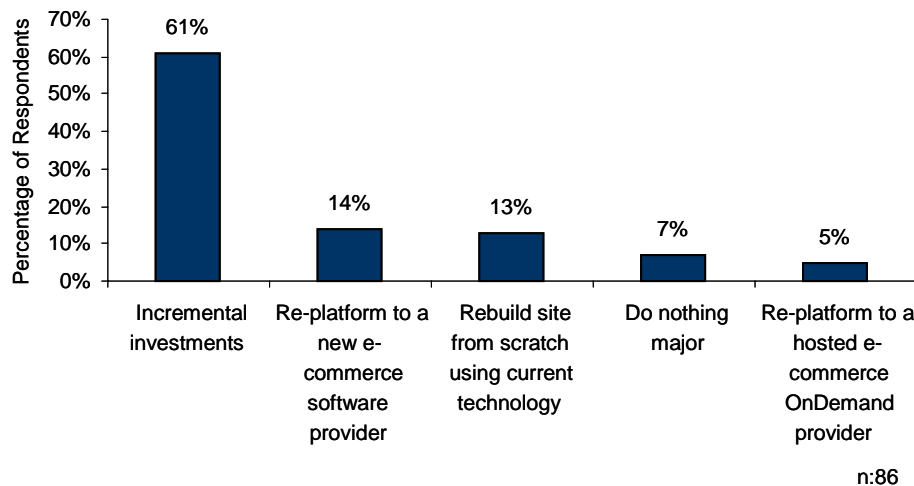
"It was difficult [previous to implementing a new e-commerce system] to modify our website in terms of loading promotions, images, descriptions, URL's, search engine copy, and the ability to segment customer groups based on past behavior."

~ VP and General Manager,
Gaiam

Examples include mobile commerce and online social commerce. These new mediums, backed up by connectivity provided by the Internet, will provide retailers with more opportunities to grow their businesses. However, along with these opportunities come significant challenges, such as keeping up with both competition, and an increasingly tech-savvy consumer. These challenges are also compounded by an economic downturn in which customer wallet share is vastly decreased. Consumers who are still spending are doing so after conducting tremendous product research (Figure 2), all the while increasing the expectations they have for their online shopping experience. These expectations include:

- Consistent pricing from all channels
- An easy-to-navigate web site
- A large amount of product information from which to browse from
- Relevant and timely access to complimentary product information
- A slick, attractive product display
- Relevant promotions
- Multi-channel support for ecommerce retailers with physical locations

Figure 2: Overall Strategies for Addressing Web Commerce



Source: Aberdeen Group, August 2009

Until recently, many retailers have operated under a "if you build it, they will come" strategy, whereby web commerce sites were rushed to be released without a lot of thought regarding an effective selling or merchandise assortment plan. As a result, incorrect product categorization strategies, ineffective search, inconsistent pricing, and miss-matched cross-selling and up-selling ensued, and both the retailer and customer suffered.

Best-in-Class online retailers, on the other hand, are trying a different strategy: employing process-supporting technology to effectively control

online merchandising strategies. Online merchandising, the process of preparing and selling products or services for sale in a retail e-commerce environment, is supported by a 21st century commerce framework. This framework includes content management, product display, pricing, promotions, and customer segmentation, all of which are enabled by personalization, web analytics, and search optimization techniques.

In fact, Aberdeen Group's August, 2008 report, [*The Complete Mantra for Driving Holiday Business in 2008, 2009 and Beyond*](#), showed that more than 50% of Best-in-Class retailers are drawing a specific focus on customer-facing and back-end technology tools that support online channel sales as e-commerce becomes more significant for top line gains during peak selling seasons (such as holiday). These Best-in-Class companies are focusing their attention on IT resources in the areas of search (70%), order management (50%), web content management (50%), and online analytics (50%).

Case Study — Gaiam

Gaiam, a large online retailer of healthy lifestyle, alternative healthcare consumer packaged goods (CPG) chose to improve its web site merchandising processes. As it expanded its online business, the company found that it had outgrown existing features and functionality requirements for an effective online merchandising execution.

According to the company's VP and General Manager, "It was difficult to modify our website in terms of loading promotions, images, descriptions, URLs, search engine copy, and the ability to segment customer groups based on past behavior."

The company ultimately chose to buy and integrate, rather than build in-house. The main functional benefit of the new solution is the administrative tool set that allows Gaiam to launch customized offers, sales programs, update content and images seamlessly, fulfill sustainability-related functions, and execute intelligent merchandising tools. "[The new solution] provides us with the ability to respond to changing market needs, cross-sell and up-sell, and target different groups with different messages based on their behavior," the company's Vice President commented.

The single biggest gain from this strategy is the capability to continuously evolve commerce attributes through the required changes to the platform in a timely manner.

Making changes to web functionality does not have to be a major one-time investment expense. Given the state of the economy, many retailers would likely choose to make e-commerce changes incrementally, versus large spending projects. In fact, as noted in Figure 2, 61% of respondents are employing a strategy of extending and improving current web sites with add-ons and incremental investments (such as new content management solutions, cross-selling and up-selling tools, search optimization, etc.), versus

rebuilding a new site from scratch or converting to an entirely new platform all-together.

The Maturity Class Framework

Aberdeen used two key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations. The maturity class has been developed via the weighted average of retail performance within key customer, financial, and metrics. Table I provides a framework with which companies can benchmark the effectiveness of their e-commerce operations.

Table I: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ Year over year top line sales attainment improvement: 16% ▪ Year over year average order value improvement: 17%
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ Year over year top line sales attainment improvement: 5% ▪ Year over year average order value improvement: 12%
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ Year over year top line sales attainment improvement: -16% ▪ Year over year average order value improvement: -13%

Source: Aberdeen Group, August 2009

The Best-in-Class PACE Model

Table 2 shows the current online retail business Pressures, Actions, Capabilities, and Enablers (PACE) prioritized by Best-in-Class companies for the use and application in various market conditions. The PACE model, when applied, can enable companies of the Industry Average and Laggard maturity class to identify the best practices and fill gaps in the use of critical processes, knowledge, organizational, and performance management capabilities and enablers that are being considered as part of the Best-in-Class repertoire for the use of advanced e-commerce strategies.

Table 2: The Best-in-Class PACE Framework

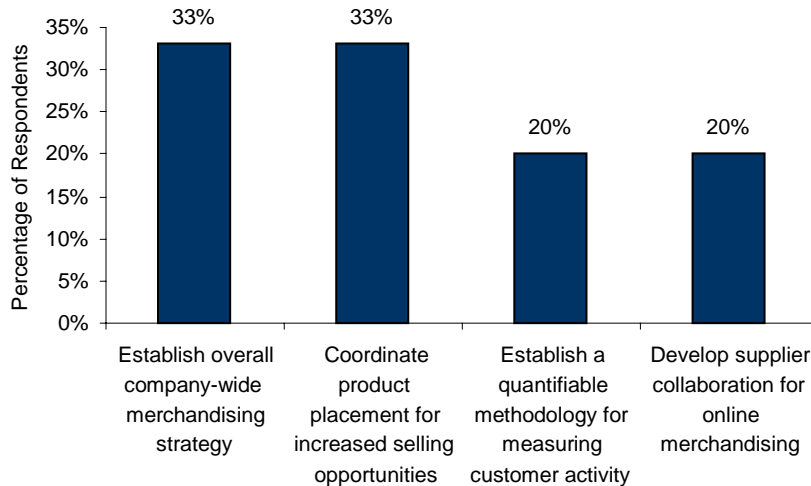
Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> Low customer loyalty 	<ul style="list-style-type: none"> Coordinate product placement for increased selling opportunities Introduce online channel into overall company-wide merchandising strategy 	<ul style="list-style-type: none"> Integration of product brands, categories, and other subsets Group complimentary and primary products across categories Weekly strategy review session for internal merchandising, channel marketing, supply chain, IT, and finance teams Balance open-to-buy requirements with service levels Analysis of consumer site search data for more accurate and personalized result 	<ul style="list-style-type: none"> Enterprise commerce platform Search Engine Optimization (SEO) Online analytics and reporting Dynamic content delivery tool Catalog management software Multi-channel integration software

Source: Aberdeen Group, August 2009

The Changing Nature of E-Commerce Strategies

Most retailers have accepted the fact that simply offering an e-commerce shopping portal is not enough to effectively cater to a more informed customer with decreased wallet share. Thus, they are gradually examining how they are conducting their online shopping experience, and making fundamental changes in customer-facing and back-end experience. As a result, different strategies are emerging which varying levels of success.

Figure 3: Top Strategic Actions for Retail E-Commerce



n=86

Source: Aberdeen Group, August 2009

Among Aberdeen's Best-in-Class respondents, two top strategies emerged: introducing online channel into overall company-wide merchandising

strategy (33%), and coordinating product placement for increased selling opportunities (33%).

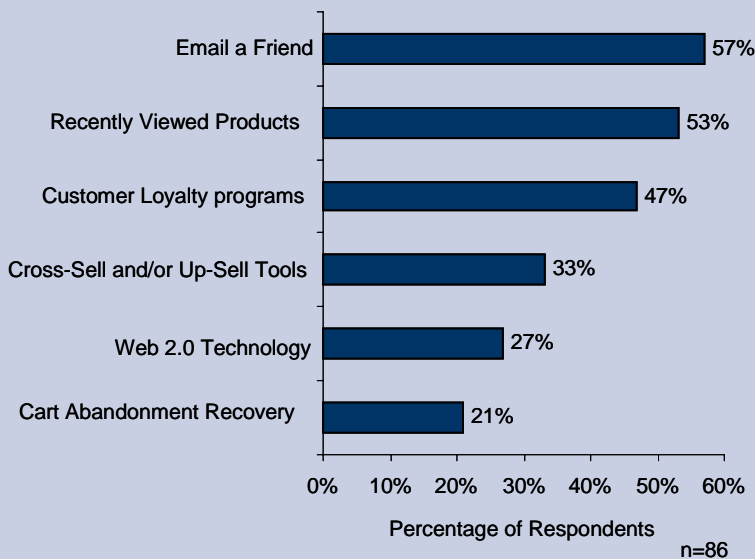
The first strategy is a macro step towards becoming a more multi-channel-centric organization. Most retailers have established merchandising plans for their physical locations, and it only makes sense to incorporate the online space into one strategy. As a rule of thumb, macro-level merchandising plans should be company-wide, not channel-specific.

The second action, coordinating product placement, speaks to the very essence of proper micro-level merchandising. This includes not only text-based product listing, but image placement as well, backed up by specific customer analytics for a personalized customer experience. A customer who has previously purchased a baseball glove online, for example, is more likely to buy a bat and ball. Images and text descriptions of those two products are more relevant for this particular customer, and should appear front and center the next time he or she visits the same site.

Aberdeen Insights — Strategy

Along with examining the macro issues surrounding effective merchandising processes, many retailers are taking the time to go beyond conceptual planning and implement specific functionality to help them sell online. In what areas, then, do Best-in-Class retailers actually spend their money on retail e-commerce applications? Figure 4 provides a current snapshot.

Figure 4: E-Commerce Functionality Usage by Maturity Class



Source: Aberdeen Group, August 2009

Chapter Two: Benchmarking Requirements for Success

The selection of a new e-commerce platform or improvements to an existing platform, and its integration with other processes (such as company-wide merchandising or marketing programs) plays a crucial role in the ability to deliver high levels of customer satisfaction and revenue growth in online retail sales. Case in point: Barney's New York, a major specialty goods retailer and known for a unique in-store experience, implemented a new e-commerce platform focused on empowering merchandising and marketing executives with day-to-day control over e-commerce strategy. Their ultimate goal: increase online sales by providing the right product promotions to the right customer in the right manner at the right time.

Fast Facts

- √ Eighty percent (80%) of Best-in-Class retailers are focused on integration of product brands, categories and other subsets as a key business capability
- √ One-fifth of respondents indicated the use of SaaS for their e-commerce platform

Case Study — Barney's New York

Barney's New York, a wholly owned subsidiary of Istithmar World (Dubai, UAE), and a major specialty retailer founded in 1923, currently operates more than 40 stores, outlets and co-ops within the United States. The retailer's stores are located in major metropolitan locations, such as New York City, Beverly Hills, Chicago, Boston, Dallas, San Francisco, and Las Vegas. 2008 revenue is reported at \$104.2 million.

In early 2007, Barneys New York determined that its existing web-based e-commerce platform was insufficient to meet continuously expanding business requirements. The retailer, known for providing customers with a unique in-store experience, determined that a new platform was necessary to match this experience online. Their existing system was deemed to be technologically stable, but lacked support in three crucial areas: scalability, reliability, and flexibility. As a result, the IT staff was constantly burdened with management challenges, which resulted in significant customer connectivity and transaction processing delays.

Based on these business challenges, Barneys established a criteria list for a new ecommerce system. Top of mind requirements for the retailer included high levels of accessibility for merchandising, marketing, and creative staff for up-to-the minute site changes, without having to consistently rely on IT for assistance. This accessibility included access to every image and product specification on the site by internal staff. Finally, the new solution needed to provide scalability to support new corporate priorities, and match in-store experience protocols.

"One of the true benefits of the platform was the ability to put merchandising and marketing functionality front and center for the organization, and provide senior management the visibility to truly quantify our ecommerce business," commented Larry Promisel, Barney's Vice President of e-commerce. "The team needed to own the experience, without overreliance on technology."

continued

Case Study — Barney's New York

Following the implementation, Barney's noted several benefits to implementing the new e-commerce platform, including:

- Tight control over the user experience, driving key merchandising and marketing decisions
- Scalability during peak selling times, such as the end-of-year holiday season
- The ability to search and refine attributes, based on designer brand, size, and style

Future plans for the retailer include partnering with social media sites such as Facebook to increase selling opportunities, as well as bringing blogging functionality and additional interactive media to their web site.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute their e-commerce operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of appropriate e-commerce tools and effective deployment of those online tools); and (5) **performance management** (the ability of the organization to measure its results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

"As a smaller retailer, we see the web as a strategic playing field leveler. However, in order to do so, we are going to have to keep moving towards a highly merchandised, one-to-one shopping experience.

~ E-commerce Manager
Mid-size US-based Apparel
Manufacturer

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Balance open-to-buy requirements with service levels		
	40%	25%	19%
Organization	Weekly strategy review session for internal merchandising, channel marketing, supply chain, IT, and finance teams		
	40%	36%	26%
Knowledge	Integration of product brands, categories, and other subsets		
	80%	59%	41%
	Group complimentary and primary products across categories		
	40%	39%	22%

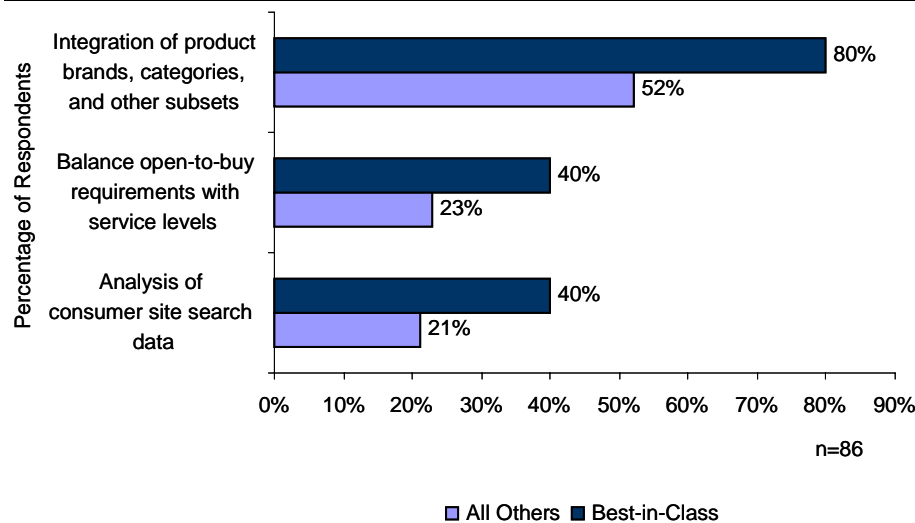
	Best-in-Class	Average	Laggards
Technology	Listed below are the technology tools / applications that support optimized ecommerce strategies in retail:		
	<ul style="list-style-type: none"> ▪ 67% Enterprise Commerce platform ▪ 53% Catalog Management ▪ 33% Multichannel integration software ▪ 60% IT/IS Consulting Services 	<ul style="list-style-type: none"> ▪ 45% Enterprise Commerce platform ▪ 39% Catalog Management ▪ 32% Multichannel integration software ▪ 52% IT/IS Consulting Services 	<ul style="list-style-type: none"> ▪ 26% Enterprise Commerce platform ▪ 19% Catalog Management ▪ 19% Multichannel integration software ▪ 30% IT/IS Consulting Services
Performance	Analysis of consumer site search data for more accurate and personalized result		
	40%	27%	11%

Source: Aberdeen Group, Month 2009

Capabilities and Enablers

Figure 5 shows the key process, organization, knowledge, and performance management capabilities that Best-in-Class companies possess and utilize to enact their strategic plans for enabling cutting-edge ecommerce and associated merchandising strategies.

Figure 5: Top Capabilities to Refocus E-Commerce Strategy



Source: Aberdeen Group, August 2009

Process

Behind every successful corporate merchandising-related strategy is a specific, quantifiable plan that includes timing, fulfillment, brand focus, execution strategy and other crucial metrics. For many retailers, this includes an open-to-buy plan, a specific formula-based strategy that focuses not so much on the "when" to buy, but rather on the "how much" to buy. This is particularly valuable for apparel retailers, where specific product selections are constantly in flux, but categories and sub-categories usually stay the same. Forty percent (40%) of Best-in-Class retailers are coordinating these plans with their online service levels. They know that, as a service levels rise or fall, the amount of available product demand will ride along with it. This strategy accomplishes two top goals: ensure that customers are getting the service levels they desire, and that products set to be promoted online are strategic and relevant. Balancing open-to-buy merchandising requirements with online service levels also ensures that retailers are maintaining the right levels of online inventory by not under-stocking or over-stocking their warehouses.

Organization

Traditionally, many retailers have viewed their online channel as a supplementary channel, providing increased overall revenue in a silo format. Merchandising, marketing, finance and other crucial corporate teams meet and strategize on a separate basis, thinking solely about their specific domain. As a result, inconsistent promotions, content and pricing decisions are made channel by channel, and customers, as they begin to notice, show their frustration by leaving. Forty percent (40%) of Best-in-Class retailers, realizing the pitfalls of this situation, conduct weekly strategy sessions for internal merchandising, channel marketing, supply chain, IT, and finance teams, making the web channel strategy complimentary to overall business goals.

Knowledge Management

Best-in-Class online retailers show superior knowledge management in several different ways, including integration of product brands, categories, and other subsets (80%), as well as grouping complimentary and primary products across all categories (40%). These two knowledge management capabilities play a crucial role in core online merchandising strategies. As mentioned in Chapter One, an organized, easy to navigate web site is a top desire for consumers as they shop online. Integration of product brands and categories achieves this goal by building a single product search hierarchy that includes not only common parameters such as size, price, color, etc., but also brands names like "Timberland," "Nike," or "New Balance" in the same list. This integration saves consumers time in their quest for a quick and easy product search.

Grouping primary and complimentary products together across all categories plays similar importance for Best-in-Class online retailers, and speaks directly to their ability to cross-sell and up-sell correctly. Effective cross-selling and up-selling depends on a pre-established relationship built

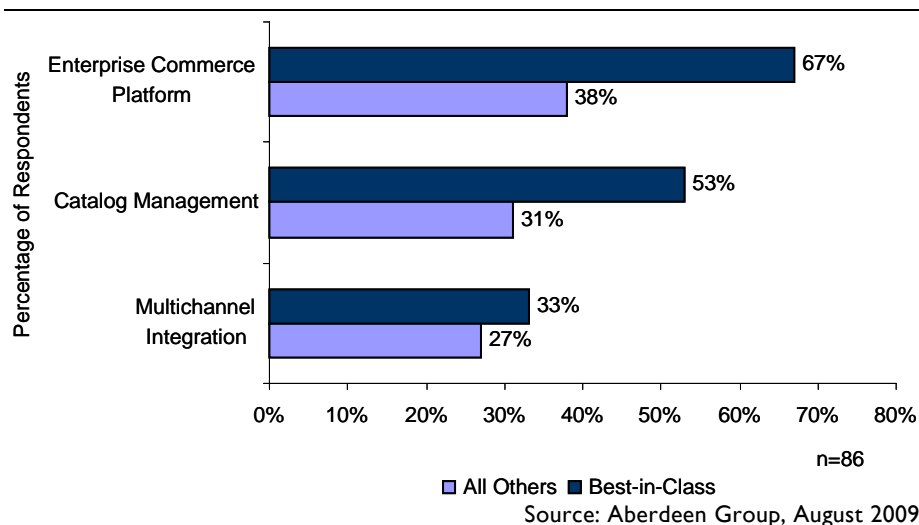
between products. A mobile phone, for example, should be appropriately grouped with extra batteries, charging cables, wireless headsets, and SIM cards. Retailer Sur la Table, an online kitchen supply retailer, is able to execute on this relationship well. The retailer has linked "mini colanders" with "collapsible silicone mini colanders," "large solid color colanders," and "convertible colanders." This provides specific cross-selling and up-selling potential not only for their web channel, but also for call center employees who have access to these same product category grouping information.

Technology

Retailers pull their strategy and action plan together by determining what enabling technologies sync up with and support their existing capabilities so that the strategic actions may be implemented and the pressures (or opportunities) are effectively addressed. Figure 6 illustrates the enabling technologies that the Best-in-Class acquire or build, as compared to Industry Average and Laggard companies.

As it relates to e-commerce merchandising, the Best-in-Class have distinguished themselves as leaders in such areas as basic e-commerce platform solutions, catalog management, and multi-channel integration software. Most notably, in the first category, enterprise commerce platform, the delta between Best-in-Class and Laggard is a whopping 41%. Clearly, many retailers have yet to make a serious entrance into effective e-commerce management, or are likely relying on large third-party web site management providers that may not provide the necessary in-depth merchandising tools necessary for effective commerce practices. Also notable is the fact that half of Best-in-Class retailers are employing catalog management software into their e-commerce infrastructure, while just 39% of Industry Average and 19% of Laggards indicated the same. This metric clearly illustrates the priority Best-in-Class companies are placing on the specific concepts behind high quality merchandising online.

Figure 6: Top Enabling Technologies Needed to Effectively Merchandize Online



Performance Management

Best-in-Class retailers demonstrate their performance management skills by measuring key metrics and statistics. One such measurement that 40% of these retailers conduct (and analyze) is consumer site search data for a more accurate and personalized result.

Obtaining personalized consumer information can be conducted in several different ways. For example, a retailer can measure personalized page visits, purchased products, or specific responses to marketing materials such as emails or banners located either internally or on external web sites.

Utilizing this information to benefit merchandising processes is the challenge. Many retailers integrate this information into two key areas: merchandising and marketing.

- On a merchandising basis, customer analytics can provide strategic content placement, specific cross-sell and up-sell data based on previous purchases, and highly relevant, one-to-one promotions
- On a marketing basis, customers analytics can provide a window into which specific marketing delivery tools (email, social selling, banners etc.) are the most effective on a customer-by-customer basis.

Aberdeen Insights — Retail E-Commerce Gets SaaS

One of the hottest trends in retail today, is the growing adoption of Software-as-a-Service (SaaS). This model, a vast departure from the traditional licensed or on-premise software, provides certain benefits:

- Vastly improved scalability, lower TCO, and a decreased need for internal IT staff
- Economies of scale: Due to many users of the same application, the vendor is incentivized to deliver functionality on a frequent basis and to resolve any bugs or other technical glitches

SaaS has significant implications for retail e-commerce. According to a recent Aberdeen Benchmark, [*Retail On-Demand: Software as a Service Takes Off*](#), 78% of Best-in-Class retailers are utilizing SaaS for customer-facing web applications, a decision far more popular than other process techniques such as contact centers (44%), supply chain operations (28%), store applications (22%), or catalog management (17%).

Indeed, according to the same report, Best-in-Class SaaS retailers have reduced their year-over-year IT costs by an average rate of 17% (year-over-year). While many retailers are forced to choose between customer-facing and employee-facing applications, one of the problems with purchasing this additional functionality is the strain and cost it puts on retailers and their oft-antiquated systems.

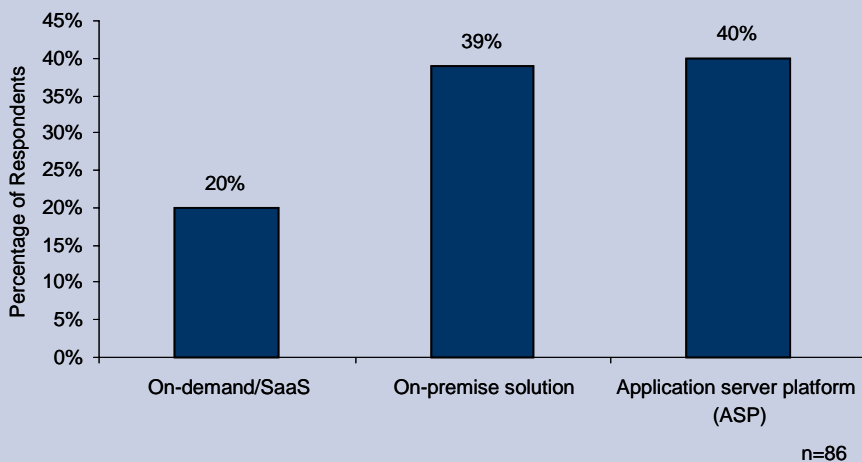
continued

Aberdeen Insights — Retail E-Commerce Gets SaaS

While many retailers are forced to choose between customer-facing and employee-facing applications, one of the problems with purchasing this additional functionality is the strain and cost it puts on retailers and their oft-antiquated systems. A system crash due to the added strain of necessary system personalization and web 2.0 functionality can be costly, in terms of both poor initial customer service and lost customers. And, with the added bonus of removing IT complexity, which is always a good thing for retailers, using SaaS applications becomes a compelling value proposition.

When asked in our most recent survey how their e-commerce functionality is currently managed, 20% of respondents indicated the use of SaaS. While still dramatically dwarfing the remaining number of respondents who indicated another form of management, 20% is a sizeable number of respondents when considering the relative age of SaaS.

Figure 7: Current E-Commerce Functionality Basis



Source: Aberdeen Group, August 2009

Mid-Size Retailers Find SaaS Appealing

Mid-size retailers, in particular, are paying particularly close attention to e-commerce SaaS. According to Aberdeen data, over half of mid-market retailers have begun to consider the impact of such a solution on their current e-commerce practices, eclipsing both storefront applications (41%) and supply chain management technologies (41%). Given the potential benefits of SaaS within an organization, and the overreliance of web-based applications on IT resources, these retailers might consider the web as the perfect SaaS opportunity.

Chapter Three: Required Actions

Whether a company is trying to move its performance in retail e-commerce merchandising processes from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

- **Focus on customer loyalty as a key to increased sales.** Laggard retailers are keenly aware of the reduction in consumer spending online (41%), yet keenly unaware of the pressures surrounding customer loyalty (11%). Focusing on the challenge of customer loyalty is a key building block toward higher overall online spending. In order to attain this loyalty, consumers have high expectations of their retailers, and retailers of any size would be wise to develop a consumer-centric strategy. Although budget considerations may hold Laggard retailers back from purchasing certain supporting technologies, these retailers can start by developing an enterprise-wide strategy, determining how they will execute once funds become available.
- **Focus on building organization-wide, cross-channel e-commerce strategies.** According to Aberdeen data, 74% of Laggard retailers do not hold weekly strategy review sessions for internal teams to cover e-commerce activities. Laggard companies should consider making organization-wide strategic planning a higher priority as it is an exercise that had little cost associated with it, and can yield major benefits (especially as organizations endeavor to become more multi-channel-centric). Organizational e-commerce strategy also makes the process of purchasing future technology options more clear-cut and more easily quantifiable to overall ROI.

Industry Average Steps to Success

- **Define the fundamentals of good online merchandising.** The root of good online merchandising practices start with the fundamentals: optimized pricing, content, promotions and display. For Industry Average retailers that have a solid online presence, but lack the organizational wherewithal to compete among the Best-in-Class, focusing these fundamentals is a crucial element of success. Industry Average retailers need not invest in every technology that comes along. Social networking, for example, may be an industry buzz word, but consumers should at least have the option of surfing to a well merchandised site, including personalized content, relevant promotions, and accurate and competitive pricing, to say nothing of engaging retailers elsewhere online.

Fast Facts

- √ 27% of Best-in-Class retailers do not know their company's percent change in cart abandonment rate, and an additional 7% do not measure this metric at all
- √ 41% of Laggard retailers keenly aware of the pressures of reduction in consumer spending online

"Despite the challenging economy, our sales are up. However, we haven't put much time into managing our e-commerce solutions, and are thus exploring different third-party solutions. My number one priority: ease of access for day-to-day adjustments.

~ VP, E-commerce
Mid-size US-based Furniture
Retailer

- **Take advantage of the concept of incremental change for cost-effective e-commerce improvements.** Sixty five percent (65%) of Industry Average retailers are focusing on incremental site improvements, versus shifting/convert to an entirely new platform using in-house or third-party options. This demonstrates a crucial understanding of the benefits associated with thinking strategically about e-commerce point solutions, versus a rush to convert to an entirely new platform. It also reflects the current downturn in the economy, whereby retailers often times cannot afford a new site. Retailers can turn this reality into a benefit by making inexpensive incremental site changes, whether they are merchandising- or marketing-focused or not.

Best-in-Class Steps to Success

- **Establish a 360 degree view of e-commerce operations for full quantifiable visibility.** According to survey respondents, 73% of Best-in-Class retailers know their company's percent change in cart abandonment rate. This metric, and others like it, are crucial to fully understanding the overall success (or lack thereof) in e-commerce operations as it helps quantify and explain lost sales. Retailers must take the time to truly understand in quantifiable numbers how their e-commerce operations are proceeding. These metrics are crucial not only in justifying the ROI of new process-supporting technology, but also in determining the existing and potential contribution the e-commerce channel makes towards overall bottom-line sales.
- **Integrate supply chain processes with online merchandising processes.** Seventy three percent (73%) of Best-in-Class retailers have not yet integrated their order replenishment systems with online merchandising strategies. Inventory replenishment data is key to making sure merchandising strategies are effective and can be fulfilled at the appropriate. Back-end order management processes can function as a crucial complimentary procedure toward online selling, and ensuring that merchandising strategies reflect existing product availability. Best-in-Class retailers should examine the possibility of integrating this into their e-commerce operations.

Aberdeen Insights — Summary

Internet commerce has grown significantly in the last decade, but perhaps most notably within the last few years. Retailers that were once patting themselves on the back just for having a site up and running are taking the time to go back and see how successful they are in moving merchandise into the hands of consumers. This perspective was not a result of an economic trend, but of a natural growth of a channel that has sparked so much interest among consumers given its convenience and relative ease of use.

After an up-close and personal investigation, online retailers have discovered that merchandising - a practice that has been around for many years but is just starting to make forays onto the web - is a Best-in-Class distinguisher for a truly customer-centric online shopping experience. Online merchandising, composed in part by effective pricing, content and promotions optimization strategies, is yielding benefits such as increased customer conversion rates and average order sizes. As e-commerce becomes more pervasive within retail, effective merchandising strategies will serve as the backbone that will support, and not hinder, future selling opportunities.

Appendix A: Research Methodology

Between June and August 2009, Aberdeen examined the use, the experiences, and the intentions of more than 86 enterprises using e-commerce merchandising techniques in a diverse set of retail enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on retail strategies, experiences, and results.

Responding enterprises included the following:

- *Job title:* The research sample included respondents with the following job titles: CEO / President (13%); EVP / SVP / VP (5%); Director (16%); Manager (22%); Consultant (22%); and other (21%).
- *Department / function:* The research sample included respondents from the following departments or functions: business development (25%); IT manager or staff (15%); marketing (25%); and operations manager (5%).
- *Industry:* The research sample included respondents from the following retail industries: consumer products (15%); Apparel (11%); general merchandise (5%); Hardware/Do-it-Yourself (4%); and other (40%).
- *Geography:* The majority of respondents (69%) were from North America. Remaining respondents were from the Asia-Pacific region (7%) and Europe (15%).
- *Company size:* Twenty-four percent (24%) of respondents were from large enterprises (annual revenues above US \$1 billion); 28% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 48% of respondents were from small businesses (annual revenues of \$50 million or less).
- *Headcount:* Forty-three percent (43%) of respondents were from large enterprises (headcount greater than 1,000 employees); 46% were from midsize enterprises (headcount between 100 and 999 employees); and 11% of respondents were from small businesses (headcount between 1 and 99 employees).

Study Focus

Responding retail executives completed an online survey that included questions designed to determine the following:

- √ The degree to which e-commerce and specific e-commerce merchandising functionalities are deployed in their retail operations and the financial implications of the technology
- √ The structure and effectiveness of existing e-commerce implementations
- √ Current and planned use of e-commerce to aid operational and promotional activities
- √ The benefits, if any, that have been derived from e-commerce merchandising initiatives

The study aimed to identify emerging best practices for e-commerce merchandising usage in retail, and to provide a framework by which readers could assess their own management capabilities.

Table 4: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, August 2009

Table 5: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, August 2009

Table 6: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, August 2009

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- *Retail On-Demand: Software as a Service Takes Off*; May 2009
- *New Age Multi-Channel Retailing: Prospects for Digital Retail Revolution and Avenues for Better Integration*; January 2009
- *The Mantra for Driving Holiday Business in 2008, 2009 and Beyond*; August 2008
- *Precision Merchandising: Improving Profitability through Laser-like Targeting*; November 2008
- *Cutting Edge Customer Loyalty: Retail Best Practices for Acquiring, Retaining, and Re-engaging Customers*; March 2009
- *State of the Retail Market: Technology and Business Strategies to Counter Recession*; December 2008
- *Increasing Retail Productivity: Enterprise-Wide Business Intelligence*; November 2008

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

Author: Greg Belkin, Research Analyst, Retail Practice,
(greg.belkin@aberdeen.com)

Since 1988, Aberdeen's research has been helping corporations worldwide become Best-in-Class. Having benchmarked the performance of more than 644,000 companies, Aberdeen is uniquely positioned to provide organizations with the facts that matter — the facts that enable companies to get ahead and drive results. That's why our research is relied on by more than 2.2 million readers in over 40 countries, 90% of the Fortune 1,000, and 93% of the Technology 500.

As a Harte-Hanks Company, Aberdeen plays a key role of putting content in context for the global direct and targeted marketing company. Aberdeen's analytical and independent view of the "customer optimization" process of Harte-Hanks (Information – Opportunity – Insight – Engagement – Interaction) extends the client value and accentuates the strategic role Harte-Hanks brings to the market. For additional information, visit Aberdeen <http://www.aberdeen.com> or call (617) 723-7890, or to learn more about Harte-Hanks, call (800) 456-9748 or go to <http://www.harte-hanks.com>.

This document is the result of primary research performed by Aberdeen Group. Aberdeen Group's methodologies provide for objective fact-based research and represent the best analysis available at the time of publication. Unless otherwise noted, the entire contents of this publication are copyrighted by Aberdeen Group, Inc. and may not be reproduced, distributed, archived, or transmitted in any form or by any means without prior written consent by Aberdeen Group, Inc. 05062009a