

# Increasing Incremental Sales and Customer Retention With Relationship Marketing in B2C Commerce

*An IDC White Paper Sponsored by ATG*

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Today's competitive environment calls for companies to excel in these key areas:

- Grow top-line revenue by leveraging various channels
- Improve customer retention and loyalty to minimize attrition
- Enhance brand image to protect and extend their franchise

In all of these cases, ecommerce — the use of the Internet to automate the process of selling and marketing goods and services to buyers anytime, anywhere — has proven to be an effective strategy that delivers tangible benefits to an increasing number of companies.

The question then, is, how can companies make practical use of ecommerce to increase revenue and improve customer loyalty without the burden of an outdated technology architecture or software applications that quickly reach their limits?

This white paper demonstrates the hard facts about ecommerce and how companies should proceed with implementations that can help them achieve their goals: boosting revenue while winning over customers and capitalizing on their brand.

## **HARD FACTS ABOUT ECOMMERCE**

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Regardless of one's perception of the power of the Internet, ecommerce is getting the job done by reaching the target audience, sometimes at the lowest cost and with the most desirable outcome. Certainly the decelerating economy around the world, coupled with an inhospitable investment climate, has curbed the enthusiasm of many ecommerce applications buyers by delaying or scrapping their Web initiatives, or IT expansion plans for that matter. But the power of ecommerce has not diminished, and its benefits are difficult to ignore.

According to the latest IDC end-user survey (Software Strategies and Investments Study, August 2001), demand for ecommerce applications is expected to stay healthy: 38.5% of the respondents in the United States said they will be investing in ecommerce packaged applications in 2002, compared with 31.7% in 2001, as Figure 1 shows.

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## Figure 1: Status of Packaged Application Software Investments in eCommerce Solutions

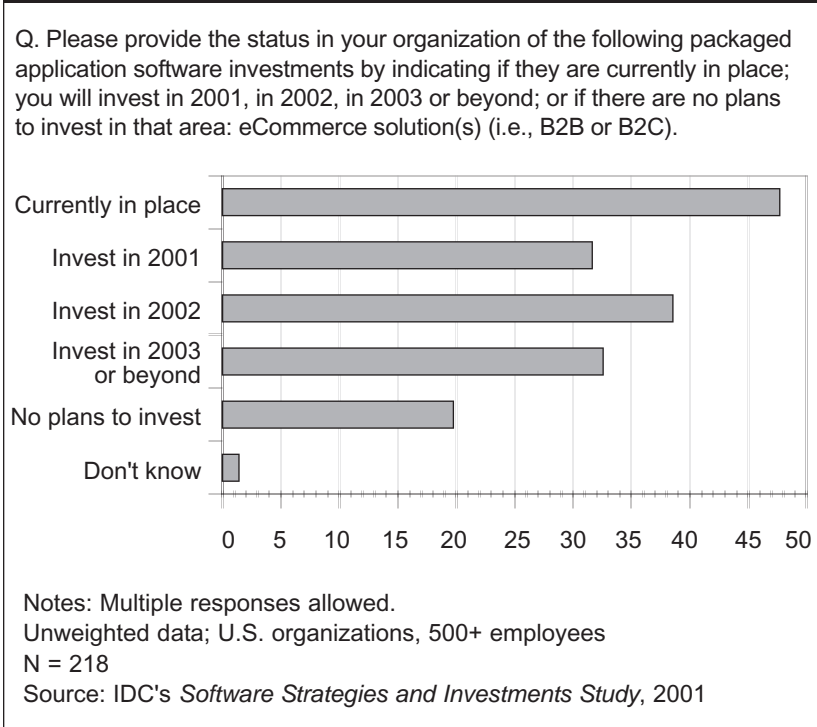


Figure 1 also demonstrates that ecommerce applications have been in place at the sites of nearly half of the respondents, suggesting that a critical mass has been reached. This compares favorably to an earlier survey (IDC's *eWorld 2001 Survey*, January 2001) in which only 30.7% of the respondents said an online ordering feature is available on their Web site, as shown in Figure 2. This suggests that ecommerce is becoming a Main Street event and that more companies are interested in setting up ecommerce sites in 2002 than they were in 2001.

In fact, last year's headlines of dot-coms going under are quickly being replaced by ones that highlight ecommerce becoming a daily fact for more and more people. Companies that invest in ecommerce applications are attracted to the technology because of these hard facts:

- Online sales percentages are increasing. At specialty retailer The Sharper Image, online sales now account for 13% of its revenue, and its performance surpassed that of the company's overall business for much of 2001, even in a weak retail climate.

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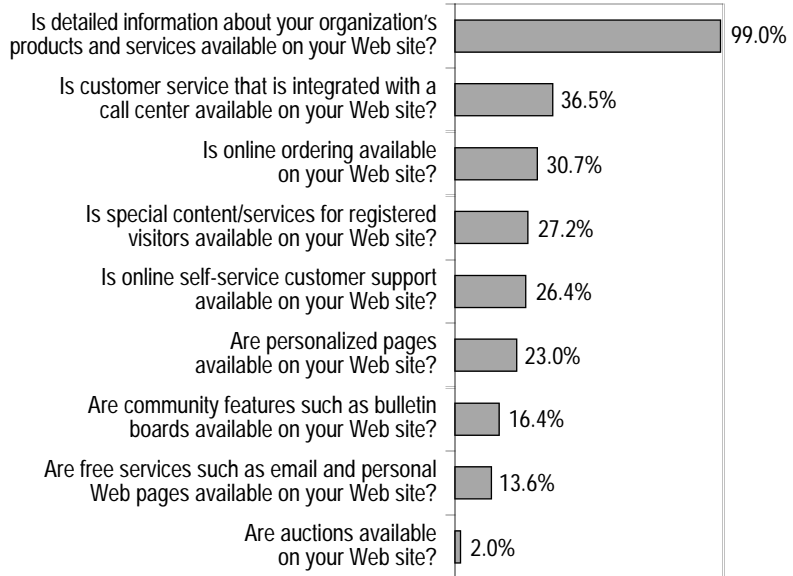
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## Figure 2: Availability of eCommerce Features on Company Web Sites

Q. Which of the following activities are currently available on the Web site?

Total: Unweighted count = 1,295



Notes: Multiple responses were allowed.

Base = U.S. business establishments with Web access whose organizations currently have a Web site.

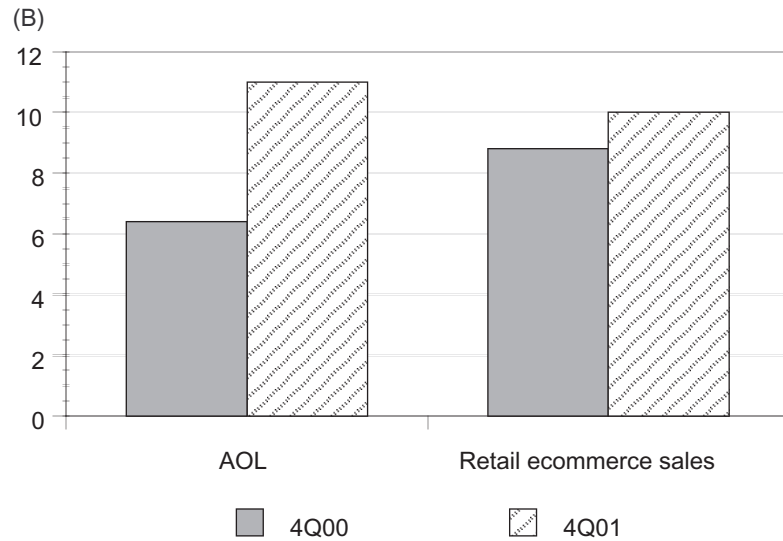
Source: IDC's *eWorld 2001 Survey*

- Companies that are seeing the best results are those that leverage multiple channels. During the 2001 holiday selling season, J. Crew not only saw its online sales grow 66% but also was able to use its Web site to augment its other channels and establish a unified selling strategy.
- Selling online is just the beginning. Reader's Digest is capitalizing on the latest ecommerce applications to build more than 30 Web sites, which are centrally managed but designed for specific targets around the world under an all-encompassing marketing campaign that previously would have been costly and impractical to run from a single location.

The final validation of the importance of ecommerce is perhaps the most telling:

- While general retailing was either flat or down during the holiday selling season of 2001, major online selling sites such as AOL reported a record volume of transactions, and the U.S. government released upbeat retail ecommerce sales figures for the fourth quarter of 2001 (see Figure 3).

**Figure 3: Volume of Transactions at AOL and Retail eCommerce Sites During 4th Quarter and Holiday Selling Season, 2000 and 2001**



Note: AOL volume covers amount of goods and services sold by merchants that are accessible from AOL shopping portals, while transactions done by online travel services, online financial brokers and dealers, and online ticket sales agencies are not classified as retail eCommerce by the U.S. Commerce Department.

Source: IDC and U.S. Commerce Department, 2002

The bottom line is that eCommerce has become a vital ingredient for companies to expand their revenue, by giving them tremendous capability to sell more products, deliver more accurate marketing messages, and build stronger ties to customers.

### **LIMITATIONS OF SOME EXISTING ECOMMERCE IMPLEMENTATIONS**

#### **A Site That Has No Context**

A Web site that provides product information alone will not adequately help customers complete the buying session. It should give them the context whereby the site can recommend similar products at different prices and configurations, or it should direct them to the closest location for immediate pickup or return. Furthermore, it should be in the position to create a community in which customers can frequently ask questions and share opinions about the products with others as they reinforce their ties to the brand, hence improving customer loyalty.

Retailers such as Neiman Marcus exude an upscale image, and their décor, service, and merchandise embody the context that accentuates their brand and pleases their clientele. The context is what separates Neiman Marcus from its competition. Likewise, a Web site is not just an extension of a company's marketing arm. It should help extend its marketing reach in ways that could not be easily accomplished in the offline world, where a lack of information often hampers image and customer relationships.

All of these requirements point to the need of positioning a Web site as a high-octane branding machine that can respond to market needs swiftly, efficiently, and around the clock.

### **An Inconsistent Story**

If the lack of context is going to confuse first-time customers, a lack of consistency is likely to infuriate even a company's most ardent supporters.

When it comes to the most common problems with Web sites, inconsistent performance tops the list, and it can easily turn off visitors and impair a company's image. If a company does not pay close attention to the scalability and openness of its ecommerce platform, it may do itself more harm than good. The reason is simple. Very few of us would be offended if we were asked to leave a store after its closing time. However, a Web site is designed to be open 24 x 7, and if customers cannot access certain pages during an extended period of time, losing them to a competitor's site does not sound too far-fetched in this networked economy.

Moreover, if a company adopts a proprietary ecommerce platform that makes it difficult to connect to its internal systems as well as other sales channels, customers could end up with inconsistent inventory data, erroneous order statuses, and variations about product prices and functionality from one channel to another.

### **A Business That Ill-Serves its Customers**

A Web site is the frontline for companies to develop, extend, and safeguard the entire life span of their customers. Depending on how the site personifies such attributes as convenience, user-friendliness, and customer self-service, it can make or break that customer life cycle. If a site is incapable of letting customers on their own find out how to address such issues as product returns, rebates, coupon redemptions, refunds, and warranty registrations, it would force them to shuffle from one call center help desk to another, or from one customer service representative to another, which ultimately would mean higher support costs for the company. Whether or not a company wants to be seen as one that is easy to do business with is usually a good indicator of how well it monitors the entire customer life cycle.

## **EXAMPLES OF BEST PRACTICES**

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When surveying the best-built and best-managed ecommerce sites, one can immediately spot a number of discernible patterns.

### **Simplicity Propels Sales and Locks in Customers**

Your Web site is the most visible, if not the most important, piece of real estate a company can have, but it shouldn't be the most complicated to look at. Simplicity remains the best way to present a company's image online. Procter and Gamble, which sells more than 300 brands of products, positions its Web site as a gateway to an array of information, Q&As, and tips on how to use these products. Conversely, the site is designed to garner as much information as possible from the visitors on how they use the products. So newsletter offerings and feedback buttons are prominently displayed on many pages. With certain products, such as diapers, the site offers a chance for visitors to buy the products as gift certificate packs, which, in turn, would be fulfilled by local P&G retailers driving revenue through its channel.

Hooked On Phonics, which sells learning books and tapes, is another example of the importance of simplicity. Recently, it relaunched its site by cutting the number of options available on its front page from 30 to three: reading, homework, and math. Its follow-on pages add further dimensions to the topic, which is supported by a live chat feature that facilitates a more personalized customer experience.

A simpler starter page has resulted in better performance, enriching customer experience. Page download times have been reduced from an average of 2.3 seconds to half a second, and uptime has improved from 98.2% to 99.9+%.

Within weeks of the relaunch, the site bolstered Hooked On Phonics' closure rate of online sales by more than one-third to about 23%, and its online membership registration rose by 225%.

### **Mastering Customer Data Collection and Using it Properly**

Once the transactions are performed electronically, companies will be able to slice and dice the data, tracking it to the minutest detail for any discrepancy and devising ways to improve the sales process.

Using email, content management, and merchandising techniques such as product matching, companies such as Reader's Digest and Martha Stewart Living Omnimedia (MSO) have made smarter use of their customer data.

MSO has been able to extract more useful customer data out of its Web site through personalized content, targeted promotions, and merchandise placement based on customer segmentation. A user may visit the site for information such as a recipe for chocolate heart-shaped cakes and, at the same time, will be offered cooking supplies and products. Such interactions and their results have helped the company refine its marketing strategy and better execute traditional promotional campaigns across the enterprise, including its

online operation, Martha Stewart Living magazine, and Martha by Mail catalog. The availability of such customer data will translate into more effective merchandising and increased revenue for Martha Stewart.

Reader's Digest, on the other hand, was able to create microsites that replicate its popular sweepstakes, allowing visitors to register for different online promotional campaigns. Registered users find out by email within 24 hours whether they have won, and their status will be automatically renewed for the next day's drawing. Finally, they will be connected to the product order page for the time they didn't win. Event-driven promotions will also kick in once visitors modify their status — such as address changes, which unleash online ads that promote home-improvement products.

The upside potential is enormous for companies that master customer data collection, and their Web sites are becoming a strategic tool to gather such customer intelligence.

### **Perfect Coordination Among Multiple Channels**

Successful ecommerce implementations enable companies to choreograph sales and marketing opportunities through multiple channels. The goal of an ecommerce site is not to siphon sales from one area to another, but to complement each area's strengths.

Companies such as J. Crew, Cabela's, and the United Kingdom's Woolworth's Group have demonstrated the value of using a standard ecommerce platform to coordinate and manage online and offline customer experiences.

Personalization technology has emerged as the launching pad for tailored content, which helps these companies to identify the wants and needs of their customers. Their Web sites often become the starting point of a series of direct-marketing efforts aiming to leverage the real-time characteristics of the Internet while reinforcing the availability and convenience of different channels, from catalog marketing, to online kiosks for storefronts, to call centers.

### **ATG'S BUSINESS-TO-CONSUMER OFFERING**

Since its inception in 1991, Art Technology Group has been delivering an attractive set of ecommerce applications and platform products for leading companies such as AT&T, Handspring, Philips, Kingfisher, Sony, and Walgreen's.

With more than 800 customers, ATG has won a loyal following in such industries as consumer packaged goods, electronics, financial services, media/entertainment, and retail. Its success in selling into these markets is attributable to a full suite of ecommerce applications servers and Internet selling applications that enable companies to segment their customers, build brand loyalty, and generate incremental revenue through personalization and scenario-based modules.

The foundation of ATG's sell-side offerings is the ATG Consumer Commerce Suite, which includes a slew of new features to enhance ordering, customer information, and personalization, as well as customer service and support capabilities.

Table 1 outlines the enhanced features of the ATG Consumer Commerce Suite.

<b>Table 1: ATG Consumer Commerce Suite</b>	
<p><b>Ordering</b></p> <ul style="list-style-type: none"> <li>• Multiple and custom product catalogs</li> <li>• Multiple and customer price lists</li> <li>• Volume-based pricing (bulk and tiered)</li> <li>• Enable product configurators to add product to ATG managed order</li> <li>• Order restrictions</li> <li>• Multiple payment methods, shipping addresses per line item</li> <li>• Improved product comparisons</li> </ul> <p><b>Customer Information and Personalization</b></p> <ul style="list-style-type: none"> <li>• Organizational profiles</li> <li>• Organizational hierarchies</li> <li>• Personalization for organizations and roles</li> <li>• Contract entitlements to products and pricing</li> </ul>	<p><b>Improved Architectural Flexibility and Extensibility</b></p> <ul style="list-style-type: none"> <li>• Support for switching between multiple inventory/fulfillment systems</li> <li>• Pipeline component architecture for easy extensibility of fulfillment, payment methods, and payment validation processes</li> </ul> <p><b>Customer Service Representative Module</b></p> <ul style="list-style-type: none"> <li>• Search/view customers, orders, and products</li> <li>• View customer's history for orders, cancellations, and returns</li> <li>• Create/edit customer profile</li> <li>• Create, modify, or cancel an order</li> <li>• Handle returns, refunds, replacements, and credits</li> <li>• View active coupons/promotions</li> <li>• Record CSR annotations</li> <li>• CSR activity reporting</li> </ul>
<p>Source: IDC and ATG, 2002</p>	

## **OVERVIEW OF THE ATG CONSUMER COMMERCE SUITE**

### **Intuitive Merchandising Boosts Incremental Sales**

The image of a company is more important than the type of products it carries. After all, there is little difference between one kind of bottled water and others, but still hundreds of brands of bottled water are vying for people's attention.

Likewise, in Web selling, the site should be able to punctuate every page with the positioning of a company, its branding, and merchandising techniques. That sometimes is as important as the product it sells.

Thus, the ability of an ecommerce application to carefully delineate one's branding and merchandising strategies will yield rich dividends for the company.

The ATG Consumer Commerce Suite takes that approach further by allowing companies to create merchandising campaigns on the fly, targeting specific customer segments and testing their effectiveness through instant feedback, split testing, and test promotions.

The strength of the ATG Consumer Commerce Suite lies in an intuitive marketing automation engine that constantly updates merchandise selections and pricing information while displaying cross-selling and upselling messages that recommend matching goods and services, promote creative bundles, and provide reluctant buyers with incentives such as coupons and free shipping to entice them to complete the buying session.

Bundled reporting and analysis capabilities within the ATG Consumer Commerce Suite let companies monitor and track those results accordingly. This means that the results can be fed into a company's internal systems to help adjust inventory levels and manufacturing capacity, thereby ensuring that a product life cycle is running in tandem with customer demand.

All of these features within the ATG Consumer Commerce Suite represent not only the vehicle to find out what kind of products retailers can sell online but also the catalyst for them to unlock the potential of selling similar or higher-margin products throughout the many channels they operate.

With adapters that connect the ATG Consumer Commerce Suite to a company's back-end system, retailers will be able to apply online customer data, preferences, and purchase history to their stores, catalogs, and other offline operations, creating a unified marketing and selling environment.

### **Personalization Ratchets up Relationship Building**

A key differentiator of the ATG Consumer Commerce Suite is its ability to help Web sites deliver an integrated and personalized experience to their customers through its Scenario Personalization™ functionality, which determines and analyzes consumer behavior and buying patterns based on preferences given either implicitly or explicitly when visiting the sites.

This becomes particularly useful for companies to gather and examine the results if they operate multiple channels, allowing them to compare and contrast customer preferences and segments, fine-tune marketing messages, and create unique offerings for specific groups or users.

The ease of use of ATG's Scenario Personalization™ functionality — leveraging the rules-based engine and prebuilt templates — separates ATG from other approaches such as predictive modeling and data mining, which may take considerably more time and resources to implement.

Because of the deep level of customer understanding it engenders, ATG's Scenario Personalization™ feature is capable of replicating a positive customer experience while fostering the trust and loyalty that is indispensable before any cross-selling, upselling, and repeat business can take place.

### Scalability Safeguards Brand Equity

Simple math helps explain why it is necessary for a company to adopt a scalable platform that can handle an increasing amount of traffic without causing it to shut down abruptly, thereby turning away business.

For companies that rely on home-grown application platforms, their site can probably handle a maximum of between 150 and 300 simultaneous users per second. If the site were capable of converting 4% of these users into actual buyers, the number of transactions would be somewhere around six to 12. During peak periods, such as holiday shopping in December, flower- and gift-giving in February and May, leisure travel booking during summer months, and stock trading pretty much around the clock, many companies would have to endure shut-downs if the ecommerce platform were not scalable to handle extra visitors. That would mean turning away three to six times the potential revenue. Figure 4 illustrates the problem facing companies that do not use a high-performance ecommerce platform such as ATG.

<b>Figure 4: How Scalability Affects Revenue</b>				
	Number of simultaneous users per second	Conversion rate	Maximum number of transactions being processed	Number of transactions x \$100
Home-grown ecommerce application platform	Between 150 and 300	4%	6 to 12	600 to 1,200
Off-the-shelf high-performance ecommerce application platform	1,000+	4%	40	4,000

Source: IDC, 2002

One of the reasons that ATG has been able to attract some of the biggest corporations as customers lies in the performance of its platform, which is capable of handling big spikes in customer traffic with ease. That beefed-up infrastructure is particularly important for companies that offer large numbers of stock-keeping units and a variety of product catalogs. In that regard, the ATG platform becomes an insurance policy that is dependable and readily available whenever it is needed.

### **Out-of-the-Box Functionality Lowers Total Cost of Ownership**

The sluggish economy has made catering to the needs and whims of the customers a priority at many companies, and winning them over means delivering the information to them in a timely fashion. The longer a company takes to build or overhaul its Web site, the greater chance that its customers will look elsewhere for information and product replacement, especially if the switching cost is low and painless. As a result, the quicker a company can get an ecommerce system up and running, the more competitive it becomes.

With support of open standards such as Java 2 Enterprise Edition (J2EE) and the ability to connect to a host of internal systems such as SAP, PeopleSoft, and J.D. Edwards, ATG's preconfigured Consumer Commerce Solution will require less integration and professional services expenditures than those that need to create interfaces and adapters from scratch in order to work with existing legacy systems.

Another advantage of the ATG solution lies in its customer self-service features, which allow customers to track order status and change preferences and personal information. In addition, the expanded customer service module within the ATG Consumer Commerce Suite allows the site to handle orders, cancellations, returns, replacements, and credits, as well as review coupons and promotions. All of these features will help companies drive down the support costs that previously were spread over the call-center or in-store staff, delivering quicker returns as a result.

With ATG's Data Anywhere Architecture, the product suite can be seamlessly connected to content management packages from Documentum and Interwoven and customer relationship management (CRM) applications from Epiphany and Siebel. The integrated solution will help companies develop a central data repository in order to establish a complete view of the customer life cycle. This will lower the costs of building an all-encompassing marketing campaign for the different channels it sells through.

The last attribute of ATG's flexible architecture stems from its openness, which supports leading J2EE application servers from ATG, BEA, and IBM. This is particularly useful for companies that have already implemented these application servers and would not want to incur additional expenses in replacing them, lowering their total cost of ownership.

## **CHALLENGES FOR ECOMMERCE COMPANIES AND ATG**

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The ecommerce market has achieved a fair amount of notoriety in recent years because of unrealistic expectations on the part of investors and users and, to a large extent, unfulfilled promises of applications vendors. Many of these applications cannot be viewed as the magic wand that enables a company to increase its online sales quickly while reducing its selling and marketing costs overnight.

Integrating these applications into a company's existing systems is a big challenge. So are the needs to aggressively promote the site and complement it with other channels that a company sells through. While users become wise to the fact that ecommerce will not guarantee them instant wealth, they are also quick to reckon that the Internet is not a niche market opportunity anymore and they can either embrace it or try turning against the tide in vain.

As for ATG, the challenge lies in its ability to further extend the capabilities of its ATG Consumer Commerce Suite to accommodate long-standing business rules and channel-specific requirements of both horizontal and vertical industries.

## **CONCLUSION**

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As ecommerce becomes a mainstream phenomenon, companies should take a utilitarian approach when acquiring or upgrading their Web infrastructure. And that means tapping into a platform that is adaptable to different applications servers, flexible enough to accommodate various legacy systems, and scalable enough to handle sudden surges in traffic, even in the busiest shopping season.

The utility-like architecture of the ATG Consumer Commerce Suite fits that bill, allowing companies to carefully segment their customers, craft the most effective merchandising campaign to draw their attention, and complete their transactions with an ample amount of service and support capabilities at their disposal.

In the midst of economic uncertainties, the ATG Consumer Commerce Suite is positioned to bring stability and unity to a company's customer-facing system. Its proven performance is stable enough to withstand the most demanding customer access requirements, and its modular approach provides a rich set of features that instill security and strength across a company's sales and marketing frontlines, regardless of how many geographies and channels it sells into.

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02C-3278SOFTWA3278  
March 2002

  
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