

Give the Gift of Customer Relationships this Season

2006 Online Retail Holiday Readiness Report

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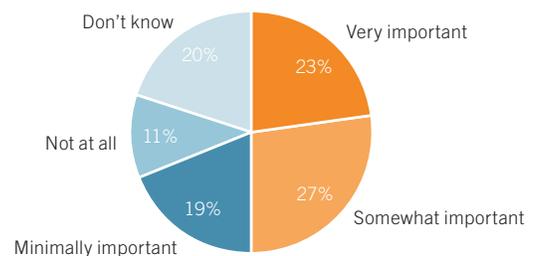
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The holidays are the most important time of the year for online retailers, so it's not surprising that they're already planning ahead for a banner season.

The outlook is indeed bright: according to the latest study by Shop.org and Forrester Research, the US eCommerce industry has experienced a "blistering" compound annual growth rate of 33%. In fact, Forrester predicts that revenue in 2006 will continue to grow another 20% to top \$200 billion. And 41% of the retailers WebTrends surveyed said that the holiday season accounts for more than 20% of their annual revenue.

What's essential to them? Segmentation, for one thing. In fact, 50% of retailers said that visitor segmentation was very important or somewhat important to the success of their online holiday season.

Within web analytics, how important is visitor segmentation to the success of your online holiday season?



So what else are leading retailers doing to maximize revenue from existing customers this holiday season? How are they building relationships that will increase the lifetime value of customers, as well as the ROI of their marketing campaigns? In our recent Online Retail Holiday Readiness Survey with over 300 retail professionals, we set out to identify the key trends and strategies retailers are focused on for the upcoming season, and gain insight into the shifting landscape by comparing the results with last year's report.

- **Take five minutes to read the full report** and learn more about the latest research, key trends and winning strategies merchandisers plan to execute this year. Then, share the report with your team. It's time to get ready for the holidays.

MARKETING PROMOTIONS

What marketing promotions are you planning to use to generate online revenue from loyal customers during the upcoming holiday season?



SURVEY RESULTS

More than 23% of retailers will provide no special offers during the holidays.

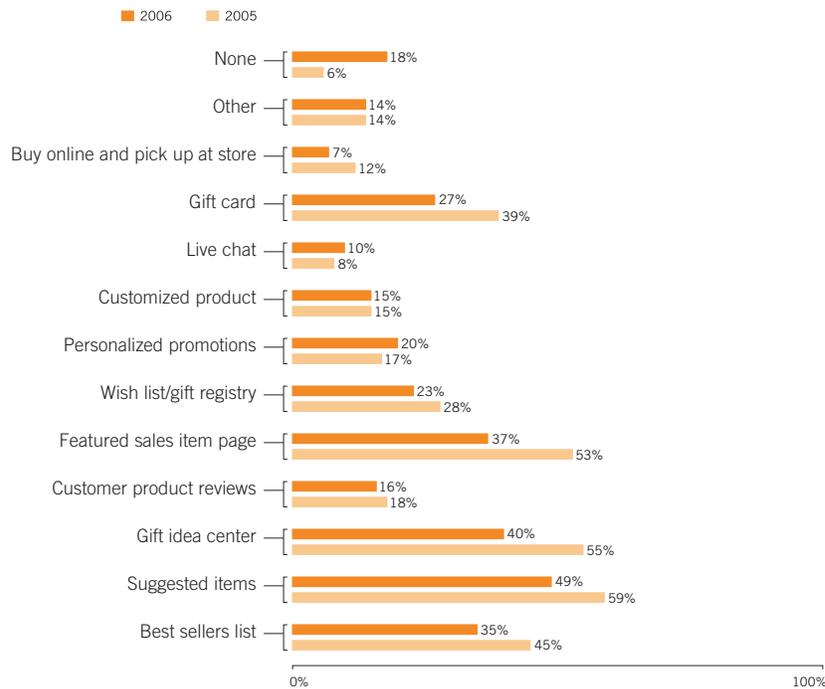
Last year, free shipping was a clear winner, with value-added promotions such as “free gift with purchase” running a close second. This year, twice as many retailers are opting to see what happens without any promotions at all. Is it a case of retailers saying “bah humbug” to the idea that free shipping can develop customer loyalty? Or do they feel that they don’t need to lose that revenue in order to attract repeat business?

According to an earlier Bizrate.com and Shop.org study, online merchant confidence rose in 2005, due in part to solid margins and indicators of sustainable growth. This, combined with the fact that consumers are increasingly comfortable with the convenience of shopping online, may be causing this shift. It may also be a case of “simplicity and transparency.” For example, Dell computers recently announced that they’re drastically reducing the use of mail-in rebates and short-term promotions in an effort to make pricing simpler and more consistent for their customers.

Specific to customer loyalty, our survey showed that 28% will use a “special repeat buyer discount” to fuel repeat purchases from existing customers. Comparing this to 33% from last year’s survey, it’s clear that the inclination to refrain from providing special offers applies to current as well as new customers. It may also be that developing true customer loyalty isn’t as simple as price promotions such as offering discounts and value adds.

SITE FEATURES

What on-site features are you planning to use to generate online revenue from loyal customers during the upcoming holiday season?



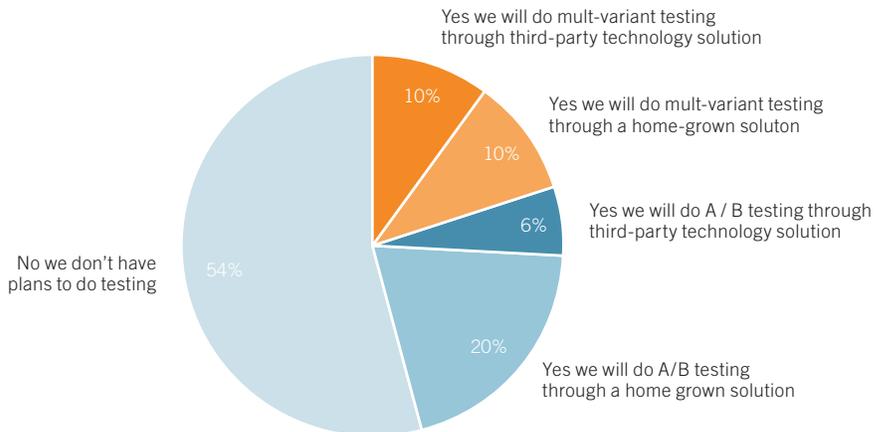
SURVEY RESULTS

Personalized promotions and live chat were the only site features that retailers intend to use more this year than last year.

Suggested items, a gift idea center, and featured sales item pages remain the most popular site features, but the percentage of businesses using each of these features has fallen from last year. In fact, the only features that received a boost year-over-year were personalized promotions and live chat. Three times as many retailers (18%) are opting to use no special features this year, compared to 6% last year.

The most popular site feature in 2006, as in 2005, is suggested items, with about 49% of retailers surveyed indicating they intend to use them to generate revenue from loyal customers. A gift idea center is next, with 40%, and a featured item sales page, with 37%. Imagine the power of these features if they were personalized to the clickstream behavior of customers.

Do you plan to use testing techniques to optimize your customer loyalty campaigns during the holiday season?



SURVEY RESULTS

Multi-variant testing is on the rise, but testing has declined slightly overall.

Multi-variant testing through both third-party technology and home-grown solutions is being used slightly more this year over last year, and A/B testing is being used slightly less. A surprisingly high number of businesses surveyed still do not have plans to do any testing at all. In fact, the percentage increased from 51% to 54%.

One reason for this is that many retailers completely lock down their site during the holidays, which may reflect the high number of people who are not doing any testing. However, because so much revenue is being booked during the holidays, a few small tests can result in a much higher return. For example, small changes to a free shipping offer (such as reducing the minimum purchase from \$150 to \$100) can help you capture more shoppers, resulting in higher conversion and sales.

DEMAND GENERATION

Rank the top three demand generation activities that are most critical to your success during the holidays.

	Most Important	Second Important	Third Important
Overall	Email Marketing	SEM (Search Engine Marketing)	SEO (Search Engine Optimization)
Internet, Catalog & Store	Direct mail	Email Marketing	SEM (Search Engine Marketing)
Internet & Store	Email Marketing	Print Advertising & Direct Mail	In Store Promotions
Internet & Catalog	Direct mail	Email Marketing	SEM (Search Engine Marketing)
Internet Only	Email Marketing	SEM (Search Engine Marketing)	SEO (Search Engine Optimization)

SURVEY RESULTS

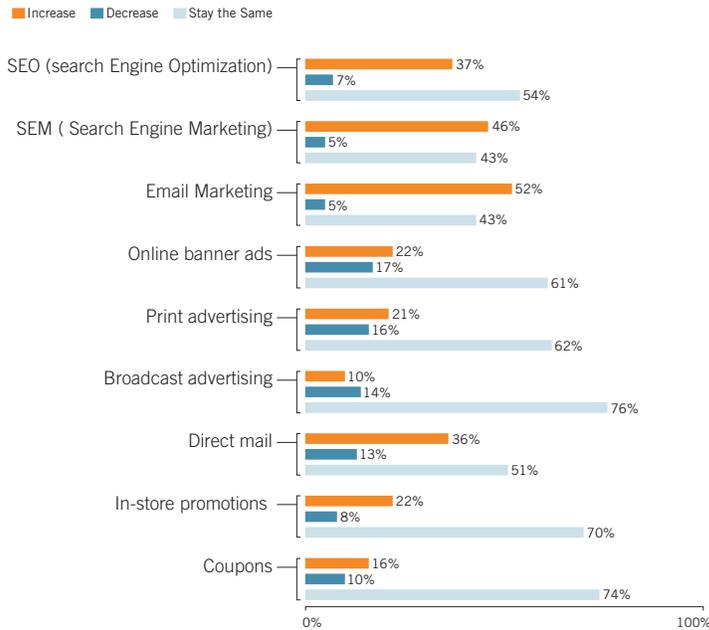
Overall, retailers surveyed ranked email marketing as the most important demand-generation activity for holiday success.

Email marketing is the winner with ecommerce businesses, with Search Engine Marketing (SEM) and Search Engine Optimization (SEO) ranking second and third. While print advertising was ranked second and in-store promotions third to Internet and Store retailers, traditional forms of demand generation such as broadcast advertising and coupons didn't make the cut. Online banner ads were also a lower priority for all retailers.

The importance of email marketing campaigns across every channel is apparent, and making sure that these campaigns are targeted and relevant to customers is also vital. Clearly retailers are choosing strategies that target their customers effectively—it's a cost-effective approach to marketing.

DEMAND GENERATION

How does your spend on these demand generation activities compare this holiday season to last?



SURVEY RESULTS

Online retailers are going with the idea that if it isn't broken, don't fix it: most are keeping the same strategy this year.

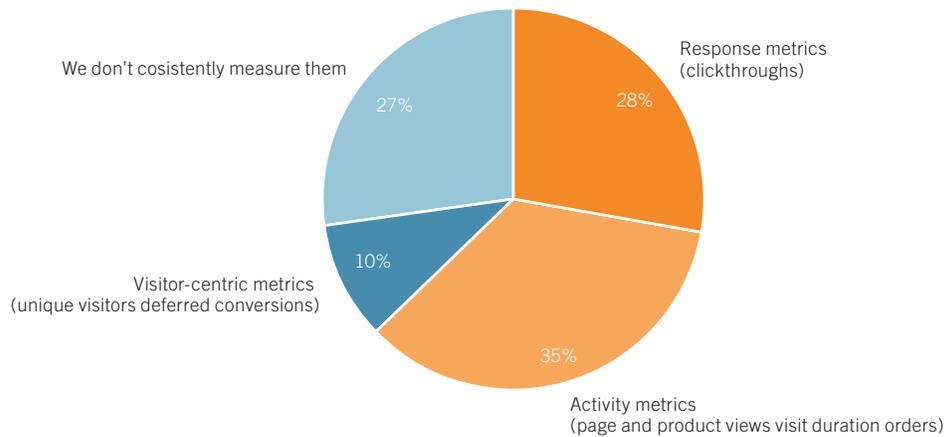
The trends are clear: offline promotion is down and online is up. The biggest increases in spending will be in email marketing (52%), SEM (46%) and SEO (38%), while the biggest decreases in spending will be in online banner ads (17%), print advertising (16%) and broadcast advertising (14%). The advertising dollars are going where the consumers are. They're also going where advertisers have more control over the targeting of their message, as well as the ability to measure its success.

Understanding visitors' intent and cultivating the purchase is the name of the retail game, which means whether retailers are single- or multi-channel marketers, search and email are popular marketing vehicles.

Internet, catalog and store businesses intend to increase SEO, SEM and email marketing. Internet and catalog businesses intend to increase SEM, email marketing, and direct marketing. In the *WebTrends 2006 CMO Web-Smart Report*, over half of executives polled indicated that the web will be the hub of their marketing strategy. Because the changes they're making are leveraging the powerful targeting capabilities of the web, it's clear that online retailers understand that the web is central to their marketing success.

DEMAND GENERATION

Which metric do you primarily use to evaluate and compare demand generation activities?



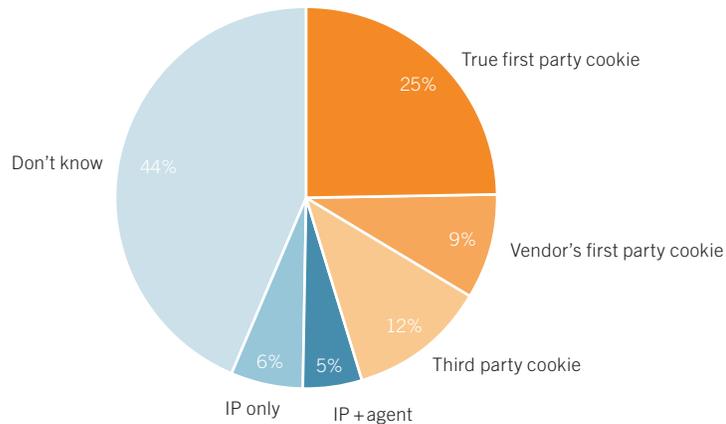
SURVEY RESULTS

More than 63% of retailers are relying on response and activity-based metrics like clickthroughs, page and product views to measure demand generation.

Amazingly, 27% aren't consistently measuring their demand generation activities at all. Only 10% of retailers surveyed are using visitor-centric metrics like unique visitors and deferred conversions to measure these activities. While there's a huge amount of value to be gained from response and activity metrics, only visitor-centric metrics can provide the accuracy you need to make sure you're measuring campaigns correctly. These metrics also serve as the basis for relationship marketing—marketers who use them will be able to target their customers based on their interests, which is a powerful motivator.

VISITOR TRACKING

What method are you currently using to identify unique visitors and/or customers on your web site?



SURVEY RESULTS

The majority of retailers surveyed don't know what they're using to identify unique visitors—but major retailers are using first party cookies.

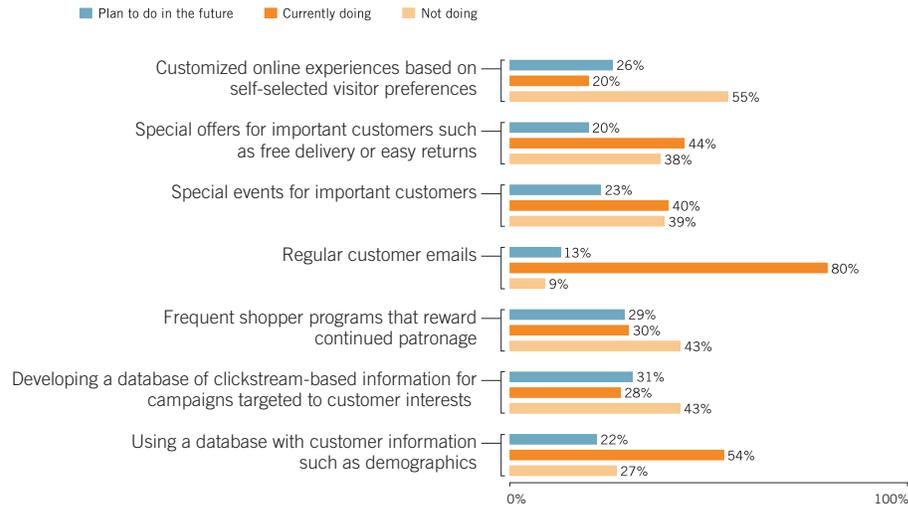
Only 25% of retailers surveyed are using true first party cookies: 12% are using third-party cookies, which creates serious tracking challenges. A 2005 JupiterResearch report showed that increasingly high rates of cookie rejection and deletion by Internet users makes third-party cookies an unreliable method for collecting and reporting on web marketing results. Jupiter's study found that 28% of Internet users are selectively rejecting third-party cookies from being set.

However, when we looked just at the segment of retailers with more than \$100 million in annual revenue, the adoption of true first-party cookies was much higher—more than 30%. For retailers interested in getting an accurate account of the performance of their marketing campaigns, first-party cookies are key. Unique visitor-based performance metrics do much more than solve the common problem of double-counting campaign response due to reliance on activity-based metrics. They are the foundation for measuring deferred conversion, audience segmentation and relationship marketing.

You can identify visitor intent in order to build relationships that turn visitors into customers with an analytics solution that's designed to measure and report at the visitor level.

CUSTOMER RELATIONSHIPS

Which of the following are you doing or do you plan to do to create and enhance customer relationships?



SURVEY RESULTS

80% of retailers said that sending regular customer emails is the activity they're currently using to build customer relationships.

In the future, most retailers plan to develop a database of clickstream-based information for campaigns targeted to customer interests, making email-based relationship marketing the clear winner when it comes to creating and enhancing customer relationships.

Demographic customer databases, regular emails, special events, and special offers are the most common activities that businesses are using to create customer relationships. If a particular marketing activity is not currently in place, a majority of businesses are not planning on incorporating these activities into their marketing programs (such as customized online experiences). Within the Internet and catalog and Internet-only businesses surveyed, the primary focus is on using a database with customer information (such as demographics) and regular customer emails.

The activity the majority of retailers plan to implement in the future is to develop a database of clickstream-based information for campaigns targeted to customer interests. This is a smart strategy in order to develop relationship marketing campaigns for identified customers. But in order to make sure they're targeting them correctly, a customer-centric approach to tracking them is key.

CONCLUSION

2006 will be the year online retailers improve their customer relationships

Retailers are ready to take advantage of relationship marketing to improve their success this holiday season. But many of them don't have the right systems in place to make it possible—yet. There's some confusion, but one clear message did emerge from the results of this survey: targeted email and strong customer relationships are seen as keys to success.

However, many retailers aren't measuring their results, and when they are, often they're using activity-based metrics. Clearly, if they're not measuring the right metrics using the right solutions, they'll face serious challenges when it comes to implementing the targeted relationship marketing programs they'll need to be successful.

Strong relationships mean strong sales. Research shows that targeted email significantly improves revenue, and in fact, a recent JupiterResearch Executive Survey showed that email targeted based on website clickstream behavior was nine times more successful than broadcast email. However, many retailers surveyed aren't doing the visitor-centric measurement and customer segmentation necessary to create the kind of targeted, one-to-one relationship marketing campaigns that increase customer satisfaction and improve ROI.

SEO and SEM are also vital to success in the holiday season. In fact, the findings of this survey reflected those of a recent BizRate and Shop.org study, in which retailers said their most effective online marketing plan was email marketing, with paid and organic search optimization following close behind.

Clearly retailers are becoming more sophisticated, as they look to search and email marketing as ways to hook into visitor intent and cultivate profitable and lasting relationships, and away from price-based promotions as a way to cultivate customer loyalty.

However, given this focus, retailers need to pay more attention to their underlying measurement methodologies to ensure that they have the long-term capabilities necessary for email, search, and relationship marketing.

Once they can measure campaigns accurately, segment customers to identify those that will drive business, test campaign creative, and execute targeted relationship marketing campaigns, retailers will be able to have a happy holiday retail season.

RESOURCES

As the worldwide leader in web analytics, WebTrends offers a full range of resources to help ensure your long-term success. Find out how you can leverage the relationship marketing and segmentation capabilities of WebTrends Marketing Lab, read customer success stories, find valuable educational guides and more. It's all available on webtrends.com.

Accuracy Best Practices: WebTrends first-party cookie solution for hosted web analytics ensures accurate metrics you can depend on. Learn more about how to implement accuracy best practices for your organization.

WebTrends Retail Topic Zone: Discover an extensive library of educational guides, white papers, case studies and other resources for retailers created by industry experts. They're waiting for you in the WebTrends Resource Center and Retail Topic Zone.

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WebTrends User Groups: With user groups in more than 25 cities, this is your opportunity to meet with colleagues and share best practices. Check for a city near you.

Training and Consulting Services: WebTrends offers a full range of educational classes, training courses and strategic business consulting services to help ensure broader adoption of web analytics across your organization and accelerate your return on investment.

ABOUT THE SURVEY

This report includes data collected from online survey responses from June 26 to July 1, 2006. Online retailers were invited to complete the survey in return for a copy of the report, as well as a complimentary copy of *Click to Buy: The Essential Guide to Best Practices in eCommerce*. The holiday season in this survey was defined as October 1 to December 31. Survey respondents represented a diverse sampling:

Nature of Retail Operations:

26%	Internet only
25%	Internet and catalog
19%	Internet and store
31%	Internet, catalog and store

Annual Revenue:

41%	\$0 – \$5 million
10%	\$5 – \$10 million
6%	\$10 – \$25 million
7%	\$25 – \$50 million
4%	\$50 million – 100 million
15%	\$100 million +
17%	Unknown



ABOUT WEBTRENDS

As the acknowledged global web analytics market leader for more than 12 years, WebTrends is leading the way in Marketing Performance Management. With an uncompromising focus on delivering the most accurate and actionable metrics, WebTrends enables thousands of web-smart organizations to improve campaign performance, web site conversion, and customer relationships. More than half of the Fortune and Global 500 rely on WebTrends as their trusted standard for award-winning technology, consulting services and industry expertise across the broadest range of vertical markets. Through software and on-demand options and a full range of data collection methods, WebTrends is unmatched in its ability to meet any analysis objective with accuracy, privacy and security best practices.

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