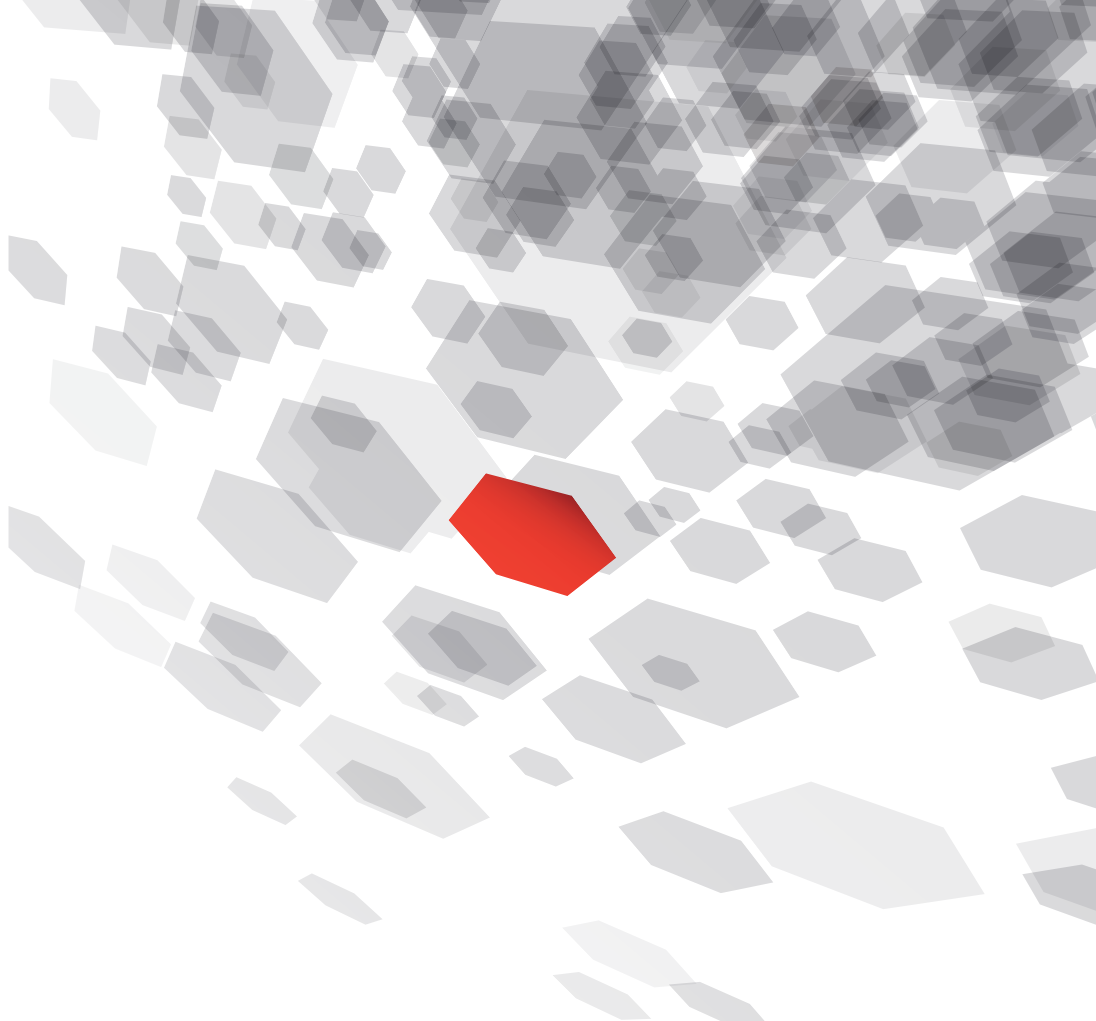

znode® relevant ecommerce

WHITEPAPER

USING A RELEVANT ECOMMERCE STRATEGY TO DECREASE CUSTOMER ACQUISITION COSTS

Learn how advanced ecommerce technologies can help your company to increase sales revenue and reduce customer acquisition costs.

March 2013

Summary

In a scramble to meet growth and sales targets, many business-to-business (B2B) and business-to-consumer (B2C) companies fail to accurately track customer acquisition costs, and consequently spend too much on customers that they fail to monetize. Organizations can use advanced ecommerce technologies today to create an effective online revenue channel that allows them to deliver relevant online customer experiences and reduce overall customer acquisition costs.

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Acquisition vs. Profitability

Under pressure to grow and increase sales, business-to-business (B2B) and business-to-consumer (B2C) companies of all sizes can fall into the trap of acquiring new customers at all costs. While young companies can be especially vulnerable to this error, they certainly aren't alone. One study found that over 90% of executives at financial institutions substantially underestimated their organizations' average customer acquisition cost (CAC).[1]

The primary danger of growing your customer base through aggressive customer acquisition is that not all customers acquired will be profitable. If customer acquisition costs aren't closely monitored and correlated with the monetization—or expected lifetime value (LTV)—of the customer, it's difficult to know how much you should be spending to acquire various types of customers.

For some companies, not knowing the average CAC results from not considering all of the costs associated with new customer acquisition; line items such as labor and overhead are often overlooked. For B2B companies with longer and more complex sales cycles, true acquisition costs can be more difficult to calculate accurately.

Further complicating measuring CAC are the realities of multi-media, multi-channel sales and marketing today. With companies using a variety of traditional offline (e.g. direct sales, telesales, events/trade shows, direct mail, print advertising, etc.) and online (e.g. websites, social media, email, online advertising, etc.) channels simultaneously, measuring and attributing customer acquisition success to the appropriate channels can be challenging. Nonetheless, it is important to have a handle on your customer acquisition costs. After all, if your cost to acquire a new customer exceeds the value they deliver, your business model is not set up for long-term success.

[1] Study commissioned by Andera and CoreProfit, 2011.

Online Customer Acquisition Opportunities

There is little doubt that in order to compete effectively today, companies in every industry—from manufacturing and distribution, to education and consumer packaged goods—should have an online presence. More than 58% of Americans go online to research products and services before they buy.[2] And for the first time, in 2012 the Internet was ranked by consumers as the single greatest influencer of product purchases, ahead of advice from family and friends.[3] Organizations are no longer asking "Should we have a website?" but rather "How can we use our website to acquire and monetize more customers?"

Ecompanies got their start by asking this question, and B2C companies are catching on fast—with many of the largest brick-and-mortar retailers spending millions on digital strategies that include ecommerce websites. B2B organizations in general have lagged in their adoption of digital technologies for sales purposes, but the opportunities for them to use the Internet as a revenue channel are vast. AMR Research predicted in 2010 that more than $1.3 trillion of goods and services would flow annually through the B2B marketplace, roughly half of all B2B commerce that year.[4]

2 Jansen, Jim. Online Product Research, Pew Internet, Sept. 29, 2010.
3 2012 Digital Influence Index, Fleishman Hilliard & Harris Interactive, 2012.
4 AMR - Advanced Market Research, www.amr-research.com.

Advanced Ecommerce Technologies

Delivering customized, relevant online shopping experiences for every customer is the goal of a relevant ecommerce strategy; and advanced ecommerce technologies allow for the execution of this strategy.

In order to seize opportunities for customer acquisition in the B2B and B2B marketplaces and lower CAC costs, organizations need to embrace the advanced ecommerce technologies available today. More powerful and robust than ecommerce solutions of the past, these technologies do much more than simply allow customers to view products on a website and use a credit card to pay. This is an important point for companies doing (or preparing to do) business online since buyers today are more tech savvy, and have greater expectations and more choices than ever before. If their expectations for a personalized, relevant online shopping experience aren't met when and how they want, they will simply go or click elsewhere.

Relevant Ecommerce Strategy
Delivering customized, relevant online shopping experiences for every customer is the goal of a relevant ecommerce strategy; and advanced ecommerce technologies allow for the execution of this strategy. Such technologies include comprehensive ecommerce platforms that leverage intelligent customer/prospect data and use it to deliver tailored messages, offers and experiences in order to meet the demands of today's sophisticated B2B and B2C buyers. Following are a few examples of how adoption of this type of advanced ecommerce platform can help you achieve a lower overall CAC and drive other business improvements.

Lower Start-up & Maintenance Costs
A range of ecommerce platforms are available today, and they fall into two basic categories: SaaS/hosted and distributed/downloaded. SaaS/hosted shopping cart solutions (e.g. ProStores, Amazon Webstores, PinnacleCart) are relatively inexpensive to launch and maintain, but extremely limiting in terms of customization and scaling. So in general, they aren't appropriate for most mid-to-large size companies. Large distributed platforms (e.g. Magento, Oracle ATS, IBM Websphere) on the other hand, are very customizable, which is why many enterprises choose them. However they tend to be heavy and complex; requiring highly skilled, expensive developers, longer deployment times, and deeper pockets. They are expensive to launch and maintain, which does nothing to help your CAC.

The lower the number of human touches required to nurture a lead, the lower your Customer Acquisition Cost (CAC) will be.

Faster Time to Market

Along with being faster to deploy, platforms built to deliver relevant ecommerce experiences tend to be quicker and easier to integrate with ERP, Accounting, CRM, and third-party systems compared to other available ecommerce solutions. Companies should look for an ecommerce platform with flexible ASP.NET architecture and a variety of out-of-the-box capabilities, such as mobile and social media integration. Obviously, the faster you get to market with the greatest number of the ecommerce capabilities your customers desire, the sooner you will begin realizing revenue from your online stores/channels, and the lower your overhead costs will be as they relate to customer acquisition.

Lower Labor Costs

With advanced ecommerce platforms, achieving lower labor costs applies to more than just system development and maintenance. Here's how: When personalized, relevant ecommerce experiences are delivered to online customers, less human intervention is needed to convert a customer and close a sale. For example, if an auto parts retailer offers clear, detailed product descriptions, accurate product specs, helpful visuals and product reviews right on its website, online shoppers will have fewer questions and be less likely to call the merchant for additional product information. Human intervention in the form of customer service or sales support is costly. Therefore, the more self-sufficient an online customer, the lower its correlated cost to acquire.

Another bright spot with regard to this for companies doing business online: The number of customers who prefer to bypass traditional customer service in favor of serving themselves is growing. One recent study revealed that two-thirds of consumers prefer electronic self-service over speaking to a person for customer service inquiries, and 60% make a company's website their first stop when attempting to resolve an issue. Rather than seeing online service as cold and impersonal, they view it as faster and more efficient, and appreciate the control it gives them over their service experience.[5]

[5] Rossman, John. "The Shifting Self-service Paradigm," retailcustomerexperience.com, Feb. 26, 2013.

Advanced Ecommerce Technologies Continued

Average conversion across all ecommerce is a paltry 2.8%; but personalized website experiences can increase conversion by approximately 70%.

Higher Conversions

The enormous amount of digital content available today has given online audiences more choices and power than ever before. While shopping online, they expect personalized, relevant experiences that are customized for their individual preferences, geographic location, electronic device (be it stationary or mobile), and more. When they have the online experiences they expect, these demanding shoppers are much more likely to be converted to sale. Online personalization can go a long way for companies in terms of increasing their conversation rate. Average conversion across all ecommerce is a paltry 2.8%; but personalized website experiences can increase conversion by approximately 70%.[6] And in terms of customer acquisition costs, obviously, the higher your conversion rate, the lower your average CAC.

Closer Proximity to Customers

Being where your customers are can go a long way in terms of driving down customer acquisition costs and lowering your average CAC. But maintaining close proximity to customers in a rapidly evolving technology landscape can be challenging. The explosive adoption of smartphones and tablets—and the convenience they offer to "always-on" customers—has more consumers and businesses using mobile ecommerce (mcommerce) than ever before. In fact, Gartner predicts that mcommerce (mobile commerce) transaction will represent half of all ecommerce transactions by 2015.[7] So the pressure is on for B2C and B2B organizations to deliver relevant online shopping experiences that are mobile-friendly and context-aware.

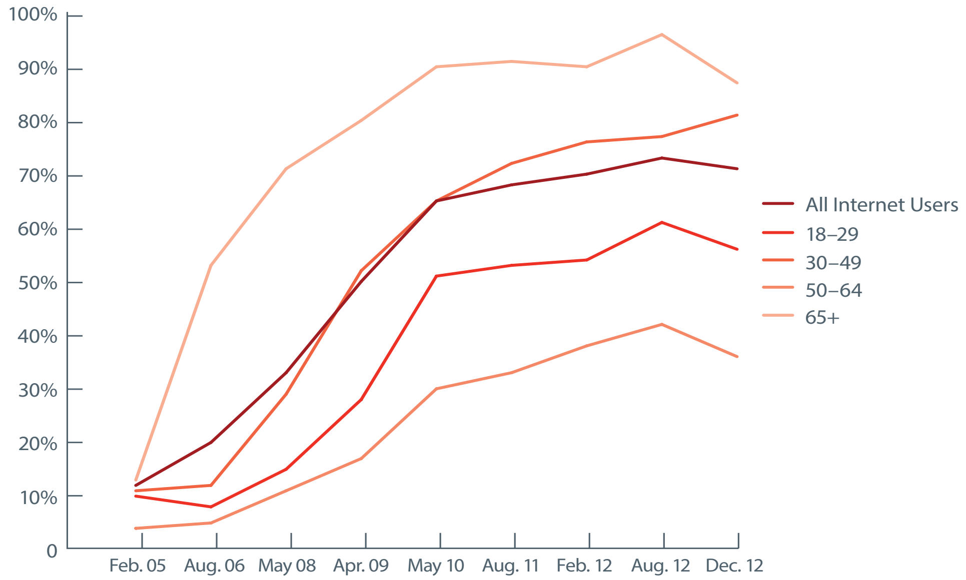
Companies can also achieve closer proximity to customers by actively engaging in the same social media networks their customers engage in (e.g. Facebook, Twitter, LinkedIn, etc.). Establishing and maintaining a social media presence has growing importance for B2B companies that have been especially slow to jump on the social bandwagon.

[6] Nagaitis, Mark. SES Magazine, June 7, 2009.
[7] Gartner, Inc., gartner.com/newsroom/id/1826814, Oct. 19, 2011.

Why is social so important? Because of the sheer volume of potential customers that spends time on social networking sites. Pew Research Center estimates that 84% of U.S. adults use the Internet regularly, and that in 2012, 67% of them engaged in social media, compared to just 8% in 2005. Not surprisingly, social media engagement among adults ages 18-29 and 30-49 years is higher than the adult average: 83% in 2012 compared to 9% in 2005; and 77% in 2012 compared to 7% in 2005, respectively.

Social Networking Site Use by Age Group 2005–2012

% of Internet Users in Each Age Group Who Use Social Media Networking Sites



Source: Pew Research Center's Internet & American Life Project Surveys, 2005-2012.

The data herein point to the same conclusion: Opportunities for B2C and B2B companies to use ecommerce to increase sales revenue and drive down their overall CAC exist, but it will require investment in the right advanced ecommerce technologies to seize those opportunities. At the very least, companies should look for an ecommerce platform that is flexible, scalable and customizable; has ASP.NET architecture; and includes out-of-the-box functionality for mobile and social integration as well as globalization/localization capabilities.

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Znode®, a Columbus, Ohio-based company has established itself as an industry leading ecommerce solution. Our highly flexible ecommerce platform enables businesses to easily build and manage rich, multi-store and multi-device ecommerce websites with a significantly higher ROI.

Znode is trusted by leading global brands including LoJack, Waste Management, Wawa, Channellock, Arbor Day Foundation, Sonos, Fechheimer (Berkshire Hathaway), and other B2B and B2C companies worldwide.

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