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i. executive summary

The growth of e-tailing over the past decade has created an entirely new set of expectations on the part of consumers around the level of personalization in their shopping experience. This has in turn created challenges for merchants to adopt the right technology and business strategies to meet those consumer demands and drive incremental sales.

The e-tailing group has explored this evolving topic through the consumer and merchant lens. An online survey of 1,345 qualified consumers provided shopper insights while a questionnaire plus one-on-one interviews with 24 merchants shed light on their perspective. Supporting this initiative, MyBuys thought leadership illuminates our findings with a goal of growing personalized shopping within the merchant community.

For a variety of reasons, the majority of merchants have not placed a sufficient premium on adding the degree of personalization consumers expect to their online marketing and marketplace.

Our findings show that there is large, unrecognized potential for merchants who captivate customers by employing technology to close this personalization gap. Among the most significant benefits from mimicking the in-store experience in the online realm are increased sales, increased customer loyalty, and improved overall customer satisfaction.

Key findings of the survey include:

- A significant percentage of consumers not only welcome but expect online merchants to provide personalized experiences and product recommendations. Consumers say they value the convenience, time-savings and ease of choosing the right product they get from a more relevant interaction with the merchant. Yet, only 2% report feeling that products suggested to them online are tailored for them based on their individual purchases and behaviors.

- Some 77% of consumers report that they have made additional purchases when they have encountered personalized product recommendations online. More than half of consumers say they usually peruse those recommendations when they are offered.

- Contrary to many reports in the media, the vast majority of consumers—75%—are willing to provide some meaningful amount of personal information in exchange for a more personalized, relevant shopping experience. Some 42% of men and 39% of women in the survey reported having no privacy concerns at all relative to personalized product recommendations (PPR).

- More than one-third of consumers (36%) indicate they award more loyalty to merchants who effectively meet their demand for true personalization in the shopping experience.

While merchants almost universally recognize this demand by consumers, they have not placed a high enough priority on making the technology investments needed to create an effective set of personalized product recommendations. According to one-on-one conversations with two dozen merchants:

- More-targeted email programs, redesigned web sites and improvements to onsite search are on the priority lists of two-thirds of merchants contacted—but increased personalization is only an initiative for 41% of merchants. Merchants report that it is not lack of interest in personalization,
but nearly half said that competing projects have greater priority. More than a third said they simply lack the resources to make personalization a higher priority.

- A large percentage of merchants who do attempt to personalize the e-tail experience still rely on manual, hard-coded methods for providing additional product recommendations to online shoppers based not on individual behavior, but simply on the products currently being purchased.

- Some merchants remain skeptical that personalization technology is worth what they see as a significant cost in both time and pain around technology integration. They would be much more open to solutions that would be easy to test on a small scale and then quickly “flip the switch” to full-scale implementation.

- Merchants want assurances that the personalization technology they adopt goes beyond merely helping with customer acquisition, but rather ensures long-term retention of the customer.

Looking at the consumer and merchant results in combination, we conclude by making 10 recommendations for merchants looking to capitalize on PPR technology, including focusing attention on the role of email in extending the personalization experience. Those merchants who choose the right path and put personalization higher on their priority list are likely to have an edge on sales and customer loyalty in the long term.
ii. the customer convenes—highlights from the MyBuys/e-tailing group first annual personalized product recommendations survey

Our goal with this survey was to understand how consumers value personalized recommendation across channels. In order to assess the business potential of such efforts, we sought to learn how buying is impacted when there is a personalized shopping experience, exploring where and how such personalization is embraced by consumers. We looked for insight into personalized, preferential post-order communication and marketing email, assessing their effectiveness as both customer service and marketing tools. Cross-channel preferences round out the consumer perspective.

online shopper purchase, frequency, and spending patterns are strong

It is clear from our extensive survey that consumers are not merely ready for personalized experiences but they have come to expect them. Our respondents were frequent shoppers as 75 percent of those surveyed shop online more than one time per month.

how often did you shop online for products during the past year?

Weekly: 28%
Several times a month: 47%
Once a month: 21%
4 times per year: 4%

While all those surveyed spend over $500 online annually, 51 percent spend more than $1,000 each year, which also factors into participation. We felt strongly that it was important to survey regular online shoppers, as these savvy consumers would have the highest of expectations.

how much do you spend online annually?

$1500 or more: 29%
$1000 – $1499: 22%
$750 – $999: 18%
$500 – $749: 31%

customers set high expectations

Merchants do not know shoppers as well as they should: 39 percent scored their favorite merchants five or less on a “ten-point scale.” Interestingly, we found merchants concurred, giving themselves an “average” score for their own website/email efforts (which later commentary will expound upon).
on a scale of 1–10 how well do your favorite merchants know you as a customer where ten implies they know you extremely well?

Shoppers want—and expect—more personalized online shopping experiences based on past purchases and behavior. Yet today, the majority of these shoppers (89%) feel that products suggested on a site are specifically tailored for them just “some of the time or once in a while.” Such limiting experiences highlight the potential that future personalization efforts have.

how often do you feel that the products suggested on a website are tailored specifically for you?

The good news for multi-channel merchants is that shoppers perceive the Internet as the channel where they are best known and receive personalized recommendations, yet despite that sentiment merchants do not know shoppers as well as they should, given the afforded possibilities. Elevating the quality of personalization on the web and then subsequently extending successful initiatives to all a merchant’s channels is the optimal scenario for both consumers and merchants.
Shoppers find value in truly personalized products on a site because they are *convenient*, *save time*, and help them make *better choices*. Convenience is more of a factor for women (71%), while men have higher expectations that personalization should be based on past purchases (42%).

**Merchants must move beyond greeting customers by name and stop pretending that this will suffice as personalization.** Customers are willing to give up both time and information for the privilege of being captivated with truly relevant and personalized product recommendations.

Surprisingly, shoppers expressed limited concern relative to privacy/invasiveness, believing that the value of personalization far outweighs any downside risk, thus keeping the risk/reward ratio solidly intact. Forty percent of shoppers have *no privacy concerns*; 35 percent enjoy receiving personalized recommendations although they consider them somewhat invasive. Men are even less concerned with privacy (42%), while women are more apt to enjoy receiving personalized recommendations (39%). Such high tolerance was refreshing, assuring us of the comfort consumers feel with true personalization on the web channel.

<table>
<thead>
<tr>
<th>Channels</th>
<th>Knows you best</th>
<th>Knows You least</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Internet</td>
<td>45%</td>
<td>17%</td>
</tr>
<tr>
<td>Store</td>
<td>18%</td>
<td>37%</td>
</tr>
<tr>
<td>Catalog</td>
<td>6%</td>
<td>37%</td>
</tr>
<tr>
<td>TV Shopping Network</td>
<td>31%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Now that we understand the customer expectations and desires for personalization, we will move on to performance and the impact PPR can have on the bottom-line.
iii. placement and bottom-line performance

driving add-on sales
In addition to finding out what captivates customers, we wanted to understand when and how often personalization comes into play with respect to buying add-on products. The findings are consistent and strong, suggesting that 77 percent of the time a merchant’s personalized recommendations result in additional product purchases.

beyond the product you bought, how often do you purchase an additional product based on a merchant’s personalized recommendations?

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>All the time</td>
<td>2%</td>
</tr>
<tr>
<td>Some of the time</td>
<td>19%</td>
</tr>
<tr>
<td>Once in a while</td>
<td>56%</td>
</tr>
<tr>
<td>Never</td>
<td>18%</td>
</tr>
<tr>
<td>Never noticed</td>
<td>6%</td>
</tr>
</tbody>
</table>

improving relevance improves conversion
We saw that 77 percent of the time people buy more when they are captivated by a recommendation, but the chart below indicates that merchants are missing the opportunity.

We know personalized recommendations can drive more add-on sales. But by making off-target recommendations to consumers, merchants leave money on the table, with 33 percent of shoppers not seeing products that they want to buy and 53 percent only seeing good recommendations “once in a while.”

When you are shopping on a merchant’s product page or in the shopping cart, which one of the following has typically been your experience when you see “Customers who bought this product also bought these products?”

<table>
<thead>
<tr>
<th>Experience</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I usually peruse those products and once in a while purchase one of them.</td>
<td>53%</td>
</tr>
<tr>
<td>I have looked at those products in the past and they don’t seem to be the types of products I would consider buying.</td>
<td>23%</td>
</tr>
<tr>
<td>I don’t look at those products because they’ve never been on target in terms of products I would likely buy.</td>
<td>11%</td>
</tr>
<tr>
<td>I purchase a lot of gifts online and am not often interested in buying additional items at that time or in the near future.</td>
<td>7%</td>
</tr>
<tr>
<td>I usually peruse those products and always purchase.</td>
<td>2%</td>
</tr>
</tbody>
</table>
location, location, location
Per the following table, shoppers indicate it is “very to somewhat valuable” to receive PPR in multiple website locations. Their high value-rankings can be seen from this additional view, beginning with the product page where giving consumers an overview of compatible products is ideal. The Amazon personalized home page approach is second, then the category page, followed by the shopping cart, with the brand page and personalized email follow-ups rounding out the list. Recommendations made on the thank you page after checkout is seen as having less value (most likely due to the lesser attention it receives once they’ve placed the order).

<table>
<thead>
<tr>
<th>Personalized product recommendations ranked very valuable, valuable &amp; somewhat valuable.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Product pages</td>
<td>76%</td>
</tr>
<tr>
<td>Personalized home page</td>
<td>75%</td>
</tr>
<tr>
<td>Category page</td>
<td>74%</td>
</tr>
<tr>
<td>Shopping cart</td>
<td>70%</td>
</tr>
<tr>
<td>Order confirmation</td>
<td>67%</td>
</tr>
<tr>
<td>Shipping confirmation</td>
<td>65%</td>
</tr>
<tr>
<td>Brand page</td>
<td>63%</td>
</tr>
<tr>
<td>Email with product recommendations specific to past purchase</td>
<td>62%</td>
</tr>
<tr>
<td>Email after purchasing a product asking for a rating and reviews</td>
<td>61%</td>
</tr>
<tr>
<td>Thank you page after checkout</td>
<td>55%</td>
</tr>
</tbody>
</table>

All in all, every location suggests an opportunity to deliver incremental sales, and merchants should consider the placement of these recommendations.

placement – product detail page

"More Great Finds"
- You may also like
- Top sellers
- New
- Great choice
placement – personal home page

Amazon educated shoppers about personalized product recommendations

placement – category page

Captivate customers immediately in the category page

placement – brand page

Customized selection of branded goods
While PPR are valued throughout the online shopping experience, consumers value personalized communication post-order, with shipping and order confirmation emails at the top of the list. This is likely a factor of readiness, as once the order process is completed they appear to be more eager to expand upon their original purchase. Women are even more apt to rank shipping and order confirmations as “very valuable” locations to receive personalized recommendations. In addition, 62 percent of respondents expressed varying levels of interest in receiving recommendations in email with offers based on past purchases.

<table>
<thead>
<tr>
<th>Post-order, how valuable is it for you to receive personalized recommendations within each of the following communications?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Communications</strong></td>
</tr>
<tr>
<td>Shipping confirmation</td>
</tr>
<tr>
<td>Order confirmation</td>
</tr>
<tr>
<td>Thank you page after checkout</td>
</tr>
<tr>
<td>Email after purchasing a product asking for a rating and review</td>
</tr>
<tr>
<td>Email with product recommendations specific to past purchase</td>
</tr>
</tbody>
</table>
**placement – order confirmation and thank you page**

Merchandised for incremental sales

**placement – shipping confirmations**

Sell and support opportunity

**placement – post-order merchandising**

Specific coordinating product sent via email
Lastly, personalized email alerts are powerful tools that can broaden perceptions and increase sales. Such communications can serve to remind shoppers that requested products have returned to stock or new arrivals from a favorite brand are now available, along with an array of customer service or merchandising possibilities. Since not many merchants are employing these techniques, we were surprised that the numbers came back as high as they did. As this practice becomes more mainstream, the responses may look different in the future.

**What is your perception when receiving an email alert to let you know about products/promotions tailored for you or for backordered products you previously attempted to purchase? Check all that apply.**

- I believe this kind of communication is much more valuable than a generic promotion likely sent to all customers. **37%**
- I sometimes respond to these emails purchasing one or more of the products. **34%**
- I respond the same as general communications. **30%**
- I always open these kinds of communication. **24%**
- This retailer is customer-centric and truly provides a service. **17%**
- I always respond to these emails purchasing one or more of the products. **3%**

**asking customers what they want**

![Image of a website interface with favorites by category, sub-category, and brand.]
personalized email alerts

“Beauty Bye-Byes” online-only clearance

ratings and reviews emails

Promoting new products

Rate this product

Bring them back to buy more
loyalty is the end game
Consumers reward merchants who provide personalized recommendations with additional product purchases. Over one-third (36%) of shoppers indicate being “significantly to somewhat” more loyal to a retailer that provides them with a personalized online experience, which we find remarkable considering that most retailers have yet to provide truly personalized experiences on the web.

when receiving a personalized experience from an online retailer how much impact does that have on your loyalty to that particular retailer?
iv. cross-channel strategies increase potential

Long-term, consumers expect to find personalized shopping experiences across all channels, making them feel special and ultimately more loyal to those particular merchants. Unfortunately, only 78 percent are encountering them “some of the time” or “once in a while.” Based on our merchant interviews, the most likely extensions of such efforts will take place in call centers, as will be discussed in the latter half of this paper. Sophisticated merchants will augment these efforts at the store level though exemplary execution, which will only result from a well-conceived strategy, dedicated training, and reinforcement of the cross-channel value proposition.

how often do you encounter retailers who provide personalized experiences in their stores, online and/or from their call centers?

<table>
<thead>
<tr>
<th>Reaction</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most of the time</td>
<td>4%</td>
</tr>
<tr>
<td>Some of the time</td>
<td>29%</td>
</tr>
<tr>
<td>Once in a while</td>
<td>49%</td>
</tr>
<tr>
<td>Never</td>
<td>14%</td>
</tr>
<tr>
<td>Indifferent</td>
<td>5%</td>
</tr>
</tbody>
</table>

Sixty-four percent of shoppers appreciate personalized treatment; 25 percent say it makes them feel special and more loyal. Knowing that these efforts will likely pay off in sales and ultimately loyalty, merchant thinking should certainly focus in this direction long-term.

Which one of the following most closely describes your reaction to receiving personalization treatment from retailers across all of their locations?

<table>
<thead>
<tr>
<th>Reaction</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>I feel like a special customer which makes me more loyal to that merchant.</td>
<td>25%</td>
</tr>
<tr>
<td>I enjoy it but it doesn’t impact my purchasing from that retailer.</td>
<td>39%</td>
</tr>
<tr>
<td>Nonchalant, it is not that important to me.</td>
<td>31%</td>
</tr>
<tr>
<td>I feel intimidated by such treatment.</td>
<td>5%</td>
</tr>
</tbody>
</table>

Based on our research, the consumer has clearly set a high bar for the merchant community. To exceed their customers’ expectations, merchants must therefore decide how best to tackle the evolving area of personalization.
v. the merchant perspective

the merchant profile

It was essential to survey a broad range of merchants, and we feel fortunate to have spoken with 24 who completed a 10-question survey, facilitated through personal interviews. Our objective was to explore the merchant’s perspective on PPR, including current methodologies and outsourced technologies for implementation of personalization, along with customer retention issues, budgets, techniques, and performance rankings.

Merchant selection included a cross-section who scored high in cross-sell/up-sell contribution from the e-tailing group’s 7th Annual Merchant Survey as well as those who had successfully implemented personalization online. This ensured that varying points of view would be brought to bear and that the particular experiences of one category would not skew our finding.

According to our annual survey, merchant contribution to up-sells and cross-sells is unknown for over 50 percent of participating merchants. For those in the know, the majority say these efforts contribute anywhere from less than one percent to greater than ten percent to the bottom-line. This alone propelled us to understand more about the challenges and opportunities relative to PPR and why there is such a broad range of strategies and results.

what percentage of revenue are your up-sells and cross-sells contributing to overall revenue?

[Chart]

awareness of personalization services is almost universal

We were somewhat surprised to learn the high level of awareness PPR technologies had in the merchant community. Perhaps, as there are an abundance of players, their sales and marketing teams have done a good job fostering merchant awareness. Hopefully this report further extends such efforts through education about the topic from both a merchant and consumer lens.

Once we learned of this awareness, we sought to further our knowledge regarding merchant perceptions about PPR technologies. Most believe that these technologies deliver an elevated personal experience for the shopper. Mike Massey, Partner, Masseys Professional Outfitters, finds specifically that, “The use of PPR not only brings a
more personal experience to consumers on the web; it allows us to replicate the in-store experience online. We view Amazon as a ‘10’—they epitomize the personalization and cross-merchandising efforts we strive for. We used to attempt to do this manually, now with PPR we can get closer to our goal with an automated engine that saves time and resources.”

Cathy McManus, Marketing Director at Stacks and Stacks, a Richmond, California-based housewares merchant who is utilizing these services as well, states, “I’m a believer,” suggesting their current efforts would receive a top performance score of 10 where they perceive themselves to be doing everything out there that’s possible, trying to make the right offers for their customers. “For us it’s like a spy book on the site where we can pick up on customer interests, including past history and current behavior. These technologies have matured way beyond our expectations.”

Intermix Director of e-commerce Don McNichol acknowledges that the technology for most is more manual, yet indicates, “It is now easier to integrate into existing platforms at a price that is palatable.” As a result they find themselves currently in negotiations with a number of companies. He believes that best-of-breed technology is based on algorithms that have real substance and with improved complexity they are now able to make more efficient recommendations.

Many believe that PPR would not be possible without technology capabilities that are easy to implement and manage, particularly for resource-challenged merchants. Our own research from the e-tailing group 7th Annual Merchant Survey indicates that most merchants are resource-challenged. This is reason alone to explore PPR technologies. An important reminder relative to this topic comes from Jon Abt, Abt Electronics: “Despite having the talent in-house to ‘do’ technology, we have to remember that we also need to get merchants to update the information in a timely fashion, so resources are a factor.” Even if you have talented people in-house, the to-do list is always growing; automation is one way to solve this challenge.

**How many full time employees are working on your e-commerce program?**

<table>
<thead>
<tr>
<th>Full Time Employees</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1–2</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>3–5</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>6–10</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>11–15</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>16–20</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>21–30</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>31–40</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>41+</td>
<td>12%</td>
<td>14%</td>
</tr>
</tbody>
</table>
Those interviewed reinforce our findings, including Glenn Edelman, VP of Marketing, Wine Enthusiast. They desired a plug-and-play approach, noting that prior to testing one of these tools they were doing everything manually and it was a huge drain on resources. Another very sophisticated technology merchant, HP Home & Home Office, reports that a great deal of expertise is required to deliver optimal levels of personalization, and leveraging the expertise of partners is often a preferred practice, according to Kelly Rausch, Manager, Multi-Channel Integration, HP Home & Home Office.

**from shelfware to reality**

The good news is that merchants perceive there has been an **evolution and maturity** with the PPR solutions available in today’s competitive marketplace. In fact, Warren Mazer, VP e-commerce, World Market–Cost Plus is “surprised it’s taken this long for folks to productize.”

Two e-commerce veterans bring seasoned perspectives to this topic. GSI’s Rob Schmults, VP Sporting Goods Management sees this as a logical progression of folks like ephiphany and Net Perceptions. “If you don’t own an older model of software, it’s easier to set up these ASP models. So in many ways merchants who are later to the game have some advantages.” From the ISP world, Intermix’s Don McNichol summarizes his observations: “While these tools have been around for several years, I feel that they have only started to mature in the past 12 to 18 months, and the space is now filled with startups. It’s similar to the intelligent agents from ISP days where proliferation has finally reached e-commerce. I strongly believe that they can affect the end-user experience by directing more relevant product.”

**Just because PPR has come of age does not mean all technologies are created equal. In this busy market, we suggest that you do your homework and select the right service for your needs.**

**broad assortments ripe for personalization automation**

PPR is clearly seen as being effective for large sku counts and are dismissed by those with narrower assortments, who believe such efforts can be handled in-house or that manual options are sufficient for their needs. Jackie Cunningham, VP Staples Business Delivery Merchandising, and Karyn King, Manager Staples Business Delivery Merchandising Development, who clearly manage a large sku count, support this premise, suggesting that PPR could give better visibility and presentation to one’s existing assortment. One specialty department store merchant was quick to say, “It’s difficult to manage our assortment manually; we have tested automated versus manual and automated wins out and could even get better results if we weren’t constrained by our vendor and category rules.”

The ability to **increase the average order size** was mentioned by many players. Jon Abt, Abt Electronics, appreciates such possibilities, stating, “I like the idea of technology helping us increase the average order size while simultaneously creating a better customer experience. An accessory may make the difference in our low-margin business and we need a service in place.”

**facing challenges head-on starts with an in-house mindset**

Technology is never without its challenges and PPR are no different. For some, there is a bit of hesitation when it comes to one-to-one efforts but that was mentioned infrequently, which bodes well for this technology’s potential. The biggest obstacle encountered in our interviews is an in-house mindset combined with significant technology investments or the belief that such efforts should or could be accomplished with already-implemented technology.

Some spoke honestly about their internal control over technology and that such marketing intelligence typically is kept in-house. Others, like Staples, have invested heavily in systems and need to rediscover what these new technologies mean in the context of their home-grown system. King and Cunningham are investigating if this is a
missed opportunity or if what they have today is good enough. Others note that they just couldn’t do an add-on to their existing platform.

Mazer at World Market–Cost Plus wisely spoke of the many other technologies that started off as being part of the platform but eventually broke out as best-of-breed and are today standard components of e-commerce sites; he sees the same thing happening with PPR.

Still others mention not wanting to add another integration element because they already have reviews and search or are gun-shy when it comes to changing components. One merchant explains how this might especially impact the product page because legacy versions are undocumented, so any changes made could result in breakage in six more places. Another notes that their site architecture has limitations: “We tend to do a lot of testing to see how this performs before flipping the switch, so such efforts may complicate matters.” There is an opportunity on the part of technology companies to educate merchant prospects about how internal demands can be effectively accommodated.

reservation regarding placement

For some there is a healthy reserve about the numbers. Brad Wolansky at Orvis, a tough technology evaluator, expresses, “I don’t believe the math companies are touting. PPR technologies are suggesting usage in multiple places on websites beyond the product page, though we’re not banking on these other locations. It’s important to remember that every place you put recommendations takes work.” A good lesson from his feedback is that merchants must be proactive and do their homework prior to researching such initiatives, keeping in mind that consumers value multiple locations for PPR.

the category/assortment issue

Several merchants interviewed, including Kevin Churchill, VP Merchandising at Patagonia, do not believe that their line is broad enough to warrant such a tool. Despite their manual approach, there is inherent flexibility in the process. “We’re a technical brand and want to show cross-sells in support of our brand; we often show 2 tops as our top/bottom ratio is 3.5/1 and with polos they buy 2 to 3 other polos, so there’s no algorithm that we believe is right for our brand. Merchants handle initial product picks and then we drive cross-sells from our analytics provider and feed into search. This is as close as we need to go.”

Others also suggest that even with manageable sku counts, their merchants must play a role in such efforts. Lucy’s Rebecca Taubman, Director of e-commerce, emphasizes, “Manual merchandising should always play a part in determining customer recommendations.” For some, like Dan Auer, President, Decorative Product Source, which runs faucet.com among other sites, they simply “aren’t right for the way we go to market.” Lastly, a merchant’s volume also factors into their interest in pursuing PPR, says Seta Corporation’s Dennis Worth, VP Marketing and Creative Services, when speaking about PalmBeach Jewelry. He initially felt that most of these technologies would be too expensive for a company their size, but in the end leverages PPR to achieve the explicit objectives established as part of their working arrangement.

High awareness levels of automated PPR coupled with resource-strapped merchants make the opportunity one that merchants must research and understand thoroughly.
vi. current personalization strategies center on manual efforts

A follow-up question looked to understand how products are being merchandised to personalize them for customers on the web. On a scale of 1-10 where 10 is top performance, merchants see their web efforts as slightly above average (5.4/10), identifying a series of manual processes that are uniquely focused on the needs of their brand, designated category, and current business model.

current personalization strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manually hard coded</td>
<td>80%</td>
</tr>
<tr>
<td>Internal, top sellers</td>
<td>7%</td>
</tr>
<tr>
<td>Other internal strategy</td>
<td>61%</td>
</tr>
<tr>
<td>Technology provider</td>
<td>21%</td>
</tr>
</tbody>
</table>

Boston Proper, a catalog merchant, takes a manual approach where recommendations are hand-selected by the merchant team for each product. Margaret Moraskie, VP e-commerce, indicates that they apply their own business rules to these merchandising efforts based on internal know-how. Should an item be reshot for a subsequent book, it gets updated. Recommendations are visited about twice a month (not including updating during catalog mail cycle, where products due back in stock will not be removed). Despite such a manual approach, she reports that they have good success with average orders containing 3-4 units. They typically sell a second product or a clearance item and their “solutions” strategy has produced strong results, with a higher percentage of shoes and accessories as well as intimates being added to many orders.

processes accommodate unique merchant requirements

Lucy takes it one step further and offers up to nine cross-sells for a single item on the product detail page, giving their customer the ability to scroll through several options. They review site metrics’ data to determine top cross-sells on key items and user paths through the sub-navigation to determine what types of items the customer is generally browsing. “For apparel first and foremost, we want to understand how she looks at bottoms and tops; what’s the order of how she purchases (i.e., buy a pair of cropped pants; then buy a second pair of black pants and then a shirt) because we are a bottoms company and that impacts severely our recommendations strategy,” emphasizes Taubman.

Abt Electronics is technical in their product mix, where their requirements suggest showcasing cross-sells/up-sells. They have been successful visually displaying both a step-up and a step-down and want to ensure that new technologies can accommodate this requirement. Their efforts to date have typically been a one-off project, though discontinued product has to be updated, which has been manually intensive. Abt explains, “We look at store data to make a better customer experience utilizing our sophisticated product specialists to move beyond web merchandising. We have found this usually leads to a quicker sale and also works well for a lesser-educated salesperson at retail.”
Lastly, Staples has invested in manual processes—hard-coded efforts handle their overarching categories such as furniture and technology where they can make changes daily. Merchants have built strategies around the customer’s basket whereby analysts look at web analytics and sales seeking out “educated compatibility. This would include an appropriate toner for a printer, optimizing part of the content for that product. Varying amounts of time are spent in sku management because for us, it's all about the fit issue where the tool follows an algorithm at the category level. We also address if a shopper is registered, so we can track their past buying behavior, as we believe they are all indicators for future shopping,” conclude King and Cunningham.

When selecting PPR technologies, make sure that vendors take into account your unique merchant requirements and that they blend cross-sell data and consumer profile information.

**Internal approaches are variable in nature**

For those merchants that build in-house algorithms, the level of sophistication is wide-ranging, and often they are not sure if it is the right thing to do, as one merchant candidly admitted. Today they employ an internally developed algorithmic approach highlighting generic top sellers. For each new catalog, a product page with coordinated cross-sells is built and played out for three weeks. They utilize a category-driven, cross-sell approach, testing a new paradigm that leverages internal analytics combined with merchant savvy, and are moving to an outside technology company to optimize these efforts.

At Interix, McNichol acknowledges that they are in the early stages of personalizing product recommendations as they do cross-sells and up-sells based on the products customers are looking at as well as past purchases. “We have 750 styles but 100 go in and out on a monthly basis. We try and watch for latest trends from shopper searches and of course hot brands to interpret their behavior on the site,” he notes. They also merchandise based on geographic logic as well as seasonal buying patterns.

**Internal approaches yield variable results and merchants have difficulty measuring performance and predicting results. Leveraging PPR vendor expertise could prove helpful.**

**Technology solutions automate current processes**

Masseys tried to run PPR in-house and failed, noting that before implementing PPR they put 25,000 products into a spreadsheet and manually built out personalization, which was not efficient. Similarly, World Market–Cost Plus, currently implementing PPR, reports using one outside person three days a week and that having 5,000 skus with heavy turns makes this a very time-consuming process.

**Data delivers important consumer insights**

Limited use of technologies/platforms for true personalization is the state of selling online. Analytics and search technologies are a stop-gap being utilized for pathing and an understanding of customer behavior. Taubman at Lucy currently works with her analytics provider, pathing cross-sell data for customers who bought x/bought y, including selected silhouettes where most buy two pants. She, too, is evaluating a new platform that has a better feature set around these personalization needs.

At Coach, they are still grappling with a one-size-fits-all approach. Kate Terry, DVP Internet, Coach admits, “Despite having many customer types (i.e., grandma, gift giver, trendsetter) we know that one-size-fits-all is not maximizing the efforts. Our current analytics tells us what sells through at both the product page and cart levels. We can understand if volume is up or down, but we also want to understand, ‘Did we continue or inhibit her path?’ Unfortunately, we currently have no easy way of knowing if, when a cross-sold item sells, they also bought the original product.”
merchant needs must be top-of-mind

As always, merchant needs must be kept top-of-mind, and accordingly the issue of where data is currently housed came up in our discussions. One specialty department store in particular “chose out of need and factored in an existing relationship; anyone else would have taken years to deliver, so we’re taking the path of least resistance as we believe it’s more cost-effective.”

Not surprisingly, many looked to their existing e-commerce platforms to power such initiatives but in most instances the tools are not in place. Peter Bishop, VP Direct at Pendleton, like others, thought it would be easier to do with his current platform, certainly from a dollars/cents point of view. Being skeptical and time-challenged, and acknowledging that personalization was not his top priority, he had not spent much time assessing needs but was quick to add that with these technologies rapidly evolving, and more merchants seeking behavioral-based solutions, this will undoubtedly color their search for a future platform.

These insights clearly let us know that current efforts are colored by the nuances of each merchant’s business. The onerous nature of delivering personalized product recommendations has pushed merchants to explore and utilize new technologies to better achieve business goals.
Next we need to look forward to where and how merchants will make investments in PPR. It is our belief that resources will be dedicated and dollars invested in this area given its bottom-line potential. When asked in our annual merchant survey, “What initiatives are you planning to improve website performance?” cross-sells/up-sells, personalization, and more-targeted email made the top-10 cut. Savvy merchants are going to seize the opportunity to deliver a more relevant and personalized experience as these efforts will become even more critical in tougher economic times. We like one technology merchant’s philosophy who suggests it’s important to keep in line with best practices versus keeping up with the Joneses. Intermix’s McNichol summarizes the situation well: “At the end of the day, the data is there; those who execute will monetize.”
current obstacles to adoption

Merchants were asked to rank the biggest obstacles to testing personalized product recommendations on their websites. The good news for PPR technologies is that it is not about a lack of interest but, on the contrary, higher competing issues that put such personalization efforts on the back burner temporarily. Initiatives most often cited by the merchants interviewed were an evolving website, site redesigns, and for many, upcoming platform changes. A general focus on the plumbing or backend functionality was noted by a number from migrating data centers to generally upgrading databases. Tactical efforts followed suit with onsite search efforts and promotional enhancements all being top-of-mind. From a marketing perspective, both acquisition and retention efforts were mentioned along with delivering a complete multi-channel customer experience.

personalization obstacles top 5

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROI skepticism</td>
<td>21%</td>
</tr>
<tr>
<td>Higher competing issues</td>
<td>45%</td>
</tr>
<tr>
<td>Fee attribution concerns</td>
<td>21%</td>
</tr>
<tr>
<td>Lack of resources</td>
<td>33%</td>
</tr>
<tr>
<td>Internal skepticism about algorithm-based</td>
<td>21%</td>
</tr>
</tbody>
</table>

skepticism over automation

Admittedly there is some skepticism. As one specialty cataloger noted, “We have skepticism; our team is mathematically inclined by nature; with such a tool we wouldn’t have to bog down IT and it would be great to have the details to drive our business. More importantly, we would have to be able to prove that there’s an elevated experience. From there, a business case for PPR would have to be made. It can be ‘big brotherish,’ so we need to walk a fine line.”

Most importantly, this skepticism was limited regarding PPR’s ROI potential or the algorithms themselves, so it is our belief that in the next year, many merchants will look to integrate these technologies into their overall merchandising efforts.

lack of resources constrain merchants

As has already been mentioned, a lack of overall resources also complicates matters. We heard the following thoughts regarding such constraints: “Time is precious but we’re still sold on concept” from Orvis’ Wolansky. And from HP Home & Home Office’s Rausch, “When it comes to technology, it is always hard to prioritize phase II of a project because by the time you get around to it, new projects have appeared that have a higher ROI associated with them.”

fee attribution

Several merchants expressed concern about fee attribution; as with any pay-for-performance model, they want to ensure that their payback is appropriate. One notes that if you’re targeted you don’t know if they actually saw the ad. “On the flip side there’s no guarantee that I would have gotten the sale otherwise,” retorts Stacks & Stacks’ McManus. Of course “nothing’s black and white,” echoes another, “We’re always thinking in the back of our minds, Am I paying for the sale I could have gotten in another way?”
**ROI is another important consideration**

Along with fee attribution, ROI is always on merchants’ minds. One mentions conducting a 60-day test with an 80/20 split to assess the achieved lift. He then hopes to negotiate a flat rate for the year and likes the option of adding additional tools throughout the year, not wanting to be nicked-and-dimed on all requested tweaks. Masseys, for one, is currently using PPR and initially thought it would be too expensive due to the pay-for-performance model but found that it has more than paid for itself. Category considerations were again brought up. Staples reports, “ROI must result from both a time and money perspective.”

**personalization element appeal**

Relative to PPR vendors, surveyed merchants ranked the appeal of a series of elements where 1 has the greatest appeal on a scale of 1-5.

**personalization element appeal**

<table>
<thead>
<tr>
<th>Element</th>
<th>Appeal (Score)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate across channels</td>
<td>4.4</td>
</tr>
<tr>
<td>Increase AOV</td>
<td>2.92</td>
</tr>
<tr>
<td>Elevated customer experience</td>
<td>3.24</td>
</tr>
<tr>
<td>Increase conversion</td>
<td>2.56</td>
</tr>
<tr>
<td>Pay for performance</td>
<td>3.48</td>
</tr>
<tr>
<td>Trial period</td>
<td>2.92</td>
</tr>
</tbody>
</table>

**Conversion** and **AOV** are considered “givens,” where comments such as “It’s why I’m doing it” were heard time and again. Staples’ Cunningham/King succinctly explain, “Conversion and AOV go hand in hand; we have the asset, the site, and are always looking to increase the efficiency of this asset.”

Bottom-line performance results are most important where a **trial period** is welcomed by merchants. Another merchant comments: “We like free implementation. Half of the vendors we reviewed provide free proof of concept and we need to move beyond black box, otherwise we don’t see how it’s working.” Suggests Wolansky at Orvis, “With any new company there would have to be a data collection period where we would need to vet their data and assess the ease of implementation desired, given that this technology won’t already have our data and we need to filter out for in-stock product. From there, a/b testing would certainly be easier to implement and evaluate.”

**pay-for-performance finds mixed opinions**

When it comes to how merchants want to pay for PPR, like so many issues, it is a mixed bag. Some do not believe in paying for impressions which can get costly, preferring to pay only for conversion. Others do not want to pay for R&D. Intermix’s McNichol reflects, “While it is the holy grail for the net, this technology has been around for ten years.” For still others, business models forbid such an approach. Rex Creekmur, Director of Marketing, Rugs Direct is frank: “If it works, we’re not concerned with how the company gets compensation.” DPS’s Auer agrees and takes it one step further: “I prefer a fixed control that can be justified; if it does well, I don’t want to pay more.”
For Lucy, as well as a number of other merchants interviewed, there are often budgetary challenges. “We have a fixed annual budget and it’s our best chance to add a feature beyond budget because of no upfront costs,” according to Taubman. Boston Proper’s Moraskie agrees: “We already have strong KPIs, so it’s an easier sell to management where there’s no investment and the ROI is easier to achieve.” Either way, it must always be fair for both sides. One other merchant comments: “We prefer that the vendor put some skin in the game as we often find that, like all of us, they need a carrot to perform.”

**the multi-channel factor**

The appeal of multi-channel aggregation is interesting but relatively low in terms of overall value. This capability has already weighed into one merchant’s selection process. Ironically it became a deciding factor, when initially it hadn’t even been part of the RFP. Others see the appeal of PPR but are concerned getting all data in one place could be difficult. Value is apparent to Coach’s Terry: “We get a lot of store users and it would be great if we could merchandise online to accommodate these store buyers.”
viii. marketing tactics that retain customers

We asked merchants, “What three tactics are you using successfully to drive repeat purchasing today?” Responses from consumers and merchants alike make it clear that personalization initiatives can be key to retaining customers. A myriad of tactics were touched upon but email was almost universally mentioned. Beyond “spray and pray,” email is frequently being utilized for product alerts. Thank you emails with a percent off or other specific offers on the next purchase also work well. One merchant took this a step further and created a welcome series to try and convert one-time buyers to repeat buyers. With the current challenging business climate, many merchants are also testing reactivation emails and those, too, are typically tied to an incentive. A more-current trend is using email to secure reviews that engage shoppers, returning them to the site.

There is significant talk about tying personalization efforts to the catalog and direct mail, two of the most favored tactics among merchants we surveyed. With rising paper and postage, postcards are also seen both as enticing for consumers, yet still cost-effective for merchants.

Some merchants thankfully still do things the old-fashioned way, making phone calls to top customers which reminds us that “listening to the customer” still has value in the marketplace. Extending on that sentiment is the notion of customer service as a differentiator. We all know what it is like to be treated right as a customer, which always helps bring us back into the fold. Lastly, assortment is a primary vehicle for retaining shoppers. We know that’s what keeps us as customers beyond the service.

Promotions are a mainstay, and the merchants who tout these emphasize that successful strategies are heavily personalized with products, including tie-ins to loyalty or rewards. Bouncebacks are another way for merchants to provide free samples or extend similar kinds of offers. Several mention traditional loyalty programs, where one merchant even sent gifts to their top-tier customers. Surprisingly, friends and family programs only receive an honorable mention given the merchant’s propensity to use that tactic, especially last holiday season. Finally, paid search and affiliate marketing garner a few nods.

segmentation efforts are typically rudimentary

It will be essential that merchants evolve their segmentation strategies, as now they seem rudimentary at best. This sentiment was clearly seen in our 7th Annual Merchant Survey where 78 percent of merchants showed rudimentary/some level of segmentation sophistication with little year-over-year fluctuation.

how would you define your level of sophistication regarding customer segmentation?
This same report revealed that a mere 25 percent of merchants are personalizing their email, which can result in consumer burnout in the short-term and lowered performance results long-term.

**which of the following apply to your email solutions? check all that apply.**

<table>
<thead>
<tr>
<th>Category</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your own branding</td>
<td>79%</td>
<td>88%</td>
</tr>
<tr>
<td>Sales and specials</td>
<td>86%</td>
<td>83%</td>
</tr>
<tr>
<td>New product introduction</td>
<td>80%</td>
<td>75%</td>
</tr>
<tr>
<td>Seasonal messaging</td>
<td>81%</td>
<td>74%</td>
</tr>
<tr>
<td>Full price products</td>
<td>62%</td>
<td>57%</td>
</tr>
<tr>
<td>Coupons</td>
<td>45%</td>
<td>53%</td>
</tr>
<tr>
<td>Store promotions</td>
<td>44%</td>
<td>38%</td>
</tr>
<tr>
<td>Company news/events</td>
<td>23%</td>
<td>33%</td>
</tr>
<tr>
<td>Personalized messaging</td>
<td>29%</td>
<td>25%</td>
</tr>
<tr>
<td>Loyalty marketing</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>Promote other manufacturers/brands</td>
<td>26%</td>
<td>20%</td>
</tr>
<tr>
<td>Replenishment</td>
<td>11%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Our findings via conducted interviews also indicate that **rudimentary segmentation is an unfortunate reality** and that “batch and blast” or “spray and pray” techniques prevail. As such merchants also indicate that on a scale of 1-10, where 10 is a top-performer, they believe that their current email efforts are below average, coming in at a 4.6/10.

At Patagonia, Churchill knows, “We’re focusing on the basics, just sending a welcome email. Ideally, we want to get to the category level and then get more specific to better reach our business objectives.” Today they simply look at your history and your category segments (i.e., fisherman, skier).

Eric Nadler, VP Sales Operations and e-commerce for Danskin.com, reports that they, too, send different products based on rudimentary segmentation, suggesting that they are rough and manual now but look to automate. He acknowledges that they don’t have sufficient customer data. “Efforts are good from purchase data,” but they don’t know what was not purchased or intent behind the purchase; was the purchase intended for the purchaser or was it meant for someone else?

A few are one step beyond rudimentary segmentation, such as an online pet store that gives some basic product selections based on pet type (i.e., big dog, small dog, bird), also utilizing generic profiles that suggest offers...
based on purchase history. To execute well, they keep it simple but are trying to get to a predictive model. Currently, they showcase nine products that are personalized to you, though they do not believe it is intelligent segmentation, where their customer service and loyalty efforts including *fetch my sale* and *bottomless bowl* are more targeted.

At Intermix, their email platform has customization capabilities for geographics and demographics, including age and a propensity to buy certain brands. They know your price threshold or category interest (i.e., eveningwear) or if you have shopped within a certain period of time. This allows reactivation within these categories, and McNichol would like to even slice further. He is fully aware that the daily grind of the web and turnover of 100 products a week is cumbersome without automation, stating, “We would outsource as they have the algorithms we need for automation purposes.”

**Automation facilitates high performances**

Those merchants who give themselves high scores speak of automated efforts. HP Home & Home Office, for example, sends a time-based follow-up keyed off replenishment products and looks to extend those efforts to hardware products. PalmBeach Jewelry has seen significantly higher open rates with both their backorder emails and those that showcase price drops on previously viewed product.

**Internal challenges impact poor performance**

Many score themselves below average where issues that drive poorer performance include not having a multi-dimensional database. Under such a scenario, one merchant reports, “They do not have all the necessary information, and despite having a customer contact strategy and an ability to work the data, it needs more testing and then a secondary strategy overlaid, which is difficult to implement.”

Other average-scoring merchants have simply made a business decision not to proactively pursue one-to-one. One department store is only able to touch manually because of their complex vendor rules. Patagonia follows a model where most of their emails contain regularly priced product in 4-5 colors. They drive business but never strongly sell the featured item (less than 15% of sales) and are achieving their goal of keeping Patagonia top-of-mind. The lowest scores come from merchants where measuring and understanding performance are challenges.

**There are many opinions and many approaches to personalizing the web experience; next, we will make our recommendations with our PPR checklist.**
ix. the e-tailing group personalized product recommendations checklist

The consumers have spoken and expressed their desire for a more personal web experience and the merchant’s commentary shows the path forward. We encourage merchants to take the time to prioritize personalized product recommendations for their business in 2008 and beyond. The following checklist provides a guide to foster success in these important initiatives for captivating customers.

**Bottom-line:** Expectations can certainly be achieved along with a consistent and compelling customer experience. Customer satisfaction driving greater revenues and merchant performance will be the byproduct of best-in-class personalized product recommendations.

- ✔ Prioritize personalized product recommendations as one of your key 2008 initiatives
- ✔ Determine the level of automation and number of touch-points to address
- ✔ Do your homework in advance, setting clear expectations with potential vendor partner
- ✔ Define PPR’s potential from an acquisition as well as a retention point of view
- ✔ Identify onsite and email requirements
- ✔ Understand how these technologies will integrate with and impact current systems, and determine if the vendor offers ongoing support and optimization services
- ✔ Know your business and the unique requirements of your brand, your category and your customers
- ✔ Test a series of recommendation placements on your site to understand contribution to the bottom-line
- ✔ Evaluate email alerts and the role they can play in returning shoppers to buy
- ✔ Put the tools in place to ensure accurate attribution
about us

the e-tailing group
The e-tailing group, inc. is the multi-channel merchant’s eye, bringing a merchant’s sensibility to evolving the multi-channel shopping experience. A Chicago-based consultancy, they provide strategic and e-commerce merchandising solutions to merchants selling online as well as to firms targeting that market.

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MYBUYS
MyBuys is the leading provider of personalized product recommendations for online retailers. The company builds deep profiles based on each individual shopper’s behavior, then uses a patented portfolio of algorithms and real-time optimization to deliver the most relevant recommendations. MyBuys’ clients are increasing average order value by 30%, improving conversion rates by 82%, and multiplying the lifetime value of every customer. Premier retailers – including Lancôme, SKECHERS, Austad’s Golf and Karmaloop – partner with MyBuys to offer intelligent, personalized recommendations to their shoppers. Based in Redwood City, Calif., MyBuys is a privately held company.

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