



**THE MERCHANT SPEAKS**  
**EXECUTIVE SUMMARY**

**APRIL 2004**

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**THE MERCHANT SPEAKS - EXECUTIVE SUMMARY**  
**THE E-TAILING GROUP 3<sup>RD</sup> ANNUAL MERCHANT SURVEY**

**This presentation contains highlights of findings from *the e-tailing group's* 3rd Annual Merchant Survey conducted in the 1st Quarter of 2004.**

**Our sincere appreciation and thanks to those who shared their experiences; may we all be inspired by their insights.**

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**“The Merchant Speaks” is a compilation of responses and commentary from over 300 senior executives with responsibility for e-commerce.**

**Each participant has completed our survey of more than 40 questions relative to:**

<b>Internet strategies</b>	<b>technology adaptation</b>
<b>merchandising</b>	<b>marketing</b>
<b>features/functionality</b>	<b>measurement</b>
<b>up-sells/cross-sells</b>	<b>organization</b>

**Results provide a unique overview --- from the sellers' perspective, with observations and guidelines interjected from *the e-tailing group, inc.* based on 11 years of e-commerce and over 50 years of retail experience.**

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<b>contents</b>	<b>page #</b>
<b>I. PROFILE OF PARTICIPANTS</b>	<b>3</b>
<b>II. THE CHANGES &amp; CHALLENGES</b>	<b>3</b>
<b>III. THE CHANNELS</b>	<b>4</b>
<b>IV. THE ORGANIZATION</b>	<b>5</b>
<b>V. MERCHANDISING</b>	<b>5</b>
<b>VI. FEATURES &amp; FUNCTIONALITY</b>	<b>6</b>
<b>VII. TECHNOLOGY</b>	<b>7</b>
<b>VIII. SITE CHANGES</b>	<b>8</b>
<b>IX. MEASUREMENT</b>	<b>9</b>
<b>X. BRANDING &amp; MARKETING</b>	<b>10</b>
<b>XI. GROWTH</b>	<b>11-12</b>
<b>XII. THE E-TAILING GROUP SERVICES</b>	<b>13</b>
<b>XIII. SPECIAL THANK-YOU OFFER FOR SURVEY PARTICIPANTS</b>	<b>14</b>

**THE MERCHANT SPEAKS - EXECUTIVE SUMMARY**  
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**I. PROFILE OF PARTICIPANTS**

**Executive level of management**

- 36% CEO/President/Principal or VP/General Manager
- 52% Director or Manager
- 12% Analyst, Specialist, Assistant or other

**Cross-section of annual company sales volume**

- 39% under \$20 million
- 20% \$20 - \$100 million
- 27% \$100 million - \$1 billion
- 14% over \$1 billion

**Ownership**

- 77% for profit
- 36% privately owned
- 3% not for profit
- 13% publicly held

**Customer base**

- 74% B2C
- 4% B2B
- 22% both

**II. THE MOST SIGNIFICANT CHANGES & CHALLENGES**

**EVOLUTION:** a number of sites are now mainstream selling channels, being integrated into overall corporate structures and contributing an increasing percent of their firm's profitability, yet many are still struggling to seek acceptance within their organizations

**ROI FOCUS:** initiatives that impact the bottom-line are being prioritized, from merchandising to inventory control to order processing

**RESOURCES:** from both a people and technology perspective resources remain a challenge

**SERVICE:** exemplary customer service has been recognized as an essential element to online success

**MERCHANDISING:** merchants continue to selectively evolve their tool sets; issues include the growth of gift cards, the emphasis on price and promotions and the competitive nature of the marketplace

**MULTI-CHANNEL:** the most common challenges deal with standardizing, integrating & executing the multi-channel shopping experience, given existing constraints

**MARKETING:** traditional challenges are related to search optimization, customer acquisition and retention as well as the need for better measurement practices

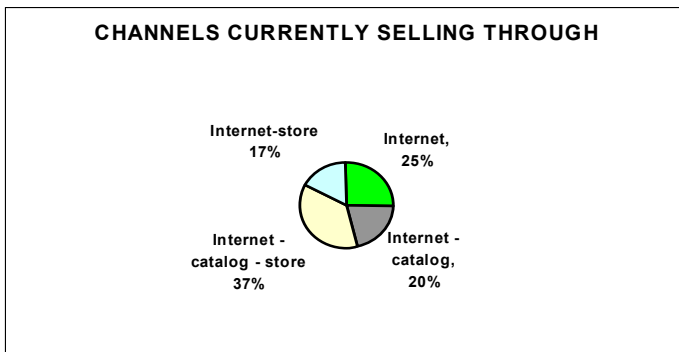
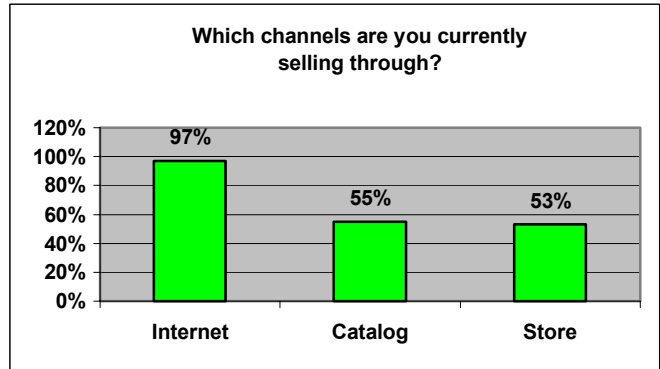
**COMMUNICATION:** the Web has opened up communication between merchants and customers

**GROWTH:** prioritizing initiatives for smart growth with limited resources is the universal dilemma

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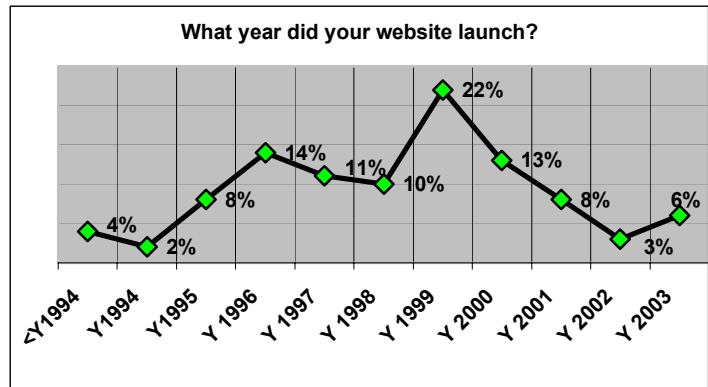
**III. THE CHANNELS**

- 97% of the sites surveyed using the Web as a sales channel
- In addition to selling via the Internet, respondents weighted equally with catalog/store channels



- 36% of the respondents now sell through Catalog/Internet/Store channels vs. 26% LY
- The chart does not total 100% as 2% of respondents reported that they sell only through store channels

- 84% of websites launched in 2000 or before vs. 77% LY
- The peak year was 1999 when 22% of the sites launched



**THE E-TAILING GROUP BOTTOM-LINE ON CHANNELS:**

- We predict that merchants will continue to add channels in order to deliver the seamless shopping experience that customers have come to expect as well as to efficiently extend their branding
- Look for Internet only retailers to extend their direct marketing capabilities into catalogs, catalogers to open stores; stores to use more targeted direct mail – and everyone to become more savvy at data measurement
- Develop universal customer profiling, across all channels, to “know your customers!”
- Our recommendation is to prioritize not only measuring but also analyzing and implementing site changes based on data mining to help achieve desired profits

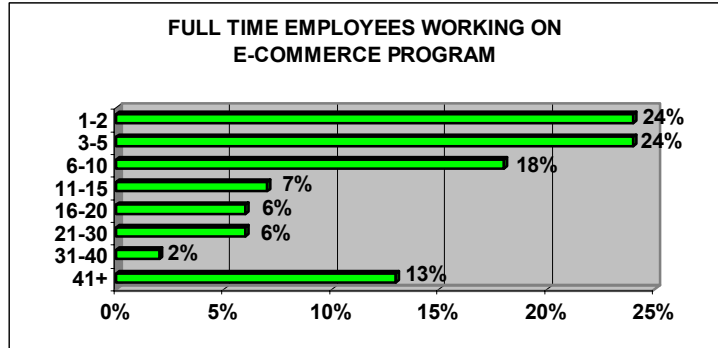
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**IV. THE ORGANIZATION**

<b>E-COMMERCE ORGANIZATION</b>	
Integrated into the overall business – no separate P&L	48%
Integrated into the overall business – separate P&L	39%
Separate organization – no separate P&L	3%
Separate organization – separate P&L	10%

- 87% of the sites surveyed are integrated into the overall business vs. being a separate organization

- 48% of the sites surveyed have 5 or fewer dedicated full-time employees, indicative of the resource challenges respondents identified



<b>PERCENT OF E-COMMERCE INVESTMENT HANDLED IN-HOUSE VS. OUTSOURCED</b>	
In-house	74%
Outsourced	26%

- Merchants retain 74% of their e-commerce investment in-house for control and efficiency

**THE E-TAILING GROUP BOTTOM-LINE ON ORGANIZATION**

- Whereas the Web was once technology driven, the channel has evolved to the point that merchants and marketers need to be in control
- We predict that e-commerce tasks will further meld into corporate organizations for better efficiency and multi-channel integration
- As the Web evolves, the pressure for growth within this channel will be significant

**V. MERCHANDISING**

<b>ROLE OF MERCHANDISING IN THE OVERALL SITE</b>	
Product selection	87%
Determine up-selling & cross-selling features & locations	77%
Determine site promotions	58%
Suggest location of product on the site	55%
Drive the look & feel of the site	51%
Ensure consistency of the brand	50%
Determine real estate value of all parts of the site	33%

- Merchant responsibilities are more apt to be directly related to selecting and selling product than site design, branding or other more general tasks

- The majority of sites now have business rules in place (61% vs. 56% LY)

<b>MERCHANDISING RULES IN PLACE</b>	
Yes	61%
No	39%

**THE E-TAILING GROUP BOTTOM-LINE ON MERCHANDISING**

- These findings reveal that merchandisers' website involvement is still somewhat "isolationist" and narrowly focused
- We would hope, and encourage, e-tailers to expand the roles of merchandisers as product selection and presentation are key strategy and branding elements
- We also believe that cross-channel consistency is essential to meet the demands of today's customers and therefore recommend more collaboration among channels

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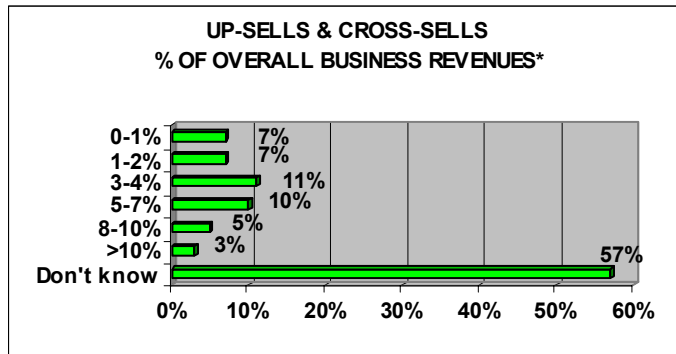
**VI. FEATURES & FUNCTIONALITY**

To gain an understanding of the value of specific merchandising features, 39 features were ranked on a 5-point scale: 5 being very valuable and 1 indicating not at all valuable. New features that have been added to this year's survey are highlighted with an asterisk (\*)

**All features in the survey in descending order as rated very to somewhat valuable:**

<b>Keyword search</b>	<b>91%</b>	<b>Customized content</b>	<b>38%</b>
<b>Email as a merchandising tool</b>	<b>89%</b>	<b>One-click/express checkout*</b>	<b>38%</b>
<b>Sales &amp; Specials</b>	<b>89%</b>	<b>Personalization of product offers</b>	<b>38%</b>
<b>Seasonal Promotions</b>	<b>84%</b>	<b>Frequent buyer programs</b>	<b>34%</b>
<b>Cross-sells/up-sells on product page*</b>	<b>78%</b>	<b>Customized/interactive tools</b>	<b>31%</b>
<b>1<sup>st</sup> time buyer tools</b>	<b>70%</b>	<b>Product comparisons</b>	<b>31%</b>
<b>What's new</b>	<b>69%</b>	<b>Testimonials</b>	<b>31%</b>
<b>Advanced search</b>	<b>66%</b>	<b>Pre-orders</b>	<b>29%</b>
<b>Affiliate programs</b>	<b>64%</b>	<b>As advertised – newspapers/flyers</b>	<b>28%</b>
<b>Top sellers</b>	<b>64%</b>	<b>Shop by outfit, by room, etc.*</b>	<b>28%</b>
<b>Gift centers/suggestions</b>	<b>69%</b>	<b>Reminder services</b>	<b>27%</b>
<b>Cross-sells/up-sells in shopping cart*</b>	<b>68%</b>	<b>As advertised – radio/TV</b>	<b>24%</b>
<b>Search/order by catalog</b>	<b>57%</b>	<b>Ask the expert/personal shopper</b>	<b>24%</b>
<b>Coupons/rebates</b>	<b>56%</b>	<b>Live chat</b>	<b>23%</b>
<b>Product enhancement tools</b>	<b>54%</b>	<b>Gift registry</b>	<b>17%</b>
<b>Gift certificates*</b>	<b>53%</b>	<b>Weekly circulars*</b>	<b>16%</b>
<b>Browse our catalog</b>	<b>51%</b>	<b>Auctions</b>	<b>15%</b>
<b>Product reviews/ratings</b>	<b>51%</b>	<b>Deferred billing*</b>	<b>15%</b>
<b>Contests</b>	<b>41%</b>	<b>Community features</b>	<b>14%</b>
<b>Retail locators</b>	<b>41%</b>		

- 21% responded that up-sells and cross-sells generate between 3%-7% of their overall business
- 57% do not know what percent of revenue these features are contributing



**THE E-TAILING GROUP BOTTOM-LINE ON FEATURES & FUNCTIONALITY**

• We predict the value of features that deliver a more personalized experience will continue to grow as more customers demand seamless communication, regardless of channel -- however, cautious growth is critical as it is better not to offer these features than to deliver them poorly

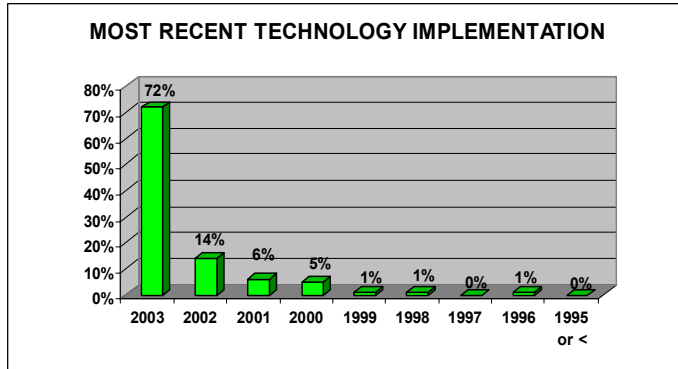
• We see the need for more scaleable and dynamic technologies to deliver relevant functionality for features like up-sells and cross-sells to a growing audience but again advise judicious implementation

• We also predict that the prominence of features like gift certificates and frequent buyers programs will become greater as more off-line merchandising tactics are adapted online

• When prioritizing feature implementation, value is only one indicator; merchant evolution and feature execution are the real issues

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**VII. TECHNOLOGY**



- Merchants continue to invest to improve & evolve their sites as 72% of the respondents implemented new technology in 2003

**An open ended question asked respondents to list their top 3 technology initiatives for 2004. In order of frequency mentioned, answers ranged from:**

- 1. SITE UPGRADES** – by far mentioned most often - from platforms to servers to design
- 2. MERCHANDISING** – dynamic tools are a priority with inventory management, cross-sells/up-sells, gifting and product enhancement features among those tops on respondent's lists
- 3. SERVICE** – from more efficient checkout to fulfillment through order tracking, merchants are planning to improve their order process technologies
- 4. SEARCH** – advanced, enhanced, optimized – by any name, listed as #4 among planned technology initiatives for this year
- 5. MEASUREMENT** – analytic tools to improve tracking and reporting
- 6. MARKETING** – email and affiliate programs have priority
- 7. MULTI-CHANNEL** – inventory management and systems integration are challenges to be dealt with
- 8. PERSONALIZATION** – better segmentation and CRM -- always desired but hard to attain
- 9. REACH** – a few forward thinkers have budgeted for initiatives to expand their reach: .net, B2B, bandwidth, wireless and integration with Amazon
- 10. INTERNATIONAL** – and even fewer, have set their horizons beyond the USA

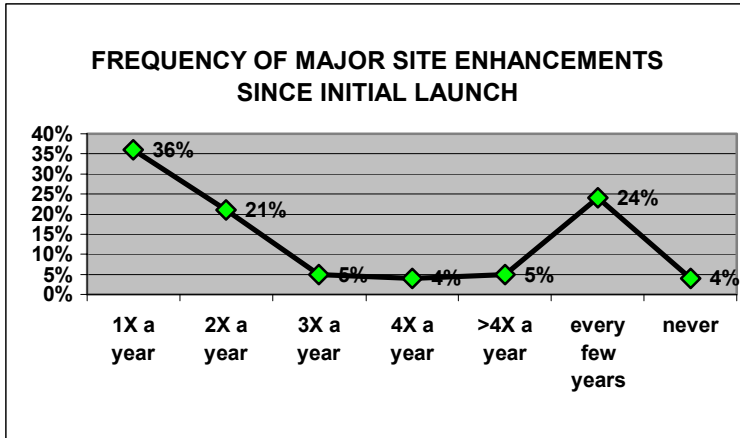
**THE E-TAILING GROUP BOTTOM-LINE ON TECHNOLOGY**

• There are still many sites struggling with outmoded platforms, poor systems integration, lack of scalability, inefficient site navigation or much needed re-design. Further evolved sites are looking to add more dynamic and analytic tools --- Either way it boils down to prioritizing resources -- which is not an easy job

- Invest cautiously, with a focus on profitability and efficiency
- Improve essentials like site performance, inventory management, and order processing first and foremost

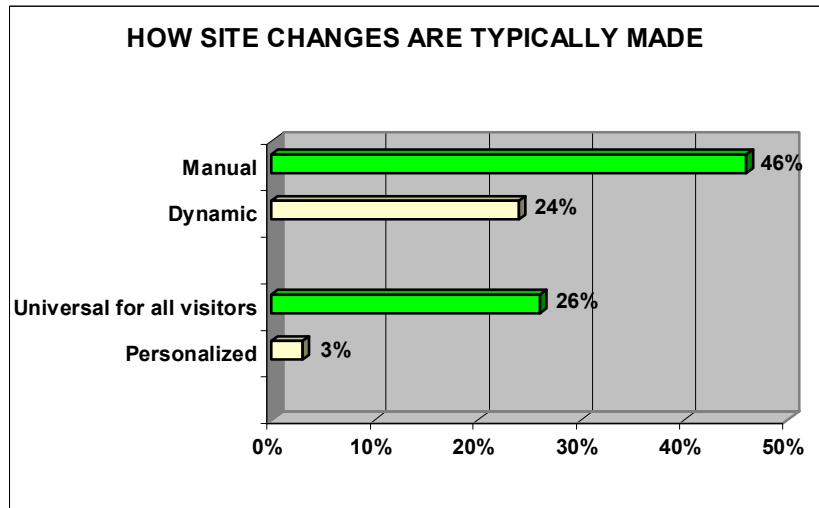
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**VIII. SITE CHANGES**



- Frequency of major site changes remained consistent with last year
- Over 1/3 of the sites implemented major updates like redesigns of templates or their complete sites once a year
- 1/4 only made such changes every few years

- Only 24% of site changes are being made dynamically; 46% are made manually
- Just 3% of site changes are being personalized; 26% have no customization what so ever

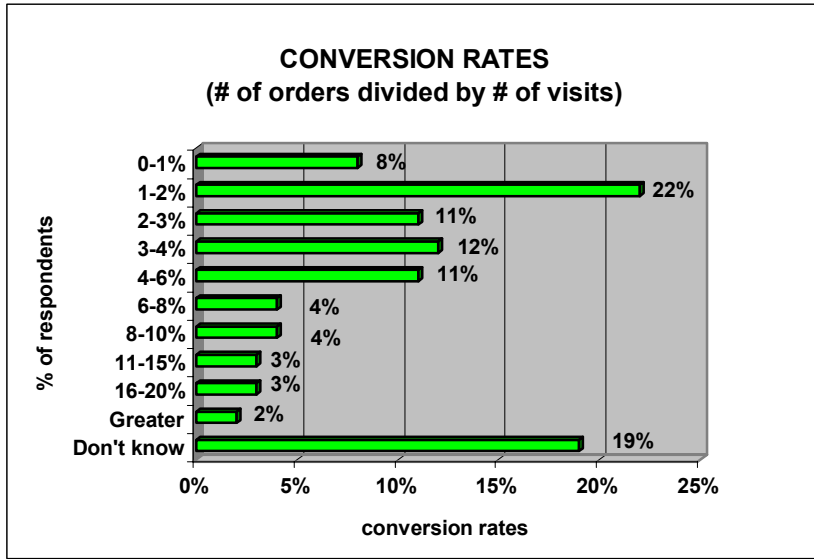


**THE E-TAILING GROUP BOTTOM-LINE ON SITE CHANGES**

- Established Merchandising features including seasonality are leading drivers of site change
- Although site performance is still a major factor, corporate and cross-channel influences are also prominent drivers
- As sites focus on ROI, investments in automated technologies and personalization are limited
- Because this necessitates a lot of manual labor, site changes need to generate sales and produce bottom-line results
- Even if resources are an issue, testing functionality and refreshing sites is a must to keep customers engaged – and encourage repeat visits

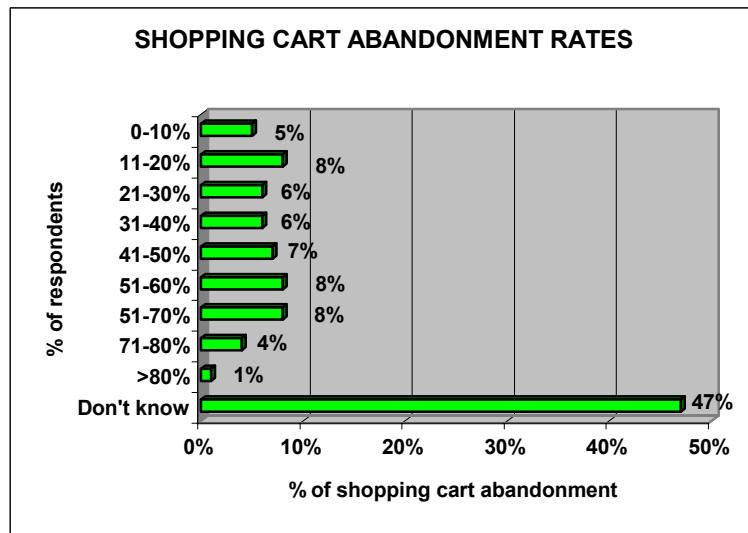
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**IX. MEASUREMENT**



- **80%** of respondents reported conversion rates from 0-20%, averaging in the 3-4% range
- **30%** report conversion rates under 2%
- **19%** of respondents do not know their conversion rates!

- **47%** of respondents do not know their shopping cart abandonment rates!
- **48%** reported rates between 0-80%, with the average rate of cart abandonment just over 40%



**THE E-TAILING GROUP BOTTOM-LINE ON MEASUREMENT**

- The number of merchants who do not know their conversion rates (or even more so, shopping cart abandonment rates) is far too high
- Baseline metrics are essential
- Analyze off-the-shelf technology tools to better understand metric performance
- Prioritize merchandising specifically to drive conversion rates
- Insure that marketing is reaching qualified, targeted audiences and that merchandising is in place to convert visitors to your site into buyers

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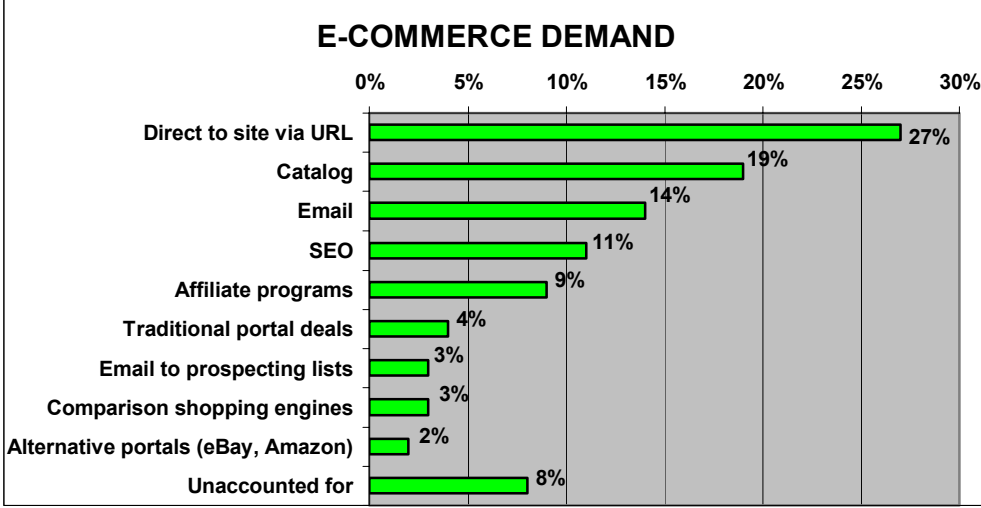
**X. BRANDING & MARKETING**

- Merchant rankings of their marketing strategies/objectives as very important / important

<b>MARKETING STRATEGY RANKINGS</b>	
94%	Customer acquisition
93%	Customer retention
91%	Convert browsers to buyers
86%	Drive traffic to site
64%	Minimize shopping cart abandonment
55%	Part of an integrated multi-channel initiative

<b>EMAIL METRICS</b>				
<b>FREQUENCY:</b>	27%	weekly	18%	varies by season
	20%	bi-weekly	9%	more than once a week
	20%	monthly	4%	quarterly
<b>CONTENT:</b>	81%	sales and specials	28%	personalized messaging
	68%	seasonal	26%	catalog preview
	64%	full priced	15%	how-to content
	40%	branding	5%	deferred payment

- 14% of e-commerce demand is generated by email
- Email is most often produced in-house with promotional or seasonal messaging delivered on an opt-in basis



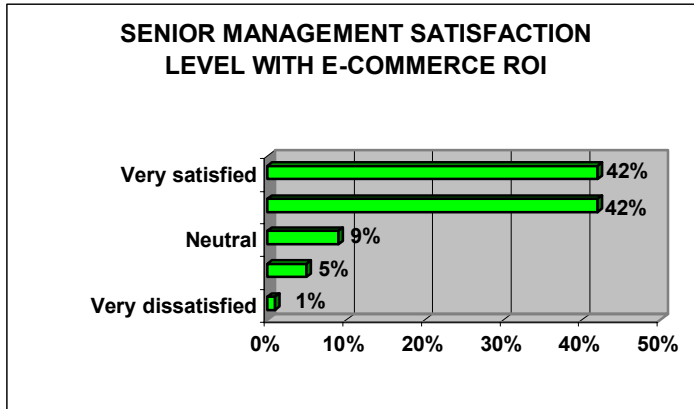
- Most demand comes direct to sites via their URL (27%) & from catalogs (19%)
- The low percent of demand generated from portals (4% - 2%) & comparison shopping engines (2%) is indicative of the fact that they are not as universally tested as other marketing opportunities

**THE E-TAILING GROUP BOTTOM-LINE ON MARKETING**

- Marketing dollars are being shifted online because it is easier to test, react, and refine – with more nominal investments than offline
- Given the cost-effective nature of cross-channel initiatives, comprehensive integrated branding should be stressed
- We continue to recommend that different marketing media and messaging be tested – and measured – within a strategic plan that includes branding objectives as well as promotional focus

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**XI. GROWTH**



- 84% of merchants surveyed reported that senior management is very or somewhat satisfied with the ROI generated from their e-commerce efforts, demonstrating that the Web has become mainstream in business today

**MERCHANTS ARE FOCUSED ON BOTTOM-LINE RESULTS**

**MAJOR SITE ENHANCEMENTS** happen less often than perceived - only **14%** make site changes more than 2x per year; **36%** of the sites making changes 1x per year and **24%** every few years

**CHANGES** are made more frequently on internal pages such as home page, category and product page that are typically refreshed monthly, weekly; even daily

**MERCHANT PROCESSES** are less personalized (**3%**) and more manual (**46%**) than might be typically reported

**SITE ENHANCEMENT PRIORITIES** in 2004 include search, back-end upgrades and better content management tools

**MEASUREMENT** continues to pose challenges to merchants

**UP-SELLS AND CROSS-SELLS** are perceived to make a significant contribution to the bottom-line with **77%** of respondents ranking them of value to current business --- However, **57%** did not know the percent of revenue that these up-sells and cross-sells contribute to their overall business

**THE E-TAILING BOTTOM-LINE ON GROWTH**

- Merchants are wisely focused on issues that impact their customers most - from service to the shopping experience
- Right now growth is all about “**PRIORITIZING & BALANCING FOR SMART GROWTH.**”
- Everything that needs to get done requires an expensive investment – which equals risk – and merchants have been risk-averse in order to show profit, gain credibility, and prove the viability of e-commerce.
- “Management” is starting to believe, embrace, and invest! Strategic thinking must be concentrated on what to do with available incremental resources

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**PRIORITIZING & BALANCING FOR SMART GROWTH**

ISSUE	QUESTIONS	ACTION
<b>YOUR BRAND</b>	<ul style="list-style-type: none"> <li>- What do you stand for – in all channels?</li> <li>- How do you stack-up vs. your competition?</li> <li>- How are the relationships between your channels expressed online?</li> </ul>	<p align="center"><b><u>COMPETITIVE AUDIT</u></b></p> <p><b>Start with an ROI analysis; get inside your competition now!</b></p>
<b>YOUR CUSTOMER</b>	<ul style="list-style-type: none"> <li>- How do your customers like to shop?</li> <li>- How do their shopping styles and preferences compare across channels?</li> <li>- How are you tracking/responding to their preferences?</li> <li>- Are you satisfying your customers with your current merchandising efforts?</li> </ul>	<p align="center"><b><u>SHOPPER SCENARIO ASSESSMENT</u></b></p> <p><b>Review shopper types &amp; relevant tasks for performance &amp; enhancement opportunities</b></p>
<b>MERCHANDISING</b>	<ul style="list-style-type: none"> <li>- Do your site's features and functionalities provide the essential and relevant information needed to sell your products and services?</li> <li>- Do they prompt impulse buying?</li> <li>- Are they changed frequently enough to encourage repeat visits?</li> </ul>	<p align="center"><b><u>E-AUDIT</u></b></p> <p><b>Compare your features and functionality to industry, category, &amp; competitive benchmarks</b></p>
<b>CUSTOMER SERVICE</b>	<ul style="list-style-type: none"> <li>- Has your staff, in all channels, been trained to handle Internet related inquiries/orders/returns?</li> <li>- Do you respond to emails promptly?</li> <li>- How long does your complete order process take?</li> </ul>	<p align="center"><b><u>MYSTERY SHOPPING</u></b></p> <p><b>Assess your site's performance throughout the entire order process</b></p>
<b>MARKETING</b>	<ul style="list-style-type: none"> <li>- Are you leveraging exposure in all channels/media to deliver one integrated message?</li> <li>- Are you testing new strategies with email and pay-for-performance models?</li> </ul>	<p align="center"><b><u>TEST &amp; MEASURE</u></b></p> <p><b>Examine current practices, try new approaches; measure results</b></p>

## **PRIORITIZING & BALANCING FOR SMART GROWTH**

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### **the e-tailing group site audit & basic benchmarking**

#### **Mystery Shopping**

- An evaluation of the penetration of 150 merchandising and customer service features by purchasing one product from your site
- Merchant contact either by live chat (methodology of choice) or standard email to inquire about merchant services or product information
- Return product following directions on site

#### **Deliverables**

- Benchmarking against the e-tailing 100
- Benchmarking against one category from the e-tailing 100 Mystery Shopping Survey
- One pager suggesting opportunities to enhance the site's merchandising and shopping experience, detailing a list of top recommendations
- Conference call to review findings

Lead-time: 3 weeks

Cost: \$5,000

**SPECIAL THANK-YOU OFFER FOR SURVEY PARTICIPANTS: \$3,500 – until 4/30/04**

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### **the e-tailing group conversion audit**

#### **Customer Assessment - Questionnaire & Brainstorming**

- Clarify your goals and objectives
- Prioritize short and long term strategies

#### **E-audit – Competitive Assessment**

- MERCHANDISING: A detailed review of penetration of over 100 features across our 10 tool sets
- MYSTERY SHOPPING: An assessment of 76 metrics across 14 tool sets based on purchasing/returning one product from your site with customer service follow-up
- SUMMARY RESULTS: Benchmarking against the e-tailing 100 with recommendations for initial actions, a detailed list of top priorities; a visual presentation of related industry best practices

#### **Deliverables**

- A PowerPoint presentation highlighting key findings and recommendations including a Q/A session to follow delivered in-person or via conference call

Lead-time: 4-5 weeks

Cost: \$7,500 (conference call); \$8,500 (in-person) + travel

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### **the e-tailing group customized consulting**

We would welcome the opportunity to assist clients with other strategy, merchandising, or customer service initiatives on a case-by-case basis.

Lead-time: TBD

Cost: \$2,800 per day + travel and expenses

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**SPECIAL OFFER FOR PARTICIPANTS IN  
"THE MERCHANT SPEAKS"**

**the e-tailing group site audit & basic benchmarking**

**AS A THANK-YOU FOR YOUR VALUED TIME AND INPUT  
WE WILL CONDUCT AN AUDIT OF YOUR SITE,  
VALUED AT \$5,000, FOR JUST:**

**\$3,500**

**CONTACT LAUREN FREEDMAN TO GET STARTED  
[lf@e-tailing.com](mailto:lf@e-tailing.com) 773-975-7280**

Offer valid through April 30, 2004