

Q4/04 Knowledge Report: Referring Customers causes Defections

Billions are lost when shoppers defect to other brands

Multichannel shopping has truly arrived — "65% of consumers have researched a product online and purchased that product offline. Of those people, 51% have cross-channel shopped in the past three months, influencing in-store sales of more than \$100 billion" according to Forrester Research in a September 15, 2004 report. The question is, do you want your customer leaving your branded website to make a purchase at one of your retailers who may or may not have your product in stock, may or may not promote your product in parity with others, and who most likely has other brands to promote?

According to a May 24th, 2004 Forrester Research report, "Retailers lose billions when their shoppers research online and then defect to other brands when they buy offline." This is even more prevalent when consumers are shopping for individual brands online with the intention of buying and are somehow diverted from the brand due to lack of availability or competitive influences.

Since the advent of eCommerce, we have seen ever-increasing evidence that as the number of

steps required to search for, locate, configure and select a product increases, the likelihood of that product being purchased decreases. According to DoubleClick Corporation in their November 2004 report, "As the e-commerce sector matures along with the population of online shoppers, marketers need to optimize their sites for easiest flow of information to an increasingly sophisticated customer base."

Moreover, transferring visitors through commerce gateways, to partner or co-branded websites reduces the likelihood of capturing a sale. Findings released at the 2004 eMetrics Summit show there is a direct correlation between the number of sales and the number of clicks required to reach the point where the item was added to the cart. For example, on the Gap's site, there was an average of 12 clicks required. On Lands' End site, it was an average of 16 clicks. On the Macy's and the Newport News sites, it was an average of 51 clicks. The percentage of sales as compared to unique visitors diminished incrementally. The bottom line is that sending your customers to a channel partner's website, versus offering sales on your own website, decreases sales.

On December 7th, 2004, if you happened to be shopping online at the website of a leading outerwear manufacturer and chose one of their predominate channel partners to buy from, you

Companies can boost profits by almost 100% by retaining 5% more of their customers

may have read this message for out of stock items "So sorry but this product is sold out. I bet if you click around our site you find something you like even more. In fact, I bet you would have hated this product. Please keep shopping!" Whether this was a mistake or intentionally contrived, the negative effect on sales and branding is immense.

The cost of a lost sale is astronomical if it means the defection of a customer. "Long term customers are a vital source of profitability. They purchase more each year and often pay more for products and services because they trust you. A typical order at Dominos Pizza averages \$12.58 however the value of that customer exceeds \$5,000 over the life of a 10-year franchise contract," according to a Harvard Business School study. Their report on customer defections included analysis of more than 100 companies in two dozen industries and shows that a reduction of defections by just 5% translates to a minimum increase in profits of 25%, with some companies seeing close to a 100% profit increase.

The tenets of marketing and customer relationship management require that you do whatever you can to assure a consistent brand experience and to never lose sight of your customer. The body of research surrounding these principles is vast. We see from the Harvard Business Review the value

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of customer retention. Most companies operating co-branded websites do not have access to shopping cart abandonment rates nor do they have access to data relating to the conversion of a customer from the referring brand to a competitive brand.

Nevertheless, all reason and logic supports that Reshare's Distribution Relationship Management solution is the superior solution to co-branded environments where customer and brand control are lost.

Reshare Corporation

5051 Highway Seven
Minneapolis, MN 55416-2282
Local 952.908.0818
Toll Free 866.908.0818
www.reshare.com