



## Online Retail Checkout Challenges & Market Opportunities

### **Abstract**

This research paper specifically focuses on the causes of shopping cart abandonment during the checkout process, and investigates the challenges and opportunities surrounding the ever increasing volume of web transactions in the retail sector.

This paper goes on to provide pragmatic solutions to reduce unnecessarily high abandonment rates that are potentially costing retailers £6.54bn a year in lost sales as the average abandonment rate for online shopping carts is approximately 60%<sup>1</sup>.

The three main reasons for online transaction failure are considered to be:<sup>2</sup>

- Checkouts are still suffering from fundamental design issues.
- Checkout processes are the cause shopper's problems.
- Carts are abandoned for reasons beyond the retailer's control.

Direct Response advocates 3 simple but effective solutions that concentrate on improving:

- TRUST
- CLARITY
- SPEED

If implemented properly the proposed solutions will do the following:<sup>3</sup>

- Increase online revenue by as much as 45%
- Reduce website abandonment by over 25% from pages where deployed
- Increased level of loyalty by significantly enhancing the customer's online experience at times of need or uncertainty.

In conclusion, to avoid checkout abandonment a combination of customer-centric design, a focus on customer experience and better customer service will save your company from economic and market acquisition failure.

To find see a free copy of the white paper please click on this link: [www.dr ltd.com](http://www.dr ltd.com)





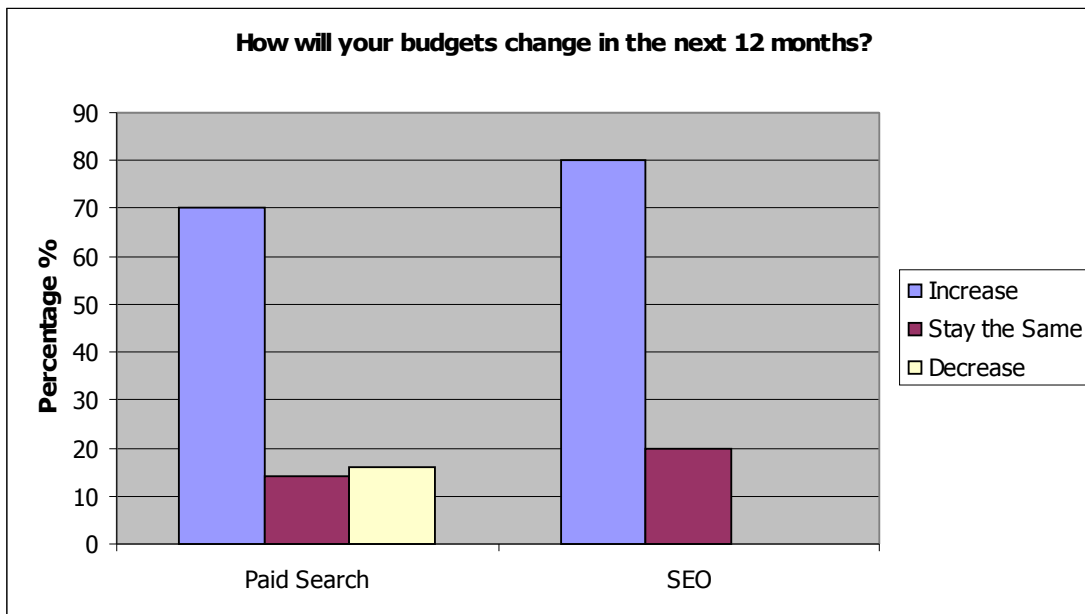
**Introduction**

It's widely acknowledged that UK companies are spending more and more of their marketing budget to drive custom onto their web site. The UK will spend £4bn a year by 2008 on pay per click advertising alone in an attempt to raise online conversion rates<sup>4</sup>. Over the next 12 months 62% will be making more investment in search engine optimisation, whilst at the same time 60% said they would also be spending even more in pay per click advertising.<sup>5</sup>

Such extensive marketing efforts have paid off. Since the birth of the internet, online spending in the UK rose by 33.4% resulting in £10.9bn in sales in 2006 and by the end of 2007 the figure will be as high as £13.9 billion. This figure is expected to triple by 2011<sup>6</sup> as customer's access to the web and speed of the web improves, and as consumer's confidence grows.

Most importantly retail organisations who know their return on investment say they are getting returns in excess of 300%, with 22% claiming that they are getting an ROI of 500% or more. For SEO, the returns are even greater. 68% are getting a return of excess of 300% and some 40% are getting a return of 500% or more.<sup>7</sup>

In 2007 the UK's online market is now worth more than £21.4bn, with an increase of more than 20m people purchasing online in the past 12 months. Globally the e-market is estimated by IMRG to be worth £250bn<sup>8</sup>.



- Source: Internet Retailing Magazine, 'Where is the search budget going?' May 2007.

One could easily consider this to be all good news and there are some enormous opportunities to be made. However, there are going to be some clear winners and losers over the next 5 years, and ability to drive traffic to your web site will by no means give you any form of security.

Already the more astute organisations are realising that they are getting to the point of diminishing return on investment for their PPC and SEO campaigns and that driving browsers to their site is just the first part of a vital customer journey. Organisations with good web analytics will painfully witness the 30% of "hot prospects" on their web sites gradually slip through the net pre and during the check out process.





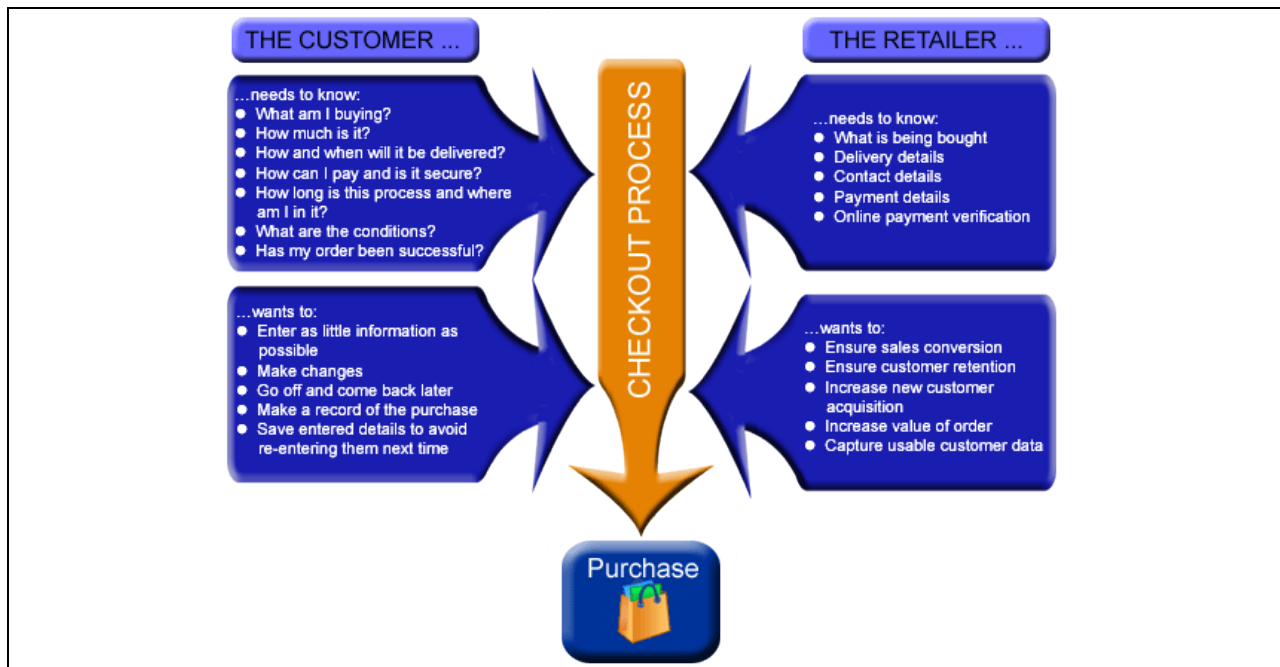
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Statistics suggest that most businesses only produce 4% conversion rates whilst the more successful are closer to the 10% mark. The reality is that even the better companies suffer from the fact that as many as 60% of hot prospects fail to complete the journey to a paying customer.

The question now on everyone's lips is how can we increase conversion rates?

There are no absolute rules, but research would suggest that there are 3 prevailing causes that all work alongside one another.

- Checkouts are still suffering from fundamental design issues.
  - Too many choices – deciding between a range of attractive offers forces consumers to make trade-offs
  - Distractions such as promotions
  - Hidden charges
  - Unclear delivery details
  - Opportunity cost – what are we missing in the rejected alternatives?
  - Anticipated regret
  - The emotional need to justify a purchase
  - Technical problems
- Business processes within the checkout cause shopper's problems.
  - A lengthy registration process causes frustration and encourages abandonment
  - Conflicts between the wants/needs of the consumer and the retailer (see diagram below)
- Carts are abandoned for reasons beyond the retailer's control.
  - Comparison or 'window' shopping



– Source: E-consultancy, Online Retail 2007: Checkout,– 2007.



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### **The Problems**

The size of the problem is very serious yet embarrassingly the most common reasons for checkout abandonment are simple and can be regarded as common sense. All of the following are the inverse of trust, clarity, speed and positive feelings.

#### **TRUST**

A frequent way in which retailers abuse the **trust** of their customers is by mistakenly revealing 'surprise' information at the end of the checkout process or by leaving out vital details altogether. Companies and consumers alike, unexpected expenses are not welcomed so hidden costs and high shipping prices are a huge deterrent for people to buy online. Another example is leaving delivery instructions up to the imagination of the consumer. Once people have parted with their money, they want to know exactly how and when they will receive the goods. To ignore the importance of outlining this information early on, will only result in higher rates of checkout abandonment on your site.

Over 90% of the cognitive processes surrounding decision making are sub-conscious, therefore people tend to make purchases based on whether it feels right or wrong (Marketing Sherpa). Too often, poor checkout design creates negative feelings in the mind of the consumer. Anticipated regret, the emotional need to justify a purchase and running into problems on a retailers website encourages a person to abandon the checkout. It is human nature to defer confronting an issue as quickly as possible, so if your consumers have any doubts then you are in danger of losing the sale.

#### **Clarity**

If you don't have a clear and concise checkout design, you will turn people away quicker than you think. Clarity is essential to make online sales. As mentioned above, often retailers leave it too late in the process to outline important details, which creates confusion. Distractions are another deterrent to complete a purchase. If your site is cluttered and you offer too many product choices, consumers will get confused, frustrated and either be forced to make trade-offs or opt to use a competitors site instead.

#### **Speed**

Registration is a time consuming process. We are an impatient society – businesses want sales fast, consumers want to buy fast. Speed is something both parties can agree on. However there is a huge conflict between the wants and needs of the consumer vs. the retailer. Companies want and expect people to spend 5-10 minutes offering personal information for their databases, whilst consumers don't have the time or patience to do the admin. They just want to check-out. The longer the process, the shorter amount of time it will take for someone to desert your site without making a purchase.

### **Simple and Pragmatic Solutions to increase**

As previously mentioned, the problems discussed are lack of trust, clarity, and speed. Subsequently we will focus on methods that support or facilitate these three areas. We also concentrate on picking the lowest hanging fruit to reap rapid and marked improvements rather than complex techniques that will lead to further confusion and lose their impact if they are not built on a strong foundation of doing the basics very well.





### ***How can a company gain the trust of its online customers?***

- Your website must be thorough and complete but has strong usability and ease of navigation.
- Put an 'about us' link on to your site to increase credibility.
- Include all the necessary legislation, such as guarantees and terms and conditions.
- To include all payment and delivery instructions from the beginning is crucial.
- Human interaction is vital at critical stages.
- You need to be able to cater for all communication methods as people have a broad range of preferences in terms of ways to ask for help.
- Use simple mechanisms that proactively identify customer distress, confusion and additional decision making requirements. There are many powerful and cost-effective tools that can do this.
- Mechanisms such as E-Contact products offer your customers immediate data and immediate answers.
  - *Proactive Web Chat* acts as a service that bolts on to your existing web site, reads the "body language" of the browser and proactively engages them if they show signs of abandonment. The browser is engaged real time, concerns are allayed and the sale is guided through.
  - *Proactive Click to Call* enables you to contact the consumer instantly to address their concerns. Web site visitors select an icon and request a phone number they wish for a customer services agent to call them immediately on. Again concerns are allayed and the sale is guided through.

The benefits a retailer can expect from offering these customer engagement and up-sell tools are:

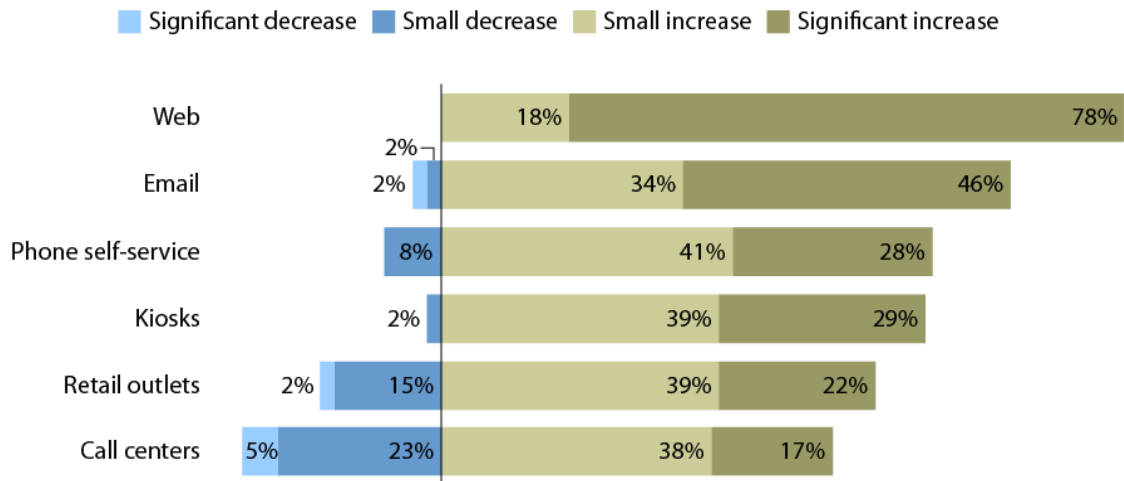
- Increase online revenue by as much as 45%
- Reduce website abandonment by over 25% from pages where deployed
- Increased level of service by significantly enhancing the customer's online experience
- Up to 35% of e-contact Click to Call calls converted into sales





**Channel Changes**

**“Thinking about how your company typically interacts with customers, what change (if any) do you expect to see in the volume of interactions over the next two years?”**



Base: 176 North American firms with annual revenues of \$500 million or more

- Source: Forrester Research: Self-Service Shift Requires Improved Usability - January 2005

It is clear that communication is critical to the success of your business. What is even more imperative is the quality of that communication. A 2005 Gartner report discusses the reality that the era of product-centric strategies for businesses was giving way to customer-centric strategies instead. Gartner focus on one strategy in particular called *customer relationship management (CRM)* and this talks about how it is in retailer’s best interests to build a competitive lead based on their customer service levels. The CRM approach summarizes everything that needs to be done in order to achieve a positive customer experience which attends to the issues of trust, clarity, speed and positive feeling and consequently decreases your chances of checkout abandonment and thus increases your sales.

**How can a company improve the clarity of their site and create minimal confusion for the consumer?**

- Cut out all unnecessary clutter and promotions to avoid overwhelming the consumer.
- Create an easy ‘search’ icon on your site that successfully filters according to key words. This will solve any problems of an abundance of product choice for the consumer.
- Include an e-library on your site of common questions and problems faced by consumers, so people can quickly refer to your answers and ease their minds.
- Cut your checkout stages down to a maximum of 5. Anything more than that will deter people from completing the process.
- You can ask several important questions that have relevance to each other in a single stage.
- Have information databases saved on your website so customers enter their details in once, then their information will be automatically presented when necessary in the future.





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### ***How can a company increase the speed in which a consumer can run through making a purchase from start to finish?***

- Create an easy online registration that is straight to the point and only asks for the bare minimum.
- Share all consumer information amongst all your databases, so that consumers will only be asked once for their personal details.
- Make sure your checkout process consists of as few stages as possible – ask more necessary questions in a single stage.
- Put time and attention into your delivery service – it is vital that you supply the goods by the date you promised during the online checkout process.

### ***Conclusion***

The growing rates of checkout abandonment need to be addressed as a matter of urgency for the sake of businesses in today's economy. With a market known for its huge cash flow, retail competitors are divided into winners and losers – you need to know how to have a winning formula in order to get your share of the wealth. One way in which to get ahead is to offer your impatient consumers various channels by which they can purchase from – particularly the internet, as this method can best satisfy their needs of immediate retail gratification.

Various problems have arisen which can all be grouped as the inverses of trust, clarity, speed and positive feeling. Any company with a website must address these four areas as they are significant consumer needs in any purchase situation – particularly online.

Solutions include making sure your site is thorough, concise and uncluttered. Offer all necessary information straight away to avoid surprises. Make sure your checkout design is simple and doesn't take too long to complete. You can do this by cutting down the registration process and integrating all databases so people don't have to re-enter their details more than once. To make sales, the key is human interaction. Use e-contact products to facilitate your customers need for immediate answers and help. Finally, as a whole your company should adopt customer centric strategies with a focus on service. By following these solutions you will increase customer satisfaction and online sales.



<sup>1</sup> Marketing Sherpa, E-Commerce Benchmark Guide, 2006 as quoted by E-Consultancy, 2007.

<sup>2</sup> E-Consultancy, Online Retail 2007 Report

<sup>3</sup> Direct Response Ltd, [www.dr ltd.com](http://www.dr ltd.com), 2007

<sup>4</sup> Bill Hartzel, US search engine marketing expert.

<sup>5</sup> [www.InternetRetailing.net](http://www.InternetRetailing.net) May 2007 Page 17.

<sup>6</sup> [www.InternetRetailing.net](http://www.InternetRetailing.net) May 2007 Page 17 & 18.

<sup>7</sup> [www.InternetRetailing.net](http://www.InternetRetailing.net) May 2007 Page 17 & 18.

<sup>8</sup> Thisismoney.co.uk, Online Shopping Factfile, 9 Aug 2007