Winning the Online Consumer:  
The Challenge of Raised Expectations

THE BOSTON CONSULTING GROUP
Winning the Online Consumer: The Challenge of Raised Expectations

Despite the recent demise of a number of dot-com sites and some dire predictions about the future of e-commerce, consumers’ enthusiasm for online shopping is rising. The notion that e-commerce is fading away is based not on consumer activity but on business failures: many Web-based companies built their infrastructures ahead of demand and adopted unrealistic economic forecasts.

In the second of a series of reports focusing on consumer behavior in the online environment, The Boston Consulting Group found that consumers are more passionate about the Internet than ever before—because it is convenient, because it provides access to vast selection, and because it saves time. In 2000, BCG’s research shows that online purchases in North America totaled $45 billion last year—up from $27 billion in 1999. For 2001, we are forecasting still another jump, to $65 billion.

On the business side, Web-based retailers are being swept aside by incumbents. The legacy player with a brand, an established customer base, a broad product

1. This OFA has been adapted from Winning the Online Consumer 2.0: Converting Traffic into Profitable Relationships, February 2001. The findings of the report were based on comprehensive surveys of 2,876 U.S. Internet purchasers during the fourth quarter of 2000. The surveys were augmented by quantitative research derived from one-on-one interviews and the Harris Interactive e.commercePulse Q2 2000 Database, a study tracking the online and offline shopping and purchasing behavior of approximately 100,000 online consumers.
offering, and a strong fulfillment capability is going to be hard to beat.

But while consumers are spending more on the Internet, they are also demanding more from those who are doing the selling. They are becoming increasingly intolerant of slow downloads, inconvenient navigation, limited selection, and checkout failure. Online retailers must produce an experience that is as good as or better than the familiar one of shopping in a bricks-and-mortar store. Though incumbents have the edge, many online retailers are not making the most of their opportunities, and one of the reasons is their inability to meet consumers’ rising expectations.

**Eager Consumers, Dissatisfied Customers**

Online expectations are higher for several reasons. For one, the media have hyped online shopping as cheaper and easier than offline shopping could ever be. For another, consumers have become more proficient at using the Internet, and they expect no less of the retailers they do business with. Yet another reason is that the novelty of online shopping has worn off. More and more consumers go online not simply to be entertained or to see what’s there but to get things done. The honeymoon is over.

Complaints about all aspects of the online shopping experience—from navigation to delivery—have become much more widespread, according to the new BCG survey. Almost 70 percent of online consumers reported that some Web sites take too long to download, and more than half said that a site crashed before they could complete a purchase, compared with 56 percent and 32 percent, respectively, in 1999. What is worse, as many as 20 percent of online con-
sumers had difficulty getting a site to accept their credit cards, up from only 12 percent the year before—a disturbing development for people who are already uneasy about releasing credit card information online. Moreover, as many as 11 percent of consumers had at some time ordered and paid for products that they never received, compared with 6 percent in 1999.

Retailers cannot afford to ignore these statistics, because consumers are increasingly likely to act on their disappointment. Some 60 percent of those polled in the new study changed their online behavior as a result of a failed purchase attempt, compared with fewer than 54 percent of those surveyed in 1999. The impact on individual retailers is particularly harsh, as consumers are increasingly inclined to punish offending sites rather than blame the Internet as a channel. (See Exhibit 1.)

Exhibit 1. Consumers Blame the Site, Not the Channel

<table>
<thead>
<tr>
<th>Percentage of consumers experiencing purchase failures who agree</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>I stopped shopping online</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>I stopped purchasing online</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>I stopped shopping at that particular Web site</td>
<td>28</td>
<td>41</td>
</tr>
<tr>
<td>I stopped purchasing at that particular Web site</td>
<td>23</td>
<td>30</td>
</tr>
<tr>
<td>I stopped shopping at that particular company’s offline stores</td>
<td>6</td>
<td>9</td>
</tr>
</tbody>
</table>

The Benefits of Satisfaction: Loyalty and Share Gain

Consumers’ impatience with less-than-satisfactory purchase experiences ought to be reason enough to intensify the focus on customer satisfaction. But there is an even greater incentive for doing so, one that bears directly on the bottom line.

Our research shows that satisfied online customers shop more, spend more, and buy more frequently and across more categories. A satisfied customer is more likely to return to a Web site for additional purchases and, equally important, to recommend the site to others. Our study found an almost perfect correlation between a site’s overall satisfaction ratings and the likelihood that a customer would recommend that site. (See Exhibit 2.) The positive impact of satisfied customers—and the negative impact of dissatisfied ones—have a greater compounding effect on the bottom line than most retailers realize.

Increased loyalty and advocacy are two of the most valuable results of improved customer satisfaction. Loyal, satisfied customers buy more during each visit and visit more often, and the combined effect of higher purchasing frequency and larger average orders is that satisfied customers spend 57 percent more than dissatisfied ones. Thus, satisfied customers amortize the high cost of customer acquisition and become profitable more quickly.

Advocacy, the ultimate form of loyalty, contributes at least three additional benefits: lower customer-acquisition costs, of course, but also lower customer-retention costs and higher customer-conversion rates (the number of buyers divided by the number of unique visitors to a site). Advocacy improves customer
retention by reinforcing a positive picture of the retailer in the mind of the customer who makes the recommendation. Moreover, people who visit a site because it was recommended to them are much more likely to buy something from it than shoppers attracted by conventional marketing techniques.

The Profit Driver Framework illustrates how customer satisfaction metrics relate to the operating profitability of online retailers. (See Exhibit 3.) It separates revenues and operating costs into their component parts and highlights the wide range of drivers most affected by customer satisfaction. In fact, satisfying customers at every stage of the buying process can have a combined effect large enough to push the average online retailer into the black.
Exhibit 4 illustrates how realistic performance improvements at a hypothetical average online clothing retailer could move the company from an operating loss of 78 percent of revenue to an operating profit of 7 percent. Such results do not assume best-in-class performance on any one dimension. Consider the top 10 percent of retailers, which achieve customer conversion rates higher than 9 percent and 67 percent of whose sales are to repeat customers. That level of conversion and loyalty performance would produce an operating profit of 14 percent of revenue in our model.

Exhibit 3. The Profit Driver Framework: Satisfied Customers Improve Key Elements of Online Retailers' Economics

- Driven affected by customer satisfaction

Exhibit 3 provides a visual representation of the Profit Driver Framework, showing how satisfied customers improve key elements of online retailers' economics. The framework includes drivers such as revenue, cost of goods sold, operating costs, and various revenue sources and costs. The exhibit highlights the relationship between customer satisfaction and key performance indicators (KPIs) such as number of customers, revenue per buyer, and revenue per order.
Retailers should note, however, that success depends on improving performance on all dimensions at the same time. Increasing the number of unique visitors or the proportion of repeat customers will improve results, but no single lever will put profitability within reach. (See Exhibit 5.)

Finally, what is happening in e-commerce is an old story, and its moral—one that catalogers have known for years—is about acquiring and serving the right customers. Mail-order retailers call it RFM (recency, frequency, monetary value)—a straightforward, data-driven formula that lets them segment their customer base and focus on the high rollers. Catalogers know they will succeed if they focus on their best customers: the most recent, the most frequent, and the biggest spenders. Online retailers that monitor RFM as catalogers do will greatly increase their odds of survival.
Meeting Expectations

The message is clear: The quality of the purchase experience matters. Retailers that have Web sites or are considering such a venture should pay close attention to the following critical elements of a flawless online performance:

**Site and Brand Awareness.** In the rush to go online, retailers sometimes neglect the basic rule of marketing: Know who your potential customers are and create messages geared to them. Multichannel retailers also need to make sure that the message and the customer experience are consistent across channels. At its best, the branding in each channel will reinforce the overall brand.

**Site Navigation.** A Web site should tailor its features to the user’s needs. This means not only personalization—now virtually a requirement—but also a recognition that different consumers use different modes of access, have different connection speeds, and employ different software and plug-ins. Sites may also need to include entertainment to make them more than a catalog of products.

**Product Offering and Selection.** A good Web site’s offering must be comprehensive and let visitors compare products. Shoppers need a clear presentation of prices, taxes, and shipping costs before they begin the checkout process. Inventory status should be clearly indicated at the time of the search, not after the customer has placed the order. Clicks-and-bricks retailers can go one step further and integrate their inventory systems, allowing shoppers to check a product’s availability both online and at the local store.

**Ordering.** The ordering process should be intuitive. It must also guarantee—and demonstrate—a high level
of security and privacy. Sites should have an express-checkout option that reduces the number of screens and the amount of data customers must enter. Once customers place an order, they should receive confirmation and information about order tracking.

**Delivery.** Delivery should be reliable and consistent with the retailer’s economics and brand positioning. It makes no economic sense to offer overnight delivery, for instance, when customers are content to wait two or three days.

**Customer Service.** Of all the aspects of online shopping we surveyed, the one that provoked the greatest increase in dissatisfaction was customer service. By dealing with potential problems and providing a truly self-serve environment, retailers can minimize customers’ need for assistance. The basic requirements of customer service are multichannel contact (phone, e-mail, fax) and 24/7 response.

**Returns.** Returns remain a major concern for online consumers, and few retailers have responded to their calls for a smoother process. Many customers would prefer to make returns at a local store, but for most online retailers, this option is still prohibitively expensive. Retailers that can figure out how to meet this demand cost-effectively could gain a significant competitive advantage.

* * *

Giving online consumers what they want doesn’t have to involve giving them more than they want or even more than anyone else will give them. It simply means performing consistently on all the essential elements of online retailing. Up to now, most retailers have focused on building awareness of their sites and bringing traffic to them. Meanwhile, consumers have been so taken with the novelty of the Internet that they have been willing to keep trying when a transac-

### Exhibit 5. It Takes More Than One Lever to Reach Profitability

<table>
<thead>
<tr>
<th>Hypothetical Online Clothing Retailer</th>
<th>Average online retailer</th>
<th>Impact of a single lever on operating profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conversion rate (buyers/unique visitors)</td>
<td>1.8%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Unique visitors (index to 100)</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Proportion of repeat customers</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Number of orders per year/customer</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Ratio of repeat-order revenue to first-time-order revenue</td>
<td>120%</td>
<td>120%</td>
</tr>
<tr>
<td>Operating profit/loss as % of revenue</td>
<td>–78%</td>
<td>–21%</td>
</tr>
</tbody>
</table>

**SOURCE:** BCG analysis.
tion didn’t go as smoothly as they had expected. That environment has lured many retailers into believing that an online presence was enough.

Now that the grace period is over, what counts is the quality of the day-to-day experience. Retailers that meet the challenge of consumers’ rising expectations will create a virtuous cycle of higher purchase and conversion rates, increased loyalty, and greater advocacy—all of which will substantially enhance the brand and improve the bottom line. Pure plays and legacy players that fail to adapt will be left behind.

Internet retailing is quickly becoming both an art and a science. Applying advanced direct-marketing analysis and creating a superior consumer experience are a sure formula for results.

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