Chapter 8. Model One: E-commerce

In an e-commerce company, a visitor buys something from a web-based retailer. This is perhaps the most common kind of online business, and it's certainly the one that the majority of traditional analytics tools are aimed at. Big retailers like Amazon, Walmart.com, and Expedia are all e-commerce companies.

If the e-commerce model most closely matches your business, this chapter will show you some of the most important metrics you need to watch, as well as some "wrinkles" that make the analytics more complex.

Early e-commerce models consisted of a relatively simple "funnel": a visitor arrived at the site, navigated through a series of pages to get to a particular item, clicked "buy," provided some payment information, and completed a purchase. This is the traditional "conversion funnel" from which mainstream analytics packages like Omniture and Google Analytics emerged.

But modern e-commerce is seldom this simple:

- The majority of buyers find what they're looking for through search rather than by navigating across a series of pages. Shoppers start with an external search and then bounce back and forth from sites they visit to their search results, seeking the scent of what they're after. Once they find it, on-site navigation becomes more important. This means on-site funnels are somewhat outdated; keywords are more important.

- Retailers use recommendation engines to anticipate what else a buyer might want, basing their suggestions on past buyers and other users with similar profiles. Few visitors see the same pages as one another.

- Retailers are always optimizing performance, which means that they're segmenting traffic. Mid-to large-size retailers segment their funnel by several tests that are being run to find the right products, offers, and prices.

- Purchases begin far from the website itself, in social networks, email inboxes, and online communities, making the buying process harder to track.

E-commerce companies make money in a straightforward way: they charge for products, which they then deliver either electronically (e.g., digital downloads on iTunes) or physically (e.g., shipping shoes from Zappos). They spend money to acquire customers through advertising and affiliate referrals. Prices are set based on what the market will bear, or on expectations set by competitors. Some large retailers with the budget and time to invest in it will generate prices algorithmically based on supply, demand, and constant testing, which in some cases leads to absurd pricing[25] or recommendations based on factors such as browser type.

Loyalty-focused e-retailers like Amazon build a recurring relationship with their users. They have a wide variety of products to offer, and buyers return often, so they do everything they can to make purchasing simple and automatic (in Amazon's case, the company patented the one-click purchase model, which it now licenses to other retailers, including Apple).

These relationship-focused e-commerce companies encourage users to build wishlists and review products, which means that while their core business model is e-commerce, they care about other models, such as user-generated content (UGC), too—as long as those models act as an enabler for purchases. On the other hand, e-commerce retailers that don't expect frequent, repeat sales focus on getting as much from their buyer as they can and on getting the buyer to spread the word.

What Mode of E-commerce Are You?

Kevin Hillstrom of Mine That Data, a consultancy focused on helping companies understand how their customers interact with advertising, products, brands, and channels, works with a number of e-commerce companies. He says it's essential for online retailers to know what kind of relationship they have with their buyers, because this drives everything from marketing strategy to shopping cart size. To understand this, he calculates the *annual repurchase rate*: what percentage of people who bought something from you last year will do so this year?

Acquisition mode

If less than 40% of last year's buyers will buy this year, then the focus of the business is on new customer acquisition. Loyalty programs aren't good long-term investments for this kind of business. Kevin says that 70% of e-commerce businesses fall into this category when they're mature. Vendors of scuba or rock climbing equipment might be a great example of this: many of their customers buy gear once, and don't get so hooked on the hobby that they need to upgrade. That's not a bad thing—it just dictates marketing strategy. An online vendor of eyewear might put more of its marketing efforts into convincing past buyers to refer others, and less into convincing those buyers to purchase multiple pairs of glasses, for example.

Hybrid mode

If 40–60% of last year's buyers will buy this year, then the company will grow with a mix of new customers and returning customers. It needs to focus on acquisition as well as on increasing purchase frequency—the average customer will buy 2 to 2.5 times a year. Zappos is a hybrid model e-commerce company.

Loyalty mode

If 60% or more of last year's buyers will buy something this year, the company needs to focus on loyalty, encouraging loyal clients to buy more frequently. Loyalty programs work well only if the retailer has this kind of engagement, and only 10% of e-commerce businesses end up in this mode when mature. Amazon is a good example of a company in this mode.

The annual repurchase rate is an early indicator of how an e-commerce startup will succeed in the long term. Even before a year has elapsed, an e-commerce company can look at 90-day repurchase rates and get a sense of which model it's in.

- A 90-day repurchase rate of 1% to 15% means you're in acquisition mode.
- A 90-day repurchase rate of 15% to 30% means you're in hybrid mode.
- A 90-day repurchase rate of over 30% means you're in loyalty mode.

There's nothing particularly bad about any of these models. Kevin has clients where only 25% of this year's buyers will purchase something next year. These clients are successful because they know they need a large number of new customers at relatively low costs, and they concentrate all of their marketing efforts around reliable, affordable customer acquisition.

"It doesn't matter whatsoever what mode a business is in. But it means *everything* for the CEO to know what mode he or she is in," Kevin says. "I see too many leaders trying to increase loyalty. If you're in acquisition mode, you probably can't—and shouldn't try to—increase loyalty. The average customer only needs a couple of pairs of jeans a year, for instance. You can't force the customer to buy more! Knowing your customer and mode is really important."

Kevin says he frequently sees business leaders with seasonal e-commerce properties trying to convince customers to buy gifts off-season. "It doesn't work," he says. "They're in acquisition mode. They're better off creating awareness during the year so that they get new customers in November and December."

While it's important to optimize revenues, don't try to make your customers into something they're not. "I don't try to force my customer to do things my customer isn't pre-inclined to do. With Zappos, for example, I wouldn't necessarily try to push my customer from hybrid mode to loyalty mode. But I do try to improve customer service (free returns), and that brings in new customers (half of hybrid mode success) who feel comfortable with my business," says Kevin. "If I am in acquisition mode, then I will still try to improve service and merchandise and the like, but I know that my primary goal is to always get new customers, even once my business is mature."

Kevin says it's difficult to move the annual repurchase rate by more than 10%, despite a company's best efforts. "If the annual repurchase rate is 30%, it will vary between 27% and 33%," he says.

With the rise of social networks and sites like Facebook and Pinterest, which can refer visitors, e-commerce companies are increasingly interested in a long funnel that begins with a tweet, a video, or a link, and ends with a purchase. Online retailers need to understand what messages, on what platforms, generate the kinds of visitors who buy things. Once they're on the site, the emphasis is on maximizing the amount of stuff a buyer will purchase.

Getting pricing right is critical—particularly if you're an acquisition-mode e-commerce site that gets only one chance to extract revenue from a customer. A 1992 study on business optimization by management consulting firm McKinsey compared the impact of improving different aspects of the business on operating profit.[26]

As Figure 8-1 illustrates, getting pricing right has a huge impact on the overall profitability of a business. A later study conducted in 2003 suggested a smaller impact of only 8%—but one that still far outstripped other efforts.[27]

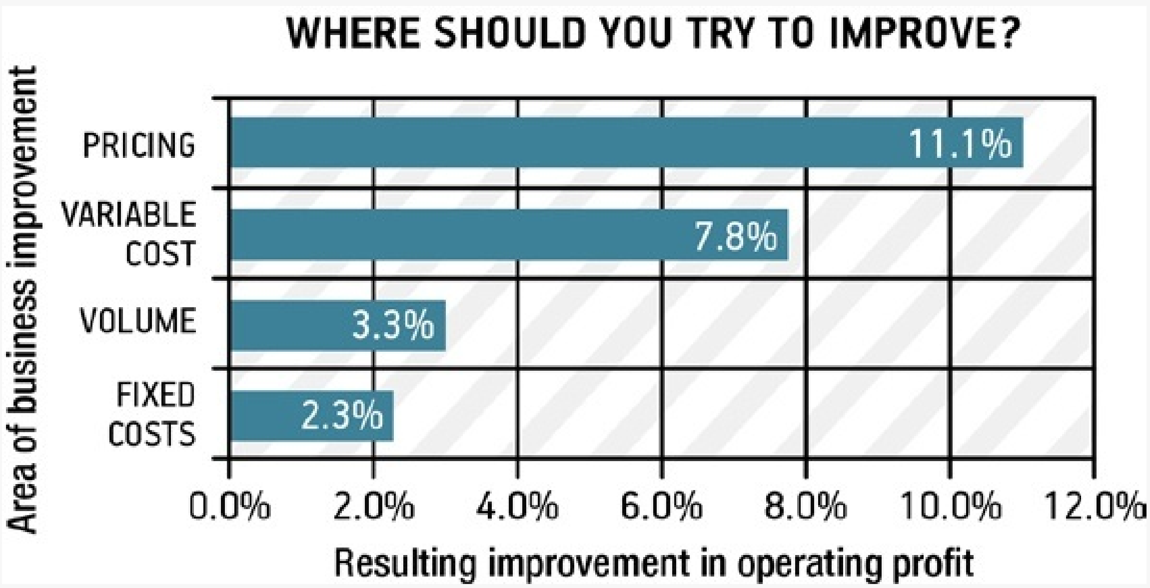


Figure 8-1. Want to fix your business? Get the price right

A Practical Example

Consider an online luxury goods store. Subscribers to the site get exclusive deals at reduced prices for items that are curated by the site's operators. Visitors to the site can browse what's available, but must sign up to place an order or put something in a shopping cart; by signing up, they agree to receive a daily email update. Visitors can also tweet or like something they see on the site.

The company cares about several key metrics:

Conversion rate

The number of visitors who buy something.

Purchases per year

The number of purchases made by each customer per year.

Average shopping cart size

The amount of money spent on a purchase.

Abandonment

The percentage of people who begin to make a purchase, and then don’t.

Cost of customer acquisition

The money spent to get someone to buy something.

Revenue per customer

The lifetime value of each customer.

Top keywords driving traffic to the site

Those terms that people are looking for, and associate with you—a clue to adjacent products or markets.

Top search terms

Both those that lead to revenue, and those that don’t have any results.

Effectiveness of recommendation engines

How likely a visitor is to add a recommended product to the shopping cart.

Virality

Word of mouth, and sharing per visitor.

Mailing list effectiveness

Click-through rates and ability to make buyers return and buy.

More sophisticated retailers care about other metrics such as the number of reviews written or the number considered helpful, but this is really a secondary business within the organization, and we'll deal with these when we look at the user-generated content model in Chapter 12. For now, let's look at the preceding metrics in a bit more detail.

Conversion Rate

Conversion rate is simply the percentage of visitors to your site who buy something. It's one of the first metrics you use to assess how you're doing. It's simple to calculate and experiment with. You'll slice conversion rate in many ways—by demographics, by copy, by referral, and so on—to see what makes people more likely to buy.

Early on, conversion rate may even be more important than total revenue because your initial goal is to simply prove that someone will buy something (and it gives you that person's email address and data on what he purchases). But there's also a risk in focusing too intensely on conversion rate. Conversion rate is highly dependent on your type of e-commerce business, and whether your success will be driven by loyalty, new customer acquisition, or a hybrid of the two.

Purchases Per Year

While conversion rate is important, it doesn't tell the whole story. There are many examples of e-commerce sites with high or low conversion rates that are successful. It depends on the type of e-commerce site and how people buy. A store that sells coffins probably sells only one per lifetime; a grocery store sells to a customer several times a week.

If you look at the repurchase rate on a 90-day cycle, it becomes a very good leading indicator for what type of e-commerce site you have. There's no right or wrong answer, but it is important to know whether to focus more on loyalty or more on acquisition.

Shopping Cart Size

The other half of the conversion rate equation is the size of the shopping cart. Not only do you want to know what percentage of people bought something, you also want to know how much they spent. You may find that one campaign is more likely to make people buy, but another might make fewer people spend more money.

In practice, you'll compare the total revenue you're generating to the way in which you acquired that revenue, in order to identify the most lucrative segments of your reachable audience. But don't get too caught up in top-line revenue; profit is what really matters.

Bill D'Alessandro of Skyway Ventures, a private investment firm focused on e-commerce companies, says, "The key to successful e-commerce is in increasing shopping cart size; that's really where the money is made. I like to think of customer acquisition cost as a fixed cost, so any increase in order size is expanding your margin."

Abandonment

Not everyone buys something. At its simplest, abandonment rate is the opposite of conversion rate. But a purchasing process often has several steps—reviewing items in a shopping cart, providing shipping information, entering billing details, and so on. In some cases, the process may even involve a third-party site: Kickstarter sends users to Amazon to provide their credit card information, and Eventbrite links to PayPal so buyers can pay for tickets.

The number of people who abandon a funnel at each of these stages is the abandonment rate. It's important to analyze it for each step in order to see which parts of the process are hurting you the most. In some cases, this may be a particular form field—for example, asking people for their nationality could be alienating buyers. Tools like ClickTale perform abandonment analysis within the form itself, making it easier to pinpoint bottlenecks in the conversion process where you're losing customers.

Cost of Customer Acquisition

Once you know you can extract money from visitors, you'll want to drive traffic to the site. You may be using advertising, social media outreach, mailing lists, or to the site. You may be using advertising, social media outreach, mailing lists, or affiliates. Whatever the case, you're going to need to add it up. E-commerce sites are simple math: make more from selling things than it costs you to find buyers and deliver the goods.

Accounting for the cost of acquisition in aggregate is fairly easy; it's more complicated when you have myriad channels driving traffic to your site. The good news is that analytics tools were literally built to do this for you. The reason Google has a free analytics product is because the company makes money from relevant advertising, and wants to make it as easy as possible for you to buy ads and measure their effectiveness.

Revenue Per Customer

Revenue per customer (or lifetime value) is important for all types of e-commerce businesses, regardless of whether you're focused on new customer acquisition or loyalty (or both). Even if your business doesn't engender loyalty (because you're selling something that's infrequently purchased), you want to maximize revenue per customer; you do so by increasing shopping cart size and conversion while reducing abandonment. Revenue per customer is really an aggregate metric of other key numbers, and represents a good, single measure of your e-commerce business's health.

WineExpress Increases Revenue by 41% Per Visitor

WineExpress.com is the exclusive wine shop partner of the Wine Enthusiast catalog and website, which have been providing quality wine accessories and storage for over 30 years. The company actively A/B tests and runs different experiments to improve sales conversions.

It decided to tackle one of the most highly trafficked pages on its site—the "Wine of the Day" page—which features a single wine option that ships for just 99 cents. The company drives traffic to the page through an opt-in email list and site navigation. The page's central focus, aside from the featured product, is a virtual wine-tasting video with the company's highly regarded wine director.

The "Wine of the Day" page already converted well, but WineExpress.com felt there was an opportunity to improve it. However, the team was well aware of the challenge which is faced by all e-commerce sites: striking a balance between optimizing sales transactions and optimizing overall revenues. Focusing too much on sales conversions may negatively impact the bottom line if the average order size drops in the process.

WineExpress.com engaged conversion optimization agency WiderFunnel Marketing to develop and execute a strategy for the “Wine of the Day” page. WiderFunnel developed and tested three design variations, aiming mostly at testing different layout approaches. Figure 8-2 shows the original layout.

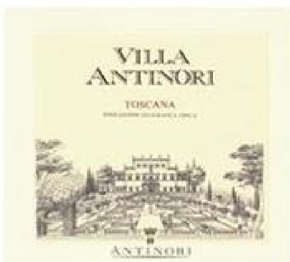
In the end, one of the variations was a clear winner, leading to a 41% increase in revenue per visitor. “Conversion also went up,” says Chris Goward, CEO of WiderFunnel, “but the key here is that revenue per visitor went up substantially. A lot of e-commerce vendors focus too much on conversion. For WineExpress.com the success is that people bought substantially more product.”

WineExpress.com®
A Classic Blend of Value & Service

Product Alerts

Wine of the Day

Wine of the Day is your daily selection of delicious WineExpress.com wines that ship **for just 99¢, for 24 hours only**.



Villa Antinori 2005 Toscana IGT - Read the Description

Item Number: 29 30 191 05
Our Price: $21.95
Discounted Case Price: $237.00 - *10% Off!* *($19.75 per bottle)*
Availability: **IN STOCK**
Ship to State: California Why?
Buy: 1 bottle(s)
ADD TO CART

Like Be the first of your friends to like this.

CUSTOMER RATING
Based on the averaged scale of 1 to 5 glasses

Write a Review Read 1 Review

About Our Ratings

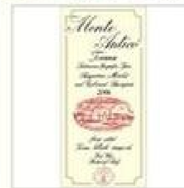
Share This Wine

Video Tasting: Virtually Taste Before You Buy

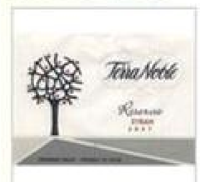
Villa Antinori 2005 Toscana IGT

Antinori is a world famous producer of Tuscan wines, their history going back literally centuries. The Villa Antinori is the estate where the Chianti Classico wines have been produced for many years. This wine is a natural progression from their Chianti Classico. As the Antinoris recognized how non-native grapes like Cabernet Sauvignon, Merlot and Syrah raised the level of quality of their wine they started blending more and more and finally could no longer use the DOC designation and so it became a Super Tuscan IGT. But the quality they've reached is exceptional, especially as they've experimented more with aging in small oak barrels. This 2005 is a blend of 60% Sangiovese, 30% Cabernet Sauvignon, 15% Merlot and 5% Syrah aged for 12 months in French, American and Hungarian oak barrels. Aged in the bottle for another 8 months before release this Tuscan beauty has reached a stage

You May Also Like:



Monte Antico 2006 Toscana IGT
Reg Price: ~~$13.95~~
Sale Price: $12.95



Terranoble 2007 Syrah Reserve, Colchagua Valley
Our Price: $14.95

Chateauneuf du Pape 2007 Domaine de L'Arnesque
Our Price: $29.95

Chateau Petit Val 2005 St. Emilion, Grand Cru
Reg Price: ~~$28.95~~
Sale Price: $24.95

Figure 8-2. The original WineExpress "Wine of the Day" page

The winning layout and design is shown in Figure 8-3.

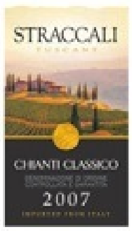
WineExpress.com

A Classic Blend of Value & Service

Order in [3:43:32] to get 99 cent shipping!

Wine of the Day

Your daily selection of delicious WinExpress.com wines that ship for just 99 cents, for 24 hours only.



Chianti Classico DOCG 2007 Straccali

Item Number: 29 30 199 07

CUSTOMER RATING Based on a scale of 1 to 5 glasses

Read 1 Review

Chianti Classico is not the same as mere Chianti. "Classico" means that the grapes were grown in the oldest delimited zone in the region, and the production code is quite strict. Only vineyards situated on hillsides above 700 meters with advantageous orientation may be included. Vine density is spelled out as are maximum yields, and for DOCG even the maximum amount of wine per ton of grapes is set by law. Chianti Classico is no ordinary wine and this is no ordinary Chianti Classico. Straccali sourced their grapes from some of the best vineyards in the zone. Vineyards up to 1,800 feet above sea level, where the cool temperatures combine with the direct sunlight to bring out all of the complexity and nuance that Sangiovese can deliver. 90% Sangiovese blended with 10% Canaiolo and Merlot aged in oak casks and then in bottle, this wine offers ripe cherry, anise, tobacco and cedar notes in a supple easy-to-enjoy style. Best of all it's a tremendous value.

EXPERT RATING
Based on the 100 Point Scale

WE:	91
WS:	91
WA:	92

About Our Ratings

Our Price:	**$14.95**
Discounted Case Price:	**$152.40** - *15% Off!* *($12.70 per bottle)*
Availability:	**IN STOCK**
Ship to State:	Select One Why?
Buy:	1 Bottle(s)

ADD TO CART

Video Tasting: Virtually Taste Before You Buy

Like 2 people like this.

Share This Wine

Product Alerts

Customer Reviews

Write a Review | About Our Ratings

Displaying Review 1 of 1

Kicked our dinner up a notch!

By NapaNut STAFF REVIEWER from On the Hudson on 6/8/2010

Gift:	No
Pairs Well With:	Beef
Pros:	Balanced, Earthy
Best Uses:	Entertaining
Describe Yourself:	Aspiring Enthusiast
Bottom Line:	Yes, I would recommend this to a friend

This was the highlight of our dinner party! With notes of spice and forest floor the Sangiovese grape really showed! the integration and flavor profile in the oak realy made the wine hold up after being opened for several hours(it was our 3rd bottle). Enjoy now or hold on to for a couple of years as I'd be curious to see how this wine shows after some time in my Eurocave.

Was this review helpful to you? Yes / No - You may also flag this review.

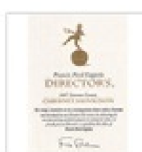
Displaying Review 1 of 1

600px FOLD

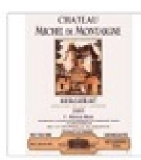
You May Also Like

Chianti Classico 2007 Peppoli, Antinori
Our Price: $28.95

Chianti DOCG 2008 Coraggio
Our Price: $9.95



Francis Ford Coppola Director's 2007 Cabernet Sauvignon
Our Price: $19.95



Chateau Michel de Montaigne 2006 Bergerac
Our Price: $10.95

McAfee SECURE TESTED 27-JULY   BizRate.com customer certified

Figure 8-3. How would 41% more revenue per visitor change your business?

"We found that placing the video above the fold was a key element in the success of the new page," says Chris. "The eyeflow of the new layout also improved clarity, with fewer distracting elements that could draw you away from purchasing."

Summary

- WineExpress.com used A/B testing to find a better-converting page.
- While conversion went up, the real gain was a 41% increase in revenue per visitor.

Analytics Lessons Learned

Page optimization is important. But be sure you're optimizing the right metric. You don't just want a high conversion rate—though that's good. You want high *revenue per visitor*, or *high customer lifetime value* (CLV), because that's what's really driving your business model.

Keywords and Search Terms

Most people find products by searching for them, whether that's in a web browser, on a search engine, or within a site. In each case, you want to know which keywords drive traffic that turns into money.

For paid search, you're going to be bidding against others for popular keywords in search engines like Google. Understanding which words are a comparatively good "value"—not too expensive, but still able to drive a reasonable amount of traffic—is what search engine marketing professionals do for a living.

For unpaid search, you'll be more focused on good, compelling content that improves your ranking with search engines, and on writing copy that includes the desirable search terms your paying customers tend to use (so you'll be featured in search results because of your relevance).

You also want to analyze search *within* your site. First, you want to be sure you have what people are after. If users are searching for something and not finding it—or searching, then pressing the back button—that's a sign that you don't have what they want. Second, if a significant chunk of searches fall into a particular category, that’s a sign that you might want to alter your positioning, or add that category to the home page, to see if you can capture more of that market faster. Jason Billingsley, former VP of Innovation at Elastic Path, an enterprise e-commerce platform vendor, says, “Numbers vary by vertical and by site, but on-site search tools typically account for 5–15% of navigation.”

We’re not going to get into the details of search engine optimization and search engine marketing here—those are worlds unto themselves. For now, realize that search is a significant part of any e-commerce operation, and the old model of formal navigational steps toward a particular page is outdated (even though it remains in many analytics tools).

Recommendation Acceptance Rate

Big e-commerce companies use recommendation engines to suggest additional items to visitors. Today, these engines are becoming more widespread thanks to third-party recommendation services that work with smaller retailers. Even bloggers have this kind of algorithm, suggesting other articles similar to the one the visitor is currently reading.

There are many different approaches to recommendations. Some use what the buyer has purchased in the past; others try to predict purchases from visitor attributes like geography, referral, or what the visitor has clicked so far. Predictive analysis of visitors relies heavily on machine learning, and the metrics you’ll track will vary from tool to tool, but they all boil down to one thing: *how much additional revenue am I generating through recommendations?*

When you make adjustments to the recommendation engine, you’ll want to see if you moved the needle in the right direction.

Virality

For many e-commerce sites, virality is important, because referral and viral attention drives cheap, high-value traffic. It has the lowest cost of customer acquisition and the highest implied recommendation from someone the recipient trusts.

Mailing List Click-Through Rates

Mailing List Click-Through Rates

Email might not seem particularly sexy in a mobile, always-on world. But consider this: if you have the permission to reach out to your customers—and they do what you tell them to—you can keep them engaged far more effectively. Fred Wilson, partner at venture capital firm Union Square Ventures, calls email a secret weapon.[28]

Just a few years ago, many analysts and investors were wondering whether social media was going to lead to the end of email. In an ironic twist of fate, it turns out that social media adoption is driven by email. More and more social applications are leveraging the power of email to drive repeat usage and retention.

Every email you send can be blocked in many ways before a user does something you want, as shown in Figure 8-4.

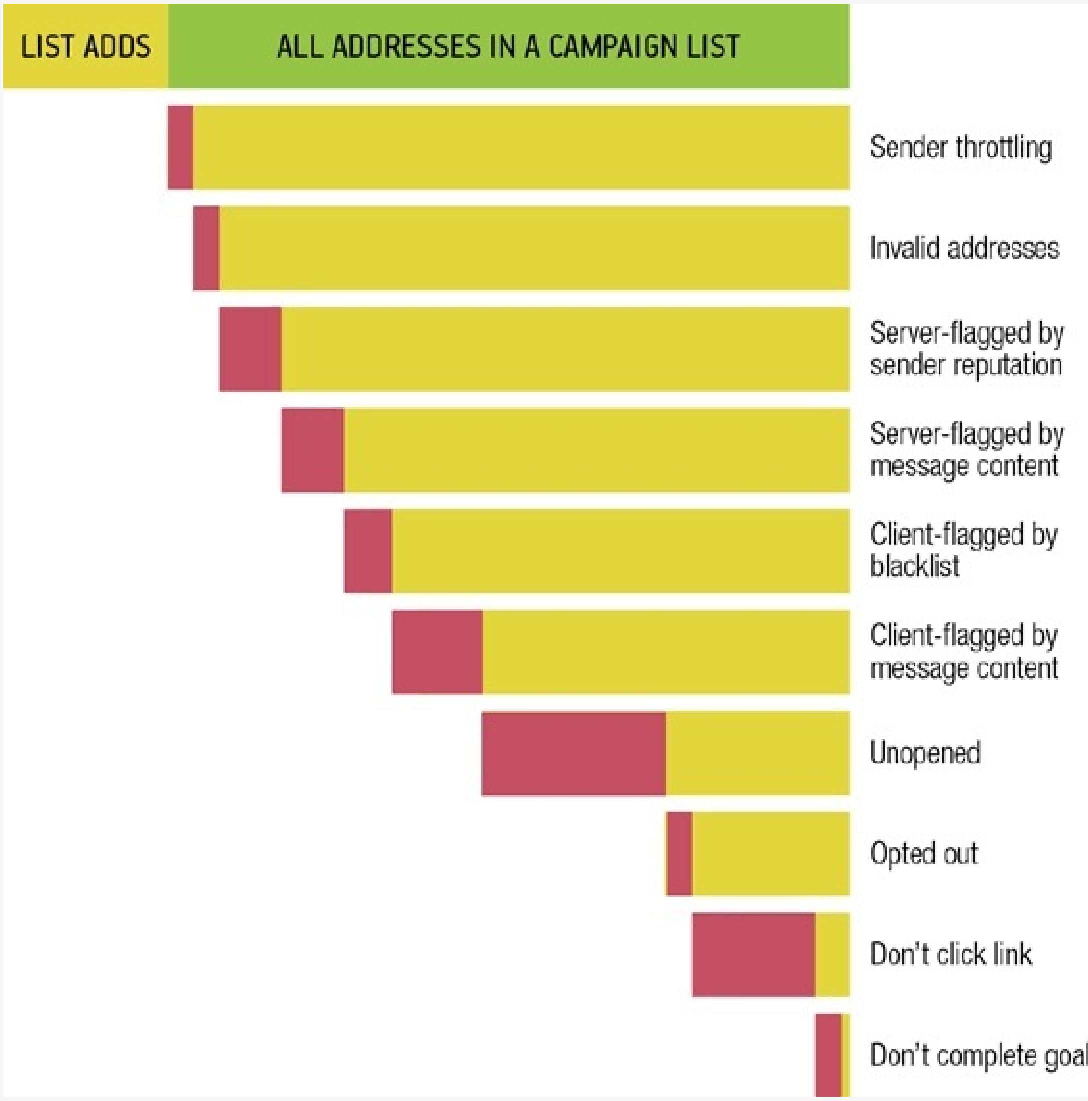


Figure 8-4. Every email runs this gauntlet; is it any wonder your click-throughs are low?

Even those who respond to the call to action within a message might not do something useful once they get to your website. In some cases, the unsubscribe rate caused by a bad email can overshadow any profit from the campaign, so email is a tool to use carefully.

You calculate the email click-through rate by dividing the number of visits you get from a campaign by the number of messages you've sent. A more sophisticated analysis of email click-through rate will include a breakdown of the various places where things can go wrong—for example, what percentage of email addresses didn't work anymore—and a look at the eventual outcome you´re after (such as a purchase).

You also need to create a campaign contribution metric—basically, the added revenue from the campaign, minus the cost of the campaign and the loss due to unsubscribes. The good news is that most email platforms include this data with minimal effort.

Offline and Online Combinations

All e-commerce vendors have to deliver something to buyers. That delivery may be electronic, but in most cases, it means moving physical goods around. Not only do high shipping costs reduce conversion rates, but successful, timely delivery is also a huge factor in buyer satisfaction and repeat purchases. Offline components of any e-commerce business need to be analyzed carefully.

Shipping Time

Real-time delivery and next-day shipping are increasingly common, and buyers are becoming more demanding. Shipping time is key, and it’s tightly linked to how effectively the retailer handles logistics. E-commerce companies can most likely achieve significant operational efficiencies just by optimizing their fulfillment and shipping processes. These efficiencies turn into a competitive advantage, because they let you sell to consumers who are more interested in faster, better-quality service than the cheapest price.

Stock Availability

“When items are out of stock, sales go down,” says Jason Billingsley. “Of course that’s obvious, but few e-commerce vendors do anything about it.” Improving your inventory management can make a big difference to your bottom line. Jason recommends lowering out-of-stock items on product list or category pages, effectively hiding them from consumers. You can also hide these items from searches, or again, make sure they appear lower in the search results.

It’s also interesting to analyze inventory versus sales. “A lot of e-commerce vendors hold too much inventory for things that don’t sell well, and not enough for things that do sell well,” says Jason. He recommends aligning product categories based on how much they make up of sales versus inventory. If you’re not selling a lot in a product category, but that group of products makes up a high percentage of your inventory, things are out of balance.

Visualizing the E-commerce Business

Figure 8-5 represents a user's flow through an e-commerce business, along with the key metrics at each stage.

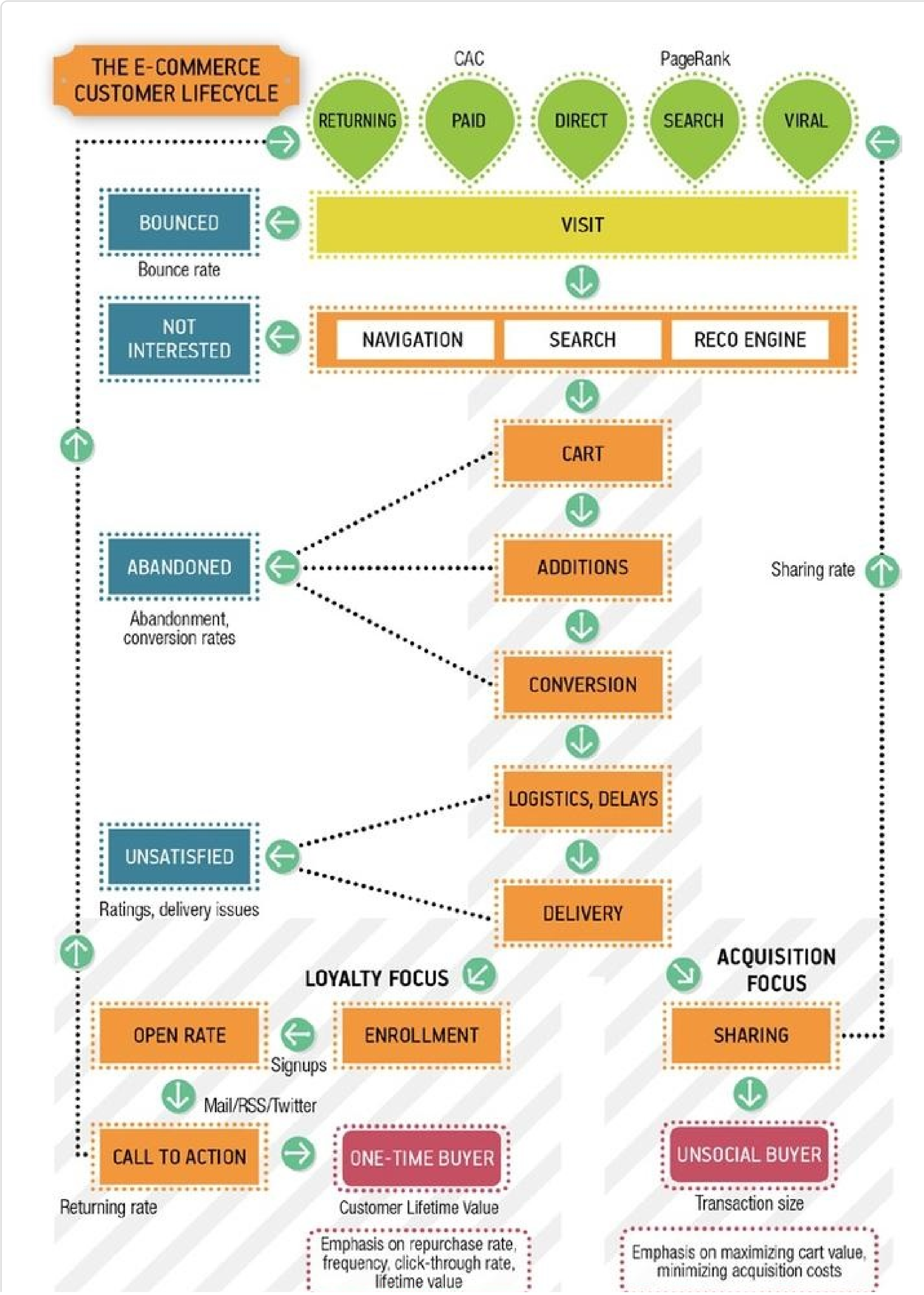

THE E-COMMERCE CUSTOMER LIFECYCLE
CAC
PageRank
RETURNING
PAID
DIRECT
SEARCH
VIRAL
BOUNCED
Bounce rate
VISIT
NOT INTERESTED
NAVIGATION
SEARCH
RECO ENGINE
CART
ABANDONED
Abandonment, conversion rates
ADDITIONS
Sharing rate
CONVERSION
LOGISTICS, DELAYS
UNSATISFIED
Ratings, delivery issues
DELIVERY
LOYALTY FOCUS
ACQUISITION FOCUS
OPEN RATE
Signups
ENROLLMENT
SHARING
Mail/RSS/Twitter
CALL TO ACTION
ONE-TIME BUYER
UNSOCIAL BUYER
Returning rate
Customer Lifetime Value
Transaction size
Emphasis on repurchase rate, frequency, click-through rate, lifetime value
Emphasis on maximizing cart value, minimizing acquisition costs

Figure 8-5. More than a typical funnel: how e-commerce businesses acquire customers

Wrinkles: Traditional E-commerce Versus Subscription E-commerce

So far, we’ve looked at a relatively simple e-commerce model involving a one-time purchase. Plenty of services, however, are subscription-based. This complicates things.

Subscription services bill the customer on a regular basis. Churn is easier to measure—the customer doesn’t renew his account or cancels outright—but happens more dramatically. Rather than a gradual reduction in purchases over time, the customer’s revenue simply stops. If this is you, check out the following business model—Software as a Service—because it applies to you as well.

Phone companies devote considerable effort to tackling this kind of churn. They build sophisticated models that predict when a subscriber is about to cancel her service, and then offer her a new phone or a discount on a renewed contract just before the cancellation happens.

Expired payment information is also a concern for subscriptions. If you try to charge a customer’s credit card for his monthly renewal and the transaction fails, you have to convince him to re-enter payment details.

From an analytics perspective, this means tracking additional metrics for the rate of payment expiration, the effectiveness of renewal campaigns, and the factors that help (or hinder) renewal rates. These metrics matter later on as you’re working to reduce churn, but as the total number of loyal users grows, renewal revenue represents a significant portion of total revenue.

Key Takeaways

- It’s vital to know if you’re focused on loyalty or acquisition. This drives your whole marketing strategy and many of the features you build.
- Searches, both off-and on-site, are an increasingly common way of finding something for purchase.

- While conversion rates, repeat purchases, and transaction sizes are important, the ultimate metric is the product of the three of them: revenue per customer.
- Don't overlook real-world considerations like shipping, warehouse logistics, and inventory.

There's another business model that's close to e-commerce: two-sided marketplaces. Both models are concerned with transactions between a buyer and a seller, and the loyalty of customers. If you want to learn more about marketplaces, head to Chapter 13. Otherwise, you can move on to Chapter 14 to understand how your current stage affects the metrics you watch.

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[25] In his post "Amazon's $23,698,655.93 book about flies," UC Berkeley biologist Michael Eisen explains how algorithmic price wars between book merchants drove the price of a textbook on flies up to $23 million dollars (*http://www.michaeleisen.org/blog/?p=358*).

[26] *http://hbr.org/1992/09/managing-price-gaining-profit/ar/8*

[27] *http://download.mckinseyquarterly.com/popr03.pdf*

[28] *http://www.avc.com/a_vc/2011/05/social-medias-secret-weapon-email.html*