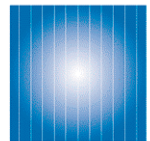


**'eBusiness'
is Now
Serious
Business**

September 2000

SILENT **PARTNER**



software, inc

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Introduction

Ah, the good old days. It wasn't long ago (an eternity in Internet time) that the "science" of eBusiness was about as sophisticated as medicine in the Dark Ages. Sell online? No problem. Launch a Web site and they will come, and they will pay. If they don't find what they need, or if ad fees are not maximized, no problem. There's an endless supply of Web site visitors to purchase products, Fortune 500 companies lined up to buy banner ads, and investors willing to fund the next big Super Bowl commercial. A funny thing happened on the way to Utopia, however; eBusinesses, both pure plays and clicks-and-mortars, discovered they'd better start running their operations like a business. Failure is no longer inconceivable.

Like all phenomena in the Internet age, it happened quickly. In April of 1998, little more than half (56%) of 75 online retailers surveyed knew what their "look-to-buy"¹ conversion rate was; 7 months later that number had increased to 84%, and their typical analyses also included additional metrics like average order size and units per order². That's the optimist's perspective, though. Other surveys of eBusiness organizations are not as flattering - one even suggests that only about 1/3 of the companies interviewed even track revenues! In that same study, only 12% record and evaluate look-to-buy ratios³. One thing is certain, however. Everyone will eventually come to terms with the emerging reality: it's not just hits anymore.

Expanding beyond the simple reporting of hits and visits, however, means employing applications fit for the job. Indeed, the tools a pro-

fessional carpenter uses may bear a superficial similarity to those purchased by the average homeowner at Wal-Mart, but the likeness ends on the surface. So, too, is the case with eBusiness or Web analytics software. Countless products are available that will provide high-level reports on numbers of hits and other limited statistics, and they even throw in some pretty color graphics. Successful organizations serious about maximizing ad revenue and turning Web site visitors into happy customers, however, are likely to turn to the professionals to track, optimize, and grow their online businesses.

The issue? Professional carpenters' tools can represent non-trivial investments, and are difficult to justify for the weekend home improvement amateur. Likewise, the eBusiness analytics solutions used by intelligent eBusinesses require a considerable investment. For those organizations simply dabbling in eBusiness in a perfunctory manner, such investment - like the weekend carpenter - is not justified. But for companies that appreciate the new eBusiness reality, this investment provides a powerful ROI in multiple ways. We discuss and quantify some of those in the following pages.

¹ A "look-to-buy" conversion rate is the increase in the number of "buyers", those Web site visitors who make an online purchase, as compared to the number of "lookers", those visitors who simply browse.

² The Forrester Report, "Retail's Growth Spiral"; Volume One, Number Eight, November 1998, Page 3. This study is available publicly on the National Retail Foundation's Web site at: <http://www.nrf.com/ecommerce/forrester/1998/reports/2642/document.htm>.

³ "The End of the Hit Parade", CIO Magazine, May 15, 2000, page 7. (http://www.cio.com/archive/051500_parade.html).

The Cost of a Click

Industry analysts are fond of a Web site design rule of thumb both simplistic and insightful: “two clicks to content”⁴. Although unrealistic in most circumstances, it represents a useful design target for companies desiring to “raise the bar”, and it also provides a nice backdrop to the description of one of eBusiness’ major challenges as the industry moves from the bedrooms of teenage Web designers to the boardrooms of professional business managers. In short, Web sites are almost universally poorly designed for their primary purpose: servicing customers and potential customers. A few recent findings illustrate this point:

- Two-thirds of Web site shoppers abandon their shopping carts before actually buying anything⁵.
- The average industry conversion rate – the ratio of buyers to unique visitors – is only 1.8%⁶.
- 28% of attempted online purchases fail, and 28% of consumers whose purchases failed stopped shopping online⁷.
- After 5 minutes searching for a product, shoppers begin to abandon their effort⁸.
- Retail merchants rated “having a well-designed, easy-to-use site” the most important issue in selling successfully to consumers through the Web⁹.

Given that eBusinesses spend millions of dollars drawing visitors to their Web sites, it goes without saying that converting these visitors to happy customers is crucial to the success of the business. Further, the connection between converting visitors to buyers and their success navigating the Web site is obvious. Indeed,

Web site redesign efforts can result in a 40% to 140% increase in customer conversion rates¹⁰, but can’t be accomplished with limited or inaccurate traffic data and analysis. That’s where the carpenter’s professional tools come in.

Enterprise-scale eBusiness analytics applications designed for mission-critical eBusiness operations are available today from companies like Accrue. Accrue’s Insight, for example, provides a host of value-add data capture and analysis functions necessary to improve conversation rates and decrease “click to content” numbers. For example, Insight can provide information about:

- What customers do on a site
- How long they stay
- How often they come back
- What they buy

Additional information provided by Accrue’s solutions includes:

- Path analysis by customer segment
- Site content popularity and effectiveness for different customer segments

⁴ Private interview with anonymous industry analyst.

⁵ “Easier-to-Use Sites Would Help E-Tailers Close More Sales”, NY Times On the Web, June 12, 2000, page 1. (<http://www.nytimes.com/library/tech/00/06/cyber/commerce/12commerce.html>)

⁶ “The Dotcom Survival Guide: How to Tap the \$19 Billion Customer Experience Fund”, Creative Good, June 12, 2000, page 6. (<http://www.creativegood.com/survival/>)

⁷ “Internet Industry Statistics”, shop.org, page 5. (http://www.shop.org/nr/Int_Ind_Stat.html) referencing a March 8, 2000 Boston Consulting Group publication.

⁸ “Smooth Transactions and Room for Improvement”, emarketer.com, December 30, 1999. (www.emarketer.com)

⁹ Ernst & Young report completed for the National Retail Foundation, “Keys to Success”, page 1. (www.nrf.com/ecommerce/keys.htm)

¹⁰ “The Dotcom Survival Guide: How to Tap the \$19 Billion Customer Experience Fund”, Creative Good, June 12, 2000, page 6. (<http://www.creativegood.com/survival/>)

- Relationship between repeat visits and content areas
- Visitor segmentation
- Impact of connection speed
- Shopping cart analysis – Browse to buy conversions
- Customer Life Time Value (LTV)
- Banner ad campaign ROI
- Affiliate program and referring site ROI

Further, more than the raw data, the top-shelf products like Insight’s add-on modules can begin to answer the critical “why” question. Why did Web visitors commonly disengage at this or that point? Why did a high percentage click through this banner ad but not complete a transaction? Was the ad misplaced? Was a server underpowered or over-subscribed at that point? The “why” analysis is where the rubber meets the road, and where investment in these kinds of eBusiness analytics software begins to pay considerable dividends.

In addition, advanced analysis modules that allow eBusinesses to link their Web traffic to other customer data can be very powerful. Accrue’s Commerce Module, for example, allows visitors to import data from their e-commerce platform and conduct visitor/buyer and shopping cart analysis, look to buy conversions, cross-sell and up-sell analysis, product specific analysis (i.e., what products sell together, what products were purchased, pending, removed and abandonment rates, etc), buyer segmentation based on purchased product, original referring organization and other crucial information that enable enterprises employing these applications to optimize their customers’ shopping experience and reduce their time on the Web site.

Not surprisingly, eBusinesses deploying these applications are taking advantage of these advanced capabilities to dramatically improve the usability of their Web sites. In one Accrue customer example, a Fortune 150 maker of imaging products saw their number of clicks-to-content reduced by about 50% from an average of 4 to 5 clicks per visitor to 2 to 3 clicks per customer. The data and analysis produced by Accrue Insight provided the actionable information for this successful site redesign. Such Web site improvements directly drive increases in conversion rates, which in turn can result in highly compelling increases in revenue, as illustrated in Figure 1.

Figure 1 shows how a modest conversion rate improvement of 10% to 40% – the kinds of improvements derived commonly from sophisticated eBusiness analytics packages reports and

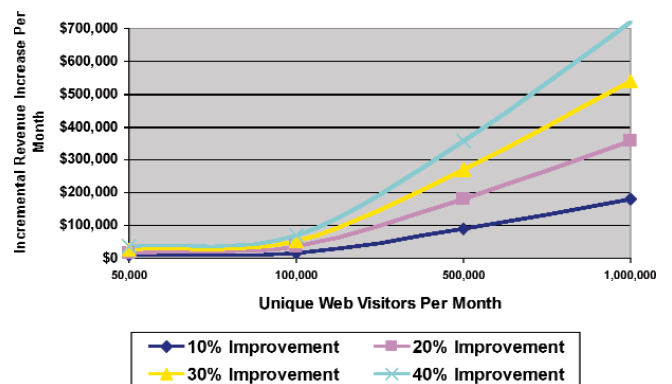


Figure 1: Conversion Rate Improvement and Corresponding Revenue Increases. Assumptions: Baseline Conversion Rate: 1.8%¹¹
Average Revenue Per Customer: \$100¹²

¹¹ “State of Online Retailing 3.0”, shop.org, page 2. (<http://www.shop.org/research/summary.htm>)

¹² The Forrester Report, “Retail’s Growth Spiral”; Volume One, Number Eight, November 1998, page 3 (Study is available publicly on the National Retail Foundation’s Web site: <http://www.nrf.com/ecommerce/forrester/1998/reports/2642/document.htm>).

analysis - can translate into tens and even hundreds of thousands of dollars in additional revenue **per month** for Web sites with even relatively small traffic levels. Such revenue improvements offer a compelling return-on-investment for the software whose deployment and routine use results in these additional revenues.



Don't Answer That Phone

It's a poorly kept secret that the vast majority of companies would strongly prefer that customers seeking help desk or technical support would avail themselves of the vast information available on their Web sites. Indeed, the average call center event costs about \$25, while self-service visits to corporate Web sites cost the company a fraction of that, typically \$1 to \$2 per incident.¹³ More importantly, customers tend to **prefer** to handle their technical requests on their own if at all possible, simply because it can be much faster than holding on the phone¹⁴. This, coupled with the fact that about 65% of all customer support questions are repetitive¹⁵, suggests that a well-designed technical support Web site can not only save money, but also result in happier customers. Is this a simple win-win, or just an assertion that sounds too good to be true?

Well, like all good things in life (and business), there **is** a catch. More likely than not, when the average person is searching for technical support, it's a last resort effort undertaken only after all other options have been exhausted, and patience has run out. The catch, therefore, is to get the frustrated Web site visitor to the information they're searching for **very** quickly, and that means designing, optimizing and

¹³ The Help Desk Institute statistics cited in a "Customer Support Management" column "Mind Your Own Business", July/August 2000 issue, page 6. (<http://www.customersupportmgmt.com/current/appserviceproviders.html>)

¹⁴ Ibid, page 1.

¹⁵ Attachmate Corporation press release, "Attachmate Reduces Support Call Volume by Thirty Percent Through Customer Support Consortium Program", March 29, 1999, page 2. (http://www.attachmate.com/press/press_release/0,1045,315_1,00.html)

evolving a support Web site based on hard data, sophisticated eBusiness analytics, and more than a little science.

One Accrue Insight customer did just that. Based on data provided by Accrue products, the customer adjusted specific categories for their self-help Web site section, optimized FAQs, added a dealer locator section, and developed an e-mail feedback system. Before using Accrue, the typical user would need to click 8 to 10 pages to find their desired information. The Accrue-based design effort has reduced that substantially, and the company's target remains 3 clicks. It stands to reason that a few extra clicks can be the difference between a satisfied, self-helped customer, and a phone call to a call center and its resulting \$25 price tag.

Given a well designed and maintained Web site's ability to divert expensive support calls away from call centers, it's no surprise that the savings can add up quickly. Figure 2 illustrates how diverting even small percentages of support phone calls to - and successfully through - a Web site can yield considerable cost savings, not to mention happier customers.

Note that even a modest 10% diversion rate for a call center volume of about 450 calls per day (approximately 10,000 per month) renders an annual savings of more than a quarter million dollars.

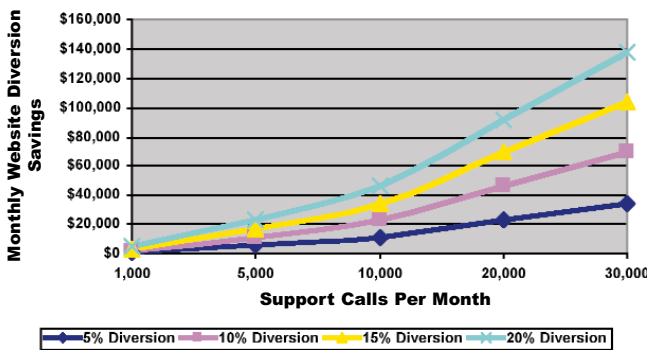


Figure 2: Customer Support Cost Savings via Web site Inquiry Diversion. Assumptions: Cost of Call Center Incident: \$25¹⁶ Cost of Self-Serve Web site Incident: \$2¹⁷



The Darwinian Web Ad Game

There's a common old joke in business and other circles that refers to a fictitious company selling each of its widgets for slightly less than it costs to produce them; their naïve assumption is that they'll lose a little on each sale but "make it up" in the volume. In the late '90s, when the Internet craze began to produce dot-com companies by the thousands, all with "free content" and a business model dependent upon advertising revenue, few recalled the joke about the widget company and its naïve assumption, but the comparison is becoming more obvious as the Internet ad market matures.

This is not to say there isn't a valid market for Internet advertising. In fact, reasonable estimates suggest that over \$6 billion will be spent on the purchase of Internet ads in 2000¹⁸. That certainly represents a non-trivial market, especially when one considers that this nascent segment is growing annually at rates exceeding 50%¹⁹. The catch: the number of Web sites seeking to obtain advertising is growing much

¹⁶ The Help Desk Institute statistics cited in a "Customer Support Management" column "Mind Your Own Business", July/August 2000 issue, page 6. (<http://www.customersupportmgmt.com/current/appserviceproviders.html>)

¹⁷ Ibid.

¹⁸ www.emarketer.com, "The eAdvertising Report", June 2000, page 115.

¹⁹ Ibid, page 22.

Laughter Alert: From the "Bad Idea" file, one world class company posted the following on its Web site as it "subtly" directed customers to appropriate sections of its Web site: "Please try to limit DUMB questions, over 75% of all e-mail/telephone questions can easily be answered by simply reviewing the full and detailed factory brochures for each model found on our site..." — Customer Support Management, January/February 2000 Issue, "Services Marketing" column by Bob Johnson. — Some things are simply too good to omit from a white paper even if they're at best peripherally related.

faster than the available dollars:

- In December 1997, 1,033 new Web sites seeking advertising revenue were created. In December, 1999, that number tripled to 3,347²⁰.
- In 1999, 6,589 Web sites were successful in attracting ad revenue. In 2000, that number is estimated to be 9,846²¹.
- In the 1999/2000 timeframe, approximately 74% of available Web ad inventory went unsold²².

Thus, no one is arguing that it's a great show, just that getting one of the few available tickets could be a trick.

Of course, the best way to get your share of the \$6 billion is to bring as many people to your site as possible. To do that, you'll have to invest. In 1998, Yahoo, Excite, and CNET, spent 45%, 52%, and 30% respectively of their ad revenue on sales and marketing expenses ... and they were the successful companies. Many others (e.g. iVillage, Marketwatch.com) spent **more** on sales and marketing than they collected in advertising revenue.²³ Thus, the Internet Ad game "catch 22": it's difficult to attract advertising dollars to your Web site in such a competitive marketplace, and it's very expensive to attract the eyeballs to your Web site that will drive the ad revenue.

It's therefore no secret that a key to success in this market is to make the most of each and every visitor to your Web site, assuring they stay as long as possible, make their way quickly to the pages with the most lucrative ads, return often, and enjoy a positive experience each time they visit. To accomplish this — and to credibly record and report it — serious Web advertising players employ systems that pro-

vide them not only information and reliable reports, but literally drive them to proactively design and deploy their Web sites to maximize the time and number of ads visitors are exposed to on each visit. Customers of Accrue products are no strangers to this concept or the benefits realizable when professional eBusiness analytics applications are employed.

One Accrue customer, for example, realized that they collected no ad revenue if Web visitors were unsuccessful downloading pages containing banner ads. In fact, visitors abort between 18% and 42% of pages on slow loading sites, and therefore never see the ads those pages contain²⁴. This particular Accrue Insight customer — one of the world's largest publishers' of technical and professional publications company²⁵ — employed Accrue applications to help it streamline its page sizes, enhancing the retention rate of its Web visitors, many of whom access their site via dial-up modems. Based on data and reports provided by Accrue products, the company reduced page load times from an average of 4 to 5 seconds down to 1 to 2 seconds.

These kinds of improvements in user experience don't just result in happier customers, but also in increased ad revenue. The trade show and publications company cited above realized a page download time improvement of over 75%, but even a more conservative assumption of 50% improvement yields impressive returns. Because 18% to 42% of Web page visits abort on slow-downloading sites, we can conserva-

²⁰ Ibid, page 112.

²¹ Ibid, page 115.

²² Ibid, page 128.

²³ Ibid, page 126.

²⁴ Ibid, page 138.

²⁵ Accrue customer interview.

tively assume that a 50% improvement in download time will help retain 50% of those that disengage. If we assume 25% (i.e. average of 18% and 42%) are aborting, then our 50% improvement results in an increase in page views of approximately 12.5% (i.e. 0.50×0.25). The resulting ad revenue improvement is illustrated in Figure 3.

Thus, even modest improvements in page download time can yield increased ad fees in the tens or hundreds of thousands of dollars annually.

In a similar example that also illustrates the financial benefit of bandwidth optimization and ad revenue, a major newspaper used Accrue's Insight product to better understand the available bandwidth of the connections of its Web site visitors. Using Accrue reports and data, it determined that visitors accessing the site during weekdays were much more likely to visit the site from high speed connections at their offices, while weekend visitors tended to access the site via much slower dial-up connections from home. Based on this information, they would change the graphic richness of the site over the course of the day and evening to accommodate visitors that were primarily in the office (typically a high speed connection and able to accommodate big photos) and at home (typically a slow connection and therefore less interested in big photos.) The newspaper was subsequently able to increase the average frequency and length of visit, and thus increase their ad inventory substantially²⁷.

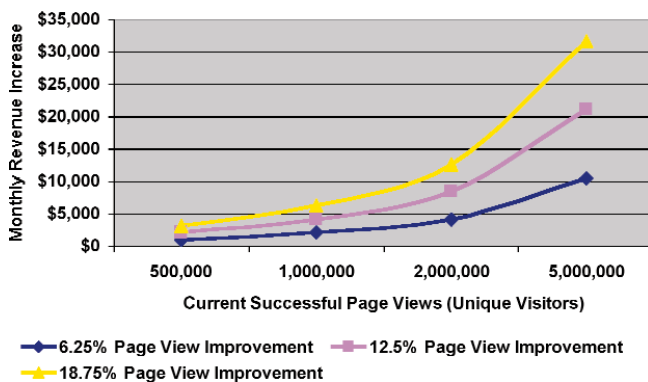


Figure 3: Ad Revenue Improvement Resulting From Decreased Page Download Time. Assumptions: CPM: \$33.75²⁶

Real-Time, Real Revenue

As previously discussed, it can be difficult to successfully secure advertising business for a Web site, and expensive to lure unique visitors to view those ads once they've been acquired. It's thus critical that those expensively obtained visitors not only download pages easily, but that they navigate through the Web site optimally. That is, visitors must find the pages with the ads on them and view them successfully for valid hits to be recorded and drive ad revenue.

Manipulating Web site visitor activity patterns can be tricky, however, and the process can take on the characteristics of a crashout when the proper solutions are not employed. Trial and error attempts can even result in worsening the traffic's flow when attempted without use of the proper application set. On the other hand, employing sophisticated Web analysis and reporting applications for this purpose can result in substantial improvements in visitor response, and thus improvements in the ad revenue dependent on page view increases. Accrue's Insight product, for example, allows a Web site to be "tuned" in real-time, providing near immediate traffic feedback as modifications are made and traffic patterns are adjusted.

For example, a major online magazine publisher with over 20 million page views per month used Accrue products to adjust, in real-time, its page layouts and traffic patterns²⁸. The real-

²⁶ www.emarketer.com, "The eAdvertising Report", June 2000, page 187; CPM = "Cost Per Thousand Impressions", generally counted every time an ad is successfully downloaded to a unique visitor.

²⁷ Accrue customer interview.

²⁸ Accrue customer interview.

time redesign effort was undertaken in an effort to move visitors to the pages containing the most valuable content and lucrative ads. In a similar example, a major US computer manufacturer had just released a new product and redesigned their home page to accentuate that release. After launching the product and Web site, however, they discovered – using Accrue applications – that the home page was not designed optimally to direct visitors to the most relevant pages. Using Accrue’s path analysis capabilities, they adjusted the structure of the home page – tuning it “on the fly” – to direct its Web site visitors to the areas of the Web site designed to complement its new product launch activities.

Still another Accrue customer – one of the leading children’s sites on the Web – used Accrue’s advanced Web analytics features a bit differently²⁹. Rather than consider their Web site structure fluid and adjust it to move visitors to the pages with ads, they analyzed which pages were most popular, and moved their ads to the most popular pages, increasing ad viewership and revenue.

Employing Accrue products to tailor ad position or Web site layout to maximize ad viewership, as these customers have done, can greatly improve the revenue derived from existing ads. Figure 4 illustrates the increased revenue that

can be generated from improved ad page viewership if tuning the Web site using Accrue software results in only modest improvements in visitor patterns.

Figure 4 illustrates that conducting Web analysis and Web site tuning using a scalable solution can improve annual ad revenue streams by hundreds of thousands of dollars, without having to sell additional ads or spend additional funds on sales and marketing efforts to increase traffic. And sometimes, the increase in ad revenue is derived from less abstract data gathering methods. In yet another related example, an online newspaper serving a major California metropolitan area implemented Accrue Insight, and quickly discovered that traffic to their business pages spiked in the middle of the night, and was the result of visitors from Japan and South-East Asia. Having previously given away ad space at night, the newspaper never realized that a considerable “late night” market existed overseas. Now, based on Accrue Insight’s analysis, they began to sell the nighttime ad inventory, and at a higher CPM to boot. To their benefit, targeted audiences – in this case Japanese and South-East Asian readers – command higher ad rates³¹. As the Texan oilman might say, such efforts help draw additional oil from existing wells without having to locate and tap new oil fields.

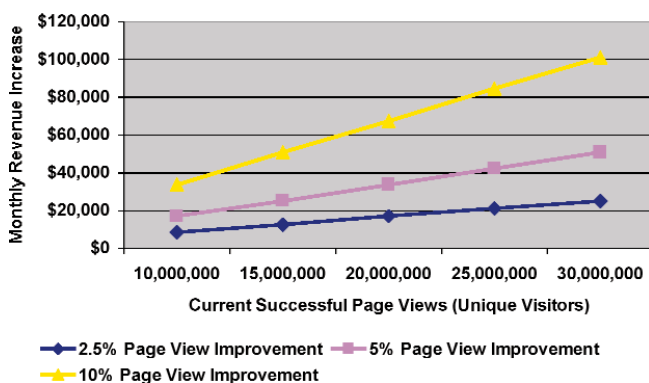


Figure 4: Ad Revenue Improvement Resulting From Web site Navigation “Tuning”. Assumptions: CPM: \$33.75³⁰

²⁹ Accrue customer interview.

³⁰ www.emarketer.com, “The eAdvertising Report”, June 2000, page 187.

³¹ Accrue customer interview.

“Exhaust Neither The Topic Nor the Audience”

The author Ambrose Bierce once said of a writing he considered longer than necessary, “the covers of this book are too far apart.” To avoid a similar indictment, we’ll now wrap up our tour through the quantifiable benefits of advanced eBusiness analytics software with some short, yet additionally insightful anecdotes.

- A major online brokerage deployed Accrue Insight to track the success of its advertising programs, and was able to measure both the quantity and quality of visitors prompted by their advertisements. Using this information, they were able to optimize their ad placements, generating higher ad campaign ROIs³².
- A large temporary employment agency spends upwards of \$1MM to \$2MM on advertising every month. Before deploying Accrue Insight, they had no credible method of measuring effectiveness. After using Insight, they are capable of such finely tuned ad placement analysis that they need only perform test buys on new sites before launching full campaigns. By their own estimate, they are saving literally millions of dollars no longer squandered on ineffective campaigns.³³
- A online travel company knew they were receiving 1 million visitors to their Web site each day, but were baffled that over 60% viewed the homepage and then immediately disengaged. Using Insight’s unique data collection feature (the

Network Collector), they discovered that a broken graphic on the homepage was the culprit, quickly fixed it, and resumed normal operation³⁴. Such a problem simply would not have been revealed using standard Web logs.

- Other Accrue customers report that Accrue analysis has resulted in their removing unpopular content that consumed the time of designers (or in the case of a online publisher, identified articles rarely read by readers³⁵), resulting in improved staff productivity³⁶.
- Similarly, one Accrue customer reported a 0.5 staff-person per year savings attributable to Accrue’s automated report capabilities³⁷.

Few people would argue with the assertion that, in the year 2000 and beyond, a business’s Web site is its lifeblood...its backbone. Further, a business’s critical Web presence is an evolving, growing, changing entity in all healthy businesses today, and assuring its health requires professional treatment, administered using professional equipment. That can’t be accomplished with primitive applications. The investment in sophisticated, enterprise-scale eBusiness analysis and reporting solutions like those built by Accrue provides a tangible, quantifiable return in a number of areas. Any business serious about participating in the new “e-economy” simply can’t live without them.

³² Accrue customer interview.

³³ Accrue customer interview.

³⁴ Accrue customer interview.

³⁵ Accrue customer interview.

³⁶ Accrue customer interview.

³⁷ Accrue customer interview.

About Silent Partner Software

Silent Partner Software develops interactive sales and marketing tools that use Return-On-Investment (ROI) analyses to help organizations explain their value propositions to their prospects. Silent Partner tools allow sales organizations to easily and clearly show their prospects how they can save money, time, and/or increase revenue using their products and services. We pride ourselves in transforming financial analyses into coherent, concise, value propositions and sales stories, and delivering the interactive tools sales organizations need to communicate them. Silent Partner's clients include IBM, HP, Network Associates, Intermec and HostLogic. For more information, please contact us at (908) 876-8700 or visit us on the Web at www.silentp.com.