Coremetrics
An IBM Company

White Paper

Intelligent Offer

Building Lift and Loyalty
with Personalized Product Recommendations

Engaging Customers with Personalized Recommendations
Across Multiple Marketing Touchpoints

Did you like this white paper? Tweet about it! **Twitter.**

Contents

Executive Summary

Done right, personalized product recommendations can deliver a double-digit revenue lift, increase average order value, and generate loyalty among satisfied customers.

Done wrong, they can alienate consumers with irrelevant content. They can drive your bounce rates up, with an abundance of choices, discriminating customers may never return.

The stakes are high. In our age of non-stop social media conversations, personalized recommendations technology is essential to providing shoppers with the relevant, engaging experience they have come to expect. The lines are blurring between shopping and socializing. Personalization is now on a par with price as a competitive differentiator.

This white paper explores how online merchants can put recommendations technology to work to deliver a personalized experience on their web site, and extend it across multiple channels—the web site, marketing emails, call centers, and more.

It outlines key characteristics that merchants should look for in a recommendations engine, and offers practical tips on key strategies and capabilities needed to realize not just an initial spike in sales, but revenue lift and customer satisfaction that can be sustained over months and years to come.

Making Online Shopping Personal

Think of your best shopping experiences in your favorite stores. You're greeted upon entry and can easily find your way to the products you're looking for. Maybe a staff member directs you. Or you spot a prominent sign. Either way, within minutes you're in front of a selection of nice shiny mountain bikes.

A sporting goods salesperson approaches and offers assistance. If you decline, he politely steps away. If you accept, he's helpful and knowledgeable. He points out the pros and cons of each bike and shares his insight into what other customers like. He shows interest in you—your price range, your intended usage, your past experience with mountain bikes. As he learns more about you, he's better able to guide you towards the product that best meets your needs.

It's a personal engagement. It's a two-way conversation. You're offered helpful prompts, but never pushed. And once you select a bike, the salesperson may have suggestions for gel-pad gloves, metal-soled riding shoes, and other accessories. Those and other complementary items are attractively arrayed nearby, helping round out your shopping experience. Your exchange with the salesperson might even end in a handshake—and the intent to return.

The best online retailers excel because they've figured out how to translate that rewarding in-store shopping experience to the digital medium. They've mastered the art of delivering a personalized, relevant online exchange.

And the best retailers know that personalization doesn't end at the web site. They're leveraging what they learn about customers from web activity to reach out and build loyalty with personalized emails, targeted display ads, social media communities, and multi-channel marketing.

The use of a product recommendations engine is a critical element of their success.

Recommendations Technology Comes of Age

Technology to serve up personalized product recommendations isn't new, but nor has it been universally and effectively deployed. Early-generation recommendation engines suffered from performance issues. Sub-optimal implementation could generate irrelevant content. Attempts to manually custom-code recommendations usually ended in failure.

Now, many companies with a recommendations solution in place blindly assume that it's doing its job and helping to drive a few more sales. In fact, functional limitations in older technology and a lack of monitoring and optimization can cost them sales if the system is delivering off-target or low-quality recommendations. "Set it and forget it" is a surefire way to miss out on the quantifiable dividends of personalized recommendations.

Today's best personalized recommendation engines offer turnkey, software-as-a-service (SaaS) implementation that doesn't require an investment of IT resources. Shrinking barriers to entry have made recommendation engines viable not just for household-name retailers, but for small to medium-sized companies doing business over the web.

But not all recommendation engines are created equal. Online businesses need to choose their recommendations technology carefully, because even small weaknesses or functional limitations can become magnified on the bright stage of your web site, under the critical eye of discerning customers. The best engines will offer:

- **Algorithms covering multiple scenarios.** From first-time visitors to high-value registered customers, sophisticated algorithms accommodate multiple scenarios covering both visitors and products, for instance, serving content to an unknown visitor based on a search term she used.

- **Real-time recommendations.** The engine dynamically delivers recommendations on the fly as users click through your site, combining in-session, historical profile, and wisdom of the crowds' information, as appropriate, to deliver the best content.

- **Seamless integration with a customer database.** The engine interoperates in real time with a data-rich customer database that has tracked user's online activity both in-session and over time.

- **Easy customization by non-technical users.** The engine features an intuitive interface that lets non-technical users modify business rules governing recommendations, providing flexibility and full control over a range of scenarios.

- **Flexible A/B testing platform.** The solution gives marketers a platform to devise and test multiple recommendations sets and select the most effective products, brands, customer segments, terminology, and recommendation zone placement on a page.

- **Analytics and competitive benchmarking.** The solution is complemented by robust analytics and ad hoc reporting to continuously measure and improve performance, and a benchmarking service for comparisons against competitors and within industries.

- **Integration with email marketing.** The solution will link to a complementary email marketing solution to deepen personalized customer engagements and easily retarget abandoners.

Why Personalized Recommendations Work

Personalized product recommendations work for a simple reason—a majority of people like them. Study after study has confirmed the value of personalized product recommendations, as well as personalized email, in increasing sales and average order value. For instance, according to an InternetRetailer.com article citing a study by independent research firm Forrester Research, Inc.:

- 77% of online shoppers find recommendations "somewhat to extremely useful"

- 54% of shoppers have noticed recommendations based on what they or similar shoppers previously purchased

- Of that 54%, 34% have purchased recommended products

Given the proven payback, a lot of online merchants have recommendations technology prominently on their radar screens.

More than 76% of online marketers name automated recommendations technology as a priority for the near future, according to a survey by Bloomberg BusinessWeek Research Services. That's second only to personalized marketing emails (79%) in the priority pipeline, according to the study, which was sponsored by Coremetrics.[2]

---

[1] InternetRetailer.com, "It's Time for eTailers to Get More Personal with Shoppers, Study Says," January 2008.
[2] Bloomberg BusinessWeek Research Services, "The Technology Transition: Unlocking the Potential of Online Marketing Technology," March 2010.

From Nice-to-Have to Must-Have

Personalized recommendations technology has gone from a nice-to-have to a must-have. One reason is the increasing sophistication of online consumers and the rich interactivity of social media. Consumers expect a personalized, community-oriented shopping experience, not unlike their interactions on social media sites. If web content isn't relevant, it's easier to click away to another site where it is. Personalization is now on a par with price as a competitive differentiator.

In many ways, the lines are blurring between socializing and shopping. Socializing shoppers expect their favorite brands to have Facebook fan pages and tweet on Twitter. They expect online retailers to offer product reviews where they can read reports from others and contribute their own feedback. They expect to be wooed, courted, and catered to every step of the way, right from the start.

And where do many shoppers start? With a search engine.

Using Search Terms for Personalized Recommendations

First impressions matter. Consider a hypothetical scenario. A visitor searches the web for "backpacks" and clicks on your paid search ad. The landing page she reaches features an array of luggage, but no backpacks. That's a sales opportunity lost and a notch against your credibility as on online merchandiser.

Unfortunately, the scenario is not uncommon. Paid search managers rarely control the landing pages their ads link to, and merchandisers may revise those landing pages, adding or deleting products. With paid search managers dealing with thousands of keywords and companies selling thousands of products, maintaining alignment between paid search and landing pages can be a virtual impossibility.

The same problem exists with natural search. A user may enter search, click on a link to your site to find a page with no mention of the item in question.

Users of Google, Yahoo!, Bing, and other search engines are important to the bottom line. About 36% of visitors to online retail sites come from search queries, according to data from Coremetrics Benchmark, the free service that enables Coremetrics clients to benchmark their performance against aggregated, anonymized data of their competitors and within their industry.

- 15% of visitors arrive via paid search
- 21% of visitors arrived via natural search

Ensuring Relevance in Onsite Search

The quality of on-site search is also critical in the conversion process. About 19% of all visitors use on-site search, Coremetrics Benchmark data shows. Roughly half of all transactions involved at least one on-site search session.

But on-site search is often less than stellar. It can return multiple pages littered with irrelevant results. The text-matching technology of onsite search may deliver results by top-selling products, but lower-selling items more specific to the user's query may be low on the list, if they appear at all. And once in a while, users will receive the dreaded "No Results Found" page, even though those products exist.

To address gaps in relevance in external and on-site search results, the latest version of the Coremetrics Intelligent Offer™ recommendation engine features an advanced real-time algorithm to automatically recommend the best products based on paid, natural, or on-site search.

The illustration below depicts a landing page reached by a customer searching Google for "backpacks." In this case, the landing page content had changed and backpacks were no longer featured. Intelligent Offer serves up a recommendation zone with backpacks that appears adjacent to the default landing page content using the header, "Customers who searched for 'backpacks' liked these products."
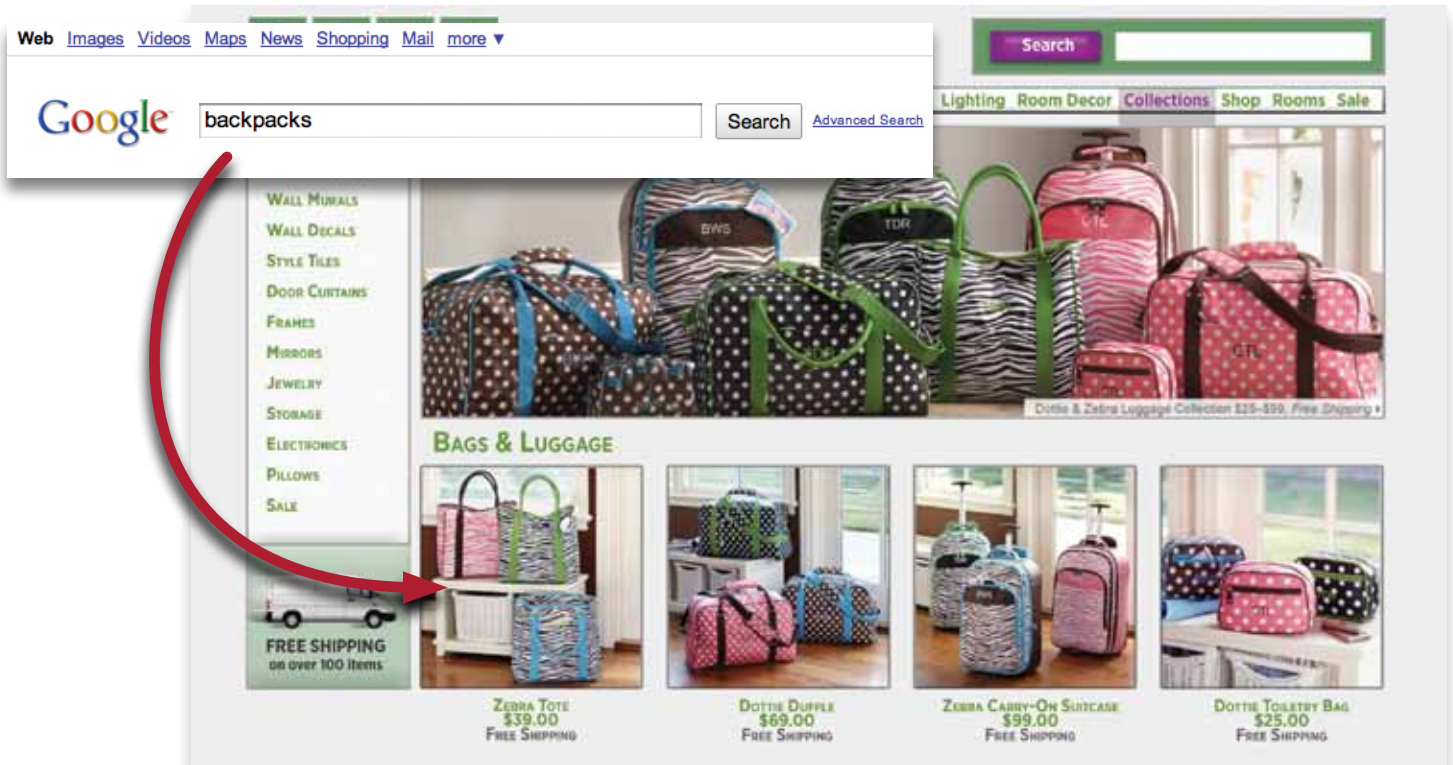
Regular search does not feature "backpacks" on Landing page.
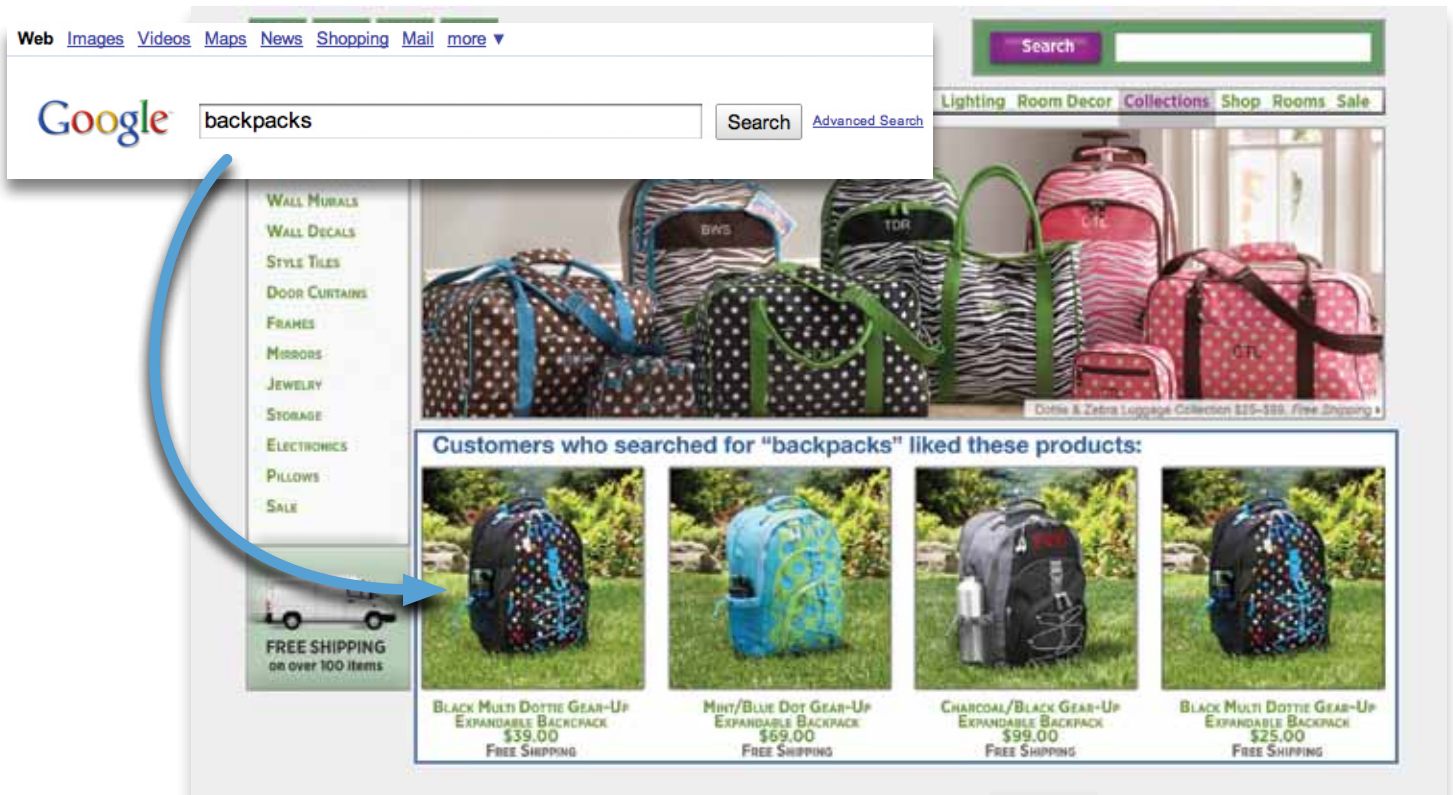
Landing page prominently features backpacks.

Putting Recommendations Technology to Work

Coremetrics Intelligent Offer is engineered to help you deliver relevant recommendations to every customer on every online shopping touchpoint. It features an intuitive interface to enable non-technical users to adjust recommendations algorithms, and a flexible A/B testing platform to optimize your recommendations.

The sophisticated algorithms of Coremetrics Intelligent Offer leverage in-session and historical data stored in Coremetrics Lifetime Individual Visitor Experience (LIVE) Profiles™, which tracks user web activity over time and can include data from offline channel transactions. The illustration below depicts key web pages for personalized recommendations.

The Recommendations Payback by Pages

How does payback break down by pages? With Coremetrics Benchmark, Coremetrics has calculated the average percentage of total web site sales driven by product recommendations based on their placement on specific web pages across Coremetrics retail clients. (With the free Benchmark service, Coremetrics clients can conduct their own analyses of recommendations lift against anonymized competitors and within their industries).

By a wide margin, product list and product-specific pages are most effective in driving sales through personalized recommendations. Within our sample, 9% of retailer on-site sales were driven by visitors who clicked on a recommendation from a product list page.
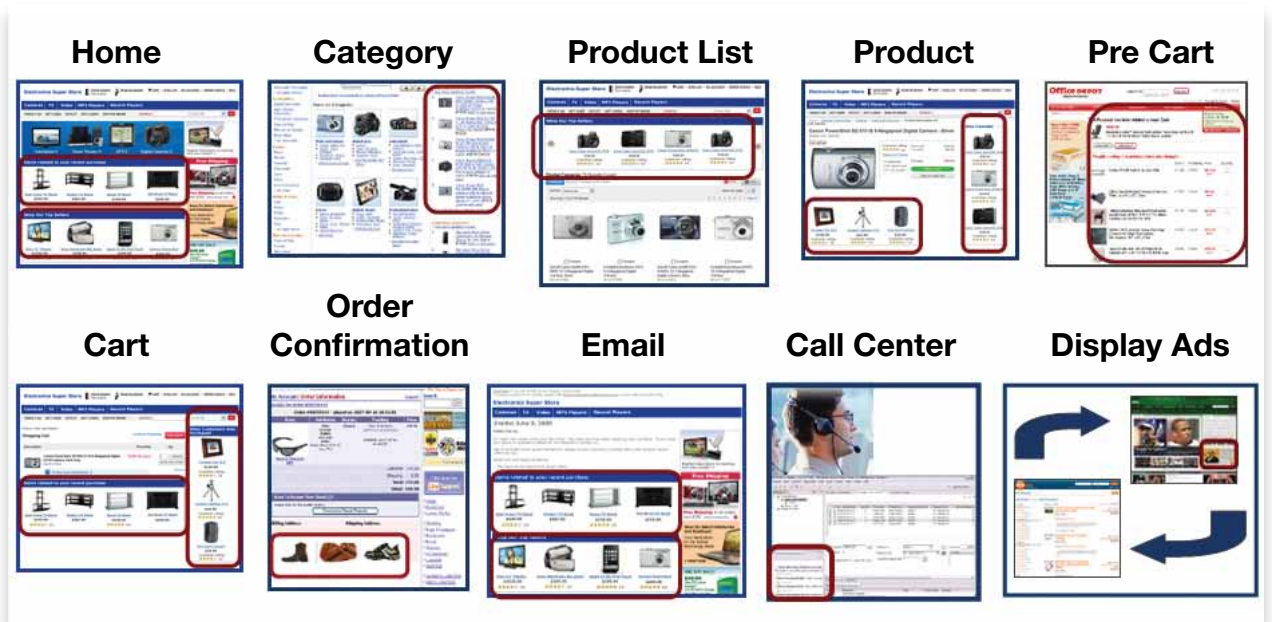
Coremetrics Intelligent Offer enables you to deliver relevant product recommendations across every customer touchpoint.

Which pages are best for personalized recommendations? The short answer is all of your shopping-related pages. Obviously you don't want to display product recommendations on a privacy statement, but main e-commerce pages are fair game. A large recommendations footprint increases your chances of a cross sell or up sell, and does not detract from the customer experience.

More than 6% were triggered by recommendations on a product page.

Overall, the Coremetrics data showed 23% revenue lift across the eight pages examined. The question becomes how much of that is true lift, and how many items customers would have bought if they hadn't seen a recommendation. Answering that question requires A/B testing with two audiences—one that receives recommendations and one that does not.

Results will vary by company, but Coremetrics has found that 40% to 60% is true lift based on A/B testing analysis. In other words, Coremetrics clients can expect sales lift of more than 10% with Intelligent Offer.

The raw lift figures by web pages appear below.

Product List Page:

Site sales from recommendations 9.0%

Driving 9% of total site sales, a product list page is the prime point for product recommendations. These pages often list all products in a category and can extend for several pages. Users may be confused and not know where to start. A "Customer Favorites" recommendation zone atop the page can help them find what they're looking for.

Product Page:

Site sales from recommendations 6.5%

Recommendations on a product details page can show customers what other bought and spotlight related or complementary products. These might be called "Other Customers Viewed" or "You Might Also Like."

Search Results Page:

Site sales from recommendations 2.3%

Like product list, search results may feature dozens or hundreds of products over several pages. Help the customer zero in with product recommendations, driven by an algorithm that accounts for the search term the user entered.

Pre-Cart Page:

Site sales from recommendations 1.6%

Not all web sites use this, but a pre-cart page can serve as a transition point to give the customer the choice to keep shopping or proceed to checkout. Cross sell and up sell recommendations are ideal here to keep the customer shopping.

Shopping Cart Page:

Site sales from recommendations 1.5%

Like a pre-cart page, shopping carts are another great point for cross sell and up sell based on the customer's activity and history, or to pitch a discount not presented earlier.

Category Page:

Site sales from recommendations 1.3%

Category page recommendations may show top-selling items by category and by user activity and history. The algorithms are precise; if the user had previously searched for brown leather pocketbooks, it will present top-selling brown leather pocketbooks—not white fabric ones.

Home Page:

Site sales from recommendations 0.5%

Recommendations can be made based on combinations of profile data, in-session activity, and wisdom of the crowds.

Order Confirmation Page:

Site sales from recommendations 0.3%

This is your last opportunity to make a pitch before most customers end their buying session. By now most shoppers will have seen your previous recommendations, so consider tuning your recommendations engine to show something they haven't seen, if possible.

Key Strategies and Capabilities for Recommendations Success

Automation is one characteristic of recommendations technology that makes it so effective. Attempting to manually implement and manage a recommendations engine (as some companies have done) is an exercise in futility given the vast and fast-changing scope of customers and products.

Nevertheless, online marketers should have in place a structured program that coordinates personnel, processes, and technology to make the most of a recommendations system. Your objective should not be to merely trigger an immediate sales boost, but to sustain that over months and years.

Some key strategies and capabilities for success are to 1) test scenarios aggressively 2) go multichannel with personalized recommendations and 3) monitor, measure, and benchmark recommendations performance.

1) Test Scenarios Aggressively

A/B testing is an essential discipline to make the most of a recommendations program. Marketers and merchandisers will ideally collaborate to test and tune recommendations in a variety of scenarios, by a variety of dimensions. Common tests will cover affinity weighting schemes, number of recommendations to display, page placement of a recommendation zone (e.g., top, side, or bottom of page), size of and background color of zone footprint, ad recommendations text (e.g., Other Customers Viewed vs. Other Customers Also Liked).

These may seem like tedious details, but experience has shown that recommendation details can have something of a Butterfly Effect: Seemingly small differences can profoundly influence success. You'll realize the best A/B testing results when you take nothing for granted, question conventional assumptions, and prepare to be surprised.

2) Go Multichannel with Recommendations

Personalized recommendations can and should extend across all your customer touchpoints. Link your recommendations engine to companion solutions for email and display ad marketing and deliver your personalized recommendations via those channels as well. A key goal is to cost-effectively retarget unconverted browsers and shopping cart abandoners with emails and display ads on affiliate and social media sites. Emails can be a great way to let customers know about newly available products related to past browsing or purchase, and about in-store sales or special events based on your data on their geographic location. If you send purchase confirmation emails, take the opportunity to recommend once more.

Think offline, too. Explore your options for importing data on customer transactions in stores and via call centers and direct mail into your online customer database. A cross-channel view gives you greater flexibility and precision to, say, deliver personalized recommendations for a comforter via online channels to a customer who bought a bed in a store. Look at your call center. Linking your recommendations technology to

call center systems gives agents actionable insights for cross sell and up sell.

3) Monitor, Measure, and Benchmark Performance

Just like customer relationships, a personalized recommendations program needs care and feeding to prosper. An underlying analytics and reporting platform lets you continuously monitor and optimize the performance of your solution. It will feature a metrics-driven dashboard to display how recommendations are driving sales and conversion. Look to pinpoint the reasons why one recommendations plan is excelling and apply its differentiators to other plans. Scrutinize for low-end outliers and drill down into the root cause before they can result in high numbers of lost conversion opportunities.

And to see how you recommendations are performing versus the competition, a benchmarking service will allow you to compare and contrast results against data aggregated from anonymized companies in your industry.

The Coremetrics Approach to Personalized Recommendations

Coremetrics Intelligent Offer is part of the Coremetrics Continuous Optimization Platform™, an online marketing suite engineered to enable marketers to extend personalized engagements across every customer touchpoint. The platform is fueled by LIVE Profiles, the industry's most robust customer database, which tracks each customer's activity over time and across sessions. This rich, historical data enables marketers to deliver personalized, relevant recommendations and continuously measure performance. Coremetrics Intelligent Offer is augmented by these solutions:

Coremetrics LIVEmail™

Coremetrics LIVEmail gives marketers the flexibility to automatically deliver emails to customers based on specified scenarios. For instance, LIVEmail may be configured to generate personalized emails to individuals who abandoned a shopping cart, or to send follow-up offers for related products or accessories after a purchase. LIVEmail augments Intelligent Offer with powerful and precise targeting that extends personalized recommendations across channels.

Coremetrics Analytics™ and Reporting

Coremetrics gives marketers and merchandisers hands-on tools to monitor, analyze, and improve personalization effectiveness with Coremetrics Analytics and the Coremetrics Explore ad hoc reporting tool. Featuring metrics-driven dashboards and visualization and segmentation capabilities, these solutions enable users to drill down into real-time and historical factors driving personalized recommendations success or failure.

Coremetrics Benchmark™

Coremetrics Benchmark lets you compare your recommendations performance against competitors in your industry. This unique solution delivers aggregated and anonymous industry-specific competitor data that benchmarks your performance and helps you identify weaknesses, threats, and opportunities. Explore such granular elements as recommendation zone clicks and conversion rates, average order value, natural, paid, and on-site search sessions, bounce rates, and more.

Conclusion

Today's online merchants have at their fingertips a wealth of information left by customers browsing and shopping on their web sites. With the right tools, they can put that rich data to work to serve up product recommendations personalized to the visitor's interest. They can, and should, extend those on-site personalization efforts across every customer touchpoint on all channels.

Most customers both want and expect to be courted with personalized content. The social media phenomenon has raised the stakes as customers grow increasingly accustomed to content that is relevant to their interests, whether they are shopping online or socializing on Facebook. By re-examining your personalized product recommendations strategies and capabilities, you'll be positioned to meet those demands—and grow your sales and long-term customer loyalty.

About Coremetrics®, an IBM Company

Coremetrics®, an IBM Company, a leading provider of web analytics and marketing optimization solutions helps businesses relentlessly optimize their marketing programs to make the best offer, every time, anywhere, automatically. More than 2,100 online brands globally use Coremetrics Software as a Service (SaaS) to optimize their online marketing. Coremetrics integrated marketing optimization solutions include real-time personalized recommendations, email targeting, display ad targeting across leading ad networks, and search engine bid management. The company's solutions are delivered on the only online analytics platform designed to anticipate the needs of every customer, automate marketing decisions in real time, and syndicate information across all customer channels.

Find more information at **www.coremetrics.com** or call +1-866-493-2673.

Coremetrics has strongly supported online privacy since its inception.
To learn more, visit **www.coremetrics.com/company/privacy.php**

Did you like this white paper? Tweet about it! Twitter.

Corporate Headquarters
1840 Gateway Drive, Suite 320
San Mateo, CA 94404
Tel: 877.721.2673

Coremetrics Europe Ltd.
Wellington House
20 Queensmere
Slough
Berkshire
SL1 1DB
U.K.
Tel: +44 (0)20 3393 3450

Coremetrics.com