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## Four Tips for Effective Online Merchandising: Strategies for Boosting Conversion Rates

## Executive Overview

In the following pages, learn about the different online merchandising approaches available and tips for implementing each on your Website. Along the way, discover how a balanced mix of these technologies can make your merchandising more relevant and effective on every page of your site, resulting in increased conversion rates and order values.

## Introduction

Getting shoppers to your site is only half the battle. Being able to quickly convert shoppers into buyers with effective merchandising is what makes leading retailers successful. You want to engage each individual visitor with the most-relevant content to drive higher conversions and order values while decreasing abandonment, but predicting what will resonate with each shopper is difficult.

Effective merchandising lies at the intersection of customer and retailer goals: shoppers must feel confident that they can find exactly what they need, whereas retailers are striving to maximize order values. Numerous types of merchandising technologies are available to marketing teams, each with a different approach to targeting customers. So how do retailers know which approach to use for converting more browsers into buyers?

## Understanding the Options: Merchandising Technologies

*Online merchandising* refers to the strategy of selecting products to promote and displaying those products to increase a shopper's likelihood of purchasing. Merchandising can cover a wide range of activities, including pricing, product placement, up-sell and cross-sell promotions, and the placement of related content to convert more customers. The key to being effective is to align your products and content as closely as possible with the customer's needs. In other words, deliver the right promotion in the right place at the right time to the right person.

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In the e-commerce world, retailers can take advantage of the interactivity of the online channel, easily accessing customer information and delivering content relevant to customers' needs. Technology enables retailers to leverage a wealth of available data to target individual shoppers, but delivering the perfect promotion at all times is no simple task. In fact, there are several technologies and approaches to merchandising, and no one approach is appropriate in all mileposts on the shopper's path. To apply best practices to your site, you must understand the different online merchandising options available and the benefits of each.

### How Many Ways Can You Merchandise?

Most online merchandising technologies operate by presenting a promotion or a piece of content to a zone on a page in response to a specific trigger, and behind that trigger is a configured rule. However, beyond that, methods differ considerably. Merchandising technologies and approaches can be grouped into three general categories, as outlined in the following table:

#### ONLINE MERCHANDISING APPROACHES

CAMPAIGN-BASED MERCHANDISING	DESCRIPTION	BENEFITS	DRAWBACKS
Technology providers include <ul style="list-style-type: none"> <li>• Web content management systems (CMSs)</li> <li>• Commerce platforms</li> <li>• Recommendation vendors</li> <li>• CRM vendors</li> </ul> Also known as <ul style="list-style-type: none"> <li>• Scenario-based merchandising</li> <li>• Behavioral targeting</li> </ul>	The campaign-based approach delivers a unique promotion to different groups of customers, based on their predefined audience segment, as configured by an online marketer. The definition of the audience segment can be based on any combination of profile data, purchase history, and recent actions.  For example, a campaign-based zone on a Web page can deliver one promotion to all males age 25 to 34 who abandoned a shopping cart in the last week, deliver a different promotion to all females age 18 to 25 whose purchases totaled more than US\$500 in the past year, and deliver a third piece of content to all other visitors.	Marketers are able to identify valuable audience segments based on historical customer behavior and can set up promotions specifically targeted to those segments. This results in more-compelling promotions.	This approach assumes that past behavior is an accurate indicator of future buying needs. It also assumes that all customers within an assigned segment will respond to a similar promotion.  Operationally, this arrangement is manually intensive to create and manage. A marketer must manually configure each segment, manually assign the right promotions to each segment, and place the promotional zone on each page throughout the site.

ALGORITHMIC MERCHANDISING	DESCRIPTION	BENEFITS	DRAWBACKS
<p>Technology providers include</p> <ul style="list-style-type: none"> <li>• Recommendation or software as a service (SaaS) vendors</li> </ul> <p>Also known as</p> <ul style="list-style-type: none"> <li>• Personalization</li> <li>• Recommendations</li> <li>• Black box merchandising</li> <li>• Behavioral targeting</li> <li>• Collaborative filtering</li> </ul>	<p>The algorithmic approach delivers a unique promotion to each individual, based on that individual's profile information, purchase history, and recent actions on the site. Unlike campaign-based methods, it automatically determines which of these variables are most relevant and returns a promotion based on customers with similar profiles, purchase histories, and recent actions. The algorithm that governs this microsegmentation and promotion selection is typically the intellectual property of the vendor.</p> <p>For example, take a past customer who comes to the site with a historical average order value of US\$100, lives in Oregon, is a sports enthusiast, and originated from a paid search listing on Google. The algorithm analyzes these and other attributes of the customer to identify customers with similar characteristics and present a "customers like you purchased this" promotion to help accelerate a sale.</p>	<p>Marketers benefit from the proprietary knowledge of a third-party firm that specializes in analyzing the variables most relevant in segmenting customers and predicting the best promotion. The automated and self-optimizing nature of the algorithm means that marketers can spend more time reviewing results and shifting promotional strategies, rather than manually configuring each segment and promotion. IT also benefits by placing the strain of the rapid analysis and promotion-triggering on a third party.</p>	<p>This approach assumes that past behavior is an accurate indicator of future buying needs.</p> <p>With SaaS models, merchants and marketers are reliant upon outside resources to tune the algorithm, giving them less-direct control over what is going to be presented to customers. Leading vendors have addressed this concern by providing business users with ways to guide the recommendation engine to inform the automation engine of the merchant's knowledge and strategies.</p>
CONTEXTUAL MERCHANDISING	DESCRIPTION	BENEFITS	DRAWBACKS
<p>Technology providers include</p> <ul style="list-style-type: none"> <li>• Site search and navigation vendors</li> <li>• Personalization vendors</li> </ul> <p>Also known as</p> <ul style="list-style-type: none"> <li>• Dynamic merchandising</li> <li>• Content spotlighting</li> <li>• Searchandizing</li> </ul>	<p>The contextual approach delivers a unique promotion to every customer, based on that person's customer profile and specific actions on the site, with each promotion being directly relevant to the viewer and the content being viewed at the moment. The promotion delivered is based on a rule applied against the set of content and data related to the viewed content so that the promotion is always contextually relevant to the customer at that moment.</p> <p>For example, take a customer who comes to the site, searches on <i>printer</i>, and gets 500 results. In the contextual zone, the promotion highlights the top-selling item, based on sales data, within those 500 results. As the customer filters the search results with requirements such as "Ink = color" (bringing the number of results down to 300) and "Type = laser" (bringing the number of results down to 185), the zone adjusts to display only the top-selling item within the new set of 300 and 185 products displayed.</p>	<p>Marketers can ensure that the promotion is relevant to a customer's expressed need and intent at that moment. Because it is based on the customer's selections, independent of past behavior (unless added as a trigger), it reduces the likelihood of irrelevant promotions based on anomalies in past purchase behavior.</p> <p>It also enables the marketer to set one rule that automatically adjusts to remain relevant wherever the customer is on the site.</p>	<p>This approach is less effective than other options when the customer has not taken any action or has filtered to a single product.</p> <p>It enables merchants to leverage both customer and context to deliver a relevant experience throughout the visit.</p>

Each of these merchandising approaches is distinctly different, with no one method being superior. In fact, the appropriateness of each option varies widely, based on a customer's progress within the shopping experience. This is because visitors' expectations and intentions change as the visitors move through your site; which approach is the most effective will change as customers proceed through the site. So how do you know which method to use and when?

## Four Tips for Effective Online Merchandising

The right merchandising approach will differ with the customer's location on your site. Let's evaluate the four primary types of pages your site visitors encounter before reaching the shopping cart—the home page, search result pages, category browse pages, and product detail pages—and review guidelines for identifying the best merchandising approach for each.

### Tip 1: Keep It Simple on the Home Page

The goal on the home page is to promote your brand and push visitors farther into the site. The home page is often the starting point for repeat customers as well as for new visitors hoping to address their current product needs. Unfortunately, you don't know much about a particular visit at this early stage, just that the customer knows your brand and that something compelled that person to visit—which makes delivering a relevant promotion difficult. Therefore, retailers often use this space to highlight their most popular product lines, the search box, and category options. Depending on the merchandising approach you have chosen, your strategy for the starting point of the shopping experience will differ:

- **Campaign-based merchandising.** When using this approach, you present specific content to a defined segment of your visitors. In many ways, this is perfect for your home page. Marketers can create a campaign for a segment that includes all visitors but whose promotion changes over time. For example, a retailer could spotlight the most-popular sale items, which change every week. It is also appropriate to present more-targeted promotions at this stage if you can identify customers via cookies—a technique pioneered by Amazon, which uses targeted promotions on its home page. Try experimenting with different campaign-based offers. For example, present all visitors who have abandoned a shopping cart in the last month with the item(s) from that shopping cart session or spotlight reviews of popular products written by customers in the same user profile or segment.
- **Algorithmic merchandising.** Your reasons for using this approach may be similar to your reasons for using the campaign-based approach. Setting aside a small zone on the home page and using it to deliver a personalized piece of content (such as a personalized image) or a personalized promotion (“We think you'd enjoy these items...”) is a way to provoke an impulse purchase and drive an immediate sale. As long as it's easy for the visitor to bypass these promotions and get deeper into your site, you have little to lose and a great potential gain.

- **Contextual merchandising.** This approach can be effective from an operational standpoint. On the home page, contextual benefits can't be fully utilized, however, because the customer has yet to execute an action, but data-driven promotion rules make it easy to automate the presentation of “top-sellers” and “inventory clearance” items.

### Test and Monitor Your Approach

No one merchandising technology has a clear advantage on the home page. Campaign-based or algorithm-driven merchandising on a portion of the page can be effective, but you need to test and monitor customer reactions. Keep this page focused on promoting high-value items and pushing visitors deeper into the site.

### Tip 2: Convert with Context on Search Pages

On search result pages, the conversation between shoppers and retailers begins: shoppers indicate their needs via keyword search or filter selection, and retailers seek to present the best matches. This is where you have a chance to engage customers with contextual targeting. For example, if a customer searches on *digital cameras*, the retailer will return all relevant results but also summarize the next options available for filtering these results—such as megapixel options, user rating, color, and amount of memory. As the customer selects different filters and narrows the choices, valuable information is being provided to the retailer about the customer's current need—regardless of previous search behavior or what other customers with a similar demographic profile have purchased.

- **Campaign-based merchandising.** This approach is relatively ineffective on search pages, because campaign-based promotions are tied to customers' profiles, not to the path each customer takes through the site. And as customers drill down deeper into search results, selecting multiple filters, discrepancies will arise between the predetermined promotions being served and what the customers have indicated as their needs. For example, the customer conducting the search above may have selected as filters *8 megapixels*, *4 GB memory*, and *\$400 - \$600 price range*, only to be presented with a promotion for pink 5-megapixel camera phones for \$150 because she falls into the campaign-targeted segment of females age 17 to 25 years who are cost-conscious.

The exception is when a search term can be used to define a segment. For example, a campaign can be set to serve a promotion to all men who have made more than three purchases this month and who enter the search term *shirt*. The downside of this approach is that, to stay relevant, a different promotion needs to be configured for every search term and for every filter applied. This becomes a nearly impossible task, given the infinite number of paths a customer can take and the infinite number of campaigns that must be configured.

- **Algorithmic merchandising.** This approach has shortcomings similar to those of campaign-based merchandising. Further, algorithms are most commonly focused on a single part of the Web page, so it is essential that merchants consider recommendations in the context of the full-page—and site—experience the customer will encounter.
- **Contextual merchandising.** This is the most effective approach for search and navigation pages. Because contextual targeting dynamically changes promotions in response to a customer's actions

and exact location on your site, content will always be relevant. This automatic triggering of promotions means that marketers don't need to manually configure promotions for every possible term and filter selection. Instead, they can set one rule (such as "Spotlight the highest-margin product from the result set") to fire on all search and navigation pages, and the resulting promotion will always be relevant to the customer's intent—no matter what is selected or where the customer is within your site.

To improve the effectiveness of contextual targeting, retailers should provide an opportunity for shoppers to classify themselves and their shopping preferences (with indications such as "I'm price-conscious" or "I want to know what other customers bought") to assist with profile-building and to determine what will resonate with customers. Figure 1 shows a Web page from the Website of Kiddicare, a company that employs these contextual targeting techniques.



Figure 1. A pop-up window on the kiddicare.com search page asks visitors to indicate likely needs by checkmarking answers under topics such as "Who Am I" (such as "Parent of 2 children" or "Grandparent") and "Best Uses" (such as "Toddlers" or "Infants").

Contextual merchandising delivers the most-effective promotions on search and navigation pages. Consider campaign-based merchandising for top search terms, but be wary of placing and managing these deeper in the site.

### Promotions That Convert to the Sale

If your merchandising strategy is focused on increasing the conversion of visitors into buyers, consider some of these simple promotions for the search or category-browse state:

- Top-selling product
- Top-rated product

- Most liked product
- Top-rated product according to customers with a similar profile
- Top-rated product according to your Facebook friends
- How-to videos
- Buying guides
- Most helpful review
- Related articles

### Tip 3: Build Confidence on Category Browse Pages

Together with search pages, category browse pages are among the primary options available to customers as a means of finding products on your site. These are the pages that match your product taxonomy at the highest levels (including category and subcategory) before branching into nodes based on product attributes. In many ways, these pages are just like the search experience—each click on a category, subcategory, or attribute indicates what the customer is interested in right now, regardless of past behavior. As a result, the same conclusions apply, with a few caveats in favor of campaign-based and algorithmic approaches.

#### Keep Category Promotions in Context

- **Campaign-based merchandising.** Both of these methods risk becoming less relevant, the deeper a customer travels into the site. It is reasonable for marketers to focus on a limited number of category pages to manually manage campaign-based merchandising, if they do it correctly—such as when they use both past behavior and the category selection to trigger an effective personalized promotion. However, beyond the top few nodes in the site structure, managing and maintaining this method across all taxonomy and attribute-driven pages becomes unrealistic.
- **Contextual merchandising.** This approach is always relevant to the customer's needs, from accessing the top-level category page to accessing a product details page. The rationale for using contextual merchandising on category pages is the same as for using it on search pages. Because it is tied to the customer's actions and exact location within the site, it is always relevant. In addition, the marketer needs to configure a rule only once to dynamically drive targeted merchandising across pages, making it simple to manage.

Consider campaign-based merchandising in select instances for the top pages in your category structure, but don't risk irrelevant promotions deeper in the site.

Consider campaign-based merchandising in select instances for the top pages in your category structure, but don't risk irrelevant promotions deeper in the site. Consider merchandising zones that feature related information such as buyer's guides and how-to videos that can increase a browser's confidence in making a purchase.

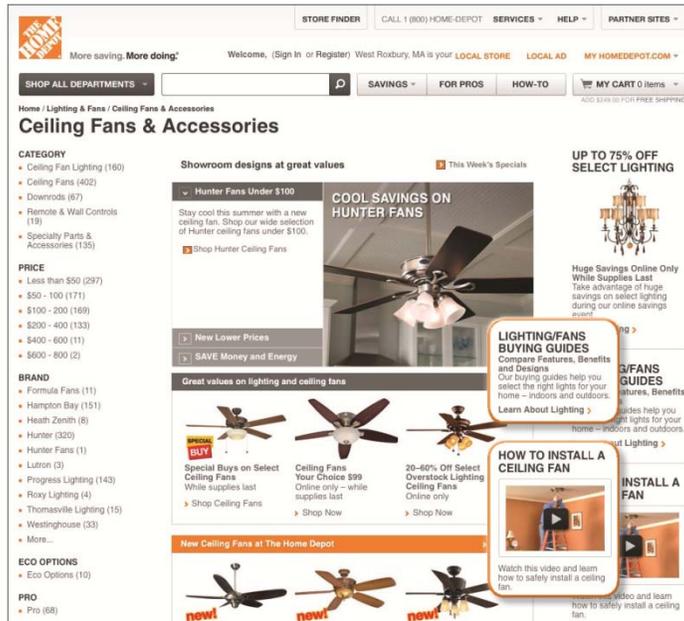


Figure 2. The category pages on Homedepot.com, such as this one for ceiling fans, promote buying guides and how-to videos to build purchase confidence.

#### Tip 4: Profile and Personalize on Product Detail Pages

Shoppers who arrive at a product detail page are signaling that they are close to making a purchase decision. They are deep into the site, have narrowed their choices, and are now carefully reviewing products that they believe are good options. Here they want to confirm that a product is truly a good fit for their needs. Meeting this expectation is challenging, because building confidence in purchasing goods is historically a sensory experience—with the customer handling items, asking questions, and comparing products side-by-side and in person. Because they can't offer an in-person experience, e-tailers compensate by featuring detailed product descriptions, photos, videos, how-to guides, and peer reviews on these pages to replicate the in-person data-gathering experience. This often isn't enough to push items into the shopping cart, but a well-placed promotion can be the catalyst.

- Campaign-based merchandising.** This approach is not typically the best on product detail pages, because its strength is in matching a promotion with the needs and interests of a large segment of customers. Once a customer reaches the product detail page, it is clear what that person desires, regardless of the segment the customer falls into. However, don't disregard campaign-based promotions completely. A campaign targeted to all customers but featuring rule-driven promotions tied to the product can be effective. For example, a marketer can spotlight recently viewed products for a quick comparison, promote available pricing bundles that include this item, display related accessories, or mention how many more items need to be added to the shopping cart to qualify for free shipping. These basic promotions, which vary by product rather than audience, can be effective in converting interactions to sales or in giving customers the incentive to purchase more.

- Algorithmic merchandising.** This is a strong approach for converting to sale and up-selling customers from product detail pages. Once a customer has narrowed the selection to a single product, the algorithm creates highly effective promotions that can close the sale with personalized content. Most algorithm-based technologies can easily identify all similar customers who have viewed this product detail page and can present promotions with messages such as “Similar customers viewing this item also viewed this” or “Customers who bought this item also bought this.” This level of personalization, relevant to both the product and the person viewing it, can be very effective in converting interactions to sales and in increasing order sizes.



Figure 3. Bluefly.com features “most wanted” and “you might also like to shop for” suggestions on its product detail pages to drive up-sells and higher order values.

- Contextual merchandising.** This approach does not deliver the same impact as personalized algorithm-driven promotions on product detail pages, but it offers a great way to automate the delivery of relevant promotions related to the product. For example, if the data is available, a contextual merchandising rule can be created to promote items such as the top accessory for the item or the top five reviews for that item. In other words, a rule can be created that brings back any content relevant to that stock-keeping unit (SKU)—even if that means a result set of 1. For retailers already using contextual merchandising on their Websites, an easy way to extend the value down to product detail pages is to automate cross-sells and conversion-lifting product spotlights.

A personalized, algorithm-driven promotion derived from a customer's profile and buying history in addition to the product viewed is very compelling on product detail pages.

A personalized, algorithm-driven promotion derived from a customer's profile and buying history in addition to the product viewed is very compelling on product detail pages. However, if you already use campaign-based and contextual merchandising, investigate ways to extend these methods to the product detail pages so that you can further increase conversions and order sizes.

## Conclusion

The best retailers recognize that the most-effective online merchandising techniques are uniquely targeted to each customer, based on that person's needs at that moment. They also understand that their knowledge of customers and their needs fluctuates widely during any given shopping session. To maximize the effectiveness of your online merchandising, understand the strengths and weaknesses of each type of merchandising approach so that you can make an informed choice about which method is most appropriate in different areas of your Website. If you choose well, your organization will maximize the value of every customer visit and outperform any single black box approach your competitors adopt.

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