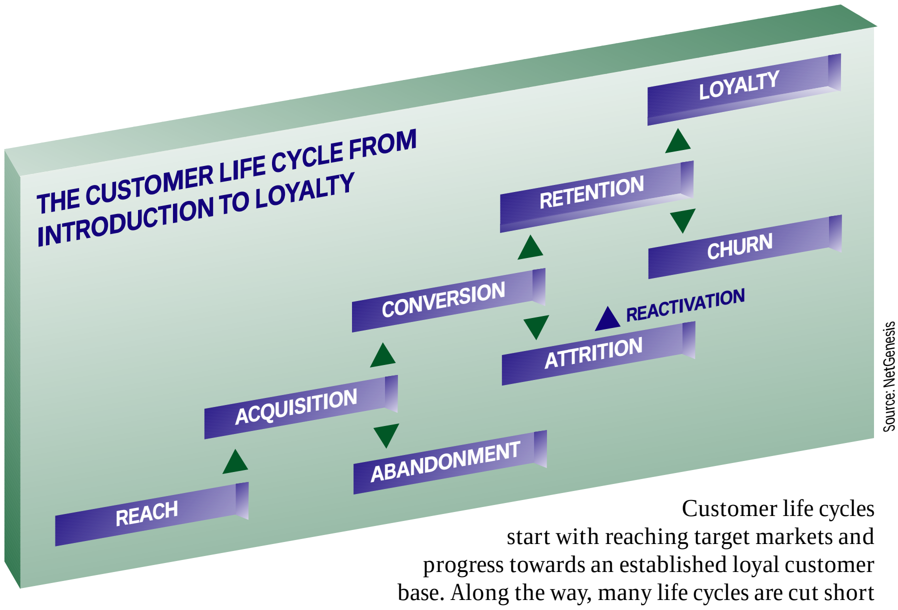
Use customer informat to maximise website p

With a good-looking website constructed and an e-commerce system in place, it is tempting to believe the hard work is done. But e-business is real-time business, which means the indicators of market trends are recorded as they happen. For instance, a banner ad placed on a portal site generates customer click-through statistics within seconds. It is only if this type of data is aggregated and analysed that the greatest rewards will be reaped.

With e-commerce, management metrics based on business periods of quarters, or even months, are inadequate. The traditional management adage is "you cannot manage what you do not measure", but what exactly should you measure in the Web environment?

There are many metrics Web managers should be aware of (*see Issues 1, below*), but in this article we'll focus on customer metrics. Even with as few as 200 to 300 active customers, you can start an analysis habit which will stand you in good stead for the future, when specialist software may be needed to keep your analysis current (*see Intelligence gathering at the end of this article*).



Customer life cycles start with reaching target markets and progress towards an established loyal customer base. Along the way, many life cycles are cut short

Recency in RFM analysis

Recency, frequency and monetary value (RFM) analysis helps answer the most fundamental question: who are my best customers? Dividing customers into segments using RFM-based clustering methods helps profile customer segments not obvious from reports, yet which represent opportunities.

Recency is a core measurement that describes how long it has been since your website recorded a customer event (such as a product purchase). Recency is considered to be the strongest indicator of customers' future behaviour. For instance, a loyal luggage buyer may buy a suitcase every three years, whereas milk and egg buyers will shop weekly.

When browser-based 'cookies' first came on the scene, they were used to welcome people back and let them know how the site changed since their last visit. Knowing when somebody was last at your site is an important part of user profiling.

As recency diminishes, the potential for future purchases decreases. Eventually, a pre-determined amount of time lapses and the user has officially 'decayed'. When you note that regular customers' visits and purchases are declining, send email enticements. In an attempt to reactivate customers, different offers might be targeted to different users. A 'we miss you' gift certificate is a good example of how to use recency monitoring data.

Issues » 1. E-commerce questions to ask yourself

- Is your site sticky? Which regions in it are not?
- How proficient is your conversion of browsers to buyers?
- What customer segments do you track?
- How do these segments differ?
- What makes them loyal and how do you measure loyalty?
- What attributes of your best customers can help you target other prospects like them?
- How can profiling help you cross-sell and up-sell?
- What is your churn rate?
- What site behaviour indicates that a prospect is ready to buy?
- What progression through your site do you wish to encourage?
- What is the optimal product assortment on a page?
- Who are my best customers?

Frequency patterns

Frequency means different things to different types of websites. A customer who only visits a florist's website four times a year may be considered a loyal customer. A once- or twice-a-year customer can be encouraged to buy more often, but the user who makes four purchases needs special enticement to increase his or her frequency. A money-off coupon, or bouquet-of-the-month club, may all appeal. Offers can be tested on each

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level of frequency to increase response rates.

Expensive items create a different pattern of site visits. The occasional click-through at the start gives way to an increasing number of visits up to the moment of purchase. If these traffic patterns are properly modelled, they can give a clear indication of when the sale may occur. With this knowledge, a company can build predictive models to be more proactive, launch opt-in email campaigns, alter the site or have a salesperson call.

Manufacturers can use frequency information to notify distribution chains about potential sales. Service organisations can watch customer activity to determine the right moment to up-sell and cross-sell. Training departments can track course-participation frequency to decide when to offer additional courses.

Frequency becomes even more important when the relationship between parties is long-standing. As internet-based e-procurement takes the place of electronic data interchange (EDI), website patterns of visits and orders can be very telling as traffic becomes the pulse of the buyer/seller relationship. If a steady and predictable customer changes browsing and buying habits, it's a good sign that human intervention can increase the spending potential. Frequency information can yield insight into a customer's displeasure, or signal the possibility of increased business.

Monetary value

Until a purchase is made, the monetary value of a website customer can only be estimated. The user who visits once a day for a week is assigned a higher probability of purchasing than one who visits once every three months. As soon as a user becomes a customer, monetary value can be derived from spend and profit margin data. Over time, how much does the customer buy per month? How profitable are those sales? What are the characteristics of a high versus low spender?

Using a 3D representation of customer segments (*see diagram, right*), stratified by recency, frequency and monetary value scores, how might you market to, sell to and support customers differently in segment 555 versus 111? What about segments 515 and 254? Different websites will have different indexes for purchase probability and profitability. But historical ratings of actual customers are of great value when spread across the users of a single site. It is these figures that will help sites recognise which users are most likely to become profitable buyers.

The length of stay may indicate the seriousness of the buyer. If somebody stops to look at something for only a minute or two, that person profiles differently from the user who spends an hour reviewing options. Collecting data about the duration of a customer visit – the site's stickiness – can add considerably to the value of your metrics.

In combination, the elements of RFM and duration paint a detailed picture of how a site is being used and where changes can be made to increase its yield. Knowing how many people your promotional efforts attract to your site; how many returned two months later, and how often they come back are key to clarifying your customer life cycle (*see diagram, top left*) and understanding the monetary value of each user.

In summary, it's easy to measure the activities of a dozen customers – less so the behaviour of a few hundred. So by the time you are selling to more than a thousand, you must be well versed in collecting, and using, e-metric data.

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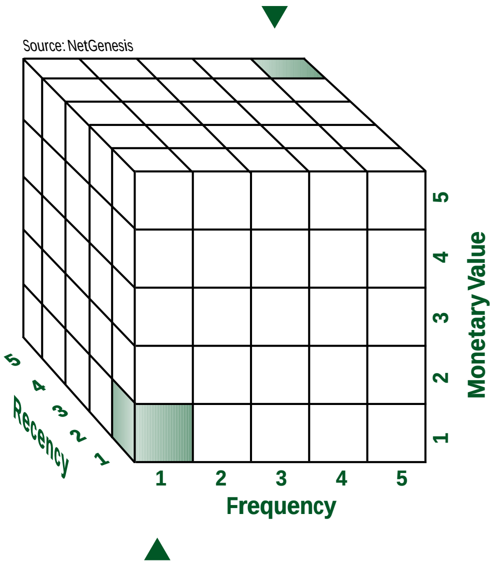
Customer segmentation

RFM Cell: 555 (best)

Recency quintile	5
Frequency quintile	5
Monetary value quintile	5
RFM overall score	**15**

Source: NetGenesis



RFM Cell: 111 (worst)

Recency quintile	1
Frequency quintile	1
Monetary value quintile	1
RFM overall score	**3**

Intelligence gathering ››

- www.netgen.com/emetrics
- www.alphablox.com

Issues ›› 2. Time is of the essence

The duration of an individual's visits to your website can be a clear signal of intent and a forecast of a possible change in the relationship. A technology company may want to do everything in its power to shorten the duration of each visit, because its customers repeatedly tell them they are busy, and that they are not coming to the site for entertainment, just product information. If the pages load faster, the information is easier to find and customers can make a decision more quickly, they are happier. A bookstore wants people to stay browsing as long as possible until purchases are identified, but once a buying decision has been made, the checkout system should make it as easy and fast as possible to buy.