Chapter 8. Customer Matrix

8.1 INTRODUCTION

Till now the discussion is about the key objective in creating a successful marketing program and, subsequently, the key elements in creating an effective interface design. This chapter focuses on customer metrics—the performance indicators that can reflect a customer’s experience and, more important, whether the marketing program is on or off course.

The most obvious set of indicators are either customer’s psychological responses, for example, “I love the website” or “It is confusing to use” or their behavioral responses such as number of store visits or frequency of purchase. The discussion is about the identification of techniques to accurately interpret these indicators and tracking of these metrics; moreover to know the technique of tracking financial metrics are the main focus area under consideration in this chapter.

The main purpose is to propose an approach that better measures and integrates both online and offline customer metrics. The discussion starts with a review of traditional offline customer metrics. This discussion is important since it will highlight currently accepted methods and discuss their strengths and limitations. Next, a new model of online customer metrics is introduced. This model is based on both practice and academic research on the topic. Next is a discussion of integrative customer metric model, which emphasizes the importance of capturing the cross platform behaviors that are observed by customers. This examination explores some of the challenges, complexities, and pitfalls of tracking customer behavior across channels. Then discussion move towards the financial metrics and their important links to customer metrics.
8.2 TRADITIONAL OFFLINE CUSTOMER METRICS

Since inception marketing practice has adopted Hierarchy-of-effects-model to explain the stages that a customer moves through to purchase goods or services. Although this model is oftentimes inappropriately restricted to marketing communication specialists, it is a simple way to understand how a customer must be educated, informed, and “transitioned” in order for sales to occur. At each stage in the model, different customer metrics are used to track their attitudes, knowledge, or behavior.

Diagram 8.1 shows the conventional, yet simplified, hierarchy-of-effects model. While the stages may vary with the perception of the researcher, there are always three stages in the model i.e. pre-purchase, purchase, and post-purchase. In the model shown in diagram 8.1, the customer moves through a seven step process:

**Diagram 8.1**

**Traditional Hierarchy-of-Effects-Model**
**Awareness Stage**

The first step in the consumption process is awareness of the product or brand. This awareness can be triggered by passive market communication as passing a large outdoor signboard that promotes an online firm or active search on the part of consumer as visiting a retail store to comparison shop. Consider, for example, the comparatively well-known retailer vishal mega-mart. Awareness of vishal mega-mart can come from a variety of sources, including newspaper advertising, word of mouth, driving by the store, direct mail and other paid (and unpaid) forms of promotion.

Measuring awareness at this stage can come from a number of qualitative means, such as through focus groups, surveys, or questionnaires.

**Knowledge Stage**

The second step in the consumption process is gaining knowledge or information about the product. This may be done in comparison to competition or in isolation of competition. Hence, during this second stage, the consumer develops a richer understanding of the product benefits, its features, and how it performs relative to competing products. To return to our vishal mega-mart example, at this stage a firm can track the extent to which the customer has knowledge about firm’s products, the breadth and depth of the inventory, store locations, pricing information and other store variables. These measures can be tracked for vishal mega-mart in isolation or vs. competition, through similar qualitative means.

**Attitudes Stage**

Attitudes refer to the degree to which the customer likes a particular brand, product or store. Customer surveys in this regard typically track the degree to which the customer likes a particular brand. Thus, one could track attitudinal responses to vishal mega-mart vs spencer. Attitudinal measures
reflect the consumer’s emotions and preferences. Measuring attitudes might ultimately help in predicting consumer behavior.

**Pre-purchase Intent Stage**

Pre-purchase intent metrics are aimed at obtaining the consumer’s behavior pre-disposition for his or her next shopping occasion. Questions measuring such intent are typically sought in a way that asks customer to project their behavior in the future. For example, a typical question asked for target customer would be “If you were to buy books today, which bookstore would you use; or on your next shopping occasion, would you shop at Vishal Mega-Mart or at Spencer.” Previous research has suggested that his behavioral pre-disposition is a stronger predictor of eventual behavior as compared to either the attitudinal or knowledge measures. Hence, market research firms will typically track behavioral pre-disposition in the absence of objective purchase data.

**Purchase Behavior Stage**

There are hosts of potential purchase behavior data. Some of these data can be subjective as data gathered through questions like “when was the last time you purchased books; or objective as data revealing the dates of purchase, overall purchase history, share of book purchases across retail channels, and other measures. Offline firms have mixed a record of purchase tracking. Some firms are constantly tracking these important financial measures, while others do not.

**Post-purchase Behavior Stage**

Post-purchase behavior and attitudes track the customer’s immediate response to the purchase experience. This is typically tracked as a general satisfaction measure or a specific satisfaction measure with respect to the individual aspects of buying experience through questions like “were you
satisfied with the selection and the sales support”. Post-purchase behavior could also refer to the interactions with customer support or to product returns.

**Loyalty Stage**

Loyalty metrics are typically measured in terms of repeat purchase rates and/or the overall percentage of the product that is purchased from one retailer vs. all other retailer. Thus while it is important for Vishal Mega-mart to know that it has a regular, predictable customer who shops five times a year at their stores, it is equally important to know that the customer shops for 10 times a year and that Vishal Mega-mart “owns” only 50 percent of the customer’s store visits.

**Reasons For The Success Of Hierarchy-Of-Effect-Model**

The hierarchy-of-effect model has a number of simple advantages. First, it is intuitively appealing. Manager can easily comprehend the value of the different metrics at each stage and can easily put together a scorecard of how they compare vs the competition on each measure.

Second, in the market communications and market research area, the measures and tracking systems have become quite routinely and hence, standardized across firms. Thus, it is easy to purchase services in the open market to track one’s performance in general and, in specific instances, track the performance of particular promotion programs such as advertising, public relations, promotions, direct mail and so on. So, it is often the case that firms want to observe the effects of advertising on shifts in attitudes toward the brand, customer preferences or sales. Finally, it provides a wealth of important diagnostic information on where customers are being lost on the product. For example, it is quite interesting to know that 75% of your target customers know of your brand, know of your brand features, have positive
attitudes about your brand, and have strong pre-dispositions to buy, yet do not actually purchase the product. This evidence would suggest that a firm should focus on the coverage of the distribution outlets as compared to an intervention focused on simply more advertising. The key point is that knowing the specific stage where the problem is, for example lack of brand awareness in the awareness stage, enables manager to more precisely target an intervention.

The hierarchy of effects model appears to be simple, straightforward, and easy to implement. It provides managers with clear diagnostic measures that can be directly linked with specific interventions. The problem is that most of the measures in the model rely upon questioning target customers about their behavior, rather than on direct observation of their behavior. Let us assume for the moment that customers are honest and truly attempt to provide the best answers to questions. Even with this assumption problems can occur for a variety of reasons i.e. customers can have difficulty recalling brands, lack of introspection on their own shopping behavior and more frequently, consumers often just do not know the answers to many behavioral questions.

8.3 ONLINE CUSTOMER METRICS

This section examines the online customer experience. It starts by noting the stages that a customer moves through in the online shopping experience, the metrics that are more commonly being used at each stage, and the problems of tracking customer behavior online.

Stages of the Buying Process

Diagram 8.2 shows the stages of the online model of purchasing. This diagram illustrates a process that focuses on visits, shopping behavior during the visit, purchase behavior, post purchase behavior and loyalty. Clearly, there is a shift from “asking the customer” to “watching the customer.” The
focus is squarely on measures that reflect behavior rather than attitudes or perceptions.

**Diagram 8.2**
**Stages of Online Buying Process**

1. **Visit Stage**

A visit typically refers to a given person’s visit to the site. This can be as one request, for example an individual visits baazee.com and examines the homepage or multiple requests from a single site, for example and individual is traveling and requests information from baazee.com on a specific information on any product. Think of a visit as similar to a trip to a local retail store; if an individual visits the store, this can include a short stay or a long stay in multiple departments. Metrics for this stage could include measuring unique or repeat visitors.
As the Internet has grown exponentially consumers have expanded their set of preferred sites. The rationale would be that customers could easily search the web i.e. competing retail shops are a click away. This expansion in the number of sites regularly visited, in turn, would seem well for new firms attempting to compete in the online environment.

This does not appear to be the case. Recently completed research suggests that the median number of sites visited in July 1997 was 14. The number rose to 25 in December 1999. The researchers note, “It is surprising that given the millions of sites available and the plethora of search engines users limited their attention to such a small number of sites.” He further added that this could be due to the time and effort necessary to familiarize oneself with a site or the perceived effort it would take to learn a new site. Regardless of the rationale, it appears that consumers establish a pattern of visiting a small number of sites on a regular basis. The obvious managerial implication is to figure out how to become part of this small set of sites.

2. Shopping Behavior Stage

As noted above, by shifting from the conventional hierarchy of effects, firms can observe through click stream data metrics -the exact patterns of the consumer’s shopping experience. These click stream data can reveal a number of basic data points on consumer behavior. These metrics include, but are not limited to the number of pages views i.e. the number of times a particular webpage has been presented to a visitor, the pattern of sites visited, length of stay on the site, number of registrations filled out of per hundred visitors, abandoned registrations, number of customers with shopping carts and shopping carts abandoned.

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The intuition on shopping behavior patterns might lead to some straightforward hypotheses i.e. because every store is only a click away and shopping bots (an automated program for doing some particular task, often over a network) that search the web for comparison prices are plentiful, consumers would be actively searching many stores to comparison shop. As a result of this easy store access, consumers would quickly work on the right product. Since the shopping bot did all comparison shopping, the consumer would simply need to purchase the product, exit the site, and enjoy their offline life.

The data reveal a very different, and perhaps counterintuitive, pattern. Analysing panel data for over 10000 households for three commodities like products (books, CDs and travel), a recently completely joint study by researchers at Columbia and Wharton business schools showed that consumer searching is quite limited. On average, households visit only 1.1 books sites, 1.2 CD sites and 1.8 travel sites on a monthly basis. This is despite the fact that other research has illustrated that there is considerable price variation in these commodity like products. For example, research suggests that in the online travel industry, prices vary as much as 18% even after accounting for ticket quality. Similar price variation was found in the online book industry.

3. Purchase Stage

Purchasing data and metrics are rather straight-forward. Similar to direct mail marketers, online retailers are concerned with the number of

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purchases, the amount of the purchases, and the conversion rate of consumers. Another key metric is the cost of customer acquisition. Typically, this is measured by examining the number of purchasing customers relative to the amount of communication in a particular medium.

Conversion rates are critical for the firm because they can easily be tied to increased profitability and cash flow. Consider, for example, table 8.1. William Gurley initially proposed this chart in a recent fortune article.¹²⁰

Table 8.1  
**The Power of conversion Rates**

<table>
<thead>
<tr>
<th></th>
<th>Conversion Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2%</td>
</tr>
<tr>
<td>Advertising Costs</td>
<td>10000</td>
</tr>
<tr>
<td>Visitors</td>
<td>5000</td>
</tr>
<tr>
<td>Transactions</td>
<td>100</td>
</tr>
<tr>
<td>Cost per transaction</td>
<td>100</td>
</tr>
<tr>
<td>Revenue</td>
<td>10000</td>
</tr>
<tr>
<td>Marketing/Revenue (%)</td>
<td>100</td>
</tr>
</tbody>
</table>

Average transaction size = 100

This table illustrates that a 4% increase in conversion rates has a 100% increase in revenue. Two recent findings are quite interesting in this regard. Results of one retail study indicate that frequent visitors have a higher conversion rate (16.6%) vs. infrequent visitors (11.1%).¹²¹ Equally important, this study shows that the changes in frequency behavior, for example, consumers who visited infrequently, then became more frequent visitors, are more likely to buy. Hence, rather than simply target all frequent shoppers, it

¹²⁰ Gurley, William 2000. The one Internet metric that really matters. Fortune, 6 March.
is clear that momentum shoppers those whose visit times become shorter had the highest conversion rates.\textsuperscript{122}

Acquisition costs of customers are another critical metric that can be directly tied to profitability. Typically, this is measured by examining the number of purchasing customers relative to the amount of communication in a particular medium. For example, if one paid Rs.50000 for banner ads and 100 customer could be directly linked to these communications i.e. customer clicked through a banner ad and bought an item for sale, then the cost per acquisition of a single customer would be Rs.500.

Customer acquisition cost is becoming a very critical measure for many investors who are looking more closely at the bottom line of pure play internet companies. Conventional wisdom suggests that customer acquisition costs could be lower for traditional retailers since they have already established a brand name and have physical stores that can capture impulse shoppers. This logic has some recent support. In apparel e-commerce retailing, new customers cost 20 to 40 percent more for pure play Internet companies than for traditional retailers with physical and online stores.\textsuperscript{123}

Finally, another important metric in the purchase stage is customer profitability. Consider, for example, that the classic 80/20 rule i.e. a firm tends to get 80% of its revenue from 20% of its customers has not changed, but the intimacy with which a firm can understand, target, and support those highly profitably customers within that 20% segment is radically changing the way firms market. In a recent article, Frank Mulhern noted:

"Much of the marketing today is defined by, and acted on, in terms of the marketing mix variables. In practice, the marketing manager’s function is to manage the variables represented by the 4Ps. The use of customer databases to measure individual customer profitability helps shift the

\textsuperscript{122} Moe, Windy and Peter S. Fader. Which visits lead to purchases? Dynamic conversion behavior at ecommerce sites. Working Paper Series, Wharton Business School, August.

emphasis from managing marketing mix variables to managing customers….” In this manner, customer profitability analysis plays a central role in data driven relationship marketing and individual customer based marketing communication.124

Consistent with this observation, a critical metric is the degree to which firms identify and service their most profitable customers, together with a strategy to retain these customers. Not only must their marketing begin by managing their most profitable customers, but it must also include a strategy to make their less profitable customers more consistently profitable.

4. Post-purchase Stage

Post-purchase metrics capture the after purchase behavior of customers. Examples include return rates of merchandise, recommendations to friends, for example “e-mail this to a friend and receive 10% off on next purchase”, and even responses to online surveys about the shopping experience. Emerging, yet un-validated, evidence suggests a much higher return rate for merchandise purchased online as compared to merchandise purchased in physical store.

5. Loyalty Stage

There is one overwhelming obvious truth in marketing i.e. loyal customers are often the most important and profitable customers. Thus, one of the key metrics to examine the indicators of loyalty -these include traditional metrics such as (1) frequency of purchase, (2) percentage of purchase in the category i.e. I purchase Rs.5000/- electronic gadgets per year of which I purchase Rs. 4000/- at gadgetsguru.com; hence, gadgetsguru’s share of wallet is 80%, and (3) percent of “true loyalists” –those who appear to shop and buy only at your store. With this background in mind, let us consider the emerging evidence.

With respect to the true loyalists, a rather striking statistic has emerged from a recent study. This study reveals that “70 percent of CD shoppers, 70 percent of book shoppers, and 36 percent of travel shoppers were observed as being loyal to just one site throughout the 12 month duration of the study.\(^\text{125}\)

A second key observation relates to the use of aggregate statistics to examine the health of the loyalist group. It is frequently the case that firms show the level of aggregate customer traffic increasing at their site. Although one often reads of companies increasing their traffic by significant magnitudes, the question remains—what does this mean at the individual shopper level; is the firm simply acquiring new customers as old customers are leaving or does this signal both a great acquisition and sound retention strategy.

One recent study in the book industry revealed exactly the pattern described above. Its overall conversion rate was about 13 percent with a steady increase in traffic. However, a close tracking of specific individuals in the study revealed a very different trend. Namely, the most active shoppers at this particular store showed a decreasing rate of purchase over time. This turn out to be a very damaging metric for this particular book retailer since the conversion rate of the active shoppers is typically much higher than for less active shoppers.

Given the importance to the so called “loyalty effect”, one would expect that stores would focus heavy ammunition on this segment, carefully tracking their retention metrics and devising backroom strategies to differentially appeal to this group. Because software is readily available to identify these customers, one could easily imagine customer service representative standing by to intervene when valuable customers have

problems purchasing online. Nothing could be further from the truth. Recent evidence suggests that online companies do not track their loyal customers. In particular, a recent study found that less than 20 percent of websites rigorously track customer retention.\(^{126}\)

### 8.4 INTEGRATION OF MATRICS APPROACH

Combining the two alternative purchase hierarchies the offline and online stages in a customer’s purchase cycle results in diagram 8.3.

**Diagram 8.3**

*An Integrated Model of Customer Metrics*

<table>
<thead>
<tr>
<th>Offline</th>
<th>Online</th>
<th>Integrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness</td>
<td>Awareness</td>
<td></td>
</tr>
<tr>
<td>Knowledge</td>
<td>Knowledge</td>
<td></td>
</tr>
<tr>
<td>Attitude</td>
<td>Attitude</td>
<td></td>
</tr>
<tr>
<td>Pre-Purchase Intent</td>
<td>Pre-Purchase Intent</td>
<td></td>
</tr>
<tr>
<td>Purchase</td>
<td>Visits</td>
<td></td>
</tr>
<tr>
<td>Post-Purchase</td>
<td>Shopping Behavior</td>
<td></td>
</tr>
<tr>
<td>Loyalty</td>
<td>Purchase</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Post-Purchase</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Loyalty</td>
<td></td>
</tr>
</tbody>
</table>

The first two columns simply reflect the purchase cycles in the previous sections. The last column shows that these cycles can be combined

quite easily. The diagram reveals a simple point. Traditional approaches rely heavily on customer perceptions i.e. attitude, knowledge, behavior intent while the online methods rely heavily on behavior as shown in table 8.2.

**Table 8.2**

**Strengths and Weaknesses of Online and Offline Metrics**

<table>
<thead>
<tr>
<th></th>
<th>Online</th>
<th>Offline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Purchase Attitudes, Knowledge</td>
<td>Strong</td>
<td>Weak</td>
</tr>
<tr>
<td>Visits and Actual Shopping Behavior</td>
<td>Weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Purchase and Loyalty Training</td>
<td>Moderate</td>
<td>Strong</td>
</tr>
</tbody>
</table>

Does this mean online methods are better; if one wants to find out why customers decide to visit or how they are experiencing a site, the easiest thing to do is to ask them. Moreover, the perceptual data often reveal very specific information on where the market communications programs fail, for example, consumers were aware of the site, but were not knowledgeable about the type of inventory offered. Thus, market communications problems do not need to focus on general awareness; rather they need to focus on knowledge building relative to other sites. The key point is that both sets of data are needed and hence, the integrated model is the most appropriate way to think about measuring and tracking the customer experience at the firm level.

There are five additional dimensions in assessing an integrated customer experience i.e. customer transparency, Database integration, Cross platform knowledge of staff, Cross platform sales, up-sell, and cross sell and cross platform look and feel similarity.

**Customer Transparency**

Customers should be able to move from online to offline seamlessly through any phase of the purchase cycle. The most obvious example of this
is when a customer purchases a product on the web and decides to return it to the store. The site should integrate its stores so that a purchase on the web could be returned to the store. However, the issue is much larger than simply the ability to make returns at a physical store. The key question is, can a customer seamlessly move between physical stores and online environments at any phase during the purchase process; so a consumer who receives a **Big bazaar**’s catalog on his doorstep should be able to walk into their home, log on to **futurebazaar.com** order online.

**Database Integration**

One of the key issues in making this seamless integration comes about is the construction of a single database for customers, suppliers and partners. Thus, if customers have historically purchased from **Big bazaar**’s catalog, they should be able to access their purchase histories online. Similarly, the big bazaar’s service representative on the catalog side should have complete access to online purchase histories. A concern is the degree to which this database integration has direct customer implications. That is, a given consumers calls a big bazaar’s telephone representative to reorder a shirt that was purchased on the web. Does the service representative has access to this information; is it in a usable form; can it be accessed quickly.

**Cross Platform Knowledge of Staff**

The last point of database integration should also be combined with a deep cross platform knowledge of staff. In the case of the **jaypeehotels.com** representatives in the retail offices, they are knowledgeable about the website and can help customers navigate the site. They do not see it as a threat rather it is an opportunity for more bookings.
Cross Platform Sales, Up-sell and Cross-sell

Given an integrated database, the various online and offline channels should coordinated for cross-sell opportunities i.e. if you purchase a shirt, we recommend these pants or shoes or up-sell opportunities i.e. yes, that is a nice plain shirt, here is our best product in that category. Seamless, integrated customer experiences actually increase the cross platform sales-as opposed to decreasing or cannibalizing sales.

Cross Platform look and feel similarity

Naturally, the look and feel of the physical store and online environment should be consistent and complementary. The color scheme, layout, navigation, product mix, and attitude of each environment should be sending a similar message to the target market.

8.5 COMPLEXITIES AND CHALLENGES

At this stage, it is clear that there can be metrics that illustrate the integration of physical and online stores. However, in developing and deploying this integrative customer experience strategy, a number of challenges can arise. Some most common challenges are as follows:

How does one channel drive the sales of a second channel

According to Captain G. R. Gopinath\(^\text{127}\), online searches can drive offline sales. In the case of airlines, the customers, who do not have the credit/debit cards, access the prices from the website of the company and then buy the tickets offline. It can be easily differentiated by an offline representative that the customer has already accessed the prices or latest schemes on the web.

\(^{127}\) CEO AIR Deccan Airlines
How does one account for situation based consumption

A good example of situation based consumption is carewale.com, the well known site for any sort of knowledge about cars. An excellent, clean site (www.carwale.com) was launched and all services associated with the site were free. This included a wide variety of services that were not included in the print guide i.e. Car wale magazine. So what happened with the print sales; print sales actually increased by 10 percent after the site was launched.

What happens when observed click stream or retail data do not reflect intent

If a customer is visiting again and again to the site of a store or a section of physical store i.e. number of times customer visits the men’s socks section in a given retail store visit, are likely to imply that the customer is ready to buy. However, if the sales person is not present, the site is difficult to use, or the shopping cart data are lengthy, the customer is not likely to complete the sale. However, the click-stream data would suggest a positive result i.e. a number of page views, repeat page views, and a lengthy stay on the site. However, in this situation these would be negative indicators of the customer experience.

How does one capture the one time buyer more effectively

Evidence suggests that 38 percent of customers buy once and do not return. It is hypothesized that customer support and customer experience factors become more important factors, rather than simply price, after the initial purchase. Our point of view is that the firm not only need to focus on the customer experience at a given point of contact but one also can recapture customer through effective cross promotion activities. Hence, if one

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128. Reibstein, David, interview at Wharton site
purchased through the retail stores, it may be most appropriate to attempt to stimulate new demands in other channels. Again, following the principles that customers are transforming to occasion based consumption i.e. they will choose a particular channel depending on the situation they face, rather than become single channel loyal, how does a firm recapture the first time buyer in a second medium; this approach, assuming complete data base integration, maximizes the prospects of retention.

**Who is the advocate for the integrative customer experience**

Given current organizational structures it is frequently the case that no single department or group plays the role of “voice of customer” across all channels. What happens is that the customer experience is maximized within a particular channel, but the overall customer across channels is not maximized.

One solution is customer experience councils. Dell computer integrates customer behavior into its e-business strategy across platforms. Its internal research revealed that there were specific drivers of loyalty i.e. order fulfillment, product performance, and post-sale service. Focus war narrowed to these three areas to enhance an integrated customer experience.  

In sum, it is revealed how these, online and offline, metrics could be blended into a single form of integrated metrics. However, putting together a set of integrated metrics is not easy; many challenges exist to construct the right customer metrics. At the same time, the issue is not always whether there are data available, but whether time constraints force senior managers in specifying the right set of customer metrics. Finally, it must be recognized that customer metrics do not represent all the metrics that need to be tracked others must also be taken into consideration.

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8.6 LINKING CUSTOMER AND FINANCIAL PERFORMANCE METRICS

Customer performance metrics have been examined in significant detail. However, in order to better understand the success and performance of marketing interventions, the link from customer metrics to the company’s financial metrics must be examined. Following are three important considerations to be taken in assessing both customer and financial metrics.

1. **Customer and Financial Metrics are just one piece of a broader picture**

Professor Rayport in his book e-commerce introduced the performance Dashboard, a framework for assessing the strategic health of a company. The performance Dashboard encompasses some elements as: the magnitude of the opportunity a company is seeking to address, the viability and sustainability of the firm’s business model, the usability of the customer interface and the company’s financial performance.

When examining the causes of a company’s poor financial performance, managers need to look at all of these metric categories for potential answers. For example, a company may have a very effective and efficient marketing strategy, but may do a very poor job delivering a product and providing after sales support, thereby turning away customers, revenues and profits.

2. **Customer performance can have a direct impact on Financial performance**

The cost of acquiring customers online can be considerably higher than offline. For example, according to one study, the customer acquisition cost is
20 to 40 percent higher for an online apparel customer than it is for an offline customer.\textsuperscript{130}

The only way a company can make a profit is by maintaining customers who make repeat purchases over time. The average amount customers spend generally increases as they become more familiar and comfortable with the site. For example, according to the same study, repeat online retail customers spend more than twice as much after a two year relationship with a site than during the first six months of the relationship. The study concludes that an online retailer would need to keep a customer for 1.1 year before breaking even.

It is clear that companies that are unable to have their customers return to their sites are likely to be faced with significant losses. Companies need to work hard to earn customer loyalty. Among other things, they need to make their sites easy to use and navigate, they need to deliver reliably and on time, and they need to offer timely and comprehensive customer support. Strong performance in these areas can directly translate into strong financial results.

3. \textbf{Marketing spending can destroy company profitability if not managed carefully}

There was a time when profits did not seem to matter for dot-com businesses. Clearly those times have passed. During the start, it was standard practice for companies to spend huge proportion of their revenue on marketing. Profitability, however, has once again become important. As a result, companies have tapered their marketing expenses as given in table 8.3.

Table 8.3

Advertising and Promotion cost of Naukri.com

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sales</th>
<th>Total Expenditure</th>
<th>Percentage on Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>824.05</td>
<td>184.24</td>
<td>22.36%</td>
</tr>
<tr>
<td>2008-09</td>
<td>2451.66</td>
<td>433.20</td>
<td>17.67%</td>
</tr>
</tbody>
</table>


Yet successfully marketing to prospective customer remains critical. Companies are therefore trying to find more refined and cost effective ways of reaching new customers. For example, many companies are now resorting to targeted e-mail marketing, which has a minimal cost and can return a click through rate that is 8% higher than untargeted email.¹³¹ Whatever their choice of marketing strategy, companies are realizing that careless spending on marketing can quickly lead to poor financial results that today’s market is not likely to tolerate.

¹³¹ E-mail: An effective marketing tool. February 27, 2001.