THE E-BUSINESS BENCHMARK REPORT

by Sage Pay
June 2010

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To add to the results expressed through our survey we've canvassed the opinions of some e-commerce professionals – and you'll find their experiences peppered throughout the report.

We would like to thank:

All of our contributors have provided a valuable insight into the challenges and opportunities associated to running an e-commerce business, alongside their unique thoughts on how to be successful.

HELLO

What is the secret of success online? If only we knew it, our lives would be a lot simpler. What we do know is that there is probably no single formula for getting it right when trading on the web.

A customer wandering into your online store cannot see you. You cannot see them, for that matter. So how do you engage them, talk to them to close your sale?

In general, online shoppers are a fickle lot. Flitting from site to site, it takes a lot to entice them to your virtual doorstep. And once they've arrived, they might sniff around, maybe put a thing or two in the shopping cart — but even when they have typed in their credit card number, there is still no guarantee you will close the sale.

A case study might show how you solved the customer's problem for someone else. A positive review could provide the reassurance they need to go with your brand. A special offer will perhaps help them afford the purchase. But expensive delivery, complicated payment pages or limited payment options can scupper the deal. Getting it right is an art and it's vital to your business.

Perhaps we know all these things intuitively ourselves because as well as being online traders we're also online buyers. But it is one thing to have a gut feeling about what works and what doesn't — and another to find the perfect formula for success… or useful studies to help create something close to it.

At Sage Pay, we're already helping businesses perfect one piece of the e-commerce puzzle: the transaction process itself. But we thought e-tailers would benefit from an insight into what their peers are up to.

We surveyed 2000 UK-based online businesses. Our aim was to uncover what makes an e-commerce business successful, from attracting people to their sites through to delivering the goods.

We don't intend or expect it to be the definitive guide, but hopefully you'll find it useful in helping you to benchmark your own business and identify where you could improve your e-commerce strategy to get the best possible results.

Finally, it is obvious that we could not have produced this study without your help, and your input continues to be extremely valuable to us.

If there's anything in this report which you would like to comment on, or you have any other suggestions or questions for Sage Pay, I will be delighted to hear from you — please write to me at *simon@sagepay.com*.

Happy selling.

Simon Black
Managing director, Sage Pay

EXECUTIVE SUMMARY

In March 2010, Sage Pay surveyed 2000 e-commerce businesses — a combination of customers and non-customers — with the aim of benchmarking the factors that contribute to online success.

The results show that the average e-commerce success rate (completed sales on a website compared to the number of visitors to a site) is low at 7%.

We also looked at the success of the purchase process itself, uncovering that *on average 28% of visitors who start a purchase never complete it.*

Other main findings included:

• **Providing on-site reassurance helps with success.** Top performing e-tailers had a higher tendency to include 'reassurance factors' such as next-day delivery or customer testimonials.

• **Fewer checkout pages mean greater rates of purchase completion.** Businesses with 'above average' rates of completed online sales tended to have fewer pages in their checkout process. The optimum number of payment pages for top performers was two.

• **Customised payment pages are an important factor in sales completion.** Almost 100% of companies with above-average rates of sales completion had customised or branded payment pages, compared to more than 50% in the below-average group. These e-businesses used a standard template offered by their payment service provider.

• **Multiple payment methods improve transaction rates.** Giving people more choice in the way they pay is a good way of ensuring greater e-commerce success.

• **Fraud prevention is an important consideration.** We found online traders experienced varying levels of fraud and those not using basic fraud tools like 3D Secure are likely to experience five more chargebacks a year from their merchant bank.

• **Regulation and compliance still causes confusion among e-tailers.** Over a third of e-tailers claiming to collect, store or transfer card data have not reached the required data security standards.

Overall, many of the tactics used to attract visitors to the website, such as advertising or use of social media, may have limited impact on visitors' behaviour once they arrive. In general those using a variety of marketing techniques are attracting people to their sites, but are not able to entice the shopper to buy. By reviewing their checkout process and online reassurance factors — such as money back guarantees and their approach to card data security — e-tailers can ensure that their marketing spend is not wasted.

OUR METHODOLOGY

This report is based on a survey of UK e-businesses of all sizes and was conducted between February and March 2010. The analysis covered a total of 2000 responses for which there was accurate e-commerce data. Where necessary to add value to the survey, we have also used payment transaction data from Sage Pay's own customer base of 30,000 businesses.

In all cases, we asked a series of questions to assess the sites' e-commerce performance, namely how many visitors initiated a purchase and, to assess the success of the buying process itself, how many completed it.

We also asked questions around issues thought to affect e-commerce success, including whether the trader had on-site incentives to purchase, such as a money-back guarantee; the effects of online fraud on their business; what kind of marketing they carried out; whether they did usability testing; and so on.

We used the e-commerce performance data to work out the average rates of purchase initiation and completion for the sample, and compared these across four categories:

- **Marketing — getting people to your site.**
- **Influencing a purchase.**
- **Making it easy for people to pay.**
- **Security and fraud.**

These analyses enabled us to look specifically at some of the factors that might result in visitors dropping out of the purchase process, a critical issue for online traders.

AN EXPLANATION OF CHARTS

The average number of website visitors that go on to initiate a purchase across all of the e-businesses that we surveyed is 10%. The average number of website visitors that go on to actually complete a purchase is 7%.

When looking at the graphs within the report the 'average' we've used will either be the average for initiating a purchase (10%) or completing a purchase (7%) depending upon which is more appropriate. For example, in the first graph that looks at 'How to get visitors to your site' we used 10% as the average which relates to the average number of initiated purchases. For the second graph 'On-site factors affecting the decision to buy' we used 7% as it makes sense to base this on purchase completion rather than initiating a purchase.

Reading the graphs

To enable businesses to benchmark how they compare to their peers, we have grouped our respondents into two categories — those with an 'above average' conversion rate and those with a 'below average' conversion rate.

For example, in the chart for marketing use 'Above average performers use more marketing', the first bars show that 42% of 'above average' traders use viral marketing compared to 16% of 'below average' traders.

Where we have compared 'above average' e-commerce performers with 'below average' performers, the bar charts show the percentage of each group that said 'yes' or gave a positive response to a particular question.
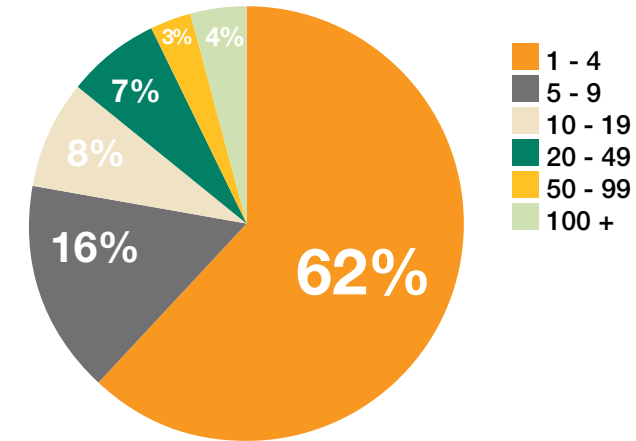
PORTRAIT OF AN ONLINE TRADER

Out of all the surveys completed, 62% of respondents were either retailers or wholesalers. The remaining 38% fell into the following categories: information and communications, leisure and entertainment, and technology.
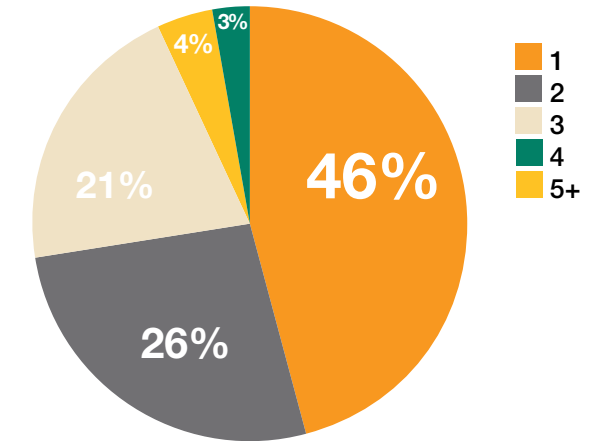
ABOUT THEIR BUSINESS

The retailers ranged in size from lifestyle businesses with just tens of visitors a month to big brands with millions. The average transaction value of the sample ranged from £70 to £100.

And most were established businesses, with less than 13% having been launched in the last 12 months.

STATS AT A GLANCE

10% of people who visit your website will initiate a purchase

Average initiated purchase to completed purchase ('conversion') is **72%**

1% of e-businesses reported **80%** conversion rates

More than **75%** of e-businesses have an average or below average rate of conversions

Number of employees in businesses surveyed

- 1 - 4
- 5 - 9
- 10 - 19
- 20 - 49
- 50 - 99
- 100 +

62%, 16%, 8%, 7%, 3%, 4%

Number of employees in the ecommerce team

- 1
- 2
- 3
- 4
- 5+

46%, 26%, 21%, 4%, 3%

KNOW WHO YOU'RE COMPETING WITH

Andy Redfern,
ethicalsuperstore.com

Ethical Superstore has been trading online since 2005, selling over 5,000 products, each of which has at least one ethical dimension, such as fair trade, organic, and eco-friendly products.

"We trade online because, by the very nature of our business, we bring together many products from many different sources. This can only be done cost-effectively through e-commerce.

We knew from the outset that we needed a good stream of customers. This is why we initially worked with a media partner and launched a co-branded shop.

We really do not believe that the 'Field of Dreams' approach works; you cannot just build something and expect people to turn up, no matter how wonderful the site looks or how easy it is to use.

As with any product-based business our main challenge has been working capital. We employ many and varied tactics to overcome this, from raising venture and debt finance through to innovative deals with suppliers.

If I were to sit down with someone wanting to get into e-commerce I'd tell them it's critical to know your market.

You need to know whether you're competing on price, service or range among many other factors.

Online can be dangerous: if you don't know who you're competing with, you're competing with everyone.

Also be aware of your touch-points with customers. We have two: the website, and the courier who actually places the products in the customers' hands. The one we can control; the other we cannot."

Chapter 1

GETTING PEOPLE TO YOUR SITE

So what might make a difference to buying behaviour before your visitors even hit your site? What things might help influence purchasing in your customer marketing and communications?

We asked our respondents which communications channels they regularly use to encourage shoppers to use their site.

46% of top e-commerce performers use affiliate marketing, compared to 14% of those with a lower percentage of converted sales. So what else are these high achievers doing that we could learn from?
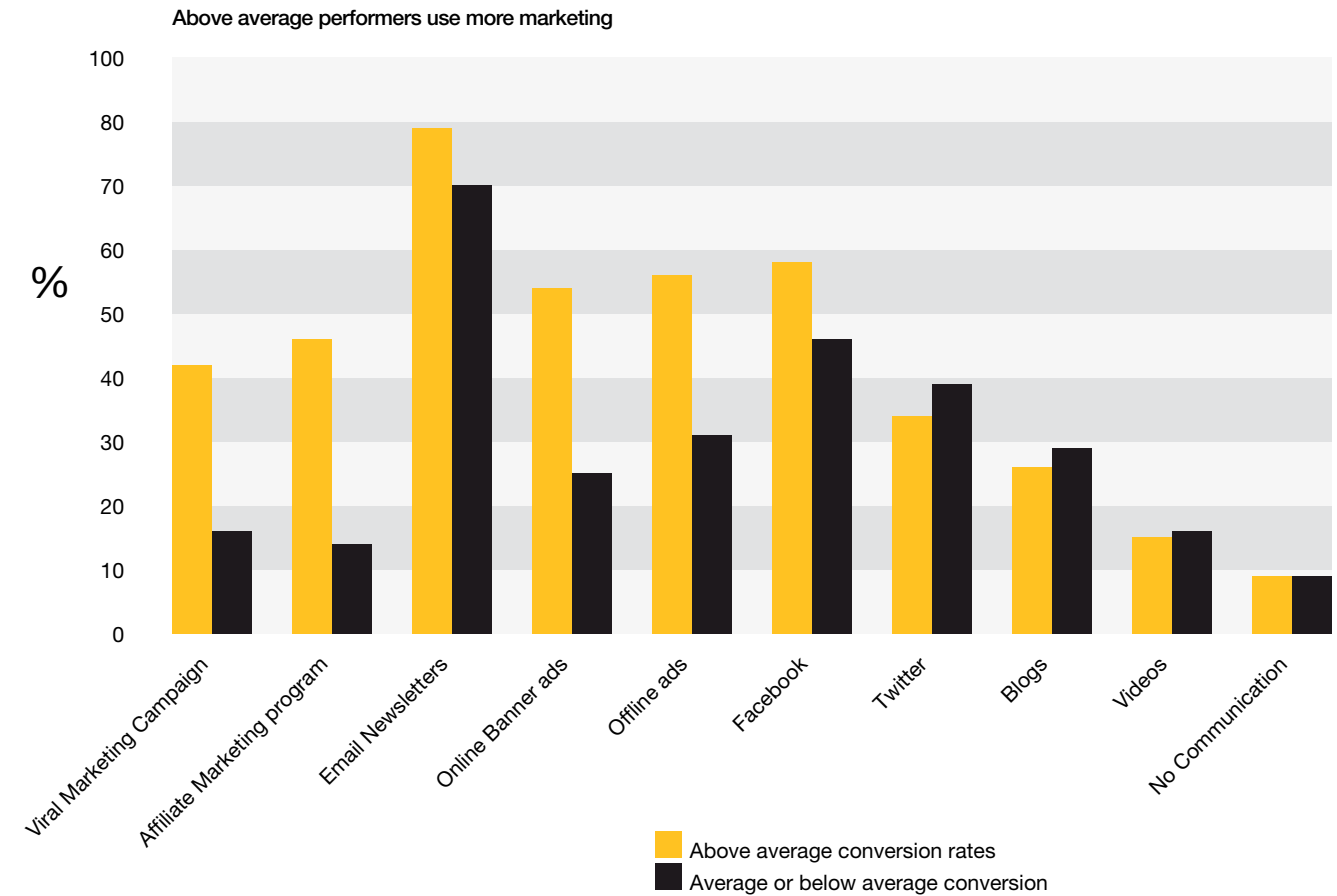
STATS AT A GLANCE

42% of top performers use *viral marketing,* against **16%** of below average performers

54% employ *online advertising techniques,* versus **25%**

56% use *offline advertising* compared to **31%**

79% use *email newsletters* versus **70%**

Here's what we found:

Above average performers use more marketing

%

Legend:
- Above average conversion rates
- Average or below average conversion

What we see here is that using a variety of promotional tactics definitely has an influence in getting customers to your site. A huge 80% of those tactics are online too.
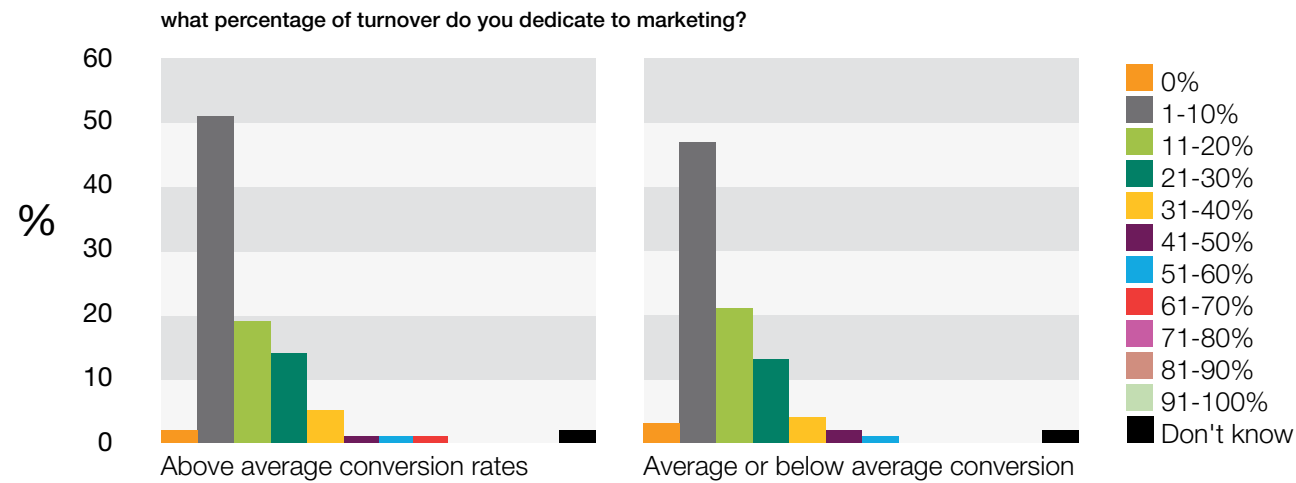
Most of the top performers are using viral campaigns and a combination of on and offline advertising to drive sales. Video stands out as the least effective method of communication to encourage visitors and is something that those with lower conversion rates are investing more heavily in. What happens with social media is not so clear cut, but we'll come to that in a moment…

We've established that it's all very well getting people to your site — but are any of the methods used to get people there responsible for converting the all-important sale? And, if you spend a higher percentage of your turnover on marketing are you guaranteed a higher conversion rate?

In short, what we found is no.

When we asked respondents what percentage of their turnover they dedicated to marketing, here is what they told us:

what percentage of turnover do you dedicate to marketing?

Legend:
- 0%
- 1-10%
- 11-20%
- 21-30%
- 31-40%
- 41-50%
- 51-60%
- 61-70%
- 71-80%
- 81-90%
- 91-100%
- Don't know

Above average conversion rates
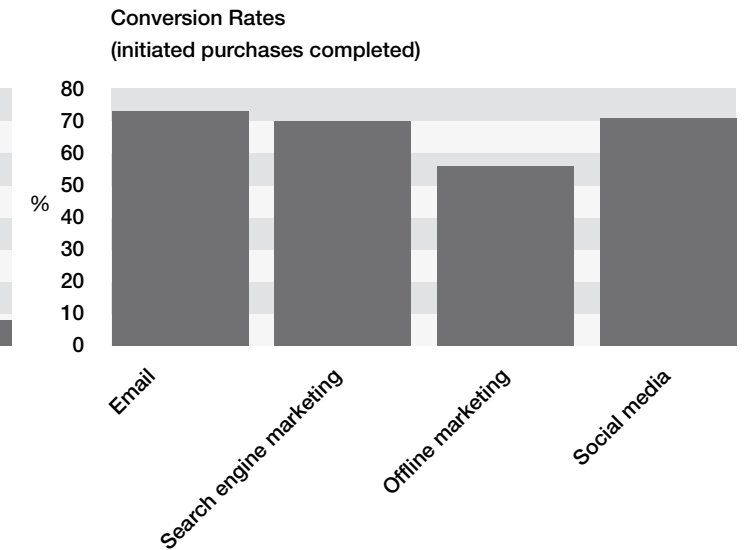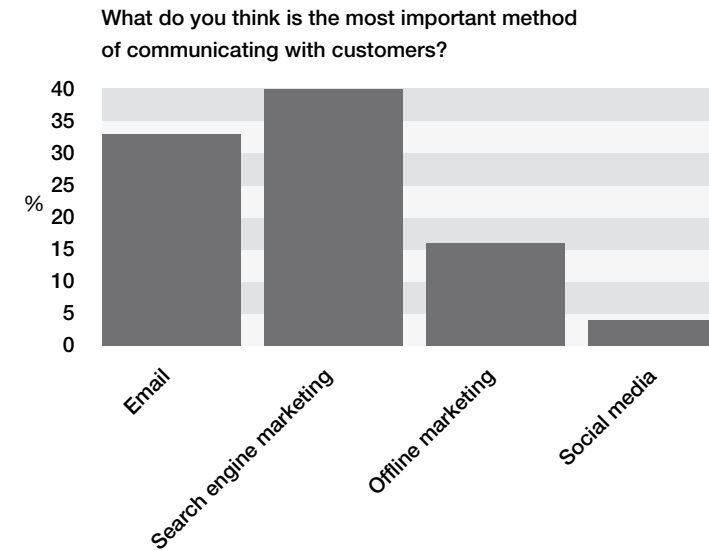
Average or below average conversion

The graph's pattern is similar for both groups of respondents, however interestingly top performers overall seem to be spending a lower percentage of their annual turnover on marketing…

Before you slash your marketing budget and sack the marketing department, the good news is that in most cases e-businesses are getting people to their site, but once they get there shoppers are influenced by a number of other factors, and we'll shortly explore those too.

DOES ANY MARKETING INFLUENCE ONLINE CONVERSION?

We asked our respondents to rank what they perceived as the most important ways of communicating with potential customers and the results were interesting. Emails/e-newsletters ranked high, as did search engine marketing (SEM), however the biggest surprise was in social media. While many e-commerce businesses are using social media to entice customers, what they perhaps don't realise is how effective social media is in actually converting sales.

What do you think is the most important method of communicating with customers?

Conversion Rates
(initiated purchases completed)

THE SOCIAL

The perceived influence of social media among our respondents was really low — less than 5% — however when you look at the impact on actual sales, the jump is a whopping 71%.

This suggests that where social media is being used well it can heavily influence purchasing behaviour, by building trusted relationships and subsequently loyal customers.

ENABLE TRANSACTIONS BEFORE CHECKING FOR FRAUD

Antony Comyns,
hawesandcurtis.com

Antony Comyns is the e-commerce manager of Hawes and Curtis, a vendor of high-quality shirts that was established in 1913.

"When I came to Hawes and Curtis it had a legacy solution taken on simply because it was offered by the bank.

It often went offline and was open to fraud, but because my company wasn't too e-commerce-savvy at the time, it hadn't considered other vendors. It had nothing to benchmark against.

Reliability and good fraud detection are paramount. Reliability means that you know you can depend on the system, that it won't go down when changes are made.

Good fraud detection means you can give your customers freedom to purchase, for example by delivering to second addresses, but still catch the fraudsters. This is why we took the decision to open up: enable the transaction then check to make sure it's legitimate.

It gives us a good balance between freedom and restriction.

My advice to any retailer or e-tailer, online or otherwise, would simply be the golden rule: make sure you have the right stock in the right place at the right time. Your e-commerce system should make it as easy to do this as possible.

Basically you should know your stock and your system. If you don't, you're exposed to risk.

And while no platform can be everything to everyone, you should consider how it helps you with customer service, how easy it is to set up, and how easy it is to reconfigure, particularly with regards to international transactions. It's not just pretty screens: it's how you run your business."

TACKLING FRAUD CAN HARM CONVERSION

**Tom Percival,
graze.com**

Graze.com co-founder Tom Percival used to work at LOVEFiLM, the online DVD and video game rentals company, and two years in saw an opportunity for applying a similar model to food. He now delivers healthy snack food in an entirely online operation.

"We already had good experience of the technical challenges of integrating billing services, and set up our subscription model relying on payment card storage and long-term repeat billing, with no up-front payment.

We spent a huge amount of time making sure we could meet ambitions of scale from the very start. I would still say we're reaping the benefits from this and would urge anyone starting out now to do the same.

For example, what are you going to do when you start to trade internationally? If you plan for this at the beginning you can make that transition smoothly.

Regarding e-commerce generally, I think we are still lacking cast-iron solutions to tackle fraud. Initiatives such as 3D Secure seem to be bolt-on solutions trusted by neither retailers nor consumers. In tests we've seen conversion rates drop by up to 20 percent and we need to find a way around this.

Remember that bank clearing and interchange is an incredibly complicated and often impenetrable machine. The best idea is simply to keep asking questions of your PSP and your bank. You don't get if you don't ask."

Chapter 2

INFLUENCING PURCHASE

While marketing is working well to get customers to visit websites, there's a gap between getting shoppers there and influencing them to purchase. So what can you do to bridge that gap?

On arrival at a site, beyond the basic design and product range we found that there are three types of 'reassurance factors' that can potentially help motivate a visitor to buy:

- **Value-added features such as next-day delivery and money-back guarantees.**

- **Usability and ease of placing an order.**

- **Supporting information such as testimonials and certifications.**

If your e-business doesn't offer any value-added features you are twice as likely not to complete the sale. For example, 38% of top performers offer a money-back guarantee, compared to 5% of those in our 'below average' group. The second most significant difference between the two groups is special offers: only 49% of our lower conversion group use them to entice a sale, compared to 64% of our high performers.
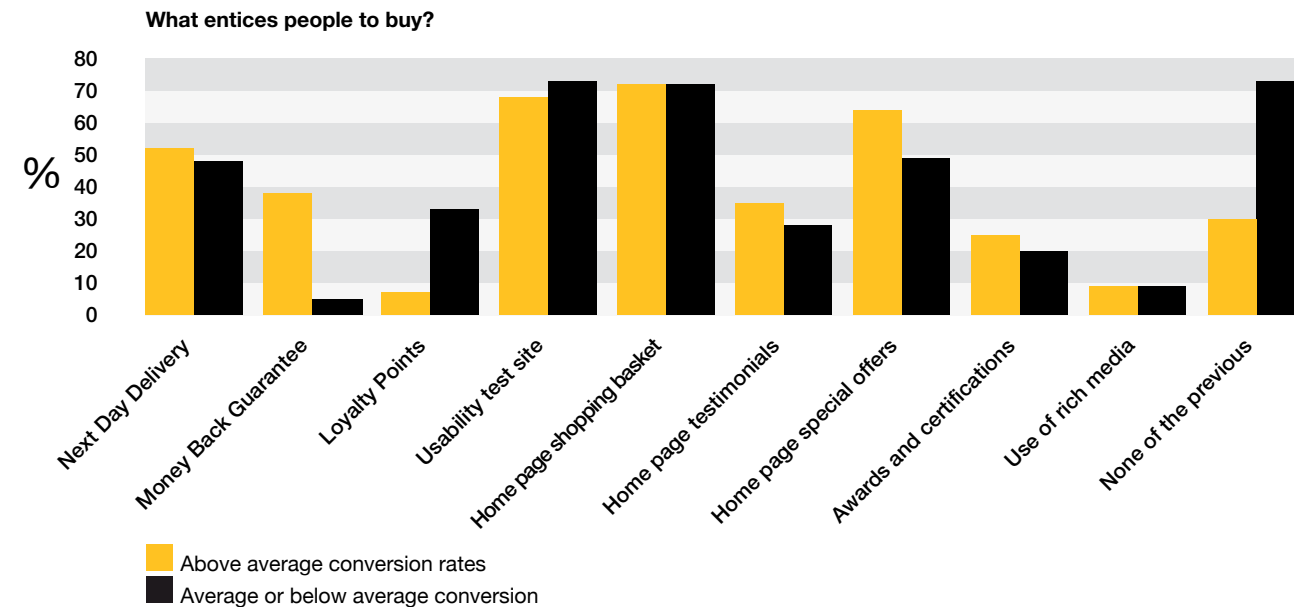
THINK SECURE

Security policies also have a considerable impact on sales: 65% of our retailers have a security policy clearly displayed on their website. When we compared this to their conversion rates, we found that businesses with a security policy were 16% more likely to make a sale, proving that e-shoppers are concerned with card fraud and security and are looking for extra reassurance.

REASSURANCE FACTORS OFFERED BY THE TOP PERFORMERS

- Money back guarantee
- Home page special offers
- Customer testimonials
- Next day delivery
- Awards/certifications (including security policy)

Loyalty points appear not to add any value in terms of promoting sales conversions and most of those offering loyalty schemes didn't fall into our 'above average' category.

What entices people to buy?

%

Categories (x-axis): Next Day Delivery, Money Back Guarantee, Loyalty Points, Usability test site, Home page shopping basket, Home page testimonials, Home page special offers, Awards and certifications, Use of rich media, None of the previous

- ▮ Above average conversion rates
- ▮ Average or below average conversion

Perhaps the most notable and surprising result is that usability testing programmes seem to have very little impact on the initiation of a purchase. When we compared that to actual completed sales the story is similar, with only 5% more of our top performers equating sales to the usability of their site.

What we also see here is that while a number of things can potentially affect the decision to buy, once the purchase begins these considerations do not account for much. Clearly, the things that affect the buying process deserve a closer look.

STATS AT A GLANCE

38% of high performers offer a money back guarantee

72% of our respondents have a shopping basket on their home page

Only 5% of our below average group offers money back guarantees

65% of e-tailers have a security policy on their site

**On average 72% of initiated purchases go on to complete the sale**

KEEPING THEM KEEN

When we compare what influences a purchase to why people go on to complete a purchase (72%) we found that customer expectations change. The factors that entice them to buy aren't necessarily the exact same ones that keep them keen enough to part with their money.

We've seen that usability at checkout is one factor, with awards and certifications and testimonials continuing to rank highly. Money back guarantees become less important here, and loyalty points account for slightly more at this stage of the purchase. The most influential factor is next day delivery.

REASSURANCE FACTORS FOR COMPLETING A PURCHASE

- Next day delivery
- Usability
- Customer testimonials
- Awards/certifications (including security policy)
- Loyalty points

Why people complete a purchase

Above average conversion rates
Average or below average conversion
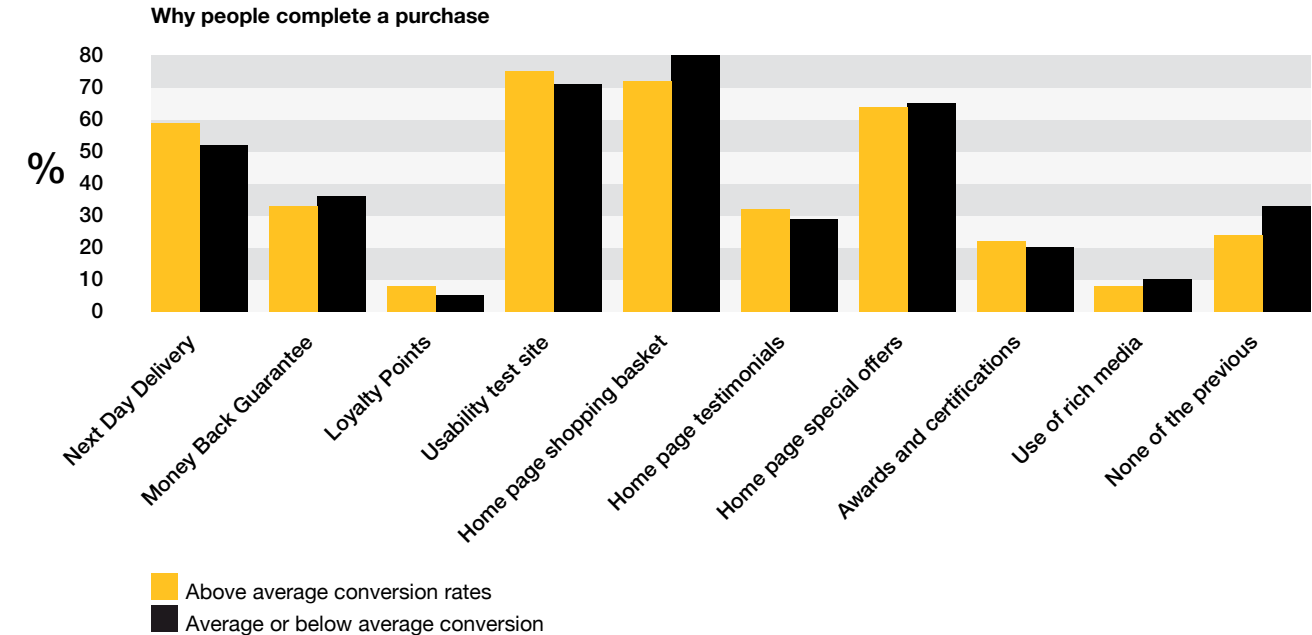
KNOW THE RATES FOR YOUR E-COMMERCE SOLUTION

Mark McKenzie,
guitarguitar.co.uk

Guitarguitar.co.uk's company name says it all, really: it sells guitars. It's the largest guitar retailer the UK and runs a multi-channel operation.

"We came to e-commerce simply because it fitted our philosophy of operating through many channels. Online offered a tremendous opportunity to expand our markets by increasing our exposure to customers.

For me, the most important aspect of e-commerce is control so that we can deliver the best experience to our customers.

We have our own team of developers and have created our own real-time, multi-channel e-commerce system which we can change to suit our customers' needs exactly. Through control you win trust, and that's invaluable.

It's critical to keep an eye on all areas of your business, but unfortunately it's an immutable fact of life that as your sales escalate, so does the paperwork — so make sure you keep on top of that before it damages any customer experience.

We're also still concerned by phone fraud, and I would like banks to help more with this.

From my experience I would say the basics of e-commerce are important and always will be. Focus on what your customers want and build your solution around them. Ask them what they want; you'd be amazed at how many vendors don't.

You also need to be aware of the competitive space you operate in. How do you know the rates you're paying for your e-commerce solution aren't through the roof compared to your competitors? If you don't know, you should."

CONTROL STOCK ACROSS YOUR SALES CHANNELS

Adam McCollough,
toyday.co.uk

Toyday Toyshop started 10 years ago selling mobile phone accessories through eBay, but after finding new opportunities with a manufacturer of unique, charming traditional toys it has expanded to a full retail operation across on and offline channels.

"At the outset our e-commerce website was very basic and incurred high fees. It also didn't cater well for backorders and refunds, which was unfortunate because when people don't get what they want they're generally not happy and you need to put extra effort in to turn the situation around.

I would say our main challenge is in controlling stock across our sales channels. If we have one person at the shop requesting the same item as someone online, we need to know exactly where we're up to, particularly at busy periods such as Christmas.

Stock control is so important. With it, you have satisfied customers. Without it you risk damaging not just your sales but your brand. In this web-recommendation age, it is essential for all e-tailers to know exactly what they have and where it is.

This is such a high priority and such a tough nut to crack that we're developing our own bespoke system to handle it.

Another challenge has been dealing with the different user interfaces across systems. It takes time to train people in using each one, and can be open to human error.

If we had unlimited resources I would rationalise all the separate systems into one platform with a consistent interface for complete fulfilment."
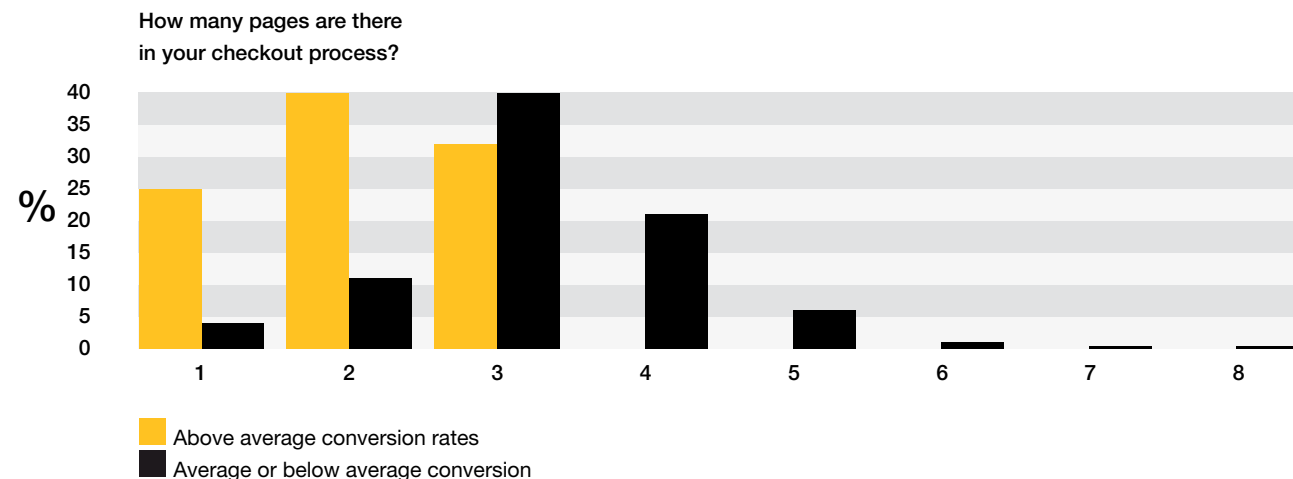
Chapter 3

MAKING IT EASY FOR PEOPLE TO PAY

When you buy something in a shop, you usually reach for your purse or wallet, pull out cash or a card, hand it over, get change and a receipt, then head out with your purchase. And online, things should be just as straightforward… shouldn't they?

But a clunky payment process, an unprofessional looking interface, slow connectivity or unfamiliar payment steps can have your buyers calling off the deal and contributing to that 28% drop out rate. Of course, unlike in a shop, they don't have to make excuses to the shopkeeper and it's much easier just to navigate away.

As part of this study, we asked respondents a number of questions regarding their payment systems, and the results make interesting reading, particularly if you are currently seeing a high rate of dropouts in the buying process.

Here's what we discovered:

How many pages are there in your checkout process?

Above average conversion rates
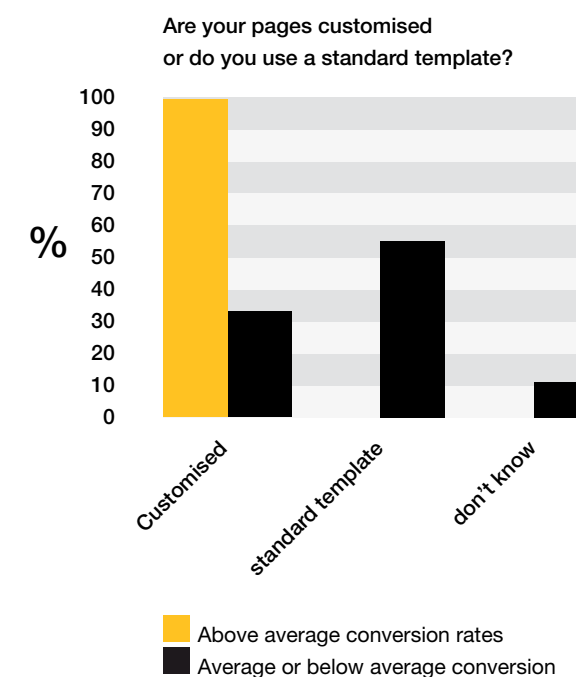Average or below average conversion

TWO IS THE MAGIC NUMBER

More people go on to complete a purchase when there are fewer checkout pages. Our high performers seem closest to perfecting this process, with over half enabling customers to complete a purchase in one or two pages and none of them using more than three pages.

At the other end of the scale, some of our lower performing respondents had up to eight checkout pages. Reducing this number could be a quick way to improve conversion rates and won't necessarily cost the earth. The standard offerings by some shopping cart and payment service providers will often offer several checkout page options, so if your business falls into the lower conversion category, it's definitely worth looking into. There are some other quick wins too. We'll talk more about 3D Secure in our fraud section, but for the purposes of the payment flow, if you are using 3D Secure and can embed it into one of your existing payment pages or warn your customers that this step is coming, that could help.

> **IF YOU CAN, THINK ABOUT REDUCING THE NUMBER OF PAYMENT PAGES IN YOUR CHECKOUT PROCESS TO 2 OR 3.**

CUSTOMISING IS KEY

Almost 100% of our high performers' payment pages included their own branding, or had been adapted to match the look and feel of their website, compared to around 30% of our other group of respondents: a huge and probably the most significant difference between the two groups.

Are your pages customised or do you use a standard template?

Above average conversion rates
Average or below average conversion

We assume here that visitors feel more reassured when dealing with companies when the payment system appears to be seamlessly integrated with the rest of the site.

Suddenly being forwarded — without warning — to a payment interface that has a different look and feel could cause shoppers to be concerned about fraud and drop out of the purchase.

A BALANCING ACT

Reducing your payment pages + complete customisation = Success... right?

Of course, in real life, things are never quite so formulaic. Before you make any changes, you'll need to look at the size of your business, how well known your brand is and how well known your payment provider's brand is. From what we've seen, much of the buying process online is based on a certain level of trust and reassurance.

It's easier if you're a well-known and trusted brand: the 'reassurance factor' is already there, and as long as you've got a security policy (65% of our top performers did), more shoppers are happy to buy. However, if you're a young or unestablished brand, you may want to add some extra assurances. Again, your card security policy will be important and if your payment provider is a known and trusted brand you can leverage that too. Remember, you don't have to fully customise your pages either: as long as there's a clear link between your website and the payment process, and you let customers know what to expect through every step, you're making good progress.

Of course, to get that super-slick checkout process, you'll probably need to invest in a few more hours of development time and effort, but as the stats show, a few adjustments could speak volumes in terms of your conversions.

GIVE YOUR CUSTOMERS CHOICE

Giving people choice in how they want to pay can increase conversion rates, but it's not a guaranteeing factor.

Most online businesses accept debit and credit cards (Visa, Mastercard, Maestro, Laser etc) as primary payment types. On average over half (54%) of payments are made with credit cards and 34% on debit card. The remaining 12% of payments are via additional payment types such as AMEX®, PayPal and Google Checkout.

We asked our respondents which additional payment types they offered to their customers and here's what we found:

Who's using additional payment types?
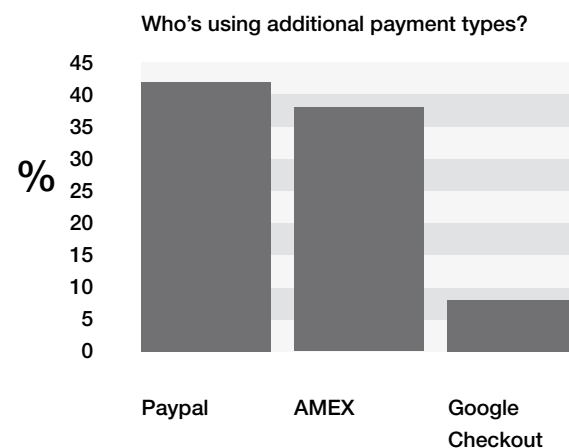
The PayPal wallet was by far the most popular additional payment type, but does adding any of the other payment types increase conversion rates?

BE STRATEGIC

Our analysis revealed that there was a marginal difference overall between our high performers and those with lower conversion rates. Only 7% more of our top performing sites offer one or more of the additional payment types we listed. What's interesting is that the top performers seem to be more selective about the payment types they offer. Less of them currently offer Google Checkout, 5% more of them offer the PayPal wallet and 34% of the 'above average' group offer AMEX®.

What's important here is to know your customers and tailor the types of payments you offer to suit their needs. One thing to keep in mind, particularly if you're selling high-value goods, is that AMEX® users earn loyalty points/miles.

ANALYSE HOW PEOPLE ARE PAYING YOU

We have of course only displayed the average usage of each payment type, but it's a good idea to regularly review how people are paying you. If they're not using a certain payment type and it's costing you money, think about whether it's worth keeping it there, cluttering your payment pages. Similarly, for example, if you find that more people are using debit cards than credit cards and your bank charges you a high fixed fee and/or a high percentage on each transaction, you should think about shopping around for a better deal. There are plenty of options out there and it could make a huge difference to your profit and loss (P&L).

BEWARE OF BANKING PAPERWORK

**Mark Hopwood,
pod1.com**

Pod1, is an independent full-service digital agency with offices in London and New York. It works with many retailers to develop their e-commerce sites, marketing strategies and campaigns.

"When we're taking clients through an e-commerce development, there is often a lot for them to learn about the solution we're building, and how their new business will operate. This is why we guide them through it, providing training and support along the way.

Time and time again we see how they benefit from being closely involved in the project from start to finish.

We make sure clients get their product catalogues together at the beginning of the process, not the final stages, and that someone is in place at their end to manage the system when we're live. These are things they might not consider, but they're essential.

I'd say one of the main challenges in getting e-commerce set up is the banking paperwork.

You can have the greatest, all-singing, all-dancing e-commerce solution on the planet, but you still have to wait weeks for some banks to respond, which can be frustrating. You just have to accept the things you cannot change.

Given that we deal with technical implementations, another challenge can be making sure a solution is efficient both at peaks of demand and when business is slower.

Here, we really can make a difference because cloud computing affords us the ability to grow and shrink our computing capacity easily. One day we will probably put everything in the cloud. But that's for the future…"

Chapter 4

ONLINE FRAUD AND SECURITY

Online fraud is always a contentious subject for e-tailers and regular studies have been conducted about the cost of fraud to business. We haven't attempted to replicate that work and have instead concentrated on what our respondents do if they suspect fraud and what measures they put in place to combat it. We've also looked at the role of the Payment Card Industry Data Security Standard (PCI DSS): business's perceptions of it, and the level of up-take.

Online shopping has been tarnished in the past by the risk of card fraud and often identity theft. But are e-tailers worried about the impact of fraud on their business?

To get an idea of how our respondents perceived fraud against other aspects of doing business online, we asked about the single most frustrating part of taking payments online. Expecting fraud to be a primary concern, we were surprised with the result.

The most frustrating part of taking payments online
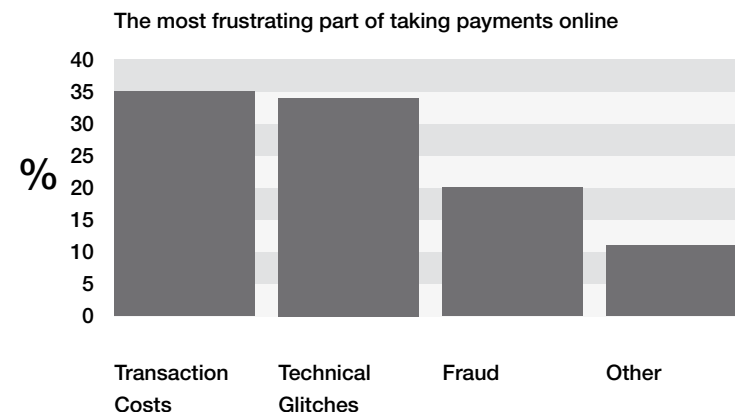
68% of our respondents believe that the costs associated to accepting a payment and technical glitches are more of a problem for their business than fraud. Perhaps this

is a reflection on the areas of the process that e-tailers feel they can and can't control. For example, both of our groups of respondents (70% in each group) use an extensive range of fraud tools including AVS, CV2 and 3D Secure checks, as well as some manual analysis to deal with fraud. This suggests that as long as these tools are available to online businesses, they are happy and confident that they can keep fraud at bay.

STATS AT A GLANCE

Only 20% of e-businesses say online fraud is the single most frustrating concern

Almost three quarters (70%) of online businesses now use 3D Secure

The average cost of fraud per year is £500

Among the e-tailers that selected 'other' in our 'frustrating' question, a number of them had no problems or frustrations, which was excellent to see. Many were concerned about losing customers during the checkout process and some were concerned about PCI DSS compliance,

but the most verbatim comments focused on 3D Secure and e-shoppers in general:

"3D Secure is too slow"

"3D Secure pop-up window nonsense... Customers just go away when they see this"

"3D Secure forgotten passwords"

"Customers not registering for 3D Secure"

"Customers not inputting the right info"

"Failure by the banks to publicise 3D Secure"

THE JURY'S STILL OUT ON 3D SECURE

Another frustrating aspect of fraud for e-tailers are bank chargebacks. As well as being a fraud prevention tool for consumers, 3D Secure offers a level of online seller protection, however, despite it becoming more widely recognised, merchants are still reluctant to sing its praises.

Many of our respondents cited 3D Secure as the most problematic part of the checkout process, suggesting that it is responsible for the majority of drop-outs at the payment stage. While many of the comments and conversations we've had with our respondents point to this, across the board there's no statistical evidence to demonstrate it. For example, of our top performers, 71% use 3D Secure versus 70% of those with lower-performing sites.

On average we've found that each business using 3D Secure receives 1.5 chargebacks a month, working out at around 18 per year. The cost per chargeback was shown to be up to £1,500, but with an overall average of £118. So while 3D Secure hasn't completely eliminated bank chargebacks, we did find that without 3D Secure in place, e-tailers are likely to suffer on average five more chargebacks per year. It's not all doom and gloom either: 45% of those who have received chargebacks have been able to successfully contest them!

WHAT IS A CHARGEBACK?

A chargeback is the return of funds to a consumer, forcibly initiated by the consumer's issuing bank. In other words, the bank reverses the outbound transfer of funds from a consumer's bank account at the consumer's request, or in cases of fraudulent or unauthorised transfers caused by identity theft. This means that a consumer does not lose out financially if their card is stolen or cloned — it is the merchant who ultimately has to foot the bill. The 3D Secure system allows merchants to minimise chargebacks by passing liability on to the card-issuing bank for most 3D Secure authenticated transactions.

Although 3D Secure has been proven to greatly reduce chargebacks for merchants, this number is still surprisingly high and there is still a long way to go in terms of fighting fraud. A 3D Secure validated transaction does not guarantee a liability shift in every circumstance, as that is at the discretion of your merchant bank. It's also important to remember that as yet not all cards are part of the scheme, and if a customer denies receipt of goods you will not be covered.

THE RIGHT TOOLS FOR THE JOB

We did ask people how much they lose to fraud each year, and the range was massive, from zero up to as much as £25,000. The average amount lost to fraud across all of our respondents each year was relatively low at around £500.

How are e-tailers keeping fraud at bay?
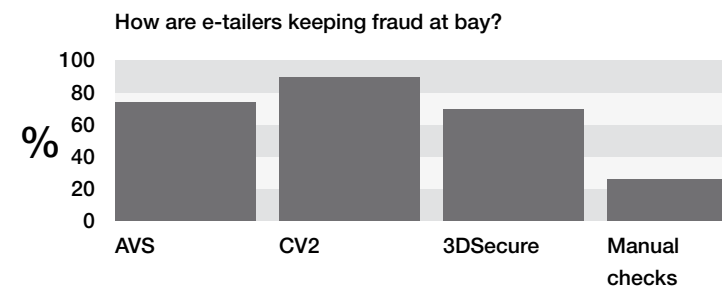
Almost all of our respondents (97%) use one of the most accessible fraud tools. The use of CV2 is most popular, probably due to the reduced merchant bank rates on offer for using it, and despite the well-known industry-wide divide around 3D Secure, it is now being used by 71% of online businesses as a fraud deterrent.

SO WHAT DO BUSINESSES DO IF THEY SUSPECT CARD FRAUD?

Most of our respondents conduct further analysis or contact the customer directly before dispatching the goods; only 9 out of the 2000 e-tailers would be prepared to send the goods regardless.

TOP TIPS FOR REDUCING FRAUD

• Check the results provided by the fraud tools set up on your account.

• Check the telephone number and delivery address against the billing address.

• Look out for a low cost transaction followed by several high cost transactions.

• Be wary of orders from 'high risk' countries.

• Check the address postcode against the area code at the start of the telephone number provided.

• If you're still suspicious, simply void the transaction.

STATS AT A GLANCE

45% of our respondents have been able to contest a chargeback

Around 70% of e-businesses use 3D Secure

Using 3D Secure could mean around 5 less chargebacks per year

DON'T GET COMPLACENT

So while 68% of our respondents say they're not frustrated about fraud, 50% still recognise that it is a growing concern, particularly when related to card data security and PCI DSS.

PCI DSS is a sensitive subject for many businesses that accept card payments and not just those doing business on the net. It's particularly important for those that are hosting their own payment pages (around 26% of our respondents), but can be a costly and time-consuming process.

STATS AT A GLANCE

33% of businesses that collect, store or transfer card data, don't know if they're PCI DSS compliant

26% host their own payment pages

Compliance is an important consideration for all online businesses, say 66% of our respondents

STILL CONFUSION OVER PCI DSS

We found that although 60% of e-business are PCI DSS compliant, a third of those collecting, transferring or storing card data don't know if they were compliant or not.

Compliance regulations have been shrouded in confusion, but despite this 66% of our respondents agree that compliance is an important consideration for all businesses trading on the internet.

REDUCE YOUR RISK

There are some simple ways to reduce the cost and burden of compliance, and of course your risk. One of those ways is to avoid handling card data. The more your business is involved with handling card data, the more open to abuse it is. So if you're currently collecting, storing or transferring data, it's a good idea to look into the alternatives. Shifting the responsibility for card data to a third party — getting them to host your payment pages, for example — is a good place to start. It won't necessarily cost you more and perhaps more importantly shouldn't hinder the customisation of payment pages or compromise your customer's checkout experience.

WHAT IS THE 'PAYMENT CARD INDUSTRY DATA SECURITY STANDARD' (PCI DSS)?

PCI DSS (Payment Card Industry Data Security Standard) compliance is the baseline security standard for the proactive protection of payment account data, developed by the Payment Security Standards council.

PCI DSS is useful overall, but it doesn't guarantee that there won't be a data breach. However, as long as it's on the radar and people are thinking wisely about how they use customer data, risks consequences and costs can be greatly reduced.

FOCUS ON GOOD CUSTOMER SERVICE

Pat Wood,
truffleshuffle.co.uk

Truffleshuffle.co.uk started simply because people liked the T-shirts founder Pat Wood wore so he set up an eBay account and ran it from his bedroom. It took off, and today it is a multi-million pound organisation based entirely on e-commerce.

"I started from zero knowledge, so it took a lot of time on Google and researching forums to educate myself. There just seemed so much I had to take into account, from the way the site looked through to its security.

A few years ago it was easy to sell online to twenty-somethings, but now we need to make this acceptable to our sixty-something mums. Today I would say we've been through the period when web shops were an excuse to hide away from customers being able to contact you.

I don't think it's acceptable any more simply to stack 'em high and sell 'em cheap. This is why we've made it a priority that we practice good customer service, and we're seeing results from this with high levels of repeat business.

I would still advise any e-commerce vendor to do the same. Look after customers and you look after business.

Other things have changed too, for example security. We need more than just a padlock icon on a page. I would like to see more regulation in place to prevent fast and loose practices that enable operators to go bust then simply restart under a new company name.

It happens, and it's frustrating, not least because we know customers don't get the best deal."

MAKE THE WEBSITE EASY TO USE

Lola Cashman,
thewhiteshirtcompany.com

The White Shirt Company specialises in classic, high quality men's white shirts made in England.

"Demographics and markets are changing, and online selling enables us to keep up with these changes.

We researched the market before getting things moving, and found that the key was not just a website that sold, but a website that really communicated what our brand was about and how it could benefit people.

The biggest challenge was people telling me that it would not work and that I was wasting my time. I overcame this by hard work and persistence.

I also made sure I worked with people who knew what they were doing and, importantly, could work alongside my IT team so that we got what we were expecting.

The biggest single factor in improving performance has been making the website easy to use from point of entry through to completion of purchase. It has to be simple and easy for the customer to use, right through to making payment.

Any noise in the system can distract the customer and result in a poor experience and no sale.

It helps to make it easier at the back-end too. In an ideal world I would say that a faster and more dynamic back-end would be useful, linked to all of the key business processes of stock control, cash flow, VAT reporting, sales reporting, and forecasting.

My advice? Really understand your product and the nature of the buying process that the customer goes through online. Make it very simple with few distractions."

Chapter 5

CONCLUSIONS

We've looked at four key elements of running an online business and it's important to note that most e-commerce businesses are performing averagely well. However, as we've seen, it's possible to make a few tweaks to your strategy to reach those higher levels of performance.

Overall, most of the businesses we surveyed excel in 'getting people to their site'. Businesses are effectively using search engines to direct shoppers to their sites, and valuable relationships are being developed in social media to reassure customers and encourage them to make that purchase. However, effective marketing and plenty of 'reassurance factors' on the website seem to count for little if the purchase process is poorly executed or designed.

This study reinforces that the purchase process is not just the end point of a sales cycle; it's an important part of the cycle in itself, which should not be underestimated and which has significant potential for failure and improvement. The online sales cycle is like series of linked but distinct trips within a journey, where the buyer has the option of getting off at any point if they don't like the view.

We've also seen that although fraud is a growing concern for e-businesses, it's not the most frustrating aspect of the payment process. Instead, the cost of accepting a payment and the fear of technical glitches is front of mind and further clarification of PCI DSS compliance is needed for about a third of our e-tailers too.

RECOMMENDATIONS

Based on the results of this study, we recommend the following steps to maximise e-commerce success. Note that they are in addition to the measures and tactics you may have in place to drive traffic to your website in the first place.

GETTING PEOPLE TO YOUR SITE

SEM and email newsletters seem to be the most effective means of driving traffic to your site. However, be warned: these channels don't necessarily equate to a converted sale. You will need to balance what you spend on driving traffic to your site against things like your security policy, payment options and customisation of your payment pages.

Remember that email newsletters are a common feature of companies which are successful not just in getting people to initiate a purchase, but also in completing it. For email marketing, it's a good idea to use a reputable email marketing supplier. Also:

- **Keep your emails interesting.**
- **Give customers an incentive to buy.**

Use social media tactically. It's a positive step towards a well-rounded customer service and many e-commerce operators use social media to build relationships and loyalty among their customer bases. Used well, without spamming followers, the social network can drive sales, and better still it's free.

INFLUENCING PURCHASE

Do whatever you can to provide reassurance and added value to visitors when they arrive at your site.

Most top performers are more than twice as likely to offer next-day delivery, money-back guarantees and free delivery, so if you can offer extras at little cost to you it often makes a big difference to your customers. It could also be what differentiates you from your competitors.

Consider featuring testimonials, special offers, awards and certifications, such as your security policy or PCI DSS certificate.

It's good practice to display your security policy on your site to show your customers that you take their personal data seriously and will use it responsibly. Make all of these easily accessible too.

MAKING IT EASY FOR PEOPLE TO PAY

Pay attention to your payment process! It's an integral component of e-commerce success.

Reduce the number of pages in your checkout to two or three if possible, and certainly no more than four.

Customise (or definitely 'brand') your payment pages if you can, to give visitors added reassurance that they're not being sent off to a strange site as they progress through the transaction process.

Add payment options that are relevant to your target market so that you don't end up turning a potential customer away.

Get people to test the usability of your payment pages. Use friends or relatives if you need to, to keep costs down, and embrace constructive feedback.

Think about your longer-term strategies. If you're thinking of expanding your reach into Europe or further a-field, perhaps start accepting multiple currencies and research new target markets. For example, find out how European shoppers prefer to pay for goods bought online.

SECURITY AND FRAUD

Pay attention to changing fraud rules and regulations.

If you don't need to host your own payment pages, don't! Stay away from collecting, storing or transferring card data if you can. It's possible to do this without compromising on the shopper's experience and will substantially save you time, money, and reduce your risk.

3D Secure may seem like an additional step for your customers but it can reduce the number of chargebacks you receive on your account, providing you with a form of seller protection. If integrated well with your site, the process can be seamless. Most of the big brand e-commerce businesses have implemented 3D Secure, which means shoppers are now more used to it.

If you are unsure about any transactions you receive, don't be afraid to investigate them further and if you need to; void them. Use tools that suit the type of goods you sell, for example, if you're susceptible to fraud and you're selling high-value goods, you may want consider a more bespoke approach to fraud analysis, conversely, if you rarely experience fraud, standard tools are likely to be sufficient.

On the whole, online merchants should at the very least use basic fraud tools to protect their customers. However, you need to be realistic and aim to achieve a balance between investing in additional fraud tools and the cost of fraud to your business.

WHAT'S NEXT FOR UK E-COMMERCE?

Europe?

Christmas 2009 was the strongest festive season so far for online traders. Purchasing goods online was up by 50% and many businesses reported phenomenal growth. But can it last? With UK's e-commerce industry fast maturing, the good news for businesses is that just across the water the e-commerce boom is yet to happen. And with a weak pound it's an ideal time for e-businesses to take advantage of a relatively immature market and export to the continent.

Expansion of course doesn't come without the need for research. To reap the benefits it's essential to explore the fraud tools available for overseas payments, the way European customers will pay for goods (very few use credit or debit cards) and practicalities such as shipping/export and VAT regulations, among other things.

If you decide to grow your business abroad, once you are established, you may want to consider payment options like direct currency conversion (DCC), where your customer can choose to pay in their own currency and will be given a definite price that isn't dependant on fluctuating foreign exchange rates. This is great for the customer experience and also means that you're not taking on a currency conversion risk.

China?

The Chinese online market is growing and manufacturers and distributors in China are taking advantage of all the opportunities associated with e-commerce. There's an increasing movement, both inland and in the major cities in China, to buy goods online and the appetite for overseas products is strong. There are more and more consumers in China eager to purchase products traditionally made in the UK, Europe and the US from their own homes. Alipay, the Chinese equivalent of PayPal, currently has over 300 million registered users and is reporting transaction volumes of over £140 million per day, so there's massive potential.

Of course, any e-tailer looking to do business in China will need to consider factors such as how to control fraud and how to manage postage and shipping. However, it's an important market to consider, particularly if you're selling traditional UK made goods and you're keen to extend the reach of your online business.
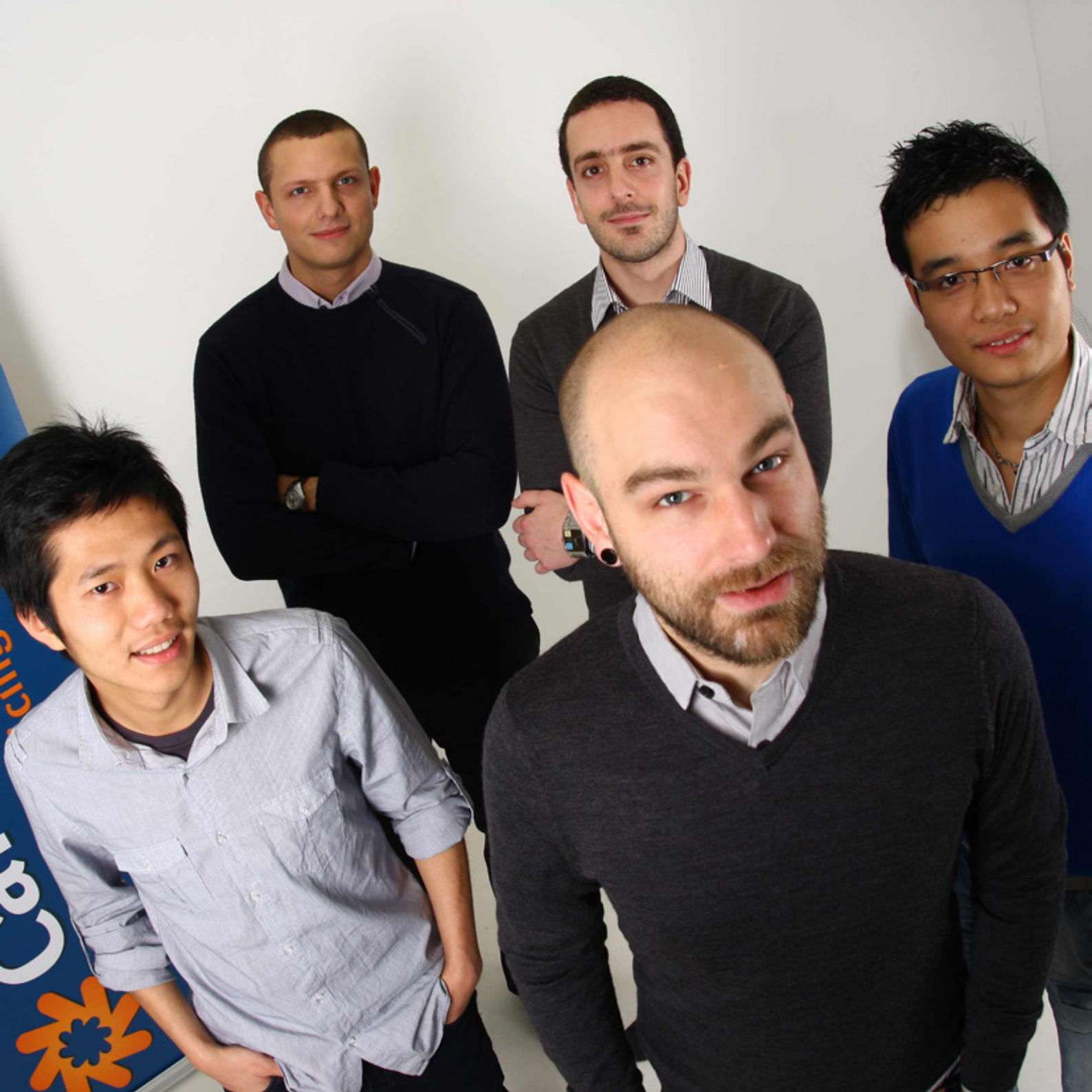
E-COMMERCE NEEDS TO BE PART OF YOUR MARKETING STRATEGY

**Wladimir Baranoff-Rossine,
dpivision.com**

dpivision.com Ltd started in 2003 and develops software and websites for businesses trading online.

"When we were developing our own e-commerce systems we noticed a gap in the market. It seemed to us that other vendors weren't placing web standards and accessibility on their lists of requirements, such as using compliant HTML, style sheets and so on.

This might seem irrelevant to someone who just wants to sell online, but web compliance standards yields important business benefits. For example, it's better for search engine optimisation; that is, you make it easier for search engines to find you.

Other aspects to consider: does your operation work on mobile, so that you open yourself to more channels? What is your development time? How quickly do your pages load? Are they fast enough to keep potential customers' attention?

Do you cater for the 12% of disabled people by offering them a site where they can change font sizes or use screen readers? You need to think about these interface issues because they determine whether you'll win that business.

Although as a company we focus on creating e-commerce solutions, we use e-commerce ourselves too. We've learned that while an e-commerce solution is important, it's not a case of 'build it and they will come'. You need to see that it is just one element of your overall marketing plan.

You need to consider everything — marketing communications, advertising, PR — and position the e-commerce within that framework to make it succeed."

MAKE SURE YOUR E-COMMERCE SYSTEM CAN GROW

**Debbie Knight,
senti.co.uk**

On holiday, Debbie Knight found an amazing brand of room diffusers. On her return, her friends and family loved it too, but it was unavailable in the UK. The company needed a UK distributor — and five years on Senti.co.uk distributes three other brands, and has an online and retail shop.

"As a company that delivers products throughout the UK, our main challenge has been packaging. Finding the right boxes to fit all the different product shapes so the orders arrive undamaged has been extremely challenging.

It's something that perhaps e-tailers don't consider but you do need to be aware of what happens before and after you make the sale.

Regarding your e-commerce solution, make sure you find the one that's right for you. It might be tempting to go for the system with all the bells and whistles, but if you're a smaller organisation you might work better with a more focused company that is a good cultural 'fit'.

Also make sure that your e-commerce can grow when you do, but be warned that upgrades can be painful, especially when you're happy with what you've got and don't particularly want the latest and greatest version.

And don't forget search engine optimisation. If your e-commerce solution supports that too, then all the better. It's vital that people can find you online and that when they do, you're in the right category."

ABOUT SAGE PAY

Sage Pay is a division of FTSE 100 business software company Sage. It is the UK's fastest growing independent payment service provider (PSP) and is one of the most trusted e-commerce brands. Sage Pay processes millions of secure payments for its 30,000 customers each year and makes the process of accepting payments simpler, faster, safer and more profitable for businesses of all sizes.

As well as the businesses featured in this report, Sage Pay is the preferred supplier for e-commerce brands such as Swiftcover.com, LOVEFiLM.com and Sportsdirect.com, alongside many more.

sage pay

www.sagepay.com/benchmark

Email tellmemore@sagepay.com
Phone 0845 111 44 66

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Antony Comyns of Hawes and Curtis (www.hawesandcurtis.com)

Mark Hopwood of Pod1 (www.pod1.com)

Mark McKenzie of Guitar Guitar (www.guitarguitar.co.uk)

Pat Wood of Truffleshuffle (www.truffleshuffle.co.uk)

Wladimir Baranoff-Rossine of Dpivision (www.dpivision.com)

Adam McCollough of Toyday (www.toyday.co.uk)

Lola Cashman of The White Shirt Company (www.thewhiteshirtcompany.com)

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