



Internet Merchandising and Shopping Carts

Understanding the Differences

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INTERNET MERCHANDISING AND SHOPPING CARTS

UNDERSTANDING THE DIFFERENCES

"Establishing an Internet E-commerce presence is quickly becoming a must for businesses worldwide. The practices that govern E-commerce, the infrastructures that support it, the institutions that manage it and the programs that run it are constantly developing.

Research firm Giga Information says that U.S. business-to-consumer (B2C) Internet will become a \$220 billion market by 2004, up from \$49 billion in 2000."

John Shenton - President – Internet Merchandising Systems

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INTERNET MERCHANDISING AND SHOPPING CARTS

UNDERSTANDING THE DIFFERENCES

INTERNET MERCHANDISING

MAKE THEM BUY NOW

Offering thousands of products to faceless people on the Internet yields few sales. This is part of the confusion of Internet retailing and it is also the key to your opportunity. Retail selling has been evolving since early man developed the barter system. Retail operations, merchandising and direct sales to the customer can work. We just need to adjust our thinking as regards implementation of a retail environment on a web site and the subsequent integration of a shopping cart.

Consider the experience of a retail store, how it is designed to introduce the customer to the products and how this can benefit you.

MAKE THEM COMFORTABLE AND OFFER ONE PRODUCT

If you have ever been shopping for clothing, then you already understand the design of an effective retail system. For years retailers have been testing the placement of products, where to put the best pulling products and how to introduce you to the overall purchase.

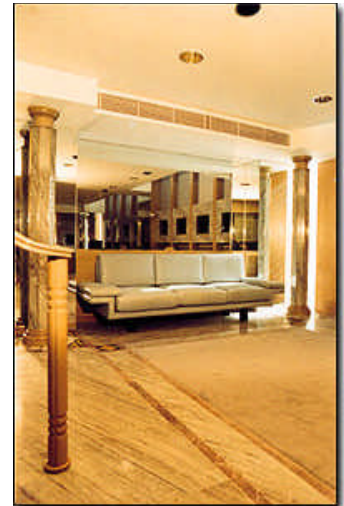
For example, take the experience upon entering an apparel store. Usually you have about 5-10 feet of open space after entering the door, like a walkway to the store, immediately available before you start seeing products.

For years retailers tried to pack products into this entry point, assuming that people would want to buy most upon entering.

Now you have an open entry point with one specific product line. Here's why:

Merchandising is using the retail space as a medium of communication.

- Retailers discovered that customers entering the door were in need of relaxation. Coming from a busy highway or parking lot, rushing around with friends and family, the customers simply needed some time to orient themselves. The open path is a place to greet the customer, not overwhelm them.
- Other customers brushing up against them, talking, and speeding by disturbed customers who did stop and look. It was like shopping in a busy tunnel; all the noise and commotion irritated people.
- Retailers discovered that placing one product line at the end of this entry path helped introduce the customer to the buying process with a suggestive lead item.



For example, if you go to buy a suit. Upon entering the door you have an open entry point, and at the end are selections of ties. Ties are the lead product for the entire suit; if you see a tie you like, the salesman can then guide you to the suit that fits that tie. Or if they offer a pair of shoes, they can then proceed to tailor the entire suit to those shoes. The entry point gives the customer a place to start the buying process, introduced by small, low price products (i.e., lead items) that they like.

The entrance to your storefront is a critical place to create comfort and give people specific products to buy. Ties, and shoes, lead to the suit. The small decision leads to the bigger buy, by gradually working the consumer into the right state of mind. It is a passage to the sales process.

HOW TO OFFER PRODUCTS AND GET PEOPLE TO BUY

Imagine if you could take the same lessons learned in retail and apply them to your online storefront. Instead of a huge physical store, you have an entry point called a Web Page. Most people crowd this page with products, and force all their visitors to first go through this entry point, or home page, to enter the site.

They design the whole customer experience around that home page. It is crowded with products, and since everyone has to go there, the Web Page may be slow to open because of traffic. They are making the mistakes of retail, and ignoring the consequences.

Customers come to your store for a variety of reasons; they come based on the season, based on a life event like a birthday, or even just to browse. Each one of these people want a specific entry point, a specific Web Page with a specific product, to introduce them to everything you offer.

You have a choice; do what the majority of people are doing (ineffective), or create an entry point and process for your customers to get comfortable, and to buy. You can be different. Focus your customer on that specific product, the tie, in order for them to buy the whole suit.



Merchandising performance is a key driver of retailing success. Disciplined merchandising, whether in stores, on the Internet, or through catalogues, can get the right products in front of high-value consumer segments, strengthen retail brands, and enhance both the top and bottom line. The best retailers make merchandising the core of their business.

Now that you have a customer in your store willing to buy, how do they pay? The next chapter outlines what is involved in accepting credit card payment on the Internet.

AN E-COMMERCE TRANSACTION

There are four basic links in any credit card E-commerce transaction: The Web site 'shopping cart'; the Web host; the 'Payment Gateway' (or credit card processing agent) and the Merchant Account (the financial institution that credits the E-commerce vendor). There are many ways that these links can be joined and these services and products can be purchased as packages or individually. In order to achieve what is called 'real-time' credit card processing, each link must be able to successfully transmit information down the chain to the next, almost instantly.

However it is done, the keyword is integration. When a Web host offers a Turnkey E-commerce solution they are offering an off-the-shelf, meshed package of parts made to work with each other. Remember that a shopping cart is only part of the equation; it is the check out section of your merchandising efforts.

1. **Your Shopping Cart**

Like most retailers, an E-merchant has a display window for their products. In E-commerce this is known as the 'Shopping Cart'. It is the first link in an E-commerce transaction. In a Turnkey E-commerce package, the Shopping Cart is provided for you by the hosting company and is designed to smoothly integrate with their system.

The Shopping Cart is split into two parts, the 'storefront' and the 'cash register'. A good shopping cart allows customers to select several items from the storefront and purchase them as a group when they reach the cash register.

The cash register will present the purchaser with an order form that will collect all of the relevant credit card information for processing. This information is then transmitted through what is known as a Secured Socket Layer (SSL), a sophisticated encryption system, to the credit card processing agent ('Payment Gateway' in E-commerce terms).



2. **Your Web host: SSL, the key to securing consumer confidence!**

When your customer has entered their purchase order the relevant information travels the link between your site and the Payment Gateway.



It goes directly from their computer to your Web Hosts server, on which your site is hosted or to a server maintained by the Payment Gateway. If it goes to your server the Web host re-routes the payment information to the Payment Gateway. These transmissions of confidential information must be secure. Securing consumer confidence is one of the foremost struggles of E-commerce merchants today.

Over the last few years, Internet experts have been working hard to create standards and systems to protect consumers from fraud. With the invention of SSL and Security Certificates the Web has become a much safer place to shop.



3. **What is a 'Payment Gateway?' What does it do?**

The Payment Gateway, or credit card processing agent, is the agency responsible for verifying credit card information and affirming that there are sufficient funds to cover a purchase.

The most known of these 'links' are companies like **VeriSign**, **Authorize.Net**, **Online Data Corp**, etc. These companies pass the information to their Merchant Bank that in turn contacts the credit card issuer, which approves or denies credit. Notice of approval or denial is then forwarded back down the chain to the Payment Gateway and to the E-merchant.

The fact is, 89% of Internet customers buy online with their credit cards.

4. **Merchant Accounts**

The last link in the chain is your Merchant Account. This is an account held for you by the Merchant Bank that credits you for your approved E-commerce transactions. Before the invention of end-to-end Turnkey E-commerce solutions, this could be one of the most irritating services to acquire. Because of the relative youth of E-commerce, banks and other financial institutions had trouble integrating their systems with E-commerce businesses, and, unsure of the security systems they sometimes required collateral against fraud and other losses.

By making the decision to accept credit cards, your company's profit and growth can be realized almost immediately. With more than 65% of the population carrying at least one major credit card, your company cannot afford to be without this service. Credit card acceptance creates impulse and cash restrictive purchases, along with ease of use for Internet and mail order/telephone order businesses.



Just offering prospective customers the option of credit card payment in a sales presentation can greatly increase your sales forces' closing ratio and company credibility.

Eliminate downtime waiting on a check to clear. Most county and government agencies have also switched to paying their subcontractors by credit card. (No more waiting 60 to 90 days for payment or hearing "the check is in the mail.")

With immediate authorizations and captures, your company will run more efficiently and leave you free to perform more important tasks at hand. As today's world becomes closer and closer to a "cash free society", your company's decision to accept credit cards, will give you the competitive edge needed in today's business, and launch your company into the new millennium.

Note: Canadians often find getting a merchant account from their bank for an Internet business is next to impossible.



INTERNET MERCHANDISING AND SHOPPING CARTS

UNDERSTANDING THE DIFFERENCES

WHY ARE MOST SHOPPERS CHECKING OUT BEFORE CHECKOUT?

Shop.org and the Boston Consulting Group (BCG) report that 53 percent of all shopping carts are left unclaimed in the virtual aisles. Why do so many shoppers go through the time and trouble to load up CDs, sweatshirts and small appliances, only to leave without the merchandise? And what, if anything, can e-tailers do about this problem that according to Shop.org and BCG is potentially costing e-tailers \$20 billion per year in unrealized sales?

In many ways, the shopping-cart-abandonment problem is overstated. People look at it and say every abandoned shopping cart is a lost sale. That simply isn't true. People by nature browse and in the real world, they walk in and out of stores in the mall, pick up items and take them into the dressing room, and then decide they don't want them.

This doesn't mean you want to chase these people out of your stores; they may come back and buy something. Three years ago people were saying how great the Internet was for allowing effortless browsing and comparison-shopping.



Now, with companies more concerned about their bottom line, browsing is viewed as an evil."

People use shopping carts to earmark products so they can get back to them quickly, just as they would put Post-It notes next to catalogue items they like. We will never see a shopping-cart-abandonment rate of zero."

An Internet store should closely monitor its shopping-cart-abandonment rate, for two reasons:

- Abandonment rates on their site through time to see if they're trending up or down.
- And they should look at what point abandonment happens on their site.

In the brick-and-mortar world, if a customer handles a sweater in a store but then puts it down, how committed was she to buying it?

But if she takes it to the cashier, stands in line and puts it on the counter, she's showing more of intent to buy."

As a customer goes through the checkout process, there is an increased intent to buy and you should see a falloff in abandonment; any increase is a functionality issue. If the abandonment rate suddenly rises from 10 percent on one page to 18 percent on the next, it should be a red flag.

Sites should also compare abandonment rates with their category's industry average. Abandonment rates vary dramatically by industry, with a much higher rate for a high-ticket category like consumer electronics than for low-ticket items like CDs, gifts, books and toys. We would consider 30 percent a pretty good rate for a low-ticket category, while a high-end e-tailer would be doing quite well with a 40- to 50-percent rate.



SHOW ME THE EXTRA CHARGES

Countless studies list sticker shock at shipping-and-handling charges as one of the biggest reasons why people suddenly leave without checking out. A recent survey by BizRate.com found that 40 percent of shoppers abandoned their carts solely or primarily because of expensive shipping and handling.

Shipping charges are unavoidable, as are taxes in some provinces and states, but full disclosure of both can reduce abandonment later. We recommend that sites list all charges upfront, as the customer is filling a shopping cart. Although there is some possibility that you will lose customers right there, the shock is greater when they find out at the end rather than as they build their carts.

It is also recommended that customers be presented with all tax and shipping information before they're prompted for credit card or other personal information.

You can't expect people to have a positive customer experience on your site if you ask them for personal information before you share with them the shipping and tax information.

You need to remove obstacles to shopping or purchasing. One of the most effective changes is to present all costs prior to collecting credit-card information.

To determine applicable sales tax, you first need to know to where the items will be shipped. You might think it makes sense to ask for shipping and credit-card information together, but it's better to separate them so the customer can see a complete summary of the deal prior to the credit-card page.

Showing all the charges upfront makes all the sense in the world, especially when you look around the Web and see a lot of sites that do not. They might tell you the cost with tax and shipping, but not factor in the effect of a gift certificate or coupon or the cost of gift-wrap. Or they might tell you the cost with shipping only, or with tax only."

OUT OF STOCK? I WILL LOOK ELSEWHERE

Lists an item's availability and shipping time at the start of checkout. Set the customer's expectation upfront and let him know the situation before he goes through the checkout process.

Out-of-stock items are one of the three leading reasons that consumers abandon their carts. Customers may have a few items in their cart, see that an item is out of stock at check out time and abandon the entire cart.

Provide a clear indication upfront if the item is in stock and promise a delivery date. If a customer knows that a product won't be available for two weeks, there is a better chance of them selecting an alternative product than if they spent a half-hour only to be disappointed in the end.

IS THAT THE TIME?

Sometimes shoppers leave full carts behind because they run out of time. For instance, shoppers might have only 15 minutes to shop at lunchtime from work.

Do not make the decision process long. Shopping is about convenience. A tedious, cumbersome process, particularly in the checkout area, will frustrate shoppers right out the virtual door. A redesigned its site with this in mind will improve conversion rates.

Focus on streamlining the process, reducing the number of steps and pages needed to place an order.



In the interest of saving a consumer time, we recommend that sites ask only for information necessary to complete an order, a concept that flies in the face of direct-marketing instincts to collect as much information as possible. Once you build customer loyalty, you can ask for your customers' permission for more information.

MAYBE THIS? OR MAYBE THAT?

In the brick-and-mortar world, a consumer can ask a sales clerk to help him decide if a green tie goes with a yellow shirt, or to choose between two books on adventure travel. Not so on the Web: "The good news and bad news about the Web is that there is a wealth of information. People want help making decisions."

Statistics show that customers put something in their cart, but then continually return to the product pages, desperately trying to get more information from that page.

The need for help in real time has given rise to an online customer-service industry. Call-center reps who are fast-fingered enough to conduct Web chats are helping to bring down abandonment rates.

An e-tailer's job is to support the decision-making process of a human being who is trying to decide if they are going to give you their money in the absence of being able to touch the product.

You need product details, colour swatches, large images and the ability to zoom in on details to see the quality of construction.

Most abandonment happens not in the checkout area, but when you don't provide consumers with information they find persuasive. On the product page, you have to provide rich, detailed information.

The ability to compare products is also key; a lot of abandonment happens because the consumer doesn't have enough information to choose between products."

Once your visitor leaves, even if it's just to do research on another site, there's a risk they won't come back..

INFORMATION PLEASE

The click-to-chat option is catching on at the e-tail level, as well as in acquisition-and-retention campaigns.

Customer support is also a key issue after the ordering process has been completed, to reduce the number of product returns and encourage return visits.

Provide a way for the customer to return to the site or call an 800 number to check order status. Hold their hand and take them through the post-shopping experience.

You don't want them to abandon their cart during the course of a purchase, but you also don't want them to abandon your site the second, third and fourth time they comes back."



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IS MY WEB SITE SELLING?

Most Internet E-tailers would benefit from using richer metrics than the usual "percentage of shopping carts abandoned" to assess the performance of an online store. E-tailers will gain more important information if they focus on measures such as:

- How much time and how many visits most people need in order to commit to a purchase.
- To what degree visitors use the online store as a browsing and research forum that ultimately leads to a sale by the company at an offline store or from a catalogue.
- The percentages of visitors who start a cart but never try to check out.
- How many of the visitors who start to check out actually complete the process.

We believe the obsession with the proportion of online shopping carts that are abandoned and the resulting spectre of lost sales is counter-productive and takes the e-tailer's attention away from measurements that can lead to real insights into online shopping behaviour and real improvements in online merchandising.

Our research points out that:

- Contrary to current thinking, an abandoned online cart is not the same as a shopper deserting a full grocery cart at the supermarket. Consumers often use carts to "mark" items of note, for example, much like marking a page in a catalogue, or taking a garment to a fitting room.
- Online shopping cart research can show retailers what merchandise is interesting to customers -- but not interesting enough to be purchased.
- Retailers can look at the ways consumers use online carts in order to determine how well their sites convert "interested" shoppers into purchasers.
- Looking at where in the checkout process carts are abandoned provides key insights for site and process improvement.

E-tailers' back-end systems reveal what consumers actually bought, but abandoned carts show what people wanted to buy but didn't.

HOW CAN I IMPROVE MY SHOPPERS EXPERIENCE?

Not every online shopper makes it through the virtual checkout line. But while it's important to know how many customers are abandoning their carts, if you want to reduce abandonment rates you also need to know where on the site shoppers are leaving the virtual carts.

SHIPPING AND SHOPPING

As mentioned earlier, many consumers abandon their shopping carts once they determine the shipping charges. On many a Website, shoppers cannot find out how much shipping will cost until they put an item in the cart and



proceed to the checkout. Then, if they learn that shipping charges are higher than expected, they'll abandon the cart.

We would recommend that the following be given consideration:

- Make shipping charges available on the Frequently Asked Questions page, so that customers are less inclined to put items in a cart just to find out the shipping costs.
- Calculate the total purchase price with tax and shipping on a continual basis or on customer demand, not just at final checkout. This helps shoppers understand their total purchase cost."
- Streamline the checkout process to reduce the number of clicks needed to complete a purchase
- Incorporate a "save for later" option on your Website that allows customers to return at a later visit to products they were interested in earlier.
- Occasionally e-mail registered users to remind them of the item they abandoned and ask if they are interested in purchasing it.

Many customers also use the shopping cart as a place to store items they like but do not plan to purchase at that time. Customers often want to compare products to others elsewhere, this happens at a greater rate with luxury goods. A customer may visit a site anywhere from three to seven times before they makes their first purchase, and that number of visits rises as the purchase price of the items rise."

Shoppers may also be abandoning carts midway through the checkout process if anything there is wrong or confusing or if the process is too long and you have probably lost the purchase for good at that piece of the pipeline."

"YOU WILL SEE MORE CART ABANDONMENT WHEN THE SHIPPING CHARGE IS A GREATER PERCENTAGE OF THE PURCHASE PRICE, RATHER THAN BASED ON THE WEIGHT OF THE PURCHASED ITEM. WITH THIS SHIPPING MODEL, THE HIGHER THE PURCHASE PRICE, THE HIGHER THE SHIPPING COSTS. SHIPPING FOR PROFIT WILL CERTAINLY BOOST ABANDONMENT RATES.

Product merchandising on your web site can be enhanced using techniques such as:

Lifestyle images. Use photographs of people using products.

Expanded product information. Give a detailed product description, describe how the product is used, and, when appropriate, and provide information from the product's package.

Multiple photographs. Show the product from several angles, as well as the product being used.

Product collections. Group several products into a collection that can be used together to create a complete solution to the customer's needs.



Consumers are always looking for ways to make their shopping more convenient and enjoyable. Applying some traditional merchandising techniques to online shopping helps consumers become more comfortable shopping at a web site, which increases revenue and long-term loyalty.

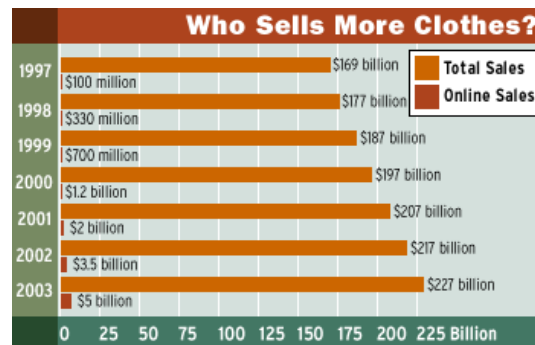
BRICKS & MORTAR WORKS

These companies have an advantage on-line, because their all-important back-end infrastructure or at least part of it is already in place. They typically have existing warehouses for storing products, existing customer service operations, and existing supply chains that provide access to cheaper inventory. And they often have operations set up for processing orders and shipping goods to customers quickly.

These organizations have typically thrived because they have interwoven their Web presence with the rest of their business.

On top of this infrastructure head start, the click-and-mortars have some secondary advantages as well. They benefit from existing brand-name recognition, and because they sell through a variety of channels, they're more likely to satisfy disparate customer needs.

Consumers may start out preferring the phone or the store but then, after purchasing from a store three or four times, they will start transacting deals on the Web. Conversely, consumers often like to browse on the Web before purchasing over the phone or in a retail store. Only physical stores with an Internet presence (*click-and-mortars*) can capitalize on this trend.



Online apparel sales are growing. Last year, Christmas apparel sales came a close second to toys on AOL's shopping site. With more brands and better technology available, and more consumers comfortable with the Web, this year the outlook looks even better.

Over the Thanksgiving shopping period, Gap saw a 46 percent increase in site traffic, which corresponded to a heavy broadcast advertising push, according to Nielsen NetRatings, a company that tracks Internet audience numbers. "Seven hundred million dollars will be spent on apparel online in 1999, and a large amount of that will happen during the Christmas season," predicts Elaine Chen, senior analyst for apparel at Xceed Intelligence, a market research firm in New York.

Retailers are realizing that they need to learn how to play the same game as the virtual companies.

Looking forward, online apparel sales will climb steadily, according to a new report on apparel and the Internet from Xceed. The report finds that in 2003, \$5 billion will be spent on apparel online, more than 16 times higher than the \$300 million spent in 1998.

But pure-play Web companies will not make the major share of that money.

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MERCHANDISING SUCCESSFULLY - WHAT TO DO?

DEFINE YOUR GOALS AND MARKET AREA

If you already know what you are selling, the next step is defining who to sell it to and where to sell it. The Internet covers a lot of territory. Trying to service all of that territory has proven formidably difficult, even for substantial retailing empires.

By starting out small with a defined market and area, you should be able to learn through experimentation what works best in terms of promoting and tweaking your site to generate the highest profit and repeat business you can. Experimenting on a large scale is much more expensive and depletes scarce resources quickly.

Always remember that you are in business to make a profit for yourself and provide satisfaction for your customers. It keeps them buying from you for years.

Advertise regularly in on and offline media to your target audience. Research proves that advertising specific items with attractive prices is more effective at producing buying traffic than generic appeals.

THE RULES OF BUSINESS STILL APPLY

Use your location to your advantage. Whether you have a physical store or operate from your garage only affects your overhead. As we said before, the Internet has not overturned the Laws of Physics, Economics or Business so a lower overhead has no effect on the variable cost of shipping merchandise that can be quite high.

Unless the value to weight ratio of the products you sell exceeds many dollars per pound, the cost of shipping can erode your profits render a sale totally unfeasible.

Do not spend energy trying to merchandise with low profit and high travel costs. If goods must be shipped, try to stay local to speed delivery time and reduce shipping expense, unless you are selling valuable or truly unique goods.

Online, the primary merchandising challenge is to attract visitors. To do this, e-tailers typically seek to build brand awareness through advertising.

Strong brands attract customers, but to connect with them and keep them as long-term customers, on-line retailers must merchandise their products and services more effectively.

Today's customer has many choices when it comes to making a purchasing decision. The merchandise selection by itself, although important, is seldom the primary reason for the customer shopping on your web site. The challenge then is to create and maintain an inviting atmosphere that will encourage the visitor to make a purchasing decision.



MARKETING ON THE INTERNET

ABOUT INTERNET MERCHANDISING SYSTEMS

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Internet Merchandising Systems Inc., was launched in 2003 by the Global Group to sell and continue development of its IMScart foundation technology.

Our teams have many years' industrial experience in the fields of Sales & Marketing, Finance and Information Technology in North America, Europe and Asia.

This background allows us to quickly empathize with our clients to understand their markets, their objectives and to identify their business needs.

Through strategic planning and the creative application of our skills and experience, we deliver effective Internet business solutions, which meet, and typically exceed, their pre-defined goals and expectations.

Operations are controlled from Montreal, Canada. From here we are able to provide service on a global basis in English, French, Chinese and Arabic to a diverse range of companies from start-up to established corporations.

Our eCommerce and Hospitality software can help you capture more market share, increase operational efficiency, develop integrated multi-channel sales outlets, build horizontal partnerships, communicate effectively, concentrate on your strategic capabilities and operate competitively in today's Internet environment.

IMScart is a powerful ecommerce foundation technology with an advanced set of ecommerce components, including online administration tools, profile-based user control, catalog creation templates, search capabilities, unlimited individual dealer storefronts, secure online payment, fulfillment and shipping options.

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