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Maximizing Profits with Comparison Shopping Engines

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Abstract

Comparison shopping engines (CSEs) like Shopping.com, Shopzilla, NexTag, Yahoo! Shopping and others can provide an excellent ROI when used effectively by online retailers. A marketing strategy that is based on the unique behaviors of the CSEs allows retailers to maximize the ROI of each advertising dollar at the CSEs. By analyzing the product-level profitability of each CSE, online retailers can target their marketing budget to those products that are profitable to advertise on these sites.

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Making Effective Use of the CSEs

Many online retailers use comparison shopping engines (CSEs) as a part of their online advertising programs. In fact, some retailers rely on these sites for a significant portion of Web traffic and subsequent revenues. However, cost-per-click (CPC) rates continue to increase at these sites, forcing retailers to re-assess the most effective way to use the CSEs. In some cases, retailers **have prematurely given up on the CSEs** because they don't understand how to effectively use the CSEs as part of their overall marketing strategy.

Most retailers lack the tools to properly analyze their performance with these sites. This results in decisions based on experience with other online marketing techniques like banner ads or search engine marketing, rather than the unique insight in the CSEs that the proper data can provide.

Online retailers are in the unique position of being able to analyze the ROI of these advertising dollars in a way that just isn't possible in the brick-and-mortar world. **Every consumer action can be tracked** throughout the buying process – from the initial click-thru from the CSE, to the sale of that product and other products in the shopping cart, to the repeat purchases from that newly acquired customer. However, this powerful data isn't being used by most online retailers and advertising dollars are being wasted as a result.

With the proper tools, retailers can make informed marketing decisions with each CSE to maximize revenues, reduce advertising costs, and manage their advertising budget more effectively.

Defining the Marketing Objectives

The analysis of any advertising program starts with an understanding of the marketing objectives. Maximizing profits is one of the primary objectives for most retailers, but a retailer may have other objectives depending upon its maturity and market position.

Understanding Why CSEs are Used

CSEs are not used by retailers solely to generate profitable orders. CSEs are advertising vehicles after all, and there are many reasons why a retailer advertises its products. If a retailer uses the CSEs for one of the first three reasons listed below, the strategies discussed in this white paper may not be appropriate to meet that retailer's current objectives (although it likely will at a later date):

1. **Consumer Awareness** – Retailers that are looking to establish or expand their market presence use CSEs to gain awareness among their target market. In many cases, this means listing every product at the CSEs regardless of the profitability of doing so. It is the visibility of the retailer's logo that matters most for these retailers, and the product listings are just a method for making consumers aware of both the retailer and its product mix.
2. **Customer Acquisition** – Retailers that have strong brands – such as manufacturer direct stores or well known specialty retailers – use CSEs primarily to acquire new online customers. The profitability of these clicks is less important because the retailer knows it can leverage its brand recognition to generate repeat business from these consumers.
3. **Sales** – Newer or less established retailers use CSEs as a primary vehicle to drive online sales, and recognize that they may need to lose money on advertising in the short-term to establish their presence on the Internet. This objective tends to be short-lived, but may be necessary while the retailer works to grow its revenues.
4. **Profitability** – Retailers that have reached a level of maturity with their advertising programs start to focus on the profitability of each advertising dollar. This rapidly expanding group of retailers is the focus of this white paper.

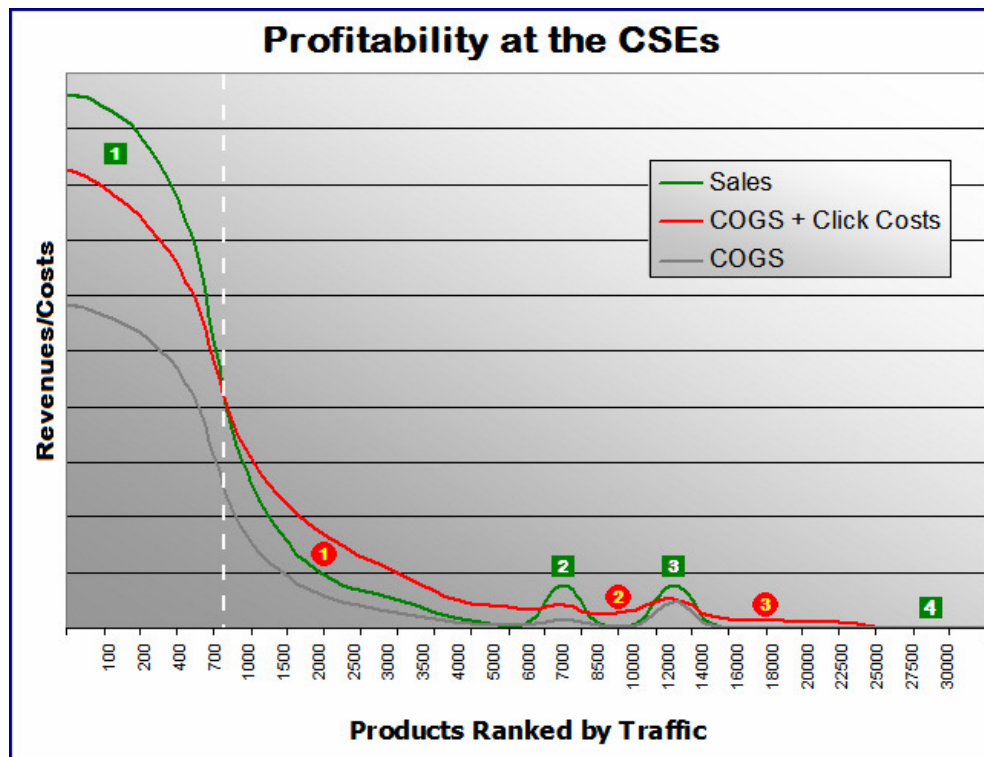
CSEs for Local Retail Stores

As mentioned above, online retailers have a unique opportunity to analyze and take action on the product-level profitability of their advertising spend at the CSEs. However, for CSEs that also drive consumers to a local retail store that has a specific product in-stock – like Froogle Local, CNET Shopper and GPSshopper – this level of analysis is not available. It is just not possible to connect every online click to a sale at a local retail store, just like it is not possible to analyze the product-level profitability of a Sunday circular advertisement.

This does not mean these other advertising programs are ineffective or unprofitable. In fact, the CSEs that provide local product search capabilities have proven to be very successful at driving consumers to local retail stores. It simply means that the cost and sales data is typically insufficient to support the product-level profitability that is available for online retailers with the CSEs.

Distinguishing Important Products from “The Long Tail”

The first step in optimizing the advertising spend on a CSE is to identify the important products for a retailer. For almost every retailer, the majority of sales from the CSEs are generated by the top 10-20% of the products. These important products are the best candidates for bidding to improve placement because the ROI tends to be the strongest and the potential increase in sales is the largest. Bidding on products in the “long tail” (as shown in the graph below) is typically not profitable, and even advertising these products at the CSEs (at the category minimum CPC rates) may not be profitable. However, there are some important exceptions to this rule of thumb that are identified below.



The graph above shows the typical results of products at the CSEs for a retailer with 30,000 products. The products with the most traffic are listed on the left side of the graph, while the products with little to no traffic are listed on the right side.

In this example, the separation between the Important Products and “The Long Tail” occurs at around 750 products (as identified by the white dotted line). This distinction is important because the marketing strategy is significantly different for these two groups of products.

Maximizing profits at the CSEs is accomplished through a combination of the following four techniques:

1. **Product-Level Bidding** – Many CSEs allow bidding for placement at the product level, which allows retailers to pay more for clicks on those products in return for increased visibility. For example, a product may have 30 retailers listed on its product page at a CSE. If the retailer is listed on Page 2 on these results, the retailer should not expect to

receive many clicks. However, the CSEs allow retailers to pay a higher CPC rate for placement in the Top 5 positions (or Top 3 for some CSEs), which will typically result in a significantly higher number of clicks as well as higher conversion rates.

2. **Category-Level Bidding** – Most CSEs allow for bidding at the category level, which is easier to manage but provides less control. For example, a category may contain both profitable and unprofitable products, and bidding at the category level doesn't allow the retailer the granularity needed to bid only on the profitable products within the category. However, this is the only bidding option available for some CSEs.
3. **Zero Bidding** – Some CSEs like Shopzilla allow the retailer to bid zero for products where the category minimum CPC rate is determined to be unprofitable. The CSEs will typically de-list products with bid of zero, but they have the option of listing the product at no cost to the retailer if that product (or the retailer's brand) is important to help round out the product category at the CSE.
4. **Product Suppression** – For CSEs that do not support Zero Bidding, the unprofitable products can simply be removed from the data feed sent to the CSE. This will ensure that the products are not listed at the CSEs and the click costs on those products will be eliminated.

Minimizing Click Costs

For most of the unprofitable products, the obvious solution is simply to stop advertising those products. However, a combination of strategies – including bidding in some cases – will help reduce click costs without significantly reducing revenue.

For each of the three areas of unprofitable products identified on the graph to the right, here are the recommended strategies:

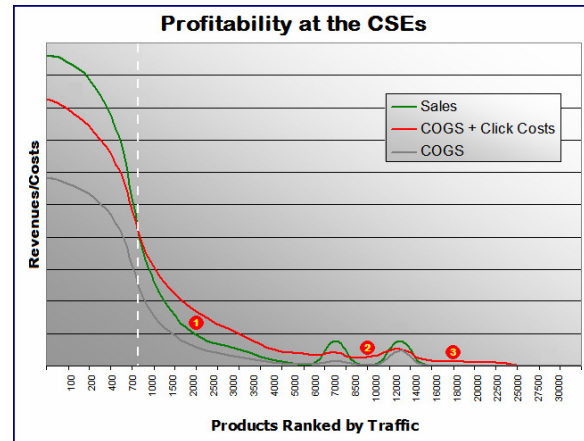
1. Unprofitable Products with Moderate

Sales – This group of products generates sales, but the cost of goods sold (COGS) and the advertising costs exceed the sale price for each order. Simply removing these products from the CSEs may significantly decrease sales, so there are several other strategies to try first.

- a. If bids are being placed at the category level, place bids at the product level only for those products where it is profitable to do so. This approach will decrease the click costs on some products, which may turn some of these products into profitable products.
- b. If bids are already being placed at the product level, remove the bids to see if the products become profitable at the category minimum CPC rates.
- c. If applicable, consider moving products to a different category with a lower CPC rate. For example, an electronic toy (like a Barbie boombox) could be placed into the Electronics category or Toys category at the CSEs. Since Toys has a lower CPC rate than Electronics, moving the product into Toys will reduce the click cost for this product. (There are many other factors that need to be considered with this decision, such as whether the retailer's brand is better known in one of these categories. In addition, not all CSEs allow this type of selective categorization.)

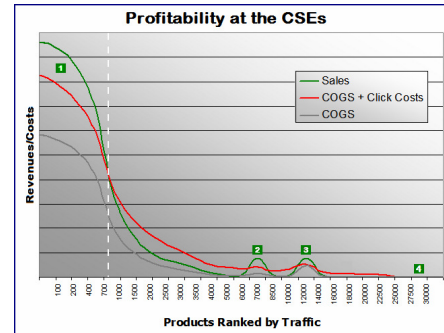
If these strategies fail, use Zero Bidding for CSEs that support it or simply remove the unprofitable products from the data feeds submitted to the CSEs. It may be worthwhile to suppress a few products at a time to see if the reduced product selection directs more consumers to the remaining product listings – making them more profitable.

2. **Unprofitable Products with Minimal Sales** – The strategy is essentially the same as above, except that the concern about losing revenue is significantly lower. Since there aren't significant sales in the first place, the retailer should be more inclined just to Zero Bid or suppress products from the CSEs.
3. **Products with No Sales** – Zero bidding or product suppression are the best options.



Maximizing Profitable Orders

The first and most important step toward maximizing profitable orders is to use the **Comparison Shopping Optimization** process. For most retailers, 30% or more of their products appear in the wrong location at the CSEs – or worse, don't appear at all – due to problems with the data sent to the CSEs. For example, a potentially profitable product may not be found at a CSE because it was placed in the wrong category or had an incorrect model number. In these cases, the **Comparison Shopping Optimization** process will ensure that consumers will find more of the retailer's products.



Comparison Shopping Optimization is analogous to natural search optimization for Search Engines. Through higher quality data, the product placement at the CSEs is improved without the additional costs associated with bidding. See the **Next Steps** section of this document for more details.

Once the data issues are resolved, the retailer can accurately identify products that are profitable to advertise at the CSEs. For each of the four areas of product profitability identified on the graph above, these recommended strategies will maximize the number of profitable orders:

1. **Important Products** – These products are ideal candidates for bidding. The amount of each bid may vary greatly depending on the number of retailers competing for the top positions. The bid should not be higher than the Breakeven CPC rate, which is the point at which the product becomes unprofitable to advertise at the CSE.
2. **High-Margin Products** – Bidding is also recommended for this group of products, especially for products where the margin may be significantly higher for the retailer than its competitors (such as special purchases).
3. **Low CPC Rate Products** – The CSEs have refined their pricing models so that the category minimum CPC rates are closely aligned with the conversion rate of the products in these categories. However, analyzing profitability at the product level will identify opportunities to bid on specific products while still remaining profitable on each click.
4. **No-Cost Impressions** – These products do not receive any clicks or sales, but do have visibility at the CSEs. Since there is no cost to advertise these products, there's no need to suppress these products from the CSEs.

Bidding for the Important Products can be very competitive at times, especially during peak seasons. During these times, it is worth considering shifting the focus of bidding to High-Margin Products and Low CPC Rate Products, where the bids may be more reasonable because most retailers do not have the tools to identify these opportunities for bidding.

Bidding is also valuable during non-peak seasons due to decreased competition for the top positions for a product listing. Although the number of consumers purchasing products during these non-peak seasons is lower, the orders that occur on these products are still profitable – and perhaps more profitable because of the lower bids required to capture the top positions.

Additional Recommendations

Retailers now have the capability to analyze the ROI of the advertising spend at the CSEs with an amazing level of granularity – right down to the specific actions taken by a single consumer in the buying process. However, this much data also creates complexity, which can be difficult to manage and easy to over-analyze.

With this in mind, here are a number of additional recommendations to reduce the complexity and increase the success of these strategies:

- Automate the **Comparison Shopping Optimization** process and maximize profits with **SellCast™ Online** from Channel Intelligence. More details on this service are available in the next section of this document.
- Start by analyzing CSEs as if they all perform the same, but take action based on the specific behavior of each CSE. This approach allows the retailer to start with a high-level understanding of how the CSEs perform prior to drilling down into the intricacies of each CSE.
- Analyze the profitability data over a period of time, typically a month or more. In some cases, a year-over-year analysis is needed to analyze the trends for a specific holiday season. On the other hand, analyzing a one-day snapshot has little value.
- Product-level analysis is not always possible if the CSEs don't provide click cost data at this level of granularity. It is also difficult for retailers with a very large online product catalog. In these cases, category-level analysis is acceptable.
- Products perform differently based on seasonality, product lifecycles, consumer tastes, current trends and other variables. Because of this, suppressing all unprofitable products from the CSEs is generally not a good idea because of these shifts in the market. Instead, the retailer should always advertise the products that it believes will continue to be profitable in the future rather than solely relying on data from the past. For example, an analysis of October's data would lead a retailer to believe that Halloween costumes will be the most profitable products in November, which is obviously not the case.

Maximizing profits with the CSEs is not a mathematical exercise, but rather **a series of informed merchandising decisions** based on the analysis of trends over time.

Maximizing Profits with SellCast™ Online

SellCast™ Online is an outsourced service offered as part of **SellCast™ Retailer Solutions** that focuses on helping online retailers improve their effectiveness with the CSEs. This service allows retailers to focus on making the merchandising decisions for their products, while relying on **SellCast™ Online** to optimize and deliver the product data, and to provide robust reporting upon which to base these merchandising decisions.

SellCast™ Online is the only service on the market that includes both the **Comparison Shopping Optimization** process and the decision support tools needed to maximize profits.

All of the following features are included in this service:

- **Complete Data Feed Management** – The retailer simply needs to deliver a master data feed to Channel Intelligence each day. All of the day-to-day management and optimization of the feeds is handled automatically.
- **Data Optimization** – Using a patented process, the retailer's product data is optimized for each CSE to ensure that more of its products appear at the site and in the ideal location. This process optimizes the data provided by the retailer, including item-level categorization into each CSE's category taxonomy, search optimization and improvement of product identifiers.
- **Success Measurements** – Detailed tracking and reporting is in place to allow the retailer to measure the success of its advertising program from the macro level down to the partner, category and product level. The robust data includes traffic/sales statistics and conversion rates, as well as complete profitability reporting that incorporates click costs and product margin.
- **Automated Bid Submission** – Product-level bids can be automatically submitted to six CSEs (Shopzilla, NexTag, Smarter.com, PriceComparison, Gifts.com, Become.com) via the retailer's data feed.

Channel Intelligence has been a trusted provider of innovative data services for over five years, and almost half of the Top 20 Internet retailers have already seen the benefits of the **SellCast™ Online** service. There is no other solution on the market that provides retailers the ability to make informed merchandising decisions with the CSEs, while outsourcing all of the day-to-day management of these advertising programs.

Next Steps

For more information on **SellCast™ Online** or the **SellCast™ Retailer Solutions** suite of services, please contact a Channel Intelligence sales representative at:

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E-Mail: retailsales@channelintelligence.com

A white paper on the **Comparison Shopping Optimization** process is available at http://www.channelintelligence.com/sc_white_papers.htm.