Return on Investment (ROI) of Product Data
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The Real Drivers of eCommerce – Perfect Product Information

Many companies invest a great deal of money in optimizing their eCommerce shops. With increasingly globalized business models, the demands on multichannel sales in particular are increasing. It’s worth taking a look behind the scenes here. How can a Product Information Management (PIM) system contribute to company’s success? A study conducted by Informatica and Stuttgart Media College examined this question in detail.

eCommerce has been a profitable business for the distance-selling companies and manufacturers of this world for quite some time. According to the German eCommerce and Distance Selling Trade Association (German abbreviation bvh), German distance-selling companies alone had sales of 18.3 billion euros in the Internet last year with an upward trend. Even though the share of eCommerce has increased to 60% of total sales (€ 30.3 billion), many companies are no longer focusing on electronic sales alone, but are positioning themselves more widely. The traditional distribution channels of catalogs and stores remain on the agenda, but the magic word is multichannel. Customers want to be able to shop everywhere, at all times, whenever they feel like it. They practice “channel-hopping,” so retailers have to be accessible on all channels. This diversification in sales presents a challenge. These channels not only differ with respect to logistics and process workflows, but also in the different requirements for product presentation.

Following the motto “think local, act global,” companies have to expand and adapt their business models. Increasing cost pressure and the necessity of operating internationally are currently the overriding factors for companies. In addition to well-developed supplier relations, this requires a certain degree of openness to new technologies and above all to an adapted IT infrastructure. This means standard software, which enables retailers and manufacturers to adapt their product data optimally to different channels. Software solutions called Product Information Management (PIM) or Master Data Management (MDM) have come into use increasingly over the past years. Market research company, Gartner, forecasts annual growth in this market of approximately 20%. An increasing number of retailers, especially large companies, have come to see the benefits of using this solution, because these systems have interfaces to already existing eCommerce systems such as IBM WebSphere, ATG, Intershop and Demandware. Until recently, the Return on Investment (ROI) of a product information management solution remained to be seen. Informatica and Stuttgart Media College conducted an international study to demonstrate the positive influence a product information management system has on conversion rates, margins, and new customer acquisition.

Increased Agility in eCommerce for Search Engine Optimization

According to the Informatica Study, large retailers and manufacturers who have a focus in multichannel distribution stated that they use up to 10 systems containing product and master data. It has been shown that cost savings of up to 20% can be generated, thanks to the reduction and consolidation of these systems. The reduction in the number of systems illustrates that the performance and maintenance of data management can be increased while reducing costs. This is reflected in shorter processing time for an item or faster updating in eCommerce. Therefore, the time saved shows a direct correlation to sales. The product that is on the market faster can theoretically be sold sooner.
Imagine a music video by the singer Justin Timberlake on MTV. He is wearing a shirt with the brand name Jack & Jones. If a fan wished to find more information about the Jack & Jones shirt he was wearing they can simply search for it on Google by entering the following values in the search field: “shirt justin timberlake. Thanks to fast integration of product information and the high degree of flexibility in a webshop, the processing time and adaptation of the article can be reduced from 12.5 minutes without PIM to 8 minutes with PIM, according to the Informatica study. This corresponds to a time saving of 30%.

As a result, the article would be available with the relevant identification code and in different languages in the online shop after a very short time. This process, which describes the time from product development up to integration into your own webshop, is called “time-to-market.” During this time, the product only produces costs and does not generate any sales. Consequently, retailers need to shorten this time to reduce costs. Another advantage of a shortened time-to-market can be observed for products with short life cycles. A retailer can obtain a competitive advantage here by being the first to get the product on the market. As a result, this influences the calculation of prices because “early adopters” are willing to pay the price initially demanded since no competitor can offer a lower one. It can be concluded that a shortened time-to-market, combined with a simplified product data maintenance platform and the improvement of IT processes is not only a cost-cutting measure, but also is a key factor to increasing sales.
Long Tail as Business Strategy

Another great challenge for retailers (at the same time, a cost risk for shop operators) is the integration or transfer of product or supplier data into their own systems. In addition, they are also faced with the problem-free scaling and the expansion of their own product range as part of a long tail business strategy. A long tail strategy is the process in which retailers add a large number of niche products to their core product range, in an effort to create substantially higher margins.

The following is generally true of eCommerce: the manufacturer has the best information simply for reasons of prestige. He invests in his product data and his brands. Retailers profit from this brand power. An important aspect in making these articles available in your own webshop is the cost of the creation process; the bigger the product range, the greater the cost. When preparing data for several channels, the time required can potentially increase exponentially and no longer be worth the effort.

One quarter (25%) of retailers without a PIM system for data maintenance require more than 60 minutes to put an article in their webshops. However, the percentage of retailers requiring such a long time decreases to 4% when utilizing a PIM system, as is clearly shown by the faster processing speed. At a retailer such as Bertelsmann Direct Group, with 800,000 articles in its core product range, the work and associated costs can be both time consuming and overwhelming. Nowadays eshops often have more than 1,000 suppliers.

The number of required data integration processes and the number of suppliers can quickly exceed 100 annually. The same problem arises here. Given this number, it is a question of the quickness of data integration. The faster the products and suppliers are in the system, the sooner the products are ready for sale, regardless of which channel is used. The Informatica study concluded that supplier integration can be reduced to fewer than two weeks at more than 50% of the retailers with a PIM system.
In addition, the product range can easily be expanded as much as desired. In the case of Bertelsmann, the core product range was increased from 800,000 to more than 10 million articles from different suppliers and managed in the PIM system.

It can be seen that retailers with an expansion strategy are well-advised to use a system for data maintenance and processing, for example Product Data Management, starting from a certain magnitude of product range and number of suppliers.

Presentation is Everything

In addition to the argument of lower prices compared to retail stores and free shipping, the key trends in eCommerce 2011 concern additional features such as: zoom 3D views, scroll catalogs, and video shopping. However, traditional photos are still important. Targeted multiple use of product pictures on all channels can save time and cut costs. According to the Informatica study, companies with a Product Information System use their product pictures 96% of the time simultaneously in both print and online areas.

The bhv also determined that 65% of customers now obtain information from a catalog and buy online. This supports the idea of using the same product pictures, not to confuse customers but to increase the possibility of comparison. This reduction of work also saves enormous costs and has another effect: thanks to optimized pictures and perfect visual product descriptions as well as their simple integration into the system, the rate of returns can be reduced.
Reducing Return Rates

Excessively high return rates are always a big cost factor for manufacturers and retailers and directly influence their operating results. For this reason, it is important to minimize this to the greatest extent possible. Especially in the clothing segment, the rate of returns is almost 30%, according to an investigation by the quality Kitemark company Trusted Shops. The bvhand even reports a rate of 40% for this. In comparison, entertainment electronics is in second place with a rate of only 15.4%. We have already discussed trends and the factor of pictures above. Given these figures, the need to enrich this visual aid seems indispensable. In addition, properties of an article such as:

- Article indexing (tags)
- Pictures/3D zoom, etc.
- USP of the article
- SEO-optimized product description
- Characteristic values
- Text describing the brand
- Cross-selling and upselling
- Delivery information and
- Size charts

The accuracy of these properties is vital in the effort to minimize the return rate and prevent dissatisfaction in advance. The fashion chain H&M is already going a step in the right direction with its “Pick & Collect” model. The customer can either pick up the article ordered online in the store or return it there. The fact remains that enriching a product description with as much information as possible by the retailer, if possible with product information from the manufacturer, is extremely significant. Optimum performance can be obtained for this from a centrally controlled data pool.

Figure 5: Example for Cross and Up-selling (Musiciansfriend.com)
Success Factor – Mobile and Social Commerce

However, all of these efforts are useless if the item or the retailer are not found. As a result, the essential trend (among others) for 2011 continues to be the SEO optimization shops as well as products.

Another popular trend this year is the role played by social networks, which are largely included under the heading Social Commerce. In the role of Social Commerce, functions such as blogs, Facebook apps and actions via Twitter are most important. These functions are a result of the recent changes in the consumer’s purchasing mentality (not just the age of the consumer). “This development is being pushed forward due to the increased penetration of broadband and the increasing Internet affinity of all age groups,” bv President Thomas Lipke says.” In addition, thanks to a rapidly growing smartphone market and the associated mobile access options to the internet and mobile Commerce offers, buying online from everywhere and at any time is now possible.”

Above all, Social commerce gives retailers the ability to interact with consumers, thus providing retailers with consumer based evaluations. Even perceived “negative” consumer evaluations can be prove to be beneficial. For example, user comments can genuinely point out defects in the shop which the operator had not noticed himself. In this case, it is a question of reacting quickly. According to the Informatica study, you are substantially faster in changing incorrect data in all channels when you use a PIM system. The time from discovery of an error to the adjustment of the item (including search engine optimization) can be reduced from four hours to one hour (i.e. 75%).
Quality Product Data Leads to Higher Margins, Increased Conversion Rates and New Customers

All of the optimization measures mentioned in the previous sections can be summarized under these four, extremely simplified areas:

- Faster time-to-market
- Cost cutting
- Profit maximization
- Functioning business model

These areas can be supported by a high-performance Product Information Management solution. According to the companies surveyed in the Informatica study, a PIM solution lead to higher margins, increased conversion rates, new customer acquisition and more sales per customer.

In conclusion, PIM is becoming an essential, as well as profitable, process among today’s companies; regardless if the company is a retailer, manufacturer or distributor. It is indisputable that such a system can support both a large product range and an expansion strategy. Today, it is especially important for eCommerce companies to have complete control over workflow process both quickly and efficiently throughout the company. This applies to the complete supply chain which starts with supplier integration, continues to data processing, and ends at the final output in a channel. According to the Informatica study, Product Information Management solutions can contribute to establishing your own business model, increasing sales and operating results, and reducing costs.

Figure 7: Revenue Factors for Retailers with or without PIM
Find out more

You can request the complete results of the Informatica study “The ROI of Product Data in Multichannel Commerce” at www.pim-roi.com.

About Informatica

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