THE CONSUMER CONFIDENCE PROBLEM

Turning Online Shopper Uncertainty into a New Source of Sales and Profits

*Online shoppers have a confidence problem, which translates into a conversion problem for online merchants. Eliminating consumer uncertainty is a challenge for all online merchants, regardless of size. The question is, how can merchants address their shoppers’ concerns and benefit their business in the process? Read this white paper to discover the answer.*

a buySAFE® white paper
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Not all shoppers feel completely safe, secure and confident when buying online. When shoppers perceive risk in or feel uncertain about online purchases, they either avoid buying or discount the price they are willing to pay the online merchant. For online merchants, this shopper uncertainty leads to reduced pricing, fewer sales and lower profits than they otherwise could or should receive, which manifests itself primarily via lower website conversions. Online shopper uncertainty is a pervasive problem that affects every online retailer — even the biggest sites with the strongest brands.

**KEY SHOPPER CONCERNS**

There are two key concerns, or main drivers of uncertainty, that all shoppers have when shopping online: **information security** and **merchant reliability**. When these concerns are not fully addressed, they impact a shopper's confidence and reduce the likelihood of converting the shopper from a website visitor into a buyer.

1. **Information Security: Will my personal information be secure and remain private?** Simply put, shoppers are concerned about identity theft. And concerns about identity theft are valid. According to the Federal Trade Commission (FTC), identity theft is the largest and fastest growing type of fraud in America, now affecting approximately one in every 30 Americans each year. This has a major impact on consumer perceptions and confidence, as, according to the Pew Internet Project, 75% of U.S. Internet users don’t like giving out personal information over the Internet. And VeriSign® calculates that 83% of online users worry about their identity being stolen from an online purchase.

2. **Merchant Reliability: Is this merchant reliable and will it perform as promised?** Shoppers want to feel completely confident in a merchant’s reliability, stability and good performance. They want to know they will get exactly what they paid for and that the transaction will go smoothly and reliably. This is not a question of security, but rather a question of confidence and trust in the merchant behind the website and the Internet shopping experience itself. According to the statistics, it’s a big problem:
   - The Internet Crime Complaint Center and the FBI say that almost 60% of all online crime complaints received are for issues of merchant non-performance.
   - CyberSource says 73% of consumers say shopping is riskier online than offline.
   - buySAFE® says 81% of online shoppers feel concerned when shopping on a website with which they are not familiar.
   - VeriSign says 85% of consumers state that trusting the (web) site is most important when interacting on a website and sharing confidential information, compared to 9% that cited price.
   - McAfee Secure says 92% of shoppers have concerns when shopping on a new and unknown brand website.
   - Chief Marketing Officer Council says 99% of customers surveyed would either scale back or terminate relationships with companies that fail at building customer trust.

In short, there is a great body of research that reflects shopper concerns of information security and merchant reliability and the importance of trust in online shopping. The numbers show that a meaningful majority of shoppers, typically 60-80%, have uncertainty and concerns, especially when buying from a website they are not completely familiar with or have never purchased from before. It is those shoppers, the first time visitors/first time buyers at a merchant’s website, that are the most impacted by these concerns and the ones where the greatest opportunity lies for merchants to increase sales and profits through increased confidence.
Website security solutions, such as SSL encryption, site scanning and authentication, and privacy certification help assure shoppers that the website is secure from hacker theft and that their personal information will remain confidential. It is this concern that security seals from VeriSign, McAfee Secure and TRUSTe are designed to help merchants address.

Because the answer to the concern over information security is much more well understood – all online merchants must install reputable website encryption and security technologies – this white paper will focus primarily on how merchants can solve the latter question of consumer anxiety over merchant reliability and the inherently uncertain nature of online shopping. The goal of this paper is to demonstrate how online retailers, from the smallest “mom-and-pop” shops to the largest globally branded enterprises, can turn shopper uncertainty into a new source of sales and profits.

**WHAT CAUSES ONLINE SHOPPER UNCERTAINTY?**

1. **A Less Certain, Disconnected Shopping Experience**

   Internet merchants must fully appreciate that, by its very nature, the Internet is an inherently uncertain environment in which to shop and buy and that this impacts the level of confidence and certainty that most online shoppers feel.

   ▶ **Less information:** Items sold online cannot be touched or physically examined before a purchase decision is made and the consumer can't immediately leave the store with the item in hand. Even with pictures and sophisticated Web 2.0 technology, consumers commonly feel less than fully confident that the item they're purchasing will be exactly what they want or exactly as described on the site.

   ▶ **Disconnected purchase:** Unlike shopping in a brick-and-mortar store, Internet shopping is a disconnected (or asynchronous) purchase. In an internet purchase, the buyer pays first and then waits days (literally) to receive the product. The disconnected shopping experience allows for more opportunities for something to go wrong, and leaves the buyer feeling highly vulnerable.

   ▶ **Merchant dependency:** With less information and a disconnected purchase experience, the buyer feels, and actually is, much more dependent on the merchant – dependent on both the information provided by the merchant and the dependent on the merchant’s willingness and ability to deliver on the promises made to the buyer (i.e. was the product accurately described, is it authentic, will it arrive on-time, undamaged, or will it arrive at all and will the merchant fully honor its promised return and refund policies?). This leaves the buyer feeling at risk and uncertain.

Concerns caused by a less certain, disconnect and merchant-dependent shopping experience also come into play with well-branded sites. Studies show that shoppers are typically more confident buying a product from a Walmart physical store than from walmart.com. Even a walmart.com suffers lost sales and profit opportunities due to online shopper uncertainty. In short, the medium of the Internet itself reduces confidence – and this will never go away as it’s at the core of how Internet shopping operates.
2. More Risks & Negative Press

There are many more risks associated with online shopping and the media makes sure everyone is well aware of this fact. News articles appear every day recounting the tales of victims of fraud and warning consumers about the risks, dangers and scams that are common with online shopping. This makes consumers more aware but also leaves them feeling less confident, given the breadth of dangers that they now only partly understand, including:

- Phishing & fake websites
- Fraudsters selling counterfeit products – 10,000% growth in the past two decades
- Internet auction fraud
- Credit card and identity theft
- Big, “trusted” merchants going bankrupt (i.e., Sharper Image, Eddie Bauer, Circuit City, Mervyn’s, Meyer Emco, Tweeter) and not delivering on promises made
- Poor customer service and unreliable delivery from otherwise “legitimate” websites

This negative press adds up to a very natural and expected result: decreased online shopper confidence adversely impacting sales and profits of reputable online merchants.

3. Less Tolerance for Risk

Given the “cost” to a shopper for solving a problem with an online purchase and/or returning an item – both the “hassle factor” of shipping it back to the online merchant and the additional shipping costs – the typical shopper’s tolerance for risk is low. For example, imagine someone purchasing a $100 ring, a $2,000 LCD TV or even a $10 DVD. How does this consumer know that what he thinks he is buying will be truly authentic, the same quality as described, not a refurbished product made to look new, etc., until he actually receives it? This requires a LOT of trust, and building trust – especially online – is very difficult.

4. Difficult to Distinguish Between Good and Bad

There are now almost 400,000 different ecommerce sites based in the U.S. alone making the Internet the largest shopping mall ever created. However, the massive number of stores online today make it extremely difficult for shoppers to know which sites to trust.

In an online setting, most consumers can’t tell which sites are big professional retailers and which sites just look like big professional retailers. Also, given the global nature of the Internet, it’s not just U.S. based shoppers, but shoppers from across the world that struggle with this problem. In short, consumer confidence in a website does not fully correlate to the sales volume at the website or the domestic reputation of the online business.

Bottom line: consumers need and want to feel confident that the merchant will deliver on the promises made, will ship the products on time, will honor return and refund policies and will live up to all terms of sale.

Eliminating uncertainty for every online consumer is a challenge for all online merchants, regardless of size. The only difference is the severity of the problem – which means every website operator needs to ask himself not whether additional measures to increase shopper confidence are needed, but which measures will be additive relative to everything he is already doing today?
When online shoppers feel uncertain, the primary way this impacts an online merchant is via lower website conversion. The typical ecommerce site has website conversion rates of only 2-3%, meaning that for every 1,000 visitors to an online store, 970 to 980 leave without making a purchase. The opportunity cost is huge when 97-98% of potential buyers leave a merchant’s store without making a purchase.

While there are many reasons shoppers don't buy (i.e. not the right product, not the right price, poor user experience), a key contributing factor is the lack of consumer confidence. If an online merchant can increase the confidence level in visitors to its website by even a small amount – meaning just one more shopper in every 1,000 ends up making a purchase – the impact on the merchant’s sales and profitability will be tremendous.

Just stop and think for moment about a room, a very large room, filled with 1,000 people. If a merchant can increase the confidence in just one person in that room so that it can convert that one person into making a purchase (that otherwise would not have been made), what impact would it have on business?

The illustration below shows that for a merchant with $50,000,000 a year in online sales, getting just one person in every 1,000 to make a purchase would increase annual sales by $2,500,000. That’s the equivalent of an additional $6,849 in new sales each and every day throughout the year.
The **profitability** impact from a relatively small (5%) increase in revenue due to increased website conversion is also typically much greater than the revenue impact.

As shown in the illustration below, a 5% conversion increase lifts revenues by 5%, but lifts net profits by 20% or more. This is because, with increased consumer confidence on the website, the merchant is converting more of the existing website traffic into sales - and all the gross profits from those sales drops straight to the bottom line!

The merchant spends no additional money on advertising or fixed costs, but those costs are now spread over an increased number of sales. Higher shopper confidence makes the existing advertising spend and the merchant's entire business more economically efficient - not even considering or counting the impact of future repeat business from those new customers who would otherwise have been lost.

![Profit Impact Analysis](image)

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**Even a slight increase in conversions will have a material impact on profitability. Higher shopper confidence makes the merchant’s entire business more economically efficient.**
To increase shopper confidence – and its bottom-line effect on website conversions – it’s important that online merchants both understand and fully address the two core drivers of uncertainty held by consumers shopping online:

1. **Information Security**: Shoppers need to be assured that their personal and financial information will be kept secure and private.

2. **Merchant Reliability**: Shoppers also need to know they are going to get what they paid for and have a safe, reliable and hassle-free online shopping experience.

When addressing these twin shopper concerns, there is a simple Assurance + Guarantee framework for merchants to use. Online buyers want to know two things: a) the likelihood of a problem occurring is very low (assurance) and that, b) if a problem does happen, they are guaranteed or have access to an easy remedy so they do not suffer a financial loss (guarantee). While the concept is simple and common sense, merchants need to address these needs. Remember the old adage, "an ounce of prevention is worth a pound of cure?" It still holds true. Buyers would rather prevent a problem from occurring, but also have a way to resolve it easily if one does occur.

Take a car accident as an analogy: there are two ways to survive a car accident – a seat belt and an emergency room. Most people would rather buckle up and avoid the emergency room. But they still want to know that the emergency room is there, just in case the seat belt wasn’t enough.

Therefore, when a merchant evaluates its efforts for reducing consumer concerns over information security and merchant reliability, it’s important that a merchant address each of the four quadrants of the framework. Most merchants do not fully address consumer needs across all four dimensions and this highlights a golden opportunity for them to provide their shoppers with additional confidence. This will in turn drive increased sales for the merchant.
The Consumer Confidence Problem - Turning Online Shopper Uncertainty into a New Source of Sales & Profits

Online shoppers have a consumer confidence problem, which translates into a conversion problem for online merchants. The question is, “How can merchants address their shoppers’ concerns and benefit their business in the process?” The issue is not whether the merchant is trustworthy or the site is secure, but rather how buyers feel and how they perceive things to be in a naturally-uncertain Internet shopping environment.

To promote a good online brand, merchants must start with a functional, professionally-designed website. Easy-to-find contact information, merchant guarantees and promises of performance are the basics that all good online merchants already have in place. The presence of third party validations, signals and assurance and protection services are also proven to be effective.

Trust Marks
Some ask, “Are the presence of third-party confidence seals or trust marks effective?” The evidence shows an overwhelming “Yes!” In fact, third-party confidence-building tools have been in use for years and have proven to be effective. Which consumer does not recognize the Good Housekeeping Seal of Approval, Underwriters Laboratories or the FDIC logo?

In the digital marketplace, consumers recognize VeriSign, McAfee Secure and TRUSTe security seals as signs that security technologies and privacy practices are in place, and the buySAFE trust seal as a clear sign of a merchant’s reliability, stability and good performance via a thorough business inspection and daily monitoring.

That said, the presence of a security seal or trust mark is not the entire solution. To feel confident, a consumer needs to know both that it is highly unlikely they will encounter a problem, but also, what their remedy or resolution will be if, and when, a problem does arise. To thrive in today’s highly competitive online world, merchants need to comprehensively address all the concerns and needs of online shoppers in order to instill complete consumer confidence.

First-Time Visitors
The biggest source of sales opportunity is with first-time visitors to a merchant’s website. Consider these average online merchant statistics:

- 10% of website traffic is from repeat buyers, who drive 25% of total sales
- 90% of website traffic is from first-time visitors/buyers, who drive 75% of sales

The primary challenge for a merchant is to convert more of the first-time visitors into repeat buyers. Consumer confidence is the lowest among first-time visitors because they are unfamiliar with the website or the merchant. While all shoppers are positively impacted by third-party endorsements and guarantees, first-time visitors are the most influenced, and converting them into repeat shoppers is the key to a site’s profitability.

A TWO-PART CONSUMER CONFIDENCE SOLUTION
buySAFE provides an innovative, two-part website confidence solution consisting of a trust seal and a bond option that is specifically designed to help merchants convert more of their first-time visitors into first-time buyers. buySAFE does this by FULLY addressing shoppers’ two most important concerns: information security/identity theft and merchant reliability/non-performance. By eliminating consumer uncertainty, buySAFE enables merchants to increase their website conversion, sales and profitability.
A Two-Part buySAFE Solution

buySAFE inspects and monitors merchants, signaling to shoppers the merchant can and will deliver on the promises it makes to buyers. Merchants who qualify for buySAFE are eligible to install buySAFE on their website. There are two key elements to buySAFE’s solution, which work together to produce the greatest increase in consumer confidence for the merchant: the buySAFE Seal and the buySAFE Bond Option.

1. The buySAFE Seal
The buySAFE Seal and seal rollover provide an explicit, third-party endorsement of a merchant, their quality and reliability. It also leverages the well known brands of buySAFE’s partners, Liberty Mutual, Travelers and ACE, who provide their endorsement of the merchant as well. The presence of these trusted brands builds trust and confidence in both the merchant and the buySAFE solution. The buySAFE Seal reassures uncertain shoppers and provides peace of mind that the merchant has been inspected and that the merchant’s reliability and performance is monitored daily.

2. The buySAFE Bond Option
The second element, the buySAFE Bond Option, is offered during checkout. This provides shoppers an option – at their choice – to purchase a bond that is designed to fully address the two key concerns online shoppers have: 1) it provides 30 days of ID theft protection, for any reason at all, and 2) a full guarantee of all the purchase terms of sale, up to $25,000.

The Bond Option is designed to have the greatest possible impact on first-time buyers/shoppers both in terms of conversion and buyer loyalty. On a shopper’s very first experience with buySAFE, it makes a recommendation to include the buySAFE bond along with their purchase. This approach has been proven to have the biggest increase on a website’s conversion rate, is the most intuitive for the buyer and enables buySAFE to provide the buySAFE solution at no cost to the merchant. Further, a majority of first time buyers, who make up the vast majority of traffic on a merchant’s website, will choose to purchase the bond. When buyers experience a bonded purchase, they have greater overall buyer satisfaction, leading to an average 14% increase in repeat purchase rates.

The Bond Option is designed to automatically customize (or remember) the specific preference of each unique user to a merchant’s website so it defaults to each user’s specific preference. The buyer simply clicks to toggle between yes and no, and on future visits to the merchant’s website the option will be selected or deselected depending on the past selection. This personalization capability allows each user to customize their preference of the buySAFE Bond Option with a single click.

To ensure users don’t mistakenly select/deselect the bond option, there are five different points in the buying process that provide the buyer the option to select or deselect the bond. Buyers can also change their mind, up to three days after the purchase occurs and cancel the bond for a full refund, no questions asked. A/B conversion impact testing shows that both elements – the buySAFE Seal and the Bond Option in checkout – increase consumer confidence and website conversion. The two, working together, provide the
greatest overall lift for a merchant and enables buySAFE to have a greater impact on a merchant’s conversion rate than most solutions that rely solely on a passive seal.

Finally, the bond is delivered via email immediately following checkout, increasing peace of mind over the purchase and reinforcing to the shopper that he made a great decision buying from one of the best merchants on the web.

**COMBINED APPROACH BRINGS RESULTS**

buySAFE’s unique approach of combining merchant certification and monitoring, along with a back-end guarantee has been proven to increase website conversion by 10.6% on average (5% to 30% range) and repeat buyer rates by as much as 20%.

buySAFE has built highly sophisticated analytic tools that merchants can use to easily run their own A-B tests of buySAFE on their websites to specifically measure the impact of buySAFE on conversion rates. For example, merchants can run a blind test so 50% of visitors see the buySAFE Seal and Bond Option and 50% don’t. The test is completely objective and transparent; the merchant can even pick which 50% of its visitors will see buySAFE. At the end of testing, merchants have highly accurate, clear and transparent results to evaluate the value of adding buySAFE to their website.

The bottom line: the buySAFE Seal and Bond increase buyer confidence which drives a:

- 10.6% average increase in website conversion and sales
- 14% average increase in repeat buyers
- 20-40%+ increase in ecommerce website profits

**The buySAFE Bonding Eliminates Consumer Uncertainty – Resulting in Higher Website Conversion, Sales & Profitability:**

The best practice implementation of the buySAFE Seal is with a “persistent” seal that is designed to persist throughout the consumer shopping experience, building confidence at every stage of the buying process. This is important as shoppers need confidence at different points in their buying process – sometimes when they first arrive on the home page, sometimes on the product page when comparing one merchant’s product/price to another, sometimes in the checkout, sometimes on payment page, etc. The persistent buySAFE Seal ensures the merchant provides added confidence whenever and wherever it is needed most.
While security seal solutions like VeriSign and McAfee Secure are important and create meaningful value, merchants need to go farther. These services provide shoppers an ounce of prevention (assurance) that their personal information will be secure, but they provide no cure (protection) and leave entirely unanswered the key questions consumers have over merchant reliability.

In the vast majority of A/B tests performed by merchants using buySAFE, they were already utilizing prominent security seal solutions like VeriSign and McAfee Secure. The conversion increases experienced were over and above (or in addition to) the impact of those prominent security seal solutions.

The conclusion is clear, **buySAFE is additive and highly complementary** to the value provided by security seals because it addresses different sources of consumer uncertainty than security solutions are designed to address.

### Solution Summary

**While security seals like VeriSign and McAfee are important and create meaningful value, merchants need to go farther to answer key consumer concerns.**
With over 4 billion views of the buySAFE Seal, 20 million bonded purchases and over 3,000 buySAFE Merchants, buySAFE, Inc. is widely recognized as a leader in providing confidence and safety for online buyers and increased sales and profits for online merchants.

buySAFE provides ecommerce bonding services that build consumer confidence and provide significant financial and brand building benefits for online merchants. buySAFE’s bonding solution is backed by the financial strength of Liberty Mutual, Travelers, and ACE USA and its identity theft protection services are provided in partnership with Assurant Specialty Property. buySAFE’s investors include Grotech Ventures, Core Capital Partners, VeriSign, Inc. and The Hartford Financial Services Group.

Visit www.buysafe.com for more information, email your questions to a buySAFE specialist at info@buysafe.com or call 888-9-BONDED.

Thousands of merchants use buySAFE. Here’s what a few of them have to say...

“With the addition of buySAFE to our site, we have seen a dramatic lift in conversion and revenue along with a satisfying consumer experience.”

Alan C.
President
EcomElectronics.com

“buySAFE is a very effective solution to lift conversions.”

Mark Harrill
Director of Merchandising
DVD Planet

“I can’t recommend them highly enough.”

Mike F.
COO
eImprovement.com

“buySAFE increased customer confidence, increased our conversions and profitability and positively impacted every web business in our company. Their service is top notch and installation is very simple.”

“buySAFE provides our customers that added bit of comfort that the transaction and receipt of the product is going to go as expected online.”

End Notes

1. Identity Theft: Trends and Issues, Congressional Research Service Report for Congress, Jan. 5, 2010. 9.9 million Americans were reportedly victims of identity theft in 2008, an increase of 22% from 2007, costing consumers an estimated $50 billion annually (that’s equivalent to 25% of all of eCommerce!)
4. 2008 Internet Crime Report from the Internet Crime Complaint Center and the FBI, 58.4% of internet crime complaints were for merchant non-performance (e.g. non-delivery, auction fraud, etc.)
5. CyberSource, 2009 study
6. buySAFE, Inc. Online Shopper Research Report, August 2006
8. McAfee Secure, June 29, 2009 Survey Results, Tim Dowling
9. Chief Marketing Officer Council, 2008 study
11. Based on primary research performed by buySAFE, Inc., there are approximately 400,000 U.S.-based websites with a shopping cart (e.g. a commerce website).
12. Average buySAFE Impact Test results based on A-B tests conducted by 45 separate online merchants over 5,228,801 online site visits. Approximately 50% of visitors were shown the buySAFE Seal and Bond option, and 50% were not. The average relative increase in conversion for all merchants was 10.6%. Every merchant participating in the test showed a positive conversion increase of between 4.5 and 30%. Merchant’s results may vary.
13. Testing by 12 online merchants (including many in the Internet Retailer Top 500) across 11,200 separate purchases, showed buyers who experienced buySAFE were significantly more like to become a repeat purchaser 30, 60, 90 and 120 days later. The average increase after 120 days was 14.0%. Merchant’s results may vary.