

Building an Effective Video Commerce Strategy

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The Video Commerce Consortium
advancing video in e-commerce

You Will Learn How to:

- Set the stage for video commerce success by aligning online video with your e-commerce business
- Apply online video strategically based on your e-commerce objectives, both on your own web site and to destinations outside your web site
- Build an ROI model for online video
 - Develop reasonable assumptions about success metrics based on existing knowledge of your own business and examples of what others in the marketplace are experiencing.
 - Better understand the costs and resources required to make or acquire video assets and deploy those assets on your web site and to destinations outside your web site

Purpose & Methodology

After interviewing over fifty e-commerce retailers from the Internet Retailer Top 500 List about the current state of their video commerce programs, it became clear that online marketers, merchandisers, affiliate managers, product managers, technologists, and executives are all intensely interested in learning more about video commerce. At the same time, professionals craved more information about how to limit the risk of getting started with online video while maximizing its impact and effectiveness on the top line and bottom line. Hence the decision to write this whitepaper: Building an Effective Video Commerce Strategy.

The purpose of this document is to provide the video commerce neophyte with a methodology for getting started with and expanding the use of e-commerce video, saving valuable time and cost that might otherwise be spent fumbling through the process of a video commerce program launch.

Additionally, the whitepaper provides a framework to serve as a guide for video placement, content strategy, and general production best practices. It includes common sense tips and tricks to benefit e-commerce merchants of all shapes and sizes, culled together in a single resource from a variety of sources across the Internet. Case study material, charts, and the video commerce ROI worksheet are all handy tools for any online retailer to have on hand.



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Overview – The State of Video Commerce in 2008

Of all media used in e-commerce today (text, graphics, vector animations, zoom/3D views), video is the most engaging. No other media is able to draw in the consumer, tell a story, build credibility, showcase products, and share knowledge in such a compelling, realistic way. Most online and multi-channel retailers have a general sense or 'intuition' that selling through online video represents an important paradigm shift for e-commerce, or at a minimum is a valuable new 'tool in the online marketing toolbox.'

Given the general elevated level of interest in the space, an e-commerce marketer, product manager, or merchandiser might easily conclude that video is going to be on every online retail site soon. The truth is most e-commerce retailers are still sitting on the fence, unsure of how online video will impact the fundamentals of their business.

In a contracting economy where marketing budgets are carefully re-examined, new channels such as online video represent both a potential added expense as well as a new competitive weapon to achieve sales goals that remain aggressive despite overall weak retail forecasts. Added pressure on marketing spending means that online video must demonstrate a compelling business case in order for adoption to rise as costs are squeezed out and higher accountability is demanded from all marketing programs.










"We're seeing exciting things with video," [says Sarah Gallagher](#), senior manager of interactive marketing at outdoor sports gear and apparel retailer The North Face. "With more power to use rich media we're seeing the next phase of how shoppers use the Internet. They have more control over what they view, and video keeps exploding with new uses."



"Video is the way people want to receive content," says Phil Schoonover, President and CEO of Circuit City. "Millennials (Americans born between 1980 and 1995) especially want to see videos of what they're buying." Video content on CircuitCity.com helped to grow our web sales 40%, to \$1.4 billion, for the fiscal year ended last month, he says.

Does Online Video Work for E-Commerce?

The short answer is online video works for e-commerce when it is applied strategically, using best practices and when the program respects business fundamentals. The following case studies were collected throughout 2008. Each example contains a link to a page containing the full case study or original quote.

E-Commerce Retailer	Case Study	Date
	So far, the videos have been a success. Testing [videos] on laptop product pages lifted conversions and increased accessory sales 12% in some cases. And customer feedback has been great, said Rich Lesperance , Director of Web Sales and Operations at Circuit City.	September, 2008
	"We ran an A/B test across 50,000 product detail page views and measured the conversion rate in Omniture in order to track the impact of video at the product page level," sais Jon Nordmark , Founder of eBags. "What we discovered was that the conversion rate increased 50.1% for those users that clicked the "play" button in the video compared to the control group, and 138.9% for those users that watched the entire video compared to the control group."	August, 2008
	"Customers that watch videos convert at twice the rate of customers who do not," said David Witzig , Sr. Director, Online Marketing and Video at ShopNBC.com.	July, 2008
	Ice.com experienced a 40% rise in conversion rates on products highlighted in online videos, said co-founder and president Mayer Gniwisch . And by showing its products on models in videos, which puts the size and appearance of jewelry in a better context for viewers, Ice.com has reduced the return rate on some products by 24%, Gniwisch says.	March, 2008
	Online videos produce "a substantial lift," in sales said William Lynch , executive vice president in charge of marketing and content at HSN.com.	March, 2008
	"There is a clear trend that a lot more [online] retailers are incorporating video into their user experience...and we know that video works," said Kevin Ertell , senior vice president of ecommerce at Borders.	October, 2008
	"The video traffic has helped Wet Seal encourage visitors to generate more than 100,000 custom outfits on WetSeal.com since the retailer launched its Boutique and Runway outfit-creating sections in April. Visitors to these sections convert to buyers at twice the rate of shoppers who don't visit them," said Dayna Bateman , Sr. Strategic Analyst at Fry.	September, 2008

Setting the Stage for Video Commerce Success

Setting the stage for a successful video commerce program should not be much different than kicking off any other new e-commerce initiative. The first step is to make sure that video aligns with the business objectives. This may seem obvious, but most organizations do not begin with a video commerce initiative this way. More often, the path for implementation is assembled in a haphazard, "let's hope this works!" manner. While some initial flexibility and creativity may be required in order to launch your video commerce initiative cost effectively, haphazard approaches are likely to generate haphazard results.

The unique costs for and resource requirements involved in planning, producing, acquiring, managing, publishing, and distributing online video content mean that it is important for a retailer to approach video methodically. Given the relatively new state of e-commerce video and lack of established best practices, a strategic framework for online video deployment in an e-commerce environment is clearly needed.

	<p>Retailers who have taken careful steps to build out an online video strategy are beginning to better engage shoppers, says Sucharita Mulpuru, principal analyst, retail, at Forrester Research Inc. "When applied properly, online video can be incredibly valuable," she says.</p>
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Video Commerce Basics: Aligning Video to Business Goals

If your company is looking to...	Then your video commerce initiative needs to include...
Increase top line sales 25% next year	How video can help you achieve 25% sales growth
Increase site conversion rates by 1%	How video can help you increase site conversion rates by 1%
Increase organic site traffic by 10% while reducing overall traffic from SEM by 10% to save costs	How video can help you increase organic site traffic by 10% while reducing overall traffic from SEM by 10% to save costs
Increase affiliate conversions by 10%	How video can help you increase affiliate conversions by 10%

Once you are in the mindset of aligning video to larger business goals, start collecting some information about the e-commerce business to help decide where to start, and then create an ROI model. You may not have access to all the information required to make the most accurate cost and revenue projections - if that is the case - take your "best guess" based on the information and knowledge available. Your Web Analytics package (Omniure SiteCatalyst, Coremetrics, WebTrends, Google Analytics) could be an excellent source for data. If you do not use web analytics, or your web analytics system is not configured to capture the recommended planning data, you may need to obtain revenue data directly through your order management system or e-commerce platform.

Recommended Planning Data	Sortable by:
Site conversion rate	Product (SKU) and Product Category
Revenue data	Product (SKU) and Product Category
Profitability data (gross product margins)	Product (SKU) and Product Category
Traffic, conversion rate, and AOV for affiliates	Monthly and Year over Year performance
Traffic, conversion rate, and AOV for online display	Monthly and Year over Year performance



TIP: It costs the same to create a video that sells zero products as it does to produce a video that sells a million products. Therefore, you need to apply online video strategically. Smart marketers apply limited video production resources to top-selling, high-margin products first.

To illustrate, we will look at two fictional products sold by Retailer XYZ, a "Widget" and a "Gizmo." Both products currently convert at 5% on the product page, carry a 50% gross margin, and sell for \$500. Widgets are viewed 500 times per month on the product page, while Gizmos are viewed 5,000 times per month on the product page. Retailer XYZ is not in a position to invest marketing dollars in frivolous activities, and therefore has made a decision that any new investment must pay for itself in 6 months or less.

Where should Retailer XYZ spend its scarce marketing dollars on video production?

Before Video:

Product	Page views/mo	Conversion Rate	Gross Margin	Product Price	# Units Sold (Page views * Conversion rate)	Product Sales (# Units Sold * Product Price)	Gross Profit to Retailer XYZ (Product Sales * Gross Margin)
Widget	500	5%	50%	\$50	25	\$1,250	\$625
Gizmo	5,000	5%	50%	\$50	250	\$12,500	\$6,250

After Video: (Assumes 5% lift in existing conversion rate at product page, \$1,000 to produce original video content for each product)

Product	Pageviews/mo	Conversion Rate	Incremental Product Sales (.25 increase in conversion rate = 5% of 5%) * Product Sales	Incremental Gross Profit (.25 increase in conversion rate = 5% of 5%) * Gross Margin	Cost to Produce Video Asset	# Months to break even (Cost to produce video asset/incremental gross profit to retailer XYZ)	Incremental Gross Profit to Retailer XYZ over 6 month period (Incremental Gross Profit * 6) - Cost to Produce Video Asset
Widget	500	5.25%	\$62.50	\$31.25	\$1,000	32	(-\$812.50)
Gizmo	5,000	5.25%	\$625.00	\$312.50	\$1,000	3.2	\$875.00

Strategy One: Increasing On-site Conversion Rates Using Video

E-commerce retailers are interested in using video on their web sites to increase conversion rates. Case studies support the argument that on-site video can increase conversion, but many retailers don't know where to start. Should video be placed on product pages? The home page? Brand pages? Category pages? Search results pages?

The answer: "it depends." When deciding where to place video on a retail web site, it is important to first assess the goals for the online video program carefully. The ultimate goal of most e-commerce merchants is to move products. Video should therefore drive consumers closer to the point of transaction or increase the overall number of transactions, regardless of where it is placed on the site. Use of video in other ways on an e-commerce site may be useful for other reasons (build trust, drive community building efforts) but as a marketing channel, video must be held accountable for sales performance.

Video content strategy

Using Video on Product Pages:

1. Videos placed on product pages are usually 15-sec to 5-min in duration, depending on the type of product for sale. Since a consumer on the product page is likely already considering purchasing the product, it is important that videos on the product page be used to "tip the sale" rather than "re sell" the customer on a product already being considered. Therefore, successful videos on the product page often provide the customer with additional content focused on product features & benefits that clearly demonstrate the retailer's knowledge. In most cases, promotional content within videos on product pages is a secondary element.

Placement of product page videos is also important. Shoppers on the product page are further along in the purchase process than shoppers on brand or category pages, so retailers should be mindful that video not distract from the shopping experience. Placing product page videos as anything other than a secondary element should only be done after careful testing, as the experience may seem 'jarring' for some customers and could actually harm product sales.



TIP: There is no "right" and "wrong" length for videos placed on product pages. While simple, lower-priced products may fit best with shorter videos lasting no more than 15 seconds to 1 minute in duration, more complex products that involve a considered purchase decision may benefit from longer videos explaining the product's features and benefits in greater detail.

Using Video on Category & Sub-Category Pages:

2. Videos placed on category and sub-category pages are usually 15-sec to 5-min in duration, with the focus of the videos primarily educational, guiding the shopper through the category. For example, a "coats" category might feature a video of an actor guiding the shopper to the proper sub-category selection. For example, an apparel retailer might produce a video with an actor saying, "The 'heavy raincoats' sub-category includes only coats designed to withstand hurricane-strength winds, while the 'light raincoats' category features raincoats perfect for those who live with only occasional mildly inclement weather." A category video might link a shopper to a sub-category, or it could be used to merchandise a hot-selling product within the category.

A retailer focusing on sub-category pages is probably concerned with providing shoppers with a value-added service experience. These videos can serve as competitive differentiators that build customer loyalty and enhance the shopping experience. Sub category videos are often used to compare different products within the sub category for the customer. For example, a shoe retailer might walk the shopper through the top five selling products within the sub category, explaining the nuanced differences between the products for the customer. As products are featured within the video, the shopper should have an option to link to the product page as each product is featured.



TIP: Linking within videos is almost always a good idea as long as the link drives the consumer closer to the transaction.

Using Video on Retail Blog and Search Results Pages

3. Videos served on non-product specific retail blog and search results pages should be served dynamically, with the most relevant video to the blog content or user search query automatically displaying within real estate allocated for the video. Videos might be promotional or educational in nature.



TIP: The use contextual targeting, behavioral targeting, or other targeting mechanisms to dynamically display the most relevant videos on site pages can help automate video management while driving additional traffic to product pages.

Using Video on Brand Pages:

4. Showcasing brand-specific videos of hot-selling products on brand pages is an excellent way to drive more traffic to product pages and generate incremental sales. However, placement of the videos should be carefully considered as many shoppers searching for products other than the top-sellers might be distracted. Videos on brand pages might be promotional or educational in nature. These videos are often produced by manufacturers.



TIP: To auto-play or not to auto-play? That is the question. Unless you have tested auto-play and know that it provides additional lift for your use case, the best practice is to leave auto-play off by default when shoppers are on your site. Enabling auto-play can be annoying to those shoppers not interested in watching the video.



“We have to make sure this is easy for our customers to use,” says Rich Lesperance, director of web sales and operations at Circuit City Stores Inc. “[Use of online video] is definitely about building repeat visitors and loyalty, and our entire emerging media and company marketing strategy is designed around that.”

Who produces the video?

1. On the product page, either the retailer or the manufacturer of the product typically produces the video. Less often, it might be a consumer video. Manufacturer videos tend to be more promotional in nature, but this isn't always the case. Consumer videos may instill a sense of trust, but in most cases will lack important product feature and benefit information sought by shoppers on these pages. Retailer-produced videos are usually ideal as a secondary video element on the page, while consumer-produced videos make excellent tertiary elements to feature.



TIP: Generally, shoppers on the product detail page are already considering purchasing the product. Video on the product page should therefore focus on 'tipping the sale' by convincing the shopper on the fence that he or she is making the right decision by completing the purchase, rather than being overtly promotional.

2. Videos placed on category pages are almost always produced by the retailer, not the manufacturer. This is because typical category pages feature products from multiple brands. Category pages represent prime real estate for building trust by showcasing product knowledge across the product lines the retailer sells. Through objective advice and a willingness to guide the shopper to make a more informed decision, a retailer can build trust and confidence in its own brand while enhancing the customer experience.
3. Videos placed on brand pages may be produced by the brand manufacturer or the retailer. Note that such videos can often be acquired directly from manufacturers or through a manufacturer video exchange service for no cost.



TIP: Use of a manufacturer video exchange service, either as a standalone application or through a video commerce service provider (VSP) can lower the friction and cost to acquire videos for deployment on your product or brand pages.

**DOCTORS
FOSTER and SMITH**

Gordon Magee, manager of Internet marketing and analysis at Drs. Foster & Smith, says the retailer plans to expand its video inventory to hundreds from the fewer than 10 currently on DrsFosterSmith.com. "We will have a ton of videos from how-to's to things on our company's history," he says.

Strategy Two: Acquiring New Customers Using Video

Today, more retailers are further along in on-site video deployments than video syndication – even though the on-site deployment space is itself still in its infancy. With video syndication, retailers can acquire new customers by pushing videos to affiliates through LinkShare®, Commission Junction® and other affiliate networks. Retailers may

also upload their videos to video sharing services & video sites such as YouTube, Google Video, AOL Video, etc. Next, retail videos can be placed on social networks by customers (e.g. Facebook, MySpace) and on web bookmarking & rating services (e.g. StumbleUpon, digg). Finally, retailer videos can be pushed to social networking tools like Twitter and external blogs, or through online video advertising/display networks to reach new audiences across highly trafficked web publisher sites.

Video content strategy

1. Shorter-form promotional videos are ideal when the goal is to increase the number of new customers acquired from locations other than your own web site. Videos should link to product pages from within the video if possible, to product pages from related video metadata if direct linking is not possible (e.g. YouTube), or display pre, mid, or post-roll content with a URL to the retail site to drive traffic. Since the purpose of video syndication is generally acquisition rather than converting existing traffic, retailers may choose to be more liberal with the use of auto-play functionality. However, auto-play should only be used after consideration is paid to the potential brand impact.



Q & A: "Pre-roll" refers to content that displays in a video prior to the video initiating playback. "Mid-roll" refers to content that displays in the middle of the video during playback. "Post-roll" refers to content that displays at the conclusion of the video.



TIP: When distributing videos off a retail site to video sharing services, social networks, blogs, or a retail destination video site, retailers only build awareness unless there is a mechanism in place to drive traffic back to the e-commerce site. Therefore, it is critical that off-site videos link directly to your retail site through the video whenever possible, either through the video player itself (e.g. "buy" button or embedded links in the video) or through associated video metadata (e.g. YouTube "More Info"). At minimum, the video should display information within the video directing the shopper to your site (pre, mid, post-roll content with URLs). Videos off-site should also be SEO optimized through the use of tags, descriptions, permalinks (where possible), and video transcription (where possible).

- When displaying videos on a retail video destination site, the use of dynamic cross-sell based on the video currently playing can drive incremental conversion from the page by featuring relevant products.

Beauty.com uses dynamic cross-sell on its retail video destination site to drive incremental conversion from the page.

The use of social sharing elements within the video player or on the page the video is playing provide free syndication opportunities.

- To reach a broad audience, it is important to distribute your videos as widely as possible; while YouTube is by far the largest video sharing service, with around 50% total market share according to a recent report,* there are over 50 video sharing services in existence today that cater to niche audiences and targeted demographics.

Top 20 Video Competitors

(Ranked by Video Viewing Visits, July '08)



	Market Share (Video Viewing Visits)			Change (Percentage Points)	
	07/08	06/08	07/07	vs. 06/08	vs. 07/07
Google	49.0%	47.8%	41.0%	1.3	8.1
Yahoo	6.3%	6.4%	7.8%	(0.1)	(1.5)
Fox Interactive Media	4.0%	4.8%	11.2%	(0.9)	(7.2)
Microsoft	3.0%	3.6%	3.1%	(0.6)	(0.2)
Time Warner	2.9%	3.2%	1.4%	(0.3)	1.6
Veoh.com	2.8%	2.8%	1.2%	(0.1)	1.6
ABC	2.4%	2.5%	1.5%	(0.1)	1.0
AOL	2.4%	2.7%	2.7%	(0.4)	(0.3)
NBC	2.3%	2.7%	0.5%	(0.5)	1.8
Break.com	1.9%	1.4%	1.2%	0.5	0.7
Viacom	1.4%	1.4%	1.3%	0.1	0.2
CBS Interactive	1.3%	1.2%	1.4%	0.2	(0.1)
Heavy.com	1.1%	0.9%	2.9%	0.3	(1.8)
Facebook Video	1.1%	1.0%	0.5%	0.2	0.7
Hulu.com	1.0%	0.8%	N/A	0.2	N/A
Blinkx.com	0.9%	0.5%	0.1%	0.5	0.9
Crackle.com	0.8%	0.6%	0.1%	0.3	0.8
Metacafe.com	0.8%	0.7%	0.9%	0.1	(0.1)
Dailymotion.com	0.8%	0.7%	0.7%	0.1	0.2
Walt Disney Internet Group	0.7%	0.8%	1.0%	(0.1)	(0.3)

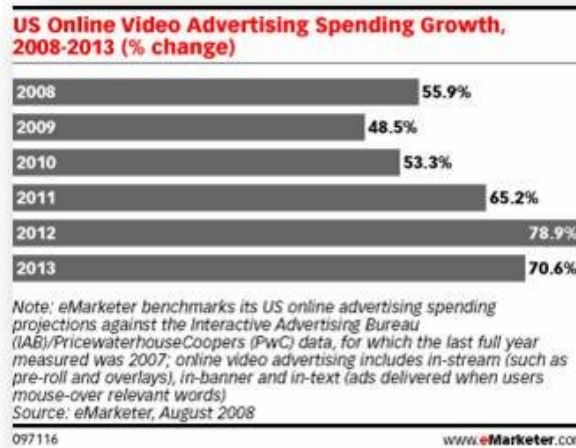
4. Next, it is important to optimize videos placed on video sharing services for SEO through the use of tags, descriptions, and links in order to drive traffic to the videos. For videos served on your branded destination retail site, consider driving traffic through the following SEO techniques:
 - Use of permalinks on video pages
 - Descriptions of the video content
 - Tags for the video
 - Video transcription to text
 - Use of the word "video" in your URLs, in the video descriptions, and throughout the branded destination retail site.
5. For videos served on video sharing services (e.g. YouTube), make sure videos are tagged and include links driving traffic to your site or pre, mid, or post-roll content that includes your site logo and URL so shoppers know where to purchase.
6. Videos served on affiliate or 3rd party publisher sites are generally shorter-form (15 sec – 60 sec) and include an immediate "buy" option or embedded links within the video directing shoppers to your e-commerce site. Videos may be targeted contextually on affiliate sites or display networks based on the content of the page where the video is rendered, and/or behaviorally, based on prior clickstream and site visit activity of the consumer. Alternatively, affiliates or publishers may choose from a retail video library to self-select a video.



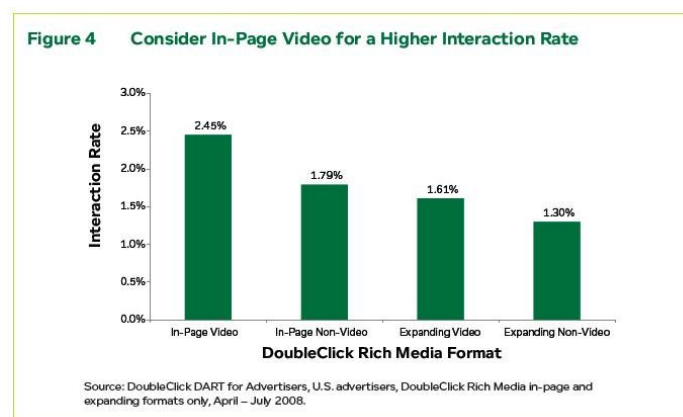
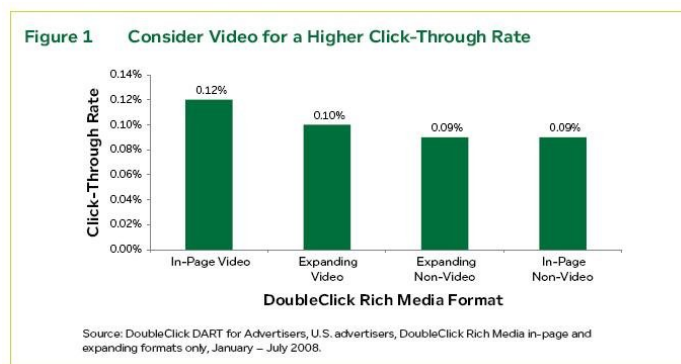
FYI: Integration with your affiliate management system (e.g. LinkShare, Commission Junction, Google Affiliates) may be required in order for your affiliates to collect commissions from traffic directed to the retail site through your videos and for targeting of your videos on affiliate sites.

7. Many retailers have created a YouTube channel. A YouTube channel is a retail presence on YouTube (example: <http://www.youtube.com/user/TigerDirectBlog>). The same fundamentals of video commerce apply on YouTube channels; unless the retailer is providing a mechanism to the viewer to complete a transaction through the use of links to the retail site or through pre, mid, or post-roll content driving traffic to the retail site, the channel serves an awareness purpose only.
8. Next, providing mechanisms to customers to distribute videos is another way to drive site traffic. The ability to embed a video to a blog, Facebook page, MySpace page, digg, Twitter, or other social networking services can also drive traffic (see example on previous page).

9. Last, spending on online video advertising is exploding. Annualized growth rate is expected to hover nearly at or above 50% to nearly 80% over the next five years. The growth of new video ad networks partnered with hundreds of the top publishers on the web has created a new opportunity for online advertisers seeking better returns than conventional display advertising across a broad array of highly trafficked web sites.



A [September 2008 study](#) released by DoubleClick on the effectiveness of rich media advertising found that video ads drove higher engagement and clickthrough rates than traditional display ads, and additionally that 55% of in-page video ads were watched to completion. See below.



Who produces the video?

Use of manufacturer video with retailer co-branding represents an excellent opportunity for off-site distribution at low cost. Retailer-produced or consumer videos can also be used.

Manufacturer videos of a more promotional nature may be more effective in driving traffic to product pages and could represent a good starting point for mass merchants and specialty, non-private label retailers. Shorter retailer-produced videos may also do well. No matter who produces the content, the video should link back to the retail site or at least contain pre, mid, or post-roll content informing the consumer where to find the products or services featured in the video.



TIP: when driving traffic from off-site for promotional purposes, a general best practice is to include the 'hook' for driving the traffic back to your site as soon as possible. The use of video engagement metrics and falloff reports can help determine if the hook is placed too late in the video.

Strategy Three: Building a Community of Users with Video

Video content strategy

Video is the most viral medium; most likely to be shared, and most likely to elicit an emotional response from the viewer. As e-commerce professionals, our responsibility is to sell products. Therefore, a successful video commerce viral video strategy needs to generate measurable results that support the business goals. "Going viral" purely for the sake of producing a widely distributed video is not video commerce because it leaves out the "commerce" component.



TIP: Retailers can maximize the potential for a video to become "viral" by producing content that people want to share – the use of humor, wit, or showcasing the fantastic or unexpected are great ways to increase the likelihood of a successful viral video. In addition, the retailer needs to provide opportunities for consumers to share video content off-site with their friends and members of the consumer's social network(s).

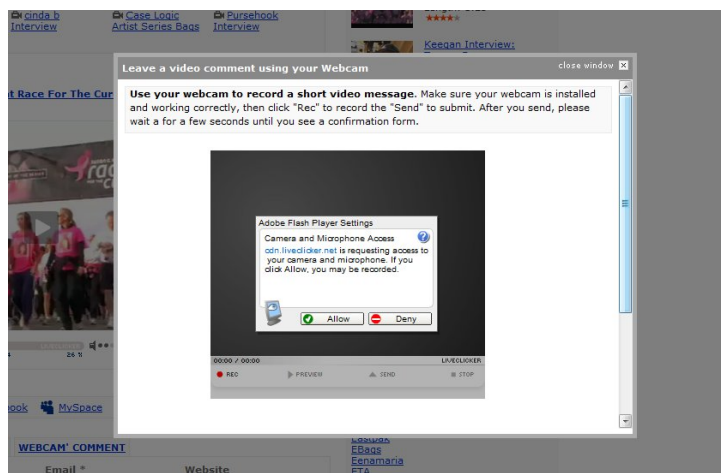
Relatively simple technology enables posting of videos on your site or destination video site to social networks, consumer blogs, bookmarking services, and through email (note: due to rendering limitations in many email clients, the best practice for video distribution through email is to send a .GIF or .JPG "video" thumbnail. The thumbnail could contain a play button overlaid on the first frame video content, or an animated .GIF in email where the first frame contains a clear indication the content is video, as not all email clients support animated .GIFs).



FYI: Simply placing sharing elements in or around the video or posting a video to YouTube does not a viral video make. The distribution mechanisms for the video merely enable the viral effect; the video content itself is what ultimately determines whether the video has the potential to go viral or not.

User-generated videos represent another opportunity to build community with video.

With webcam reviews, a webcam connected to the consumer's computer can be activated from within the web browser (on request of the consumer). The consumer records a short review, and submits it to the retailer for approval. A product video review video would be more involved, requiring the consumer to record a video away from his or her computer, and then upload the video through the retailer's web site or destination video site.




Ebags uses webcam reviews to engage consumers with video.

To date, consumer generated video product reviews have not yet become mainstream with online retailers. The retailers that are experiencing success with this type of video generally are providing some kind of incentive to the consumer in order to produce the video (e.g. free shipping on the next order, future discount, etc). Sites like ExpoTV actually pay consumers to create videos, then insert ads within the videos on the ExpoTV destination site to drive traffic to advertisers.

Last, consider other more traditional consumer dialogue with your video commerce initiative. The simple ability to comment on videos can improve retailer SEO while building trust.

Building an ROI Model for Online Video

In the previous sections, we outlined best practices for driving additional conversions on-site and opportunities to acquire new customers through off-site video syndication. In order to build a solid ROI model, a retailer also needs to understand the costs involved with launching and managing a video commerce program. Tips in this section focus on how to increase ROI along with some pragmatic advice to help keep costs in check.

	<p>The levels of effort and costs involved in producing an online video strategy differ among retailers. At the high end are retailers like Drs. Foster & Smith, which is building its own video production studio to produce high-definition product and educational videos to complement the content customers are accustomed to seeing in its TV programs. HSN.com, the e-commerce site of IAC InteractiveCorp's Home Shopping Network, is also on the high end, leveraging its connections with TV personalities like chef Wolfgang Puck in several types of video content.</p>
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The following are example costs you are likely to incur in launching a video commerce program.*

- Planning, strategy, and management costs
 - Costs related to the planning of your video commerce initiative, such as creating a strategy, program calendar, planning for and hiring vendors, consultants, or additional staff to support your efforts, as well as creating formal internal processes to support video commerce in your organization.
 - Includes 'soft' management costs required to manage and optimize your video on-site and through off-site channels through ongoing measurement, analysis, and course-correction.
- Production & equipment costs
 - Includes one-time costs you are likely to incur to buy video production equipment (cameras, software, lighting, sound equipment, set materials, etc) or costs you pay to rent this equipment from a video production vendor.
 - Includes ongoing costs related to video production, such as compensating script writers, actors/models, paying staff salaries, video editing and other costs related to the production of video content.
- Technology costs
 - Includes costs for internal technical resources required to integrate online video onto your site, build functionality for video distribution & measurement, and automate manual processes in the video deployment process.
 - Includes costs paid to a video commerce solutions provider to integrate videos onto your site, acquire new video content from external sources, host video, dynamically deploy your videos to off-site channels, and provide metrics & analysis of your video commerce efforts.
- Opportunity costs
 - Opportunity costs represent the lost potential revenue you could earn by focusing resources toward video commerce as opposed to other business initiatives or online marketing channels.

"The secret to producing effective videos is very detailed and comprehensive pre-production planning and assembly line efficiency that allows you to shoot the maximum number of videos per day. Your fixed costs per day for studio time, photographers, stylists, models and assistants can be substantial so you need a well-oiled process that runs at maximum efficiency," [says Tom Lindmeier](#) of Market Plan B and former Director of E-Commerce at Junonia Ltd (no 412, Internet Retailer Top 500).

Developing an ROI-Oriented Video Commerce Strategy

Video Planning, Strategy, and Management Costs:



ROI-ORIENTED STRATEGY: Focus initially on creating videos most likely to produce a positive ROI by understanding the possible applications of video commerce. Apply video to your best-selling and/or highest margin products or categories first.

Video Production Costs:



ROI-ORIENTED STRATEGY: Whenever possible, rely on merchant videos and videos that have already been produced as you start. If you will be producing videos in-house, try starting out by using existing production resources whenever possible. Carefully and realistically assess the need to have truly professional-quality content versus the need to cost-effectively produce 'amateur' video for the web site during the pilot phase.

Video Technology Costs:



ROI-ORIENTED STRATEGY: Technology can help you dynamically and intelligently target your videos on your retail commerce site and off your retail site for added relevance and video performance. A Video Commerce Services Provider (VSP) can automate video encoding & deployment, automate distribution of your video content to affiliates, across video sharing sites, and social networks, while delivering performance metrics and video management capabilities without the need to involve internal IT resources on an ongoing basis. However, if your IT team has resources available to help with your video commerce launch, it is likely less expensive to start out using your internal technology group.

Opportunity Costs:



ROI-ORIENTED STRATEGY: Use the case studies in this whitepaper to create conservative assumptions about the likely performance of video on your site through incremental conversion applied intelligently to your top-selling, high margin products. Develop conservative assumptions about the possible universe for your videos off-site to affiliates, on video sharing sites and social networks given your content strategy to estimate the number of new customers you could acquire. Benchmark the revenue impact from better site conversion and new customers acquired to the investment in other business and e-commerce initiatives.

Video Commerce Example Case Study & Completed ROI Worksheet



Meet Bob. Bob is the Director of E-Commerce at Fictional WidgetStore, Inc. He has an interest in learning more about online video for e-commerce. Bob heard somewhere that video can be used to generate incremental revenue for e-commerce retailers (he thinks he may have read a couple of case studies about it in a whitepaper – but he cannot exactly recall).

Like many of us, Bob is a natural skeptic. He remembers his team paid a consultant to produce some videos a couple of years back and nothing ever came of it. Plus, video is so new and unproven in the online retail space. Bob is especially worried about the cost to produce video and get it on his site. His political capital with the Director of IT is also running low, and the technology group is so busy and focused on other projects anyhow.

To make matters even more difficult for Bob, he just learned yesterday his entire e-commerce budget for next year was slashed, so he's going to have to move one of his team members to part-time, which means fewer resources to move forward with something like online video.

Topping it off – as if things weren't bad enough already for our friend Bob – both the CMO and the CFO are riding him hard to hit sales projections put into place before the general economic slowdown took hold. He is worried about next year and knows that falling consumer confidence combined with the general retail climate are going to put added pressure on Fictional WidgetStore "get back to fundamentals" and invest only in activities where there is a high confidence of strong ROI.

Whatever is Bob to do?! Is online video at Fictional WidgetStore doomed to the dust bin?

Normally, Bob might just slough off online video as something that can be tackled "in a couple of years," but something tells him he shouldn't wait on this opportunity. He has a "gut feel" there is something to online video that demands further exploration. Plus, one of his team members brought up the prospect of using online video in last week's staff meeting. Bob sees others in the marketplace moving forward with video, and even knows one of his competitors recently launched an online video initiative, so he knows it can be done. Bob doesn't want to be left behind.

Implementing online video would also be a high visibility initiative for Bob. If things go right with a small scale pilot, he just might be able to secure some more resources after all. He knows that succeeding with video would reflect well on the CMO and could even help Bob's own prospects for advancement.

After thinking about it a bit, Bob decides to make a rational business decision about whether to invest in online video. He picks up the whitepaper "Building an Effective Video Commerce Strategy," reads it, and gets to work.

1. First, Bob logs into Omniture Sitecatalyst (his web site analytics system) and gathers information on his site's performance he will need to assemble revenue projections. Bob already decided he would only invest in creating six videos in a small pilot to start. Bob read that he should focus his efforts on the top selling products first. Below is the list he created of his top 5 selling products:

Product	Price:	Page views (monthly)	Conversion rate	Total sales (monthly)
Gadget	\$10.00	100,000	5%	\$50,000
Gizmo	\$8.00	100,000	5%	\$40,000
Widget	\$6.00	100,000	5%	\$30,000
Thingamajig	\$5.00	100,000	5%	\$25,000
Thingy	\$4.00	100,000	5%	\$20,000
Dingle hopper	\$3.00	100,000	5%	\$15,000

2. Next, Bob makes some assumptions about the lift in conversion he can expect to see from video. He reads five case studies in the Building an Effective Video Commerce Strategy whitepaper that mention specific lift other online retailers have been able to achieve by using online video:

E-Commerce Retailer	Conversion Lift
Circuit City	12%
eBags	50.1% - 138.9%
ShopNBC.com	200%
Ice.com	40%
Wet Seal	200%

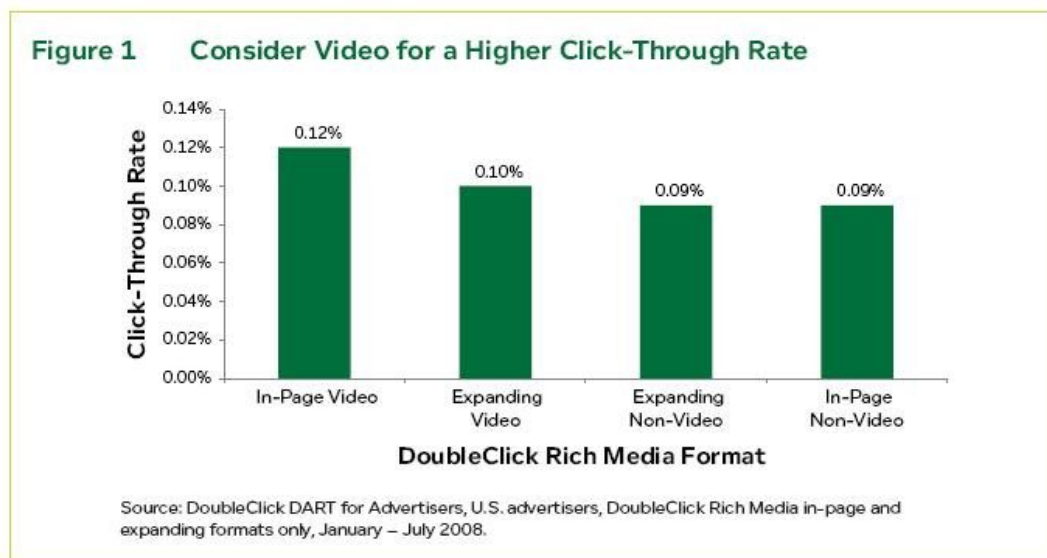
Bob decides to assume a 10% lift in conversion as a reasonable assumption for Fictional WidgetStore. That would make his projections more conservative than all of the case studies. Using the 10% number, he calculates incremental sales for 6 product videos on the Fictional WidgetStore web site.

Product	Price:	Page views (monthly)	Lift from Video	New Conv. Rate	Incremental sales (monthly)
Gadget	\$10.00	100,000	10%	5.5%	\$5,000
Gizmo	\$8.00	100,000	10%	5.5%	\$4,000
Widget	\$6.00	100,000	10%	5.5%	\$3,000
Thingamajig	\$5.00	100,000	10%	5.5%	\$2,500
Thingy	\$4.00	100,000	10%	5.5%	\$2,000
Dingle hopper	\$3.00	100,000	10%	5.5%	\$1,500
Total					\$18,000

3. Next, Bob takes an inventory of his current traffic and sales from video-ready online marketing channels. Fictional WidgetStore currently runs an affiliate program and an online display program. The company is not currently distributing any videos to video sharing services such as YouTube, Yahoo Video, Google Video, or to any social networks:

Channel	Current Traffic (visitors/mo)	Inbound Traffic Conversion Rate	Average Order Value (AOV)	Current Total Sales (monthly)
Affiliates	50,000	5%	\$100	\$250,000
Display	50,000	5%	\$100	\$250,000
Video Destination Site (e.g. yoursite.tv)	0	5%	\$100	\$0
Video Sites (e.g. YouTube)	0	5%	\$100	\$0
Social Networks, Blogs	0	5%	\$100	\$0

Bob wonders if there might be an opportunity to drive additional sales through video by acquiring new customers from outside his retail site using some of the channels above. He remembers the case study detailing performance of in-page video ads versus traditional display:



The case suggests that clickthrough rates on in-page video ads are 30% higher than traditional display ads. All Bob's affiliates are presently using standard in-page banners or text links to drive traffic to Fictional WidgetStore. After looking over the data, Bob decides he will again choose a conservative benchmark for lift from video, 10%.

He suspects that he can also drive additional site traffic from posting his videos to a new SEO optimized retail video destination site, and by posting videos to YouTube, Google Video, Twitter, and other social networking and bookmarking services. However, since Fictional WidgetStore is not currently driving any traffic through these channels, he makes a conservative assumption about new traffic from these sources.

Channel	Projected Traffic @ 10% lift (visitors/mo)	Inbound Traffic Conversion Rate	Average Order Value (AOV)	Incremental Sales (monthly)
Affiliates	55,000	5%	\$100	\$25,000
Display	55,000	5%	\$100	\$25,000
Video Destination Site (e.g. yoursite.tv)	1,000	5%	\$100	\$5,000
Video Sites (e.g. YouTube)	1,000	5%	\$100	\$5,000
Social Networks, Blogs	1,000	5%	\$100	\$5,000
Total				\$65,000

After tallying up the expected incremental monthly sales from video, Bob now has projected revenues against which he can benchmark costs to create an ROI analysis.

Reporting Period	Projected Incremental Sales
Monthly	\$83,000
3-month	\$249,000
6-month	\$498,000
12-month	\$996,000

4. Now that revenue projections are out of the way, Bob creates a grid outlining the anticipated costs of moving forward with online video. Since Bob is cost-conscious and does not want to do anything too risky, he builds cost-cutting tactics into his initial assumptions.

Planning, strategy, and management costs (one-time)	\$5,000 (soft cost - for staff salaries that would have been paid anyway – Bob decides this can be done internally on his team, with the guidance of free industry resources such as the video commerce consortium and whitepapers on the Internet. He allows for time for staff to train up).
Planning, strategy, and management costs (ongoing)	\$1000 (soft cost – for staff salaries that would have been paid anyway – Bob plans on managing the program internally using an existing resource, and estimates it will take around ¼ FTE to manage the program on an ongoing basis).
One-time costs for production equipment and software,	\$2,500 (hard cost – Bob decides to keep things simple and use a basic consumer digital HD camcorder to record the videos for Fictional WidgetStore. The creative team has a couple of lapel mics lying around he could use, but he'll need to buy some video editing software). There is an open office in the building he can use for a recording studio, so he doesn't need to worry about studio rent. He and his team will bring in some lights from home – he'll delay buying professional equipment until the business case is proven out.
Ongoing production costs	\$1,000 per video asset, 6 total assets, \$6,000 (soft cost – this will be done by existing staff). Bob knows that it is possible to produce video more cheaply, but he knows that things are likely to go a little more slowly out of the gates until the production process is well-oiled, so he budgets a little higher on the soft cost here). He plans to roll out all videos the first month of the pilot. He understands the quality he will get in his videos will not be perfect professional quality, but initially he decides it is more important to prove the business case, and therefore he is willing to make a short-term sacrifice for the cost savings.

Technology costs (one-time)	\$0 - \$5,000. Bob doesn't know if he will be able to count technology as a soft cost for the IT salaries required to set up the site for video, but he estimates \$5,000 for this expense. He could also use YouTube to place videos on his site, or a video commerce service provider (VSP). YouTube is free, but it lacks important functionality Bob will need to acquire customers and make a larger revenue impact. He decides he will conduct an ROI analysis after he gets a better sense for the ROI ballpark he is likely to end up in.
Technology costs (ongoing)	Since Bob has not run a video program before, he decides he will go get some quotes from VSPs based on his anticipated ROI picture to benchmark those against possible internal costs to maintain the video commerce technology. Internal technology costs might be free or soft costs only, but he might also need unanticipated technical resources to run the program or additional functionality not currently in-house. For now, he budgets \$2,500/mo.
Opportunity costs	Bob will wait to complete the opportunity costs section until he can compare the expected ROI of the online video initiative to other initiatives he would like to invest in.

5. The last thing Bob needs to do is run an ROI analysis. He decided a 6-month pilot would be a good test period, and committed to make 6 product videos to run the duration of the period for his 6 top selling products. Bob also committed to try running videos across his affiliate and online display channels, and to add new channels for video sharing sites (e.g. YouTube) and a retail video destination site.

Bob does not want to artificially depress his costs, so he decided to include not just hard costs, but all his soft costs as well. Below is Bob's ROI analysis.

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	TOTAL
Revenues							
On-site video	\$18,000	\$18,000	\$18,000	\$18,000	\$18,000	\$18,000	\$108,000
Off-site video	\$65,000	\$65,000	\$65,000	\$65,000	\$65,000	\$65,000	\$390,000
TOTAL	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000	\$498,000
Costs							
Planning (1X)	(\$5,000)						(\$5,000)
Planning (ongoing)	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)	(\$6,000)
Production (1X)	(\$2,500)						(\$2,500)
Production (ongoing)	(\$6,000)						(\$6,000)
Technology (1X)	(\$5,000)						(\$5,000)
Technology (ongoing)	(\$2,500)	(\$2,500)	(\$2,500)	(\$2,500)	(\$2,500)	(\$2,500)	(\$15,000)
TOTAL	(\$22,000)	(\$3,500)	(\$3,500)	(\$3,500)	(\$3,500)	(\$3,500)	(\$39,500)
Revenues - Costs							\$458,500
Return on Investment							11.6X

- Take an inventory of your current traffic and sales from video-ready online marketing channels (affiliate and online display).

Channel	Current Traffic (visitors/mo)	Inbound Traffic Conversion Rate	Average Order Value (AOV)	Current Total Sales (monthly)
Affiliates				
Display				
Video Destination Site (e.g. yoursite.tv)				
Video Sites (e.g. YouTube)				
Social Networks, Blogs				

Choose a benchmark for lift from video from your offline channels.

Channel	Projected Traffic @ 10% lift (visitors/mo)	Inbound Traffic Conversion Rate	Average Order Value (AOV)	Incremental Sales (monthly)
Affiliates				
Display				
Video Destination Site (e.g. yoursite.tv)				
Video Sites (e.g. YouTube)				
Social Networks, Blogs				
Total				

Projected revenues against which you can benchmark costs.

Reporting Period	Projected Incremental Sales
Monthly	
3-month	
6-month	
12-month	

4. Create a grid outlining the anticipated costs of moving forward with online video.

Planning, strategy, and management costs (one-time)	
Planning, strategy, and management costs (ongoing)	
Production costs & equipment (one-time)	
Production costs (ongoing)	
Technology costs (one-time)	
Technology costs (ongoing)	
Opportunity costs	

5. Run a basic ROI analysis.

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	TOTAL
Revenues							
On-site video							
Off-site video							
TOTAL							
Costs							
Planning (1X)							
Planning (ongoing)							
Production (1X)							
Production (ongoing)							
Technology (1X)							
Technology (ongoing)							
TOTAL							
Revenues - Costs							
Return on Investment							



More Information

For more information, join the VCC ([Video Commerce Consortium](#)) to discuss video commerce with a community of peers. The VCC is a non-profit trade organization dedicated to advancing the use of online video in e-commerce. It is the world's largest community of online marketers, e-commerce professionals, and technologists dedicated to learning about and advancing the use of video in e-commerce.

You may submit an application to join the consortium at www.video-commerce.org.

[Justin Foster](#) is the Founder of the Video Commerce Consortium, and is Co-Founder of Video Commerce Services Provider [Liveclicker](#). You can contact Justin at [justin \[at\] video-commerce \[dot\] o r g](mailto:justin@video-commerce.org), or via phone at 253-988-3183.

Video Commerce Consortium Members

