Journal of Retailing and Consumer Services 41 (2018) 161–168

Contents lists available at ScienceDirect

Journal of Retailing and Consumer Services

journal homepage: www.elsevier.com/locate/jretconser

The determinants of conversion rates in SME e-commerce websites

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ARTICLE INFO

Keywords:
Conversion rate
Web retailing
SMEs
FQCA

ABSTRACT

Web retailers invest significant resources to improve the proportion of website visitors that make a purchase, also known as the conversion rate. Improving this rate is particularly important to SMEs that have traditionally lagged behind larger firms as they have found it difficult to justify the significant investment involved in website development against the historical low returns associated with an online sales channel. Identifying methods that increase conversion rates reduces these perceived barriers and increases effective SME participation in the growing e-commerce sector. This paper uses 1184 observations from 6 SME websites to identify and analyse the factors, or combination of factors, that improve conversion rates. This is achieved through a process of exploratory regression analysis to select the most relevant determinants and Qualitative Comparative Analysis (QCA) to offer more 'fine-grained' detail on the conditions where conversion rates improve. Our findings suggest that a key factor that improves the conversion rate is a strategy that focuses upon either quality or promotion and avoids mixing such attributes within the web site offer.

1. Introduction

An increasing number of firms in the retail sector have developed digital channels to support sales and marketing strategies (Kaufmann et al., 2012) and online retailers have become gradually more successful in increasing traffic to their websites. As a consequence, projections show that retail ecommerce sales will increase from $1548 trillion in 2015 to $4.058 trillion in 2020, making up 14.6% of total retail spending (Smart Insights, 2017). To manage this evolution, web retailers need to invest significant resources, to enhance functionality, increase visitor numbers and convert more such visits into purchases (Ayanso and Yoogalingam, 2009). However in the SME sector where resources and expertise are limited, this activity must be accomplished with considerable efficiency and cost effectiveness (Grandón et al., 2011; Cronin-Gilmore, 2012). In the past, concerns about costs and the strategic relevance of online sales has limited SME engagement in e-commerce activity (Bharadwaj and Soni, 2007), but, as on-line retail sales have grown, such concerns are no longer valid and internet/web-based technologies are widely recognised as an important element of effective sales and marketing (Bell and Loane, 2010; Jeansson et al., 2017). In Italy the fashion industry provides a good example of this change. Defined as a market where apparel, bags, shoesand related accessories are sold (Christopher et al., 2004), the Italian fashion market in 2016 has an approximate value of 90 billion euros and unlike general industry trends has exhibited positive growth rates in the recent past (source: Mediobanca Study Office).[1,2] The SME sector accounts for more than half of this market value. It is important to recognise that the key factors that underpin this positive performance are increases in exports (+ 5.9%) and online sales (tripled from € 5 million in 2007 to € 15 million in 2015 (source: Il sole 24 ore).[1] Changes of this nature in the business environment have been recognised by SMEs and the sector is developing strategies to overcome barriers and exploit this opportunity.

These barriers, most often, refer to the limited skills and resource available to SMEs that discourage the adoption of e-commerce initiatives but also refer to the perceived difficulties in creating online reputation once resources have been committed (Kim et al., 2013). Consequently, SME e-commerce investments have been cautious and focused more on supporting communication strategies and developing business intelligence (Stockdale and Standing, 2006). The development of websites for transactional purposes carries more risk as it requires considerably more investment (McDowell et al., 2016) and if conversion rates, defined as the number of visitors who make a purchase directly from a website as a percentage of total visitors (Ayanso and Yoogalingam, 2009; Viglia, 2014), are low such investment is difficult

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[1] http://www.ilsole24ore.com/.
[2] The detailed anonymized dataset is available upon request to the first author.

https://doi.org/10.1016/j.jretconser.2017.12.008
Received 29 October 2017; Received in revised form 6 December 2017; Accepted 18 December 2017
Available online 26 December 2017
0969-6989/

to justify.

To avoid up-front investment costs, SMEs often turn to the opportunities offered by e-commerce portals such as Amazon, Zalando or eBay. Such platforms have a larger internet footprint and can put SMEs in touch with significantly more customers but whether the benefits outweigh the costs is a moot point (Ritala et al., 2014). Independent firms that use established third party platforms to seek a foothold in the digital marketplace find themselves in a highly competitive and transparent environment. These markets are subject to commission on any sales completed and the platform controls the customer data making it difficult for small businesses to create consumer loyalty. Mauri (2003) has previously noted the difficulties that SMEs face to create loyalty in traditional retail and issues of data ownership can only amplify such issues in the digital market place. On a more qualitative note, industry analysts have expressed concern about the appropriateness of third party platforms for high end, luxury products, arguing that the front-end experience is not currently optimised for merchandising emotional products as their association on discounting often has a negative effect on those looking for luxury brands (Joy et al., 2014). Overall, the economies of scope and scale offered by third party platforms are often less beneficial to resource strapped SMEs that are competing on differentiation and product attribute. The alternative for an SME is to independently develop their own e-commerce website however, as Thimm et al. (2016) identify, only a minor portion of SMEs that invest in e-commerce functionality actually grow. This had led writers to argue that conversion rate management is a key factor in the digital technology adoption process of SMEs (Jia et al., 2017). We therefore suggest that any improvements in our understanding of the factors that enhance website conversion rates would be of considerable value to SMEs and the wider industry.

Despite the importance of conversion rates to sales and marketing strategies, research on understanding and analyzing the concept is limited (Ayanso and Yoogalingam, 2009). Previous studies have, in the main, focused upon enhancing our knowledge of online consumer behaviour, assuming that the intention to purchase is a strong predictor of actual consumption (Moe and Fader, 2004; Sismeiro and Bucklin, 2004; Hausman and Siekpe, 2009; Van Slyke et al., 2009; Lorenzo-Romero et al., 2014). Alternatively, work has considered the impact that improvements in search engine optimization techniques (Drèze and Zufryden, 2004; Ghose and Yang, 2009), or social media (Xiang and Gretzel, 2010) can have upon firm sales. This paper focuses directly upon conversion rates and seeks to identify factors that exhibit a positive influence upon a customer's decision to purchase once they have accessed the website. Following previous work (Ayanso and Yoogalingam, 2009), this study seeks to understand, through linear and equifinality relationships, the factors that underpin conversion rates by analyzing data from six different e-commerce websites in the fashion retail sector. The findings suggest that, for SMEs in this sector, improvements in conversion rates are possible, either by focusing on quality factors, or, paradoxically, by focusing exclusively upon promotional factors, such as discounted prices and free shipping.

2. Theoretical background and research hypotheses

The decision to adopt a website for commercial transactions is a salient for SMEs, given their budget constraints. As the Internet has developed so have the objectives and quality associated with company websites. In the early stages the focus was upon the dissemination of information and the provision of business intelligence (Daniel et al., 2002). These objectives placed the emphasis on increasing the amount of traffic to the website and success was measured by the number of unique visitors. Search engine optimization was integral to this process (Ayanso and Yoogalingam, 2009) but, as the online market has matured, websites have switched from a provider of information to a valuable sales channel and the emphasis moved from web traffic to the conversion of such traffic into sales (Drew, 2003; Jelassi and Leenen, 2003). The extant literature has followed this development with early work studying the technical requirements for site quality (Yoo and Donthu, 2001; Kim and Stoel, 2004) or focusing upon how customers are attracted to the website (Aladwani and Palvia, 2002; Parasuraman et al., 2005). Generalizing, Nguyen et al. (2016) argued that previous studies focused mainly on the use of marketing tools to improve consumer service levels, but that currently there exists a paucity of research conducted on the use of consumer service instruments to steer consumer behaviour and specifically to manage the conversion rate and consequently sales.

As websites evolved into sales channels limited research has investigated the factors that positively influenced the intention to purchase. Examples of this type of work include website visits (Moe and Fader, 2004), browsing experience and navigational behaviour (Sismeiro and Bucklin, 2004), web design and language (Hausman and Siekpe (2009) and website aesthetics and length of exposure (Lorenzo-Romero et al., 2014). While this is not an exhaustive list, it highlights the focus of previous literatures on the intention to purchase and not on the actual sale, with the implied strong assumption that any increase in purchase intention will lead to higher conversion rates.

Examining conversion rates in the wider context it has been well documented that traditional retail finds it hard to encourage people to purchase once they are in store, for example, Söderlund et al. (2014) suggest that 54% of visitors leave a retail outlet without making a purchase. While this of concern to high-street retailers, the conversion rate of ecommerce websites (2–4%) is significantly lower (Holzwarth et al., 2006; Sohrabi et al., 2012). In high-street retail commonly accepted explanations are that many customers, searching for a particular kind of product, visit several stores before buying or that shopping is simply a recreational activity (Gensler et al., 2017). These phenomena are particularly relevant in relation to e-commerce websites where the ease and speed with which users can move between websites is often seamless cutting the time and costs required to compare products encouraging such behaviour (Frost et al., 2010). However, historically e-commerce also generates issues that relate to trust within the transaction process, with customers concerned about the safety of personal information, credit card data and product authenticity (McCole et al., 2010; Kim and Peterson, 2017). In such circumstances consumers may use the website as a showroom, but purchase the goods from a high street store (Bonifield et al., 2010; Brynjolfsson et al., 2013). Although evidence suggests that consumer trust in online retail has significantly increased (European Commission, 2017), the use of a website just consultation – webrooming (Flavián et al., 2016) - would significantly impact SMEs that have limited, or no, off-line presence.

However, despite the perceived value in understanding the factors that improve conversion rates, there is limited literature that focuses upon the concept. According to Silverstein and Fiske (2003) increasingly wide income disparities, higher levels of education and other cultural ideas of the so-called "good life" have given rise to a new group of consumers interested in a new category of products and services, luxury products. These products represent desirable objects that are consumed primarily for an affective and sensory experience of aesthetic or sensual pleasure, fantasy, and fun. Furthermore, even when luxury products address basic necessities, they evoke and engage consumers' emotions while feeding their aspirations for a better life (Silverstein and Fiske, 2003). The relative high price of luxury products, coupled with a greater perception of uncertainty regarding the authenticity and quality of the product being offered, increases the complexity of the consumer decision making process (Wolfinbarger and Gilly, 2003; Grewal et al., 2004), negatively impacting upon luxury product conversion rates compared with non-branded goods (Di Fatta et al., 2016).

Table 1 provides an overview of the most relevant factors which are explored in more detail in next section,