



Winter 2013

Deal-Seeking: Online vs. Offline

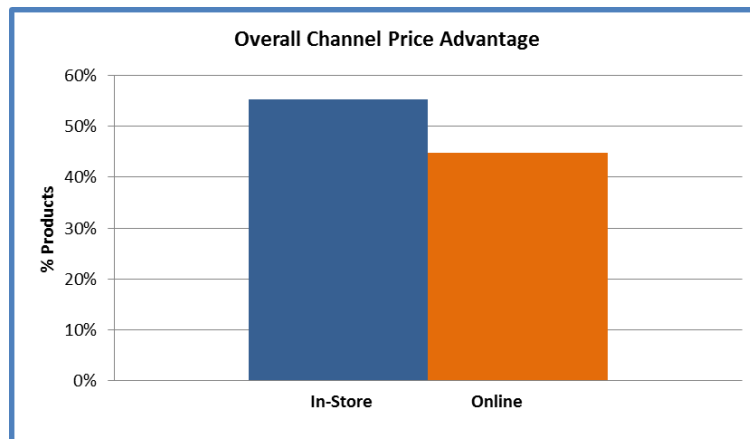
Semi-Annual Online/In-Store Pricing
Comparison

Executive Summary

Anthem Marketing Solutions recently completed its fifth semi-annual report comparing online and in-store prices of consumer goods across a range of categories, for the first time adding an analysis looking at pre- and post-holiday trends. **The results show that overall, the in-store channel holds a slight advantage with 55% of the observations favoring this channel.** However, that advantage is not consistent across categories and price tiers. Product category and price tier were both significant indicators of channel pricing preference. The in-store channel holds a firm price advantage in extreme price groups, while online had a slight advantage in savings in mid-range price groups. **Also, contrary to previous studies, products averaging \$100 or more are now generally priced slightly lower in stores.** This seems to support the announced strategies of many brick-and-mortar retailers to price match against online retailers, in an effort to combat the “showrooming” phenomenon. At the individual item level, three factors appear to determine which channel offers lower pricing: price tier, product category and immediacy of need. When comparing pre-holiday and post-holiday pricing, results show that online is the place to buy post-holidays with six of eight categories recording an average savings of 17% vs. in-store savings of 10%.

Highlights

- In-store has a slight price advantage, with 55% of observations favoring this channel
- The price ranges of \$0-\$5, \$5-\$20, and \$100+ all show an in-store advantage
- Both convenience and considered purchases show an in-store advantage, however it's more distinct for considered purchases
- Pre-holiday online savings were found only in two of the eight product categories



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Methodology

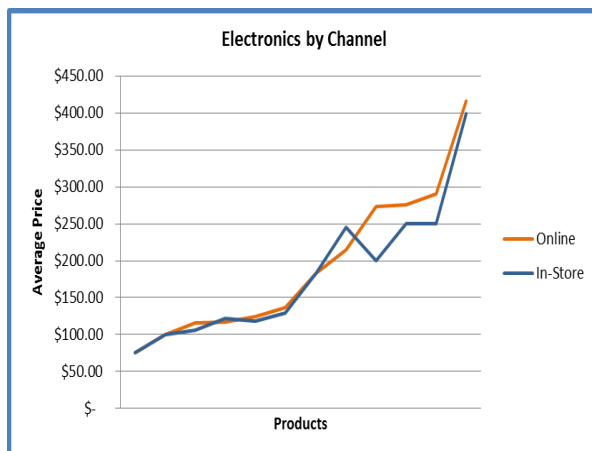
The objectives of the study were twofold. First, to compare online and off-line prices for the same items purchased on the same day. Second, to allow for a comparison of online and off-line prices for the same items during the pre-holiday and post-holiday periods. Researchers selected a variety of commonly purchased consumables, including packaged food and health and beauty items, and specialty items such as small electronics, intended to be representative of a typical family's periodic household needs.¹ When possible, the items selected were consistent with those included in previous iterations of this study, to allow for comparisons across time. Price inventories for the items included in this study were conducted

twice — once in December 2012 and again in January 2013. The selected items were standardized by brand and unit size, and were only included if available for purchase in 3+ physical stores and at 3+ online retailers.² Sales taxes and shipping costs were excluded for purposes of comparison and analysis. Comparisons were made across product categories, purchase type, outlet categories, channel and timing.³

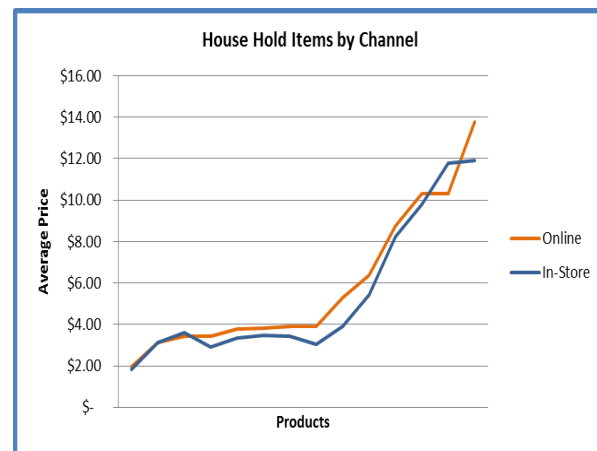
Items included in the study were further categorized by price to allow for analysis at different price points. The four price tiers were as follows: \$5-\$20, \$20-\$50, \$50-\$100, and over \$100. Additionally, items were classified as ‘convenience items’ if they were in the lowest price tier and are generally purchased for immediate or near-term consumption, and as ‘considered purchases’ if they were in one of the higher price tiers and generally involve pre-purchase research.

In-Store vs. Online Pricing

This study found that for the majority of products reviewed, prices in-store were lower than those available online. When prices were lower in-store, the degree of savings tended to be greater than when online had a lower price. Two product categories showed notable results. In the electronics category, 3 in 4 products were found less expensive in-store and showed savings averaging 10% while products found cheaper online only showed a savings of 7%. Similarly, in the lower priced category of household items, approximately 80% of products reviewed were found to be less expensive in-store and came in, overall, at 23% less than its online price. When products in this category were found cheaper online they showed an average savings of 7%.

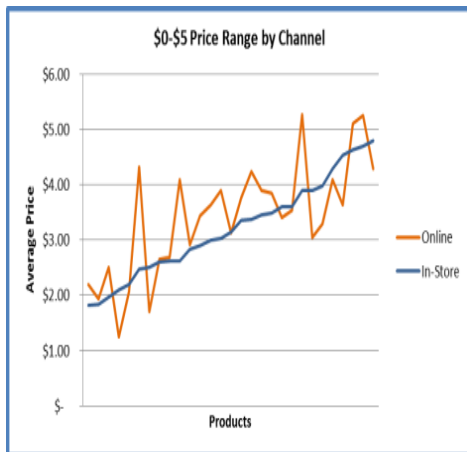


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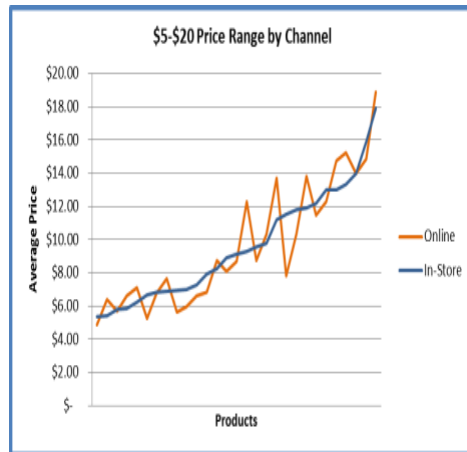


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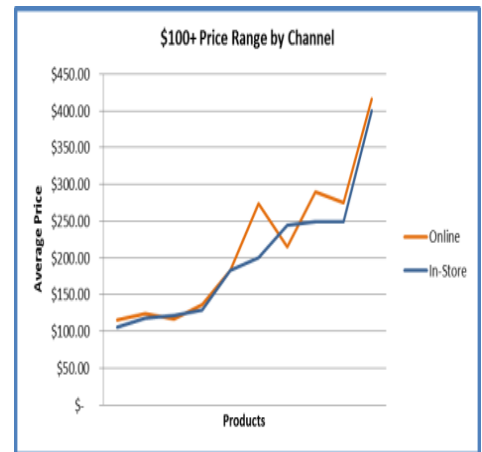
In terms of price tiers, in-store offered a savings advantage in extreme price groups, while online had an advantage in mid-range price groups. For the lowest ranges of \$0-\$5 and \$5-\$20 there was about an even split in total number of products giving an advantage to either channel. However, there was a distinct in-store savings improvement over the online channel when a product was observed cheaper in-store, with those savings coming in at 18% across these lower tiers. The high-range price tier also gave distinct advantage to the in-store channel where 80% of products were observed to be cheaper in-store, by an average of 21%.



The \$0-\$5 price tier saw 62% of products with an in-store advantage.

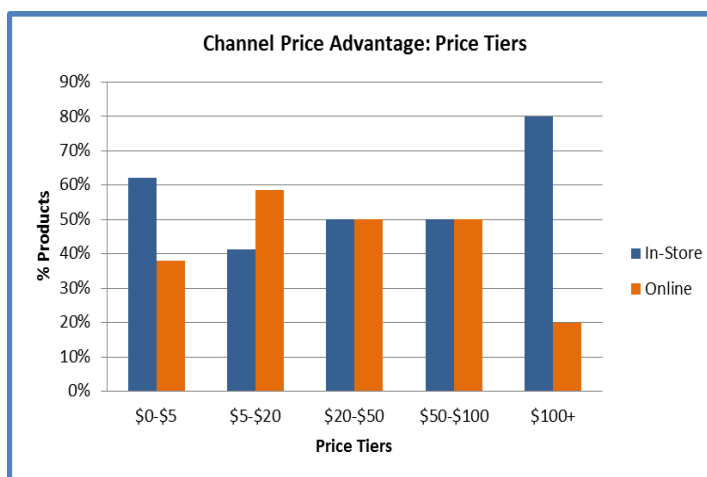


The \$5-\$20 price tier saw only 41% of products with an in-store advantage, but the average savings, were higher in-store



In the \$100+ price tier, in-store has a distinct lead in number of products and average savings opportunity

In the mid-range price tiers the variance in savings was dramatically greater than with the low-and high-range tiers, and it favored online. The \$20-\$50 group was split evenly in terms of number of products; neither channel had an advantage here. Although, when online was cheaper, it was by a large degree, at nearly five times the in-store savings opportunity. The \$50-\$100 tier was also split evenly in terms of number of products with advantage in either channel, but it also boasted an online average savings of 6% whereas the in-store savings opportunity was negligible.



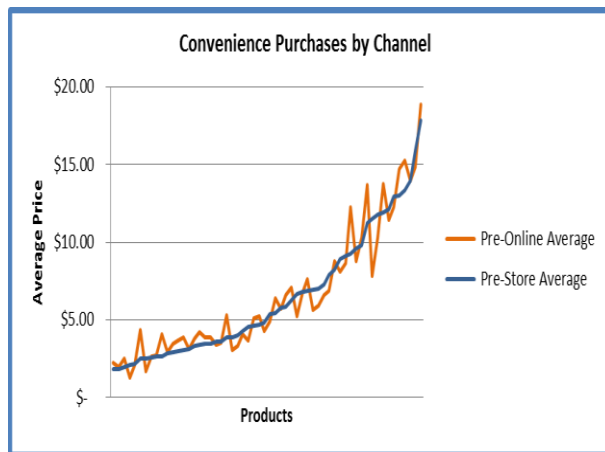
In the mid-range price tiers, product advantage is split evenly between in-store and online. However, greater savings opportunities are found online.

Products averaging a price of \$100+ show a significant in-store price advantage. This is a dramatic shift compared to previous studies.

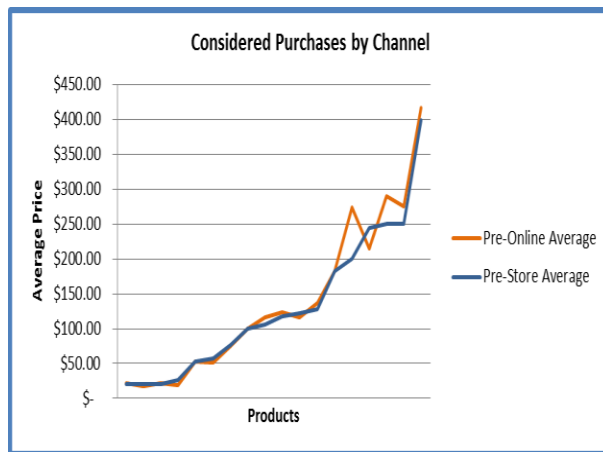
We also examined pricing for the same products across multiple outlets in the same channel, off-line or online. The study found that prices were generally more consistent across online outlets, and less consistent across competing physical stores. This was particularly true for higher-priced items that require consideration before purchase, and may be due to adherence to suggested retail pricing online, or the relative ease of checking prices at competitive sites and therefore the need for ongoing price matching.

Offline Now Leads Convenience and Considered

In comparing convenience and considered purchases, which are defined respectively as products <\$20 and products >\$20, to stay consistent with past studies, results showed that, overall, in-store was favorable over online both in terms of percent of products and average savings. In previous studies, we found no clear advantage in either channel for convenience purchases and a slight online advantage for considered purchases. There is now only a slight in-store advantage for convenience purchases and a more distinct advantage in-store for considered purchases. Overall, we're starting to see a convergent trend with respect to channel: both formats becoming more competitive in pricing.



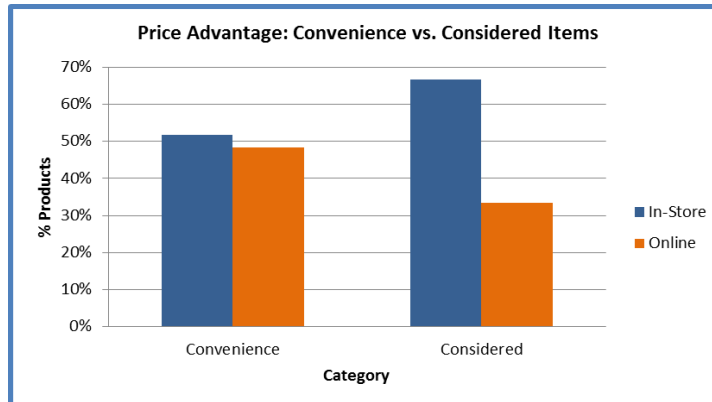
The in-store advantage has diminished to only slight favor in the convenience category.



Reversing previous trends, considered purchases now show a clear advantage in-store.

In the convenience category, the in-store advantage is much less pronounced with little more than half of the products coming in with an in-store advantage. However, the savings opportunity in-store also proved to be 22% higher than when the price advantage was found online. 67% of considered items were cheaper in-store and also showed an average savings of 8%, 43% more than savings found online.

Considered purchases were found to have a more distinct in-store price advantage, compared to convenience purchases. However, neither channel offers a greater likelihood of preferential pricing for any specific product.

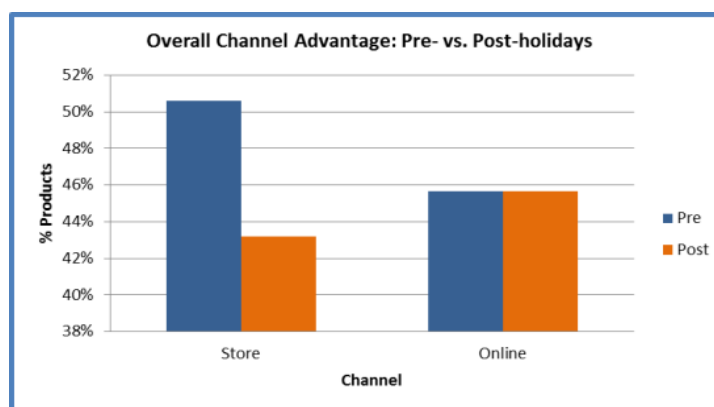


Convenience items hold a slight advantage in-store while considered purchases show a more dramatic separation.

Pre-Holiday Pricing vs. Post-Holiday Pricing

Overall, there was little difference in the number of products showing pre- vs. post-holiday advantage with 51% of products favoring the in-store channel pre-holiday and 43% favoring in-store post-holiday. The online channel saw an advantage in 46% of products for both observation periods. However, there was a noticeable difference in how much consumers could save channel-wise pre- vs. post-holidays. In-store, shoppers would find a savings advantage pre-holidays in five of eight product categories. The savings about double pre-holidays vs. post, in-store, for electronics, school/office supplies and household items – and even greater for men’s and toddlers’ personal care items. Post-holiday in-store prices show distinct advantages for women’s and general personal care items and groceries.

Results show that online is the place to buy post-holidays with six of eight categories recording a notable 17% average savings vs. 10% in-store. Pre-holiday online savings were found only in the Electronics and Entertainment categories; two categories tightly correlated to the gift-giving season.



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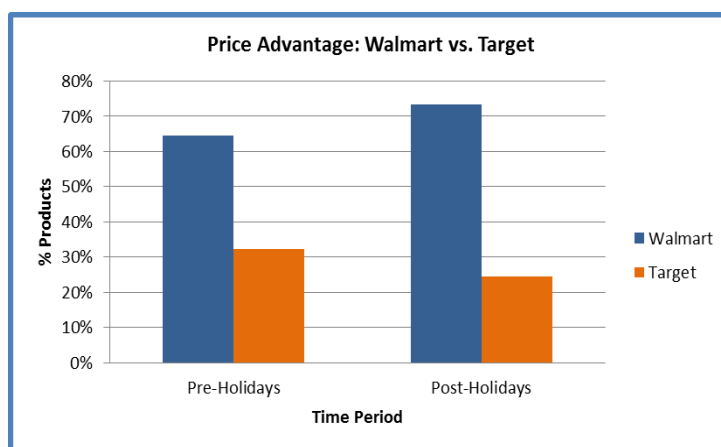
The Electronics and Entertainment categories both show greater savings pre-holiday.



Price Matching to Combat “Showrooming”

“Showrooming” is an industry term that has developed to describe the consumer practice of viewing merchandise in a traditional brick and mortar retail store without purchasing it, and then searching using a mobile device to find a lower price for the same item, while still in the store. In response to this consumer behavior, and in order to maintain a competitive edge against online retailers, traditional outlets have had to adjust their pricing strategies. Price matching gained renewed interest this year during the holiday season, led by Target Corporation’s public awareness campaign around their new price matching policy, which has since been instituted as a year-round strategy. Per Target’s Policy:

“If a guest buys a qualifying item at a Target store and then finds the identical item for less in the following week’s Target circular or within seven days on Target.com, Amazon.com, Wal-Mart.com, Bestbuy.com or Toysrus.com or in a local competitor’s printed ad, Target will match the price.”⁴



Despite Target’s announced price-matching policy, Wal-mart showed a clear price advantage on most products in both observation periods.

Price matching, particularly against online retailers, is a pro-active approach to fighting the showrooming phenomenon. Results from this study show that Wal-Mart.com showed a price advantage over Target stores on 65% of observed products before the holidays and 73% afterward. (Price match does not apply to Wal-Mart physical stores). However, on an individual product basis, if Target was priced lower they provided a greater savings opportunity both pre-holidays, when its average savings was 53% vs. Wal-Mart’s 21%, and post-holidays, when its average savings was 56% vs. Wal-Mart’s 14%. It is important to note Target’s pricing policy does not explicitly state that they carry the lowest price; merely that they will match pricing when a consumer provides documentation of a lower price within the guidelines of their policy.

Many retailers are expected to follow Target’s move, thus furthering the aggressive pricing competition and driving the pricing convergence noted in the study at all price points. In fact, Best Buy announced a similar program in mid-February, 2013. Price matching, if continued, is likely to lead to further price convergence across physical stores as well as between the online and off-line channels.

Due to price matching, collective price convergence is occurring between all channels and retailers.



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Trends over Time

Two key trends emerged from comparing results from the study with previous iterations. Among higher ticket items priced at \$100 or greater, off-line retailers now appear to offer a price advantage over online; this is in direct contrast to observations drawn from Anthem's Fall 2010⁵ and Spring 2011⁶ studies, in which this class of products had a clear price advantage online. The current study also shows that online retailers have a slight price advantage among items in the \$50-\$100 range. Earlier studies showed that this advantage was present among items priced \$15-\$45. These new findings suggest that online and off-line retailers have taken similar approaches to counter perceived competitive threats: both channels are capitalizing on opportunities in new price tiers.

Implications

For consumers:

Handheld technology offers consumers the convenience of finding the best deal on products whenever they want and wherever they are. This is still a tool shoppers should use. However, as competition increases, price ceases to be a source of competitive advantage and the choice between in-store shopping and online shopping thus becomes a game of soft benefits and real-time cost/benefit analysis: value of the shopping experience, shipping and tax costs vs. time and fuel costs, depth of inventory availability, immediacy of need and online customer service features such as live chat and deep FAQ's vs. in-person service.

For retailers:

Price has ceased to be a source of competitive advantage for either online or off-line retailers, and increased effort will be required to track competitive pricing and to synchronize prices across channels so as not to discourage their customer base. Ongoing efforts to optimize the consumer experience within a channel, and to focus on those aspects unique to each channel, will be increasingly used to sway consumer choice.

We expect to see an increase in in-store technology that offers transparency and provides consumers with the same information they're using their mobile devices to find online: reviews, ratings and pricing. There will also be a need to offer a depth of inventory beyond what is offered on the shelf and increased training of staff to ensure they can offer detailed knowledge for more complex product categories.

About Anthem Marketing Solutions

Recognized by Inc. Magazine as one of the nation's fastest growing companies, Anthem Marketing Solutions provides data-driven solutions to today's omni-channel marketers, focusing on growing long-term customer value.

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¹ Categories included: personal care for infants, toddlers, men and women, electronics, grocery, toys and games, entertainment, household products, and school supplies

² Online and in-store prices were compared for: Wal-Mart, Target, Office Max, Office Depot, Staples, Sears, Best Buy, CVS and Walgreens; only in-store prices were taken for Jewel and Dominick's, and only online prices for Peapod.com and Amazon.com

³ All prices and analysis in this study exclude taxes, shipping and other applicable fees unless otherwise noted. Additionally, all prices reflect the lowest available price listed in December 2012 and January 2013, including clearance and card member prices

⁴ <http://pressroom.target.com/news/target-announces-new-year-round-price-match-of-online-retailers>

⁵ <http://www.anthemedge.com/index.php?/news/pr/onlinevinstore>

⁶ <http://www.anthemedge.com/index.php?/news/pr/online-vs-in-store-anthem-marketing-solutions-study-shows-divergence-in-p>