



Summer 2013

Deal Seeking: Online vs. In-Store

Semi-Annual Online/In-Store Pricing
Comparison

Executive Summary

Anthem Marketing Solutions has completed its sixth semi-annual market basket analysis of in-store and online trends for a commonly purchased bundle of consumer products. The results show that overall, the in-store channel continues to lose competitive edge in pricing to the online channel; **the online channel now holds a slight advantage with 51% of surveyed products having favorable pricing online.** This is the first time our observations have shown this kind of trend in the market basket of products considered. There is now a 50/50 chance for any given product to be found cheaper in either channel. Products priced under \$20 maintain favorable in-store pricing among the products observed. Among products priced from \$5-\$100, however, 77% of the items favored the online channel. This result is a significant difference from previous studies and shows an overall shift in pricing strategies across multiple price tiers. Another change in this summer's study is the addition of four new product categories, which expanded our market basket and provided new analysis of commonly purchased items in books, beauty, fitness and home improvement. Home improvement and fitness favored the in-store channel with fitness having a 100% advantage in-store. Books and beauty both favored online, with 100% of beauty products found less expensive online.

Highlights

- Likelihood of finding given product for less through a specific channel has evaporated: 51% of products reviewed favor online, 49% favor offline
- Online retailers have shifted strategies for higher-priced products, consistently offer better pricing than offline stores
- Most stores continue to offer same products at a lower price online than offline, despite promises of pricing parity



The online channel overall has the advantage

Methodology

The objective of this study was to compare listed online and offline prices for the same items purchased on the same day, excluding available coupons and discount codes. Researchers selected a variety of commonly purchased consumables, including health and beauty items and specialty items such as small electronics, intending 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. The selected items were standardized by brand and unit size, and were only included if available for purchase in 3 or more physical stores and at 3 or more online retailers.² Sales tax and shipping costs were excluded for purposes of comparison and analysis, as were coupons and discount codes. Comparisons were made across product categories, purchase type, outlet categories, channel and timing.³

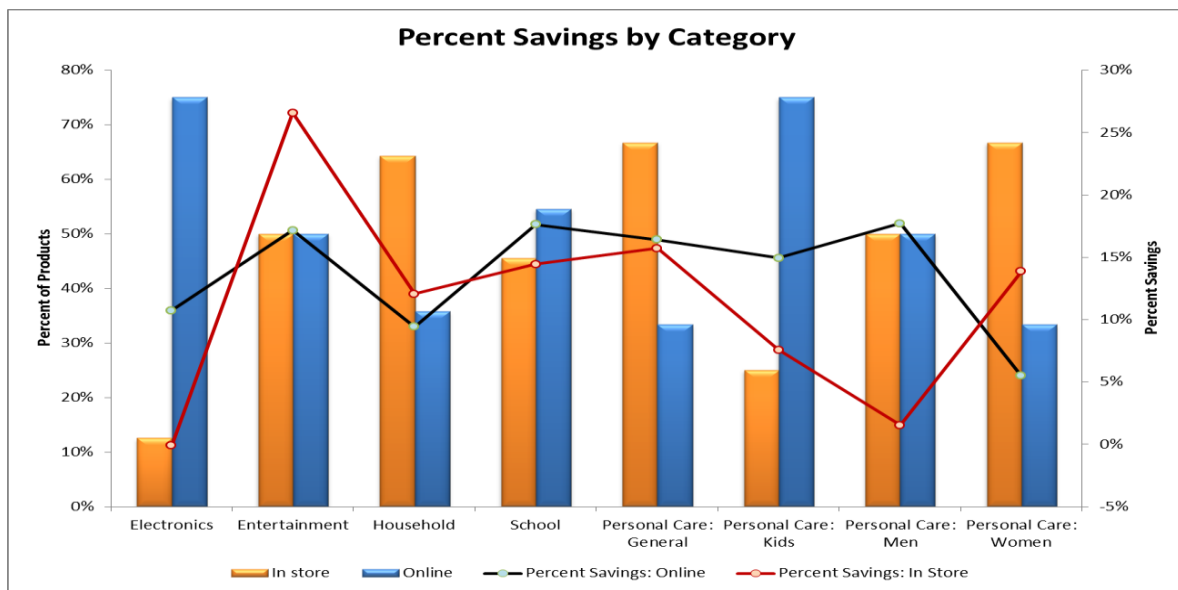
In line with our winter 2012 study, we looked at channel performance in the \$0-\$5, \$5-\$20, and the above \$100 price ranges. We also looked at products priced \$5-\$100 based on market basket trends.

Additionally, items were classified as 'convenience items' if they were in lower price tiers and were 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.

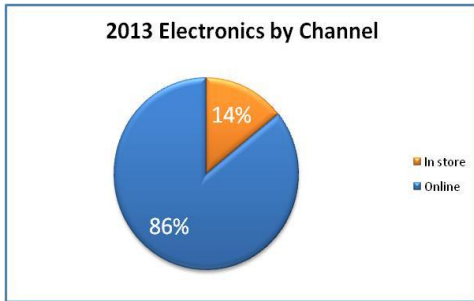
In-Store vs. Online Pricing

Overall, 51% of comparable products from previous studies favored the online channel. This marks the first time that this type of distribution has been observed with online pulling a slight advantage. Essentially, pricing parity has been reached between online and offline in that there is almost a 50/50 chance of finding any given item cheaper in either channel. However, when you drill down to a lower level there are noticeable differences, as detailed below.

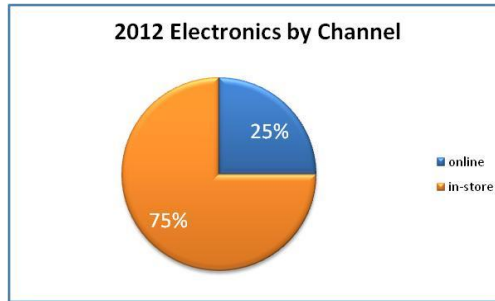
Category Observations



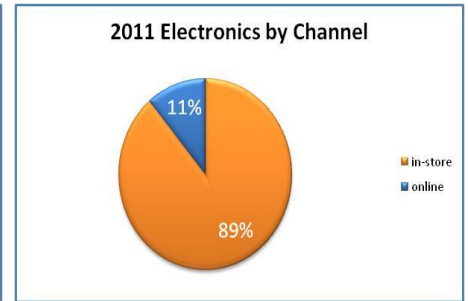
The electronics category showed a notable online advantage with 86% of products favoring this channel. There was an average savings of 10.5% on products observed. This is different than previous studies (spring 2011 & winter 2012) where electronics showed a clear in-store advantage with 89% in spring 2011 and 75% in winter 2012 of products found for a lower price in-store.



In summer 2013, electronics showed a strong advantage for the online channel

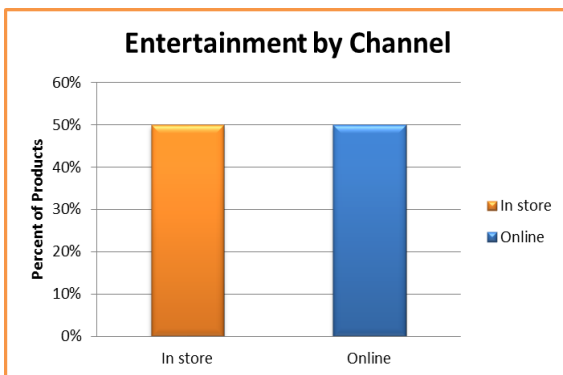
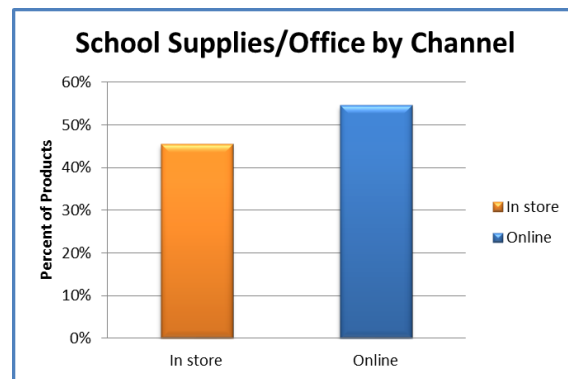


In winter 2012 75% of products favored the in-store channel



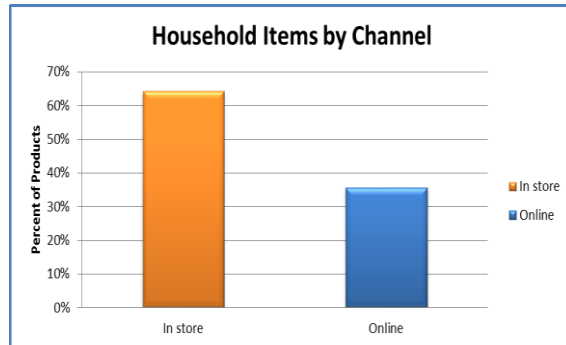
In spring 2011, electronics showed a clear in-store advantage

In the school supplies category, 55% of products were found to be less expensive online. School supplies include products such as Crayola Crayons and Spiral Notebooks. This observation suggests a 180° swing from summer 2012, when the in-store channel had a pricing advantage for school supplies. Savings in this category averaged 17.6% when found cheaper online, and 14.4% when less expensive in-store.

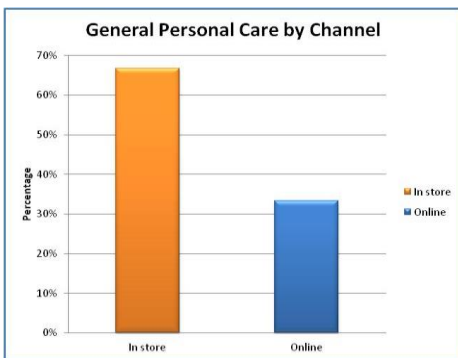


The entertainment category showed parity, with an equal number of products found to be less expensive in each channel. Entertainment items include products such as a DVD and Camera. This is one of the only categories where results showed a trend toward better offline pricing compared to summer 2012, when a distinct online advantage in this category was observed. Additionally, when products were less expensive offline, it was by a more substantial margin, with a 27% observed average savings, compared to the 17% average savings for products cheaper online.

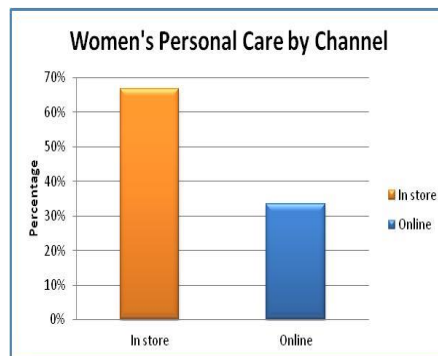
In the household items category, 64% of the products had an in-store advantage. Household items include products such as Dawn dish detergent and Ziploc sandwich bags. The average observed savings was 10% for products priced less in-store. Those items cheaper online had an average savings of 9.4% compared to in-store. This observation is similar to the summer 2012 observations where household products also had a clear in-store advantage.



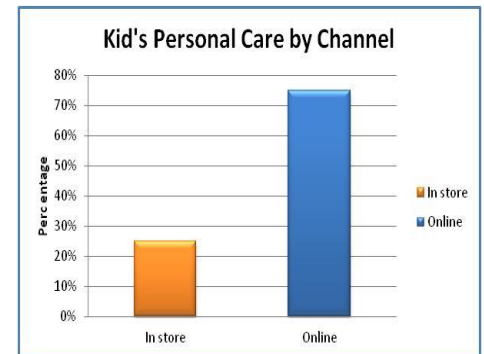
In previous studies, the personal care products were looked at as one category. However, this year's study broke personal care into four different product categories: general, women's, kid's and men's personal care. In the general personal care category, 67% of the products were cheaper in-store. General personal care included items such as Listerine mouthwash and Purell hand sanitizer. The average savings for these products was approximately 16% for both the online and in-store channels. Women's personal care also showed an in-store pricing advantage with 67% of products having a lower price in-store than online. This category included items such as Always Ultra Pads and Bic Soleil women's shavers. The average savings for products that were less in-store was 14%, while the online channel averaged only 6%. Men's personal care favored neither channel. This category included items such as Old Spice deodorant and Gillette Foamy Shaving Cream. Kid's personal care, however, showed an online pricing advantage with 75% of products less online, with those products having an average savings of 15%. This likely reflects the fact that these products are purchased for someone else and involve more forward planning. The kids' personal care category included Johnson's Baby Lotion and Huggies Snug N Dry Diapers This category was similar to observations from spring 2011 when all personal care had an online advantage.



67% of products in general personal care favored the in-store category



Women's personal care clearly favored the in-store channel



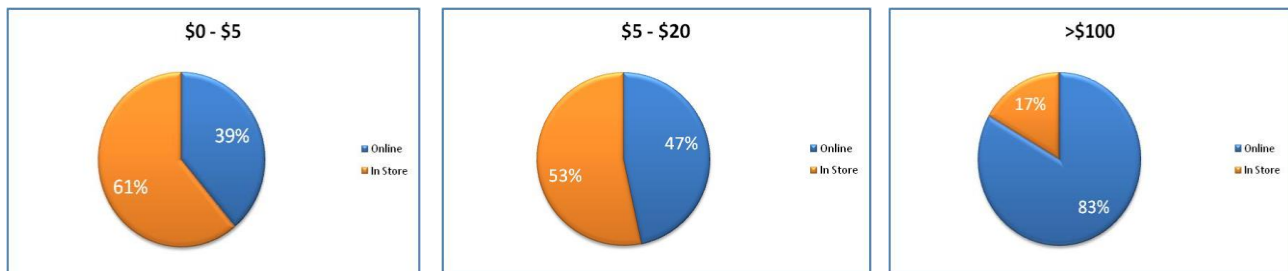
Kid's personal care clearly favored the online channel with 75% of products priced better online

Price Tiers

We considered differences by price tier in a manner consistent with our winter 2012 study. Items in the lowest price tier, \$0-\$5, maintained an in-store price advantage, with 61% of products in this range found to be less expensive in-store. This is consistent with the winter 2012 study, which also found an in-store advantage. Products within the price range of \$5-\$20, also had a slight in-store advantage, with 53% of products in this group found cheaper in-store, again consistent with our previous study.

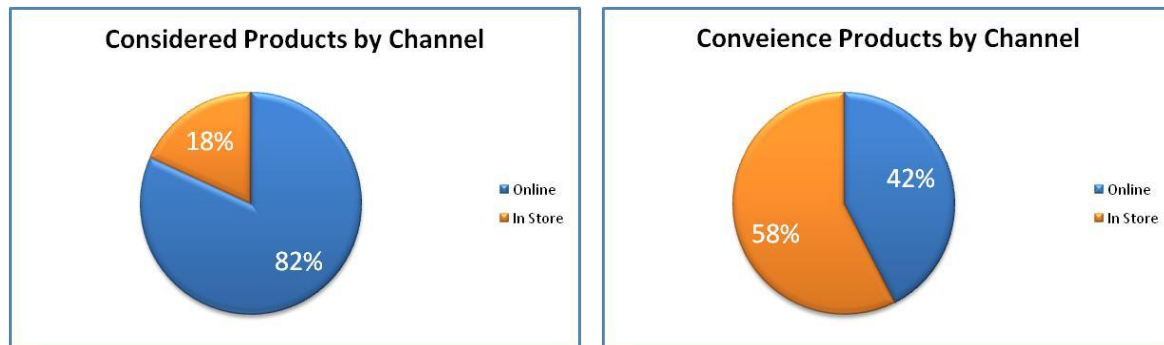
For the products with an average price at or more than \$100, 83% showed an online advantage. This is a significant shift from our previous study where 80% of items priced >\$100 were found at a lower price in-store, with significant savings potential of 20%.

For this study, of all products priced from \$5-\$100, 77% of the items favored the online channel. This result also shows a significant shift from previous studies, and suggests retailers have affected an overall shift in pricing strategies across multiple price tiers.



Convenience versus Considered Purchases

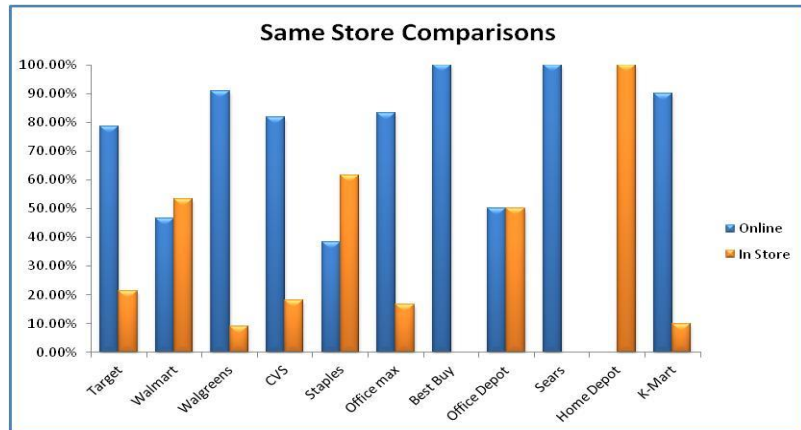
In comparing convenience and considered purchases (products less than and more than \$20, respectively, as with previous reports), results were consistent with those from previous studies: convenience purchases tended to be cheaper in-store, and considered purchases tended to be cheaper online. In this current study, convenience products continued to show an in-store advantage, with 58% of products favoring this channel. In the considered products category, 82% of products favored the online channel.



Same Store Comparisons

When considering online versus in-store prices for the same retailer (i.e. Target online prices vs. Target in-store prices), **7 of the 11 stores surveyed in this study favored the online channel**. Of the stores that had an online advantage, 57% had a higher average savings online than in-store.

Sears had the most dramatic tilt, with 100% of surveyed products available for less online than in-store. Walgreens also offered a significant online advantage, with 91% of products available for less online. The average savings based on the observed products was 44% when found cheaper online. Office Max favored the online channel with 83% of products available for a lower price online. The average savings for these products online was 14%.



Target also had an online advantage, with 79% of products found for less online with average savings of 15%. K-Mart at 60% and CVS at 58% also favored online. Interestingly, the average savings when buying online at CVS was 12%, while average in-store savings was significantly higher at 26%.

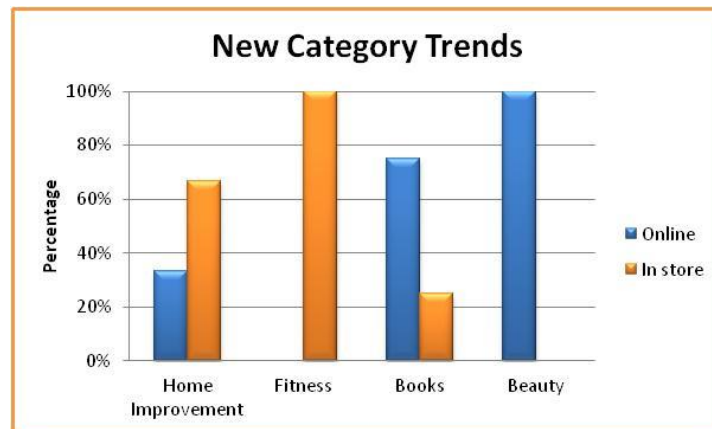
Best Buy offered 67% of products at the same price in both channels. The remaining 33% of products were found for less online and had an average savings of 13%. Office Depot and Wal-Mart both offered the same price online and in-store for 50% of their products. For Wal-Mart, among the remainder, 27% of products were cheaper offline vs. 23% with lower average online prices. Average savings for products with lower in-store prices was 20%. Lowes did not show any channel advantage.

Staples recorded the highest in-store advantage among the stores observed, with 62% of the products surveyed available less expensively in-store, with an average savings of 33%.

Of the stores observed, 64% had most of their products available for a lower price online than in-store

Additional Product Categories

Four new categories were reviewed in this iteration of the study. The majority of the products in the home improvement & hardware category favored the in-store channel. Those with an in-store advantage had an average savings of nearly 16%. This was one of only three categories that demonstrated an in-store pricing advantage, along with fitness and household/cleaning. Among fitness products studies, there was a 100% in-store advantage. Finally, the book category offered an online advantage for 75% of the observations, with an average online savings of 25%.



The most notable new product group was the beauty category, showing a 100% online pricing advantage for the products included in our market basket, with an average savings of 13%. This runs counter to the overall convenience category trend, in which pricing advantage tends to be in-store. Along with the average category savings, the savings per product were high as well: 78% of beauty products reviewed recorded a savings greater than 12% when purchased online, and greater than 15% for half of the observations.

Additional product categories were broken out to better understand a typical consumer market basket. Of these categories, the beauty category was the most notable as a convenience product category with 100% advantage for the online channel.

Marketplace Fairness

Currently, consumers can save up to 9.6%⁶ in taxes alone by shopping online if the retailer has no physical presence in their state. This difference between online and brick-and-mortar stores creates a bias for the online shopping channel, which the Marketplace Fairness Act attempts to remedy. The Marketplace Fairness Act grants states the authority to compel online and catalog retailers, no matter where they are located, to collect sales tax at the time of a transaction - exactly like local retailers are already required to do.

However, there is a caveat: States are only granted this authority after they have simplified their sales tax laws. Simplification is required based on two Supreme Court rulings (*Bellas Hess* and *Quill*) which cite concern that collecting sales tax for multiple states would be too difficult. The Supreme Court ruling provides two options for states to opt in. The first option is to voluntarily adopt the simplification measures of the [Streamlined Sales and Use Tax Agreement](#) (SSUTA)⁴. Twenty-four states have already adopted these measures. Option two is for states to meet five simplification mandates listed in the bill⁵.

For consumers, this means that in the future, shopping online may not provide the same price advantage as it does today, especially if free shipping is not universally offered. In fact, these developments may potentially shift the channel trend back towards in-store because of the sense of immediate gratification, even though in some cases consumers could still avoid sales tax by shopping online at stores that meet certain tax exempt criteria.



Things will change for businesses too. Online-only outlets could lose a competitive advantage. Retailers with brick-and-mortar and online channels will find new ways to encourage specific channel buying behaviors that afford specific advantages. With these changes we may see a shift in pricing strategies across retailers and product categories.

Implications

In the absence of any additional changes in the environment (unlikely...) we're going to see purchases polarized between those requiring immediacy, whether for consumption or simply desire, and those that can be done with delayed delivery. Anything that can be delayed will be done online, assuming free shipping is available.

One major change in the environment that may have a significant impact is the same-day delivery model that Amazon is currently testing. If that becomes a widespread reality, it will tilt the playing field even more in favor of online vendors – but only the biggest ones. The implications of the Marketplace Fairness Act therefore loom ever larger – sales taxes may make consumers think twice about waiting for something to be delivered.

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.

Visit us online at www.AnthemEdge.com or, for more information email: info@anthemedge.com

¹ Categories included: personal care for infants, toddlers, men and women, electronics, hardware and home improvement products, books, fitness and recreation products, entertainment, household products, and school supplies

² Online and in-store prices were compared for: Wal-Mart, Target, Kmart, Office Max, Office Depot, Staples, Sears, Ace Hardware, Lowes, Home Depot, Best Buy, CVS, and Walgreens; only online prices were taken for Amazon.com

³ All prices and analysis in this study exclude taxes, shipping and other applicable fees unless otherwise noted.

Prices also reflect the lowest available price listed in June 2013, including clearance and card member prices

⁴ Which has been developed over the last eleven years by forty-four states and more than eighty-five businesses with the goal of making sales tax collection easy. Any state which is in compliance with the SSUTA and has achieved Full Member status as a SSUTA implementing state will have collection authority on the first day of the calendar quarter that is at least 90 days after enactment.

⁵ Notify retailers in advance of any rate changes within the state 2. Designate a single state organization to handle sales tax registrations, filings, and audits 3. Establish a uniform sales tax base for use throughout the state 4. Use destination sourcing to determine sales tax rates for out-of-state purchases (a purchase made by a consumer in California from a retailer in Ohio is taxed at the California rate, and the sales tax collected is remitted to California to fund projects and services there) 5. Provide free software for managing sales tax compliance, and hold retailers harmless for any errors that result from relying on state-provided systems and data

⁶ Calculated based on average sales tax rate <http://www.forbes.com/sites/williamparrett/2012/02/02/average-u-s-sales-tax-rate-drops-a-little/>

⁷ <http://www.cnn.com/2013/05/06/tech/web/internet-sales-tax>