



Fall '10

# Deal-Seeking: Online vs. Offline

Semi-Annual Online/In-Store Pricing  
Comparison

## Executive Summary

Many consumers, as well as many retail industry commentators and analysts, subscribe to the belief that online retailers always offer consumers a better deal compared to brick & mortar stores. Anthem Marketing Solutions has recently completed the first in a planned series of bi-annual studies in an attempt to establish the validity of this belief by comparing the online and in-store prices of a group of widely available products<sup>1</sup> across a range of commonly-purchased categories<sup>2</sup>.

### Highlights

- Products priced < \$50 generally less expensive in-store
- Products priced > \$90 less expensive online
- Considered purchases less expensive online; consumables less expensive in-store

The results of the study suggest that product characteristics, including price point, complexity, and immediacy of need are the primary influencers that determine which channel offers the best pricing. Items with a price point below \$50<sup>3,4</sup> are generally less expensive when purchased in physical stores, while items that typically sell for greater than \$90 are less expensive online; results were inconclusive for products between \$50 and \$90. Additionally, convenience purchases/consumables, such as health and beauty products, tend to be less expensive in-store, compared to considered purchases, which tend to be cheaper online.

## Methodology

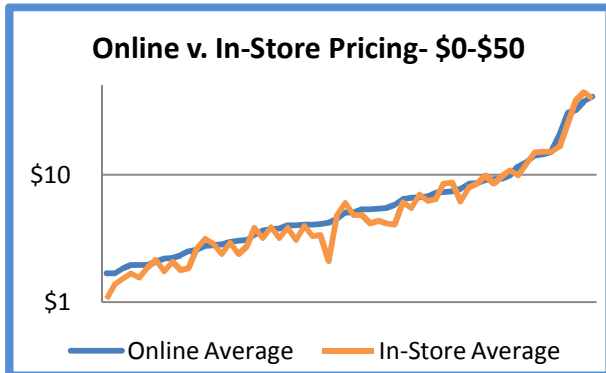
Researchers developed a market basket of commonly purchased consumables and specialty items such as small electronics, intended to be representative of a typical family's periodic household needs. Consumer durables such as appliances, and items that were not available both online and offline, such as gasoline, were not included in the observed product set. Selected items were required to be widely available in the same unit size across a variety of retail channels, including big box, mass, grocery, and multiple online outlets; only items that could be found in 3+ offline stores and at 3+ online retailers were considered. Prices were recorded in-store and online on the same day during July 2010. The analysis included overall comparison of prices, comparison of prices for specific products, and comparison of prices by purchase type.

## Price Inflection Points

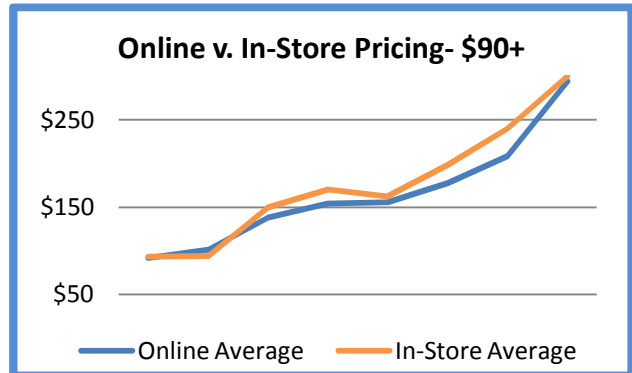
Researchers found two interesting inflection points when analyzing prices. Clear price breaks were observed that can serve as a general rule regarding when it is less expensive to shop online vs. in-store. Over 70% of the goods priced below \$50 could be found at a lower price in-store, with an average price differential of 2.9%<sup>5</sup>. Over 85% of the items priced over \$90 could be purchased at a lower price online, with an average price difference of 6.6%.

*Note:* For items priced between \$50 and \$90, verifiable patterns did not exist to suggest differences in pricing in this range.

**The study found that there is a clear price break (<\$50) below which physical stores offer better pricing, and a threshold (>\$90) beyond which online stores have the better deals.**



*This graph illustrates the average online and in-store prices for items under \$50. Findings suggest that it is generally cheaper to buy items less than \$50 in-store.*

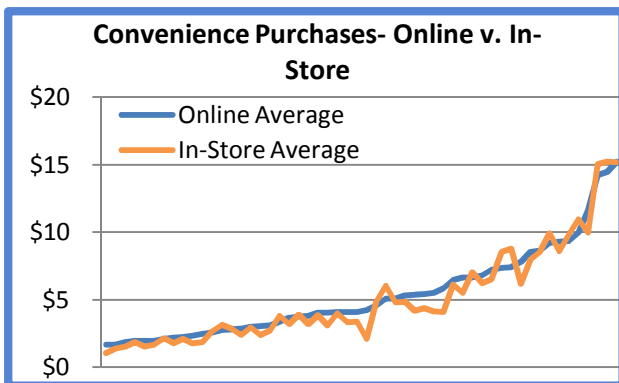


*This graph shows the average online and in-store prices for goods greater than \$90. Findings suggest that for these goods, it is usually cheaper to buy online.*

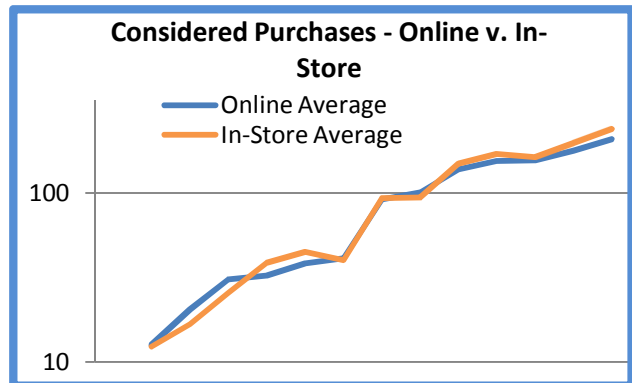
### Convenience In-Store, Considered Online

Extending price analysis further, the study divided items into two product categories—convenience and considered purchases—based on the product type and the amount of time a customer is likely to spend planning to purchase each product. A convenience purchase refers to a product that is purchased with little comparison shopping and is generally consumed and replenished with some regularity, for example, shampoo or soap. A considered purchase refers to a product that is generally purchased less frequently, after some consideration of pricing and features, for example, a digital camera.

This study found that convenience purchases are generally cheaper in-store regardless of price, whereas considered purchases under \$50 are typically cheaper in-store, and those above \$90 are cheaper online, consistent with overall trends.



*This graph shows the online and in-store prices for convenience purchases. They tend to be less expensive and over 70% of them are cheaper in-store.*

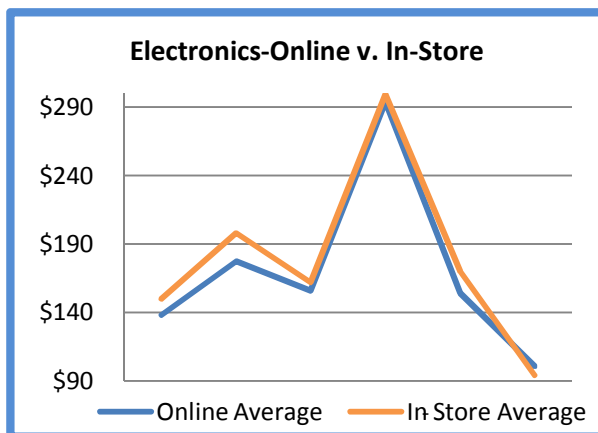


*This graph shows the online and in-store prices for considered purchases. Consistent with overall price findings, these planned purchases are generally cheaper in-store when below \$50, and less expensive online when over \$90.*

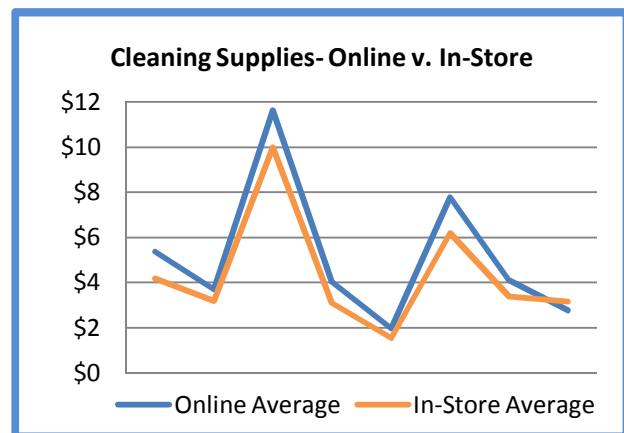
**Convenience purchases tend to be less expensive in-store; considered purchases are generally cheaper online, especially for goods priced over \$100.**

There are also discernable differences in pricing by category. In general, electronics and some personal care items have lower prices online. But most consumables, including personal care items, school and office goods, cleaning supplies, and toys and games are cheaper in-store. Below is a table with the average prices for a representative list of items across various categories.

Product	Online Average	In-Store Average	Differential
Nikon Coolpix S3000 Digital Camera	\$138.12	\$149.79	8%
Garmin Nuvi 4.3" 1300 GPS Navigator	\$154.33	\$169.99	10%
Avery Durable 1" binder	\$5.41	\$4.38	21%
Gillette Foamy Shaving Cream – Regular – 11oz	\$2.49	\$1.85	29%
Covergirl Lash Blast Mascara – Very Black 800	\$7.35	\$8.53	15%
Pepperidge Farm Goldfish – Cheddar Cheese – 6.6oz	\$2.22	\$1.75	24%
Apples to Apples Party Game Box	\$20.51	\$16.74	20%
Swiffer Sweeper Starter Kit	\$11.65	\$9.99	15%



*This graph represents online versus in-store average prices for common small electronics. There is a clear trend that suggests online retailers offer lower prices compared to offline for this particular category.*



*This graph illustrates an overall trend suggesting that cleaning supplies are generally cheaper to purchase in-store rather than online.*

### Consideration of Shipping and Sales Tax

The total cost of an offline purchase typically includes the listed purchase price, plus sales tax in most jurisdictions. Since consumers generally take the purchased goods with them, costs for shipping are not a factor. For online purchases, there are different considerations. Sales tax is often avoided, with the exception of purchases made by a resident of a state in which the online retailer has a physical presence. Currently, many online retailers offer free or low-cost shipping as a powerful purchase incentive, and this has become the cost of entry for many categories.

### ***A Varied Mix of Shipping Policies***

Though shipping costs were not factored into this study's base analysis, they can greatly impact the final price a consumer will pay for online purchases. It is almost always more expensive to purchase lower priced bundles online rather than in-store, not only because the prices are generally higher, but because shipping can increase the total cost out of proportion to the price of the underlying goods. In many cases, shipping can increase the total cost of a bundle of low-priced products by 35% or more, whereas the incremental impact on a higher-priced purchase can be less than 5%.

Furthermore, because shipping policies vary by retailer, when buying goods from multiple online stores, it can be difficult to assess which combinations of policies will yield the best price. Some stores reward more expensive purchases with lower shipping prices, but also add on weight surcharges or mark certain items as ineligible for cost effective shipping deals. These unexpected expenses may deter shoppers from making online purchases for some items, and may instead send them to physical stores.

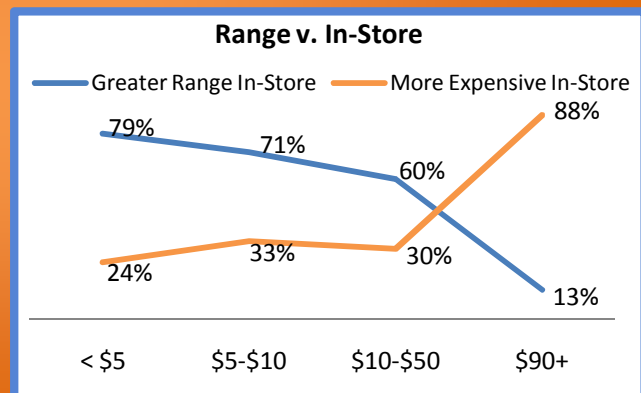
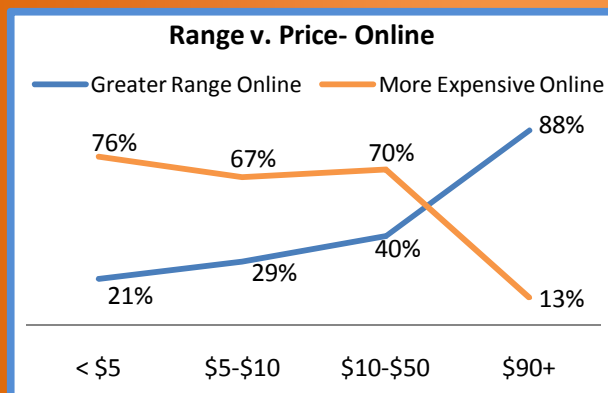
### ***Impact of Sales Tax***

There has been much confusion about sales tax for online purchases. Although by law consumers are supposed to pay local sales tax for all purchases, where applicable, they generally do not, and online retailers only collect local taxes when the company has a physical presence in the state where the buyer resides. For instance, Target.com collects local taxes from all customers, except those who live in Vermont, because Target operates physical stores in every state except Vermont. Larger retailers collect tax from almost every state, but taxes can be avoided if shoppers look to websites without any physical presence in their home state.

As an example, the tax on a \$500 television purchased at a Best Buy in Chicago would be approximately \$50; the same television purchased from Amazon.com might be free of tax and shipping, resulting in a substantial savings. Accordingly, our analysis did not take into account the impact of sales tax, as it tends to be a factor primarily for higher-priced items or bundles of goods.

### **Relationship Between Price Tier and Range of Observed Prices**

The study found a notable correlation between the price tier of a product and the range of pricing within that price level. This correlation was highest where goods were either very inexpensive or very expensive. For example, 80% of goods under \$5 exhibited a significant variation of in-store prices, whereas 15% of goods over \$90 had substantial in-store price differences. Similar trends are observed with products purchased online. This suggests that consumers would have a more difficult time bargain hunting in-store.



## Implications

### *For Consumers:*

Contrary to popular belief, this study suggests that **online does not always offer the best deal**. The best channel for pricing depends on the desired product's price tier, category, complexity and usage type. It is often less expensive to shop in-store, particularly for lower-priced convenience items, whereas items over \$90 are almost always cheaper online. Immediacy of need is a key consideration, and for higher priced items, shipping costs and sales tax may also be factors.

### *For Retailers:*

Understanding the forces driving consumer behavior is critical for optimizing channel pricing. For low-priced goods, online retailers should lead with convenience and opportunities for bundling, since individual items are less like to be subject to comparison shopping; offline retailers should highlight lower prices and immediacy. Online retailers should reinforce preferential pricing among higher-priced goods, and supplement with the convenience of home delivery. Physical stores should strive to achieve near pricing parity compared to online retailers for higher-priced goods, and highlight in-store service and the ability to handle or try out a product prior to purchase to overcome any remaining price differences.

### About Anthem Marketing Solutions

*Anthem Marketing Solutions is a strategic consultancy focused on helping clients acquire, retain and grow profitable customer relationships. Learn more at [anthemedge.com](http://anthemedge.com)*

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<sup>1</sup> "Common product" was defined as available in a minimum of three online and three in-store retailers. Online and in-store prices were compared in: Walmart, Target, Office Max, Office Depot, Staples, Sears, Macy's, Kohl's, 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.

<sup>2</sup> Categories included: personal care, electronics, grocery, men's apparel, house tools and appliances, toys and games, cleaning supplies and office/school supplies.

<sup>3</sup> All prices in this study will refer to the online average, unless otherwise specified.

<sup>4</sup> All prices and analysis in this study exclude taxes, shipping and other applicable fees unless otherwise noted. Additionally, all prices reflect the lowest possible available on a specific day in July 2010, including clearance and card member prices.

<sup>5</sup> In this study, if a good or category is quoted as a certain percentage more expensive or cheaper online, it means in comparison to that same bundle in-store, and vice versa.