



Winter '11

Deal-Seeking: Online vs. Offline

Semi-Annual Online/In-Store Pricing
Comparison



Executive Summary

There is a commonly held belief among consumers and retail industry commentators that online shopping predominantly offers the best pricing. As a follow-up to the Fall 2010 and Spring 2011 research studies, Anthem Marketing Solutions completed the third edition in a series of bi-annual studies that attempt to establish the validity of this notion by comparing the online and in-store prices of a group of widely available products¹ across a range of commonly-purchased categories².

Highlights

- **Items priced \$7-\$20 generally offer a better deal online, furthering the trend of shifting prices observed in Spring**
- **When an item's lowest price is found in-store, rather than online, it generally produces greater savings**
- **Amazon's deal with California suggests more taxes in the future of online**

The results of this study indicate that competition between physical stores and online vendors continues to shift across distinct price ranges for retail items. This trend was first noted in the Spring 2011 study, which found generally better prices in stores for items costing below \$15 and generally better prices online for items costing between \$15 and \$40. In this current study, items with a price point below \$7 are generally less expensive when purchased in physical stores, while items that typically sell between \$7 and \$20 offer a better deal online.³ This result reflects a clear divergence from the Fall 2010 study, which found that items priced below \$50 were often cheaper in-store and those priced above \$90 were more commonly priced lower online. This continued price shift has implications for the apparent influence of online vendors on physical stores and on various members in the supply chain, including shipping companies and manufacturers. Additionally, stores are becoming more competitive for items priced over \$100, special in-store-only prices, and as a result of changes in policy regarding the collection of sales tax.

Methodology

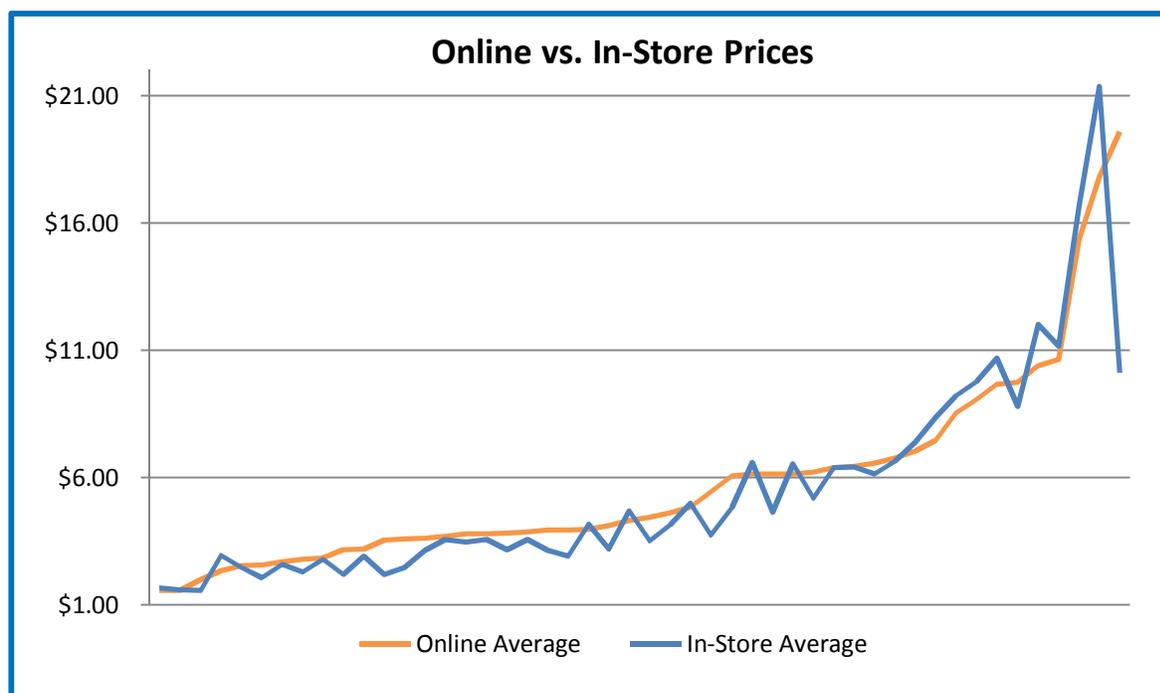
As in previous studies, researchers compared the online and in-store prices of several items that were selected to model a typical family's periodic purchases. In addition to the items that represent everyday purchases, such as groceries and personal care products, more expensive and unique purchases, such as particular electronics, were also included in the study. The prices used in the analysis were recorded in October and November 2011 and represent only items with listed prices in at least three different stores and at least three different websites.⁴

Price Inflection Points

The significant inflection points indicate that goods priced below \$7 are cheaper on average in store while goods priced between \$7 and \$20 are cheaper on average online, trends that first emerged in the Spring 2011 study and continue to mark a significant departure from the Fall 2010 analysis. For over 75% of items priced below \$7, the average store price is cheaper than the average online price with an average savings of 15%. For over 80% of items priced between \$7 and \$20, the online price is cheaper, with an average savings of 9%. Neither channel had a clear advantage for items priced above \$100, and both channels produced similar average savings of 6% and 7%, respectively, for this price range. Prices between \$20 and \$100 appeared too infrequently to be included in the analysis.

The study found that there is a clear price break (<\$7) below which physical stores offer lower pricing, and a range (\$7-\$20) in which online retailers typically have the better deals.

Consistent with Spring 2011 findings, the range of prices where each channel finds an advantage cannot be limited such that one channel is considered superior for inexpensive purchases and the other for more costly buying. That belief was supported by the Fall 2010 study, which found that items with average prices below \$50 were cheaper in stores, while items with average prices above \$90 were cheaper online. However, in the subsequent Spring 2011 study, researchers found more nuanced inflections, with more than 75% of items under \$15 cheaper in stores, and more than 85% of items priced between \$15-50 cheaper online. The Spring 2011 study also found no clear price advantages for items costing \$100 and above, but did find that online prices had greater savings when they were cheaper in this range. The most significant result in these findings is that the price shifting in modestly priced items first observed in Spring 2011 has extended into lower price ranges, \$7-\$20, suggesting more significant and rapid changes for online vs. in-store pricing dynamics.



This graph shows the average online and in-store prices for items with average online prices less than \$20. Findings suggest that for items less than \$7, there is usually an advantage to buying in-store whereas for items between \$7 and \$20, there is usually an advantage to buying online.

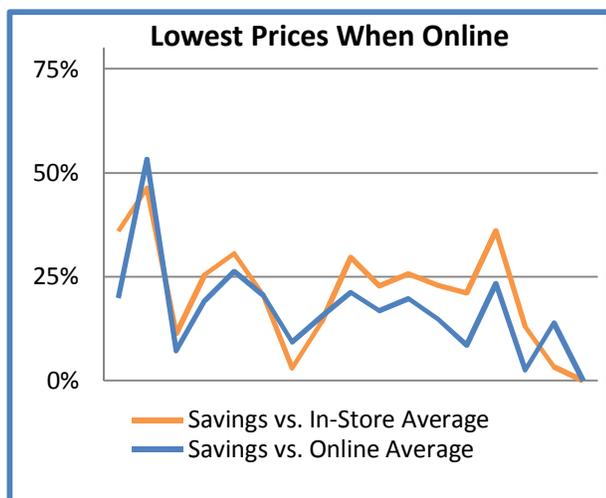
Although there are discernable differences in pricing by category, prices within each category generally followed the pattern for the price ranges described above. A noteworthy difference from the past two studies, however, is apparent in the electronics category, where neither channel has a clear advantage. This result again suggests that comparative prices are shifting rapidly and that the standard wisdom for choosing whether to shop online or in stores is quickly becoming outdated.

Item Category: Electronics

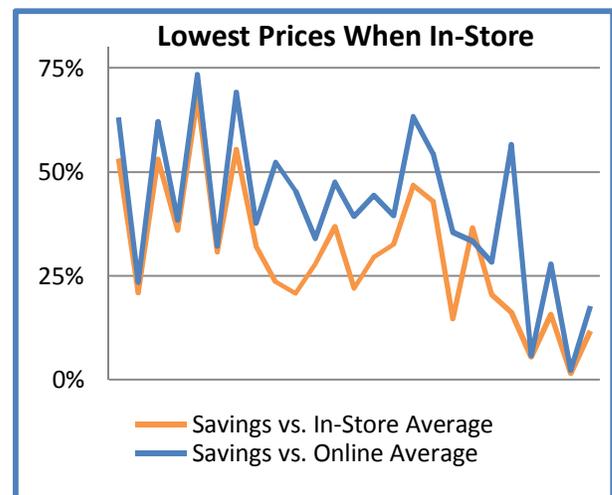
Product	Online Average	In-Store Average	Differential
TI-83 Plus Graphing Calculator	\$ 101.83	\$ 101.59	0.2%
Nikon Coolpix S4100	\$ 132.29	\$ 148.16	11%
Garmin Nuvi 1300 GPS Navigator	\$ 138.15	\$ 122.99	11%
Nintendo Wii Mario Kart Bundle	\$ 166.47	\$ 142.49	14%
Apple Ipod Touch-8GB	\$ 199.50	\$ 198.00	1%
Play Station 3	\$ 299.98	\$ 299.99	0%
Xbox 360 with Kinect	\$ 303.92	\$ 283.33	7%

The Ideal Shopper Scenario: The Cost of Convenience

Although each channel has its own advantageous price range, a different story emerges when the potential savings of each channel are compared. For this analysis, the lowest prices across all items were compared to determine the maximum amount the “ideal shopper” can save with smart shopping. 45% of items had their lowest prices in-store, 31% had their lowest price online, and 24% had their lowest price both online and in-store. In this respect, neither channel seems to have a significant advantage. However, savings are significantly greater when the lowest prices are in stores than when they are online. Compared to the in-store average price and the online average price, average savings from the lowest prices that are online are 21% and 17%, respectively. The same comparisons for the lowest prices that are in stores shows that average savings are 30% and 41% respectively for average in-store prices and average online prices. These results suggest that there are costs beyond shipping expenses to the convenience offered by online shopping. Furthermore, although price comparisons are much easier to execute online than in stores, the extra leg work of comparison shopping in stores pays off with larger savings.



This graph shows the savings of items' lowest prices when these prices are found online. These savings tend to be lower than the savings of lowest prices when they are found in-store.



This graph shows the savings of items' lowest prices when these prices are found in-store. These savings tend to be higher than the savings of lowest prices when they are found online.

Consideration of Shipping and Sales Tax

The total cost of an in-store purchase typically includes the listed purchase price plus sales tax. Shipping costs are usually not a factor for in-store purchases. For online purchases, sales tax is often avoided, but there are many exceptions. 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.

Changes in Sales-Tax Policy for Online Retailers

Although by law, consumers are required to pay local sales tax for all online 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.

The Spring 2011 study documented the well-publicized dispute between Amazon.com and the California state government over the sales tax for online purchases. Since then, Amazon has reached a deal with California so that the law mandating tax collection will be delayed until September 2012. Having initially come out strongly against such a law, Amazon may have determined that it would be too costly to challenge the legislation. In any case, similar measures across the country, including federal legislation that would create a nation-wide policy, indicate that online retailers will not enjoy the advantage of a sales-tax reprieve for much longer.⁵

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 proportionally, shipping can drastically increase the total cost of the basket of goods. In many cases, shipping can add 20% or more to the total cost of a bundle of low-priced products, whereas the incremental impact on a higher-priced purchase can be less than 3%.

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 purchasing some items online, and may instead send them to physical stores.

Implications

For Consumers:

Although the benefits of more competitive prices and greater convenience are popularly attributed to online retailers, the results of this study indicate that physical stores have responded strongly to the challenge of online competitors. Not only are stores offering the best prices for the most inexpensive items, they also provide the best savings for their most competitive prices. In other words, the convenience of online shopping can have steep opportunity costs, especially if a consumer is attracted by the quick price comparisons of online browsing. Furthermore, stores have also become more competitive in the electronics category and for items priced higher than \$100, categories where online



retailers had a definite advantage in Fall 2010 and Spring 2011. With many online vendors likely to begin collecting sales taxes in the near future, online purchasing is losing many of its apparent pricing advantages over in-store shopping.

For Retailers:

Understanding the forces driving consumer behavior is critical for optimizing channel pricing. By increasing the competitiveness of moderately priced goods, there are a variety of supply chain implications for the retailer, as well as the shipping companies, warehouses and manufacturers. In order to ensure profitability, more enticing and convenient shipping deals need to be enacted for these lower-priced goods to compete with the immediacy of in-store purchases, and fewer items being delivered to physical stores could allow for re-allocation of profits to shipping companies, warehouses, and manufacturers. Physical stores may also see a benefit of increasing the online profitability of low-priced items, as fixed costs may be lessened due to a reduced need for store space as well as an increased focus on only stocking items that are likely to be purchased in-store, such as convenience goods. Retailers should also work to complement their online and in-store prices to ensure they are maximizing each medium's advantages—emphasizing affordable delivery and increasingly competitive prices for online, and immediacy as well as convenience for their physical stores.

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

¹ Online and in-store prices were compared in: Walmart, Target, Office Max, Office Depot, Staples, Sears, Macy's, Kohl's, Best Buy, Barnes & Noble, CVS and Walgreens; only in-store prices were taken for Jewel and Dominick's, and only online prices for Peapod.com and Amazon.com.

² Categories included: personal care, electronics, grocery, men's apparel, toys and games, cleaning supplies and office/school supplies.

³ 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 November 7th 2011, including clearance and card member prices.

⁴ The prices of secondary sellers on Amazon.com and Sears.com were not included in the study.

⁵ A map showing Amazon's tax collecting practices in each state can be found in Anthem's Spring 2011 study.