



Spring '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 a Fall 2010 research study, Anthem Marketing Solutions recently completed the second edition in a planned series of bi-annual studies in an attempt to establish the validity of this notion 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

- **Items priced >\$15 generally offer a better deal online- a significant price point shift from 2010**
- **Considered purchases less expensive online; consumables less expensive in-store**
- **Recent sales tax laws with online retailers such as Amazon may have implications for future purchases**

The results of the study suggest that product characteristics, including price point, categorization, and immediacy of need are the primary influencers that determine which channel offers the best pricing. Items with a price point below \$15<sup>3,4</sup> are generally less expensive when purchased in physical stores, while items that typically sell for more than \$15 offer a better deal online<sup>5</sup>. This reflects a clear divergence from the Fall 2010 study, which found that items below \$50 were often cheaper in-store, where as those above \$90 were more commonly priced lower online. This new price shift has implications for both the increased competitiveness of online retailers, as well as various members in the supply chain, including the physical stores, shipping companies and manufacturers. Additionally, convenience purchases/consumables, such as grocery and cleaning products, tend to be less expensive in-store, compared to considered purchases, which tend to be cheaper online.

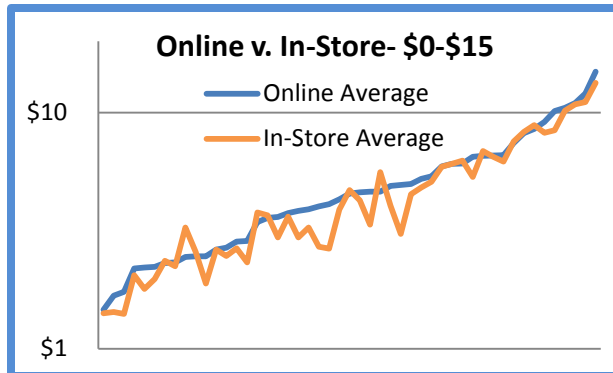
## Methodology

As in the 2010 study, researchers primarily utilized 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. Selected items were required to be widely available in the same unit size, and were only considered if found in 3+ offline stores and at 3+ online retailers. Prices were recorded in April 2011. The analysis included overall comparison of prices, comparison of prices for specific products, and comparison of prices by purchase type.

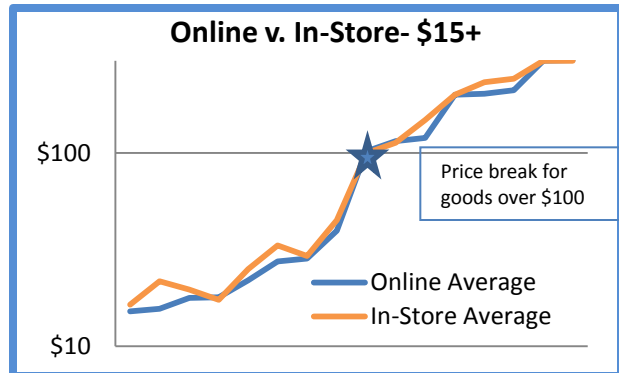
## Price Inflection Points

Researchers found three interesting inflection points when analyzing prices. Clear price breaks were observed that can serve as a general rule suggesting when it is less expensive to shop online vs. in-store. More than 75% of the goods below \$15 could be found at a lower price in-store, with an average price differential of 11.8%<sup>6</sup>. Between \$15-\$50, over 85% of the items were cheaper online by an average margin of 13%. For goods above \$100<sup>7</sup>, while goods were equally likely to be cheaper in-store or online, items that were cheaper in-store only had a 1% price advantage, whereas those cheaper online had nearly a 12% one, suggesting a benefit to buying more expensive goods online. These price points represent a drastic shift from the Fall 2010 study, where 70% of goods priced below \$50 were cheaper in-store, and 85% of items priced over \$90 could be purchased at a lower price online. These findings suggest that there has been a recent rapid shift in pricing dynamics between online and offline channels, especially for moderately priced goods between \$15-\$50.

**The study found that there is a clear price break (<\$15) below which physical stores offer lower pricing, and a threshold (>\$15) beyond which online retailers typically have the better deals.**



*This graph illustrates the average online and in-store prices for items under \$15. Findings suggest that it is generally cheaper to buy items less than \$15 in-store.*



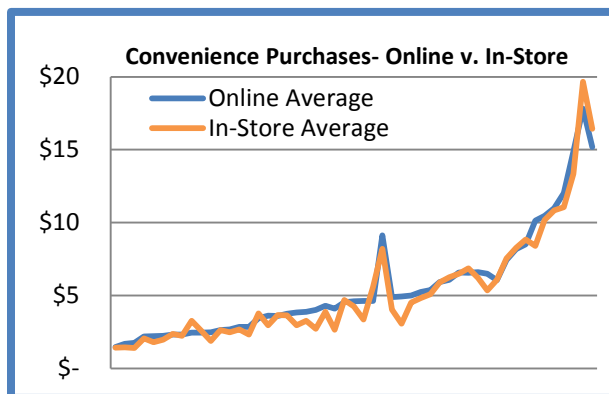
*This graph shows the average online and in-store prices for goods greater than \$15, with attention drawn to goods over \$100. Findings suggest that for these goods, there is an advantage to buying online.*

### Convenience In-Store, Considered Online

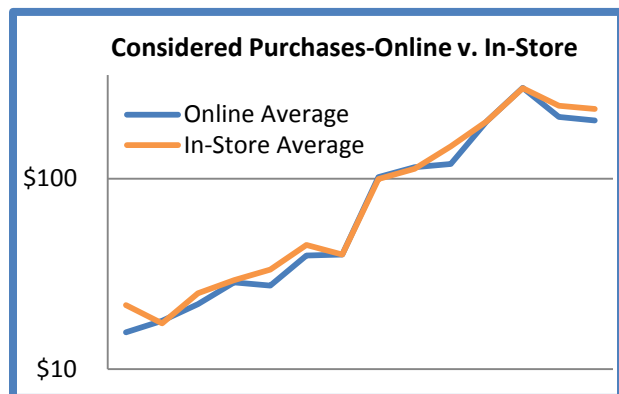
Items were divided into two product categories—convenience and considered purchases—based on the product type and the amount of time a customer is likely to spend planning a purchase.

- Convenience purchase: A product that is purchased with little comparison shopping and is generally consumed and replenished with some regularity—for example, shampoo.
- Considered purchase: 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 less expensive items, and can be found cheaper in-store. Considered purchases are cheaper online 60% of the time.



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

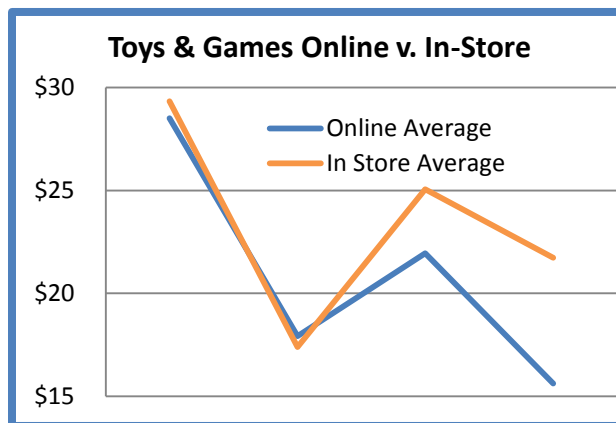


*This graph shows the online and in-store prices for considered purchases. Consistent with overall price findings, planned purchases are generally more expensive and found cheaper online.*

**Convenience purchases tend to be less expensive in-store; considered purchases are generally cheaper online.**

There are also discernable differences in pricing by category. In general, electronics, some personal care items, and toys/games have lower prices online. Most consumables, including the majority of personal care items, school and office goods, cleaning supplies, and groceries are cheaper in-store. Categorical differentiations are similar to those found in the 2010 study, with the exception of Toys and Games, which were predominantly cheaper in-store in the fall, and are now found to be less expensive online. Below is a table with the average prices for a representative list of items across various categories.

Product	Category	Online Average	In-Store Average	Differential
Apple Ipad Touch-8GB	Electronics	\$210.99	\$241.99	15%
Garmin Nuvi 4.3" 1300 GPS Navigator	Electronics	\$119.49	\$148.16	24%
Avery Durable 1" binder	Office/School Supplies	\$4.89	\$4.03	21%
Nabisco Chocolate Chip Cookies-15.2 oz	Groceries	\$4.09	\$2.66	54%
Lysol Disinfecting Wipes- 35 ct.	Cleaning Supplies	\$4.94	\$3.06	61%
Neosporin Antibiotic Ointment- 1 oz.	Personal Care	\$9.13	\$8.20	11%
Frankie Stein-Monster High Doll	Toys & Games	\$15.63	\$21.73	39%
Mr. Coffee Programmable CoffeeMaker (12 cup)	Electronics	\$27.49	\$33.29	21%



*This graph represents online versus in-store average prices for common toys and games. There is a clear trend that suggests for this particular category, online retailers offer lower prices.*



*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 in-store purchase typically includes the listed purchase price, plus sales tax. Since consumers generally take the purchased goods with them, shipping costs are not a factor. For online purchases, there are different considerations. Sales tax is often avoided, but with 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.



### ***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:*

Though findings suggest that online retailers have become more competitive since Fall 2010 for moderately priced goods between \$15-\$50, overall results imply that **online still does not always offer the best deal**. The product's price tier, category, complexity and usage type are the best determining factors for which medium one should consider. It is often less expensive to shop in-store, particularly for lower-priced convenience items, whereas items over \$15 are generally cheaper online, especially for considered purchases. 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. 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 most 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](http://anthemedge.com)*



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<sup>1</sup> 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.

<sup>2</sup> Categories included: personal care, electronics, grocery, men's apparel, 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 April 2011, including clearance and card member prices.

<sup>5</sup> Due to lack of widespread availability, there were not enough items between \$40 to \$100 to allow for analysis.

<sup>6</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.