



Winter 2015

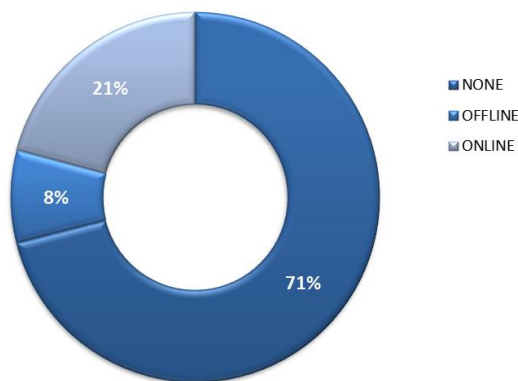
Deal Seeking: Online vs. In-Store

Semi-Annual Online/In-Store Pricing
Comparison

Executive Summary

Anthem Marketing Solutions has completed its eighth semi-annual market basket analysis of in-store and online pricing trends for a commonly purchased bundle of consumer products. Consistent with previous studies, 71% of items observed have the same price online and offline. When there is a price difference, online continues to dominate with **72% of observations favoring the online channel** and 28% favoring offline.

Overall Channel Preference



Highlights

- 71% of items reviewed were found at same price online and offline
 - When difference existed, 72% had lower price online
 - When item is found at lower price offline, difference more substantial
- Beauty category had highest proportion of items priced lower online
- Almost 90% of Hardware/Home Improvement items same price both offline and online
- Office/School Supplies only category with offline price edge
- Pharmacy retailers had lowest level of pricing consistency across channels
- Most online coupons are applicable to the basket, not individual items
 - When product coupons are used, offline pricing can approach parity with online
 - When blanket online promo codes are used, online advantage can increase significantly

Summary

In our first study of online vs in-store pricing in the fall of 2010, we attempted to validate conventional wisdom which held that lower pricing could generally be found online. The results of the study suggested that product characteristics, including price point, complexity, and immediacy of need influenced the price more than the purchase channel. Today, however, reality has caught up with that conventional wisdom. Across almost every category, price tier and store you are likely to find a lower price online *when a price variance exists*.

In our earlier studies, there were clear price breaks within which you would find stable proof of channel advantage, many of which favored physical stores. There also existed overwhelming evidence of in-store price advantage for convenience items - those with lower prices and need for immediacy. There are still bargains to be had in-store - they are just becoming more difficult to find.

Interestingly, consistent with previous studies, we found that approximately 71% of items reviewed could be purchased at the same price both online and offline. When there was a price difference for a specific item, 72% of observations favored the online channel and 28% favored the offline channel. This is especially interesting in light of recent announcements by Wal-Mart and Target that they were



expanding their in-store price-matching guarantee. Reviewing our basket of items under this condition means the overall price in-store would improve by 9% at Wal-Mart and 14% at Target.

Also, consistent with our previous study from Spring 2014, pricing in the convenience category (<\$20) increasingly favors the online channel. Several months ago, 66% of items with price differences could be found for less online. In this study, 72% of observations were less expensive through the online channel. Online advantage for considered purchases (>\$20) has also increased, from 64% to 72%.

Considering the same product categories as in our previous study, only the office/school supplies category suggested an overall offline pricing advantage. All other categories maintained or increased in proportion of items with an online price advantage.

Included in this most recent study, the impact of coupons on channel advantage is also explored. The results of this added dimension are mixed. In the online channel you are more likely to find broad site or category-wide discounts, further extending the online price advantage. However, individual product promotions are more likely to be applicable in-store and may shift a basket to overall offline advantage when used in a targeted manner.

Methodology

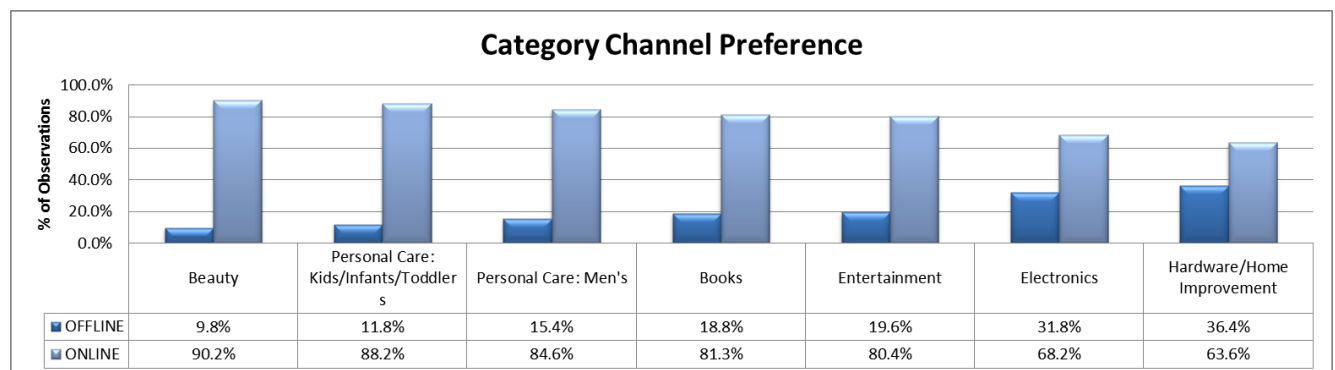
The objective of this study was to compare listed online and offline prices for the same items purchased on the same day, excluding available coupons and discount codes. Researchers selected a variety of commonly purchased consumables, including health and beauty items and specialty items such as small electronics, intended to be representative of a typical family's periodic household needs.¹ (We continued to exclude general grocery items, as they do not have broad online availability at the current time, and clothing, due to the difficulty in standardizing across retailers.) 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 three or more physical stores and at three or more online retailers². Sales tax and shipping costs were excluded for purposes of comparison and analysis, as were coupons and discount codes unless otherwise noted. Comparisons were made across product categories, purchase type, outlet categories, channel and timing³.

In line with previous studies, we looked at channel performance in the \$0-\$5, \$5-\$20, and >\$100 price ranges. 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.

Category Observations

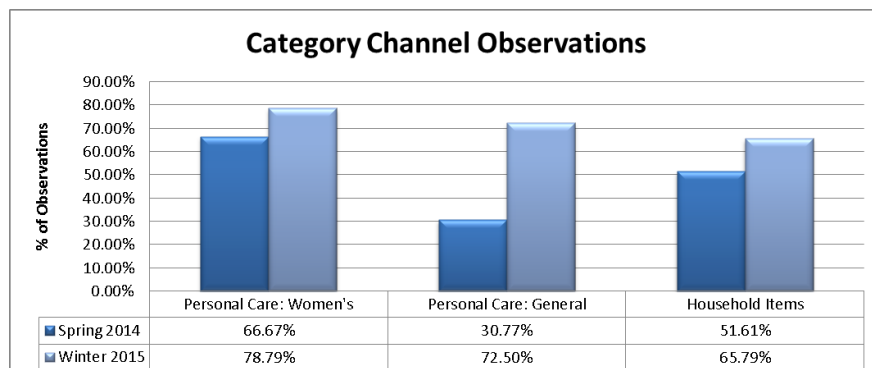
Overall Channel Advantage by Category

Categories of observation remain consistent with previous studies: Beauty, Books, Electronics, Entertainment, Hardware/Home Improvement, Household Items, and Personal Care (Men's, Women's, General, Kids/Infant/Toddler).



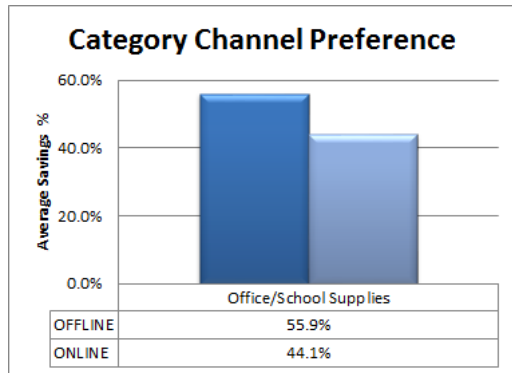
- Online advantage is held firmly in the **Beauty, Books, Entertainment and Personal Care (Men and Kids/Infants/Toddlers)** categories. This is consistent with previous findings
- The **Electronics and Hardware/Improvement** categories also exhibit overall online price advantage, but to a lesser degree

The **beauty** category has the **lowest proportion of observations having the same price in both channels**. Only 56% of observations have the same price both online and offline.



- **Household Items** and **Personal Care (General and Women's)** categories have gained pricing advantage in the online channel as compared to our latest study in Spring 2014

The **hardware/home improvement** category has the highest proportion of observations having the **same price in both channels**. 88% of observations have the same price both online and offline.

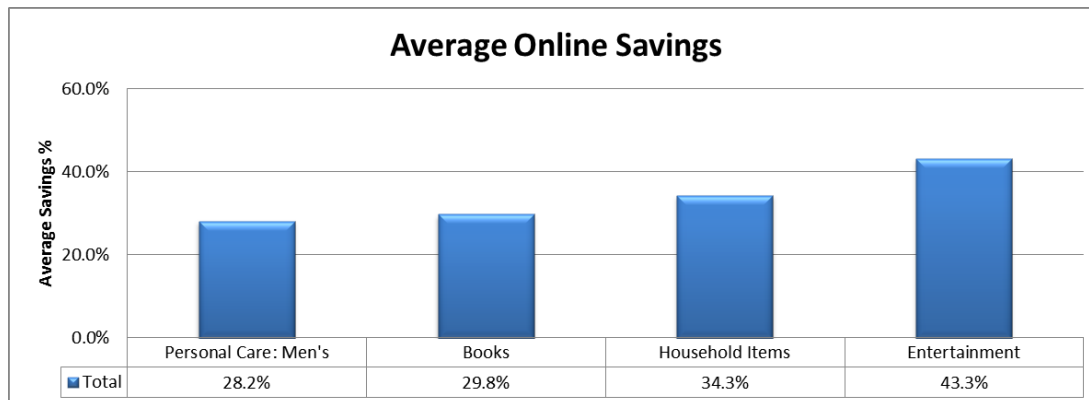


Office/School Supplies is the only category to record overall offline channel advantage.

Interestingly, “Back to School” shopping may have been the primary influencer driving pricing in this category. According to a September 2014 article in Bloomberg Businessweek (“Wal-Mart’s School Supplies Are a Little More Expensive Online”), peak season for school supplies may have an outside impact on driving larger overall basket size: “Wal-Mart has every reason to offer cheaper school supplies in stores, where shoppers are likely to buy something else on impulse.”

Savings Opportunity by Category

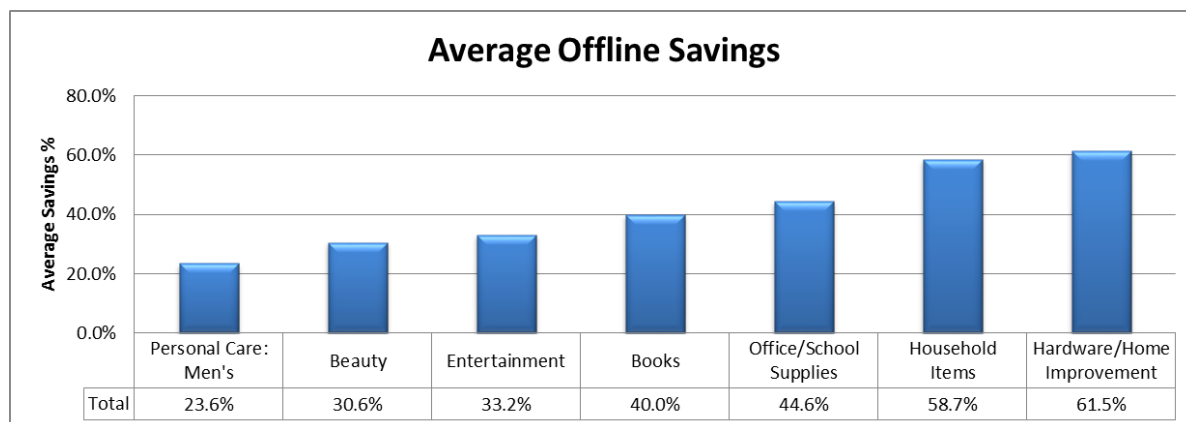
AVERAGE ONLINE SAVINGS OPPORTUNITY



- **Personal Care (Men’s), Books, Household Items** and **Entertainment** categories recorded the highest online savings opportunities when an item was found at a lower price online, savings ranged from 28% to 44% for these categories
- The remaining categories recorded average online savings between 13-18%

AVERAGE OFFLINE SAVINGS OPPORTUNITY

While the offline channel exhibits, overall, the lowest proportion of observations with price preference, it does offer significant savings opportunities when a cheaper price is found in-store.



- Personal Care (Men's), Beauty, Entertainment, Books, Office/School Supplies, Household Items and Hardware \ Home Improvement categories all offer average in-store savings opportunities in excess of 20% and ranging as high as 61.5%
- The remaining categories (Personal Care: Women's, General and Kids/Infant/Toddler) exhibited between 6% and 19% average savings

Price Tiers

We considered differences by price tier in a manner consistent with our previous studies.

The lowest price tier of \$0-\$5, which accounted for 38% of total observations, exhibited a dramatic tilt in our previous study to overall online advantage. That result remains consistent today with 65% of observations favoring the online channel. When an item was cheaper online, savings averaged 21%. When favorable pricing was found in-store, savings were more significant at 47%.

In the price tier of \$6-\$20, we also observed a shift to overall online advantage in our previous study. That trend continues and online advantage strengthened further, from 65% of total observations in our previous study to 77% favoring the online channel currently. This price tier accounted for approximately 42% of total observations. Average savings opportunity was similar in both channels; 23% online and 27% in-store.

For products with an average price of \$100 or more, 41% showed in-store advantage and 59% exhibited online advantage. This is consistent with our previous study. Average savings opportunity, however,

declined significantly in the online channel from 54% to 19%. The offline channel offered average savings of 18%, slightly higher than our previous study (15%).

Convenience versus Considered Purchases

Considered purchases, defined as an item priced greater than \$20 that typically requires some pre-purchase research, to be consistent with previous studies, represented 25% of total observations. 72% of considered items reflected the same price both online and offline. When channel preference exists, approximately 28% of observations favored in-store. This is consistent with our previous study. Average savings opportunity was similar in both channels: when an item in this price tier was found cheaper offline, savings averaged 27%; when the item was found cheaper online, savings averaged 26%.

In the convenience category, generally defined as a product priced lower than \$20, we continue to see price advantage in the online channel. This price tier represented 75% of total observations. Approximately 70% of convenience items had the same price in both channels. Consistent with our previous study, when channel preference exists, 72% of observations in this tier showed an online price advantage. When an item in this price tier was found cheaper offline, savings averaged 37%. When the item was found cheaper online, savings averaged 22%.

Store Comparisons

Price consistency was reviewed by store category. Generally, pricing at individual stores followed the trend of their broader retail category. Stores were grouped as follows:



- Consistent with our previous study, the Hardware stores maintain the greatest price consistency across channels, at 98%
- **Retail pharmacy exhibited the lowest overall consistency with just 46% of observations having the same price in both channels**
- Big Box Office Supply and Discount Department stores both had pricing consistency that hovered around the 70% mark

New Dimension: Coupons

In this current study, we included a comprehensive survey of the availability and impact of coupons and discount codes in both the online and offline channels. Coupons were tracked during a three month period from more than 40 sources, including store direct (email or website), brand (email or website), online aggregators and print. Nearly 1,000 coupons were collected that were applicable to the products and stores included in this study.

More than 90% of coupons collected were applicable in the online channel only. Less than 6% applied exclusively to the offline channel. And, just 4% were applicable to both channels.

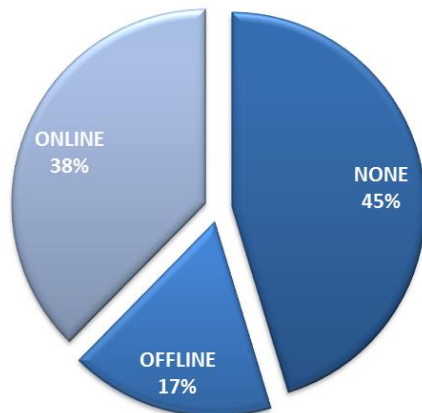
Impact of Coupons on Channel Preference

BLANKET DISCOUNTS

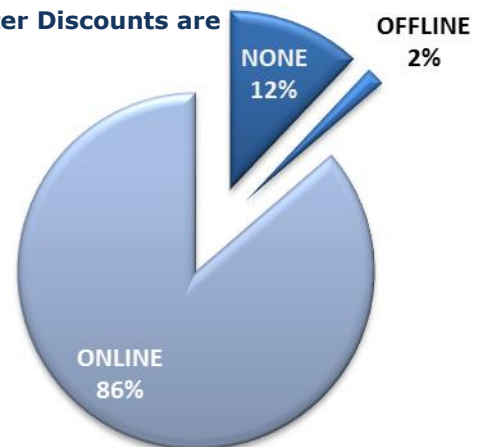
Three stores examined offered blanket discounts online ranging from 10 to 30%. One of those stores (Walgreens) offered blanket discounts in both channels – which offsets, creating parity so that was not factored in to the following results.

By way of example, during our survey of available coupons, CVS regularly offered 20-30% blanket discounts for the online channel, with nothing comparable for offline purchases. We developed an illustration using an average 25% discount to assess impact.

% Observations with Channel Advantage before Discounts are Applied



% Observations with Channel Advantage after Discounts are Applied



- Prior to incorporating the discount, 45% of products purchased at CVS had the same price in both channels. This was reduced to 12% with the discount applied
- Prior to incorporating the discount, online savings averaged 23%
- With the discount, 86% of observations at CVS favor the online channel with an average savings of 46%
- Just 2% of observations favor the in-store channel after the discount is applied

INDIVIDUAL PRODUCT DISCOUNTS

Coupon observations that were product specific – individually applied – did not affect overall results by category or store. Of the individual product coupons, approximately 60% were applicable at only a specific store. Only 40% of the individual product coupons were applicable at ‘any participating retailer’.

Individual product discounts applicable to both online and offline sales reflects just 4% of total discounts observed. Individual product discounts applicable to only offline sales reflect 96% of total individual product discounts observed. Individual product discounts applicable to the online channel only were rare to find and accounted for less than 1% of total observations.

Random Basket Analysis

To illustrate the impact of individual product coupons we created a random basket of goods at a single store. For this example we have used Target. The parameters for generating the basket were to select no more than 10 items, for a total value of no more than \$81.99. This also allows us to use the same basket to demonstrate the impact of shipping charges.

Of the individual product coupons that were available for the selected basket, none were applicable online. Prior to applying the individual product discounts, where a price difference existed, 75% of observations favored the online channel resulting in a 10% higher basket price via the in-store channel. After applying the applicable discounts, where a price difference existed, 50% of observations favored the in-store channel. The total in-store basket price with discounts applied was only 1% higher than the total online price with all discounts applied, suggesting that taking advantage of all available offline coupons could bring in-store shopping closer to pricing parity with online shopping.

SHIPPING

On average, a customer now has to spend \$82 on merchandise to qualify for free shipping, based on July data from 113 major retailers—up from \$76 the same month a year earlier, according to StellaService Inc., which collects data about online shopping. (<http://online.wsj.com/articles/free-shipping-is-going-to-cost-you-more-1414003507>). Using the random basket created above in which total merchandise is less than the average \$82 reported and adding a moderate shipping charge of \$10, the in-store channel gains a distinct pricing advantage with a total basket price that is lower by 17%.

Opportunities to avoid shipping charges are plentiful: Using coupon codes from coupon aggregator sites, meeting the minimum purchase price or becoming a member of a site/club. Target announced in Fall 2014 that it would offer free shipping – regardless of total purchase price – throughout the 2014 holiday shopping period. Best Buy, Walmart and others occasionally offer the same deal and both lowered the basket price threshold to qualify for free shipping for the 2014 holiday shopping period. According to ChannelAdvisor, 41% of retailers planned to offer free shipping during the recent holiday season.

Complicating the shipping dimension further, Amazon has launched a same-day delivery service. (<http://www.amazon.com/b?ie=UTF8&node=8729023011>). In the past, convenience and immediacy have been found to be key contributors to channel preference. Same day delivery alters that concept – at a price. In our next study we plan to further review the shipping dimension as well as incorporate the emerging grocery service category.

Implications

For Retailers:

- Retailers will institutionalize price matching – against Amazon.com and each other
- Large-basket and multi-category retailers like Target and Wal-Mart have less to fear from online
 - Just 2% of Target's sales come online, and 3% for Wal-Mart
- Immediate gratification and in-store experience will increasingly be stressed as differentiators for specialty retailers
 - Promotion of impulse purchases to increase offline basket size will become more and more important
- Online retailers will continue searching for the sweet spot in terms of free shipping thresholds
 - And consumers will increasingly rebel against shipping charges

For Consumers:

- Seeking out coupon/promo codes will continue to increase in importance prior to purchasing
- Rebate sites will also gain in importance, offering discounts and a percentage of cash back
 - These additional discounts can result in a 1% or greater increase in online price advantage, even accounting for available in-store product discounts
- Don't pay for shipping when you don't have to
 - See if a different store has a lower basket value to qualify for free shipping
 - Take advantage of memberships if that makes sense (e.g., Amazon Prime)

About Anthem Marketing Solutions

Anthem Marketing Solutions helps clients turn big data into smart growth. We are a data-driven marketing agency that provides strategy and cutting-edge tools to solve challenges for today's omnichannel marketer. Serving a broad range of industries, from casual dining to home services and B2B product distribution, Anthem Marketing Solutions is one of the fastest growing companies in America, according to *Inc. Magazine's* Annual Inc. 500|5000 rankings in 2012 and 2013.

¹ Categories included: personal care for infants, toddlers, men and women, beauty, electronics, hardware and home improvement products, books, 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, Lowe's, 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 September 2014, including clearance and card member prices