Shopping Guide 2016

Deal Seeking: Online vs. In-Store

Semi-Annual Online/In-Store Pricing Comparison

Executive Summary

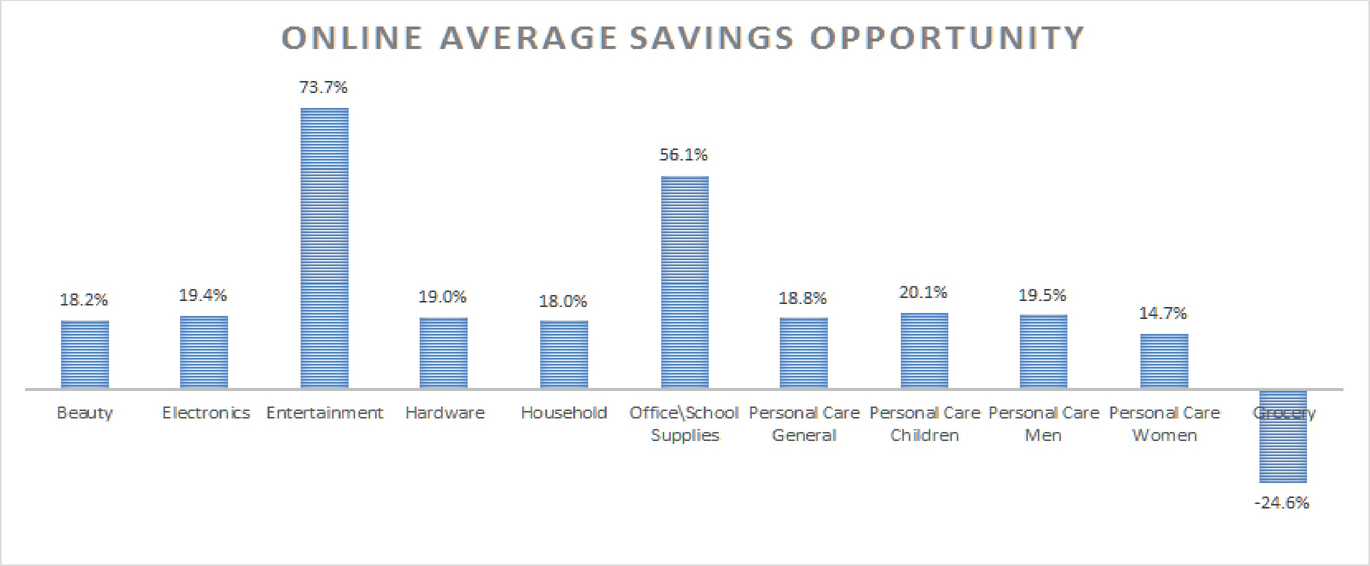
Anthem Marketing Solutions has completed its ninth market basket analysis of in-store and online pricing trends for a commonly purchased bundle of consumer products. New in the study this year, we examined pricing trends in the **grocery category**. In order to provide comparable results to previous studies, grocery observations are not included in overall category and channel performance; instead, they are held out and reported separately. **New results indicate that there is less differentiation across channels with approximately 75% of items priced the same online and offline.** When there is a price difference, online continues to dominate with **nearly 75% of observations favoring the online channel** and 25% favoring offline.

It may still pay to price compare across channels, however. Products with an average price >$20 and <$100 that were less expensive online were priced 39.7% lower on average. In-store, the average price was 31.6% lower. The average price in this range is $51.51; calculated savings are $20.45 online and $16.28 in-store for a single item purchase. For lower ticket items, <$20, average savings is 24% online and 30.2% in-store when a price difference is observed.

In the grocery channel, however, results run counter to other category results. Here, the online channel may see prices greater than 40% above average in-store prices.

Highlights

- 75% of observations priced the same both online and in-store
- The Household category has the highest price consistency between channels (80.8%)
- The Beauty category has the lowest price consistency between channels (62.1%)
- Grocery items in the online channel were as much as 40% above average price
- Significant savings can be found in both channels when a discount is observed.
  - Online discounts as high as 73.7% were observed in the Entertainment Category.
  - In-store discounts as high as 58.6% were observed in the Office\School Supplies Category.



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] 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 retailers[2]. Sales tax and shipping costs were excluded for purposes of comparison and analysis, as were coupons and discount codes unless otherwise noted. The lowest available price was collected at the time of the observation, which may include sale prices. Comparisons were made across product categories, purchase type, outlet categories, channel and timing[3].

The grocery category is a new addition in this iteration of the study. In order to provide comparable results over time, by category and channel, the grocery results are not included in overall results and are reported separately.

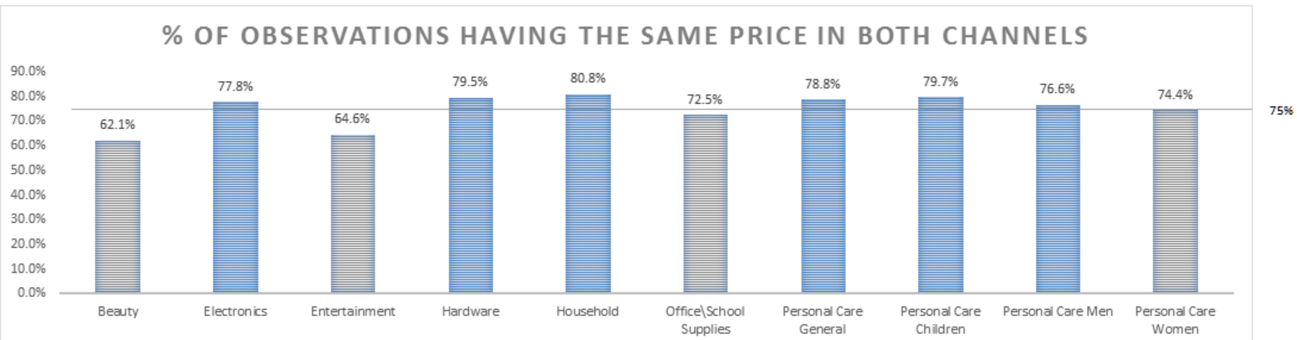
In line with previous studies, we looked at channel performance by price tier using ranges of $0-$5, $5-$20, and >$100 price ranges. Additionally, items were classified as 'convenience items' if they were in lower price tiers and were generally purchased for immediate or near-term consumption, and as 'considered purchases' if they were in one of the higher price tiers and generally involve pre-purchase research.

Category Observations

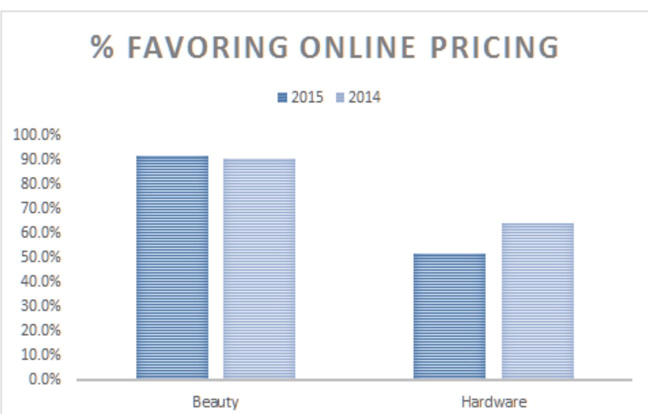
Categories of observation remain consistent with previous studies: Beauty, Books, Electronics, Entertainment, Hardware/Home Improvement, Household Items, and Personal Care (Men's, Women's, General, Kids/Infant/Toddler).

Category Pricing Consistency

Each of the categories included in the study in-store the same price in both channels at least 60% of the time. Five categories observed the same price in both channels in greater than 75% of observations. Those categories are Electronics, Hardware, Household Products, Personal Care (General) and Personal Care (Children).



Of these categories, Household Products contained the greatest number of observations having the same price in both channels. The Beauty category offered the lowest ratio of price consistency with only 62.1% of observations returning the same price in both channels.



When a price difference existed, the Beauty category continues to favor the online channel with 91.5% of observations (vs. 90.2% previously) offering a lower price online. The Hardware category comes closest to in-store advantage with only 51.4% of observations favoring the online channel. Year-over-year, the greatest changes in online preference were observed in the Hardware, Household and Personal Care (Children's) categories; all showing a year-over-year decline in online advantage ranging from 10%-12%.

Category Savings Opportunities: ONLINE

When a price difference does exist between the online and in-store channels the Office\School Supplies and Entertainment categories exhibited the highest average online savings opportunity. In both of these channels, we observed a significant increase in savings opportunity compared to previous results. In the Office\School Supply category average online savings opportunity increased from 13.6% in the previous study to 56.1% in current observations.

The Entertainment category, which has historically provided high savings opportunity in the online channel, previously exhibited a 43.3% average savings opportunity; new results were observed as 73.7%. The lowest average savings opportunity was observed in the Personal Care (Women's) category at 14.7% (a slight decrease from previous results reported at 17.7%).

In the Electronics, Household and Hardware categories we also observed significant changes in average online savings opportunity. In the Electronics and Hardware categories we observed similar increases in year-over-year average online savings opportunity at 32% and 31% respectively. In the Household category we observed a significant decrease in year-over-year results, dropping 47.5% in 2015 to an 18% average online savings opportunity.

Category Savings Opportunities: IN-STORE

Following the same trends as observed in the online savings opportunity, the Entertainment and Office\School Supply categories offered the highest average in-store savings opportunity when a price difference existed between the two channels.

In the Entertainment category we observed an average in-store savings of 55.9%. This is a significant increase over 2014 results of 33.2%. In the Office\School Supply category we observed an average in-store savings of 58.6, a substantial increase over 2014 results of 44.6%

The Personal Care (Men's) and Personal Care (Women's) categories offered the lowest average in-store savings opportunity at 7.7% and 6.8% respectively. In the Personal Care (Men's) category this is a significant reduction from 2014 results, which were observed as 23.6%.

Big changes were also observed in the Hardware, Household and Personal Care (Children's) categories. In the Hardware and Household categories, average in-store savings opportunity dropped by 58.9% and 53.2% respectively, year-over-year. In the Personal Care (Children's) category average in-store savings opportunity grew from 6.8% in the previous study to 36.4% in current results.

Price Tiers

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

In the lowest price tier of $0-$5, which accounted for 43.3% of total observations, prices were consistent in both channels in 78.2% of observations. When a price difference was observed, the online price was lower in 73% of observations. However, savings were the highest when a price was observed lower in-store. The in-store savings averaged 40.9%. Online savings opportunity in this price tier averaged 21.8%

In the price tier of $6-$20, price consistency was observed for 73% of observations. When a price difference existed, online pricing was favored in 75.3% of observations. Savings opportunity for this price tier was fairly consistent both online and in-store at 25.6% and 21.2% respectively.

For products with an average price of $100 or more, 75% of observations could be found cheaper online when a price difference existed.

Observations with a price point between $61 and $80 offered the greatest cross-channel price consistency and the lowest in-store discounts in each channel. 85.7% of observations in this price group exhibited the same price in both channels. Where a price difference existed, online savings averaged 9.7% while in-store savings averaged 16.4%.

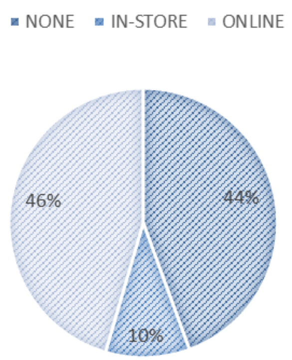
Convenience versus Considered Purchases

Considered purchases, defined as an item priced greater than $20 that typically requires some pre-purchase research, to be consistent with previous studies, represented 11.9% of total observations. Considered purchases were observed to have the same price in both channels in 73.5% of observations. This is only slightly less than for convenience purchases which offered the same price in 75.5% of observations. When a price difference was observed, considered purchases could be found for, on average, 35% less in the online channel and 31% less in-store.

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 88.1% of total observations. Differing only slightly from our previous study, when channel preference exists, 74.3% of observations in this tier (vs. 72% previously) exhibited an online price advantage. When an item in this price tier was found cheaper offline, savings averaged 30.2%. When the item was found cheaper online, savings averaged 24%.

Store Comparisons

RETAIL PHARMACY

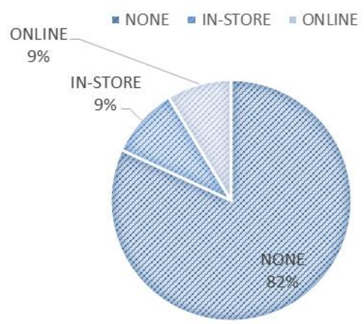


Cross-channel pricing consistency is lowest in the Retail Pharmacy stores: CVS and Walgreens. In each of these stores pricing is found to be consistent in both channels in less than 50% of observations (47.6% and 41.4% respectively).

Online and offline average savings opportunity were similar for CVS in both channels; offering around a 10% discount when a product was found at a lower price in either channel.

Walgreens offered an 18% average savings opportunity when a product was found cheaper online and nearly 29% in-store.

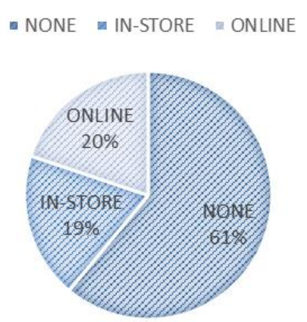
BIG BOX HARDWARE



Big Box Hardware stores exhibit the greatest price consistency across channels. For both Home Depot and Lowes, 78.6% of observations had the same price both online and offline. Ace Hardware offered the highest rate of price consistency at 88.4%.

Finding a lower price in either channel being unlikely, there are still opportunities to save. When a price is lower online in the Big Box Hardware stores, discounts range from 10-15%. When a lower price is observed in-store, discounts were observed as high as 35%.

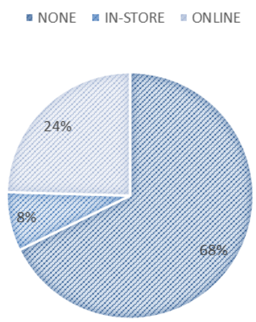
BIG BOX OFFICE SUPPLY



Stores in the Big Box Office Supply category offered some of the lowest pricing consistency rates among stores included in this study; only Retail Pharmacy stores rank lower in consistency.

Office Depot offers the lowest pricing consistency in this category at 56.1%. Office Depot also offered a higher rate of discounts in-store when a price difference was observed; 52% of these observations favored the in-store channel. Staples channel pricing was close with 53.8% favoring the online channel.

DISCOUNT DEPARTMENT STORE



In the Discount Department stores a wide range was observed in the results on price consistency. Kmart had the highest price consistency at 79.5% followed by Walmart at 66.3% and Target at 58.7%. Each of the stores also exhibited a decrease in year-over-year results on pricing consistency. Target had the greatest change in price consistency dropping from 81.4% in 2014 to 58.7% in 2015.

Target also offered the greatest percentage of online advantage when a price difference was observed, at 91%*. Among all stores included in this study, that is the highest result for observations favoring online pricing.

Wal-Mart, Target and K-mart all offer price match guarantees, however, Wal-Mart and K-mart have guarantees more limited in scope than the newly launched Target digital price matching policy. This undoubtedly influences the results among online and offline pricing in the Discount Department Store category.

*Target recently announced an adjustment to their price match policy to expand its online low price guarantee. Effective Oct 1, 2015 Target extended its price matching online for up to 14 days following a purchase. They have also expanded the list of eligible competitor sites for matching[4]:

Amazon.com
Babiesrus.com
BedBathBeyond.com
Bestbuy.com
BN.com
Buybuybaby.com
Costco.com
CVS.com
Diapers.com
DicksSportingGoods.com
Drugstore.com
Gamestop.com
JCPenney.com
Kmart.com
Kohls.com
Macys.com
Newegg.com
Officedepot.com
Petco.com
Petsmart.com
Samsclub.com
Sears.com
SportsAuthority.com
Staples.com
Target.com
Toysrus.com
Ulta.com
Walgreens.com
Walmart.com
Wayfair.com

New Category: Grocery

New in the study this year, the **Grocery Category** has been added. Without previous points of comparison, the results of this category are reported separately.

Research for this category was completed at the following stores:

Channel	Store
Instore	CVS
	Jewel Osco
	Kmart
	Mariano's
	Target
	Walgreens
	Walmart Neighborhood Market
	Walmart Super Center
Online	Amazon
	Netgrocer
	Peapod

Grocery results are reported by channel and category only. A product must be available at all three online retailers and at least three offline retailers to be included in the analysis. Results are reported as difference from the average price at all retailers.

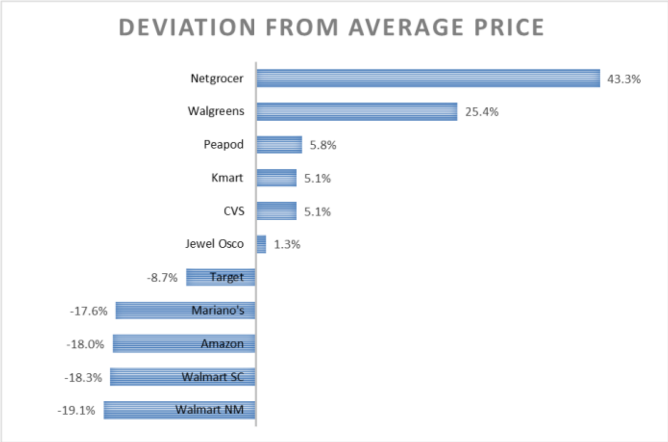
The Grocery category exhibits a trend counter to other product categories. In this category, online outlets offer, on average, prices 24.6% higher than at offline retailers.

Pricing differences at different types of offline retailers follows expected patterns. Prices at Discount Department Stores, a category which includes Wal-Mart, are approximately 10% lower than the average observed price of an item at a traditional grocery retailer. Retail pharmacy stores like CVS and Walgreens, which trade on convenience more than selection, offer prices close to 15% higher than the overall average. Online only grocery stores, such as Peapod and Netgrocer, have prices nearly 25% higher than average.

AVERAGE PRICE COMPARISON

The lowest overall cost option for groceries was observed at Wal-Mart (Super Center) followed by Wal-Mart (Neighborhood Market) and then by Amazon coming in third. A more traditional grocer, Mariano's, and Target round out the top 5 lowest average price observations in the grocery category. Amazon is the only retailer in the top 5 with online price observations.

Retail Pharmacy stores, known for higher convenience pricing, reported above-average pricing in the grocery category. CVS in-store exhibited a modest increase at 5.1% over average. At Walgreens, however, we observed prices more than 25% higher than average.



Among all the stores at which grocery pricing was observed, online-only retailer Netgrocer offered the highest overall pricing. Netgrocer's prices were observed to be 43.3% higher than the average grocery item price.

Peapod, another online only retailer, offered prices a modest +5.8% higher than average. This result is in line with several offline retailers, including CVS and Kmart.

SHIPPING & TAXES

Due to the variable nature of shipping charges and sales tax, these elements are not included directly in the pricing study.

Shipping charges are largely inconsistent among retailers. Walgreen's, for example, offers free shipping with a basket value of $25. Target may require a $50 basket unless you purchase with a Target card. Then there are e-commerce giants, such as Amazon, who offer memberships to help consumers control shipping costs. Amazon currently charges $99 for one year of unlimited two-day shipping. On average a consumer must spend $82 to qualify for free shipping.

The online channel will continue to be challenged by shipping costs and the instant gratification that is achieved with an in-store purchase. Amazon is closing the gap on urgency with some products available for same-day shipping.

Taxes are another variable that cannot be quantified broadly. There remain 24 states that have adopted measures to simplify sales tax in order to compel retailers to collect appropriate taxes under the Marketplace Fairness Act. Enactment continues to face compliance and implementation issues and has stalled in the last two years. There is a new act under legislative review, "The Remote Transactions Parity Act". The RTPA addresses the Internet sales tax issue using the structure of the Marketplace Fairness Act (MFA), which passed the Senate in 2013 and was re-introduced earlier this year. Although the RTPA retains many of the features of the MFA, but there are a few notable differences:

- Small Seller Exception
- Protections to Sellers and Certified Software Providers
- Additional Audit Protections
- Definition of Remote Seller

Also, The RTPA allows customers to pursue refunds of over-collected tax from remote sellers. It also ensures that there is a three-year statute of limitations for assessments on remote sellers.

As this act remains under review, any forward progress will be reported on in our next report.

Implications

For Retailers:

- Brick & mortar retailers need to recognize that showrooming and price matching are increasingly less important because they've done the hard work to eliminate the threat; accordingly, they should showcase price parity as much as possible, and focus on educating consumers about the benefits of immediate gratification
- Online retailers need to be careful of training consumers with frequently repeated blanket discounts – you've already won the pricing war vs. brick & mortar stores, now focus on convenience, repeat replenishment, and other benefits your channel can offer to keep consumers loyal
- Grocery retailers need to focus on freshness, selection, and prepared foods to drive store traffic, highlight price savings when they exist on high-volume staples. That's what is going to keep the majority of consumers from shifting their grocery shopping online.

For Consumers:

- Don't worry about price differences on single items, especially those under $100 – if you end up paying a slightly higher price, consider it a "convenience premium"
- Bundle smaller purchases and consider stocking up when buying convenience items online to take advantage of blanket discount codes
- If you're looking for cost savings, online still isn't there when it comes to grocery; best use for online right now is to ease delivery of heavy/bulky/high volume items to make your typical grocery shopping trip easier
- Exploiting online price matching options only makes sense for high ticket items – and won't be necessary if you've done your homework pre-purchase

[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. Grocery category added in 2015 and analyzed separately.

[2] Online and in-store prices were compared for: Wal-Mart (neighborhood market and super center), Target, Kmart, Office Max, Office Depot, Staples, Ace Hardware, Lowes, Home Depot, Best Buy, Mariano's, Jewel-Osco, CVS, and Walgreens; only online prices were taken for Amazon.com, Netgrocer and Peapod

[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 2015, including clearance and card member prices

[4] Target price match update sourced from Target.com (https://corporate.target.com/article/2015/09/price-match)