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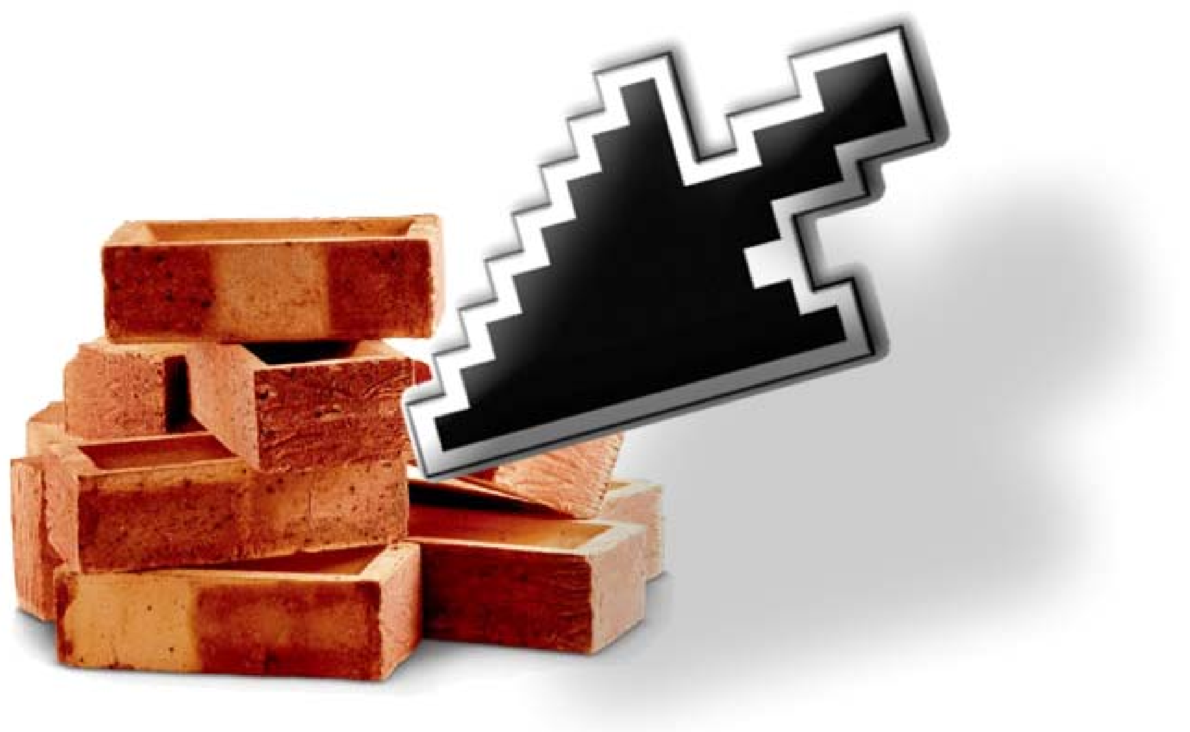
The power of pre-shop

Clicks to bricks

Online information effects on offline purchases



salmat digitalforce

Introduction

The following report is a compilation extracts from a diverse range of independent research reports cataloguing strong indicators of how the Internet is affecting consumer behaviour. The analysis included takes a direct look at how this affects bricks and mortar retailers in order to help them better prepare for the ramifications of a rapidly changing information economy.

Major highlights

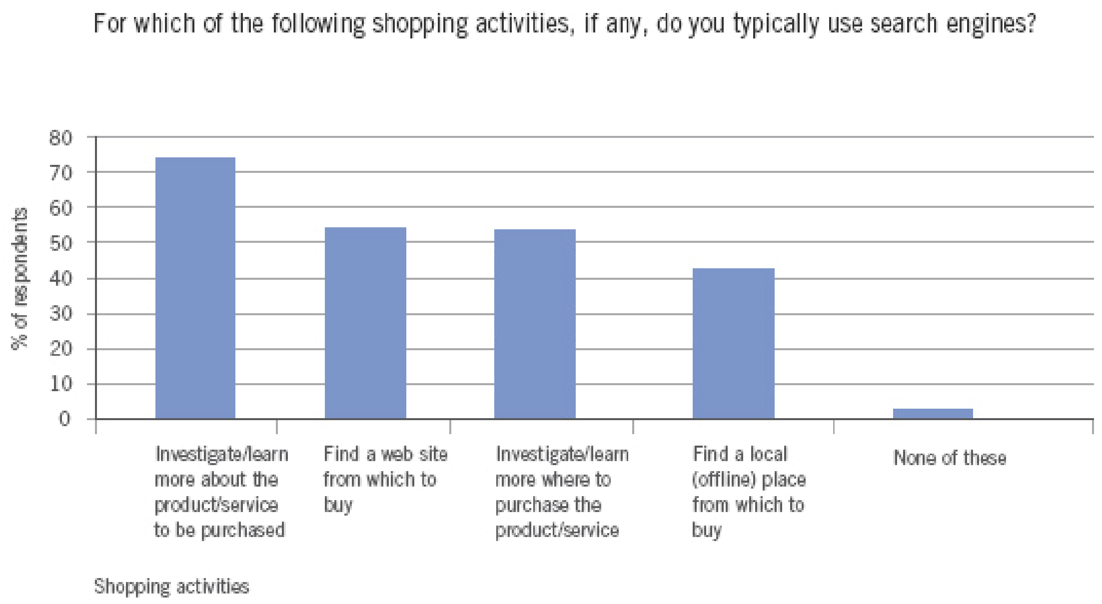
- *88% of online adults conduct research at least sometimes prior to completing their purchase*
- *Almost half, 43%, indicated they use search engines to find an offline retailer from which to buy*
- *Non-information based product categories are still being purchased predominantly offline*
- *Jupiter research concludes that vertical search will provide early marketers with rewards of low pricing*
- *Even those who use the internet to purchase certain categories online more than offline show a greater-than-average interest in finding a local retailer.*
- *42% of respondents cited search engines first, well ahead of the 17% who turn to retailer/seller web sites first*

Shopping now starts with a search

88% of online adults conduct research at least sometimes prior to completing their purchase

It is evident that online search is growing for people making purchase decisions, The vast majority of online adults who purchase online (88%) conduct research at least sometimes prior to completing their purchase. Shoppers prefer to be well-informed before completing their purchases.

How does this influence purchase decisions?



Almost half, 43%, indicated they use search engines to find an offline retailer from which to buy

Three-quarters (74%) of those who use search engines to research products/services before making an online purchase cited investigating/learning more about the product/service they intended to buy as a reason for using search engines. This behaviour tends to be more prevalent among men ages 18-34 (82%) and men age 55 years and older (80%).

If search engines are the first tool that people turn to in order to find more information, they are also a trusted resource for the next phase in the purchase process – finding a place to buy the product or service, both on- and offline. Nearly equal percentages of respondents use search engines to find a web site from which to buy or to investigate where to purchase their desired product (54% and 53%, respectively). Almost half, 43%, indicated they use search engines to find an offline retailer from which to buy.

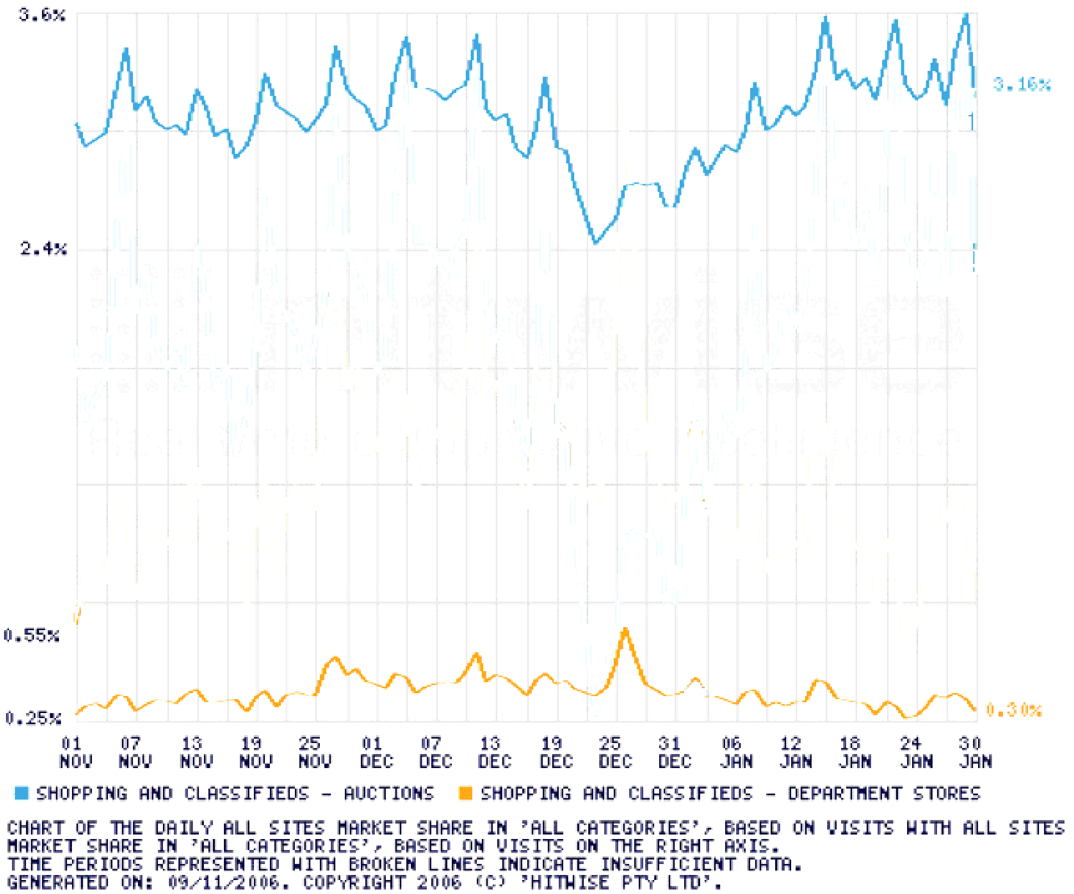
Use of search engines to find a web site from which to buy also tends to rise with household income.

For example, only 46% of households with income under US$35,000 look for a web site to conduct their purchase compared to 61% of households earning US$50,000 or more.

Even those who use the internet to purchase certain categories online more than offline show a greater-than-average interest in finding a local retailer. This was true of consumers of: gifts and flowers; household items; hobby items; sporting goods; tickets and entertainment; and autos and related accessories.

However, in Australia, many of these searches result in direction to auction sites like eBay.

Daily market share of Australian visits to Auctions industry and Department Stores industry 1 November 2005–30 January 2006.



Auction websites remained much more highly-visited between November 2005 and January 2006. Boxing Day showed a notable increased traffic spike for online visits to Department Stores. The margin between the two closed to a differential of 2%. This is likely to be due to a general decrease in Internet traffic due to people spending their leisure time away from the computer, and consumers seeking information (pre-shopping) for Boxing Day sales.

The dominance of Auction websites could be due to more product detail. This is highlighted by the fact that 159% more search terms resulted in visits to Auction websites, compared to Department Stores websites with little to index, for the week ending December 10th, 2005.

Search engines are the most-often cited tool for conducting product research. Retailer/Seller web sites are the second-most popular tool. Retailer/Seller sites are used just as often as search engines among households with income between US$50,000 and US$74,999.

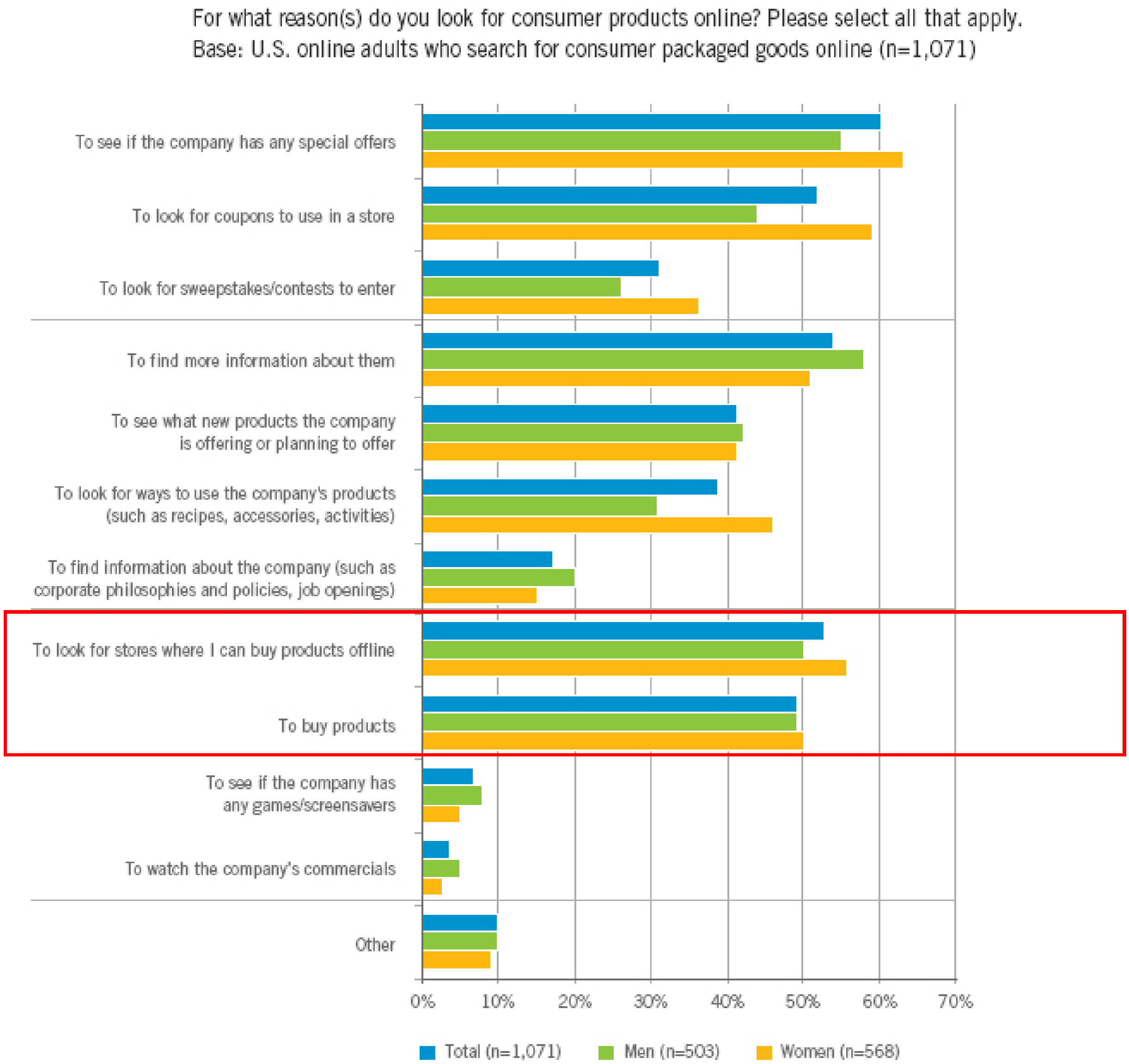
Search terms to Shopping & Classifieds industry, 4 weeks ending 18 November 2006.		
Brands	**Branded Products**	**Generic**
ebay	bratz	book
trading post	barbie	music
ticketek	itunes	lingerie
harvey norman	ipod	water tanks
target	lego	mobile phones
kmart	amazon books	hardware
amazon	dell computers	games
ticketmaster	my little pony	digital cameras
big w	ipod nano	sex toys
bunnings	borders books	outdoor furniture

Four weeks ending 18 November 2006.
Excludes variations on search term.

This is unsurprising when considering the way the major search engine weight rankings, and the types of information available for consumers at Auction sites. However, it is surprising when observing the consumer intent from searching, which can be gleaned for these top ten Australian shopping related search terms.

Why do we search?

REASONS FOR SEARCHING ONLINE FOR CONSUMER PACKAGED GOODS, BY GENDER



The main reasons that people are searching for products is to buy products, find stores for offline purchases, find special offers, coupons and information.

The coupons and special offer seeking behaviour was predominantly prevalent with female searchers.

Search activity indicates purchase intent

The strong relationship between searching and purchase intent creates opportunities for marketers looking to boost sales conversions. About two-thirds or more of those who search for nearly all consumer packaged goods indicated they would buy the product type somewhere – either online or offline.

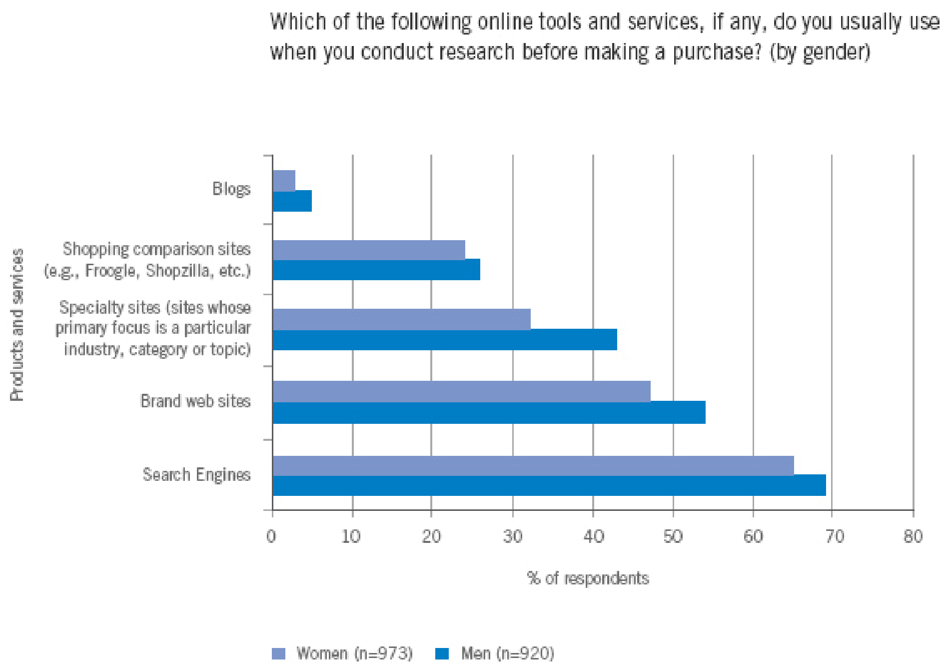
According to iCrossing's analysis of Harris research "marketers will need to **focus their energies on both clicks and bricks** as most CPG searchers, while disposed to buying products online, are more likely to take their search results offline, where factors such as brand reputation and word of mouth are strong contributors in generating purchase intent, particularly among male CPG searchers."

Only 5% of CPG searchers across all product categories claimed they would buy online exclusively, while for most CPG categories, one-third or more said they at least would "consider" buying online.

Bearing in mind the **"research online, buy offline"** dynamic, CPG companies should take basic steps such as making coupons available on their websites and usable in brick-and-mortar stores, in order to fully exploit online-to-offline conversion opportunities.

What tools are consumers using?

42% cited search engines first, well ahead of the 17% who turn to retailer/seller web sites first

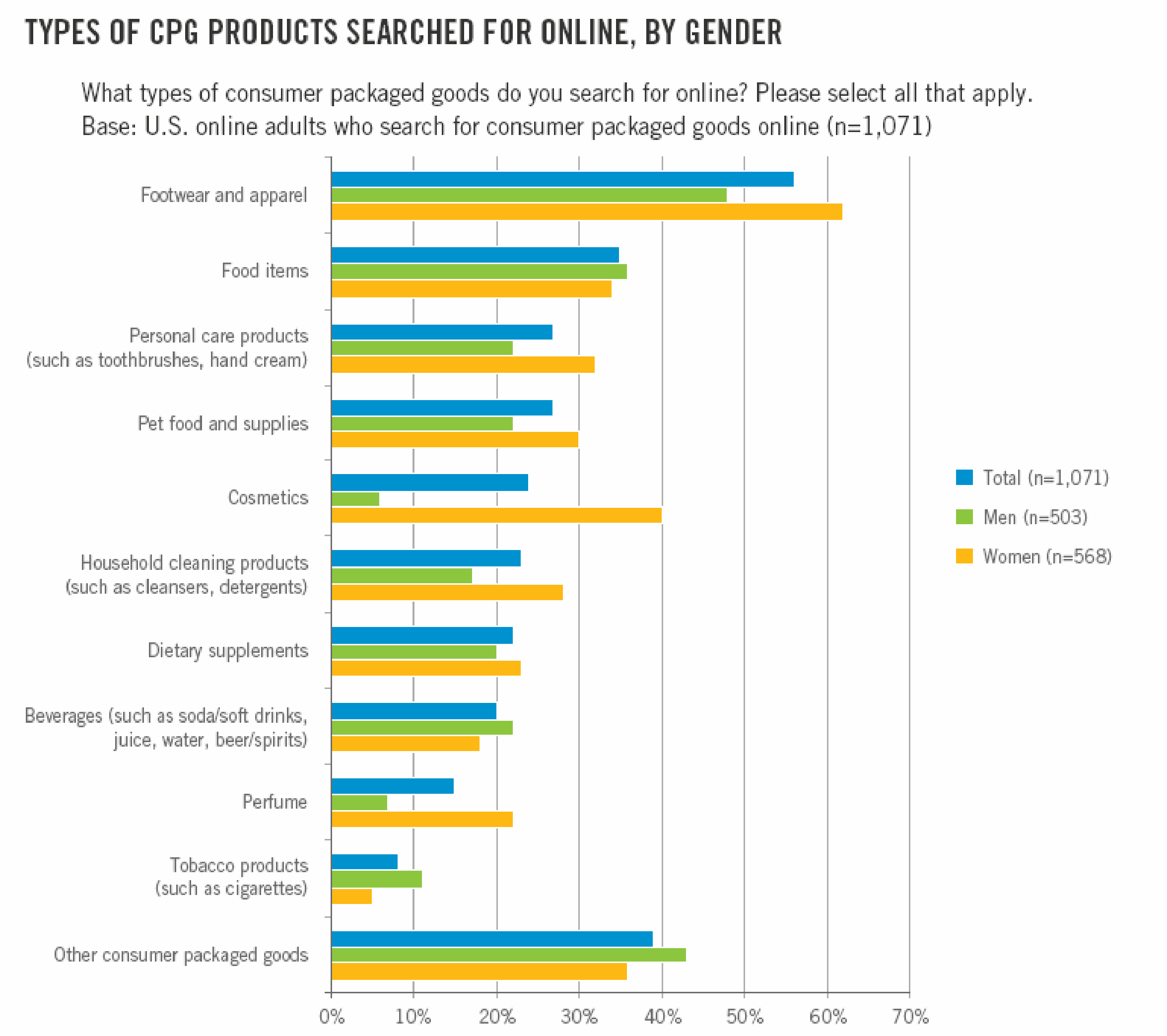


Participants who indicated that they use at least one online tool or service to research products were asked which they usually use first.

An overwhelming 42% cited search engines first, well ahead of the 17% who turn to retailer/seller web sites first. None of the other online tools listed were used first by more than 10% of respondents.

40% of those who indicated they research products online before making a purchase decision indicated they use customer reviews.

Who is searching for what?



Several characteristics about those who have ever searched for Consumer Packaged Goods stand out: they are likely to be well educated, wealthy and female and fall into the 35-44 age bracket.

In Australia

Industry statistics matrix for Shopping & Classifieds 2006 compared to 2005*.				
Week Ending		**18 Nov 2006**	**19 Nov 2005**	**Variance**
Gender	Male	52.36%	51.72%	0.64%
	Female	47.64%	48.28%	-0.64%
Age	18-24	20.39%	20.23%	0.16%
	25-34	27.83%	26.77%	1.06%
	35-44	22.58%	23.13%	-0.55%
	45-54	18.38%	19.66%	-1.28%
	55+	10.84%	10.22%	0.62%
Region	Australian Capital Territory	1.79%	2.66%	-0.87%
	New South Wales	34.28%	34.24%	0.04%
	Northern Territory	0.93%	0.55%	0.38%
	Queensland	19.25%	18.21%	1.04%
	South Australia	7.80%	7.38%	0.42%
	Tasmania	2.91%	2.44%	0.47%
	Victoria	23.70%	26.72%	-3.02%
	Western Australia	9.34%	7.79%	1.55%
Local Competitive Index		67%	67.1%	-0.1%
Average Session Time		11 minutes 6 seconds	8 minutes 24 seconds	2 minutes 42 seconds

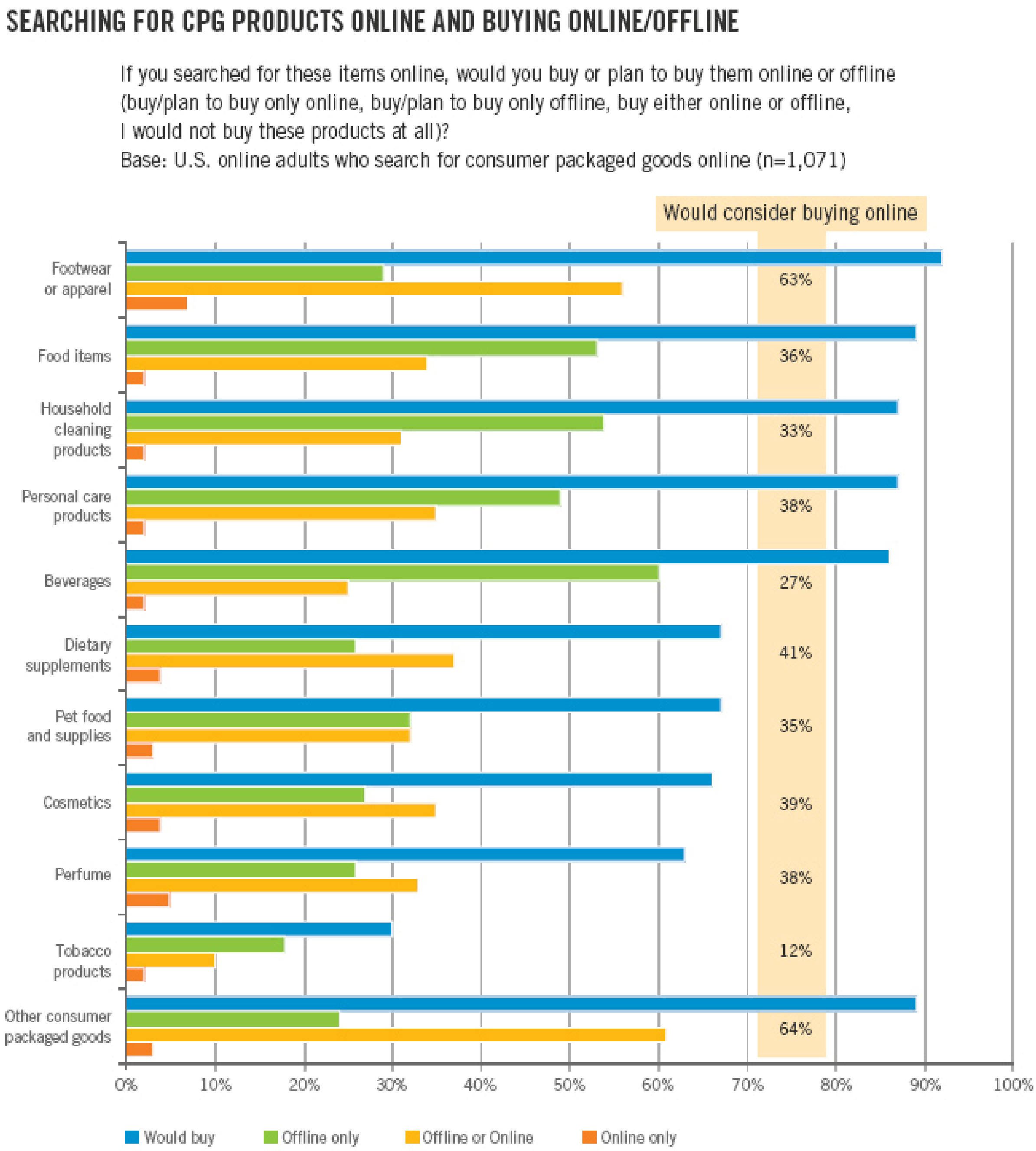
***All percentages measure traffic volume**.

The LCI is the percentage of the Internet traffic that was directed to local domains, rather than international.

Education, income and gender disparities tend to even out as search frequency rises, but in general, the offspring of baby boomers constitute an attractive target demographic for most home products, particularly for marketers of clothing and cosmetics, for which women are far more avid searchers than men.

In targeting these audience segments, marketers should bear in mind that search engines are more effective vehicles for reaching younger (18-34 year-old) audiences practiced in starting their online sessions with search, while retailer and product sites are more likely to attract CPG searchers in the 35-44 and 45-54 age groups.

Clicks to bricks



Across a wide range of product categories, there is only a very small proportion of people that purchase online only, while a significant majority of people would consider both methods of purchase, there is still a large number of people only willing to consider offline purchases.

This is likely to be due to the lack of trust people still associate with making Internet purchases.

iCrossing's analysis suggests *"Given that many CPG searchers are looking for time sensitive offers such as coupons to use in a store or sweepstakes and contests to enter, CPG marketers should use a combination of paid keywords, display advertisements and website real estate to put offers in front of interested consumers"*

Richer information services translate into purchases

By not taking advantage of online product offer aggregation and richer media experiences on retail own sites, retailers are training the user to find their product information at other locations – ie the manufacturer, and risk losing customers forever.

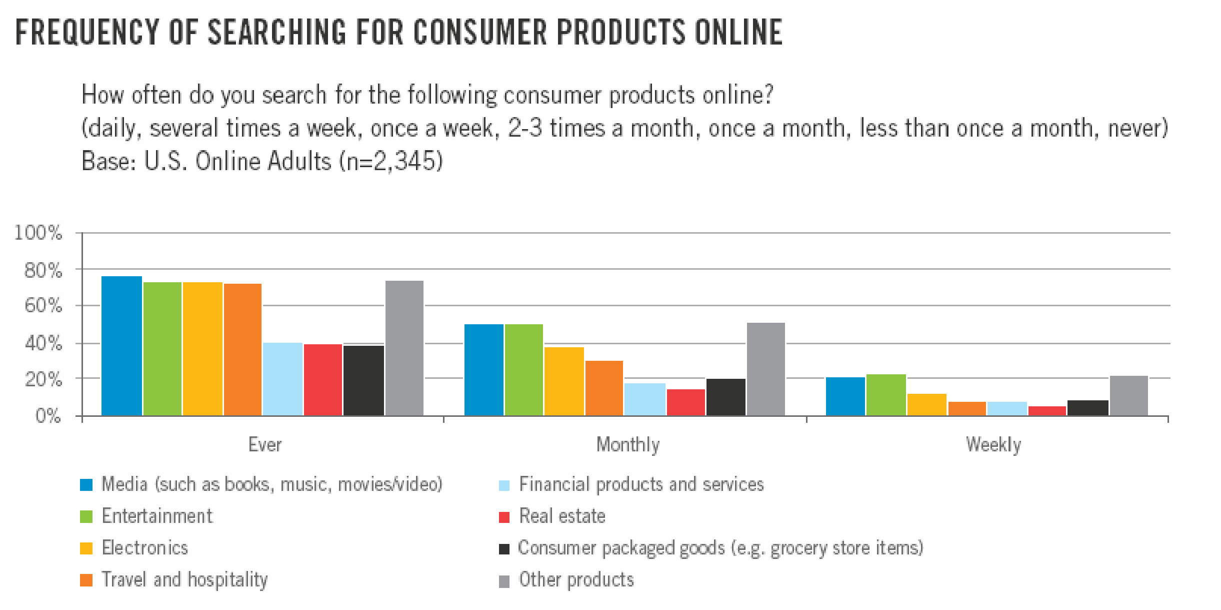
By easily providing consumers with knowledge of your competitive offers in their location you are influencing their decisions closer to their time of buying and increasing their utility. This is achieved by engaging them in the search conversation they are already having.

Trends in searching

The consumer packaged goods (CPG) industry generates nearly $2 trillion in sales in the U.S. alone, and CPG companies are second to none when it comes to total advertising expenditures.

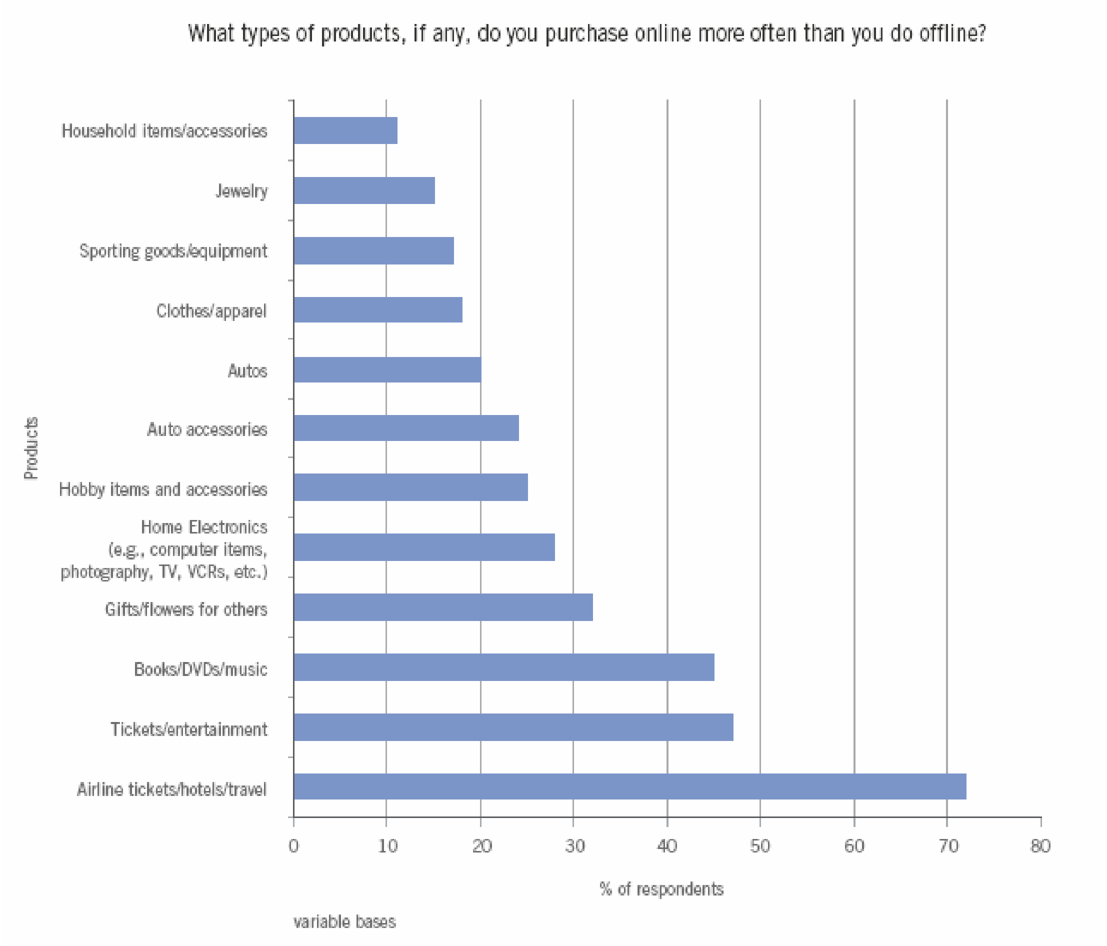
Although they will spend an estimated $15.6 billion to advertise online in 2006, according to PricewaterhouseCoopers and the Interactive Advertising Bureau, this spending accounts for just one percent of their total advertising outlay.

How often do we search?



This graph shows the breakdown of what product categories are being predominantly searched for in the US. It has a strong weighting to information based product like media and entertainment.

This trend is further emphasised by the fact that this is what users are more comfortable purchasing online. The reason for this is that information based products lose nothing in transmission through the Internet for delivery, or sampling. The same cannot be said for all other products.



Non-information based product categories are still being purchased predominantly offline

It is not surprising that information based products overwhelmingly dominate the top three product categories that Americans purchase online, more often than online.

These graphs show that despite the trend of users starting to change their search behaviours from monthly to weekly search for these product categories, **the non-information based product categories are still being purchased predominantly offline**. For categories with items that have a greater tactile component, such as clothing, sporting goods, jewellery and groceries, there has been less offline displacement.

Offline purchases are still overwhelmingly the dominant form of purchase for all products that are not information products.

Based on analysis of the Harris Research iCrossing recommended *"CPG marketers should consider increasing their use of online and search engine marketing, targeting leading search engines, retailer websites as well as brand and specific product sites.*

These channels represent opportunities for engaging affluent and female consumers and reinforcing key brand attributes around three distinct consumer interests: finding offers, locating information and conducting commerce.

In particular, as marketers focus on driving on and offline purchasing conversions, they should apportion their Web collateral with an eye to the high degree of correlation between search activity and buying intent."

Conclusion

It is clear that consumer trends and behaviours are changing dramatically, and this change corresponds with broadband penetration. As a result, it is evident that marketers must change to satisfy the new trend of pre-shopping, or risk being left out of the conversation that is rapidly moving online.

The strong statistical data of Internet related behavioural trends mirroring those of countries with higher broadband user bases puts Australian marketers in a much more informed position to be able to make strategic marketing decisions.

The data suggests that more and more consumers are taking their research online when they have buying intent, and that this research has a significant impact on offline purchases. Furthermore, due to the fact many people are seeking offers and coupons as well as information; this offline impact has a strong chance of being accurately measured.

The research also points towards the fact that marketers should have a diversified approach to online marketing. Search engines proving to be one of the most relied on sources. Vertical search engines in retail are already showing strong growth in Indian and US markets, and according to Jupiter research vertical search will provide early marketers with rewards of low pricing.

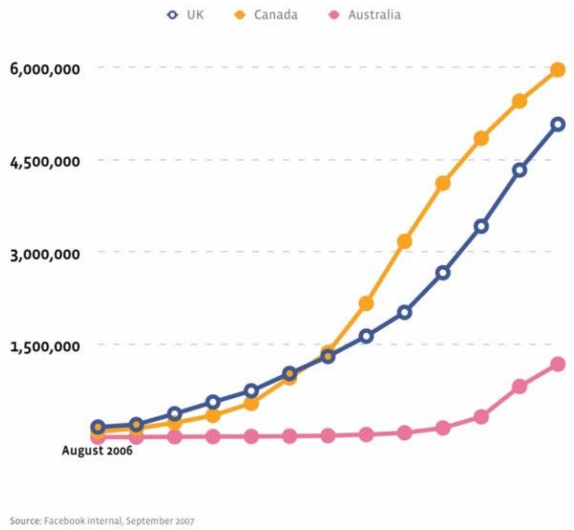
References:

iCrossing – How America Searches – www.iCrossing.com
Hitwise Australia – Retail research note - www.hitwise.com
Jupiter research -
http://www.jupiterresearch.com/bin/item.pl/research:vision/1091/id=96071/
CRN.in - http://www.crn.in/NewsSept07-07SearchOnlinePurchaseOffline.aspx
Facebook blog – www.facebook.com
Gapminder – www.gapminder.com

Methodology

This paper takes its data from several reports that are referenced above. Some of this data is from America, and some from Australia. Historically, behavioural trends relating to the Internet in the larger population of America serve as relevant indicators of trends that may be adopted in Australia, or how current trends will continue to grow.

This lag in trend adoption can be witnessed here in Australian Facebook growth.

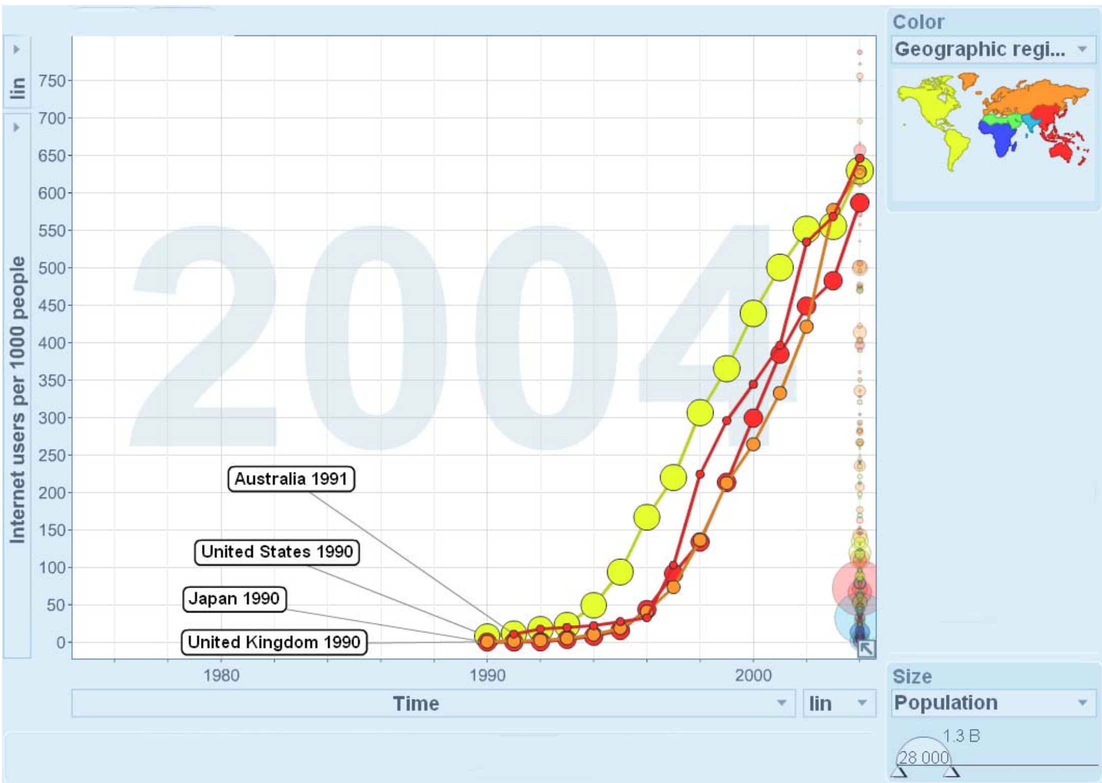


Facebook user growth: US v UK

Unique users of Facebook.com, aged 15+, excluding traffic from public computers, mobile phones and PDAs. Source: ComScore

	US users	UK users
February 2006	10,418,000	85,000
March 2006	12,534,000	180,000
April 2006	12,124,000	215,000
May 2006	13,459,000	216,000
June 2006	13,227,000	268,000
July 2006	13,775,000	305,000
August 2006	14,165,000	358,000
September 2006	12,889,000	397,000
October 2006	14,576,000	521,000
November 2006	15,981,000	768,000
December 2006	17,930,000	1,355,000
January 2007	18,113,000	1,630,000
February 2007	16,381,000	1,945,000
March 2007	19,820,000	2,679,000
April 2007	21,145,000	3,694,000

This growth rate is continuing at over 117% year on year growth according to Surf Control. For the same period, America's adoption was a long way ahead, following a similar growth trend.



Source: Gapminder.com

Broadband adoption

Despite Australia keeping pace (following America's lead) on broadband adoption proportionally, the adoption lag here is evident. It is also worth keeping in mind that the differential in the sheer size of population is allowing Australia to increase the proportional adoption faster, however, in absolute terms it, America/ Japan/ UK's high absolute penetration explains why their effect on traffic and changing behavioural trends are witnessed more often prior to these trends impacting Australia.

As computer prices drop below $600 and Internet access is increasingly available, the The Internet is becoming a larger focal point in people's every day tasks.