

The Multi Channel Impact on Shopping Behavior

By Chris Copeland and Greg Rogers

Traditional Advertising is dead! Let the trumpets sing out and the citizens of mass marketing oppression rejoice. Today you awake to a new world whereby you have the power: Tivo and Google present a new world for you to own your life again, putting you in charge.

For those who believe the above, please avoid the material below. While new mediums have been developed and raised to prominence in the last decade, it is the joining of all mediums that presents the greatest level of opportunity to marketers. Story after story can, and will, be told of advertisers who have leveraged one medium for the sake of improving the overall marketing mix.

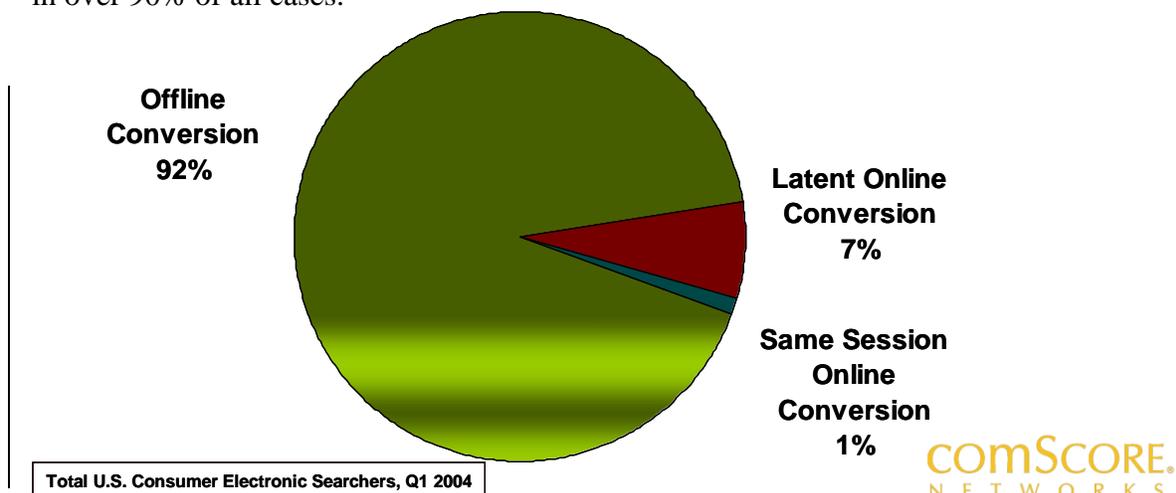
The Impact of Online

Barely five years ago, a company called GoTo.com gained great notoriety for engaging in a lawsuit with Disney over their domain Go.com. The company, which had developed a new advertising model whereby you paid per visitor not per impression, seemed destined initially for greatest relevance as a footnote in the legal text of online history.

But somewhere along the way GoTo became Overture which became a \$1.63 billion investment for Yahoo and the precursor to the paid search industry which today projects revenue of \$5.4 Billion, just 6 years after inception. Long range forecasts put industry growth to over \$11 billion by the end of 2010.

While Sears adopted the slogan such as “Buy Online, Pick Up In Store” they were far from the only retailer looking to combine mediums in an attempt to better match consumer desire for individual choice with convenience.

A study conducted in Q4 2004 by ComScore in conjunction with Yahoo Search Marketing showed that the average consumer in the electronics industry not only did 13 searches before making an acquisition but that when purchase occurred it occurred offline in over 90% of all cases.



During 2005 a secondary growth area of online search has risen into public consciousness and financial awareness. The area of Comparison Shopping Search led by sites such as Shopping.com, ShopZilla and Froogle (Google entry in the market) has developed into major sources of traffic. An even more rapidly emerging area is being forged by companies such as ShopLocal designed to customize the online shopping exploration with a local target.



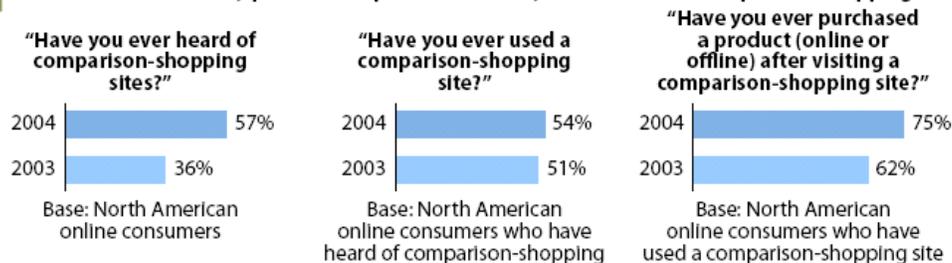
Source: Total (home and work) US traffic tracked by Nielsen//NetRatings in October 2004

Source: Forrester Research, Inc.

Based on the simple premise of allowing users to search for products in a competitive marketplace inclusive of price, tax and shipping charges these sites now receive 70 million searches per month.

Figure 1 Comparison-Shopping Attracted More Mainstream Users In 2004

1-1 75% of users eventually purchased a product that they researched at a comparison-shopping site

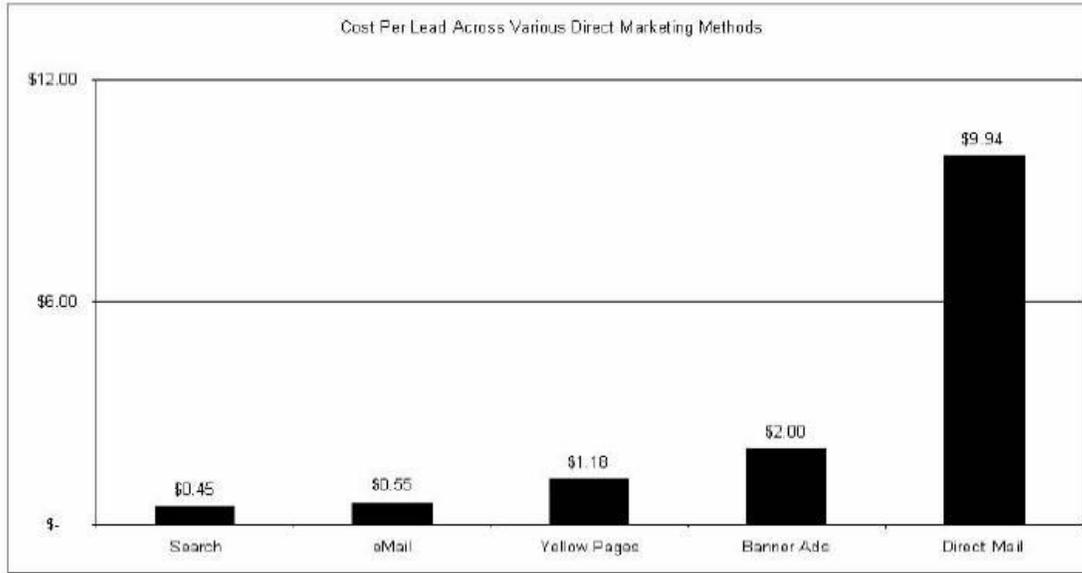


Source: Forrester's Consumer Technographics® August 2004 North American Retail Online Study and Forrester's Consumer Technographics Q3 2003 North American Study

Source: Forrester Research, Inc.

Also of note is the acquisition of Shopping.com and Shopzilla during Q2 of this year for a combined \$1.15 Billion by eBay & Scripps respectively. This movement of more traditional offline advertising outlets signifies a greater importance placed not only in online shopping but also in the value and opportunity for cross media advertising deals.

Many major advertisers are breaking down their silos of purchase behavior and thinking about the web as a more essential piece of the full channel planning process. Online has long been a desired vehicle for brand awareness but today it has also become one of, if not the leading, direct response vehicles in terms of cost per acquisition.



Source: Piper Jaffray, New Methods in Search Marketing, 06/2004

Yet for all of the enthusiasm about online and search, it's essential to continue to measure the behavior of the leading marketers and what it says about the perceptions of a need for greater interaction points and cyclical push from offline to online and back again.

User Behavior and Attitudes

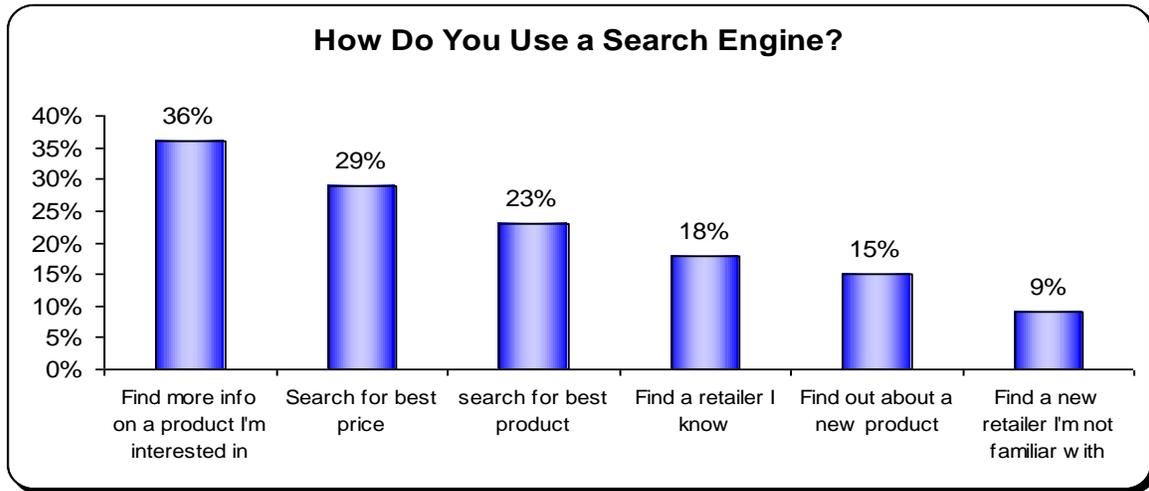
Before delving into the companies that are having success in the integration of online activity, it's vital to understand what makes the online audience behave the way they do. A study done by Forrester in September of 2004 identified the true value of these channel shifting customers.

	Cross Channel Shoppers	Online Shoppers Only
Avg. Age	43	45
Avg HH Income	\$68.9k	\$64.2k
Female	50%	53%
Married/Partnered	78%	76%
Avg. HH Size	2.74	2.70
Broadband @ home	39%	30%
Purchased online in past 3 mo's	71%	57%
\$ Spent online in past 3 mo's	\$339	\$304

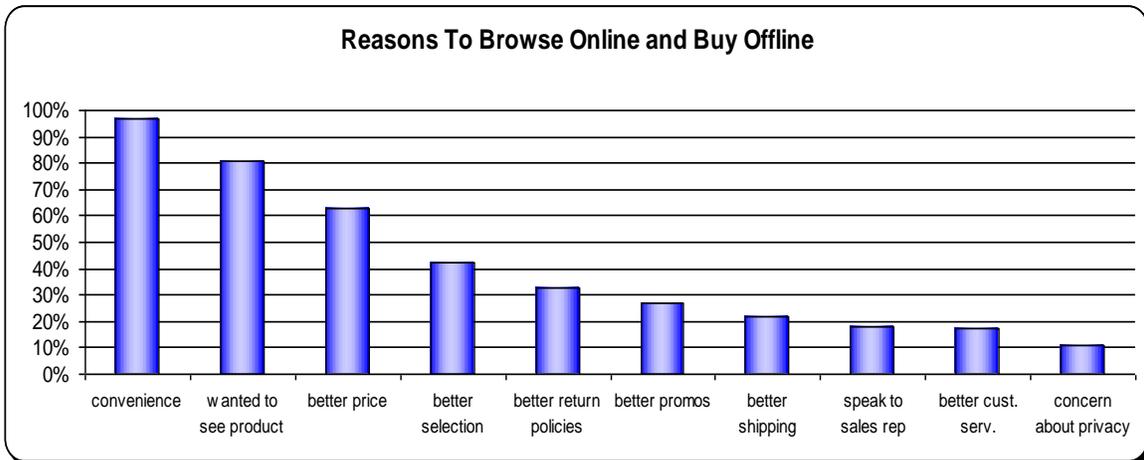
Armed with this knowledge, it becomes obvious why importance should be placed on this target segment. While being very similar to online-only shoppers, those who shop across channels have a greater spending level as well as propensity to spend. Of equal importance may be their acceptance rates of broadband. As US broadband penetration

continues to increase the likelihood for becoming cross channel shoppers should grow as well, assuming companies have positioned themselves for the opportunity.

And that opportunity is now for many advertisers. Consumers are actively using the internet and specifically using search engines for finding products, comparing price and even seeking out new and unknown retailers. The DoubleClick MultiChannel Shopping 2004 study finds that the current rise of shopping search engines is driven by consumer demand. Shopping search provides the opportunity for consumers to seek out product details, product reviews by both professionals and similar consumers and pricing information. The ability for marketers to understand the consumer mindset allows them to better target and push products that match the consumer needs.

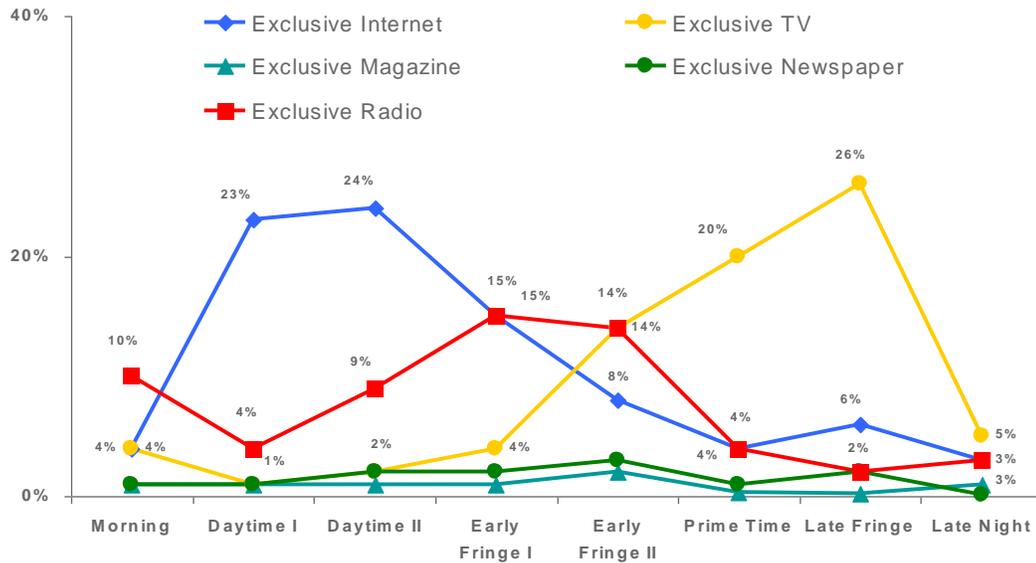


So the question then turns to why do people have such a desire to do their research online but retreat to the old familiar of offline. And in that very notion, of convenience, we find the single biggest reason as found by DoubleClick. In reality, consumer behavior is less dictated by privacy concerns than it is their senses—the desire to touch and feel. As long as these reasons dominate in-store shopping behavior, it is unlikely the online channel will experience a significant increase in stand alone purchase patterns.



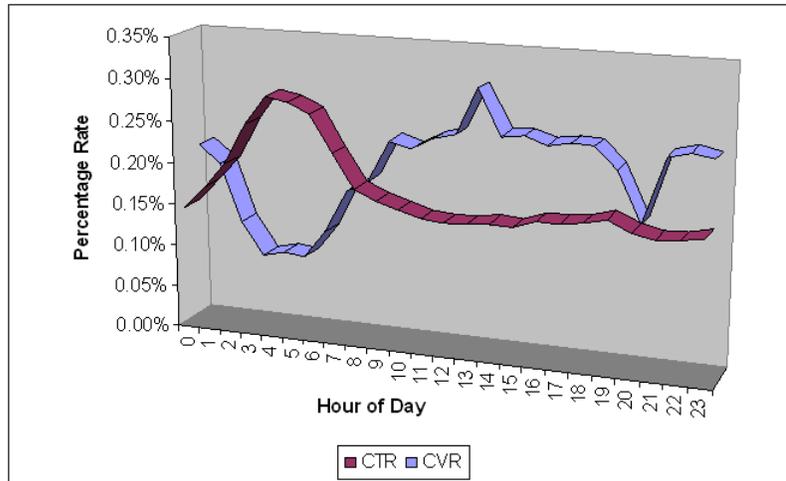
So armed with knowledge of consumer’s demographics, mindset and rationale for searching yet buying off line, the last piece of an integrated strategy comes in the timing for proper targeting. Consumers’ behavior shows a movement through many channels in a given day. A study by Millward Brown indicates that each channel of advertising has its moment of glory throughout a day, but it’s apparent that by targeting users at specific times, online behaviors can be reached at their peak.

Exclusive Media Audience by Daypart



Not only do people engage with the online medium at a higher rate during the daytime, but their online behavior changes depending on the hour. While not always the case, the general rule of thumb is that users tend to surf at night and purchase consider during the day. This can lead to dramatically different online activity patterns depending on the hour. Below is an aggregate chart of twenty direct response advertisers that separates out click-through rate (CTR – as in clicks/impressions) and conversion rate (CVR – as in sales/clicks) by hour of the day, based on impression based media.

Online Click and Conversion Activity by Daypart



This chart suggests (at least from the experience of the 20 advertisers studied) that click-through-rates peak between 2AM and 9AM while conversion rates peak between 9AM and 8PM. Depending on the goals of the campaign, this difference in user behavior can mean different optimal times of day to place media. If driving traffic and awareness is the objective, perhaps it makes more sense to buy only nighttime media. If driving sales to an e-commerce site is the goal, then likely it's better to buy daytime media. By simply talking to people at the right time, when they are most likely to listen and react to an advertising message, a marketer can boost the performance of the campaign dramatically, often reducing cost per sale by 10-30%.

But what if the question is: "What's the best time of day to use online media if the goal is to also boost retail sales?" This is when we must begin to consider the cross-effects of one channel on another.

The Challenge

The single biggest challenge to a truly integrated advertising continuum is the ability to track all activity through channels. The greatest selling point for online advertising has been its accountability. From search to email to display ads online, the ability to track to an action has been the staple of successful growth. Unfortunately advertisers continue to struggle to tie activity online back to offline conversions.

It is not much of a stretch to believe that online often plays the role of an investigative channel for the consumer after which they move to the brick and mortar format to purchase. The only problem is proving this connection, from online searching to buying at retail, can be challenging given that the media agencies (and their producer clients) cannot easily determine the purchase pathway of each customer.

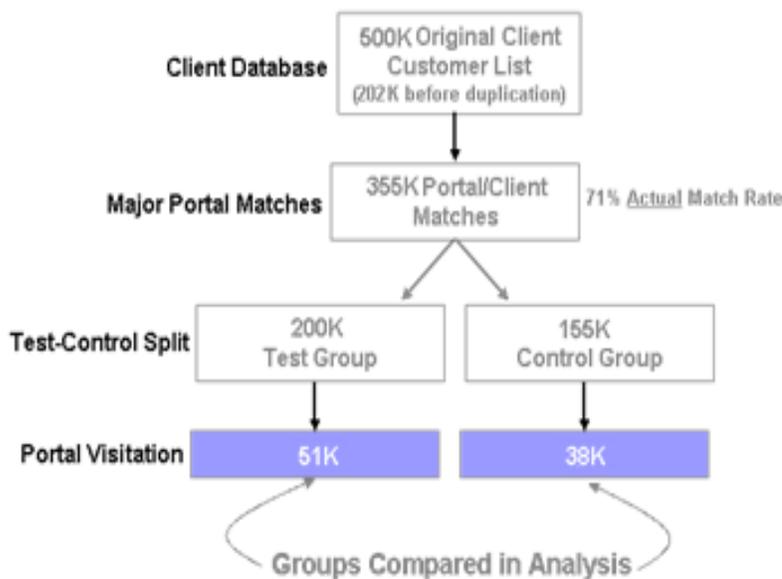
Agencies are constantly exploring new and creative methods to directly tie media investment in one channel to a return in a different distribution point, with some success. As an example, a leading retail chain recently went to its media agency and presented a problem. The company needed to boost daytime purchases at their retail stores, and their research suggested an opportunity to market to business people. Given current media

usage patterns and specifically because office workers are primarily online during the day, the folks at the media agency suggested delivering online ads just before and after the lunchtime hours with a price promotion. The client asked, “Ok. But can we track the investment back to retail sales?” The media planners responded, “Yes, we believe so.” The client retorted, “Prove it.”

The media agency teamed with a major online portal to create a test and control experimental design. Through this portal, the campaign exposed half of the sample audience to “in-market” ads while the other half received alternate “charitable giving” ads, all within one DMA. This test went on for a better part of three months. During that time, an independent research group matched the client’s database at the retail level with the portal’s registration database to determine whether someone who had made a purchase had been part of the test or control groups online.

The research group was able to match over 70% of the client’s customer list during the test period with the portal’s online panel / registered users. (See chart below for experimental design). By comparing the difference in retail purchasing behaviors between the test and control groups (i.e. those who were exposed to online ads and those not), the agency was able to prove its hypothesis that an ROI could be determined. The test group that received the online advertising was 20 times more likely to buy the client’s product at the retail level. The ROAS was \$8 generated for every \$1 spent.

Online Advertising to Retail Sale Experimental Design



While certainly a success story on proving the link between the online and retail environments, this type of research has its limitations. Despite careful planning on client and agency side, database matching can be a risky proposition. It is because of the possibility of a low match rate that many marketers shy away from the technique. If it

works, its test and control design presents relatively irrefutable conclusions, such as in the above example. However, if proper due diligence is not conducted up front to ensure a good chance of success, the client and the agency can be left holding a rather expensive bill.

The Answer

Many consider The Holy Grail of advertising as being able to pin-point what to spend across each media channel to achieve the highest return possible, whether it's spending on TV advertising to achieve online sales or online advertising to build store sales or any multitude of media variations and outcomes. The process to go about figuring this out is called optimal mix analysis, and most marketers have little idea what theirs is. The media business is a numbers game, much like the stock market. It's about investing to achieve an expected outcome. And the good agencies are the ones that treat it like that. They have teams of analysts and statisticians that use data to build connections where direct links cannot be made (such as whether a Google search resulted in an offline sale and whether that represented a better use of marketing dollars than spending it on radio, for example).

With the proliferation of different media choices and the advertising that accompanies them, one cannot simply conclude that a jump in retail sales was due to a spike in banner advertising at about the same time. Consumer behavior and their purchase pathways are far too complex to draw simple correlations, even though your gut might be telling you differently. It's possible that an internet user sees an online ad and then goes directly to a retail store and buys the product. But life is usually not so straight-forward! More likely, the consumer sees a company's online ad, two days later sees its TV spot, later that night does a search on Google for its product, visits the company's website, goes to sleep, again sees the TV spot during the morning news, and decides to visit the store a week later.

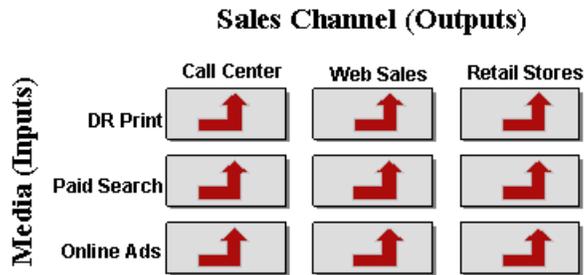
So when clients ask how much their online presence contributes to retail, assigning a value in the context of complex consumer behavior becomes tricky business. The value of online cannot be considered in isolation but rather as a contributing factor in a chain of influences. A multitude of variables beyond advertising have to be considered as well – seasonality, promotions, competitive activity, partnerships, to name a few.

“Econometric Modeling” is the foundation of media mix optimization. Econometric modeling is the statistical practice of determining the contributing factors to a desired outcome and assigning a value to each one of them. When the volume of a client's sales move up and down, does that variance have more to do with online media activity, TV advertising, the interaction between the two, or something else perhaps? Econometric modeling attempts to parse out those influences to answer what the advertiser really wants to know. “What am I getting for my channel investments?”

The process for answering these questions comes essentially in two steps. The first is to employ statistical modeling to quantify how each media input (like TV ads or paid search) is each driving a particular desired output (like sales or some other valued

conversion). The result is a set of predictive equations that calculate how many sales one should expect at each sales channel for every dollar spent on a particular medium.

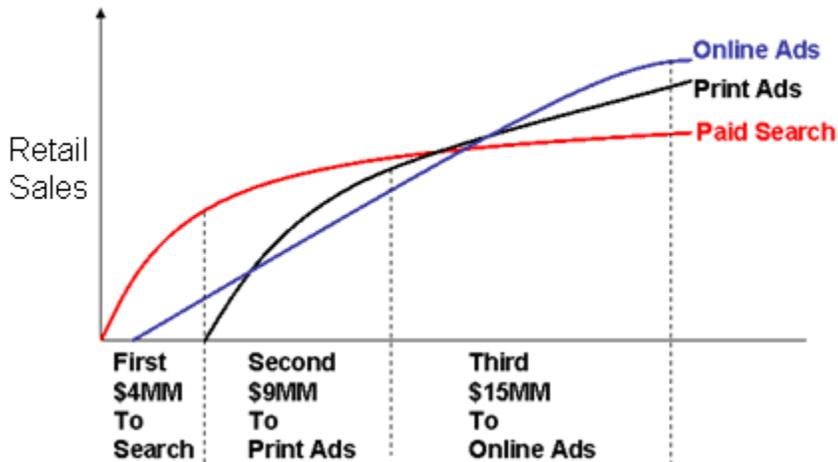
Step 1: Quantify the Contribution of Each Input to Sales



However, an advertiser should not be satisfied by only knowing what kind of offline sales he or she is garnering from an online advertising investment. The marketer should also be asking, “What is the optimal amount to spend?”

In the second step of the analysis, yield curves are generated based on the predictive equations already built in step one. A yield curve predicts what sales are likely to be generated at different investment levels. Like most investments vehicles, media channels have diminishing returns, and thus it makes sense to only spend up to a point where the next dollar will garner a better return elsewhere. That is what the analysis in the graph below does. In this real client example, out of a total budget of \$28 million, the first \$4 million should be spent on paid search as that yields the greatest number of incremental sales after which it makes more sense to spend the next \$9 million in print for the slope of its yield curve is steepest at that point. It’s only with the last \$15 million that online advertising produces a better incremental return than the other two channels. In this way, the Holy Grail of advertising is found. The media budget is allocated out optimally.

Step 2: Optimize Spend Based on the Yield of Each Channel



The Leaders

Many companies pay lip service to online, some are genuine in their support, but others are still unwavering in their continued support of traditional tactics for reaching mass audience. Those marketers seeing the inherent value of allowing consumers to move through interaction points in a variety of mediums are the ones best suited for taking advantage of the groundswell behind the current consumer behaviors.

The Stories

The Launch of a New Product

The introduction of a new consumable into the market is built on a driving audience need and interest. In no area is this more volatile than the automotive industry where new car introductions can make or break companies financial forecasts for extended periods of time.

Two recent car introductions show the changing means by which introductions can occur and the collaborative impact that online and offline can have. For the introduction of the G6, Pontiac called on media influencer Oprah Winfrey to deliver a buzz unlike any other. By giving away G6s to all members of her stunned studio audience during her 2004 season premiere, Oprah not only created a once in a lifetime buzz for the event but also a dramatic and immediate reaction to the G6.

Immediately following the shows' airing and subsequent new coverage, the searches done online for the G6 went through the roof. By marrying this non-traditional usage of offline with a new means of targeting and reaching audience seekers, Pontiac was able to create a buzz which it sustained through the official launch of the car.

An alternate strategy has been utilized by Mercury for the launch of their Mariner vehicle. Introduced as a hybrid SUV through only online advertising, Mercury has created a media buzz which is driving in showroom interest as well as fostering the online research phase. This online buzz is essential for any new car sales effort given the recent research from JD Power that shows 62 percent of research for car purchases occurs online with 19% of all purchases decisions being made from the Internet only.

Spencer Hondros, chairman of General Motors Dealer Information Advisory Board, stated in the "Center Stage in the Future of Automotive Retailing Information Retailing: Information Technology and The Internet" report by EDS, Winter 2003: "A consensus is building among dealers that leads from factory sites are clearly of a higher quality than those sold by third-party web brokers." These consumers are coming into the showroom more educated and in control of their purchase, thus reducing some of the barriers that previously existed, especially for women, around the intimidating nature of a car purchase.

The Advancement of Direct Marketing

Direct marketing has been a staple of advertising since Lester Wunderman invented the discipline decades before. Yet today direct marketing has evolved into a dominant form

of advertising used by companies of all sizes and in all sectors of industry. Best known for its ability to target and market in the retail and specifically the catalog sectors, direct marketing has now come to the web for many companies. First through the extension of product lines and catalogs online and now in far more targeted means, direct marketers are expanding their audience and increasing their touch points with consumers.

However, direct response online is not reserved solely for the retail sector. Marketers such as Brinks Home Security are using online as a natural extension to their direct response vehicles which to date, have targeted the TV and local spaces. Marketers like this are able to move into the online space and utilize search to capture people during all segments of purchase from research to consideration and at the ultimate point, action. Targeting is possible through online tracking or call center measurement based on customized 800 numbers specific to individual campaigns and segments such as Google or Yahoo keywords. The further ability to provide consistent messaging in offline TV ads, local in-home mail flyers and website content and imagery allows for the most tightly connected opportunity to engage consumers at various touch points.

The ultimate realization of integration on and offline efforts comes in the form of being able to do targeted DMA drops in local markets while at the same time doing local paid search efforts around those same areas. This enables a consistent message and special offer to be made accessible to these groups and a multiple opportunities for the connection to occur.

The Future

So, where do marketers go from here? As always the answer lies in consumer behaviors and usability patterns. The more consumers are online the more advertisers will follow them to the web seeking out new and emerging means to communicate with them.

The future will be driven by the fundamental ability to track consumer interaction with branding at a greater level. The ability to understand consumers who are engaging with brands in multiple forms of communication and speak to them on a personal level that invites more education is the moving target for all marketers.

To this extent the ability for search engines and comparison shopping engines to better target, segment and allow for succinct messaging types will allow for a higher relevancy in the minds of its audience and advertisers, alike.

It's in this way that traditional advertising will not die, but rather redefine what traditional means.

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