

White Paper | December 2011



Influencing Offline

The New Digital Frontier

Influencing offline – the new digital frontier

Everybody knows that eCommerce is big business – it's now estimated to be worth a staggering £5 trillion a year.¹ But that's only half the story.

Consumer businesses have poured enormous resources into understanding web analytics and online attribution models, and have racked up impressive online sales as a result. But the job is far from over, and retailers who want to stake their claim in the new digital frontier have already moved their wagons on. They've realised that if the last five years were about selling online, the next five years will be spent working out how to use online to influence the way that customers spend money offline, in real bricks and mortar shops.

This is a hugely exciting field, and it has the potential to return significant rewards for those prepared to act now. There is still much to be understood about how on- and offline behaviours join up, but from its work with European clients, Google is able to offer a set of compelling insights that will help retailers form a more rounded picture of their customers' activities – and create a more fluid pathway from online research to offline purchase.

EXECUTIVE SUMMARY

For those immersed in eCommerce, it can be easy to forget that the vast majority of purchases still take place offline – more than nine out of 10. But it's crucial to remember that four out of 10 people prefer to ROPO – research online, purchase offline.

That's 40% of the market that most retailers don't properly understand, and this at a time that broadband availability and smartphone use are ensuring ever more research is done online. Bricks and mortar retailers used to metrics such as sales-floor performance must now also measure the role of their website in driving sales in their stores – only then can they get under the skin of these increasingly valuable customers.

¹McKinsey & Company report
The great transformer: The impact of the Internet on economic growth and prosperity – October 2011.

RESEARCH ONLINE, PURCHASE OFFLINE

Levels of online research have increased dramatically over the last decade, both by consumers who go on to buy online and those who purchase in-store. As the chart opposite shows, in Europe the internet has become the starting point for close to half of all consumers who end up purchasing in a store or via a call centre (Fig. 1).

Think about the last time you bought a car. The chances are that 10 years ago you would have read a selection of magazines, visited dealerships and made your selection. Today you're far more likely to do your research online, accessing the vast amount of reviews, opinions and statistics available, before making your journey to the same dealerships to strike a deal and buy the car.

But it's misleading to think that ROPO applies only to those big-ticket items that you feel compelled to see, touch and smell before purchasing. While online research is more frequent and takes place over a longer period for bigger, more considered purchases, ROPO is also found in other less considered categories. And customers are serious about it – as the chart opposite shows, those researching online but buying offline search online almost as intensively as those buying online (Fig. 2).

Take, for example, the following three categories: mobile phones and contracts; ADSL broadband; and high street fashion. None of them could be deemed a large, considered purchase, but in each case, consumers undertake high levels of online research. In fact, half of all buyers in these categories research online before buying offline.

To put all of this in context, in the UK alone, ROPO business is thought to be worth €36bn per annum in the retail, technology, consumer packaged goods, entertainment and finance sectors (Fig. 3).

Fig. 1 Today's buyer is more informed than ever



Fig. 2 ROPO customers search online almost as intensively as customers who actually buy online



Fig. 3 Retail spend researched online and purchased offline across Germany, the UK and the Netherlands

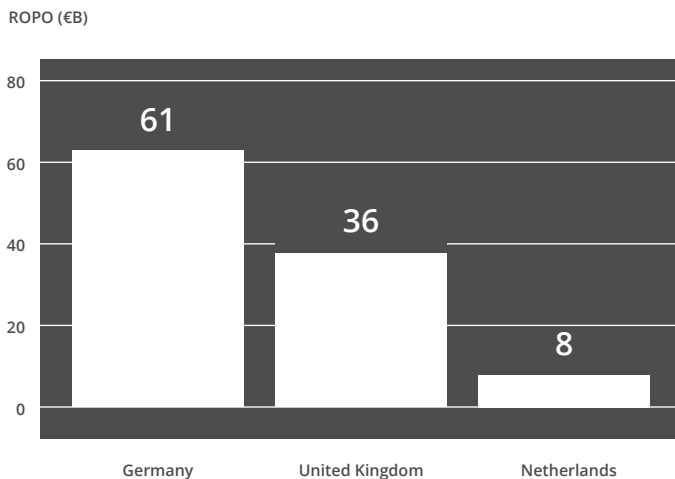


Fig. 1: Forrester's Q1 2011 eCommerce Forecast, and Consumer Commerce Barometer (TNS / Google / IAB)

Fig. 2: MEP Studies

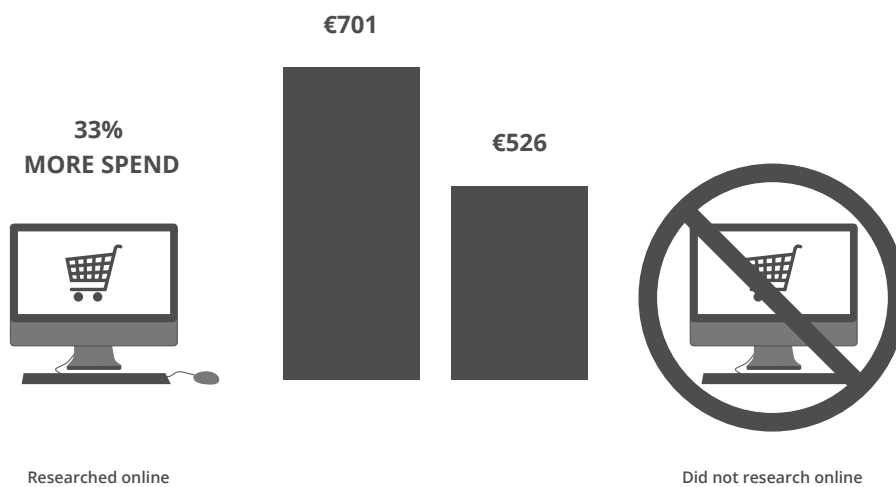
Fig. 3: Boston Consulting Group - study covers retail, technology, consumer packaged goods, automotive, entertainment, travel and finance

PREPARED TO SPEND

But what does all this mean to the retailer? The good news is that customers who research online and purchase offline are not only better informed; they're also prepared to spend more. In one study, French entertainment and electronics retailer FNAC found that in Spain ROPO customers spend around 33% more in-store than those who have done no online research (Fig. 4).

The penny is beginning to drop as retailers recognise that customers who interact with them across different channels are more attractive and profitable than single-channel customers. The amount that a customer spends is still most heavily influenced by in-store merchandising and the ability of store staff to up-sell. However, Google's research suggests some interesting links between online research and higher basket size.

Fig. 4 FNAC: Basket size and amount spent on TVs



In a recent coupon-based study with German shoe and accessory retailer Goertz, for example, Google made an interesting discovery: Although only half as many coupons were redeemed offline as online, the average spend per customer and redeemed coupon was twice as high offline (Fig. 5).

Fig. 5 Goertz: ROPO effect on gross sales of shoes / apparel

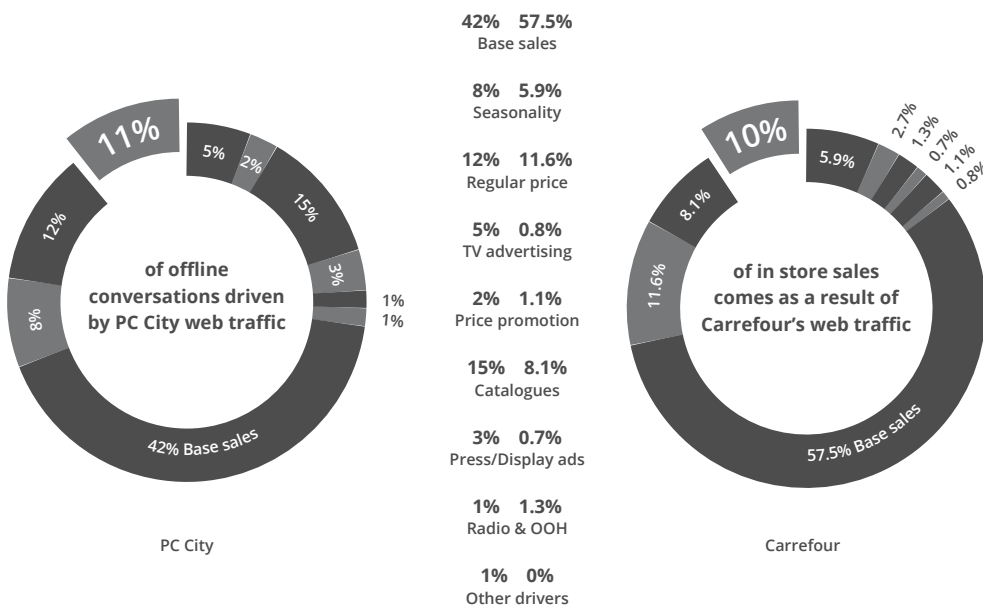


WHY ROPO?

So why do consumers research online but then buy offline? Why don't they just buy while they're on the site? There are still issues of trust, usability and availability surrounding eCommerce, all of which can be seen as factors that push consumers towards purchasing offline (Fig. 6). But the reasons why a consumer actively chooses to research online before buying in a store are not so well understood and quantified.

What we do know is that many go online to research product features and specifications, to compare the product against competitor products, to compare prices, and to locate stockists. In the FNAC study, Google asked ROPO customers buying electronics why they researched online, then bought in-store. Wanting to see the product first, and seeking the instant gratification of taking the product away immediately were the reasons most frequently offered.

Fig. 7 PC City and Carrefour: Understanding the drivers of offline sales

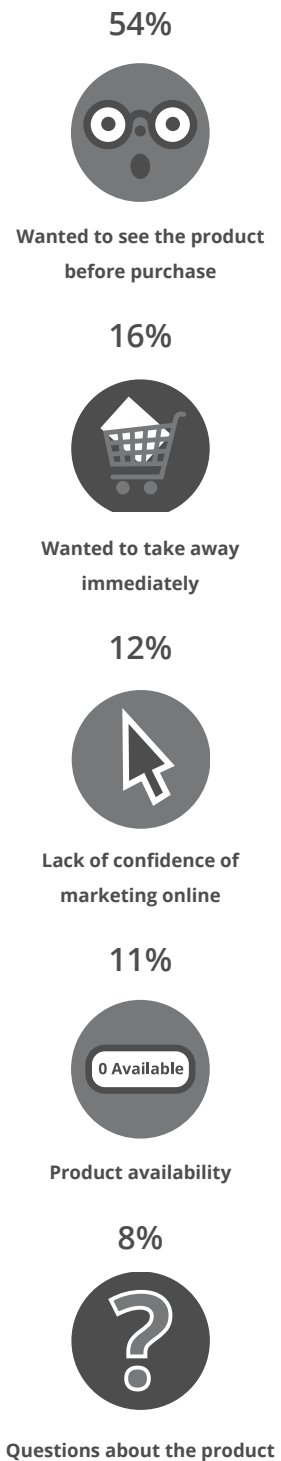


TARGETING ROPO CUSTOMERS

A significant proportion of all online research takes place on retailers' own domains, and their websites are therefore vital to generating leads and driving on- and offline conversions. There are plenty of eCommerce analytic tools to measure a website's effectiveness in driving online sales. But making the link between a website and in-store sales is more challenging, as correlating online traffic to seasonally fluctuating offline sales requires modelling capability.

However, retailers with a baseline understanding of the role played by their website can improve the accuracy of their attribution models and make better informed decisions. In a recent study with PC City in Spain, Google assessed the role of the retailer's website against other sales and marketing activities in driving on- and offline sales, and found that PC City's website delivered 11% of all offline sales – almost a third of all marketing-influenced sales. Likewise, French supermarket Carrefour knows that 10% of its in-store sales are driven by online research (Fig. 7).

Fig. 6 Reasons for not buying online

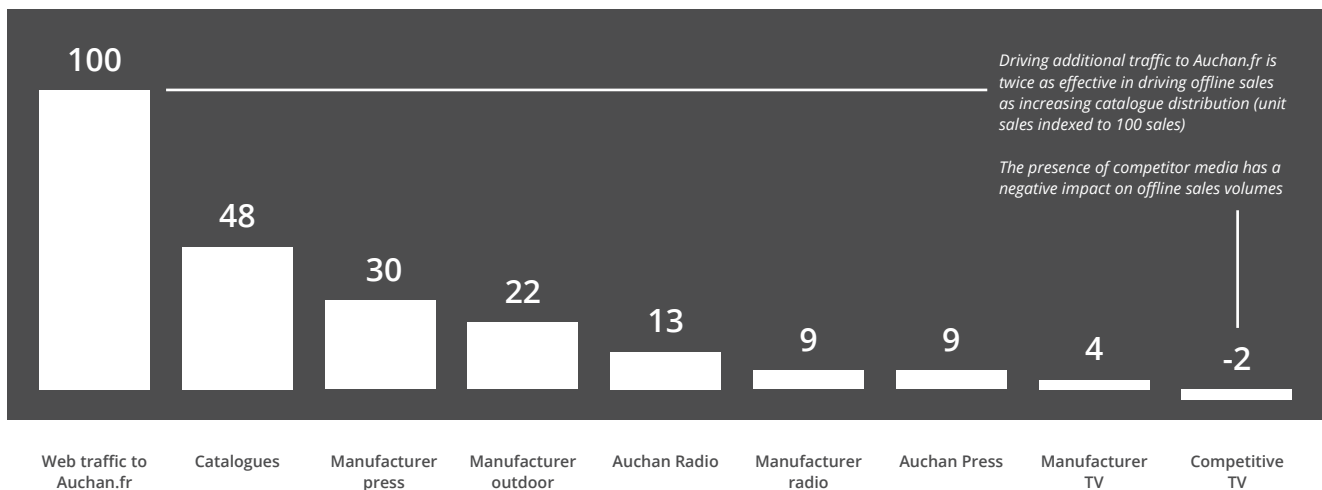


USING ONLINE ADVERTISING

Establishing the relationship between website visits and in-store sales begs an important question: What impact would sending even more traffic to the site have in terms of offline sales? Of course the answer varies from case to case, but Google's research suggests that sending more traffic to a website drives incremental offline sales. For example, at French retailer Auchan, a single percentage point increase in web traffic led to 0.23% more sales in-store (Fig. 8).

And even better, marketing online is cost effective. Switching investment from TV to online advertising can

Fig. 8 *Offline sales impact of sending 1% more traffic to the website / increasing distribution of other media by 1% (indexed to website, original value = 0.23% lift in category sales)*



drive increased unit sales for the same overall investment, or in the case of L'Oreal, drive the same offline sales for less investment (Fig. 9). By swapping TV advertising for YouTube advertising, L'Oreal recorded 2% higher unit sales at 13% lower cost, and also discovered that serving YouTube advertising on top of its TV advertising helped to maintain sales over a longer period after the TV campaign ended (Fig.10).

A retailer's success in driving incremental offline sales depends on the level of existing investment in digital marketing ("Where am I on the yield curve?") and how much market competition there is for additional website traffic ("What will be the on- and offline ROI of incremental acquired website traffic?").

Both questions can be answered through a combination of econometrics modelling (to develop hypotheses) and experiments (to validate them). These experiments can provide valuable insights for generating incremental multi-

Fig. 8: Marketshare Partners

channel sales, and for informing decision-making about where the next pound, euro or dollar of marketing budget would be best spent.

For example, Google recently worked with Vodafone in the UK to test incremental opportunity using AdWords search engine marketing (SEM). It was found that SEM drove 27,000 incremental store visits, which led to 1,200 incremental sales, or a 1.5% lift in units sold. SEM was found to have an even greater impact on in-store sales than online sales (1.75 in-store connections for every one online) and perhaps most importantly, Vodafone received an impressive £4.26 in sales for every £1 spent on AdWords.

Fig. 9 Vodafone: Effect on in-store sales of running AdWords search engine marketing

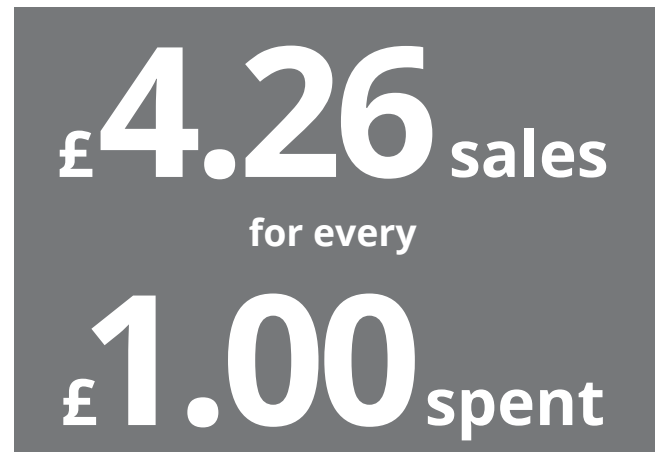
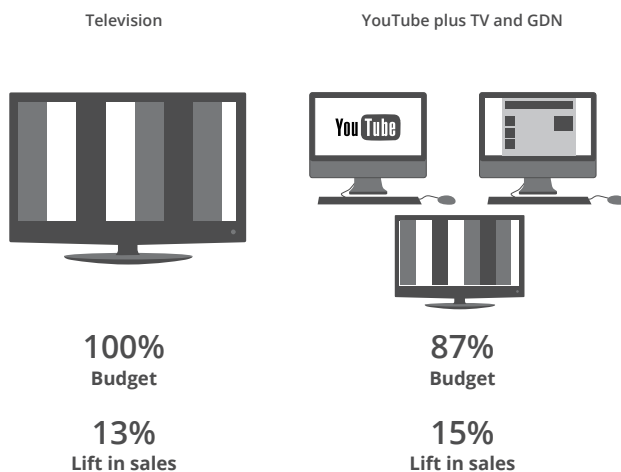


Fig. 10 L’Oreal: Swapping some TV spend for a mix including YouTube achieved significantly the same amount of sales for 13% less budget



Base: In-store sales (measured at the POS level)

Fig. 11 L’Oreal: YouTube and GDN helped maintain sales at a high level after the TV campaign had ended

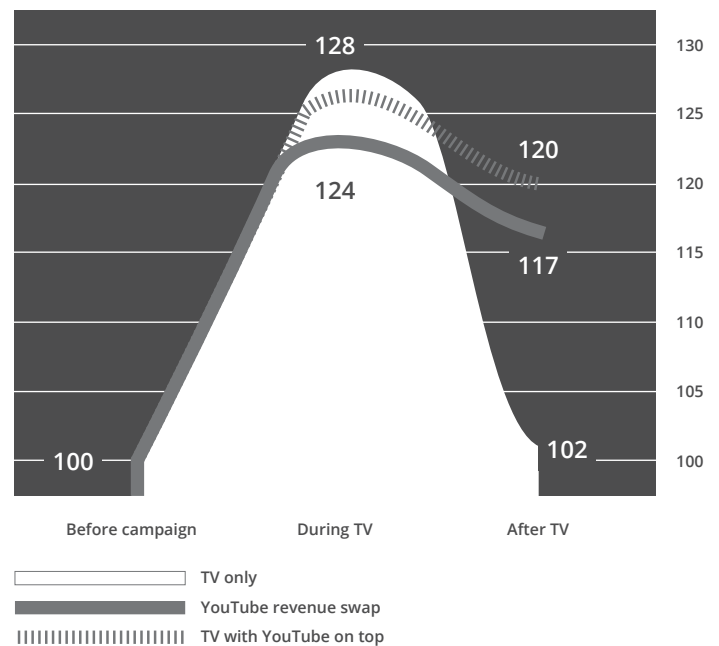


Fig. 10 & 11: Marketingscan

Next steps

ROPO customers demonstrate huge commercial potential, and our data continues to uncover compelling evidence for the web’s ability to drive offline sales. To join us in exploring this latest digital frontier contact your Google account representative to discuss how your organisation could address the following questions:

- What role does my website play in driving offline sales?
- What proportion of my offline sales are already influenced by online?
- Could online advertising help increase my offline sales?
- Would multi-channel consumers offer greater return than mono-channel consumers?