

Online Promotions

Opportunity ~ Threat ~ Leverage

With online sales growth continuing to outpace overall retail sales, it is not surprising that retailers and manufacturers are carefully evaluating their use of valuable Web site space and media mix for promotions. Retailers' Web sites are becoming one of the most powerful promotional tools for driving sales. In addition to the steady growth in direct online sales, research indicates that over 50% of purchases are influenced by online activity.

Clearly, there is much at stake here. For retailers, it is essential to balance the growing appetite consumers have for the convenience of online shopping with the need to drive in-store traffic. After all, approximately 95% of retail sales still occur in stores, according to quarterly estimates from the U.S. Census Bureau - Department of Commerce. The retailer has to compete not only with other traditional retailers in the battle for foot traffic, but also with nimble e-retailers whose objective is to get consumers to buy before they take their hands off the keyboard. Manufacturers, who have always understood the power of promotion and the increased value of being on the front page of a circular, may soon be negotiating for premium space on the home page or department/category pages of retailers.

To be certain, the use of online promotion today does not serve as a substitute for print or other forms of traditional feature advertising, but rather a supplement. Print promotion is still the predominant form of media used by shoppers. A 2009 MORI Research & Newspaper Association of America research study found that 64% of shoppers say their primary mediums for checking advertising and promotions are print (newspapers, direct mail, catalogs and magazines). While 21% of shoppers cited the Internet as their primary source for reviewing advertising. A previous study by the same two institutions found that a majority of consumers who are shopping online (61%) are visiting the store Web sites of national retail brands. The immediate challenge for marketers is threefold: 1) to understand how online media is being used in their respective trade classes and categories; 2) to have an informed strategy for determining how to integrate their promotional initiatives across traditional and new media; and 3) to develop a plan for specific event initiatives that can evolve over time.

How is Online Promotion Being Used?

To discuss online promotion, it is important to first define it clearly. Market Track categorizes online promotion in three broad mediums:

- 1. Retail Web Site Promotion:** Defined as a retailer (or manufacturer's e-commerce site operating as a retailer) using its online Web site as a promotional vehicle. This is considered by many to be the online shopping influencer with the greatest influence today.
- 2. Third-party Promotion:** Probably the most common form of online promotion in which an advertiser promotes its brand or products via third-party Web sites, portals and social media sites. Promotions include banner ads, pop ups, interstitial ads, etc. These ads may be free, paid for based on viewership of the site or based on click-through rates.
- 3. E-mail or Push Promotion:** E-mail or text-based promotions pushed to consumers. This is commonly linked to retailer affinity programs or clubs where the consumer has "opted-in" to receive such messages. Many times these promotions feature offers that are further defined with links back to the promoter's Web site.

In This Article...

Market Track analyzes how businesses are leveraging premium Web site-based online promotional space to drive sales. In addition to gaining a better understanding of the challenges retailers and manufacturers face in their online promotional strategies, this perspective offers advice on how to measurably improve those efforts:

- Be aware of the online competitive landscape
- Ensure print and online efforts are driven by a coherent strategy
- Measure, analyze and evolve your execution

In this perspective, we will restrict our analysis to the first category, Retail Web Site Promotion. This is the promotional medium that is best correlated to print circular advertising and, in our opinion, the online vehicle with the greatest impact on today's retail sales. It is also the online promotional medium most likely to create brand conflict due to the extent of promotional activity and the ease of referential comparison back to the print circular. In future research, we will address the other online promotional mediums and their relationships to the overall media mix.

Retail Web Sites in the Beginning

Most traditional retailers' online e-commerce sites were developed as fully independent retailers, free to compete head-to-head with pure-play e-retailers. This was a strategic decision made by business leaders who recognized the fundamental differences in online versus brick and mortar business models. The strategy at the time was to allow online stores (Web sites) to win in the head-to-head battle for the consumer's wallet. The battle, however, often resulted in a very different and often contradictory promotional approach from their print promotions. This is not to say that these channels need to be consistent in pricing, promotion or selection, but at a minimum there needs to be a deliberate strategy between the mediums when they promote a common brand.

Retail Web Sites Today

As online and print mediums evolve and converge, some traditional retailers have already begun to align their brick and mortar and online promotional strategies. This can be as simple as linking to the weekly circular ad and bringing clarity to offers that are only valid for "online-" or "in-store-only" purchases. There remains, however, quite a distinction between the print and online promotions of most retailers today.

Flexibility and responsiveness are two valuable attributes of online promotion. As noted in our Black Friday Perspective in 2009, certain e-retailers were explicit about their strategy to observe the best offers made by traditional retailers through their circular ads. They simply positioned better offers on their Web sites so consumers could conveniently shop from home on Wednesday and Thursday. This strategy worked well with the growth of online Black Friday sales strongly outpacing overall retail Black Friday sales.

This same flexibility exists for all retailers through their online sites, which can be used reactively to reposition a key promotion or product price if they find themselves at a competitive disadvantage going into a key event period. Similarly, Market Track expects retailers to begin to use Web sites proactively to win online consumers and attract and retain their storefront consumers.

Transitioning to some of the specific findings from Market Track's analysis of online Web site usage and relationship to print circular activity, the following sections provide an analysis of how much of a retailer's valuable home page space is being utilized for Web site promotions in addition to a review of high-level category ad share between home pages (online) and front pages (print circular).

Web Site Promotion Space: Generous

Market Track found that the space allotment retailers dedicate to promotions on their home pages is considerable. On an aggregate level, both brick and mortar retailers and e-retailers devote 60% of their home page space to information that could be considered promotional. For this analysis, Market Track defined promotions as advertisements for featured items, brand promotions, limited time offers/closeouts, online shopping and coupons.

While the aggregate number is remarkable, the range of space allocation looking across trade classes is equally intriguing (Figure 1).

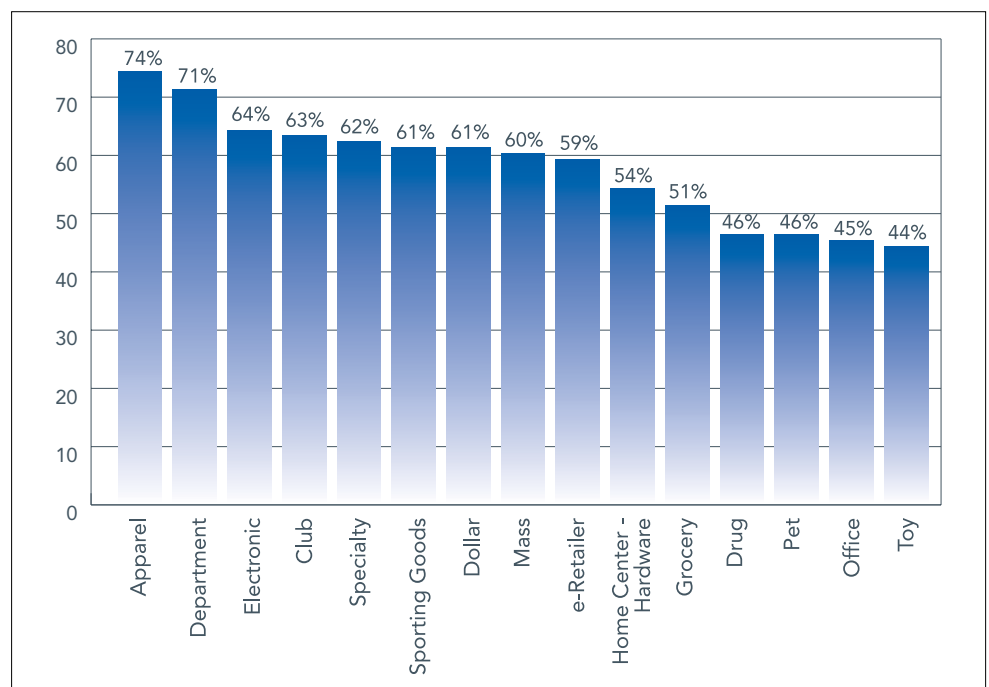


Figure 1: Home Page Space Dedicated to Promotion

Taken individually, some retailers and manufacturers dedicate more than 85% of their home page space to trade promotion while others dedicate less than 20%. Department and apparel stores are consistent in committing the most online space to promotions. Almost all of these retailers have more than 65% of their home page space dedicated to promotions. Surprisingly, toy and office retailers are currently dedicating the least amount of space with an allocation of less than 50% to promotional sections.

Print Circular Front Page Versus Web Site Home Page: Surprising Inconsistency

The most striking inconsistencies can be found in analyzing the products and categories being promoted on the home pages of Web sites versus those highlighted on the front pages of circulars. Most retailers are focusing on different categories between their circular front pages and the home page of the Web site (Figure 2). In some cases, retailers are consistent in category allocation between these channels but feature different brands within the categories in respective ad vehicles.

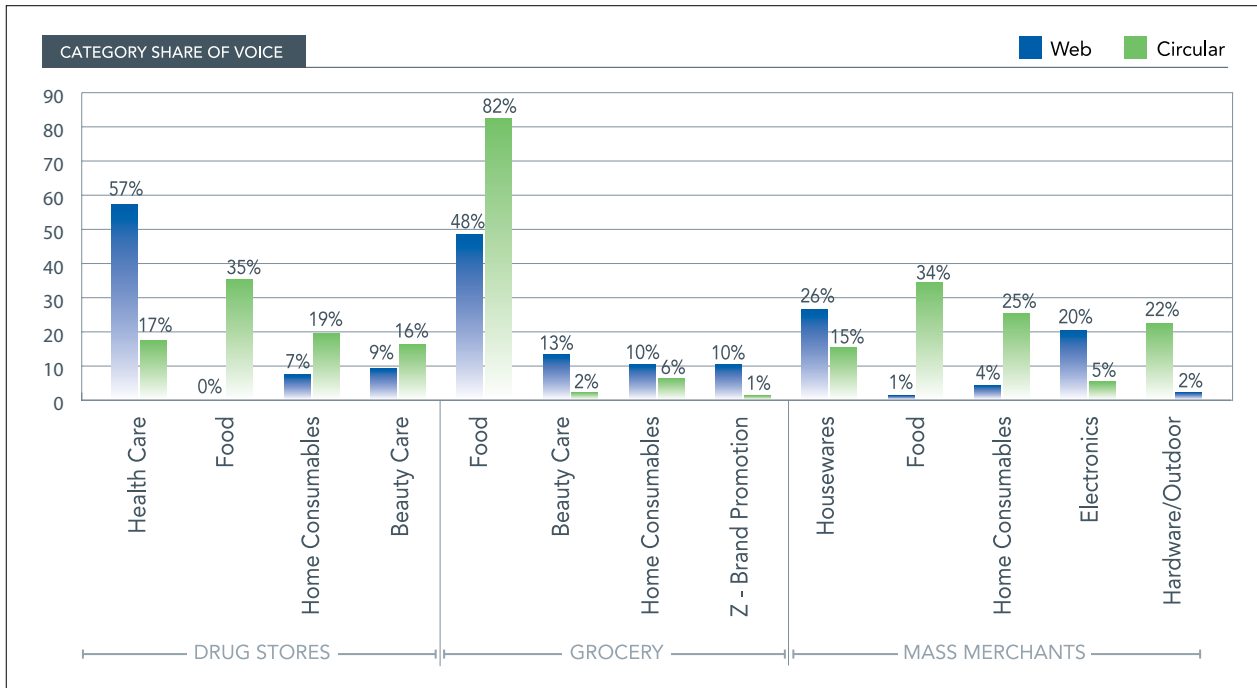


Figure 2: Circular Front Page vs. Home Page Ad Share

Market Track found several instances where competitive products were advertised at the same time — one in the circular and one online. This may be the result of purposeful but uncoordinated merchandising initiatives between the in-store and online business units. Or, it could be the result of coordinated, planned differences within the retailer’s overall marketing strategy across these mediums. In either case, retailers should consider possible confusion in the consumers’ minds and potential conflicts relating to trade promotional initiatives with manufacturing partners.

It was rare to find a retailer that has built a clear strategy for balancing and leveraging these two modes of promotion in a coordinated fashion. Frequent competitive overlaps, along with the significant variance in product categories promoted on the Web site versus circulars, are evidence that retailers are managing two separate promotional strategies — one for the Web and one for print. Inconsistent promotional efforts are likely occurring because of a legacy disconnect between previous e-commerce business models and strategies associated with foot traffic-oriented circular strategies. Because organizations do not coordinate their print and online efforts, the result could be sub-optimal performance that negatively affects both online and print promotion execution and results.

Three Strategies for Improving Online Success

The key to greater promotional impact for retailers and manufacturers today is knowledge and insight. In order to maximize promotional effectiveness, organizations need to know what categories and what brands are being promoted, by whom, at what price points and how often they are changing. Since online Web site promotions will only continue to grow, successful businesses need to be strategic and informed in their approach. To help retailers and manufacturers successfully implement strategically aligned online and print promotions, Market Track offers three strategies:

- 1. Don't Drive Blind:** If you don't fully understand the evolving competitive environment, it is difficult to have a winning strategy. The numbers don't lie, online is an important shopping and research avenue for consumers today, and it is a global reality. Online promotions need to have the same strategic planning, competitive analysis and measurement that print promotions do. If you find your business is taking an informal or ad hoc approach to online promotions, it is time to regroup and start monitoring and planning.
- 2. Coordinate Efforts Across Promotional Channels:** Greater coordination among the various teams managing promotions will help businesses better maximize the impact of their online and print promotions. Understanding that the retailer's online organization has distinct objectives from those of the brick and mortar organization, strategies should still be compared to optimize and avoid what could be potential brand incongruence. In addition, a more strategic approach to promotional strategies across this marketing mix, including online elements, will help both retailers and manufacturers take full advantage of their investments and trade funds.
- 3. Measure Your Work:** Ensure you are measuring the effectiveness and return on investment (ROI) of your online efforts. Ensure you are making well-informed decisions by analyzing year-over-year comparisons, monitoring emerging trends and tracking the competitive landscape with quantitative data. Businesses should be well equipped to measure lifts and dips that are due to their print promotions and have an understanding of how their online promotions impact those efforts.

In addition, understanding how an online promotion from a competitor or supplier can potentially undermine a well-planned print circular is the key to maximizing effectiveness. Monitoring and measuring are essential to understanding the true impact of online promotions and their enhancement to existing print campaigns. Without it, a business is simply spending money and hoping for the best.

The road to greater promotional consistency and better results should not be a terribly long one. However, it does require visibility and coordination between retailers and manufacturers, the online and print promotional teams, and the brick and mortar and online merchandising and sales organizations. For retailers and manufacturers that take the time to plan, coordinate and measure online and print promotions today, the ongoing growth of e-commerce will bring greater opportunity and sales results.



About Market Track

Market Track is a market intelligence firm dedicated to increasing our customers' returns on their promotional investments. Through innovative technology and marketplace expertise, we monitor and analyze over 200 U.S. and Canadian markets for every channel of trade in order to provide retailers and manufacturers with superior tools to monitor promotional activity, support dynamic decision making and turn information into market intelligence.

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For more insight into online and print promotions or an analysis of your online and print strategies, call Market Track at 1.800.235.3781 or e-mail perspectives@markettrack.com.