
Are Retailers Shifting Fast Enough from “Old School” Media to New Digital Marketing Opportunities?

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SUMMARY

Legendary management consultant and author Peter Drucker once said, “If you want something new, you have to stop doing something old.”

From 1946 to 2010, despite continued U.S. population growth, newspaper circulation declined nearly every year¹, leaving advertisers with smaller audiences than ever before. In 2014, consumers have become more in control and demanding of relevant, real-time promotions to motivate them to make a purchase. Retail marketing departments across the United States are in the midst of a turning point, where old ways of reaching those consumers are giving way to a more modern, digital approach.

Retail executives are excited by the ongoing shift the industry is making from traditional marketing channels to more targeted digital marketing efforts to attract consumers. At the same time, these decision-makers appear to be challenged in their ability take full advantage of digital marketing opportunities. And while, for many, their comfort may be steeped in the art of offline and more traditional advertising methods, they seem very willing to learn about this new world of consumer engagement because they believe that digital marketing is the key to the future success of the retail industry.

Those were among the findings of a survey commissioned by RetailMeNot, Inc., and conducted by independent research company Kelton Research. The 204 retail executives who responded are either decision-makers or influencers of marketing spend at large national retailers that sell both online and in physical retail locations. One in five (20 percent) respondents were C-level executives. The survey gauged knowledge and attitudes toward digital marketing, the current state of digital marketing efforts and confidence about entering digital more aggressively. The results reveal an enthusiasm about digital marketing that isn't always matched by action. It also suggested the value that retail marketers see in digital marketing's most nascent and promising specialty: mobile marketing.

THE BIG SHIFT TO DIGITAL — IDEALS VS. REALITY

An overwhelming number of retail executives surveyed believe that digital channels are more cost-effective than non-digital. Seventy-five percent believe that digital consistently delivers better ROI – or “promotional performance” – at a lower cost than non-digital.

75%

BELIEVE THAT DIGITAL
ADVERTISING DELIVERS
A HIGHER ROI THAN
TRADITIONAL OR OFFLINE
MODES OF ADVERTISING.

¹ Nieman Foundation at Harvard, “Moderating declines: Parsing the NAA's spin on newspaper circ data,” 2010

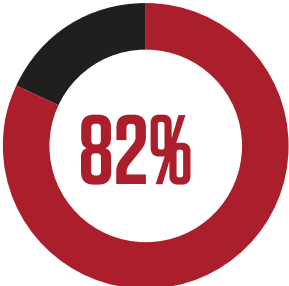
Even as retailers sing digital marketing's praises, they're still spending roughly half of their marketing budgets on offline marketing. At the moment, spending priorities appear to be out of sync with ideals.



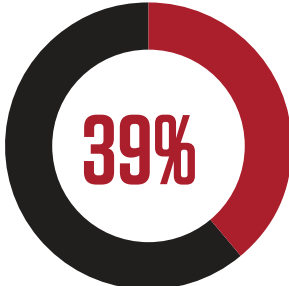
Despite current media spend trends, retailers recognize that they need to embrace change in order to maintain market share and profitability against competitors who are moving aggressively into more measurable, higher ROI digital marketing opportunities.

Digital is the future of retail. According to Deloitte, "Digital across all platforms – desktop and laptop computers, tablets, and smartphones – is influencing 36% of the over \$3 trillion dollars being spent across all categories of in-store retail sales."²

So it may not be surprising that the vast majority of retail executives intend to chase after their increasingly digital-savvy customers in a more dedicated manner. Eighty-two percent of survey respondents said they would be increasing their digital marketing spend over the next three to five years.



82% BELIEVE THEIR DIGITAL MARKETING BUDGETS WILL INCREASE IN THE NEXT 3-5 YEARS.



39% BELIEVE THEIR OFFLINE MARKETING BUDGETS WILL STAY THE SAME OR DECREASE IN THE NEXT 3-5 YEARS.

So the question becomes, how do retail marketers "stop doing something old"?

² "The New Digital Divide: Retailers, shoppers, and the digital influence factor," Deloitte Digital, 2014. <http://bit.ly/1mM7IbW>



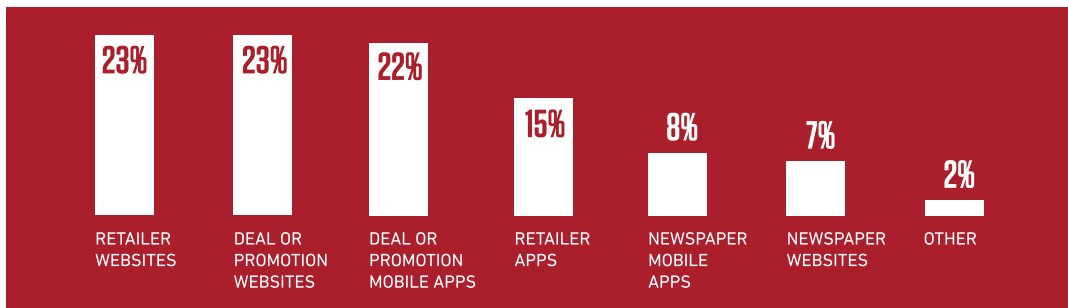
DIGITAL MARKETING NOT FULLY REALIZED

Retail marketers recognize the value of digital marketing, but they are still challenged with how to appropriately allocate their marketing budgets. What exactly is behind the anxiety or institutional roadblocks that keep retailers focused on more traditional methods of marketing versus more aggressively embracing digital?

Any short-term trepidations aside, the future of traditional marketing looks to be in decline. Sixty percent of retailers who are currently investing in direct mail, print promotions and/or print advertising plan to de-emphasize one or more of these channels in the next 12 months.

Interestingly, in the shift to digital, retail marketers see opportunities outside their own channels, including deal and promotion websites and third-party apps.

Retailers believe the following channels provide the biggest opportunity to drive sales when it comes to the shift from printed circulars to digital formats



Given this, why aren't we experiencing a harmonic convergence of retail and digital marketing? Because for all of their enthusiasm about digital and mobile marketing, retailers are anxious about their ability to pull it off. The survey found:

- Just over a quarter of marketing management decision-makers (27 percent) say they are extremely advanced in digital marketing compared to companies within the entire retail industry.
- Only 26 percent said they strongly feel that they are advanced in their specific retail category as digital marketers.
- Less than one in five (19 percent) believe their current omni-channel strategy is extremely effective.
- 42 percent said they feel they could be taking greater advantage of digital marketing channels and capabilities.

THE MOBILE IMPERATIVE

As developers of mobile applications and mobile Web services, RetailMeNot has long held the belief that native apps are the most convenient channel for delivering in-store promotions. No launching Web browsers, no logging in, no hassle. Just get the alert, tap the logo, launch the app and there's your promotion. Retailers can leverage mobile to increase in-store foot traffic, sales and profitability by targeting relevant promotions and offers when potential buyers are nearby, in shopping mode or even inside the actual store. Each offer can be customized to capitalize on a unique shopper's situation to drive a sale. And the more robust your database of app user information, the more targeted that promotion can be for prospective customers.



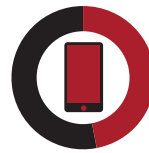
70% of retail marketers believe that most consumers today care a lot about finding a good deal.



64% of mobile marketers are on the hook for mobile traffic but are also responsible for driving in-store traffic.



50% agree that most consumers get their information about retailers through mobile.



47% are actively using mobile display right now.



45% feel that mobile gives consumers most of their information about deals.

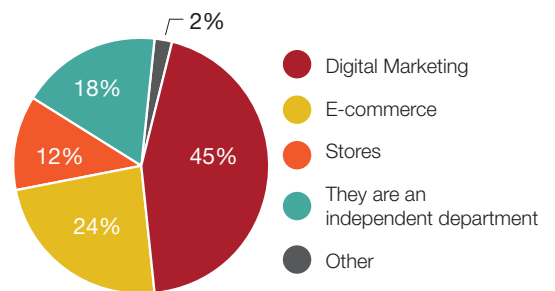
Almost two-thirds of retail executives (65 percent) believe that branded mobile platforms like apps are effective at driving in-store sales. However, it's an area in which they are sorely lacking confidence. Only 19 percent of respondents strongly believe they are advanced in native mobile applications.

This is likely why, in our survey, less than a quarter (24 percent) of retail marketing decision-makers said that they were developing mobile apps on their own. A vast majority said that they rely (at least partially if not completely) on partners to develop mobile apps or devise and implement their mobile strategies.

The siloed structure of many retail organizations are impeding efforts to capitalize on mobile marketing opportunities. In fact, retailers don't seem to agree on where mobile marketers even belong! The survey reported:

- Less than half (45 percent) view mobile marketing as an integrated component of digital marketing.
- Twenty-four percent put it under e-commerce and 12 percent under stores.
- Only 18 percent see it as an independent department.

Of the retailers surveyed, their mobile teams reside in these departments.



These results don't bode well for retailers who want to launch successful integrated mobile marketing campaigns targeting the most highly intent shoppers when they are out shopping and closest to the point of purchase.

While this might seem ominous for the future of mobile marketing in the retail industry, there is hope. The executives surveyed apparently recognize that they're lagging behind and are trying to make up ground. RetailMeNot surveyed retailers on their sense of urgency around mobile and asked when they planned to invest in new mobile technologies to support their business. RetailMeNot asked whether retailers took an "as early as possible," "wait until beta" or "wait until proven ROI" approach. A majority (59 percent) said they're looking to invest as early as possible; about a third (31 percent) said wait for completion of beta testing; and only 10 percent said wait for proven ROI.

CONCLUSION: ACCELERATING THE DIGITAL TRANSFORMATION

“Change before you have to.”

– Jack Welch, former chairman and CEO, General Electric

Retailers know that consumers are finding the information they need to make smart shopping decisions in increasingly sophisticated ways. At some point, consumer demand for specific and targeted digital marketing solutions will be so great that retailers will be forced to push with speed into testing and implementing new techniques that drive traffic and sales or face being left in the wake of their competitors.

The survey found:

- Nearly three in four retail marketers (70 percent) said that most customers care a lot about finding a good deal.
- Not only are they looking for a good deal, they are looking for them online: Approximately two-thirds (63 percent) said customers were “savvy when it comes to finding deals on the Internet.”
- Half (50 percent) agree that most consumers get their information about retailers through mobile.

Retailers recognize that customers – with a mobile computer in every pocket – are increasingly digital, that they are armed with more information than ever before and that they have increased expectations when it comes to shopping and finding deals. The retailers that win in this new paradigm will figure out how to deliver the right offer to the right customer at the right time – before their competitors do.

Easier said than done. Retailers trust in the effectiveness of digital marketing, but change still remains slow. The other obstacles – cost and execution – are far from trivial. Moving forward will mean bridging the divide between intention and action and accelerating retailers' digital transformation. That will mean shifting from old-school, declining traditional marketing channels and accelerating their investment in new, innovative technologies that will enable them to reach new and existing customers more efficiently and effectively – at scale.

Retailers' eagerness to be on the leading edge – 9 in 10 are willing to test experimental digital offerings or utilize digital offerings just after beta testing phase – shows they're not nervous about trying something new. It should be even easier to try something that's proven, innovative and shown to drive traffic and sales.

There are companies today that provide digital marketing solutions that have a demonstrated, measurable track record for driving significant return on a retailer's investment. A recent Forrester Consulting study³, commissioned by RetailMeNot, showed that retailers who used RetailMeNot's in-store technology realized a three-year risk-adjusted ROI of 631 percent.

Can your old Sunday print circular or direct mail piece promise the same results?

Methodological Notes

The RetailMeNot Retailer Survey was conducted between April 24, 2014, and May 6, 2014, using an email invitation and an online survey, among 204 marketing decision-makers at retailers that sell both online and in physical retail locations and have at least \$50 million in annual revenue. Grocery stores and restaurants were excluded from the survey.

Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results.

In this particular study, the chances are 95 in 100 that a survey result does not vary, plus or minus, by more than 6.9 percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample. The margin of error for any subgroups will be higher.

For the purposes of this paper, the terms "respondents," "retailers," "retail executives" and "retail marketers" are used interchangeably as total respondents to the survey.

³ Forrester Consulting, "The Total Economic Impact of the RetailMeNot In-Store Solution," 2014

