The State Of Retailing Online 2013: Marketing And Merchandising

by Sucharita Mulpuru, July 30, 2013

KEY TAKEAWAYS

Paid Search And Email Continue To Dominate The Marketing Mix

Retailers surveyed responded that, on average, 55% of their interactive marketing spend is dedicated to paid search and email and indicated that these vehicles are leaders for increased spending this year versus last. The majority reinforced past findings that search engine marketing continues to be the most effective customer acquisition tactic.

Mobile Email Optimization Is A Key Area Of Focus For Retailers

Retailers now report that more than 40% of their email opens, on average, are on mobile devices (both phones and tablets). As a result, the majority of retailers say they are currently optimizing email for different devices or are planning to do so in 2013. Headcount and new email-focused hires are also rising as a result of the growth of email.

Key Merchandising Priorities In 2013 Focus On Omnichannel Capabilities

The majority of retailers surveyed were multichannel companies and, not surprisingly, reported that much of their merchandising investment this year centers on omnichannel capabilities, including inventory visibility across channels and assortment expansion.

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by Sucharita Mulpuru
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WHY READ THIS REPORT

Forrester partnered with Shop.org for its annual report of eCommerce benchmarks, gathered from a survey of retailers that sell online. We published the first 2013 report earlier this year, covering key site benchmarks such as conversion rates as well as top digital initiatives for retailers. This second report addresses marketing priorities, spend levels in areas such as paid search and email, and the impact of smartphones and tablets on interactive marketing spend, as well as site merchandising priorities. While retailers now see significant traffic through mobile devices, traditional marketing tactics such as search and email continue to dominate the interactive marketing mix for retailers.

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Notes & Resources

Data from "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research, was used for this report.

Related Research Documents

The State Of Retailing Online 2013: Key Metrics And Initiatives
January 25, 2013

The State Of Retailing Online 2012: Mobile And Tablet Commerce
July 16, 2012

The State Of Retailing Online 2011: Marketing, Social, And Mobile
June 3, 2011

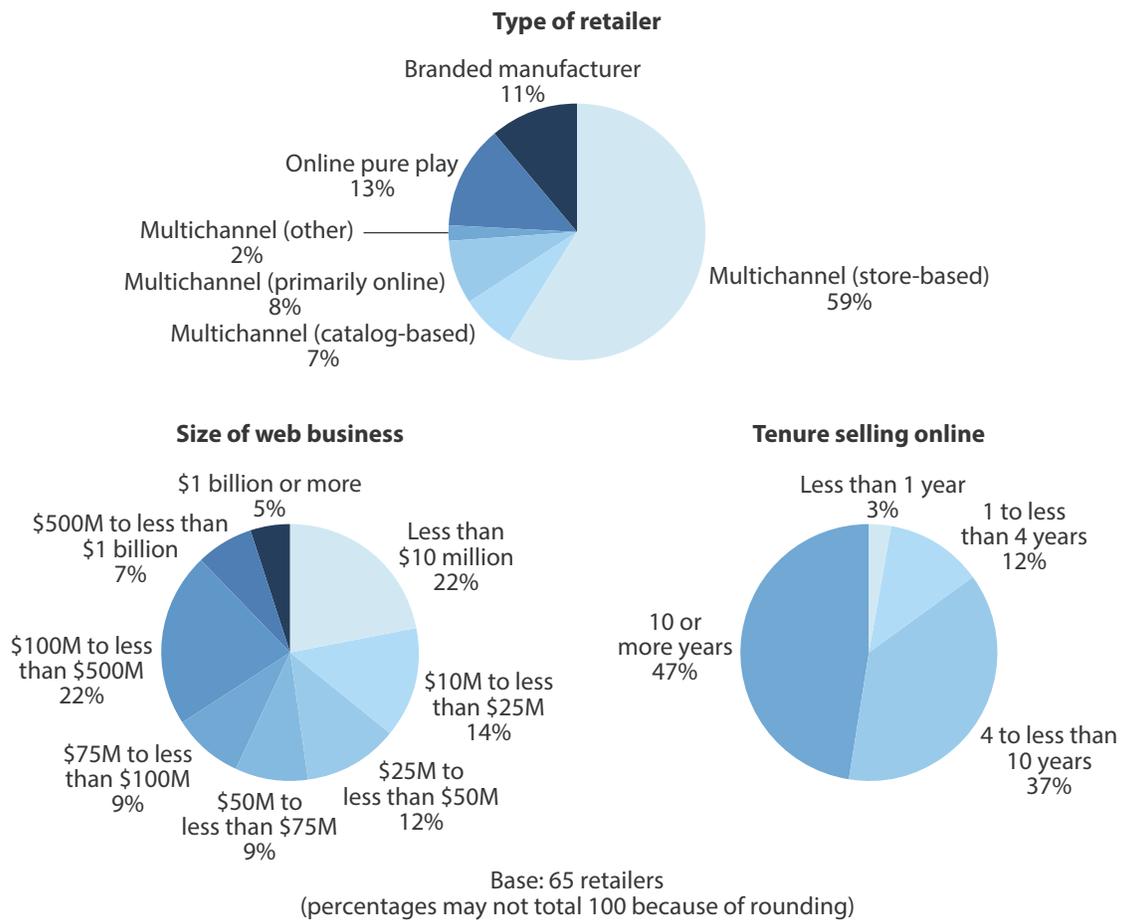## SEARCH AND EMAIL CONTINUE TO DOMINATE THE MARKETING MIX

In April and May 2013, Forrester, in partnership with Shop.org, deployed the second part of the annual State of Retailing Online survey, gathering eCommerce benchmarks from retailers. Sixty-five retailers responded to the marketing survey.[1] The majority were multichannel retail companies, and nearly half had been in business online for more than a decade (see Figure 1). Approximately one-third of the sample were "large" web retailers (i.e., more than $100 million in online sales).

The average interactive marketing budget of respondents was approximately $7 million (see Figure 2). Paid search and email budgets continue to be the largest areas of budget for web marketers and, in fact, are the two areas that retailers say they'll focus on most heavily this year (see Figure 3-1). Notable highlights this year include:

- **Increased focus on paid search.** When Forrester last asked retailers in 2011 where they were increasing their marketing spend, natural search optimization topped the list.[2] However, with changes to Google's search algorithm and device usage fragmentation, retailers are finding it more difficult to invest effectively in natural search optimization. Instead, retailers are finding that paid search and email can help them better control and direct inbound traffic to their sites. While the majority of retailers surveyed said that paid search was equally or less cost effective in 2012 over 2011, 68% agreed that they were able to drive more revenue from paid search programs (see Figure 3-2). Retailers also agreed that there is no better customer acquisition vehicle than search engine optimization in general (see Figure 3-3). Natural search is now fifth on the list of where marketing investments are growing, coming in below paid search and email marketing, which now rank No. 1 and No. 2, respectively (up from rankings of No. 3 and No. 4 in 2011).[3]

- **New budget dedicated to Google paid listing ads.** Google's announcement that it would begin to charge for its previously free shopping feed created a stir among retailers, who felt they would lose a significant source of traffic to their sites. Many have subsequently paid the fees to ensure continued success through Google. Retailers surveyed, on average, now dedicate 6% of their web marketing budgets to Google Product Listing Ads (PLAs). Anecdotally, retailers report that the customer acquisition costs are cheaper than paid search listings and that the budget often comes from the funds previously allocated to comparison-shopping engines.[4]

- **Continued investment in social media.** While email, search, and remarketing are clearly in the lead, retailers have by no means abandoned investments in social media. More than half of retailers surveyed are spending more in 2013 on Facebook initiatives than last year, while approximately one in three are also upping their spend on Pinterest, and about one in four are doing so on Twitter, YouTube, and Instagram. With several years of social media experience under their belts, retailers have come to understand that these vehicles may not necessarily drive direct sales revenue but can be very productive in telling, developing, and spreading their brand stories to capture customers and grow sales, whether in-store or online.

■ **Growth in marketing analyst positions.** As "big data" themes encroach on retail, particularly
with the profusion of channels, devices, touchpoints, and usability tests, retailers recognize
that the same old analytics dashboards from ten years ago are obsolete. Part of the solution
is bringing in and developing new skill sets within the team to make sense of the volume of
marketing data that now exists. Forty percent of the retailers surveyed said they had open
positions for marketing analysts, more than any other open marketing position (see Figure 4).

Figure 1 Respondent Demographics

Type of retailer

Branded manufacturer
11%

Online pure play
13%

Multichannel (other)
2%

Multichannel (primarily online)
8%

Multichannel (catalog-based)
7%

Multichannel (store-based)
59%

Size of web business

$1 billion or more
5%

$500M to less than
$1 billion
7%

$100M to less
than $500M
22%

$75M to less
than $100M
9%

$50M to
less than $75M
9%

$25M to
less than $50M
12%

$10M to less
than $25M
14%

Less than
$10 million
22%

Tenure selling online

Less than 1 year
3%

1 to less
than 4 years
12%

10 or
more years
47%

4 to less than
10 years
37%

Base: 65 retailers
(percentages may not total 100 because of rounding)

Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research

Figure 2 Web Marketing Budget Distribution

Average budget distribution by marketing channel

Tactic	Total	Business size		
		Small	**Medium**	**Large**
Average marketing budget (US$ millions)	**$7.6**	**$0.7**	**$6.1**	**$13.9**
Paid search	40%	29%	42%	36%
Email to house list	15%	15%	11%	19%
Natural search optimization	14%	14%	7%	17%
Affiliate programs	13%	18%	12%	11%
Product listing ads	6%	7%	15%	5%
Email to prospecting list	3%	4%	2%	1%
Wireless SMS and WAP text messages	1%	1%	2%	1%

Base: 65 retailers

Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research
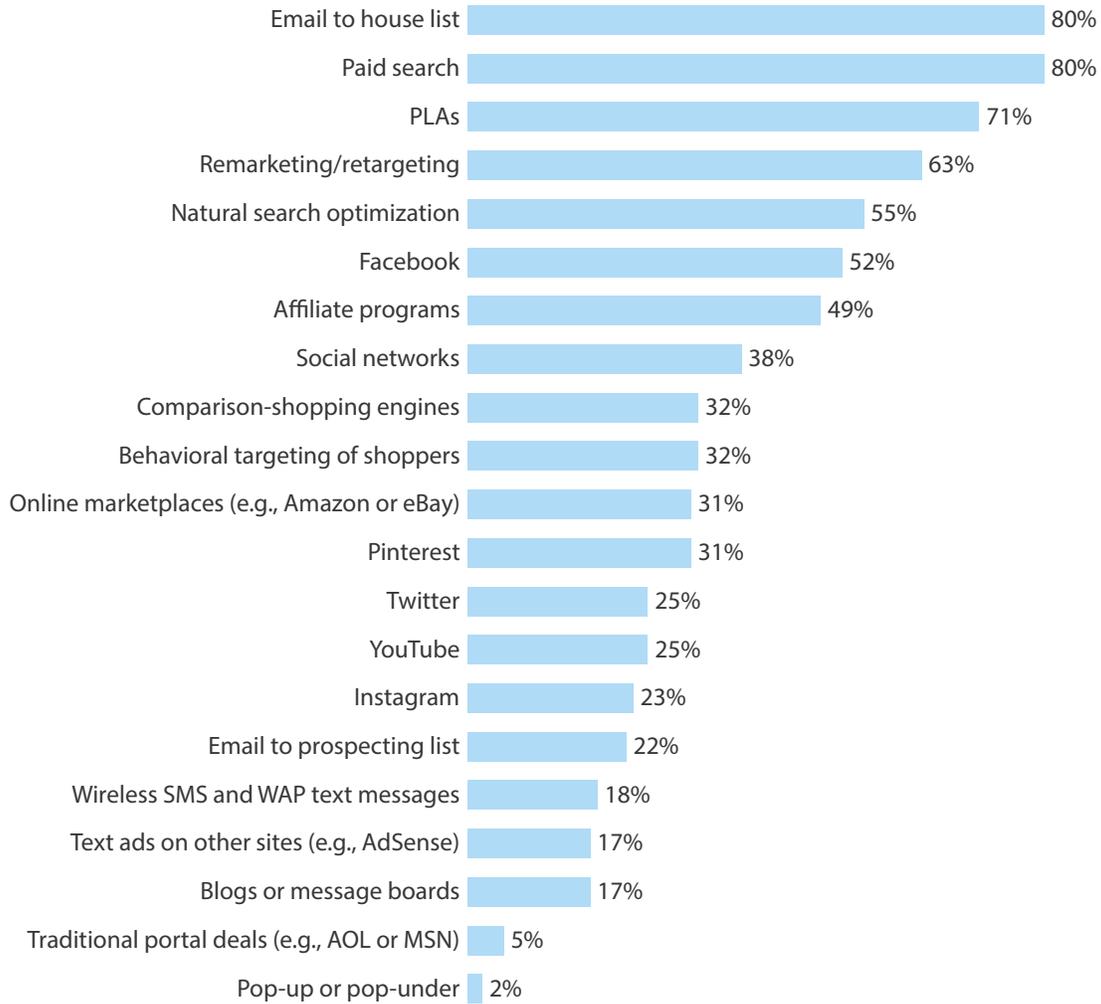
99482 Source: Forrester Research, Inc.

Figure 3 Increased Areas Of Focus In 2013

3-1 **Paid search and email top the list of focus areas in 2013**

"For which interactive marketing tactics are you spending more in 2013 than in 2012?"

Email to house list	80%
Paid search	80%
PLAs	71%
Remarketing/retargeting	63%
Natural search optimization	55%
Facebook	52%
Affiliate programs	49%
Social networks	38%
Comparison-shopping engines	32%
Behavioral targeting of shoppers	32%
Online marketplaces (e.g., Amazon or eBay)	31%
Pinterest	31%
Twitter	25%
YouTube	25%
Instagram	23%
Email to prospecting list	22%
Wireless SMS and WAP text messages	18%
Text ads on other sites (e.g., AdSense)	17%
Blogs or message boards	17%
Traditional portal deals (e.g., AOL or MSN)	5%
Pop-up or pop-under	2%

Base: 65 retailers
(multiple responses accepted)

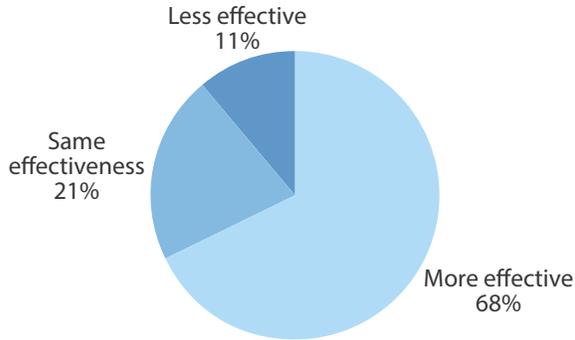Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research

99482   Source: Forrester Research, Inc.

Figure 3 Increased Areas Of Focus In 2013 (Cont.)

3-2 **Search is becoming more expensive but continues to generate revenue**

"In 2012, how effective was paid search compared to 2011 in terms of revenue?"

Less effective
11%

Same effectiveness
21%

More effective
68%

"In 2012, how effective was paid search compared to 2011 in terms of cost?"

Less effective
27%

More effective
39%

Same effectiveness
34%

Base: 65 retailers

Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research
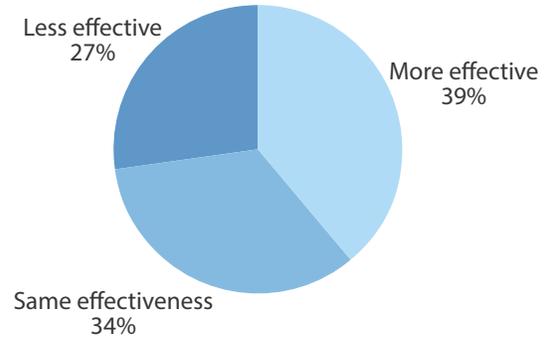
99482

Source: Forrester Research, Inc.

Figure 3 Increased Areas Of Focus In 2013 (Cont.)

3-3 **Most effective web marketing tactics**

**Percentage of retailers that said the marketing tactic
was one of their top three acquisition vehicles**

Traditional interactive marketing

Tactic	Percentage
Search engine marketing	75%
Organic traffic	52%
Affiliate programs	35%
Remarketing in display ads	20%
Online marketplaces	17%
Behavioral targeting in display ads	11%
Sweepstakes	9%
CSEs	8%
Email to prospecting list	5%
Co-registration on other sites	3%
Flash sales on your site	3%
Text ads on other sites	2%
Flash sales on other sites	2%
Traditional portal deal	0%

Offline marketing

Tactic	Percentage
Direct mail	17%
Offline ads (e.g., TV or print)	9%
Credit card/store shopper appends	0%

Social marketing

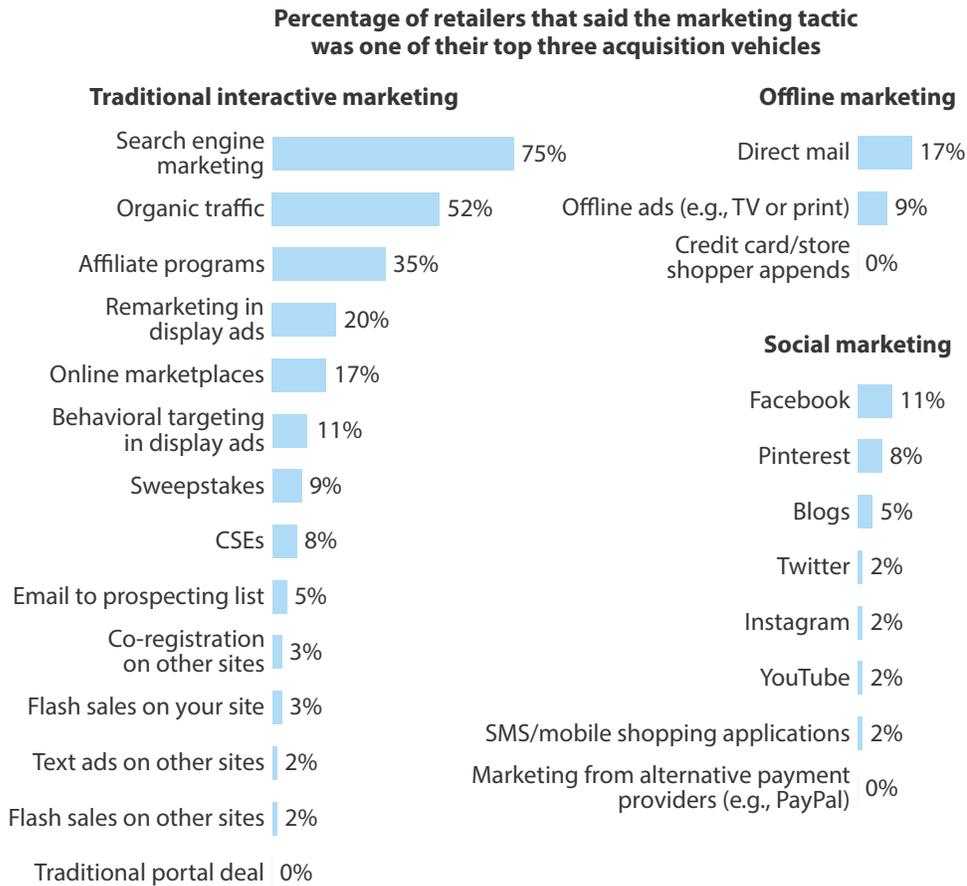| Tactic	Percentage
Facebook	11%
Pinterest	8%
Blogs	5%
Twitter	2%
Instagram	2%
YouTube	2%
SMS/mobile shopping applications	2%
Marketing from alternative payment providers (e.g., PayPal)	0%

Base: 65 retailers

Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research

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Source: Forrester Research, Inc.

Figure 4 Changes In Web Marketing Staffing

	Marketing analytics	Email	Natural search	Paid search	Social media	Affiliates	Mobile display	Mobile search	SMS
Hiring for open positions in 2013	40%	35%	26%	22%	22%	8%	6%	9%	3%
Outsourcing in 2013	6%	8%	18%	12%	2%	8%	11%	17%	3%
Moving out of eCommerce or phasing out position	0%	2%	0%	0%	3%	2%	2%	2%	0%
No changes planned	49%	51%	51%	60%	62%	57%	49%	49%	42%
Not applicable	2%	2%	2%	3%	3%	14%	23%	15%	40%

Base: 65 retailers

Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research

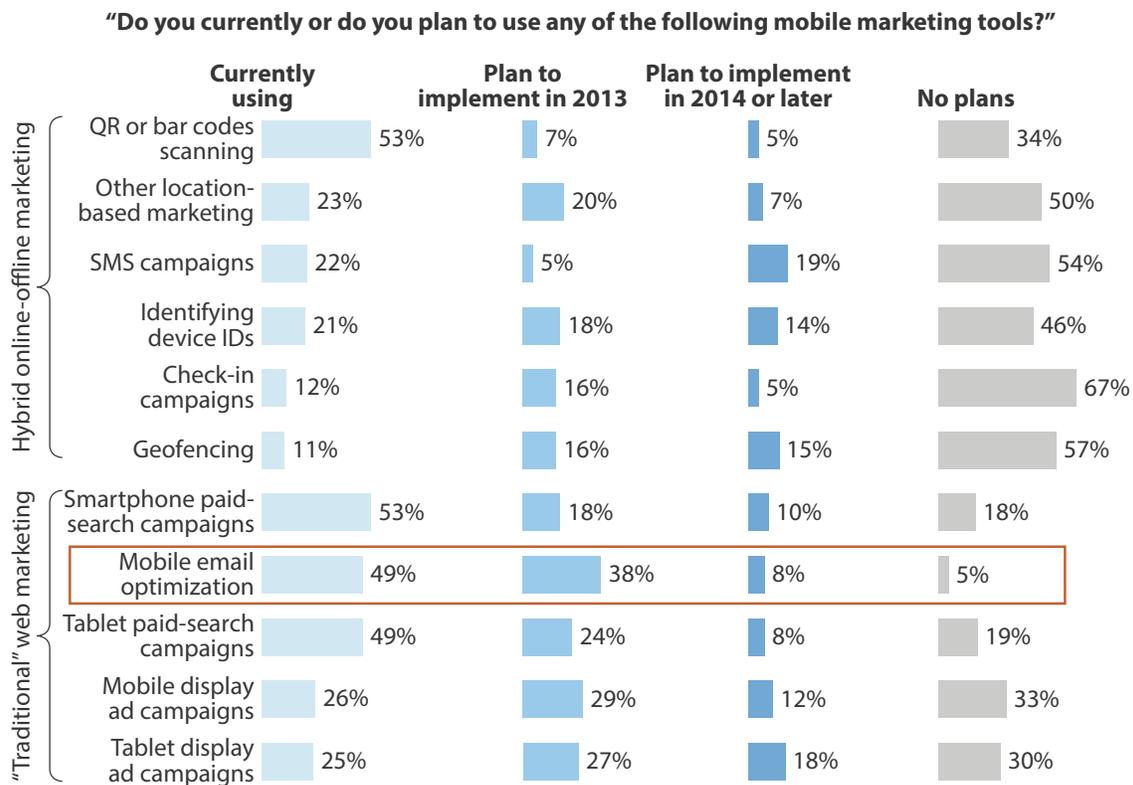99482   Source: Forrester Research, Inc.

Mobile Traffic Helps Search And Email Mature In 2013

As mobile traffic has doubled between 2012 and 2013 for many retailers, companies are actively seeking ways to capture and capitalize on their fair share of that traffic.[5] Forty-four percent of survey respondents say they now optimize their marketing campaigns, both by device and to address different consumer usage patterns.[6] Other changes to watch in 2013 are:

- **More search campaigns explicitly for phones and tablets.** As more than 20% of retail traffic now comes through mobile devices, retailers recognize the importance of mobile-optimized search campaigns.[7] While search is usually the second- or third-biggest driver of mobile site traffic, retailers are now dedicating an average of approximately 7% of their search budgets to mobile search on phones and 6% of their search budgets to search campaigns on tablets.[8] By the end of 2013, more than seven out of 10 retailers surveyed said they will have phone- and tablet-specific search programs in place (see Figure 5).

- **More email opens on mobile devices.** For both phones and tablets, retailers say that email is their top source of mobile traffic (see Figure 6-1). Email is one of the most-used functions on a smartphone; as a result, email marketing has been infused with new energy and effectiveness that it hasn't experienced in some time.[9] On average, retailers surveyed said that 28% of their email opens happen on phones and another 16% via tablets (see Figure 6-2). Large web retailers, in fact, are the most likely to adjust to this trend; these businesses are the most likely to optimize their content, including emails, to specific devices, particularly phones, where proper email visibility is most important (see Figure 6-3).

■ **More investment in email than ever before.** Because of this notable shift in how consumers are accessing marketing emails, retailers are adjusting their email strategies in lockstep. Forty-nine percent say they are already optimizing email for mobile devices, and another 38% say they will do so before the end of 2013. In the near term, more retailers are focusing on email optimization than on any other initiatives. To support this new focus on email, retailers are also investing in their headcount dedicated to email. Thirty-five percent of retailers surveyed said they currently had open headcount in email functions, more than the number of retailers currently looking for paid search or social media candidates.

Figure 5 More Retailers Are Focusing On Mobile Email Optimization

"Do you currently or do you plan to use any of the following mobile marketing tools?"

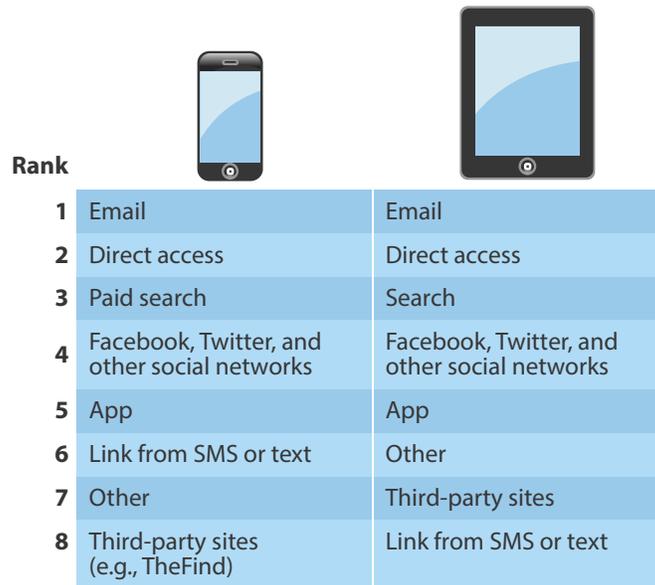|	Currently using	Plan to implement in 2013	Plan to implement in 2014 or later	No plans
Hybrid online-offline marketing				
QR or bar codes scanning	53%	7%	5%	34%
Other location-based marketing	23%	20%	7%	50%
SMS campaigns	22%	5%	19%	54%
Identifying device IDs	21%	18%	14%	46%
Check-in campaigns	12%	16%	5%	67%
Geofencing	11%	16%	15%	57%
"Traditional" web marketing				
Smartphone paid-search campaigns	53%	18%	10%	18%
Mobile email optimization	49%	38%	8%	5%
Tablet paid-search campaigns	49%	24%	8%	19%
Mobile display ad campaigns	26%	29%	12%	33%
Tablet display ad campaigns	25%	27%	18%	30%

Base: 65 retailers

Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research

99482   Source: Forrester Research, Inc.

Figure 6 Retailers Are Implementing Phone And Tablet Specific Search Campaigns

6-1   Mobile traffic sources by device

Rank		
1	Email	Email
2	Direct access	Direct access
3	Paid search	Search
4	Facebook, Twitter, and other social networks	Facebook, Twitter, and other social networks
5	App	App
6	Link from SMS or text	Other
7	Other	Third-party sites
8	Third-party sites (e.g., TheFind)	Link from SMS or text

6-2   Mobile email opens are significant, particularly on phones

Percentage of emails opened on mobile phones or tablets

	Average	Small	Medium	Large
Smartphones	28%	42%	26%	33%
Tablets	16%	23%	15%	15%

6-3   Retailers optimizing marketing content across devices

"Do you generally run the same marketing mix across web, smartphone, and tablet, or do you optimize your campaigns based on different usage patterns by device?"

Percent in agreement	Total	Small	Medium	Large
We generally run the same marketing mix across desktop, smartphone, and tablet	44%	64%	64%	35%
We optimize our campaigns by device	56%	36%	36%	65%

Base: 65 retailers

Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research

Retailers Hesitate To Dive Into Mobile Hype

While mobile dominates eCommerce investment and strategy discussions, the majority of retailers are comfortable with focusing their mobile marketing efforts primarily on search and email efforts. While solution providers have tried to generate interest in other ways to target shoppers (e.g., in-store mobile targeting), retailers have resisted dedicating significant effort to these tactics. Among some of the areas where retailers have expressed skepticism:

- **Mobile coupons.** While seemingly a powerful solution because of the opportunity to personalize content and save print costs, the use of mobile coupons is still largely nascent among retailers. Even companies that offer these programs anecdotally report that digital coupon redemption rates are in the single digits. While we remain bullish on mobile coupons in the long term, we face a chicken-or-egg problem for now, whereby consumer adoption is still small, yet retailers still have not invested to shift the behavior. Sixty-two percent of retailers surveyed said they do not offer any mobile coupons.

- **QR and bar codes.** Retailers appear to have bifurcated approaches with respect to QR codes — either they've already experimented with them or they have decided to bypass them altogether. Few of the latter group have plans to put QR codes on their near-term to-do list. Among those that have deployed QR codes, the majority simply direct the traffic to existing web pages rather than dynamic content, videos, or other potentially more-effective media.[10]

- **Location-based programs.** While there has been significant media coverage and speculation about the possibility of location-based mobile advertising (e.g., sending a personalized message to a shopper while they're in a store), the reality is that these initiatives are not common, and few retailers have plans to actively pursue them either this year or next. Sixty-seven percent of retailers said they had no plans to pursue check-in programs; 57% said they had no plans for geofencing.

MERCHANDISING PRIORITIES ARE OMNICHANNEL-DRIVEN IN 2013

Forrester and Shop.org also asked retailers to share their top site merchandising priorities for 2013. Not surprisingly, more retailers cited omnichannel efforts such as inventory expansion and visibility across channels (see Figure 7). Other tactical site improvements that retailers are addressing in 2013 are:

- **Product detail page improvements, particularly video.** For years, retailers have known about the power of videos, in the form of both demonstrations and testimonials. However, few had dedicated resources or an overt strategy to create custom videos to help sell products. Now, more retailers say they plan to have product videos (typically appearing on product detail pages) on their road maps and also are integrating video into their product photo shoots. This is a smart move, as the cost of producing video has decreased and consumers can more easily and consistently view the video as they access web content through phones and tablets. Retailers are also recognizing that video content can have a second life outside their own sites through placement on sites such as YouTube.

■ **Personalization.** Although many companies have volumes of data about consumer behavior and preferences and have found that personalized display ads (e.g., retargeting and behavioral ads) are highly effective, many still often offer a "one site for all" experience on their sites. While most retailers offer recommendation engines (with varying levels of complexity in the underlying algorithm) on their sites, more are integrating capabilities to create different home pages or on-site marketing modules that are dynamic and take into account what a retailer knows about a consumer (e.g., purchase history and browse history).

■ **Testing.** While A/B and multivariate testing have long been regarded as highly effective, testing has also been one of the most underused tactics for site optimization, largely because of limited creative resources and the lack of existing frameworks for easy testing. Over the years, however, companies have established routine and regimented testing programs, often supported with usability labs, in turn creating measurable and impactful lift for their businesses. As a result, testing now appears to be mainstream.

Figure 7 Merchandising Priorities

"What are your top five merchandising initiatives and priorities for your online (digital) business in 2013?"

		Areas of investment
Product detail page enhancements	72%	Video on site, improved photography, more detailed product descriptions
Recommendations and personalization	62%	Cross-sells, alternative products for out of stocks, new versus repeat shopper flow, identifying cookied shoppers
A/B testing	47%	Testing of site layout and key site attributes (e.g., add to cart buttons, font size and color)
Omnichannel integration	43%	Inventory visibility across channels, greater inventory (e.g., drop ship, pick from store)
Checkout enhancements	34%	Alternative payments, one-click checkout, one-page checkout
Site search and site navigation enhancements	28%	Faceted navigation, new site search layout, ability to add to cart from search results pages
Other	21%	International investment, social integration, key page optimization, dynamic pricing

Base: 47 retailers
(multiple responses accepted)

Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research

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Source: Forrester Research, Inc.

RECOMMENDATIONS

RETAILERS MUST EVOLVE WITH CHANGES HAPPENING NOW IN WEB MARKETING

While site merchandising efforts are largely about getting the basics right (e.g., A/B testing) and investing in overdue efforts such as product videos, interactive marketing has had significant changes in recent months due to the growth of mobile and changes from leaders such as Google and even Facebook. To this end, we recommend that retailers:

■ **Implement a program for Product Listing Ads and monitor how this ad format evolves.** While there was debate early on about where PLA budgets would come from (search or comparison-shopping feeds) and how much would be dedicated to them, retailers have quickly embraced the PLA; an average of 6% of marketing budgets now go to Google PLAs. How effective they will remain and how much growth PLAs have ahead of them remains to be seen. It is still unclear whether PLAs are a new and innovative form of marketing or simply a one-time change in Google's feed model with limited upside, so retailers should keep a close eye on how this marketing vehicle evolves.

■ **Double down on email.** Most retailers surveyed are already increasing their efforts in email, both by increasing headcount and in focusing explicitly on email optimization for devices such as mobile. But it's critical to note that in spite of calls even a few years ago that email was dead, the contrary has proven to be true: Email is not only very much alive but is still the most effective (and cheapest) method for retaining and reactivating existing customers.

■ **Keep a close watch on experimental mobile initiatives.** While few retailers are reporting success with programs such as check-ins or geofencing, retailers would be well served to keep tabs on developments in the space and case studies of what does and doesn't work. We're optimistic about opportunities in mobile couponing, for instance, and are actively looking for the technology developments (e.g., more mobile coupon scanning capabilities in stores) or changes in customer behavior (e.g., use of mobile loyalty programs) that could accelerate adoption of those tactics.

SUPPLEMENTAL MATERIAL

Methodology

Shop.org and Forrester Research partnered for this annual study, which surveyed online retailers regarding marketing and merchandising initiatives, in 2013. The research for this section of the 2013 study was executed in Q2 2013. In March to April 2013, a survey asking about web marketing tactics and priorities was deployed. For that survey, we received 65 responses across a variety of industries, including apparel, footwear, general merchandise, home furnishings, and personal care, among

others. A second survey inquiring about merchandising priorities was fielded in May 2013. Forty-seven retailers responded to that open-ended, one-question survey.

■ Fifty-nine percent of the participating companies were store-based retailers; 13% were web-based/pure-play retailers; 11% were manufacturers selling direct to consumers; and 17% were "other" (e.g., catalog-based retailers or multichannel).

■ Thirty-four percent of respondents generated more than $100 million in direct sales from their web channels in 2012; 30% generated $25 million to $100 million; and 36% generated less than $25 million.

■ Forty-seven percent of respondents have been selling online for more than 10 years; 37% have been selling online for four to 10 years; and 15% have been selling online for less than four years.

ENDNOTES

[1] A very short, one-question survey on top merchandising priorities was conducted separately in June 2013. Forty-seven retailers responded to that survey.

[2] In 2011, 75% of online retailers surveyed said they would increase their marketing spend for SEO/natural search. This was the No. 1 category. See the June 3, 2011, "The State Of Retailing Online 2011: Marketing, Social, And Mobile" report.

[3] Source: "The State of Retailing Online 2011," a Shop.org study conducted by Forrester Research.

For more information on online marketing, see the June 3, 2011, "The State Of Retailing Online 2011: Marketing, Social, And Mobile" report.

[4] Retailers were asked an open-ended question about their response to Google's Product Listing Ads, and many of the responses reflected these statements. Source: "The State of Retailing Online 2013," a Shop.org study conducted by Forrester Research.

[5] Source: Adobe Digital Index, a composite of 500-plus retail sites with data captured in February 2013 and compared with data from February 2012.

[6] Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research.

[7] Source: Adobe Digital Index, a composite of 500-plus retail sites with data captured in February 2013 and compared with data from February 2012.

[8] The survey asked a specific question about the percent of paid search budget dedicated to the mobile device.

[9] Forrester study with Bizrate Insights shows that the top retail activity on both phones and tablets is reading email from retailers.

[10] Thirty-one retailers responded that they used some bar codes, and the majority (23) said they directed shoppers to existing web pages. The remaining retailers directed shoppers to video or to dynamic content. Source: "The State Of Retailing Online 2013," a Shop.org study conducted by Forrester Research.

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