Response One Group
Delivering results

Online turn on?

A research report into the relative effectiveness of different advertising media for encouraging consumers to visit a company's website and consider a purchase

A Response One Study, March 2008

Management Summary

- UK Consumers find customer emails, TV and newspaper advertising, and targeted direct mail, the most effective advertising techniques to make them visit a company's website and seriously consider a purchase

- Sponsored search engine links and adverts enclosed with bills and statements are also of above average effectiveness in encouraging web visits and purchases.

- Advertising on social networking sites is not considered effective by consumers at encouraging web visits, except amongst the 18-24 age bracket.

- Unsolicited email and mobile texts are least likely to drive web traffic and purchases

- These findings are of critical importance to the retail, banking, insurance, travel, credit card and mobile phone industries, where reliance on web interaction and sales has increased dramatically in recent years.

- This study punctures received wisdom that online advertising is the best means of driving web visits and purchases, revealing that marketers need to achieve a balance between traditional and online advertising, especially to encourage new customers onto their websites

Introduction

In October 2004, a journalist named Chris Anderson wrote a now famous article in Wired Magazine, entitled *The Long Tail*. The piece examined the fundamental change going on in the entertainment industry, inspired by availability over the web, which was robbing the traditional copyright owners and distributors of their power to guide consumer purchasing towards the content where the commercial operators wanted buying activity to concentrate. Instead back-catalogue content was being accessed and purchased in far larger volumes than hitherto. Word-of-mouth was driving purchasing patterns far more than distribution and advertising techniques. And the worldwide reach of the internet was inspiring an emergence of unexpected niche audiences who, although scattered across a country, a continent or even the globe, added up when aggregated to significant and serviceable markets.

The truth of Mr Anderson's observations, which attracted widespread acclaim and later became a successful book, has been seen in the commercial impact of the web – both negatively and positively – on copyright owning and distribution companies. The negative impact was that old models of marketing and distribution were no longer working – the result of disintermediation, mass market fragmentation, and alternative distribution. The positive opportunity was that new, and reachable, niche markets were opening up.

Now, the debate has moved on. New patterns of consumer behaviour have to be recognised and marketing methods adapted accordingly. At the same time, the organisations who seek out, nurture and develop artistic content, must be able to operate at a decent margin of profit. If consumer behaviour destroys the commercial viability of an industry, then it is we consumers who ultimately suffer as product range and availability rapidly dwindles. Commercial systems have to work equitably for both buyers and sellers.

The challenge faced by the entertainment industry is equally relevant for most consumer products and services. The changes that the web wrought on the entertainment market has its parallels in many others – banking, insurance, retail, leisure, mail order, utilities, credit card, charity, to name but a few. Equally, there is major pressure across Europe for the public sector to develop and promote the delivery of services online. As a consequence, new marketing methods are now required, whether to encourage sales, inspire charitable donations, or drive the take-up of public services.

Current advertising trends

Many have assumed, therefore, that advertising methods – the primary building block of commercial promotion – will make a fundamental shift from offline to online media. Certainly, online advertising spend has climbed massively and is expected to put on a further 9% in 2008[1], whereas traditional display advertising has seen a steady decline in its share of the total advertising market, both on TV and in the newspapers. However, to put this in perspective total share of spend in 2007 was still 29.3% main media (TV, newspapers, magazines), 25% direct marketing, 8.7% internet, 9.5% sales promotion, and 29.3% 'all other' marketing. For the first time 'all other' has been broken down further; of this 29.3%, 8.5% was allocated to PR, 8.6% to events, 6.2% on market research.

Yet the beneficiaries of this declining proportion of total spend have not by any means been exclusively online. Direct marketing budgets, including direct mail, have grown year-on-year over the last five years. And outdoor display advertising is attracting an increasing proportion of advertising spend. At the same time, legislative restrictions have put a cap on a knee-jerk switch to direct email. The EU Directive on Privacy and Electronic Communications has outlawed unsolicited commercial email to consumers unless it has been explicitly requested or authorised by the recipient.

Of course, email marketing and sponsored web links have rapidly become the marketer's best friend, mainly because they have pay-as-you-go pricing models, and any response to them is easily measurable. Direct marketing is also measurable, but – in terms of direct mail – carries a higher distribution cost. Above-the-line advertising can be measured, but only if web response is very prominently encouraged, and the point of entry is a special 'landing page' created for the campaign. In fact, overall it would be fair to say that most advertising techniques can be made measurable, but the ease and convenience of web measurement has robbed many marketers of the will to make the additional effort to embrace all techniques in the same calibration mentality.

Dangerous assumptions

Anecdotal experience, gained from multi-media campaigns for major organisations, tends to suggest that a knee-jerk switch to the alluring apparent delights of online-only advertising could bring unmitigated commercial disaster. For most organisations, it is critical to put some form of metrics in place for all advertising media. Just because, say, sponsored links are producing a measurable return on investment, does not mean that other advertising media are not; indeed, if measured, their return on investment may be higher, or reaching a different part of the target audience, or producing higher spending customers, or simply producing the critical volumes of response that help to make up sales targets.

Another online advertising phenomenon is also currently sending media and marketing commentators into a frenzy of excitement, namely the idea of advertising on social networking sites such as myspace, bebo or

[1] IPA Bellwether, *Quarterly Survey of Marketing Spend*, Q4 2007

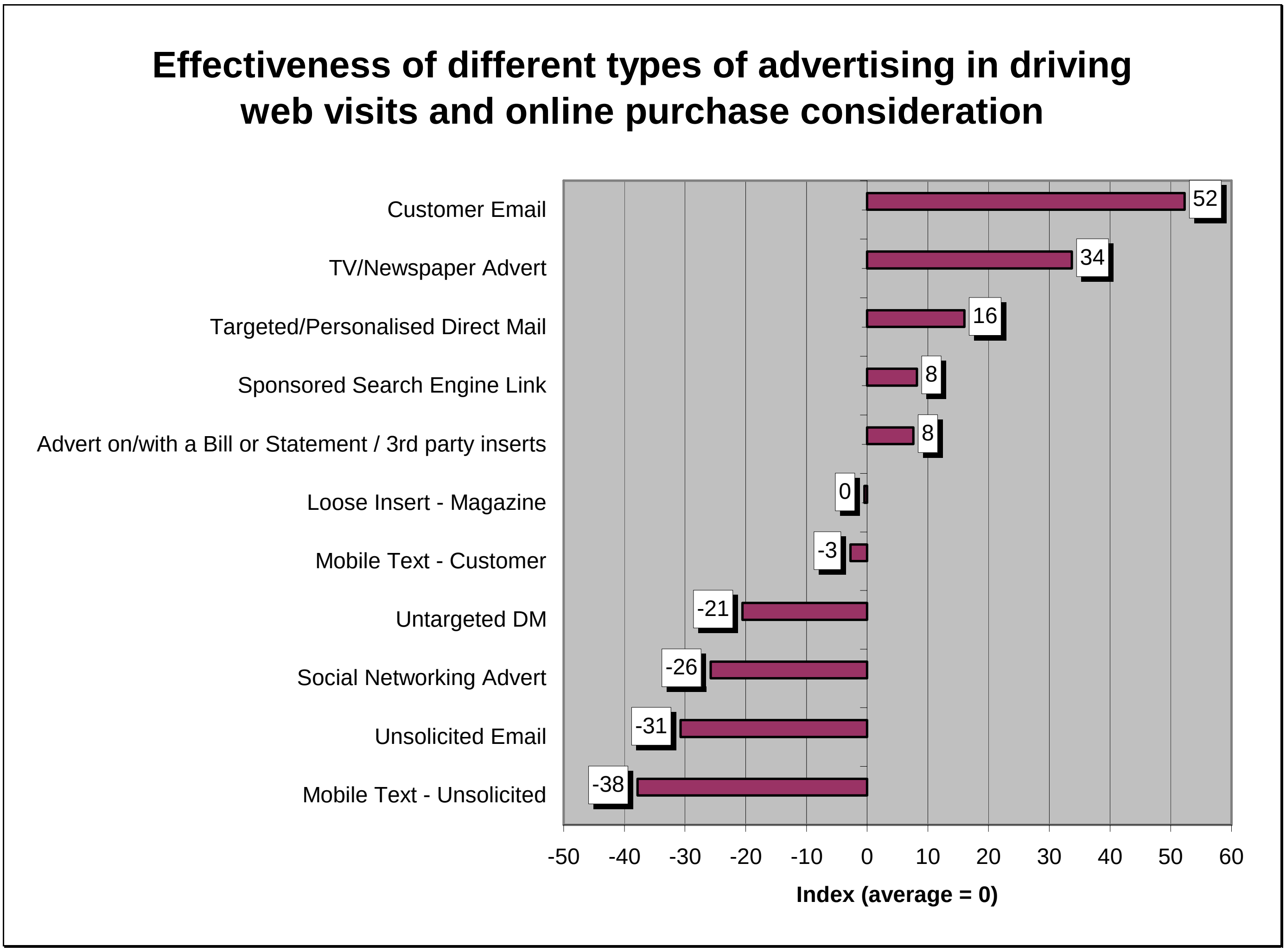
facebook. One senior advertising executive recently hailed social network advertising as the “mainstream advertising medium of the future”. Whilst this may sound hyperbolic, scoffers should remember that our experience to date of the impact of the web, its technologies and its seemingly faddish developments, has consistently been that early adoption has always been wildly exaggerated, but the inexorability of longer-term drift towards the medium has been regularly under-estimated. Nevertheless, marketers again need to have a more precise idea of what social network advertising has to offer before they commit serious budget to it. Who does it appeal to? What does it encourage them to do? What is the resulting conversion to sale.

On this overall subject, it has been widely assumed that web visits and purchases are best inspired by some sort of web or email advertising. This is a dangerous assumption, especially bearing in mind anecdotal evidence of offline campaign drop timings coinciding very closely with web visit and purchase peaks.

Furthermore, according to the recent TMT Trends report from Deloitte, the main threat to the online advertising market could come not so much from the worsening economy as from 'a growing antipathy' towards the intrusiveness of the medium. The report states that the feature that makes online advertising so appealing to advertisers - its trackability - is increasingly raising the hackles of consumers, who are unhappy at the degree of behavioural monitoring.

Puncturing the myths – a research breakthrough

Interestingly, little research has been conducted around the subject of what types of advertising are most effective in inspiring web visits and purchase consideration. In order to start putting some science behind this important debate, Response One commissioned research amongst UK consumers, asking them what they felt on the issue. The research decided to focus on consumer’s own statements about what encouraged them to visit a website and purchase from that organisation, as this approach overcame the technical difficulties of comparing response data from different advertising media.



The results of this research, which surveyed a representative sample of over 1,000 UK adults, were startling. Emails to existing customers easily topped the list, 52% more likely than average to inspire a web visit and serious purchase consideration. This makes sense with all of our individual experiences. Our existing suppliers are the firms we have already chosen to do business with, and nowadays we almost expect them to identify our individual profile and inform us of suitably appropriate offers and products.

However, the type of advertising which consumers stated was second most likely to get them to visit and purchase was – against all expectation – traditional display advertising on the TV or in the newspapers. This finding will be of immense interest to advertisers and media owners alike, and should be used to inspire increasing experimentation with more prominent web-response mechanisms on above-the-line advertising campaigns.

In third position was another surprise contender – targeted direct mail – coming in at 16% more effective at encouraging web response and purchase than the average. This serves to highlight the need to draw a distinction between the convenience of web response, and the increasing difficulty of catching the consumer's attention through email or online advertising.

Evidently, actively putting a commercial offer in front of the consumer – especially a prospective customer rather than an existing one – is often more effective, acceptable and non-intrusive delivered through offline media than online. Prospecting in mass markets can continue to use traditional above-the-line advertising techniques, proffering a prominent landing page URL. However, breaking an organisation's total audience down into its constituent subgroups allows direct marketing and direct mail to come into play. Direct mail has a higher cost per impact than above-the-line advertising, but allows discrete, targeted audiences to be reached with a more individualised message, encouraging proportionately higher response rates.

Sponsored search engine links, such as those on Google or Yahoo, do perform well in driving web visits and purchases, but at 8% above the average are surprisingly only half the score of direct mail. This finding raises serious questions about real levels of search engine usage for personal (rather than work) internet time in the home. Whilst 60% of British households now have a home internet connection, with a large proportion of these using broadband, there is evidently a need for research to examine how the internet is really used for leisure and pleasure time. We suspect that search levels may vary very widely between demographics and between age groups. Or that high search engine usage may be concentrated amongst a minority of highly computer-literate consumers.

A further fascinating insight, which without this research evidence would not have been an expected outcome, is that advertising accompanying someone's bill or statement is just as effective (8% above the average) as sponsored search engine links at inspiring web visits and purchase consideration. A quiet body of evidence has been mounting to show that this route to the customer – which has been largely ignored or taken for granted in the past – is an extremely powerful marketing channel. One recent research exercise revealed that people spend more time looking at their statements than they do their tax correspondence. And an earlier study by the same organisation revealed response rates from such activity that was in a similar bracket to solus direct marketing campaigns.[2] Now, the results of this current research project have added to that body of evidence, with the insight that inserts in the bill or statement envelope are a critical tool in driving web visits and purchases.

These above average marketing techniques contrast with those that UK consumers regard as far less likely to encourage them to visit a company's website and seriously consider a purchase. Unsolicited, untargeted and intrusive marketing techniques – by email or mobile phone – are unsurprisingly unlikely to elicit a favourable reaction from consumers. Poor performance on this front is largely due to the misuse of unsolicited email to date. Organisations need to work with specialists in the field to provide better targeted cold email messaging which should lead to better response rates. Harnessing the information contained within commercially available lists to create communications that are more relevant should help to curb the 'SPAM' image of cold email. An interesting point to bear in mind is that individuals on these lists have opted in to receive emails from associated companies or third parties. Further work needs to be done to see specifically what web

---

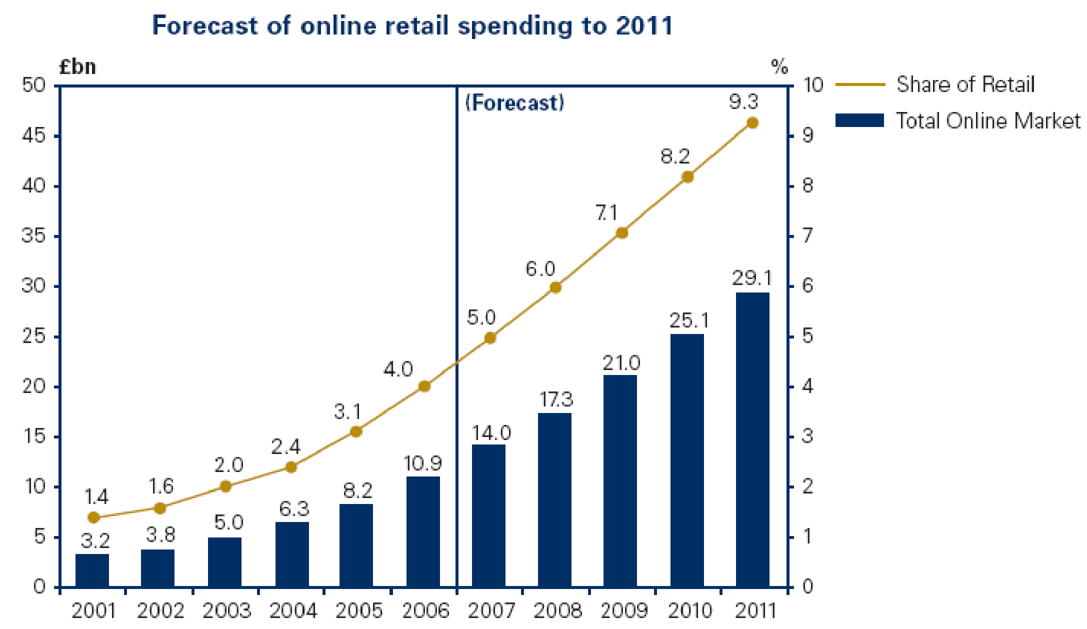
[2] Source: Group 1 Software, Studies 2005 and 2007

response and conversion to sale rates are for these perfectly legitimate opt-in lists, but it is also important to note the power of the high-performing techniques revealed in this survey – especially the top-scoring customer email communication.

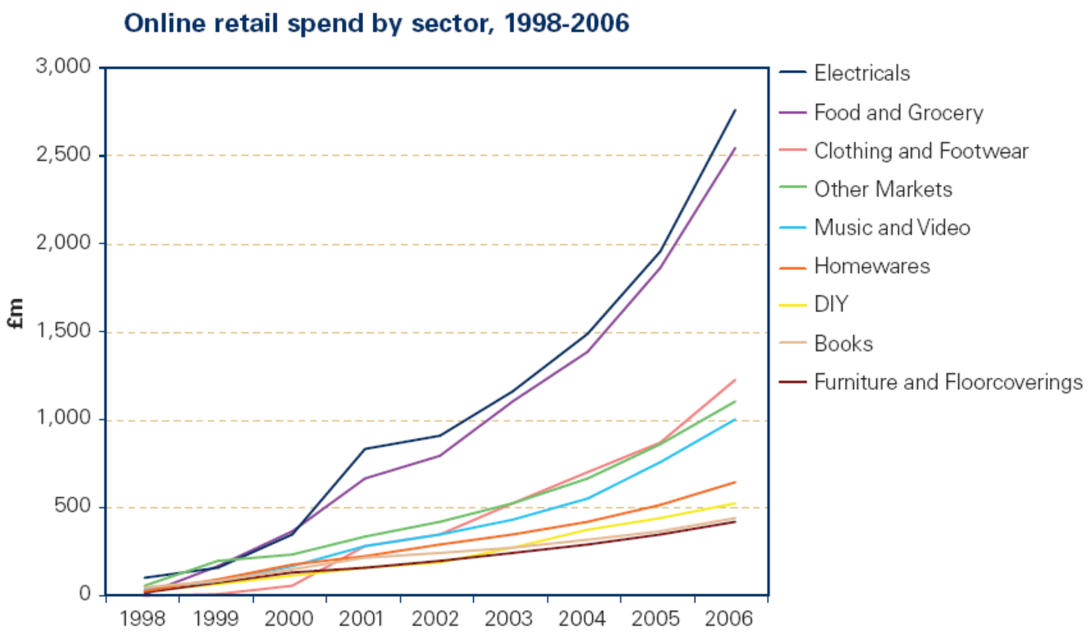
More of a surprise was the very poor ranking afforded to adverts on social networking sites such as myspace and facebook. UK consumers felt that such advertising, far from being effective in driving web visits and transactions, was on a par (at 26% below average) with unsolicited email (31% below average). The major exception to this observation was the 18-24 year old age group, who put social network adverts and customer mobile texts both on 22% above average for encouraging web visits and purchase consideration. Nevertheless, even for this age group, these two techniques still did not rival the overall top scorers – customer email, TV/Newspaper adverts and targeted direct mail. This is not to say that the habits of the 18-24 age range will not perpetuate into their forties and fifties, and therefore make social network advertising a mainstream method of driving web traffic and transactions. However, the marketers of today cannot wait around for another 20-30 years as this group grows up towards their highest earning and spending decades. Nor can today's budgets be weighted towards social network advertising, unless the vast majority of a company's audience sits in this age bracket.

Sector dependencies

The findings of this latest research report from Response One has resonance for a number of key industry sectors, where the importance of web marketing and sales has grown strongly over the last few years. In the retail sector, sales over the internet count for around 5% of total retail sales. In 2007 for the first time high street retailers overtook pure play online competitors in online sales. (51.1% to 48.9% - Source: Hitwise). The biggest swing has been in online sales from food and household suppliers: up from 21% in June to 25% in October 2007 (Source: The Retail Bulletin). The future could see escalating reliance on internet sales. A study conducted by YouGov and the Centre for Economics and Business Research on behalf of price comparison service uSwitch in February 2006 predicted that UK online shopping could quadruple and account for 40% of retail sales by 2020.



Source: Verdict (2007b)



Source: Verdict (2007a)

Financial services are also making increased use of the internet. At the moment, insurance sales through an independent financial advisor still account for over 70 per cent of total UK insurance sales, according to Reuters. Motor insurance has been sold online since 1997 and half of all UK motor insurance is now sold online[3]. People have more confidence in buying car insurance and no longer feel it has to be purchased face-to-face. Moreover 28% of all Home insurance is now sold online[4].

In retail banking, 2006 figures from APACS reveal: Internet banking outstripped telephone banking for the first time in 2006; almost half (48% cent) of internet users now bank online; UK online banking users have almost doubled since 2002; younger age groups make up the greatest proportion of new users. The figures show that over a third of the adult population now bank online, with two-thirds of online current account holders now going online at least once a week. 90% of internet banking users also shop online - with 84% of those using their online bank account to make payments or transfers. In 2006, for the first time since its introduction, the number of people using telephone banking has fallen - to 15.4 million from 16.0 million in the same period last year. In contrast, over the between 2002 and 2006 the number of internet users banking online rose significantly, from 7.5 million to 16.9 million.

More business sectors are still developing their online sales. Online sales now account for 20% of total mobile phone sales in the U.K[5]. All operators have focused on their own internet sales; for example, Orange's web-exclusive offer in July 2007 offered free Orange-to-Orange texts on its Speak Easy tariff[6]. In the travel sector, it is estimated that more than 38% of air travel sales in the UK were online in 2005, with airline websites contributing 22.3% and agencies 15.8%. In 2010, it is predicted that almost six out of every 10 air tickets will be bought over the Internet, 35.1% direct from carriers and 23.5% from intermediaries. The UK is strong because of the presence of so many low-cost carriers and the predominance of short-break holidays to Europe[7]. Even the conservative utilities sector is not immune to this trend, with over 90 UK websites dedicated to energy selling and services[8].

[3] Source: Post Magazine

[4] Source: Post Magazine

[5] Source: Total Telecom, 2007

[6] Source: Ofcom

[7] Datamonitor, *Travel and Tourism Report*, 2006

[8] Source: ABS Energy Research

Conclusion

This research study from Response One makes it abundantly clear that any assumption that online advertising techniques are de facto the most effective way of driving web visits and purchase consideration, is very wide off the mark indeed. Consumers are happy (indeed expect) to receive emails from the firms they already deal with, and this is the most favoured form of advertising of additional, relevant offers from those companies. However, for discovering new suppliers and products, TV and newspaper advertising, and targeted direct mail are the most inspiring medium, so British consumers tell us. Sponsored search engine links and adverts enclosed with bills and statements also perform above average in encouraging consumers to visit a website and consider a purchase through that website.

In short, any received wisdom that consumers favour online advertising as the lead into visiting a company's website is largely misplaced. Marketers still need to be using a mixture of direct mail, above-the-line advertising and sponsored links to attract new customers, as well as ensuring that they are communicating in a relevant and compelling fashion with their existing customers over the email and through existing lines of communication such as bills and statements.

Methodology

A representative sample of over 1,000 UK adults was surveyed during January and February 2008, with the sample balanced by age, gender, region and social class.

Respondents were asked to state how effective different types of advertising are at encouraging them to visit a company's website and seriously consider a purchase.

Fieldwork was conducted by Ciao Consumer Surveys, a member of the Greenfield Online Group (NASDAQ: SRVY).