

# *Crossing Channels, Connecting Worlds*

*Reaching, interacting and transacting with  
consumers at the right place, time and cost*

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*White Paper*

# **ServicePoint**

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## *Spending is offline: Research is online*

Consumer spending on the Internet in the US reached \$100 billion in 2006 according to Jupiter Research. Excluding sales of autos, gasoline and food, **online spending on non-travel items accounted for less than five percent of total retail spending.** Online spending is expected to grow at a compound annual growth rate of 11%, representing less than 15% of total retail sales by 2011.

"Online retail sales are maturing and the lion's share of future growth will primarily come from existing buyers spending more in the online channel," said Patti Freeman Evans, Jupiter Research Senior Analyst and lead author of the report, US Online Retail Forecast, 2006 – 2011. "Assuming growth continues in a similar trajectory over the coming decades, US online retail sales will plateau at 10 percent to 15 percent of total US retail sales, barring a dramatic change in the online shopping experience that promotes an inordinate spending shift among buyers."

The reality is that consumers continue to value and prefer the physical retail experience for transacting, however, their offline purchases will increasingly be influenced by their online activities. Jupiter Research forecasts that off-line retail sales influenced by online research will reach one trillion dollars by 2011.

An opportunity exists to create and deploy a multi-tenant, self-service interactive marketing and service delivery platform to retail centres that; a) efficiently establishes a retail presence for online brands and services, b) improves accessibility and exposure for offline service providers that can't justify but desire a retail presence, c) accepts debit cards as a payment method, d) supports the delivery of services requiring photo-ID verification, and e) has unique, consumer-friendly approaches to cross-selling and lead generation.

*This white paper will outline and analyze the logic in employing physical retail marketing for a range of products and services that are online only or not currently available in retail centres.*

## *Location, location, location: Does not apply online*

While the online retailing of products and services is certainly the path of least resistance to making something available for sale, it is clearly not an efficient channel for reaching, interacting **and** transacting with consumers in many categories. The barriers to entry for online retailing are very low while the barriers to creating awareness are high, yielding excessive competition in many areas and very high customer acquisition costs. Ironically, it is the converse in the case of retail.

Existence and awareness do not occur coincidentally in the online realm. Unlike the physical retail store or mall, online properties have no incumbent traffic to exploit. Online properties, at times, cannot be found even with intent on the part of the consumer unless the property takes measured steps over time to employ advertising and search engine optimization techniques. Getting to the top in organic search results is useful in most cases only **if**

consumers first have related cognitive intent that is they explicitly considered and enacted a search that could directly or indirectly lead to a commercial transaction. While search is not the only activity preceding a commercial transaction online, it is the dominant activity. If in the traditional retail environment consumers could only purchase what they directly or indirectly searched for, the model would fail. Physical retail works because the intended consequence of unplanned impulse buying occurs when consumers are physically present, in consumption mode, and subject to effective retail merchandising techniques.

Traditional offline providers create awareness by virtue of their retail presence, but are challenged in creating awareness for their online offerings, whether product or services related. Conversely, online-only providers have the challenge of creating awareness, period, but are also challenged to emulate the unique features of physical retail. For the time being, most consumers think of a provider as either online or offline and just like in their homes, they have perceptions on where certain things should be located. Imagine for a moment the typical consumer reaction to seeing an Amazon, Google, or Esso storefront in their nearest shopping mall during their next mall experience. Regardless of the reaction, consumers cannot get informed or interested or transact unless brands, offers and services are actually available to them which begs the question: Why isn't every service provider in every mall?

### *Getting out of 'no-mans-land': Some categories in a void*

In the case of most products and services categories, the average consumer has clear perceptions about whether the category is generally available online or in their nearest mall or both. The consumers' reasoning on where the product or service would be available is usually based primarily on the requirements for fulfillment. If the product is physical, like clothing, which people like to touch, try on, and receive instant gratification, the majority of consumers would see a regional or community mall as the source. If the 'product' is purely a virtual service with no physical aspects, like online dating or searching, consumers would see 'the Internet' as the source. There remains, however, sectors that are not seen as online or retail, nor do they deliver online or acquire customers in a retail environment but they would benefit from a retail presence.

### *Where do service providers want to be?*

The simple answer is wherever consumers happen to be but there are challenges in the area of cost, operations and consumer behavior. Some categories and providers have little or no sales, customer service or fulfillment operations either online or at ground-level retail but yet they do wish to communicate with, acquire and service consumers in convenient, cost-effective ways. Example categories in the private sector include residential real-estate sales, energy (oil, gas, electricity), mortgage brokers, credit card issuers, credit bureaus, financial planners, and insurance agents.

For example, mortgage brokers, real-estate agents and financial planners are moving toward and into the malls to entrench their brands, be more conveniently available to consumers and to capture leads, but there are challenges. Establishing a retail presence in a mall is an effective way to create awareness for a brand and or offer, but it may not be the appropriate or least expensive place to interact live or transact with the consumer.

In categories such as real-estate and financial planning many consumers wish to learn and shop discreetly and independently in advance of making a purchase decision. They want information, not a sales pitch. They simply do not wish to interact with a salesperson in the early stages of the buying process and the mere presence of what appears to be a salesperson will discourage many people, even the most interested or bored, from browsing. Further, the nature of these service offerings is such that the transaction could not or should not occur on the spot or in a retail environment. Regardless, real-estate, financial planning, and mortgage companies continue to move closer to or into malls, usually via staffed kiosks.

For providers such as location-less financial services providers (i.e. CapitalOne, ING, MBNA) and consumer information providers (ie. Equifax, TransUnion), they could benefit from having a retail presence but the costs are prohibitive as these providers simply would not attract enough traffic on a per location basis. The alternative for these providers is to spend on advertising what they would otherwise spend on rent, staffing and other retail operating costs.

It is important to note that the results of these two distribution strategies are typically not the same. Each marketing vehicle has its own benefits and limitations. For example, direct mail, print, television and radio are not interactive, limiting the consumer's ability to take action at the moment of interest, ultimately dampening response rates. Telemarketing calls are seen to be intrusive by most consumers and Do Not Call legislation is further limiting its use. Online is certainly interactive and discreet but most consumers do not seek out these types of services which ultimately drives up customer acquisition costs. Even if consumers do respond to an offer online or seek out the service there are privacy and security concerns and limited payment methods, all of which can hamper conversion rates.

In the public sector, government agencies at the municipal, provincial/state and federal levels are keen to communicate, interact and transact with consumers at ground-level operations, but struggle to make the economics work. Retail space is expensive and unnecessary for staffed counter-service operations but it is effective in creating awareness, educating consumers and delivering a clear message that government services are conveniently accessible.

Retail hours and consumer traffic patterns also create challenges for government to efficiently deliver services. Government services outlets, although extending their hours in recent years, typically mirror business hours, limiting their accessibility to consumers. Further, staffed counter-service operations have inherent inefficiencies as staff must be present during all open hours, regardless whether or not clients are present. To address these issues, government agencies have either centralized their retail operations and

extended their hours or in some cases outsourced some front-line counter-service functions to the private sector, such as in Ontario and Alberta. Still, government services outlets are not widespread or located within retail shopping centres with the highest traffic densities.

### *Dissecting service transactions: Information & identity at the core*

A wide range of purchase decisions and many products and services are composed of or based on nothing more than information and identity elements. Consider, for example, taking out an insurance policy or mortgage, applying for a credit card or even selecting a home heating supplier. In all of these transactions, both the initial purchase decision and ensuing direct interaction with the consumer, are entirely based on the exchange of information.

Speaking in physical terms, what exactly is a mortgage other than the exchange of information between borrower and lender, usually through a proxy such as a mortgage broker? Certainly there is 'paperwork', but at the foundation of the transaction is information including the verification of identity and credibility.

In the case of establishing and maintaining recurring services relationships, even with such products as home heating fuel, consumers and vendors simply exchange information. Although there is an actual product ultimately delivered, the consumer never has an actual hand in it. The purchase decision and subsequent commerce is usually handled without the consumer ever having to see the product or meet face-to-face with the vendor. In effect, the product and the value proposition are virtual. The consumer simply consumes information in the process of making the purchase decision and the vendor simply requests and verifies information to make an acceptance decision.

### *Dissecting business models: Value in finding customers*

In almost all product and services categories, considerable value is associated to whomever or whatever can acquire customers. In the case of transactional services categories such as mortgages or real estate brokering, the people that find and enroll customers earn the most substantial sales commissions. Take for example the typical mortgage brokerage transaction. A mortgage broker who sources a client and closes a \$200,000 mortgage earns approximately \$1,800 in commission. The agent will spend, on average, three man-hours working with the customer, administering the process. If the commission were to be allocated to each service provided by the agent, the vast majority would be for the 'sales' component. Processing a mortgage application is a relatively straight-forward administrative task – finding mortgagees is not.

For example, most homeowners carrying a mortgage are not aware of the competitive nature of the mortgage marketplace, nor are they actively shopping for a new mortgage or likely to respond to a direct approach from a mortgage broker. Many other markets have similar sales challenges hence the value attributed **to discovering or generating intent and interest from the consumer.**

Real estate brokering is another very good example. Even in the smallest of marketplaces, hundreds of agents compete against each other to garner the coveted listings. The commodity in this industry are the agents but the commission rates do not reflect this reality. An agent listing a \$300,000 home would typically earn up to \$6,000 in commission on the premise that they 'sold' the home. The modern reality is that the online MLS system is far more effective than any human agent at reaching and delivering information to home buyers. It offers buyers the ability to quickly and discreetly shop for a home. Once again, the allocation of value would be weighted heavily toward the process of the agent acquiring the customer over the process of actually selling the home. This trend is highlighted by the fact that most community and regional malls now have one or more real estate kiosks staffed by agents attempting to generate leads. Real estate brokerages display listed homes to draw consumers to their kiosks in hopes that the agent can begin a relationship that leads to a listing or buyer's agent agreement. As a result of the physical presence of the agent, some consumers shy away from browsing.

### *In-context marketing: The right place, time and approach*

Marketing in-context goes beyond target marketing. Communicating with the right consumers, although not trivial, is only the first step to a sale. Few marketing channels or platforms conveniently and efficiently enable the entire marketing cycle from awareness through action to occur in one place. This is one of the key reasons why retail works.

Direct mail, television, radio, and print don't include an integrated, convenient or immediate means of response should the consumer decide to take action. In all of these cases, the consumer can't seamlessly proceed from the awareness stage to the interest or interactive stage. In too many cases, intent is captured or created only to be tabled for later action, which many times never occurs because of interference from newer marketing messages or the pre-buyer passion simply goes stale. When the consumer receives the call to action, any physical distance or activity separating them from the place where action occurs will be a major barrier to purchase.

***While the online channel does support interactive and transaction capabilities, it does have other limitations besides the challenge of creating awareness. The online channel lacks the same variety of convenient and secure payment options (i.e. debit cards) offered at retail and it provides limited support for identity verification in transactions that require such.***

In the case of retail, consumers put themselves purposely in a shopping environment. They do not happen upon it, therefore, they are in a mindset of, and expect, commerce. The same cannot be said for the average consumer browsing online. They expect and usually want to be presented with offers, although they prefer to remain in control of where, when and how their shopping activities transpire. In other words, they usually want to browse, read and learn initially on their own, and then optionally engage a live representative when **they** feel it's necessary. In most circumstances consumers will be quite productive

shopping and buying on their own so long as they have easy and direct access to the information they require to make a decision. This theory is corroborated by the success of self-service, which in some cases has proven to materially improve sales lift **because** there was no salesperson in the mix. For example, a furniture retailer providing a self-service in-store kiosk for credit applications realized a 10% increase in credit applications, 14% increase in approved applications and over 50% increase in the value of the average order. A similar result occurred when kiosks were introduced inside a number of Mazda vehicle showrooms that allowed individuals to browse and configure vehicles **on their own**.

Most consumers want to remain in control both while making purchase decisions and during checkout transactions. This is another key reason why self-service has become so popular, both offline and online. In the case of purchases or purchase decisions that are primarily or completely based on the exchange of information between consumer and vendor, self-service would be the preferred option for most consumers, assuming it was at least as convenient and effective as the in-person alternative. Consumers often loathe 'sales people', fearing they are biased, or worse, uninformed.

### *Convenience: A valuable product, not a commodity*

Convenience is a major factor influencing the where, when, how and how much in consumer purchase decisions. Consumers will routinely accept substitutes to their preferred choice, pay more for less, rationalize their fears, put off purchases, or buy on impulse because of "the convenience factor". Nothing trumps convenience when it comes to evaluating services and information-based purchases. Convenience is such a valued attribute that consumers are routinely willing to pay more to acquire a product or service in the most convenient way **for them**, even if it's the lower cost way for the provider. **This represents a rarely occurring negative correlation between consumer value and provider cost.** Businesses that can discover and develop opportunities that exploit this powerful dynamic stand to gain handsomely.