

How America Searches: Online Shopping
September 2005

by iCrossing, inc.

Survey conducted by Harris Interactive



ONLINE



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I. Introduction

As computer prices drop below \$300 and internet access is increasingly available, the internet is becoming a larger focal point in people's every day tasks. In June, 2005, iCrossing published "How America Searches," which offered a glimpse into how Americans utilize search as part of their online behaviors.

In August of this year, iCrossing again surveyed the online U.S. population (using Harris Interactive®) to understand how Americans use the internet to shop.

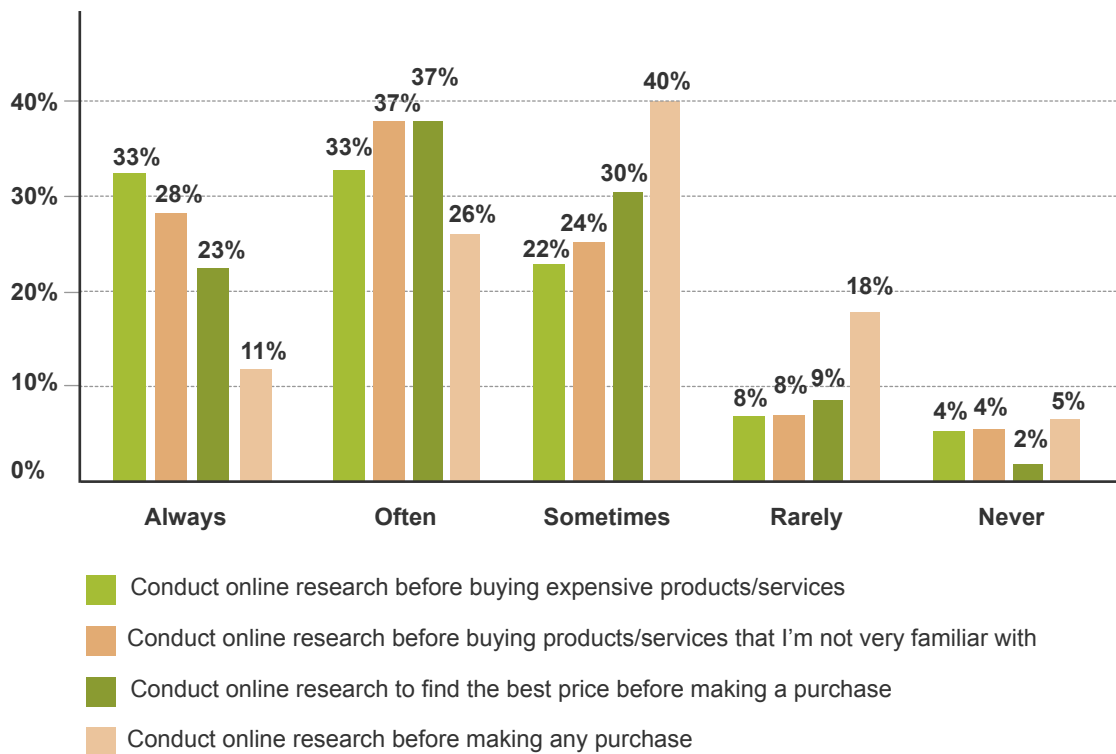
The findings of this study – some surprising and some simply confirming what we thought we already knew – are below.

II. How Do People Shop? Shopping Starts With A Search

The vast majority of online adults who purchase online (88%) conduct research at least sometimes prior to completing their purchase. Only 3% of online adults who purchase items online never do any type of online research before making an online purchase, and only 9% of respondents say they rarely research products and services online.

Online shoppers prefer to be well-informed before completing their purchases: 65% said they often/always rely on the internet to research unfamiliar products.

► How often do you do each of the following?
 (Base: Those who research products online before making a purchase decision) N=1773

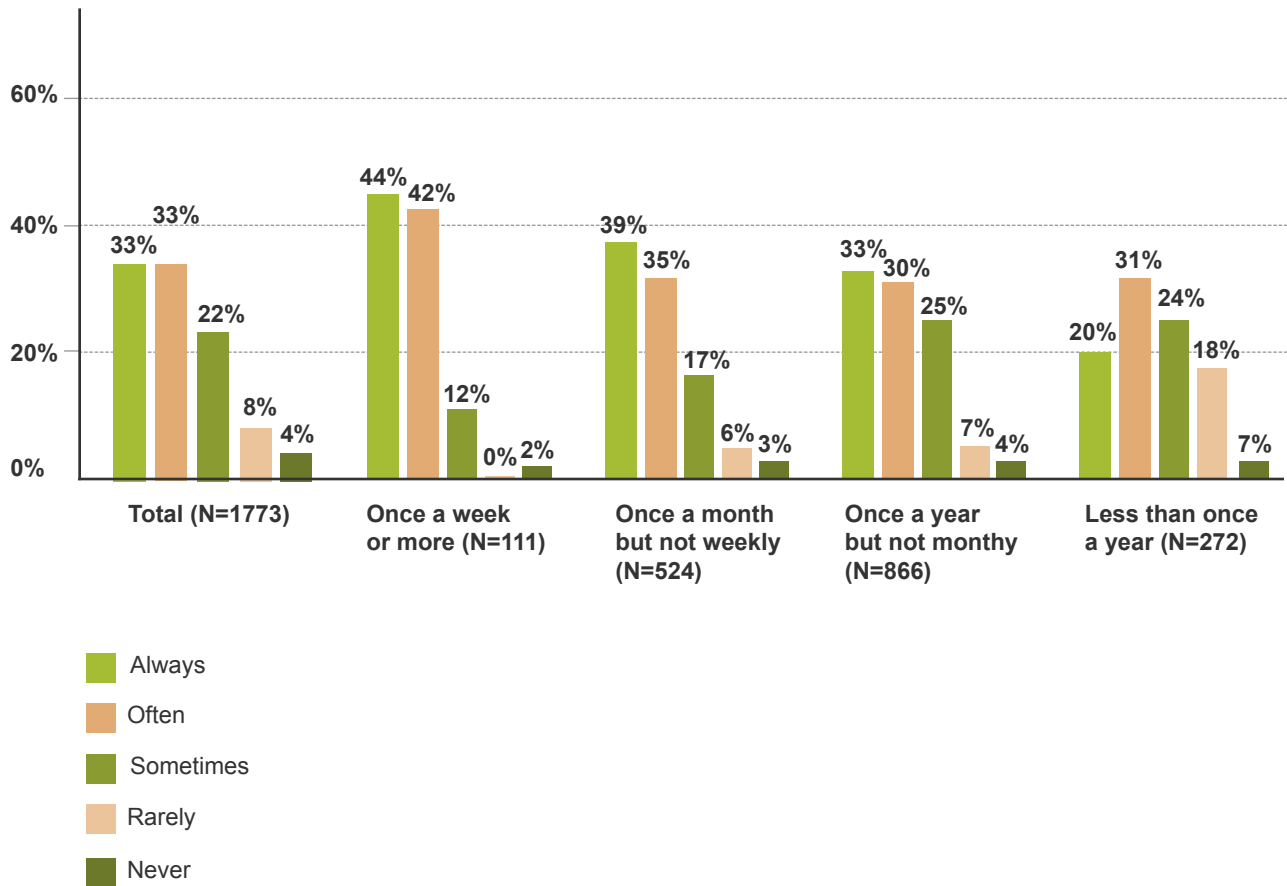


Shoppers 55 years old and older are less likely to conduct research than younger age groups. They show lower incidences of research for expensive or unfamiliar products.

Men are more likely to conduct online research than women. 37% of men always research (online) prior to buying an expensive item compared to 29% of women [please note: expensive was not defined in the survey and should therefore be understood as subjective to what the respondent deems as "expensive"].

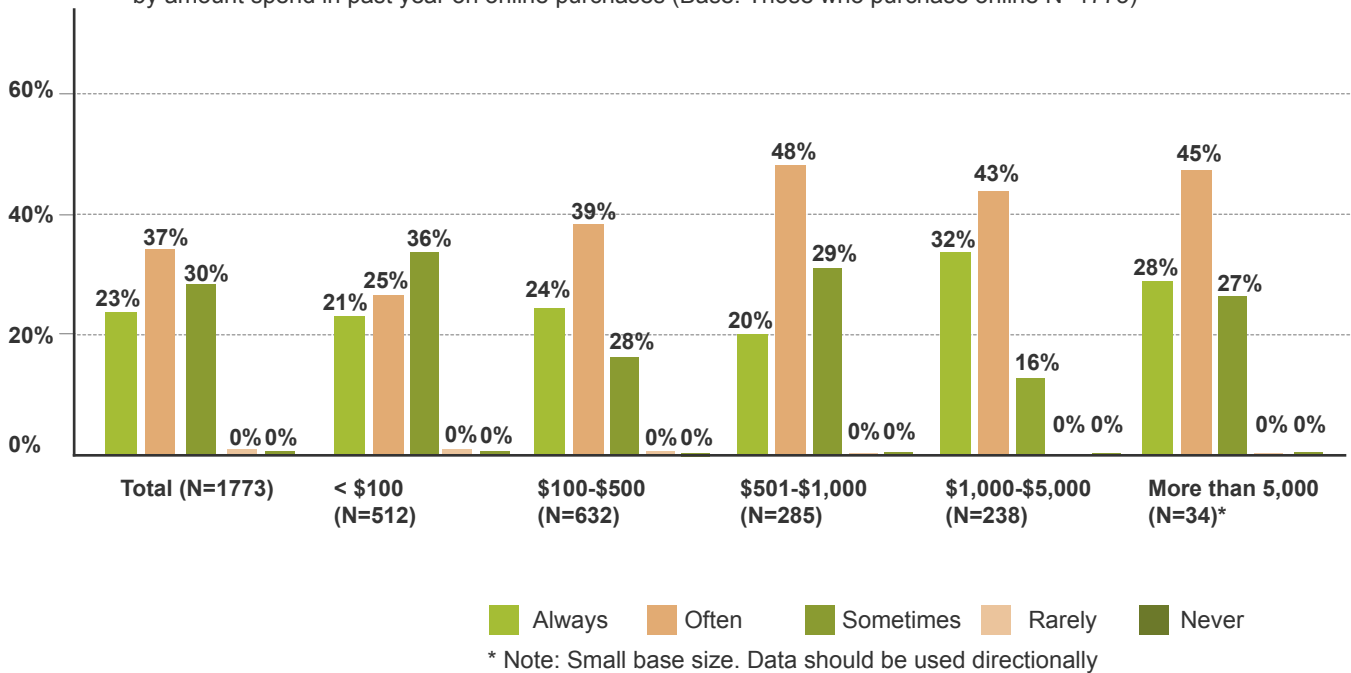
The incidence of online research is high regardless of the types of products purchased. Those who have purchased home electronics and autos tend to show somewhat higher rates of online research for expensive or unfamiliar products. Those who have purchased home electronics, tickets/entertainment, autos or jewelry show higher-than-average incidence of searching online for the best price when they shop for any product.

► How often do you conduct online research before buying expensive products/ services by frequency of online purchase



The majority of online buyers are price-sensitive: 60% always or often research to find the best price. Both those who spend more and those who shop more frequently are considerably more likely to conduct research before making a purchase decision, especially when the product is expensive or unfamiliar, or when looking for the best price. This tendency is most dramatic among shoppers who make online purchases monthly or more frequently.

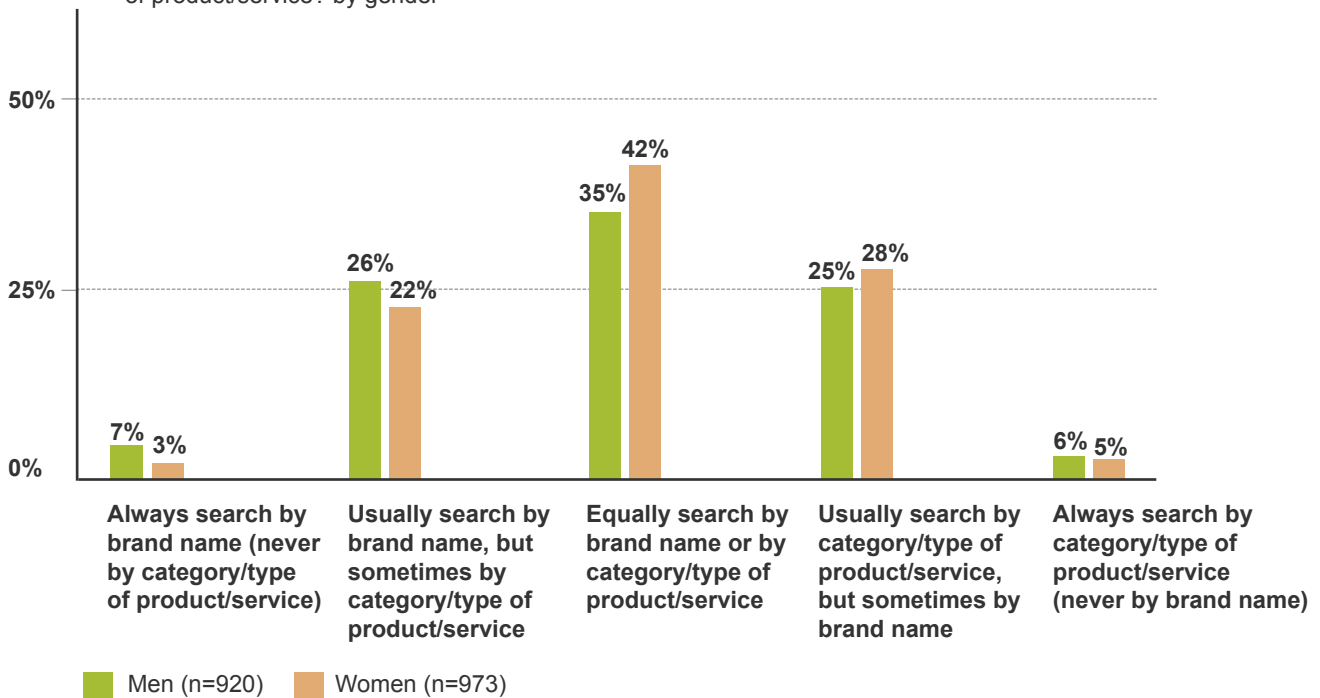
► How often do you conduct online research to find the best price before making a purchase?
by amount spend in past year on online purchases (Base: Those who purchase online N=1773)



Brand Sensitivity

The study found that about the same number of people search by brand as do by general category of product/service – about one third – while 38% said they use search for brands and non-branded products to equal degrees. Men are more attuned to brand names than women – 34% of men indicated they always/usually search by brand name compared to 25% of women.

► How often do you search for a specific brand name instead of just for the category/type of product/service? by gender



Greater purchase frequency tends to correspond to a higher likelihood to search by brand name rather than by product category. One possible explanation is that those who shop online more often have a better sense of what they're looking for and are thus quicker to hone in on specific brands rather than general product groups.

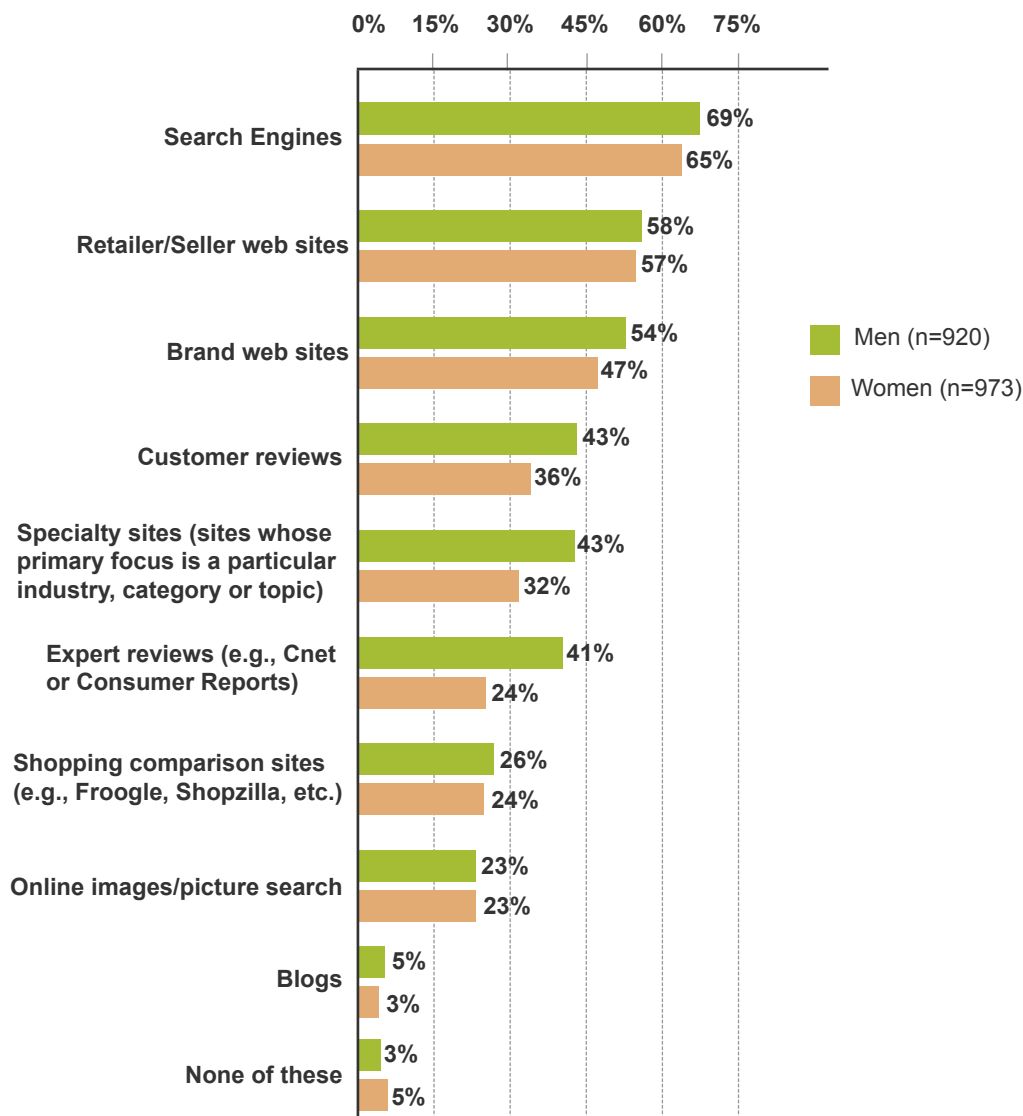
Product type appears to have little bearing on brand specificity, except among those shoppers who buy online more than offline. In this group, consumers who purchase clothing and apparel, gifts and flowers for others, household items, sporting goods, tickets and entertainment, and autos and auto accessories more online than offline show a tendency to search by brand name irrespective of the product for which they are searching.

How Do We Learn About What We Buy?

Search engines are the most-often cited tool for conducting product research. Retailer/Seller web sites are the second-most popular tool. Retailer/Seller sites are used just as often as search engines among households with income between \$50,000 and \$74,999.

Men are more disposed to digging deeper to find product information than women. They are more apt to visit brand web sites, seek out customer reviews, visit specialty sites and consult expert reviews. Younger buyers, those in the 18-44 age ranges, are more receptive to retailer/seller web sites and customer reviews than older users

- ▶ Which of the following online tools and services, if any, do you usually use when you conduct research before making a purchase? by gender



Those who have purchased home electronics, hobby items, sports equipment or jewelry more online than offline report a higher-than-average use of online search tools. 40% of those who indicated they research products online before making a purchase decision indicated they use customer reviews, while 63% of those who buy home electronics more online than offline indicated they use customer reviews. Those who buy jewelry more online than offline show 57% expert review use compared to 33% of those who indicated they research products online before purchasing.

It is interesting to note that the proliferation of blogs, which have had a dramatic effect on arenas such as current events and politics, have not made much of an impact on consumer e-commerce. They remain a negligible source of information for adults conducting product research before making a purchase.

Participants who indicated that they use at least one online tool or service to research products were asked which they usually use first. An overwhelming 42% cited search engines first, well ahead of the 17% who turn to retailer/seller web sites first. None of the other online tools listed were used first by more than 10% of respondents. Shoppers who buy some categories of products online more than offline tend to use retailer seller web sites to a greater extent, especially those purchasing clothing, household items, tickets and entertainment, and jewelry.

How Does Search Factor Into Shopping?

Three-fourths (74%) of those who use search engines to research products/services before making an online purchase cited investigating/learning more about the product/service they intended to buy as a reason for using search engines. This behavior tends to be more prevalent among men ages 18-34 (82%) and men age 55 years and older (80%).

If search engines are the first tool to which people turn to find more information, they also are a trusted resource for the next phase in the purchase process – finding a place to buy the product or service, both on- and offline. Nearly equal percentages of respondents use search engines to find a web site from which to buy or to investigate where to purchase their desired product (54% and 53%, respectively). Almost half, 43%, indicated they use search engines to find an offline retailer from which to buy.

► For which of the following shopping activities, if any, do you typically use search engines?
 Base: Those who use search engines to research products/ services before making online purchase n=1187



Younger adults were more likely to use search engines to find a web site from which to buy (60% of those aged 18-34, compared to 50% of those aged 35 years and older). Use of search engines to find a web site from which to buy also tends to rise with household income. For example, only 46% of households with income under \$35,000 look for a web site to conduct their purchase compared to 61% of households earning \$50,000 or more.

Frequent shoppers (those buying online at least once a month) and higher spenders (those spending more than \$1,000 per year) use search engines to a greater extent to learn about products, find web sites from which to buy and to find where to purchase the product they're looking for.

Surprisingly, even those who use the internet to purchase certain categories online more than offline show a greater-than-average interest in finding a local retailer. This was true of consumers of: gifts and flowers; household items; hobby items; sporting goods; tickets and entertainment; and autos and related accessories.

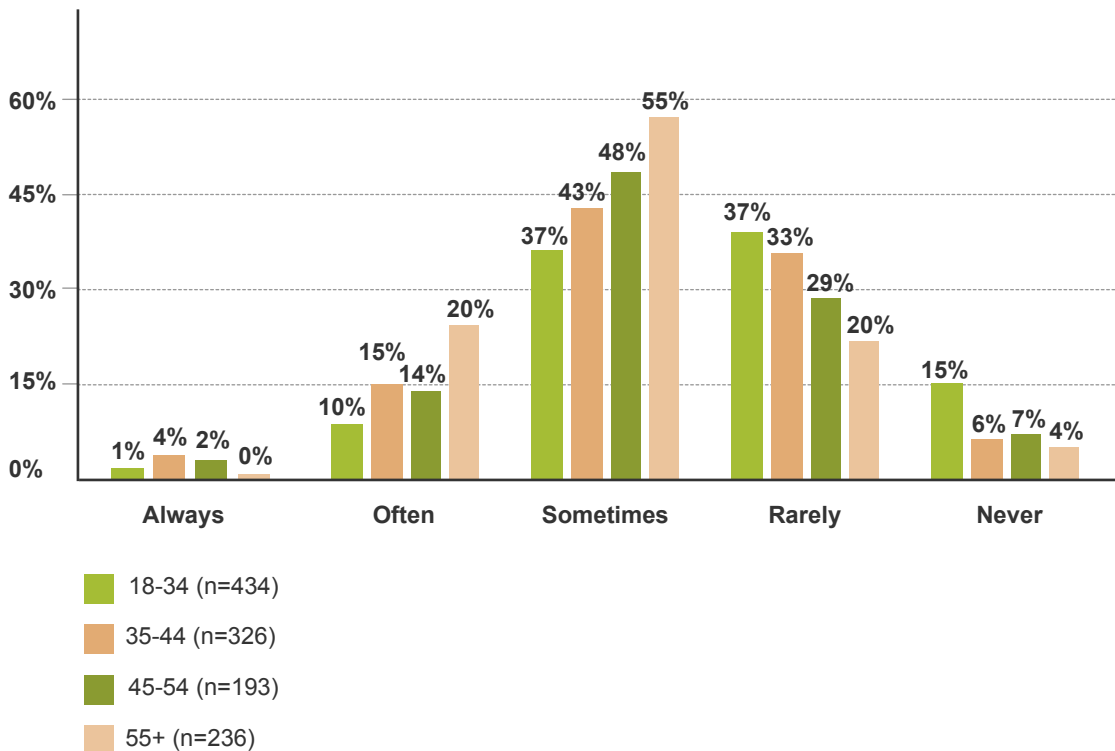
Search and Sponsored links

The study brings welcome news to search engine marketers: 60% of adults who use search engines to research products/services before buying online said they click on sponsored links at least sometimes, and 16% indicated they do so always/often. Just 9% indicated they never click on sponsored links when looking for a specific product or service.

Older shoppers are more likely to click on sponsored links, a trend that applies to both men and women. Just 48% of adults aged 18-34 click on sponsored links at least sometimes, while the percentage rises to 61% among those aged 35-44, 64% in the 45-54 age group and as high as 75% among adults over the age of 55. Those with higher household income also showed a greater likelihood to click on sponsored links. 70% of those with annual income of \$75,000 and up do so at least sometimes versus 55% earning less than \$35,000.

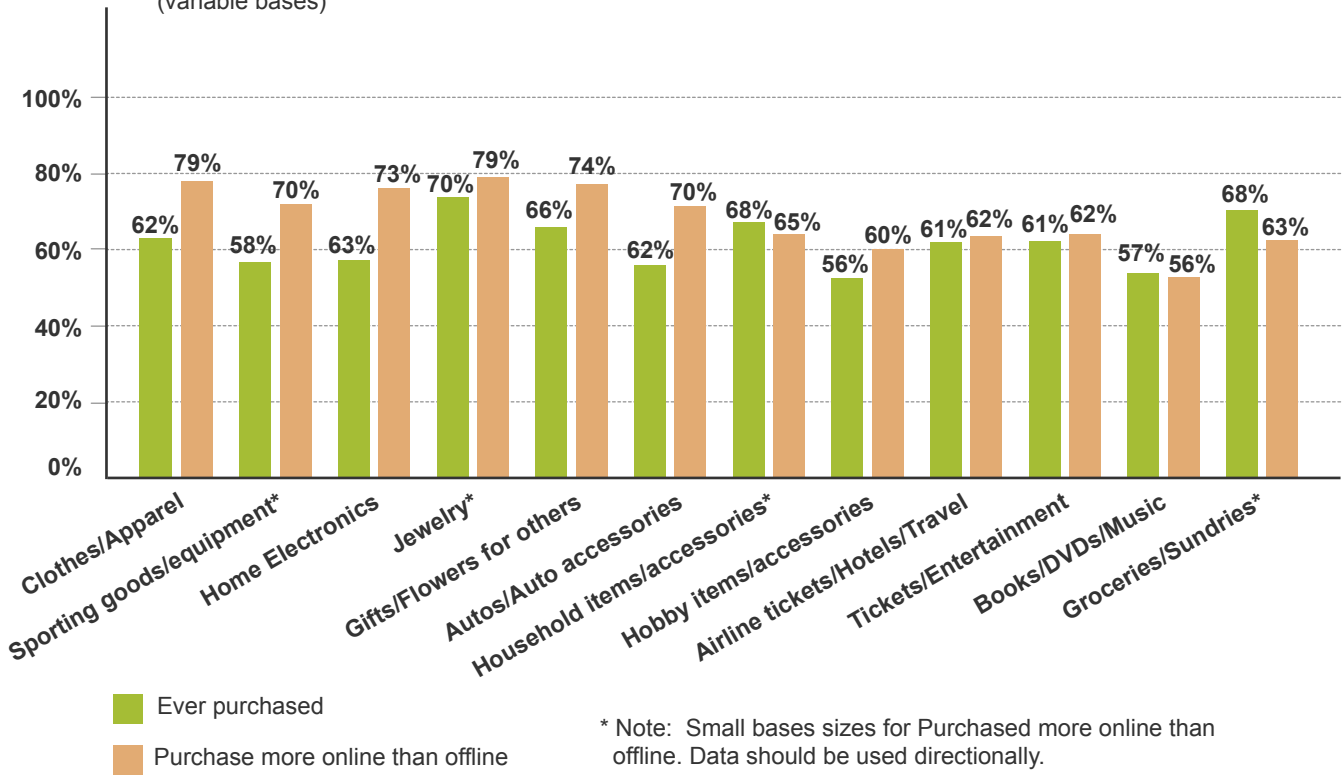
It should be noted that very few adults always click on sponsored links, just 2%. A great percentage often does at 14%, but a plurality at 44% do so sometimes.

- ▶ When you use a search engine to look for a specific product/service, how often do you click on a sponsored link? by age
Base: Those who use search engines to research products/services before making online purchase n=1187



Those who purchase home electronics more online are more likely to click on a sponsored link than those who have ever purchased the category online.

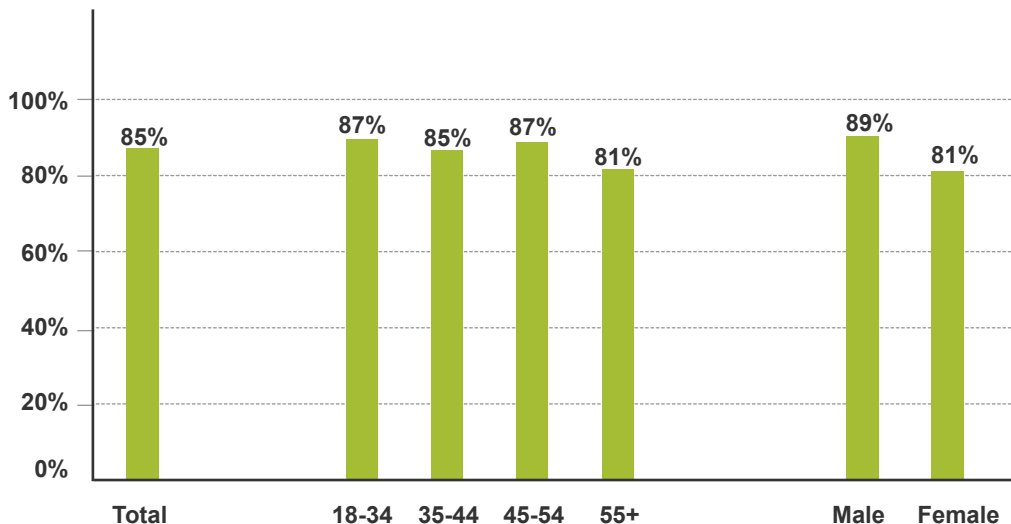
▶ Click on sponsored links always/often/sometimes by those who ever purchased category and those who purchase category more online than offline, (ranked by difference between ever and more online) (variable bases)



III. Who Shops And How Much Do They Spend?

The study revealed that 85% of all online adults have ever made purchases online, with high incidences of purchasing activity across all demographic segments. Not surprisingly, respondents with higher income or education are more likely to utilize the internet for purchases. 97% of households with annual income of \$75,000+ and 95% of those with a four-year college or graduate degree and above have shopped online.

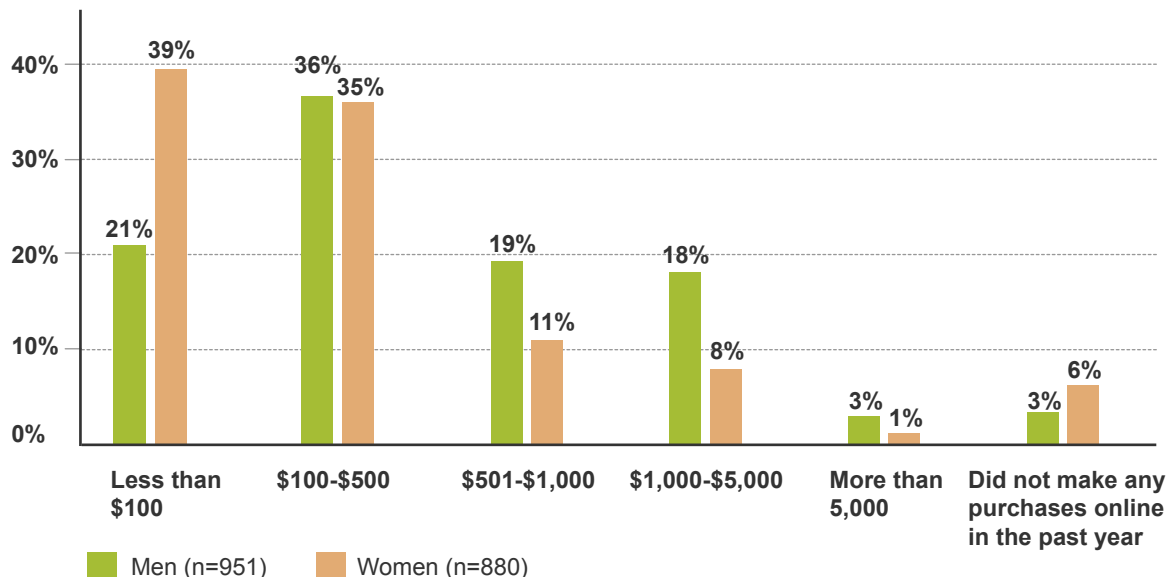
▶ How often do you generally make a purchase online? Figures shown for every purchase n=2154



How Much Are They Spending?

Two-thirds of online-shopping adults (66%) indicated they spent up to \$500 online in the past year, which translates into approximately \$40 per month or less. As with purchase frequency, men are bigger spenders than women: 40% of men said they spent more than \$500 versus just 20% of women. More than twice as many men than women indicated spending \$1,001 or more in the past year.

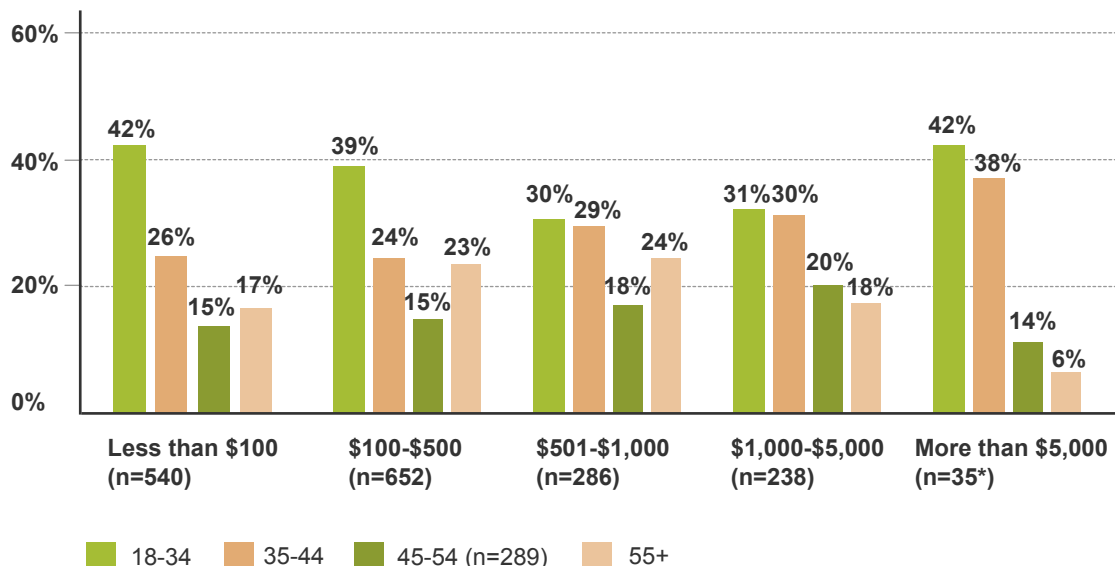
- ▶ Approximately how much did you spend in online purchases in the past year?
Base: Respondents who made purchases online



Spending more online naturally correlates to higher income patterns. For example, 32% of \$75,000+ households spent over \$1,000 online – more than double the national incidence of 15%. The highest-income homes (\$75,000 and above) were also twice as likely to spend over \$1,000 online than the \$50,000-\$74,999 households.

Overall, not many people are spending more than \$1,000 a year – only 15% of online adults who have done any online shopping, in fact. However, those that do spend over \$1,000 annually skew disproportionately younger. While only 11% of 18-34 year olds spent \$1,001-\$5,000 in the past year, they accounted for 31% of those in this spending bracket.

- ▶ What is your age, by amount spent online in the past year? Base: Those who have made purchases online n=1831



* Note: Small bases size. Data should be used directionally.

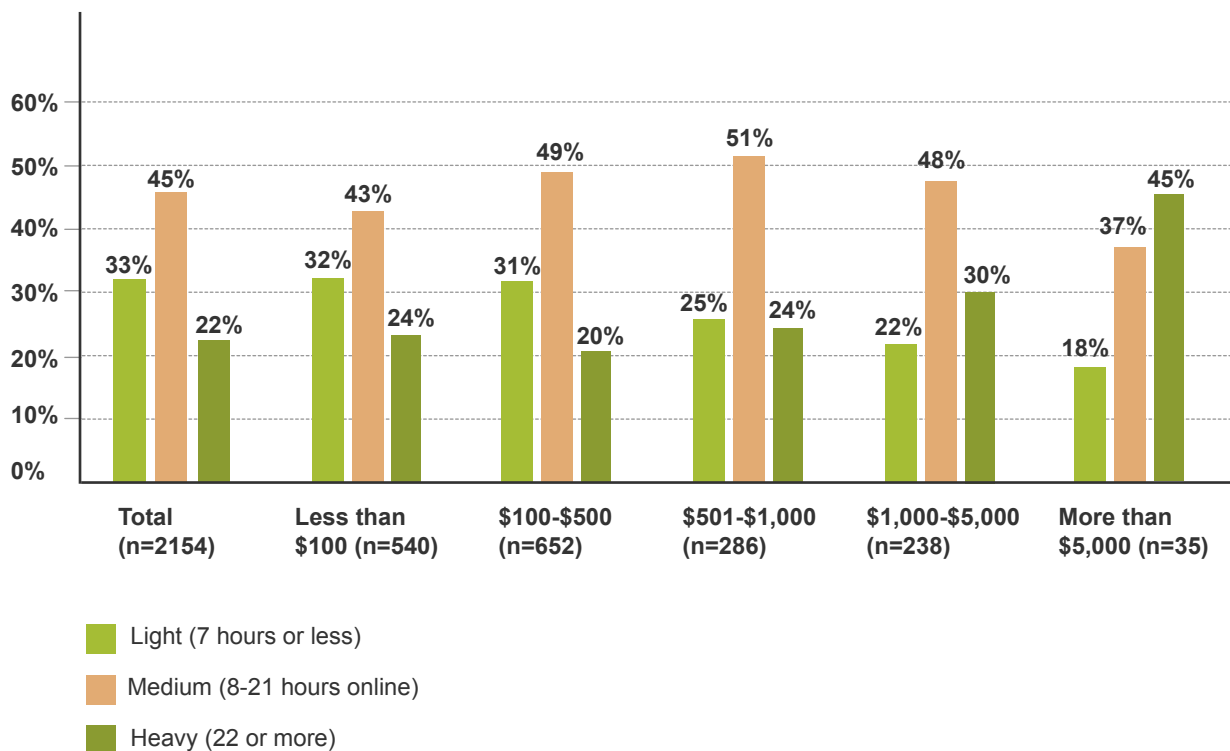
On the other hand, it is important to point out that respondents aged 35-44 years show higher rates of purchase in the higher expense brackets relative to the lower expense brackets.

High-Speed Connections Facilitate Purchase

Those with high-speed internet connections exhibit higher online shopping frequency and greater spending than those with slower connections. Users with always-on broadband connections tend to go online more frequently, spend more time online and make greater use of the internet for communications, entertainment, information and transactions of all kinds, including shopping¹.

Light users of the internet show proportionally lower rates of spending on the internet, while medium and heavy users make up a larger portion of overall purchases. Heavy users of the internet make up 22% of the total population but account for 30% of annual online purchasers of \$1,001 to \$5,000 and 45% of annual online purchasers of more than \$5,000.

- ▶ Excluding E-Mail, How Many Hours a Week Do You Spend on the internet or World Wide Web, by Amount Spent Online in the Past Year?
Hours a week on internet (excluding e-mail) by amount spent online in past year



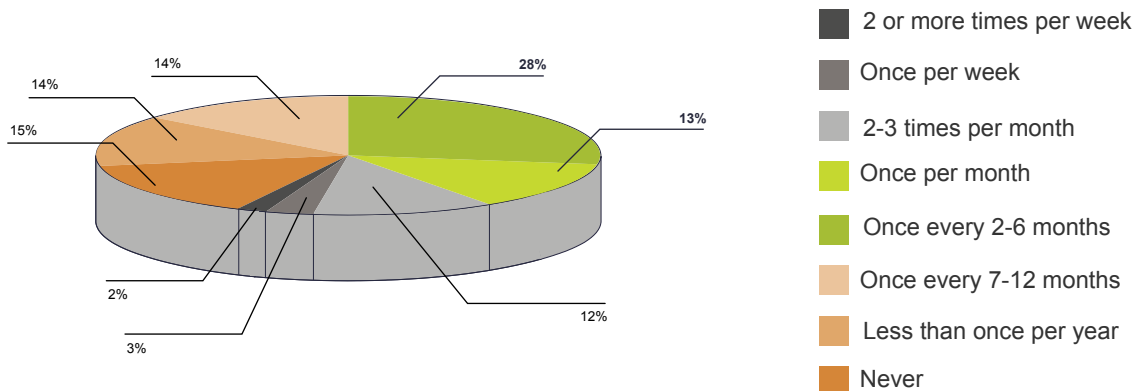
IV. How Often And When Do They Shop?

For many, making purchases online is a monthly activity: about one-third (30%) of online adults buy online at least once a month.

Men shop online more, with 36% making monthly purchases compared to 24% of women. Equal proportions of men and women make an online purchase once every two to six months (28%). Weekly online purchases are made by a very small percentage of the population with only 3% conducting weekly purchases and just 2% buying more than once a week.

¹(Source: eMarketer July 2005 :Broadband: Demographics and Usage)

► How often do you generally make a purchase online?

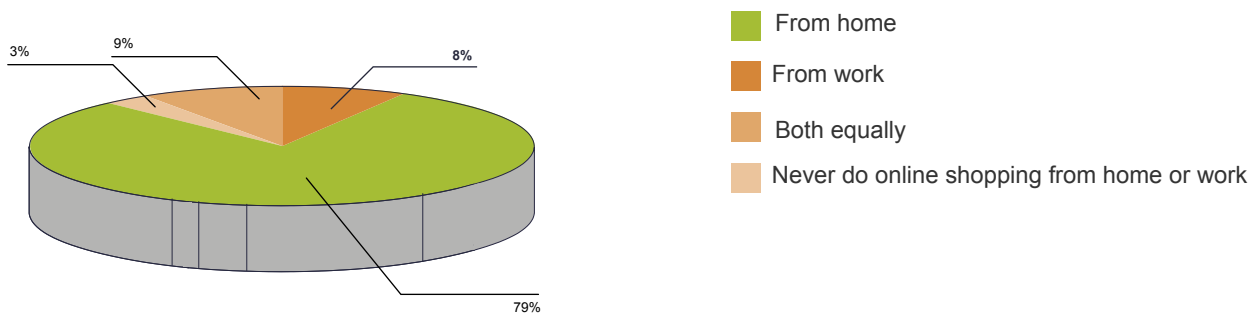


As would be expected, greater shopping frequency goes hand in hand with higher annual online spending. For example, of those who spent \$1,001 to \$5,000 online in the past year, 58% shopped 2-3 times a month or more while only 7% shopped less than once every six months. However, among those who spent \$100 - \$500 in the past year only 12% shopped 2-3 times a month or more while 20% had shopped less than once every six months.

Shopping While We Work?

Online shopping is done primarily from the home. Fully 79% of respondents indicated that they tend to do their online purchasing from home, versus just 8% who tend to online shop at work. Another 9% said they buy online from home and work with equal frequency.

► Do you tend to buy online more frequently from home or work? n=1831



Several other interesting patterns emerged as well. Those with more education (at least some college experience) shop more from work than others do, as do those who are employed full-time. Home shopping shows higher incidence among those who have an income of less than \$35,000 or have no children.

More of those from middle-income homes, between \$35,000 and \$49,999, tend to make online purchases from work. This makes sense considering they are less likely to have internet access at home than their higher-income counterparts (it should be noted, however, that because this survey was administered online, the results may show a bias towards wired individuals and households).²

Frequent and bigger spenders (those spending \$1,001 - \$5,000) also buy online from work to a greater extent than other segments.

Those who have shopped for gifts and flowers, household items, tickets and entertainment and airline tickets and travel are slightly more prone to do their overall shopping from work than those buying from other retail categories.

²(Source: Pew Internet & American Life Project, 2002)

V. What Do People Buy Online?

Books, movies and music are the most popular items to purchase online across all demographics (gender, age, and income). Travel and clothes/apparel are the next most popular categories, with roughly equal percents purchasing them online.

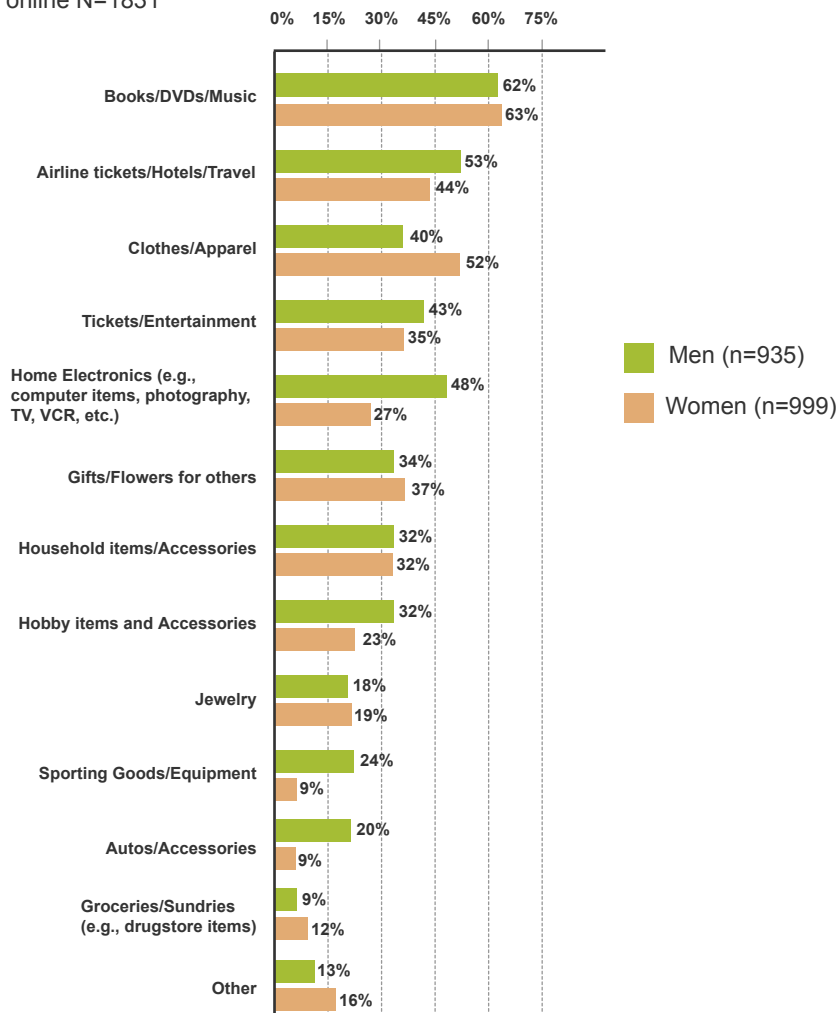
Incidence of online travel purchase is higher among men than women, and it tends to increase with both education and household income. Those aged 18-34 years are less likely than those aged 35 years and older to purchase travel online. We believe this is because those with more income can afford to travel more and older people (e.g., retirees) may have more time for travel.

Other online purchasing habits also followed gender divisions. Women are more likely to purchase clothing and apparel online, while men are more likely online buyers of tickets/entertainment, home electronics, hobby items, sporting goods and auto and accessories.

Online marketers looking for cross-selling opportunities would do well to consider the following purchase patterns:

- 72% of those who bought entertainment tickets and 69% who bought gifts and flowers for others online also bought airline tickets or made other travel-related purchases;
- 72% of adults who purchased jewelry and 66% who bought household items also bought clothing and apparel;
- 65% of those who bought sporting goods, 63% who bought autos and accessories, and 60% who bought household items also bought home electronics.

► What Types of Products or Services Have You Ever Purchased Online? Base: Those who have ever made a purchase online N=1831

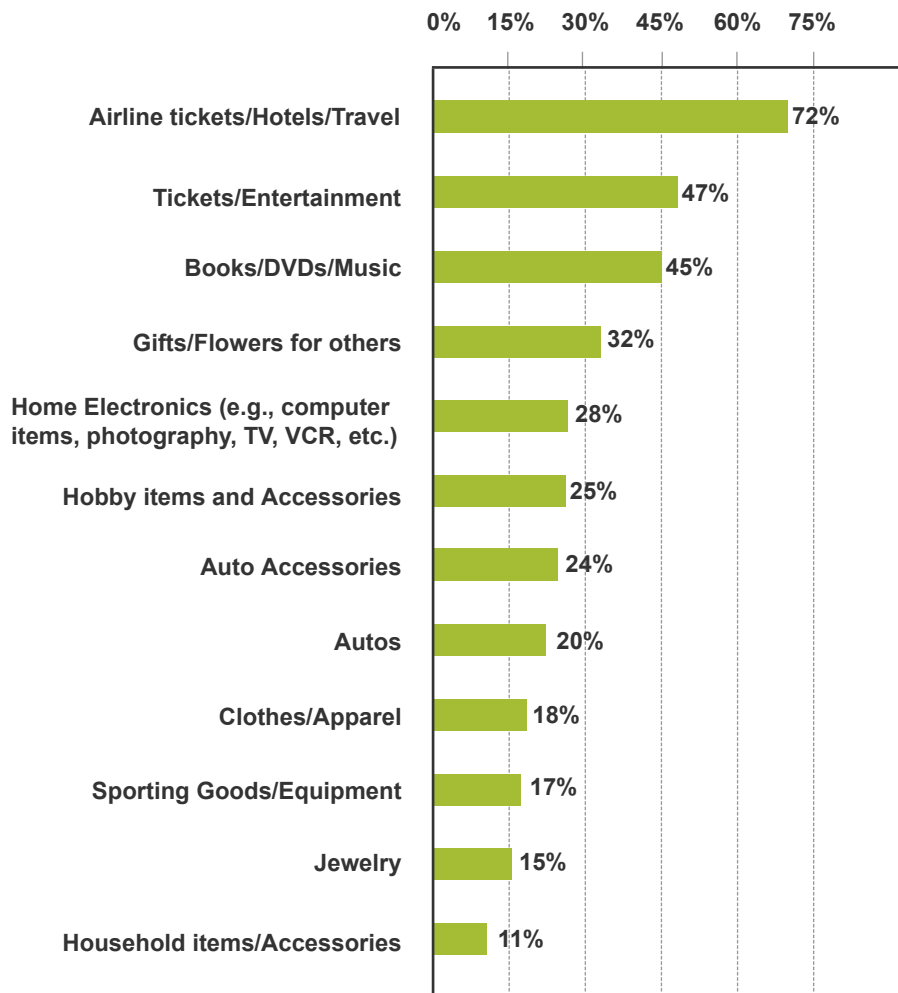


Has Online Shopping Surpassed Offline?

The survey revealed that the internet is clearly becoming the preferred purchasing channel for certain types of products.

In particular, 72% of online adults who identified travel as a product they buy online said they now make travel arrangements online more often than they do offline. This makes sense in light of the fact that travel is an information-intensive category and the internet excels as a source of information. For categories with items that have a greater tactile component, such as clothing, sporting goods, jewelry and groceries, there has been less offline displacement.

- ▶ What Types of Products, If Any, Do You Purchase Online More Often Than You Do Offline? (Variable bases)



As might be expected, those who spend more money online also show a higher tendency to buy products online often more than they do offline.

This trend toward offline purchase displacement is especially evident with airline and entertainment tickets, books/DVDs/music, gifts and flowers for others, and home electronics.

Certain products purchased more online than offline appear to be indicators of buying other items.

Those who purchase jewelry online more frequently than they do offline also purchase:

- ▶ Books/DVDs/Music
 - ▶ Airline tickets/Travel
 - ▶ Clothing and apparel
 - ▶ Tickets/Entertainment
 - ▶ Home electronics
 - ▶ Gifts/Flowers for others
 - ▶ Household items
 - ▶ Hobby items
- ▶ Those who buy hobby-related items and gifts/flowers for others more online than offline also tend to purchase the above online with more frequency

To a lesser extent, people purchasing sporting goods and tickets/entertainment tend to buy the following with more frequency online:

- ▶ Books/DVDs/music
- ▶ Airline tickets/Travel
- ▶ Clothing and apparel
- ▶ Home electronics
- ▶ Gifts/flowers for others
- ▶ Household items
- ▶ Hobby items

Survey Methodology

Harris Interactive® fielded the study on behalf of iCrossing, inc. from August 26-30, 2005, via its QuickQuerySM online omnibus, interviewing a nationwide sample of 2,322 U.S. adults aged 18 and over. Data were weighted to reflect the total U.S. online adult population on the basis of region, age within gender, education, household income, race/ethnicity, and amount of time spent online per week. In theory, with a probability sample of this size, one can say with 95 percent certainty that the overall results have a sampling error of plus or minus 3 percentage points of what they would be if the entire online population of U.S. adults had been polled with complete accuracy. Sampling error for the various sub-sample results is higher and varies. This online sample is not a probability sample.

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About iCrossing

Founded in 1998, iCrossing is both the Agency and the Technology behind search advertising. The Agency delivers on Search Intelligence™, Natural Search Engine Optimization, Paid Search Management, Web Analytics, and Creative Services by leveraging its Reverse Direct Marketing Technology platform. Together, The Agency and The Technology connect, communicate and close more business for iCrossing's Fortune 1000 clientele.

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