

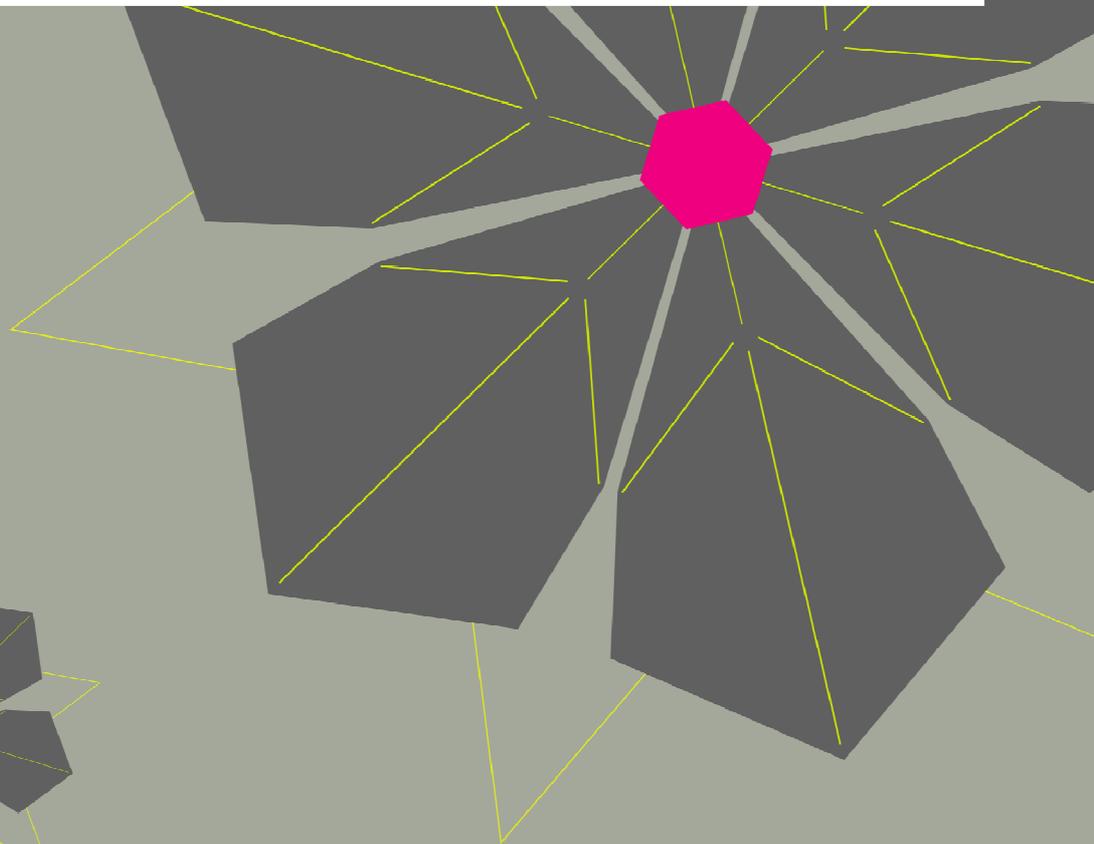
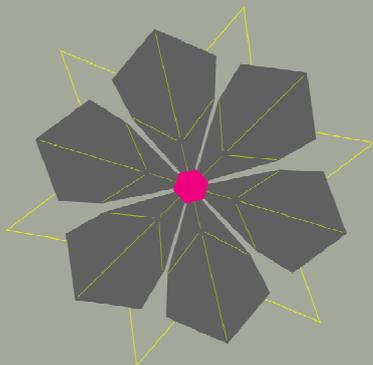
Leapfrog

Digital marketing benchmarking report

For premium food and drink retailers

January 2011

Researched and compiled by Leapfrog Digital Marketing



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Introduction

This is the second in a series of studies investigating premium retailers' use of, and attitudes towards digital marketing. It follows a similar study in 2010 of companies selling premium / luxury home and garden products.

Using this free report, food and drink retailers have the opportunity to benchmark their digital marketing efforts against their competitors and peers. In addition, we urge retailers to use the questions posed on page 6 as a catalyst to review their planned digital marketing activity in 2011.

Summary

A lack of understanding, lack of resource and inaccurate reporting are the key factors hampering online success in the premium food and drink sector.

Although Christmas proved to be a successful trading period for many premium food and drink retailers, the subsequent VAT increase, rate hikes and the threat of a 'double-dip' recession, means that 2011 brings a certain amount of uncertainty for brands trading online.

It is therefore of some concern that this research reveals many companies are seemingly hamstrung by a failure to map digital marketing activity back to their overall business and financial objectives. Indeed, fewer than 20% of respondents know the return on investment (ROI) they are seeing from digital marketing and only a quarter of our interview sample is measuring the lifetime value of a customer.

Yet companies are seemingly willing to continue increasing investment in certain activities without setting clear objectives and having the tools in place to measure the impact. Social media, which includes social networking, forums and communities and blogging, is shown to be an activity that many of the respondents do not fully understand and, historically, have been unable to measure results with any degree of accuracy. However, almost half of respondents plan on dedicating greater resource to this activity in 2011.

Addressing the key issues we have found in our research actually represent relatively easy, quick wins for many. We therefore hope that shining a light on, what might be considered, the less glamorous aspects of digital marketing (strategy, planning, setting objectives and reporting) will ultimately enable premium food and drink retailers and brands to see the 'bigger picture'; to look to more holistic and accountable digital marketing strategies and their implementation.

On the basis of our findings, this report pulls together a number of key questions (page 6) that we believe premium food and drink retailers need to be asking of themselves at the start of 2011 if they are to achieve the following:

- ❑ Link digital marketing activity to overall commercial and financial objectives
- ❑ Invest, what is often limited resources (time and money), in the right areas
- ❑ Measure the impact of activity back to the bottom line
- ❑ Keep abreast of the new developments and shifts in consumer behaviour

Overview of key findings

Respondents

- ❑ The average claimed annual turnover of our sample respondents is £1.4M. However, this hides a range from under £500K to up to £10M
- ❑ 59% of respondents turnover less than £500K per annum

Budgets

- ❑ 35% of the premium food and drink retailers surveyed spend less than 10% of their marketing budget online

Where is budget being spent?

- ❑ Email marketing is adopted by the majority of respondents with 94% investing budget in this activity
- ❑ Search engine optimisation is the next most common activity, undertaken by 75% of respondents, although half of these claim to only be 'partially involved'
- ❑ In turn, 25% of respondents are not investing in search engine optimisation at all
- ❑ Half of those surveyed are investing in paid search
- ❑ 56% are involved in social networking with 50% claiming to be 'heavily involved'
- ❑ However, 89% view social networking as only having 'some' or 'low' impact on meeting business objectives
- ❑ Mobile marketing (or m-commerce) was seen as low priority by premium food and drink retailers
- ❑ Just 24% of respondents have claimed to have considered a multi-channel approach to their marketing activity

Barriers to success

- ❑ Lack of budget was cited as the main barrier to success for search engine optimisation, paid search and reputation monitoring
- ❑ A lack of understanding or appreciation of the benefits was cited as the main barrier to success for social networking activity, involvement in forums and communities, and in creating content (blogging, articles and press releases, video and audio)
- ❑ An inability to measure their impact acts as the main barrier for social networking, and articles and press releases

- Paid search was noted for the number of respondents who had tried it without results meeting their expectations

Managing digital marketing

- The majority of respondents manage digital marketing activity in-house, however, with limited resource (it is often the responsibility of business owners and directors)
- For search engine optimisation, 25% used a search engine optimisation specialist, whilst for paid search almost half use a paid search specialist when outsourcing
- Social networking is predominantly managed in-house, as is involvement in forums and communities, blogging activity, reputation monitoring and creation of articles & press releases
- 94% of respondents feel that it is crucial for agency partners to have a *'good understanding of the clients target audience'* and 56% believe agencies should have *'a strong understanding of the clients business plan'*
- Yet 38% of respondents feel that regularly meeting with their agency is *'not necessary'*

Tracking and measurement

- The most popular key performance indicators (KPIs) were cited as search engine rankings (88%), average order values (75%), online conversion rates and cost per visit (both 44% respectively)
- 25% of respondents are measuring the lifetime value of a customer
- Just 19% of respondents are measuring return on investment (ROI) by activity or overall ROI from their investment in digital marketing

Plans for 2011

- 2011 will see premium food and drink retailers increase resource for blogging activity (64%), search engine optimisation (61%), articles/press releases (62%) and email marketing (60%)
- Social networking is also cited as a discipline where respondents will be increasing resource (47%)
- Just 15% of respondents cite mobile as an area where they will increase resource

Key questions

On the basis of the research findings, it is recommended that companies operating in the premium food and drink sector use the following questions to evaluate their digital marketing activity 2011:

- Do you fully understand your prospects and customers;
 - How they search for your products?
 - Where they spend their time online?
 - Who influences their purchasing decisions?
 - The channels they currently use or want to use to purchase your products?
- Do you understand the role mobile is increasingly playing in how your target audience search, compare and purchase products?
- On the basis of the above, are you confident that you are dedicating budget to the right digital marketing channels and activities?
- Are you looking at each of your digital marketing activities as part of a holistic online strategy, understanding the blurring lines between search engine marketing and social media, for example?
- Is digital marketing activity in tune with your offline marketing and PR?
- Are you confident you fully understand the benefits of an activity before you invest time and money?
- Where you have invested in an activity, and it has not delivered the results you expected, are you confident you know why?
- Are you linking your investment in digital marketing back to your organisations commercial and financial objectives?
- If you are unable to measure the return you are seeing from your investment in digital marketing, do you know why? Is it lack due to a lack of the right tools or not using them correctly?

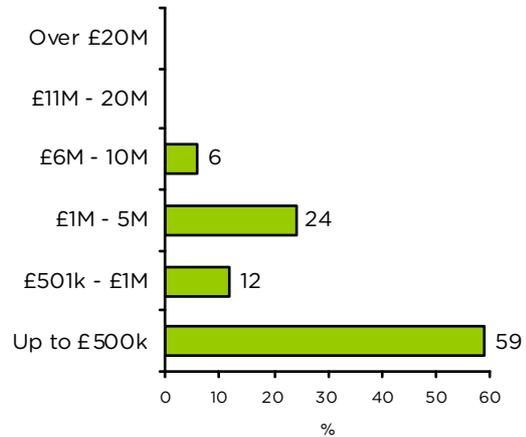
Full survey results - Section 1: Budget

Section 1 sought to understand the budget premium food and drink retailers are dedicating to digital marketing.

Turnover

The average claimed annual turnover of our sample respondents is £1.4M.

However, this hides a range from under £500K to up to £10M.

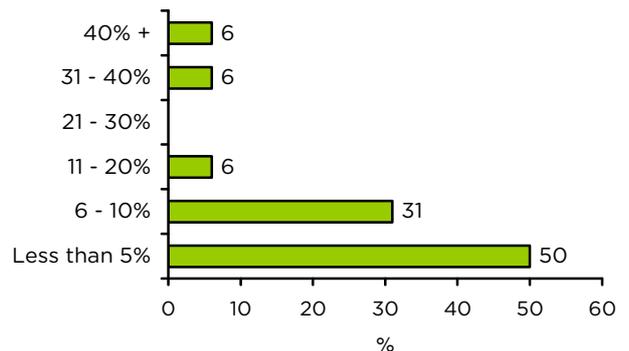


Overall marketing budget

Respondents were asked:

What percentage of your turnover is attributed to marketing (online and offline)?

On average, companies in our survey allocated 10% of their turnover to marketing (online and offline) although again this masks a wide range from less than 5% to more than 40%.

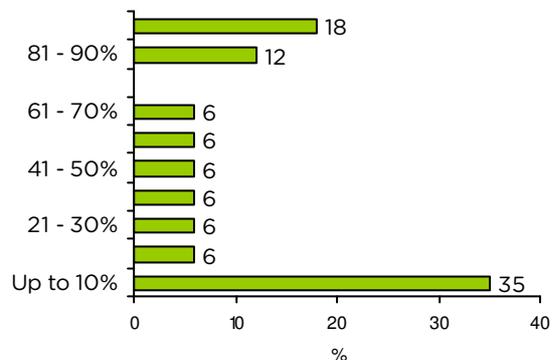


Online marketing budget

Premium food and drink retailers were asked:

What percentage of your marketing budget is spent online?

Online marketing claims on average 43% of the total marketing budget. It should be noted however that there is no clear pattern here with wide variance; one-third of respondents spend less than 10% online, but also one-fifth of companies spend more than 90% online.



Section 2: Where the budget is being spent

In this section, we sought to understand the specific online activities where respondents had invested budget, their level of commitment and the expectation of what the activity should deliver to the business.

For each activity, we also sought to understand what barriers prevent premium food and drink retailers from maximising success.

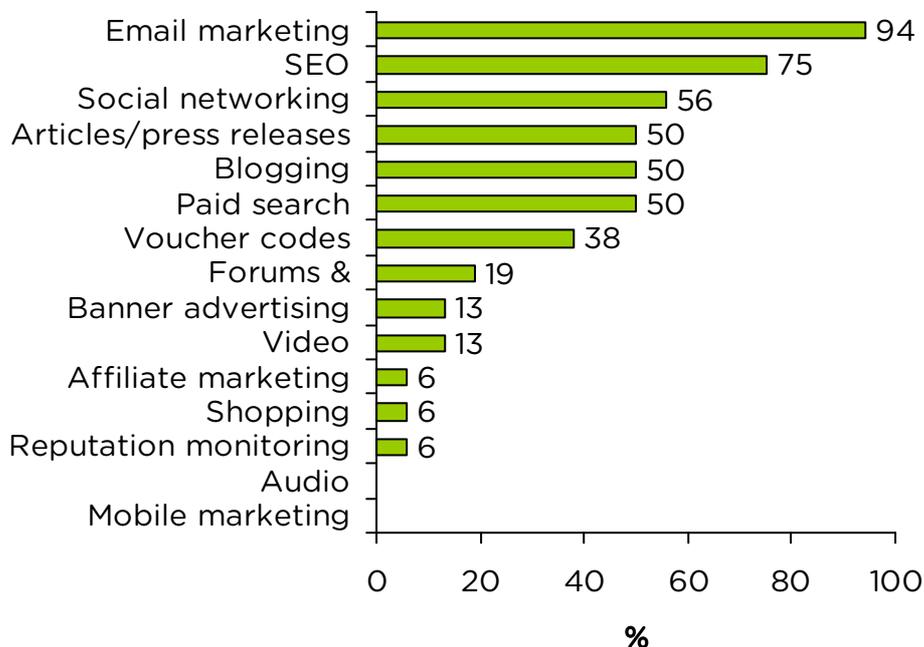
Activities

Premium food and drink retailers were asked:

In which of the following online activities do you current invest time and budget?

Although the sample was involved in a wide spectrum of online activities the penetration of specific activities varied greatly. Email marketing was at a near universal level (94% of respondents were currently engaged in this type of activity). Search engine optimisation (75%) was the next most common activity undertaken, whilst at least half of our respondents were involved in social networking, articles & press releases, blogging and paid search activities.

By contrast however, none were currently active in either audio (i.e. podcasting) or, interestingly, mobile marketing.

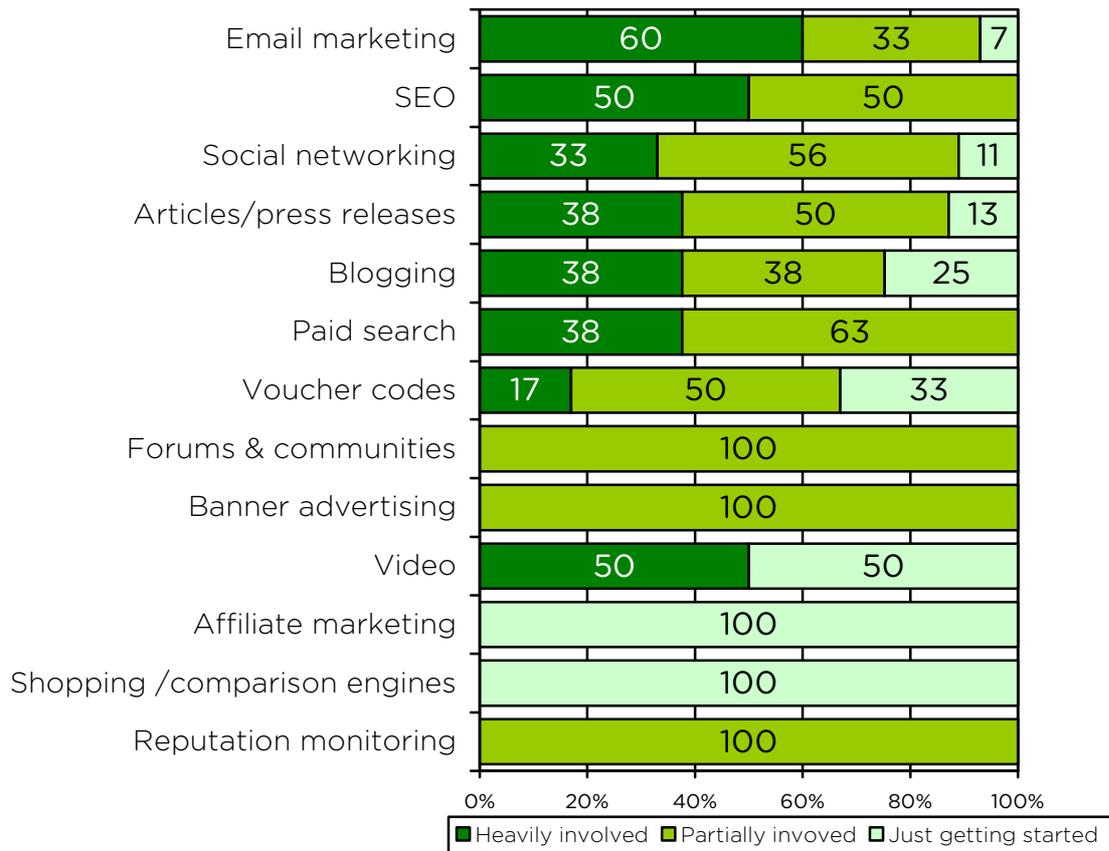


Level of involvement

Premium food and drink retailers were asked:

Of those activities that you are currently investing time and budget, how involved would you say you are?

Heaviest involvement was claimed for email marketing and search engine optimisation. The level of involvement, perhaps unsurprisingly, appears to broadly follow the penetration pattern for the different activities within our sample.



Function of online activity within the organisation

Premium food and drink retailers were asked:

For each of these activities what function do they serve within your organisation?

Verbatim responses were provided for these questions, but the main themes (where these are clear) were as follows:

- 1) Search engine optimisation is about sales/new business/customer acquisition;
- 2) Paid search is primarily about driving sales;
- 3) Social networking is used to increase brand profile/awareness;
- 4) Blogging helps drive both awareness and loyalty;
- 5) Articles/press releases are about generating awareness;
- 6) Video is seen as a retention tool;
- 7) Voucher codes are a sales tool;
- 8) Email marketing is another retention tool;
- 9) Banner advertising is focussed on selling

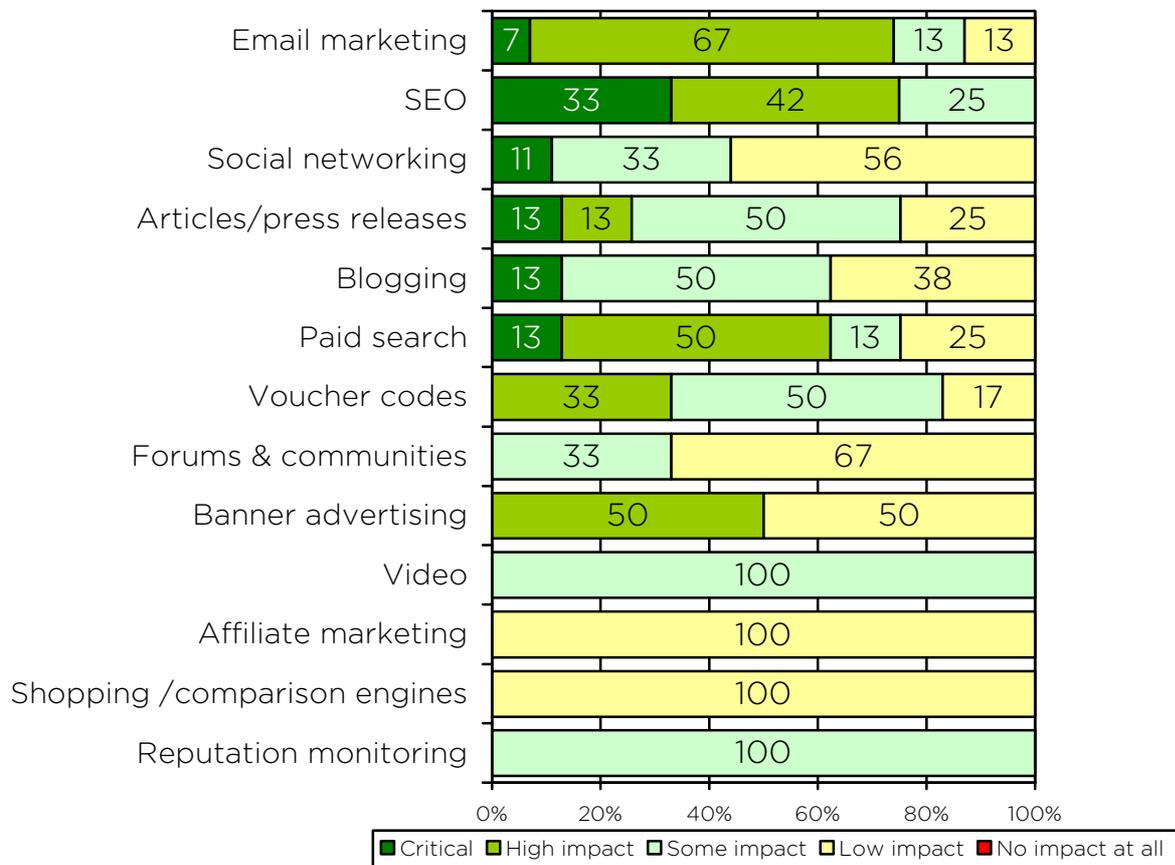
Impact on meeting business objectives

Premium food and drink retailers were asked:

Please rate these activities in terms of their current impact on meeting business objectives?

We asked our respondents to rate the different activities on a 5-point scale in terms of their impact on meeting their own business objectives. Those activities seen as being critical, or having a high impact on meeting business objectives were search engine optimisation (4.1), email marketing (3.7) and paid search activity (3.5).

Social networking, involvement in forums and communities and blogging were seen to be having 'some' or 'low impact' in meeting business objectives.



Barriers to success

Premium food and drink retailers were asked:

What barriers, if any, prevent you from maximising the success of each of your online marketing activities?

Verbatim responses were provided for these questions. Exploring the common themes revealed the following barriers in relation to each specific activity:

Search engine optimisation

Internal resources was more often cited as an issue, followed by lack of budget, although other reasons given highlighted limitations around their current web site (design);

Paid search

Similarly, lack of internal resources and lack of budget were the most popular responses, whilst the next most common response was that it had been tried and that results did not match expectations;

Social networking

Impacted equally by a lack of internal resource, lack of knowledge and understanding, and a lack of appropriate tools to measure success;

Forums and communities

Impacted by lack of knowledge, time and limited appreciation of the benefits;

Blogging

Time and a lack of recognition of the benefits;

Reputation monitoring

Appears to be restricted by time, knowledge and budget;

Articles/press releases

Suffered mainly from a lack of budget, but internal resources, poor communication between agency and client, and a lack of suitable measurement tools were also cited here;

Video and audio

There was a general lack of understanding as to the benefits. In a number of cases it was cited as being something for the future;

Voucher codes

In most cases, voucher codes / websites, not unsurprisingly, were not seen as being the right sort of fit for businesses selling premium products;

Affiliate marketing

Generally respondents felt a lack of control over affiliate marketing prevented them from investing a greater amount of time or budget;

Email marketing

Might be restricted by a wide range of issues most commonly a lack of internal resources but also a lack of budget;

Banner advertising

Restricted by budget and time, as well as the inability for agencies to deliver an effective solution

Mobile

Appears to be restricted wholly by lack of understanding and the perceived high cost of entry.

Multi-channel integration

Premium food and drink retailers were asked:

Which of the following online activities have you combined with offline marketing as part of a multi-channel campaign?

The top three responses were banner advertising, voucher codes, and public relations activity, ahead of forums and communities and social networking. However, the responses must be noted for the limited number of companies adopting a multi-channel approach (24%).

Benefits of a multi-channel approach

Premium food and drink retailers were asked:

Did you find a multi-channel approach increased the ROI of your campaign?

For those who had used a multi-channel approach, a little less than half of our sample (43%) felt that this had benefited their campaign's ROI, however even more (50%) didn't know how to measure it or were undecided about its impact.

Budget reduction

The final question in this section explored the areas that our respondents would either cut as a result of a budget reduction or would start as a result of significantly increased budgets.

Premium food and drink retailers were asked:

What one online activity would you stop if budget was cut?

There was no clear pattern regarding what would be cut, but the most popular response were banner advertising, social networking and blogging.

Budget increases

Premium food and drink retailers were asked:

What activity would you start if budget was no object?

With greater budget available, the most popular response would be to increase email marketing, activity ahead of paid search, and search engine optimisation. Just one respondent cited mobile as an area they would dedicate budget.

Section 3: Responsibility and management

Section 3 sought to understand who has responsibility for driving digital marketing activity within the organisation and, where applicable, the role that agencies play.

Department responsible for digital marketing strategy

Premium food and drink retailers were asked:

Which department in your business is responsible for digital marketing strategy and decision making?

Responsibility for digital marketing in most organisations lies with the marketing department, although in smaller companies there is no dedicated marketing department. Instead, the role is being handled by the business owners themselves.

Just one of the respondents had a specialist online / ecommerce team, likely a reflection of the size of organisations taking part in the survey.

Type of agencies used

Premium food and drink retailers were asked:

What type of agency, if any, do you currently use for managing each of your online marketing activities?

Despite the relatively small size of the organisations in our survey, but reflecting the limited budgets, most respondent companies managed much of their digital marketing activity in-house. For search engine optimisation 25% used a search engine optimisation specialist, whilst for paid search almost half use a paid search specialist. Social networking is predominantly managed in-house, as are forums and communities, blogging activity, reputation monitoring, articles & press releases, video, and voucher codes.

The exceptions would be shopping / comparison engines and affiliate marketing where affiliate marketing agencies are the preferred option. Full service agencies are preferred for managing banner advertising.

Factors of importance

Premium food and drink retailers were asked:

Please rate the importance of the following when working with an agency

When working with an agency, premium food and drinks retailers rated 'results' (94%) as "crucial", along with 'meeting service level agreements' (65%), ahead of 'flexibility' (59%) and 'quality of reporting' (59%). 'Retail knowledge' was seen as more of a "nice to have" (18%) or even "unnecessary" (12%).

Agency ratings

Premium food and drink retailers were asked:

How would you rate your current digital agency?

Amongst those currently using digital agencies the highest ratings were achieved for 'results', 'meeting service level agreements', and 'flexibility' – all achieving “excellent” scores.

Communication

Premium food and drink retailers were asked:

Please rate the importance of the following when working with an agency

In terms of communicating with a digital agency, *'having direct contact with those working on the campaign'* was particularly “crucial” (65%), as was *'having a single point of contact'* (41%).

'Online reporting' appears “important” although not crucial, whilst *'using online collaboration tools'* appear more as a “nice to have”. *'Regular face-to-face meetings'* polarised opinions – for 13% these were “crucial” but for 38% these were felt to be “unnecessary”.

Agency knowledge

Premium food and drink retailers were asked:

How important do you think it is for your agency to have knowledge in these areas?

There is a clear expectation, not surprisingly, that agencies should have a *'good understanding of the client's target audience'* – this was seen as “crucial” for 94%. *'Knowledge of the client's KPI's'* was also “crucial” (82%), ahead of *'knowledge of the business plan'* (56%).

Opinions however seem divided where giving the agency access to 'offline sales data' is concerned.

Section 4: Tracking and measurement

In this section, we sought to discover how premium food and drink retailers are measuring the success of their online marketing efforts and their ability to track their KPIs with a high degree of accuracy.

KPI's

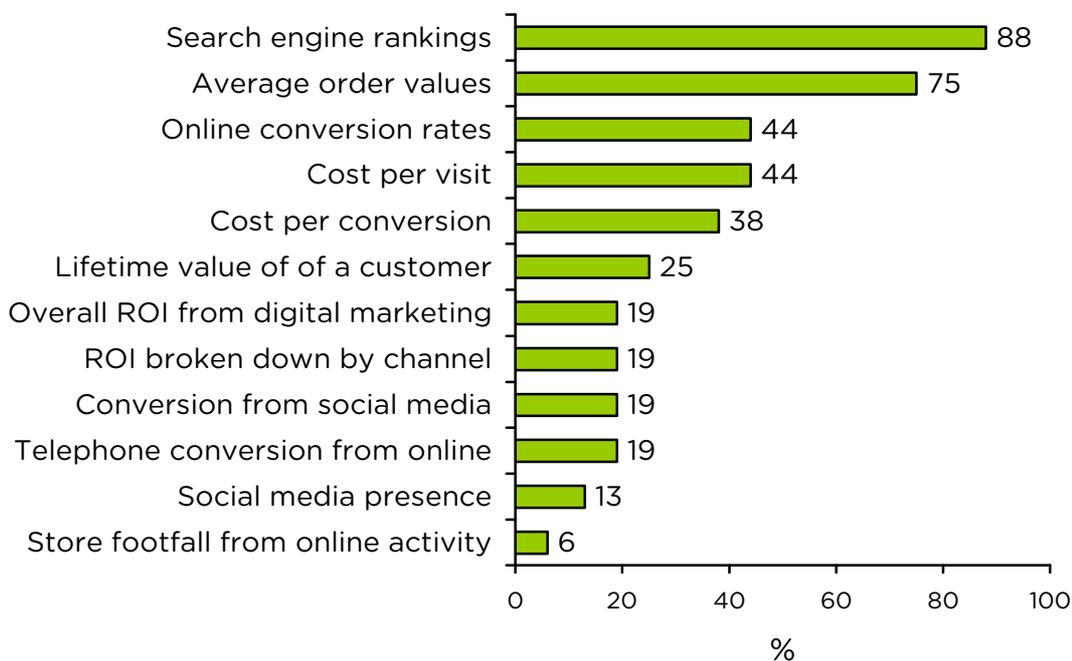
Premium food and drink retailers were asked:

Which of the following KPIs do you use to track the success of online marketing activity?

Exploring their use of KPIs revealed that the most commonly tracked are search engine rankings (88%) and average order values (76%) ahead of online conversion rates (44%), cost per visit (44%) and cost per conversion (38%).

Relatively few premium food and drink retailers are measuring return on investment (ROI) by channel or activity, conversion rates from social media and store footfall from online activity (although the latter must be noted by the fact many of the respondents do not have physical stores).

Most tellingly, just 19% are measuring overall ROI from digital marketing activity.



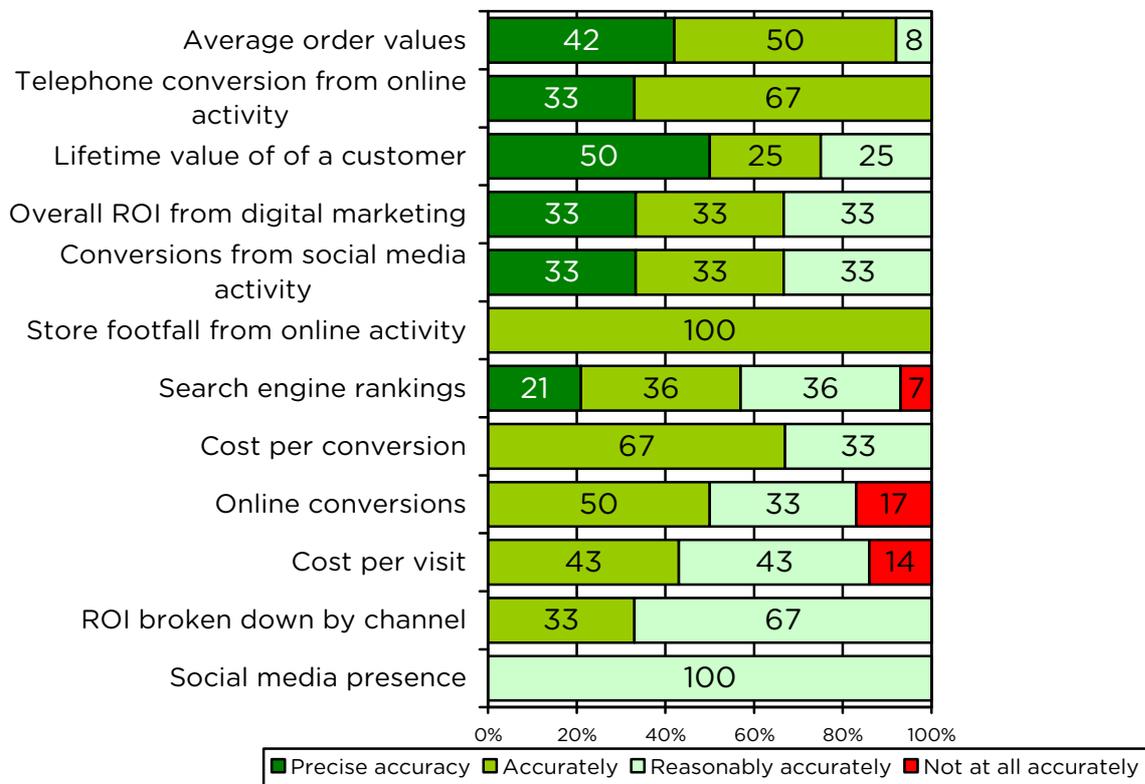
Tracking of KPIs

We then went on to ask respondents to rate their ability to track those measures, using a 4-point scale (ranging from 'precise accuracy' down to 'not at all accurately') with the question:

Rate your current ability to accurately track those measures?

Despite the relatively low number of respondents tracking 'telephone conversion from online activity' and 'lifetime value of a customer' (reflected in the previous question), those that are tracking these KPI's are doing so with accuracy.

Two other areas - 'overall ROI from digital marketing' and 'conversion from social media activity' also saw at least 33% of respondents rating their ability as being "precisely accurate".



Delving more deeply into the above, premium food and drinks retailers were asked to rate to what degree they agreed with six statements relating to online marketing activity using a 5-point scale.

Strongest agreement was for the statement:

'We understand where and how we need to improve our website to increase sales' (generating a score of 3.8).

There was far less agreement with either:

'I understand exactly how my customers search for my products' (3.1) and

'We know intimately how our customers use our website' (3.0) or with

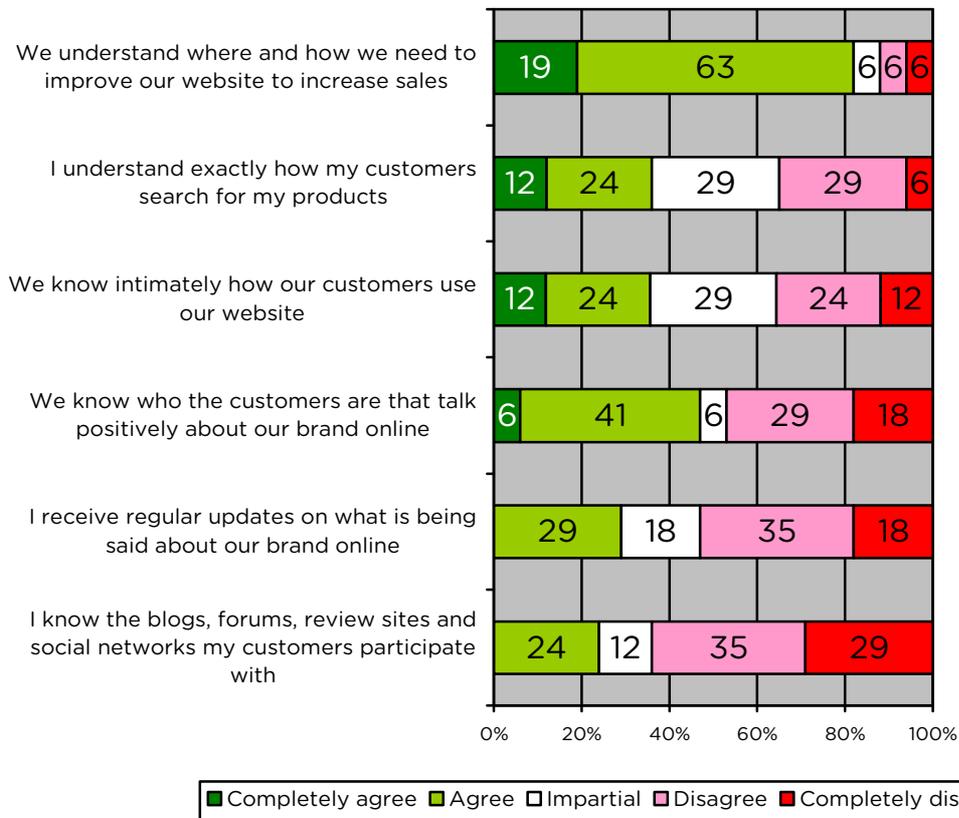
'We know who the customers are that talk positively about our brand online' (2.9)

All these generated generally neutral scores (i.e. with scores at or close to 3) - although the latter statement generated more polarised responses.

There was general disagreement with the final statements:

'I receive regular updates on what is being said about our brand online' and

'I know the blogs, forums, review sites and social networks my customers participate with'.



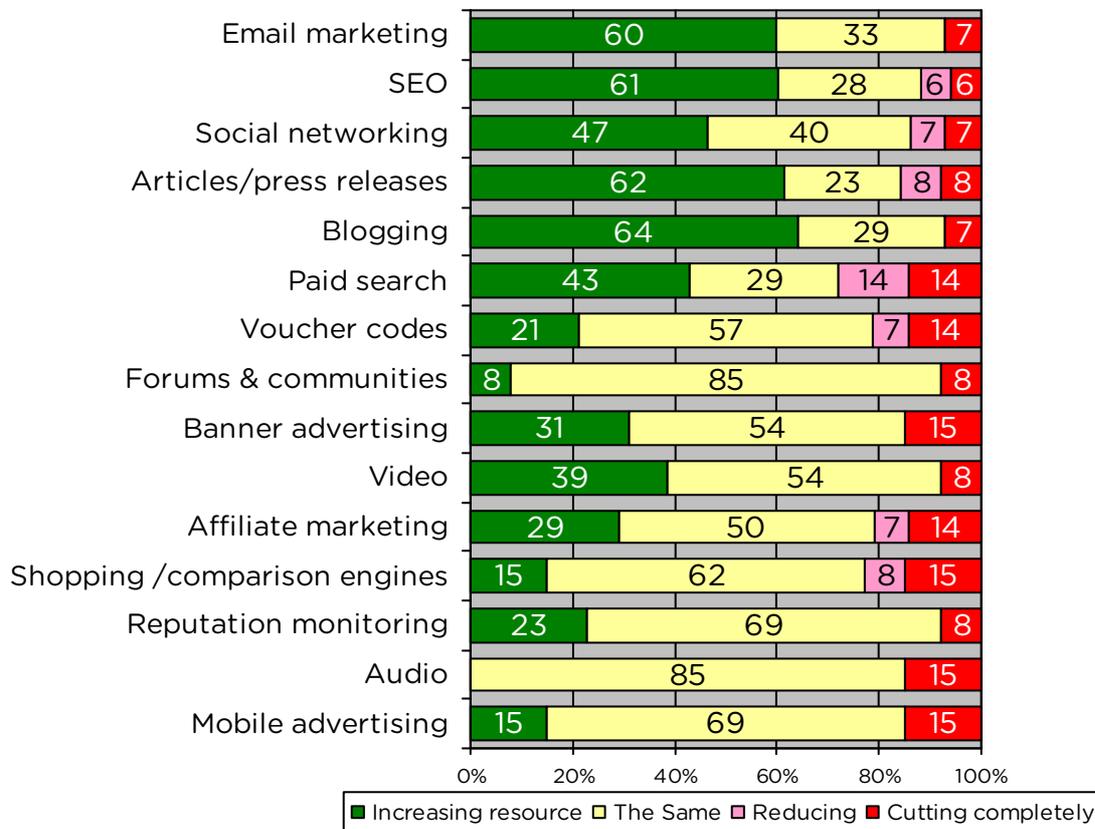
Section 5: Plans for 2011

Premium food and drink retailers were asked:

Compared to 2010, please indicate your plans in 2011 for resources (financial and/or time) in each area

Four activities will see more than half of respondents increasing their resources next year, these being email marketing, search engine optimisation, articles/press releases and blogging, whilst social networking and blogging also appear to be potential growth areas.

It is worth noting however that all areas are prone to reduced activity or a complete cut for some of our respondents. Further investigation would be required to judge whether this is due to economic conditions.



Appendix 1 - Purpose of research

Research was conducted by Business Blueprints on behalf of Leapfrog, the digital marketing agency, who are specialists in the premium retail sector.

The purpose of the research was to gain an insight into the following:

- The online marketing activities currently being used by premium food and drink retailers, the budget attributed to them and how they are managed
- The perceived benefits that the various individual activities had created
- The ability to measure the impact of each activity
- Future needs and expectations for the development of online activity in this particular sector

Food and drink retailers have the opportunity to benchmark their online marketing efforts against their competitors and peers using the findings from the survey.

Appendix 2 - Methodology

This research was conducted over a series of one-to-one qualitative interviews. 18 companies operating within the premium food and drink sector were kind enough to take part in almost 40 hours of discussions.

The survey focussed on twelve digital marketing activities relevant to retail, namely:

- Search engine optimisation
- Paid search
- Social networking
- Commenting in forums and communities
- Blogging
- Reputation monitoring
- Articles / press releases
- Creating video content
- Creating audio content i.e. Podcasting
- Shopping / comparison engines
- Voucher codes
- Affiliate marketing
- Email marketing
- Banner advertising
- Mobile marketing

Appendix 3 - About Leapfrogg

Established in 2003 and based in Brighton, Leapfrogg is one of the UK's leading digital marketing agencies.

With a particular focus on the premium / luxury sector, Leapfrogg combine retail and digital marketing expertise to help aspiring brands engage their prospects and customers online, increase sales and gain market share.

Clients include the likes of Feather and Black, CP Hart, and Cox and Kings.

If you have any questions regarding the contents of this report, please contact Ben Potter on **01273 322833** or email ben.potter@leapfrogg.co.uk