

# In-store video ads a boon to retailers, a peril for traditional media

February 24 2009

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Video advertising in stores is a moneymaker for retailers, but a growing threat to already cash-strapped print and broadcast media, according to a new study co-written by a University of Illinois business professor.

Yunchuan "Frank" Liu says in-store marketing has surged in the last decade, fueled by on-the-spot commercials that have proven persuasive with shoppers and lower advertising rates that are popular with manufacturers.

Retailers have a pricing edge over traditional media outlets because stores profit from both advertising revenue and sales increases sparked by the ads, according to the study, which will appear in *Marketing Science*, a peer-reviewed journal.

"Commercial media only gains from advertising, with no direct stake in how much product is sold," Liu said. "Retailers have incentive to subsidize rates because the more manufacturers advertise, the more sales could increase."

The study, based on economic models, is the first to examine the impact of in-store advertising on the product-distribution chain, said Liu, who co-wrote the study with University of Southern California economist Anthony J. Dukes.

Liu says the findings are another dark cloud for newspapers, magazines and broadcasters already wrestling with audience and revenue declines in

a market spread thin by the growth of online, cable and other options.

"In the future, we see more advertising available in stores, and more advertising shifting from commercial media to in-store media," said Liu, a professor of business administration.

He says print and broadcast media may have to adjust their sights, forgoing ads for food, cleaning supplies and other staple products and focusing instead on brand-awareness campaigns, services such as movies or health care and big-ticket items that consumers ponder before buying.

"Commercial media could become a high-quality platform for branding, long-range buying and services not available in stores," Liu said. "But for impulse purchases - cereal, razor blades and those kinds of retail products - in-store advertising will be really important."

The study says in-store advertising also provides social benefits, giving consumers product information as they shop - when they need it most.

"Retailers benefit, manufacturers benefit, and consumers benefit," Liu said. "With lower advertising rates, manufacturers advertise more, giving consumers more information about products that satisfy their wants and needs."

Up to 70 percent of consumers make brand decisions while they shop, and research shows that brand recall is 65 percent among Wal-Mart TV viewers compared with just 23 percent among in-home viewers, the study says.

Liu says Wal-Mart pioneered in-store advertising in 1999, launching 100,000 screens in more than 2,650 stores that reach 336 million shoppers every month. It has the fifth-largest reach of any network, trailing only ABC, CBS, NBC and Fox.

Other large retailers have since followed, including Best Buy, Costco, Macy's and Borders. With the surge, Liu said, about a quarter of Americans now go to at least one retailer every week that uses in-store advertising.

"In-store media is more likely to be profitable for retailers who are large and powerful enough to share a significant portion of the revenue with manufacturers through lower rates," he said. "It's not as effective for smaller retailers because start-up costs are high."

The study also found that retailers should discount advertising rates for manufacturers with large, well-known brands, while charging more for lesser-known brands that are still trying to carve a market niche.

"Well-known manufacturers know that customers will buy their product anyway, so they want a discount to advertise in stores," Liu said. "Lesser-known brands have more to gain, so retailers should charge them more."

He says in-store advertising will ultimately impact marketing strategy, providing another option that manufacturers can use to lure buyers.

"In-store media will likely focus on lower-cost brands that people buy frequently," he said. "Commercial media could be a good platform for branding and bigger-ticket items. Some manufacturers might want to do both, branding their product through conventional media, then using in-store media to lure customers as they shop."

Source: University of Illinois at Urbana-Champaign

Citation: In-store video ads a boon to retailers, a peril for traditional media (2009, February 24) retrieved 2 May 2024 from <https://phys.org/news/2009-02-in-store-video-ads-boon-retailers.html>

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