

## Mobile retailing Are you ready for radical change?

Can a retailer afford not to think about the ways that mobile technologies are changing the *how, when, and what* of selling? According to Deloitte research,<sup>1</sup> by 2016, smartphones, used as part of a shopping experience, could impact 17–21 percent of retail sales — a whopping \$627–\$752 billion. If you are not preparing for that today, you are already behind the curve.



Over the past two years, Deloitte has researched the use of mobile technologies in and around the shopping experience. In many ways, the facts speak for themselves. Forty-nine percent of U.S. consumers own a smartphone: 60 percent of these shoppers use their phones while in a store, and nearly half say that doing so has affected their purchasing decisions. Shoppers who use a retailer's dedicated application (app) are 21 percent more likely to convert while in the store. Clearly, a smartphone contributes to a compelling shopping experience.

Mobile technology is making possible the constantly connected consumer, and that is already impacting every part of a retailer's business: from operating models to cross-channel integration, from talent recruitment and compensation to IT investment, and from data mining to inventory management.

<sup>1</sup> The data in this paper comes from two sources of original Deloitte research: "Transforming Retail: How to improve performance with mobile and digital innovations" and "The Dawn of Mobile Influence: Discovering the real value of mobile in retail." Both studies can be found at [www.deloitte.com/us/retail-distribution](http://www.deloitte.com/us/retail-distribution).

Retailers are asking, "How can we capture the interest, loyalty, and purchasing power of the mobile shopper?" When it comes to taking advantage of the mobile revolution and attracting new customers while hanging on to loyal ones, there is no "one size fits all" solution. However a few of the implications of mobile retailing are emerging as universal.

### 1. When customers know more, they buy more

Let's face it, the table stakes in mobile selling are a branded app and mobile site which say, "We expand your world." The goal is to push information out to the opted in shopper — information about products, locations, special events, and promotions. By increasing access to information, while hooking the customer to come to or stay in the store, mobile technology keeps the shopper from looking elsewhere and ultimately drives in-store conversion (assuming, of course, appropriate levels of service on site).

For example, to improve the in-store experience, Hy-Vee (a supermarket chain with more than 220 retail stores in the Midwest) rolled out a voice-activated app loaded with inventory data and floor maps. Shoppers can locate products without frustration, as the app directs them to the aisle and even the shelf. The tool also allows users to browse weekly offers, search for recipes, build shopping lists, buy products, and report out-of-stocks via Twitter.<sup>2</sup>

In its innovation center, Motorola imagines a mobile-enabled shopping experience where the shopper receives a text directing him/her to personal promotions, checks out via her smartphone from anywhere in the store, and receives an e-receipt. In a conversation with Deloitte LLP, Eduardo Conrado (senior vice president and chief marketing officer of Motorola Solutions) says the innovation center illustrates “the art of the possible ... a high-tech, interactive experience.”

## 2. Data analytics is a “must have” capability

Mobile devices are engaging shoppers about their needs and desires. In the store, retailers (and manufacturers) are using mobile technologies to get to know their customers better — like an ‘electronic personal shopper’. But this intimacy requires data — a lot of data — as well as the necessary mining and analysis to become ‘insights’.

For example, Clinique is testing an iPad application to provide customized skin care solutions. Shoppers fill out a questionnaire about their dermatological issues; the app analyzes the answers and recommends a bundle of products (among a possible 180,000 combinations). Clinique understands its shoppers: many would rather share private information with an iPad rather than a sales clerk; and they are likely to be impressed with the personalization of the analysis. During its rollout period, the iPad application increased sales by 30 percent.<sup>3</sup>

<sup>2</sup> *Mobile Commerce Daily*, “Hy-Vee launches new mobile app to simplify grocery shopping,” (January 24, 2012) and “Hy-Vee lets consumers shop produce via commerce-enabled iPhone app” (December 6, 2011)

<sup>3</sup> Zebra Technologies, “How printing from iPad enhances the shopping experience: Lift sales while creating multi-channel opportunities,” 2011 ([www.zebra.com](http://www.zebra.com))

## 3. Instant gratification is the retailer’s best friend

In a survey conducted by a customer relationship management software company, 78 percent of consumers said that price and promotions are the most important factors in their buying decisions. Targeted promotions have been shown to increase purchasing at a rate that is four to five times greater than conventional marketing.<sup>4</sup>

To encourage spontaneous sales, while fighting showrooming, retailers are geofencing. When an opted in shopper is in or near a store, she receives personal, relevant promotions — for example, a special on umbrellas during a rainstorm is sent to a shopper’s smartphone if they are within a 10-mile radius of the store, or a markdown on aisle six when a customer is walking down aisle three.<sup>5</sup> Of course, this technology is still young, and adoption by shoppers has been spotty. According to market surveys from Forrester Research, only eight percent of respondents said they used their phones to “check in” to stores and seven percent said they used phones to learn about in-store promotions or events. In the two years that North Face has had geofences, it has enrolled just 8,000 people.<sup>6</sup>

Yet, mobile couponing is gaining in popularity. General Mills is building a mobile customer base by offering coupons for its 100 brands through an app: so far, 25 percent of its digital coupons are being delivered to mobile devices. In an interview with Deloitte LLP, Katy Dickson (vice president and marketing director) expressed enthusiasm for the new technology: “We continue to look for more opportunities to leverage this channel, including the next frontier of the mobile wallet.” Coincidentally, digital, including the mobile channel, is more cost-effective, as many third parties charge only a click-through fee for mobile offers, an option that is trending cheaper than traditional advertising.

<sup>4</sup> Maxxing, “Increased promotions efforts in response to economic conditions” ([www.scribd.com](http://www.scribd.com))

<sup>5</sup> Dana Mattioli and Miguel Bustillo, “Can texting save stores? ‘Geofencing’ lets retailers offer deals to nearby customers, fight price-shopping,” *Wall Street Journal*, May 8, 2012 ([www.onlinenwsj.com](http://www.onlinenwsj.com))

<sup>6</sup> *Ibid*

#### 4. The boundaries between social media and retail apps are blurring

Smartphones break down barriers between activities, and retailers are doing the same with “social, local, mobile” marketing or SoLoMo. Shoppers use their phones to find stores near their location, tap into social media for feedback about retailers and products, and receive offers and coupons.

For example, consumers who check in at a Walgreens store via the Foursquare mobile social network instantly receive a coupon that can be read by the phone via optical scanners in the stores. The retailer’s president of e-commerce, Sona Chawla, says that the company is “using mobile technology and social media to better engage Walgreens customers, to give them convenient channels to interact with us, and to deliver products, services, and savings they truly value.”<sup>7</sup>

Neiman Marcus is testing a new app that enables customers to interact directly with their favorite sales associates, enhancing connections wherever a shopper is in a store. When a customer with the app on his/her smartphone passes within range of an in-store sensor, the preferred sales associate is automatically notified. At the same time, the shopper is told where an associate is located in the store as well as alerted to upcoming store events, new product arrivals and sales, and emerging fashion trends. The customer can use the app to get product information by reading quick response codes throughout the store; he/she can show his/her favorite products to the associate, make an appointment, or leave a message. The associate sees the customer’s likes and dislikes and his/her purchase history, as well as a Facebook photo.<sup>8</sup>

<sup>7</sup> Bill Siwicki, “Walgreens gives SoLoMo shoppers instant gratification,” *Internet Retailer*, March 7, 2012 ([www.internetretailer.com](http://www.internetretailer.com))

<sup>8</sup> Siwicki, “Neiman Marcus connects customers and associates with a SoLoMo app,” *Internet Retailer*, March 1, 2012

#### 5. Mobile payments are more efficient for everyone

Pilot studies suggest that mobile point-of-sale (POS) terminals can cut average transaction time for cash payments in half, while also processing card payments at least five times faster.<sup>9</sup> Also, the operational efficiencies are potentially dramatic: mobile checkout means far fewer counters in the store, freeing up valuable floor space for more productive uses. Last, but certainly not least, mobile checkout can improve the customer experience by reducing wait times and by simplifying coupon redemption (promotions delivered to mobile devices can be received, retrieved, and redeemed on the spot).

As far back as 2010, Nordstrom laid the groundwork for rolling out mobile POS by installing wi-fi in its stores, at that time to enable consumers to shop with their mobile devices by accessing online catalogs. In early 2011, the retailer piloted mobile POS devices at select stores and, by July 2011, expanded the rollout to all its full-line stores.<sup>10</sup> Sales associates at Nordstrom can accept credit card payments, send e-receipts, add customers’ purchases to its “client service” system, check product availability, and place an order for home or in-store delivery — all on the selling floor, without access to a register or a backroom.

The Home Depot became the first “brick-and-mortar” store to accept PayPal; the technology has been rolled out in 2,000 stores across the U.S. At designated terminals, consumers can check out by either using a PayPal-issued credit card or entering their mobile phone number and a PayPal PIN. During an interview with Deloitte LLP, Cara Kinzey (senior vice president, information technology) said that customer feedback on the PayPal option has been strong: “People who have used it, like it. A lot of our shoppers — such as contractors — do not want to carry wallets. This has been one of our best technology implementations from a customer acceptance standpoint.”

<sup>9</sup> Craig Conklin, “NFC and the mobile payment initiative,” January 17, 2011 ([www.craigconkling.blogspot.com](http://www.craigconkling.blogspot.com))

<sup>10</sup> *RIS News*, “Nordstrom deploys 6,000 mobile POS devices” (May 16, 2011) and “Nordstrom expands mobile POS functionality in chain-wide deployment” (February 21, 2012) at [www.risnews.edqlcom/retail](http://www.risnews.edqlcom/retail)

## **About Mobile Payments:**

### **A view from ISIS, maker of the Isis Mobile Wallet™**

ISIS is the joint venture of three large wireless telecom providers. The Isis Mobile Wallet™ is an NFC (Near Field Communication) technology soon available on mobile phones from major manufacturers. Deloitte LLP asked Ed Busby (chief commerce officer at ISIS) to share his thoughts about mobile payments.

### **Q: How can retailers benefit from adopting mobile payment platforms? Which aspect of store performance would be enhanced as a result?**

On the payment side, there is going to be big savings in operations just from time saved at the POS. For retailers like grocery stores, having a “tap to pay” capability will actually mean tens — and for some, hundreds — of millions of dollars in savings.

On the commerce side, mobile payment platforms are a great way to send targeted offers to loyal customers. When you think about it, the biggest challenge facing the largest retailers is not discovery: it is about getting a greater share of the wallets or already loyal shoppers. In the long run, a platform will introduce much more complex loyalty schemes that could enable merchants to drive incentives. We are seeing things like gamification develop around an expanded ecosystem.

### **Q: What about small retailers — the mom-and-pop businesses — how can they benefit?**

Unlike the big businesses, the small enterprises really need discovery. For them, couponing and discounts are attractive ways to get people in the door. But most local and small businesses overestimate their ability to keep shoppers loyal once they walk in the door. In the long run, these types of platforms will evolve to help those small businesses attract new consumers and keep them coming back.

### **Q: What would you say to retailers who are planning their own mobile payments platform?**

When you are developing your own apps, think about how you might want to integrate those into the payments experience, especially from a consumer’s perspective. Retailers should actually participate with us earlier rather than later, because as we develop our products for future releases, we can incorporate their thoughts and experiences, as well as their commercial objectives.

Part of the online payment picture is cloud computing. According to a recent posting in *The Mobile Retail Blog*, cloud computing can make the cash register obsolete, even for small businesses. A small attachment that plugs into a smartphone can read a credit card number, process the payment, and deposit the funds in a bank account. This very new technology has already processed about \$2 billion worth of credit card payments for small retailers. At the same time, the software in a cloud-based cash register can automatically update store inventory with each scan, record a purchase in a customer’s profile (and notify him by email when a similar product goes on sale), and identify best sellers in a store and shift the inventory to make sure there is ample supply.<sup>11</sup>

## **6. Mobile-empowered associates may deliver better service to shoppers**

When it comes to store operations, mobility is all about productivity improvement. Sales associates armed with tablets are freed from the checkout counters and the stockroom to help customers on the floor. At the same time, they can see inventory across all stores and distribution centers, allowing customers to choose from a wide range of products. In fact, mobility can reduce inventory costs and stockouts, while expanding shopper’s choices. Recent research shows that out-of-stock items can cost retailers nearly half of a customer’s intended purchases;<sup>12</sup> by making inventory visible to customers, retailers can close the deal and keep them from shopping elsewhere.

Retailers could even give smartphone-equipped customers direct access to virtual inventory, providing a better customer experience than their online counterparts by offering free pickup at stores and “no hassle” returns and exchanges. By 2005, Nordstrom’s sales associates could quickly locate a product across the retailer’s entire store inventory and ship it directly to customers. Three years later, the retailer included online inventory in the associates’ view, creating a truly shared inventory platform.

<sup>11</sup> Daniela Baker, “Is retail ready for cloud-based cash registers?” *The Mobile Retail Blog*, November 29, 2011 ([www.themobileretailblog.com](http://www.themobileretailblog.com))

<sup>12</sup> Thomas Gruen, Daniel Corsten, and Sundar Bharadwaj, “Retail out-of-stocks: A worldwide examination of extent, causes, and consumer responses,” University of Colorado, Colorado Springs, May 19, 2002

The Home Depot has unified its inventory across stores and distribution centers, so sales associates armed with mobile POS devices can locate products in a store or in nearby locations. As associates reduce stockouts, they also improve the consumer experience and increase conversion rates. For the first time, more than 51 percent of The Home Depot's store staff are allocated to customer-facing activities rather than tasking activities. According to CEO Francis Blake, the retailer has a target ratio of 60:40 by 2013.<sup>13</sup>

Of course, this raises the question: When mobile is part of a retailer's strategy and operations, does the company need employees with new and different skills, not just in sales but also in supporting operations? Certainly, information technology will need more muscle, while sales associates will need to be trained to use the technology as part of the sales process. Also, since a shopper can "leave" a store virtually, having at her fingertips ready access to other retailers' products and prices, the associate's knowledge and service delivery will have to be top-notch. Store employees are the face of the retailer — brand ambassadors who embody the values of their companies. As customers' purchasing behaviors evolve so must the sales associate's role. In this context, retailers should step back and assess how they can enable their store talent to deliver a new service model, with the technology and the right-sized workforce to support it.

#### **7. An "app" alone will not do it...**

NFC is a short-range, low-power protocol between two devices: the initiator uses magnetic induction to create a radio wave field that the target can detect and access. Small amounts of data can be transferred wirelessly over a relatively short distance. (NFC has evolved from technologies like RFID, but unlike RFID is not a "one way street." An NFC-enabled device can both send and receive information.) A smartphone with an NFC chip can easily work as a credit or debit card — a tap or wave of the phone at an NFC-enabled payment terminal completes a transaction.<sup>14</sup>

On July 2, MasterCard and Deutsche Telekom announced a partnership to introduce mobile payments in Europe. At the same time, Deutsche Telekom is talking to Google, whose Google Wallet™ is an already known mobile payment "app." These alliances will likely speed up the popularity of NFC in mobile phones and acceptance of the mobile wallet concept.<sup>15</sup> In a statement to the press, Thomas Kiessling (chief product and innovation officer for Deutsche Telekom) said: "This is a huge step on our way to increase mobile payments ... We want to build a comprehensive ecosystem around mobile payment [and be] the first choice for customers regarding connected life and work."<sup>16</sup>

#### **In conclusion: Mobility is anticipated to drive radical changes in business models**

Mobile affects everything — not just store operations, but also marketing and merchandising, cross-channel strategies and integration, organization and talent management, and technology investments.

While mobile technology has far-reaching implications for a retailer's business model, there is no "one size fits all" solution. Right now, every retailer has to consider a few fundamental strategic issues:

- How can mobile technologies improve the in-store experience? How should multiple channels be integrated so that shoppers can seamlessly connect with the brand? The place to begin is a customized app and branded mobile site — the table stakes for engaging the shopper and pushing out all types of information.
- Social networking is significantly important in developing and sustaining a relationship with customers. More than ever, shoppers are communicating their likes and dislikes, influencing each other for better or worse. The advocacy of satisfied customers amplifies the impact of a retailer's messaging and brand reputation. Companies can win advocacy by being a relevant, impactful, and valuable part of shoppers' dialogues.

<sup>13</sup> RIS News, "Home depot quickly hits 1 million mark for mobile POS transactions"

<sup>14</sup> "Near-field-communication is helping your smartphone replace your wallet" (www.popsci.com)

<sup>15</sup> Mihaita Bamburic, "Mobile payments are coming to Europe," July 3, 2012 (www.betanews.com)

<sup>16</sup> Ingrid Lunden, "MasterCard ties up with T-Mobile for NFC mobile payments in Europe," July 2nd, 2012 (www.techcrunch.com)

### **Every format is different (and some are more mobile-friendly)**

Retailing formats differ in their value propositions, strategies, performance objectives, and customer expectations. So, not surprisingly, they also differ in their uses of mobile technology. Here are some general observations:

**Apparel store:** Customers may prioritize expert opinions, in-store ambience, and customized clothing over transaction speed. Mobile “apps” that provide real-time fashion advice or access customers’ social networks to validate purchase decisions may be particularly valuable to shoppers.

**Department store:** To attract and retain young customers, the focus will likely be on loyalty programs and targeted offerings, managed and sent to smartphones. Applications that provide in-store navigation may help customers find the products they are looking for.

**Discount store:** Personalized offerings and price discounts may be especially effective in appealing to price-sensitive customers. Visitors to discount stores may appreciate mobile POS, as it shortens wait times and simplifies the shopping experience.

**Club store:** Mobile-based services that provide targeted offerings, bundled products, or discounts may be attractive to price-sensitive shoppers. Customers may also benefit from mobile applications that help them navigate more efficiently and locate specific items on the shelves.

**Drug store:** Customers may value mobile applications that provide credible information on prescription drugs. The convenience of mobile technologies to manage loyalty programs, offer discounts, and decrease checkout times may keep customers from shopping elsewhere.

**Grocery store:** Low prices play an important role in attracting shoppers. Mobile strategies that provide targeted offerings and real-time discounts could shape customer behavior and increase loyalty. Mobile innovations that accelerate the shopping process would also be valuable.

**Home improvement store:** Mobile innovations that can tap into expert opinion and provide how-to videos for relevant products would enhance the customer experience and decrease staffing requirements.

**Non-apparel specialty store:** Mobile innovations that provide personal recommendations based on the shopper’s own tastes and requirements might be rewarded with improved store performance.

- Shopper segmentation enables greater relevance and customer intimacy. To gather and analyze data successfully — as a means to understanding customers and crafting tailored messages and offers — a retailer might have to explore new organization structures, processes, and third-party partnerships.
- To optimize investments, a retailer’s leadership will need an enterprise view — a holistic understanding of multiple profit and loss statements, of the new talents required of employees, and of channel-specific and cross-channel strategies and objectives. One innovation here is the concept of a chief experience officer who can break down organizational barriers.

In the near future, mobile technology will begin to affect each retailer’s ability to attract new customers and retain old ones. For this reason, each retailer has to ask: “How could mobile enable us to offer our customers a better shopping experience?” Being prepared for radical changes is an absolute.

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