

M-Commerce: Retail in Motion

Consumerization of mobile devices pushes M-commerce onto the retail fast track

More than 63 million people accessed the Web on their mobile devices during the month of January 2009. More than 22 million did so daily. These aren't just impressive numbers, as reported by the Web intelligence firm comScore, they are an impressive number of consumers. And they are skyrocketing. Daily access of the mobile Web more than doubled last year.

The affect of this phenomenon on merchants is to trigger the first rule of retailing, which goes something like this: Where customers go retailers must follow. So, it's not surprising that mobile commerce or m-commerce is attracting a great deal of attention today. For the purpose of this report we define m-commerce as the ability to conduct transactions using a mobile device (cell phone, PDA, smartphone and other emerging mobile equipment).

Although the potential for mobile commerce is evident it is also accurate to say, paraphrasing Yogi Berra, its future is ahead of it. Despite a great deal of hype, m-commerce is still an emerging channel that is completely dependent on emerging technology.

BENCHMARK 2009

With the adoption curve for m-commerce making steady headway we decided it was time to take a closer look at how retailers are planning their go-to-market strategies, how they view their missions and goals, and what obstacles they are facing.

Establishing a corporate strategy is the first step in the adoption process, and we find 15.4% already have an m-commerce strategy in place and are currently executing it. A double-digit adoption rate this early in the lifecycle of an emerging trend is a strong indicator of rapid deployment.

Digging deeper to get a clearer picture, we asked which business goals does your organization believe M-commerce will have a big impact on?

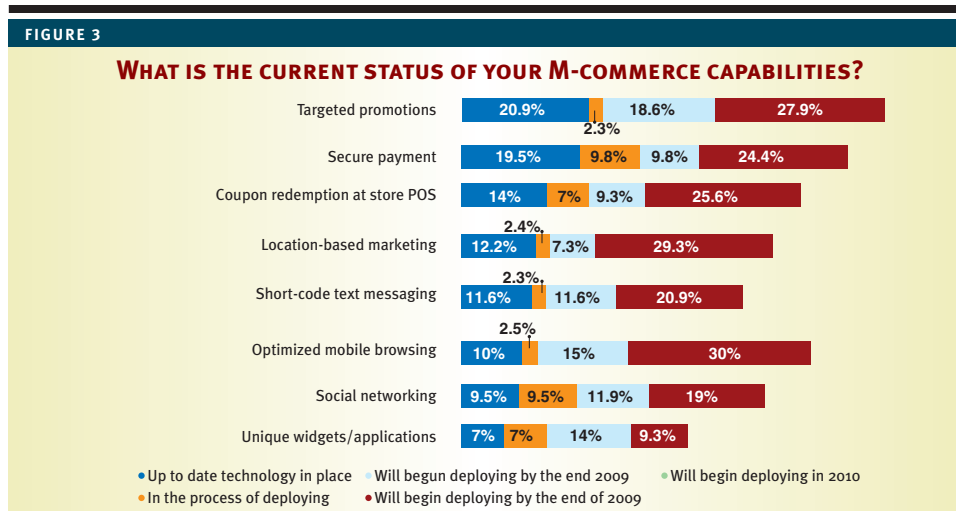
The top answer is to Improve Customer



WHAT IT MEANS: ALTHOUGH AN EMERGING TECHNOLOGY, M-COMMERCE HAS A SIZABLE FOOTPRINT.



WHAT IT MEANS: RETAILERS SEE M-COMMERCE AS BEING DEMAND DRIVEN.

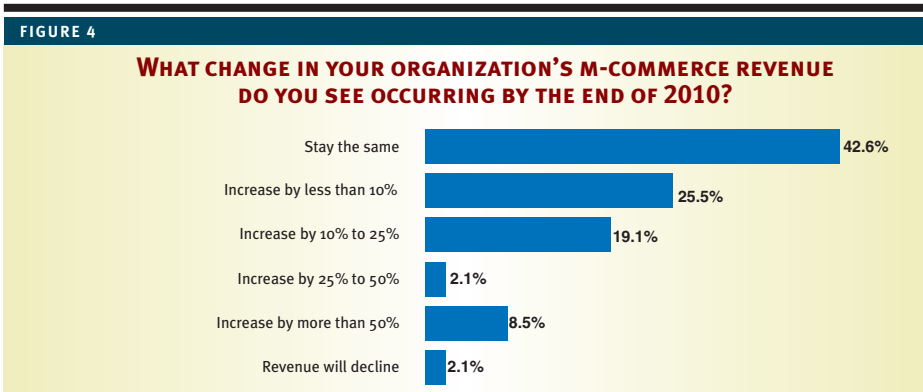


WHAT IT MEANS: FOR TARGETED PROMOTIONS TO WORK, SECURE PAYMENTS ARE A MUST.

Loyalty, Retention and Repeat Visits, which was chosen by 60.9%. Smart retailers have long recognized that multi-channel customers are their best and most loyal shoppers. M-commerce is seen as an effective tool to retain these angel shoppers and keep them coming back.

To find out exactly what retailers are doing with their m-commerce initiatives we asked about the specific m-commerce capabilities currently deployed. The top choice here is Targeted Promotions, where 20.9% say they have up-to-date technology in place. This is closely followed by Secure Payment with 19.5%.

Yogi Berra once said when you come to a fork in the road you should take it. We are rapidly approaching a time when m-commerce will no longer be a take-it or leave-it option. Customers will soon begin voting with their wallets in such large numbers that successful early adopters will reap huge rewards. **RIS**



WHAT IT MEANS: REVENUE IS EXPECTED TO RISE FOR THOSE DEPLOYING M-COMMERCE.



WHAT IT MEANS: LOYALTY AND MARKETING ARE THE TWIN DRIVERS OF M-COMMERCE.

THE NEW CHANNEL(S) FOR RETAIL

Just as most retailers are adjusting to one of the toughest consumer markets in decades, a new retail channel is emerging. In many ways this is not a new channel at all, but a combination of previous channels. The mobile phone, specifically the smartphone, is just now emerging as a major marketing platform for retailers and all consumer-facing businesses. Consumers are growing ever more comfortable with downloading software applications to devices that are ever more powerful, with computing power that could challenge computers of just a few years ago. For some consumers, it has become their primary computing and communication device for email, surfing the web, and – oh yes – making phone calls.

The mobile phone allows a user to navigate the Web, collect coupons and build shopping lists from any location they choose. This might occur in a store or on their couch, but they are now gathering information and even executing transactions entirely from their mobile phones. And the trend is only growing.

As consumers become more comfortable with this new medium, they will increasingly grant access to their most trust-

ed retailers. Correctly structured, these Marketing programs can provide tremendous value for consumers, strengthen their ties to a retailer, and provide excellent ROI for marketing programs and targeted offers. In most cases, retailers have an existing relationship and have developed trust with their customers, so one key goal is to keep this relationship untarnished. At the same time, being too cautious may cause customers to stray to competitors who are more active in mobility. Leading retailers are proceeding with caution, but proceeding nonetheless.

Whether you are in the early stages of understanding this medium, or have been experimenting for a couple of years, make sure you seek guidance from companies that have experience in this new and emerging space. Keep your customers' interest in mind and you can't go wrong.



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M-Commerce: Retail in Motion

Consumerization of mobile devices pushes M-commerce onto the fast track in retailing

By Joe Skorupa

More than 63 million people accessed the Web on their mobile devices during the month of January 2009. More than 22 million did so daily. Those aren't just big numbers, as reported by the Web intelligence firm comScore, they are huge numbers and they represent a lot of consumers. And, importantly, the numbers are skyrocketing. Daily access to the Web on mobile devices more than doubled last year.

The affect of this phenomenon on merchants is to trigger the first rule of retailing, which goes something like this: Where customers go retailers must follow.

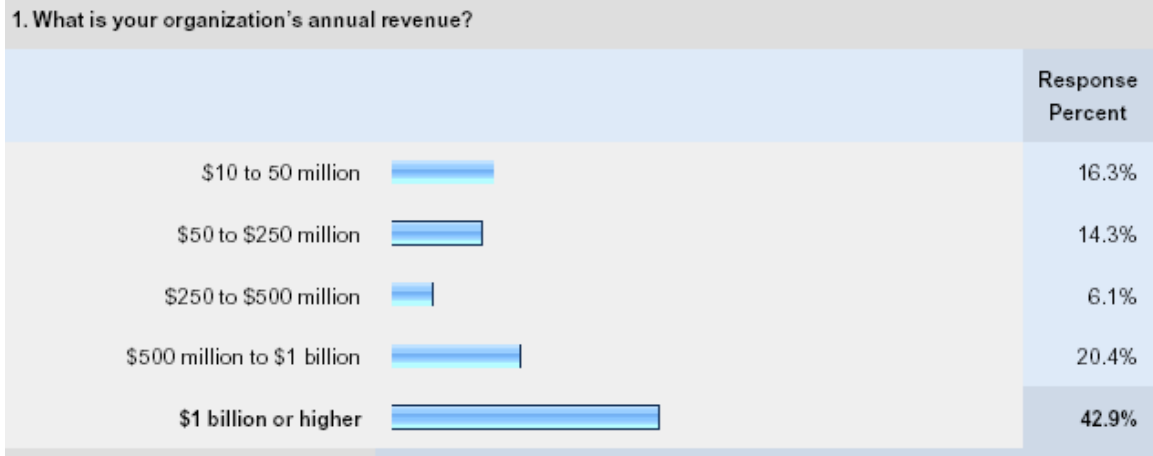
So, it's not surprising that mobile commerce or m-commerce is attracting a great deal of attention today. We define m-commerce as the ability to conduct transactions using a mobile device (cell phone, PDA, smartphone and other emerging mobile equipment).

A short list of retailers that currently have m-commerce capabilities includes: Sears with Sears2go; 1-800-Flowers with the Mobile Gift Center; Polo Ralph Lauren with m.RalphLauren.com which uses two-dimensional bar codes; Target with the visually creative Target Gift Globe app; and Amazon with Amazon Remembers, which enables users to take a photo of a product and search Amazon's vast library of product photos for relevant suggestions.

M-Commerce Benchmark 2009

With the adoption curve for m-commerce steadily climbing we decided it was time to take a closer look at how retailers are planning their go-to-market strategies, how they view their missions and goals, and what obstacles they are facing.

Of the 48 retailers we surveyed in April 2009 42.9% have more than a \$1 billion in annual revenue. The next largest segment has revenue between \$500 million and \$1 billion (20.4%). With nearly two thirds of the respondent pool having revenue greater than \$500 million it is clear these retailers have sufficient size, resources and motivation to get involved in m-commerce. So, are they? That's what we aim to find out.



M-Commerce Strategy 2000-2010

Establishing a corporate strategy is the first step in the adoption process, and we find 15.4% already have an m-commerce strategy in place and are currently executing it. A double-digit adoption rate this early in the lifecycle of an emerging trend is a strong indicator of rapid deployment.

Another 5.8% have a strategy in place and will begin executing by the end of 2009, while 11.5% are in the process of finalizing a strategy and plan to begin executing by the end of 2009.

This means a total of 32.7% either are executing an m-commerce strategy now or will be doing so by the end of the year. Even assuming a portion of these will get postponed due to financial considerations this is a strong indicator that m-commerce is moving forward with a fast adoption rate.

Apparently retailers learned an important lesson from the dot-com era — playing catch-up is a loser's game in a fiercely competitive landscape. Also, it must be noted that smart companies always plan for growth strategies even in a contracting economy, and m-commerce is one of the few growth channels available today.

2. Does your organization have an M-Commerce strategy?		Response Percent
We have an M-Commerce strategy in place and are currently executing		15.4%
We have an M-Commerce strategy and will begin executing by the end of 2009		5.8%
We are currently creating an M-Commerce strategy and plan to begin executing by the end of 2009		11.5%
We plan to create an M-Commerce strategy by the end of 2009		9.6%
We plan to create an M-Commerce strategy in 2010		23.1%
No plans		34.6%

Goals and Impact

Digging deeper to get a clearer picture, we asked which business goals does your organization believe M-commerce will have a big impact on?

The top answer is to Improve Customer Loyalty, Retention and Repeat Visits, which was chosen by 60.9%. Smart retailers have long recognized that multi-channel customers are their best and most loyal shoppers. M-commerce is seen as an effective tool to retain these angel shoppers and keep them coming back.

Tied for second on this list are two linked choices: Create New Buying Opportunities for Existing Customers and Create a New Channel for Marketing, Advertising and Brand Awareness. Both were chose by 58.7%. These twin goals can be linked to form the basis for an important m-commerce mantra: new channels, new opportunities. It doesn't get more simple or direct than that.

3. Which of these business goals does your organization believe M-commerce will have a big impact on?

	Response Percent
Capture unserved customers in a new channel	47.8%
Create new buying opportunities for existing customers	58.7%
Create synergies through couponing and promotions that will benefit all existing channels	45.7%
Create a new channel for marketing, advertising and brand awareness	58.7%
Improve customer loyalty, retention and repeat visits	60.9%

Revenue Expectations

Revenue is where the rubber meets the road, so we asked respondents to estimate the percentage revenue change from m-commerce by the end of 2010. Since most respondents are starting from near-zero sales one would expect virtually everyone to increase. And this is indeed the case.

A majority of respondents say m-commerce revenue will increase by the end of 2010 (55.3%). The responses range from the cautious (25.5%) who say it will increase by less than 10% to the optimistic (8.5%) who believe it will increase by more than 50%.

The largest segment at 42.6% say revenue will Stay the Same, and these are likely the same folks who say they do not plan to deploy m-commerce initiatives by 2010.



Execution Strategies

To find out exactly what retailers are doing with their initiatives we asked about the specific m-commerce capabilities they currently deploy. The top choice here is Targeted Promotions, where 20.9% say they have up-to-date technology in place. This is closely followed by Secure Payment with 19.5%.

It's no surprise to learn merchants see m-commerce as an ideal channel for promotions. Of course, this effort will have to be accompanied by a well devised campaign to gain shopper permission to be added to a list. This is critical because most people view their cell phones as a part of their personal space, and opt-in permission will be required.

Security, too, is one of the core concerns for the m-commerce channel, especially in the area of payment. Retailers must focus on payment security to earn trust from shoppers and to achieve PCI compliance from the credit card industry.

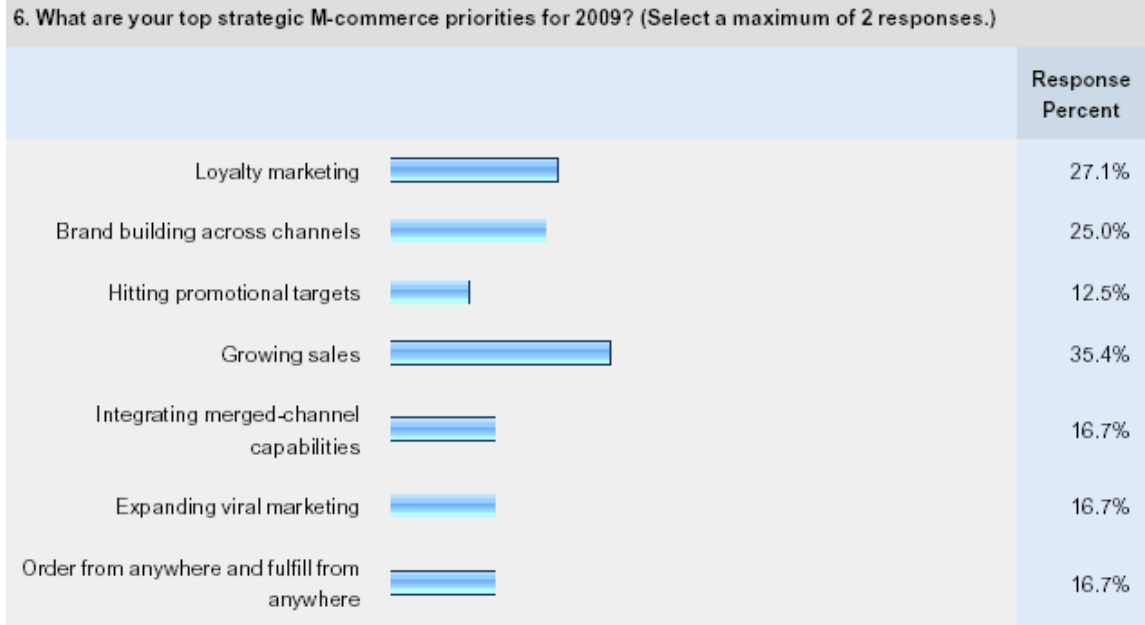
The third most selected m-commerce capability is Coupon Redemption at Store POS. With coupon redemption booming in today's distressed economy retailers want to make sure they are reaching consumers with proven sales tools in all channels.

5. What is the current status of your M-commerce capabilities?				
	Up to date technology in place	In the process of deploying	Will begin deploying by the end of 2009	Will begin deploying in 2010
Optimized mobile browsing	10.0% (4)	2.5% (1)	15.0% (6)	30.0% (12)
Short-code text messaging	11.6% (5)	2.3% (1)	11.6% (5)	20.9% (9)
Location-based marketing	12.2% (5)	2.4% (1)	7.3% (3)	29.3% (12)
Coupon redemption at store POS	14.0% (6)	7.0% (3)	9.3% (4)	25.6% (11)
Secure payment	19.5% (8)	9.8% (4)	9.8% (4)	24.4% (10)
Targeted promotions	20.9% (9)	2.3% (1)	18.6% (8)	27.9% (12)
Social networking	9.5% (4)	9.5% (4)	11.9% (5)	19.0% (8)
Unique widgets/applications	7.0% (3)	7.0% (3)	14.0% (6)	9.3% (4)
Speech recognition	2.4% (1)	2.4% (1)	2.4% (1)	4.8% (2)

Strategic Priorities

Aside from IT capabilities we also wanted to know what retailers believe are their top strategic priorities for 2009. Topping the list is Growing Sales (35.4%). This is a hard benefit that shows retailers are taking a pragmatic approach to new channels and technologies. If m-commerce is destined to become a mainstream tool in retailing it will have to prove itself as a high-performance sales channel.

Beyond hard sales, two soft priorities get high marks on this list—Loyalty Marketing (27.1%) and Brand Building Across Channels (25%). Both of these are tied to marketing efforts and should be accounted for when gauging the success of early m-commerce deployments.

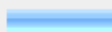




Implementation Plans

Of retailers who plan to move ahead with an m-commerce initiative in 2009 the largest bloc will start with their first pilot test (16.7%). Another 12.5% plan to launch a project specifically for the 2009 holiday season, which indicates these retailers feel confident enough in their projects to launch them in the heart of the busiest and most stressful time of the year.

In total, we expect to see 29.2% of respondents launching m-commerce initiatives (pilot or otherwise) by the end of 2009, with another 12.5% targeting 2010 for their first projects.

Of retailers who already have m-commerce projects underway we see 8.3% plan to expand or upgrade them in 2009. Although this seems like a relatively small number of retailers it actually represents a significant number for an emerging technology, which is one of the major themes of this report. If this number stays at this level for several years then we can say that initial interest has stalled, but right now it appears m-commerce is on a fast track to adoption.

7. What are your M-commerce implementation plans for 2009?		Response Percent
Will do pilot testing of first M-commerce initiatives		16.7%
Will launch first M-commerce initiatives for wide availability		0.0%
Will expand/upgrade currently available M-Commerce capabilities		8.3%
Plan to launch at least one M-Commerce initiative by 2009 holiday season		12.5%
Will not begin M-Commerce in 2009, but will begin in 2010		12.5%

Obstacles Standing in the Way

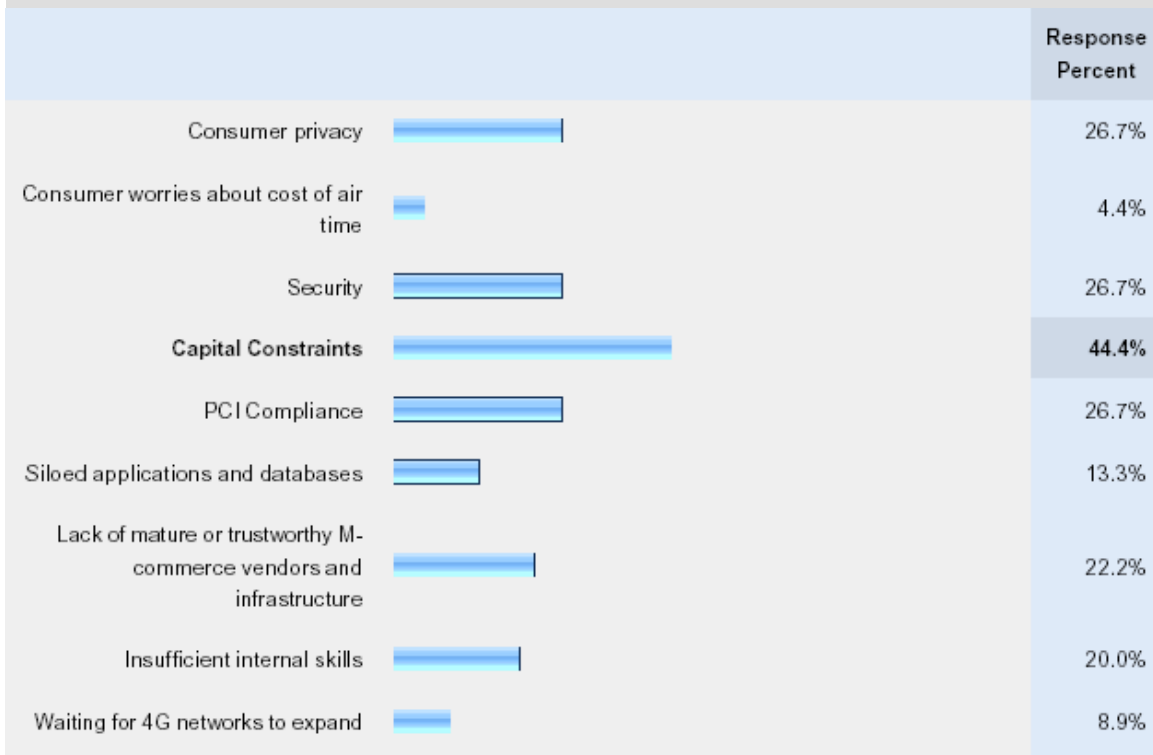
In a year of a contracting economy and pressure on retailers to reduce costs it's no surprise that Capital Constraints (44.4%) tops the list when asked about obstacles that stand in the way of beginning or expanding m-commerce initiatives. Actually, this answer tops the obstacles list in all years, so we need to dig a little deeper.

Tying for second on the obstacles list are Consumer Privacy and PCI Compliance, both with 26.7%. Consumer protection groups focusing on privacy have a well established presence in the marketplace, and retailers know how sensitive this issue can be as they expand into new channels. As a result, retailers need to create a well conceived strategy to achieve opt-in permission, typically through high-value loyalty program incentives.

PCI Compliance is high on the obstacles list, too, because the credit card body that sets standards is punitive to retailers who don't comply, slow moving compared to the speed of change in the industry, and, to date, unable to determine the best way to prevent breaches from resulting in theft of data. PCI Compliance is not just a major obstacle for m-commerce, it tops the list of concerns in many areas of retailing, according to studies *RIS* has done for the past year.

Two other obstacles on the list worth noting further highlight the emergent status of m-commerce today: Lack of Mature or Trustworthy M-Commerce Vendors and Infrastructure (22.2%) and Insufficient Internal Skills (20%). No doubt retailers and vendors alike must learn how to walk with m-commerce before they can take off and run with it.

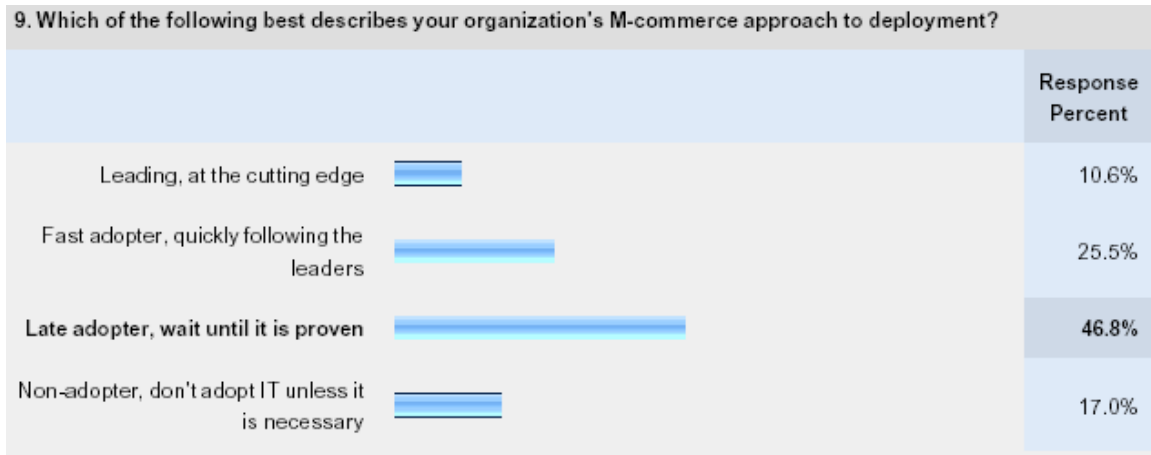
8. What obstacles stand in the way of beginning or expanding your M-Commerce initiatives? (Select a maximum of 2 responses.)



Deployment Philosophy

To understand the context for findings in this report we asked respondents about their deployment philosophy, ranging from leading adopter of advanced technology to non-adopters who don't adopt unless it is absolutely necessary. Answers to this question typically form a bell-curve shape, with the smallest numbers on the extreme ends and the largest numbers bulging in the middle. If the respondent pool accurately reflects retailing as a whole, this is what we should expect to see.

And indeed we do. The number for leading-edge adopters is 10.6%, on one end of the spectrum and for non-adopters it is 17% on the other end. In the middle are the bigger numbers, with 25.5% saying they are fast adopters who quickly follow the leaders, and 46.8% saying they are late adopters who wait until the technology is proven. This confirms the validity of the survey sample.

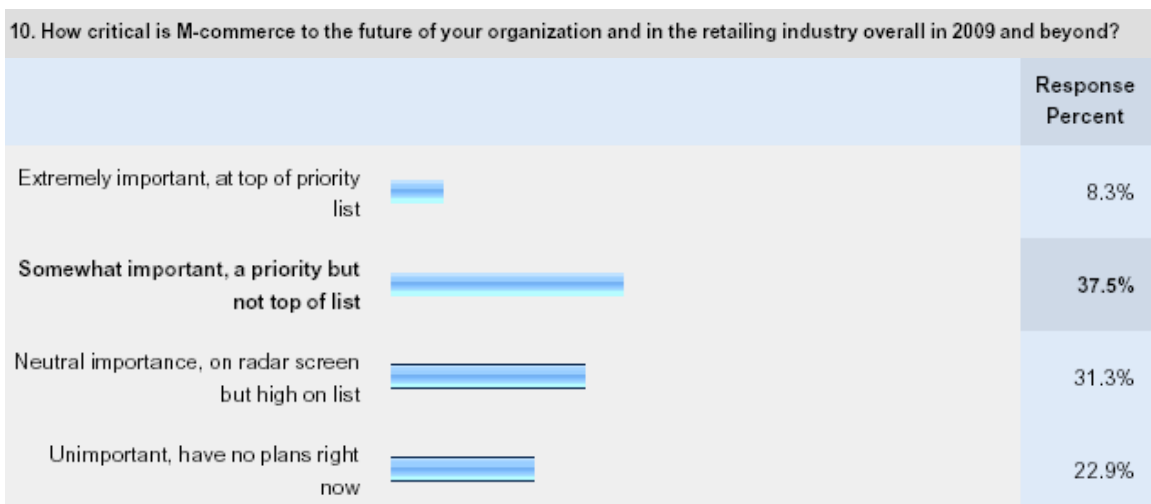


Importance of M-Commerce in Retailing

M-commerce will become critical in retailing when it delivers competitive advantage as measured through sales. Clearly, it has a long way to go before it achieves significant wallop in this metric, but the question of importance is worth benchmarking now and tracking over time.

Today, the top two responses to the question about how critical m-commerce is to the future of your organization are Somewhat Important at 37.5% and Neutral Importance at 31.3%. Like the question above, these answers form the bulge in the middle of the bell curve.

However, this finding diverges from the question above in the delta between the two extremes at the ends, which are Extremely Important at 8.3% and Unimportant at 22.9%. Nearly three times as many respondents chose the Unimportant end of the spectrum over the Extremely Important end. Again, this is typical for an emerging technology and channel, and it will shift rapidly as success stories and sales mount.



Effect of Current Economy

Just short of half of respondents say current economic conditions have had an effect on their m-commerce plans. This includes those who say it has had Some Effect (31.9%) and those who say it has had a Major Effect (17%). No surprises here. The economy is having an effect on everyone.

One bright spot to note here is that 12.8% are moving forward full steam ahead with m-commerce plans regardless of pressures exerted by the contracting economy. No doubt this figure includes the 8.6% who believe m-commerce is Extremely Important and a number of others who may not feel strong economic pressures due to solid sales performance even in a down economy. Yes, some retailers are actually doing well today.



Return on Investment Expectations

When will an emerging technology achieve strong sales and return on investment (ROI)? The correct answer is: who knows? It could be in 2010 or 2011? It could be longer. Remember how long it took for e-commerce to become profitable? Not until after the recovery from the 2001 recession for most retailers.

As a result, the largest segment of respondents are cold-eyed realists who say they Do Not Expect to Achieve ROI (37%). Actually, they meant they do not expect it within a timeframe beyond 18 months, since that was the next closest answer, which was selected by 28.3%.

Only about a third of respondents felt m-commerce initiatives would achieve ROI in less than a year, which is the benchmark today for mature technologies and channels. But this is actually a higher figure than expected for an emerging technology.

Remember how long it took Amazon to make its first annual profit? It posted its first annual profit in 2003, but it was so small (1 cent per share) that most people didn't count it. It did much better in 2004 and has since been going like gangbusters.



Although the potential for mobile commerce to ring up big sales is evident it is also accurate to say, paraphrasing Yogi Berra, its future is ahead of it. Despite a great deal of hype, m-commerce is still an emerging channel completely dependent on emerging technology. In today's risk-averse economic climate this is not the kind of assessment that will easily win over the hearts and minds of cap-ex gatekeepers, such as CFOs.

But Yogi also said when you come to a fork in the road you should take it. We are rapidly approaching a time when m-commerce will no longer be a take-it or leave-it option. Customers will soon begin voting with their wallets in such large numbers that successful early adopters will reap huge rewards, similar to what occurred in e-commerce a decade ago.