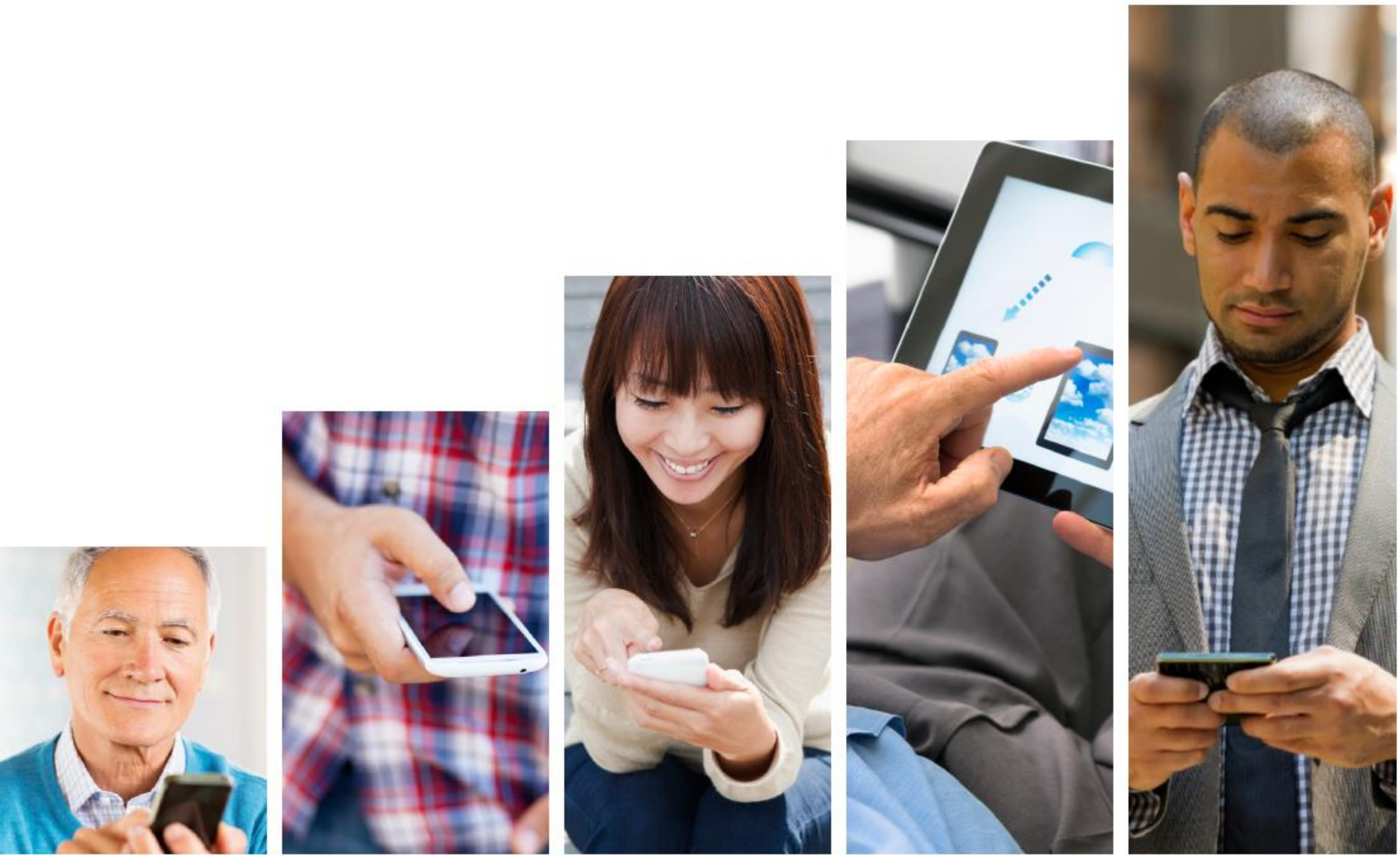
Deloitte Access Economics



Mobile nation

Opportunities and strategies for retail

AMTA, 2015

Deloitte.

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Key points

Mobile technologies are changing the way the economy, society and business work.

The Australian Mobile Telecommunications Association (AMTA) commissioned Deloitte Access Economics to prepare a paper looking at the impacts of mobile technologies on the retail industry.

This paper forms an industry-specific update on our 2013 report, *Mobile Nation*. It estimated that mobile devices will continue to have profound impacts on the economy, including productivity benefits of $11.8 billion over the period to 2025.

Developments in the retail trade industry epitomise the nature of mobile technologies' role in the digital disruption under way, from shifting consumer demands to improved logistics and increased competition.

Mobile devices and apps are a revenue channel, source of productivity growth and are a customer engagement opportunity for retailers. They are also shaping retailers' internal operations. With a relatively young staff base, there will be increasing demands for employees to use their own devices for work. There will also be a need to up-skill the workforce to meet the increasing digital literacy of customers.

The **Catch Group** is one of Australia's leading online retailers. Importantly, it is more of an m-commerce retailer than e-commerce. Although initially the transition to mobile was challenging, the Catch Group now has 70% of its transactions – an estimated 10.5 million a year – come through mobile channels. The insight from its business is that mobile shoppers buy smaller goods, but more frequently.

Coles' Financial Services mobile offering has been designed to improve customer experience and loyalty. It integrates a range of services, combining loyalty programs with financial services (credit cards) and the shopping experience. This has increased engagement with the loyalty program, and enjoyment of the shopping experience.

In coming years, we are likely to see both more online-only retailers, more e-commerce strategies that think 'mobile-first' and greater activities among existing retailers to better use this technology.

1 Mobile in the retail industry

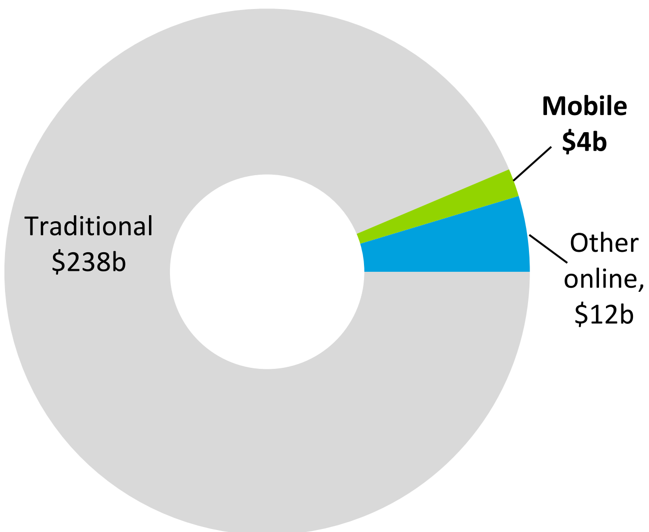
The retail trade industry is a key part of the Australian economy. It is the consumer-facing end of many supply chains and industries, from manufacturing to agriculture.

Retail has experienced significant change over the past decade because of digital disruption, including from the internet, smart phones and other mobile technologies. Consumers' rapid adoption of new technology has been the key driver of change in the retail sector.

Smartphones are now an important and growing channel for retail sales. The proportion of Australians who have purchased a product on their smartphone grew from 9.5% in 2012 to 19% in 2013 (ourmobileplanet, 2014).

Mobile is now an important revenue channel for retailers. Purchases via mobile represent 27% of all online shopping purchases (CRM Innovation Editors, 2013). For some retailers, this proportion is even more significant, Catch Group, for example, obtains approximately 70% of its revenue through mobile channels. M-commerce already represents around $4 billion annually to the Australian economy. A vast majority of this goes to domestic retailers, who control over three quarters of Australia's online spending.

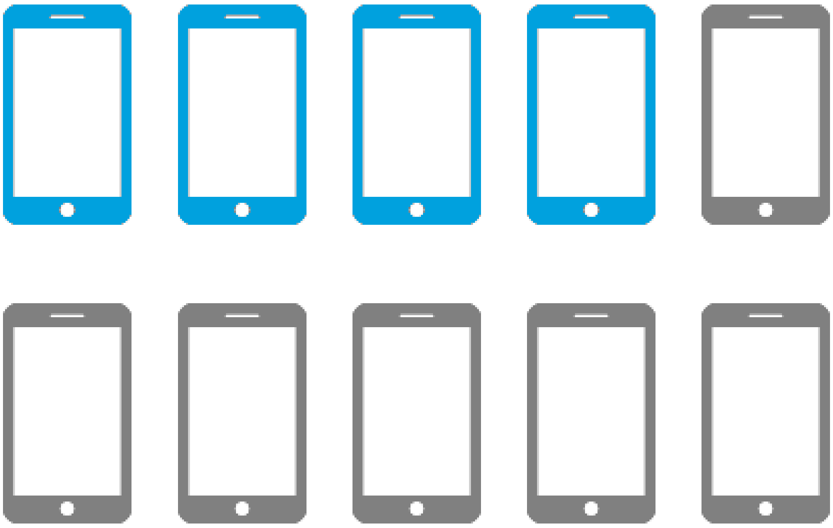
Chart 1.1: M-commerce as a proportion of total retail spending; Australia, 2014



Source: CRM Innovation Editors (2013); NAB Online Sales Index (2014); DAE calculations

Even so, it is important to recognise that purchasing is not the only or most common retail activity that consumers use their mobile devices for. Mobiles are changing how people shop, as well as shifting their channels of consumption. Retail activities are a major part of how – and why – consumers use their smartphones.

According to research by ourmobileplanet (Google Ipsos, 2014), Australians are more likely to search for a product on their smartphone than they are to watch online videos (36%), look for a nearby restaurant (20%) or read the news (26%).



42%

Of Australians

Have searched for a product on their smartphone in the last 7 days.

Retailers are responding to these shifting preferences. According to research by Rundle Mall, while only 13% of Australian retailers had mobile apps in 2013, almost a quarter planned to introduce an app by 2015.

It is also spreading to the small and medium business sector. According to a 2014 report by Deloitte Access Economics, *Navigating to the Future*, mobile will be the number one digital trend influencing SMBs in two years' time – ahead of the internet, cloud computing, data analytics or four other trends.

Research suggests that businesses should not consider mobile strategies in isolation, but as part of their broad approach to customer experience. Consumers value face-to-face experiences, as well as the convenience of shopping online or tracking purchases on a mobile device. Integrated service provision is an important part of Coles' mobile strategy, with mobile loyalty programs integrated with the shopping experience boosting customer engagement.

48% of Australian smartphone users visit a business as a result of a smartphone search (RAPS, 2014). Providing an integrated service can improve customer experiences. 36% of Australians have shopped online and in store with the same retailer (Telstra, 2013). Carriers are also getting involved in the retail space through offering their customers new services such as contactless payments apps.

NFC in retail

Near Field Communication (NFC) technology in retail has faced a mixed reaction in recent years. Consumers and retailers have rapidly adopted card-based NFC payments (PayWave/PayPass) at POS terminals, benefiting from reduced transaction times at the checkout. However, e-wallet and smartphone payment technologies have struggled to gain a foothold.

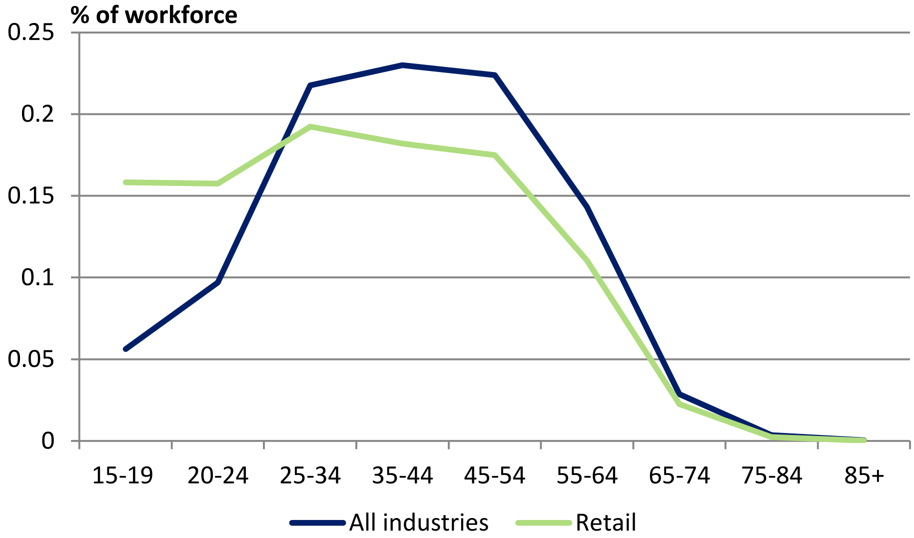
There have been a number of practical barriers to wider adoption of e-wallets. Mobile wallets can be used anywhere that contactless cards are used, but specific mobile wallet solutions have not reached scale on Android devices, and are not yet permitted on Apple devices. Product identification is another challenge, with significant costs associated with identifying objects with individual radio-frequency identification (RFID) tags. NFC Technology can also offer consumers the ability to pre-order goods and services, record loyalty points, or utilise location-based services.

There are also many untapped benefits of NFC technology. Retailers can save on flat fees charged by banks on transactions, only having to pay when consumers top-up their account (for example, Starbucks), although many credit transaction fees can be levied on a percentage basis. Consumers can have an interactive shopping experience, receiving inspiration for recipe ideas by scanning items with their phones. There are opportunities for the integration of phones and payments, offering consumers the ability to pre-order goods and services, record loyalty points, or utilise location-based services in addition to receiving digital receipts for in-store purchases.

Mobile offers a unique opportunity for direct retail communication between brands and consumers. Given the ubiquity of smartphones in Australia, targeted advertising via mobile allows for interaction with consumers on a more direct level. This can be leveraging existing brand presence – for example, a retailer can send notifications or promotions to customers who have already installed their mobile app. Alternatively, ‘beacon technology’ where retailers can broadcast their presence and offerings to potential customers at short range can improve a customer’s in-store experiences.

Retail trade is also facing disruptive pressures from employees. Retail has a relatively higher proportion of younger employees compared to the overall Australian economy, as shown in Chart 1.2.

Chart 1.2: Age composition of workforce, 2011



Source: ABS, 2014; DAE calculations

Retailers are harnessing the demands of their workforce by using mobile devices to increase productivity. However, there is a gap in adoption between small-to-medium enterprises versus large businesses. For example, 25% of large businesses allocate tasks to store staff via mobile devices, relative to 18% of SMEs (Telstra, 2013).

There is also a need to create a stronger skills base for emerging technologies (including mobile) in the retail industry. In a 2014 study of Australia's retail workforce, the Australian Workforce and Productivity Agency noted that:

> *"The increasing deployment of technology in retail enterprises requires ICT skills in almost all roles. For example, in-store sales staff need to be able to adapt to the range of new technologies, including cashless transactions, the connected consumer and the endless counter. Similarly, retail managers need technology skills to understand social media marketing, supply chain management, social media recruitment, real-time auditing and finances. Online stores need visual merchandise designers, user interface designers, delivery and warehouse personnel, and customer service assistants.*
>
> *Leaders and professionals need to keep up to date with the range of emerging technologies as well as strategies for customising them to their enterprises."*

Mobile technologies can be used to boost productivity by helping to create a more efficient check-out process in bricks-and-mortar stores. It can also help small retailers accept electronic payments in an affordable way. APCA predicts that approximately 200,000 mobile point-of-sale terminals will be introduced by 2020 (APCA, 2014).

2 Lessons from industry

One of the biggest ways that mobile technologies are disrupting retail is by providing a new platform for sales and disruptors. There are key behavioural differences between mobile customers and online customers. Mobile customers are more impulsive, purchasing lower-value goods with a higher frequency. The key to retaining these customers goes beyond having a well-designed mobile presence. A strong logistics process which gets goods to customers promptly is vital.

It's important to recognise that mobile is not just a direct sales channel. It also provides a toolkit for established incumbents to respond. It can provide an integrated service for bricks-and-mortar retail, such as integrating financial services offerings with the checkout. It can also help to build longer term customer engagement by maintaining a continual presence and accessibility.

The **Catch Group** is a leading online retailer in Australia, taking in over $350 million in revenue annually. Started in a Melbourne garage, the Catch Group now employs approximately 600 staff, selling an item every three seconds.

The Catch Group sees itself as a disruptor in the retail industry, with a model designed to service the Australian market with a growing desire to conveniently access low-cost products. “The traditional retailers are too expensive, and too slow to react to changing demands. They see their websites as another window into their storefront, rather than treating it as a unique, full-service business,” says Vijay Bala, Head of Operation and Technology.

However, even disruptive businesses such as Catch Group have had to adopt their business models to mobile. “We originally tried to mirror our website on a mobile site or app. However we realised pretty quickly that this didn’t work,” says Bala.

Instead, Catch Group redesigned their mobile offering with a view to simplicity, by developing a deeper understanding of what their customers wanted. “You have to work within a much more limited [screen] real estate. User experience is vital; things like making sure that your design complies with the phone’s guidelines can make a huge difference.”

Getting their mobile app right has helped the Catch Group to significantly increase their revenue. Approximately 70% of their sales now come through mobile channels.

This is not only attributable to good app design. Understanding how mobile shoppers differ from online shoppers has also had a significant impact. According to Bala, “mobile shoppers are more active, and always the first ones to jump on a new deal. They purchase three times more frequently than online shoppers, but buy lower value items on average”.

These behavioural insights will continue to shape the Group’s operational model as it evolves. For example, Bala has found that individuals will not make a second purchase until they receive the first, or are notified that it is on its way. Catch uses real-time mobile push notifications alert customers that a product has been shipped. However, they are looking to further increase efficiencies. “At the moment, we are introducing a warehouse automation process which will reduce time taken to get an order out from 2 days to under 4 hours. This will increase convenience and encourage customers to buy more frequently. It will drive both increased revenue and decreased costs for us.”

Ultimately, Catch Group aims to provide its customers with a full-service mobile app, which processes everything from sales and returns to customer service. “Traditional retailers have faced this challenge with websites, but nobody has got it right for mobile yet. When we do, it will provide unparalleled convenience and value for our customers”.

Coles' Financial Services mobile offering is designed to acknowledge that people use mobile web and mobile apps for different purposes. The mobile website is tailored to different devices, and can provide experiences that cater to different screens - laptops, smartphones and tablets. This responds to growing mobile traffic received to the site, which is between 30% and 60% of total visits. As an extended offering the Coles Mobile Wallet allows customers to complete common tasks relating to their credit cards and flybuys in a native way on their phone. The app provides a differentiated experience which has been recognised by industry, with the app winning the 2014 Australian and Mobile App Awards for 'financial info and tools'.

Integrated service provision is an important part of Coles' mobile strategy. In combining loyalty programs (flybuys) with financial services (Coles credit cards) and the shopping experience, Coles has been able to increase customer engagement and use of loyalty programs.

Prior to the app, Coles Financial Services customers received and activated flybuys offers by email and web, often before they went into Coles stores. Now, customers use the mobile app (often when they're in store doing their shop) to check and activate their latest flybuys offers. This has increased engagement with the loyalty system. Customers earn points as they go, making the shopping experience more enjoyable.

Mobile can also help at the checkout. The Coles' PayTag allows customers to pay at the checkout by swiping their phone. The app then receives these transactions in real-time so customers can monitor their spending and transactions. Coles recognised security is a concern for customers, so through the app, customers can turn the Coles Pay Tag on and off in real time.

When driving their mobile strategy, Coles first asked what customers want today, as well as what customers might wish to do with the technology of the future. Integrating technology is not just about understanding current in-store behaviours, but also accommodating future behaviours, especially as digital trends are rapidly reshaping customer expectations. This allows for a more integrated value proposition.

It's important to recognise that there can be barriers to implementation - both in changing customer behaviour and achieving integration.

There are two parts to the mobile technology business proposition. First, it's primarily about the utilisation of services - providing customers with simple tools to do what they want. It's also about lifting customer engagement and building longer-term loyalty toward an organisation's brand.

In delivering the mobile proposition, it was important to Coles Financial Services to monitor its success relative to target metrics. Essential benchmarks included growth of downloads, frequency of use of the mobile app, extra trade driven in-store connected with app users, flybuys offer activations and app store ratings and comments.

3 Mobile nation

The impacts of mobile technologies on the retail industry are also evolving more broadly. Mobile technologies are shaping not just Australian businesses, but also society more broadly. They are helping to contribute to building productivity.

The ‘mobile industry’ is no longer a simple supply chain, with device manufacturers providing goods to final customers. Instead, it is an ecosystem, and a platform for broader engagement. Participants in the industry range from payments providers and app developers to content and network providers.

In 2013, Deloitte Access Economics’ *Mobile Nation* report estimated that the total value added by the industry was $14.1 billion, with $7.6 billion direct contribution and $6.5 billion indirect activity in related sectors and across the economy. The industry supports an estimated 26, 970 full-time equivalent employees.

The report predicted continued growth in the industry, including:

- an 18% increase in revenue between 2011-12 and 2016-17; and
- an increase in total value added to $16.6 billion in 201-12 terms.

Usage of mobile broadband – and the services this involve – was expected to increase dramatically. Cisco anticipated that Australian mobile broadband traffic would grow 14 fold between 2011 and 2016 (through a combination of more communications and, especially, more data per communication).

3.1 Driving productivity

Technology has historically been a significant driver of productivity growth in the Australian economy. Mobile technologies offer a range of benefits which can help to improve the productivity of both labour and capital, as illustrated above.

The 2013 report assessed the productivity benefits of mobile devices by considering the growth in the economy's multifactor productivity across all industries from ICT. It estimated that the current wave of mobile technologies could result in a productivity benefit to the Australian economy of $11.8 billion over the period to 2025.

3.2 Business impacts

Business perspectives on the impact of mobile technology highlighted in the report echo those identified in this update. The Mobile Nation report found that mobile was becoming a deeply integrated part of digital strategy. Mobile has evolved from being a device to a platform for interaction.

The growing adoption of mobile devices introduces a new revenue channel for all businesses. CRM Innovation Editors estimate that m-commerce is growing quickly, accounting for $4.9 billion in 2013, up 30% from the previous year.

The need to adopt mobile technologies is being driven by people, be they consumers or employees. It is changing the way that businesses interact with their customers as well as their suppliers. It is not isolated to being a new platform for sales – it is also a method for engaging consumers, marketing and after-sale service.

Operations within businesses are also changing as a result of mobile technologies. Employees are demanding to be more connected through bring-your-own-device policies, which could build employee engagement and loyalty. Machine-to-machine technologies have the potential to transform capital use. Mobility is allowing for better use of downtime, with employees, customers and suppliers that can connect from anywhere, anytime.

3.3 Social impacts

Mobile technologies are continuing to change the way that we experience and engage with everyday life. Mobile devices are no longer a means for simple communication via text message or phone call. In fact, these are now among the less common uses of mobile devices.

Instead, they offer a rich digital experience on the go. Individuals are connected to friends, family and colleagues via a growing number of social media channels and apps. They are entertained through photos, music and games. A device in your pocket makes it easy to gain information, from maps and location-based services to news and product information.

There are mixed effects of mobile devices on work-life balance. It allows employees to work from home without being tied to an office desk. However, some consider that this can make people feel “always on” and impact on the quality of leisure time. Mobile devices blur the boundaries between work and leisure. Some studies have found that they are more often used for leisure purposes at work than vice versa. Deloitte’s 2013 report, *The Connected Workplace*, found that while people use the internet more at home to do work, they also use the internet more at work for personal affairs, with the time offsetting each other. It is not simply about work ‘intruding’ on personal life, but a blurring of boundaries.

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