Numbers, Please

The Future of Retail Is Mobile

How Mobile Marketing Dynamics Are Shaping the Future of Retail

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INTRODUCTION

With one out of every six discretionary retail dollars transacted online,[1] digital should be a critical part of any retailer's omnichannel strategy. What is less obvious is identifying digital's influence beyond that one out of every six dollars. Desktop e-commerce is now a well-established channel, accounting for most of the purchasing activity on digital channels. But recent data demonstrate that mobile is fast becoming the channel that will shape the future of retail.

Although mobile still is not a significant channel in driving actual purchases, its impact is further reaching than many realize. Data from Deloitte forecast that in 2016, mobile will have influenced $689 billion in U.S. in-store sales, up from just $158 billion in 2012[2]—a compound annual growth rate of 45 percent. These mobile-influenced sales figures account for in-store product purchases for which a mobile device aided in the shopping experience.

As mobile devices were introduced into the brick-and-mortar retail environment, consumers could engage in "showrooming" activity. Armed with these mini-computers, they could comparison shop, seek additional product information or reviews, and even share photos and gather input from friends and family in real time (Fulgoni, 2015).

Mobile's enormous impact on digital shopping and buying also has become increasingly apparent, as mobile accounted for 70 percent of all digital shopping time in the second quarter of 2016.[3] Mobile commerce dollars, despite lagging behind time spent on digital shopping by a considerable amount, are growing quickly as a percentage of digital commerce, reaching an all-time high of nearly 20 percent in the second quarter of 2016—up from just 11 percent two years prior (See Figure 1).

In a relatively short period of time, mobile radically has transformed the shopping and buying process for consumers. In addition, as the most personal device consumers own, mobile is a rich source of marketing data that can help retailers get more sophisticated in reaching and converting customers.

Many of these mobile trends demonstrate why mobile—more than any other platform—is destined to shape retail in 2017 and beyond.

MOBILE'S EFFECT ON THE HOLIDAYS: A CASE STUDY

The U.S. Thanksgiving and December holidays—the busiest shopping season of the year—can represent the difference between profit and loss for the year for many retailers. Mobile clearly was the big story of the U.S. 2015 holiday shopping season. It drove enormous amounts of digital shopping traffic (visits to retailer sites and apps) and, despite accounting for a smaller overall percentage of spending, had an outsize impact on retail sales growth.

In terms of traffic, mobile outpaced desktop retail traffic by a factor of 2 and was higher every single day of the shopping season, including Cyber Monday, when online retailers promote exceptional bargains immediately following the Thanksgiving holiday weekend (See Figure 2).

Mobile traffic already had peaked for the season three days earlier, on Black Friday (the day after Thanksgiving), bolstered by shoppers using their mobile devices from the couch or in the store to browse deals, check prices, and research product information. With phones entering the brick-and-mortar environment and consumers increasingly engaged in showrooming activity, Black Friday rivaled Cyber Monday for overall online shopping traffic, with a very real chance of surpassing it in 2016.

[1] *"State of U.S. online retail economy in Q1 2016." (2016, May 23). Retrieved September 8, 2016, from https://www.comscore.com/Insights/Presentations-and-Whitepapers/2016/State-of-the-US-Online-Retail-Economy-in-Q1-2016*

[2] *"The dawn of mobile influence." (n.d.). Retrieved September 6, 2016, from http://www2.deloitte.com/us/en/pages/consumer-business/articles/dawn-of-mobile-influence-retail.html*

[3] *Data are from comScore; second-quarter 2016 data were the latest available at the time this article was written.*

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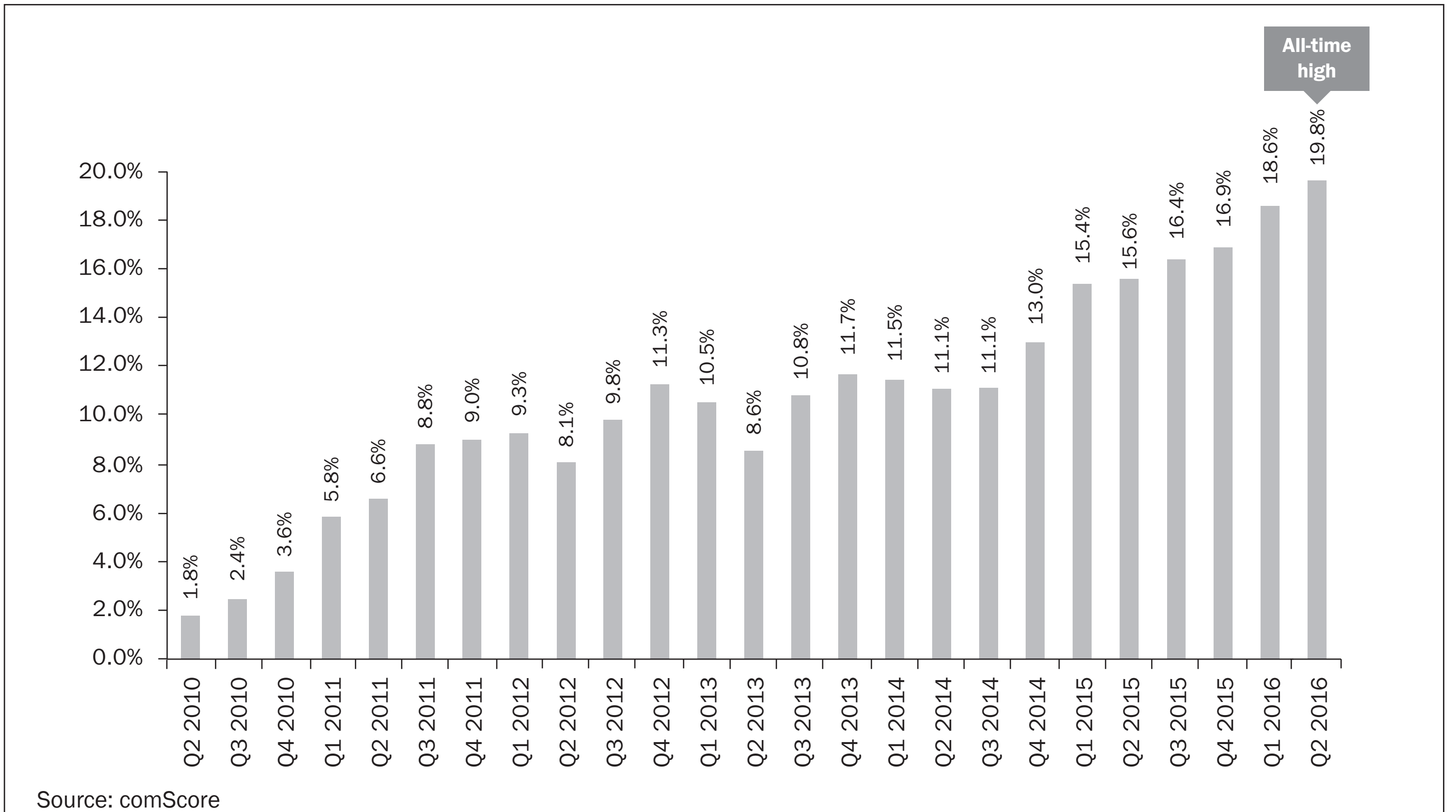
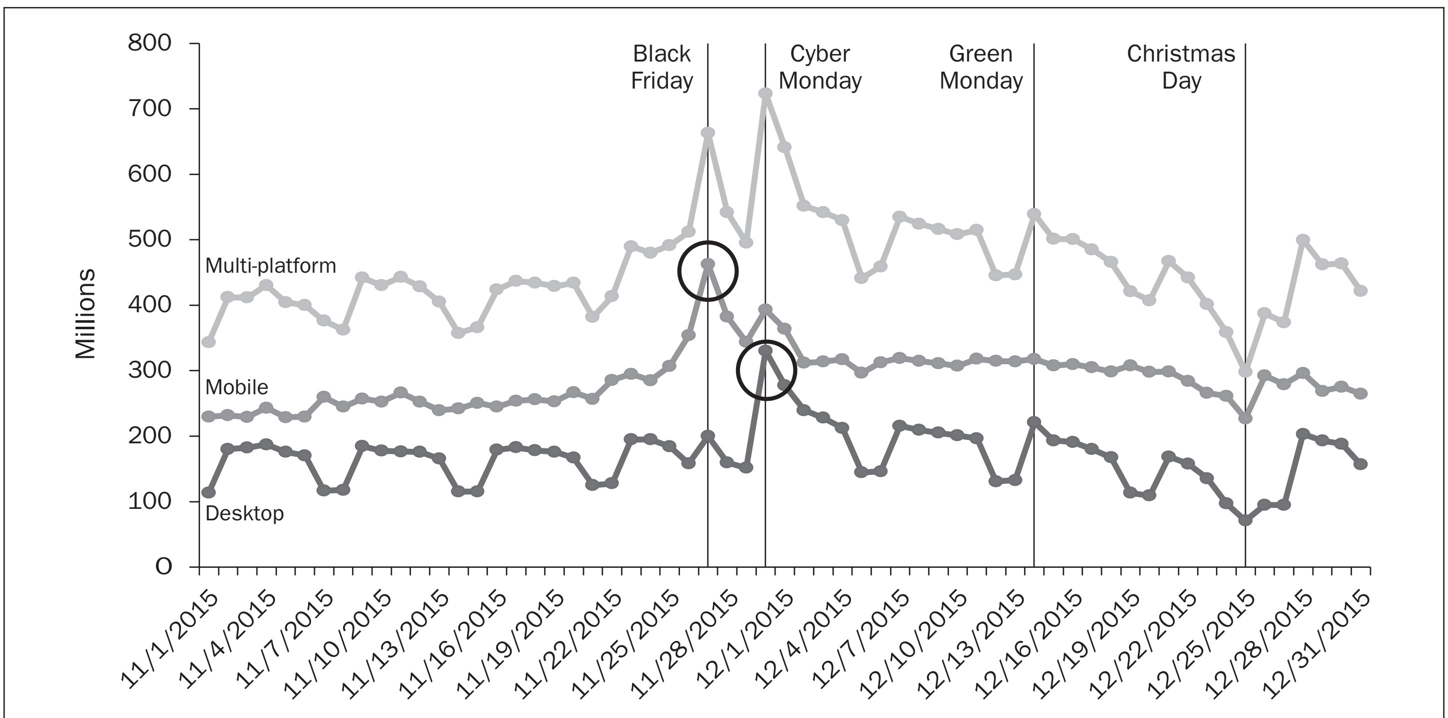


Source: comScore

Figure 1 m-Commerce Share of Total Digital Commerce Dollars



Source: comScore

Figure 2 Daily Retail Category Visits by Platform for the United States, November–December 2015

HOW MOBILE CHANNEL GROWTH FUELS SPENDING

Even though mobile dominated online shopping behavior for the 2015 holiday season, it had only a modest impact on actual sales. Indeed, the mobile monetization gap remained, as mobile commerce accounted for just 17 percent of digital dollars. A larger context, however, tells a different story.

Digital commerce alone accounted for just 15 percent of discretionary retail spending, which excludes food and beverage, gas, and automotive purchases from the denominator to provide a more apples-to-apples comparison. That 15 percent of dollars split out as 12.6 percent coming from desktop e-commerce and a tiny amount—2.4 percent—coming from mobile commerce (See Figure 3).

Factoring in channel growth rates, however, puts mobile in the lead. Channel growth refers to the year-over-year rate of spending growth within brick-and-mortar, desktop, and mobile retail sectors. Mobile's 49 percent year-over-year channel growth rate in 2015 meant that it had an overall retail growth contribution of 1.2 points out of the total estimated retail growth of 3.9 percent. In other words, mobile represented about 30 percent of the growth contribution, despite only directly contributing 2.4 percent of spending. That growth contribution outpaced that of desktop e-commerce and was not so far behind the 2.0 percent contribution of the brick-and-mortar channel, which accounted for a full 85 percent of retail sales.

These same dynamics have been true not just in the holiday season but, broadly speaking, over the past few years. Mobile commerce has experienced consistent year-over-year channel growth rates in the 40–70 percent range throughout 2015 and 2016, according to comScore mobile commerce measurement statistics. Despite driving only a small percentage of dollars, its contribution to topline retail growth has been orders of magnitude higher.

MOBILE APP VERSUS MOBILE WEB

Although mobile is playing a more prominent role in driving retail traffic and sales growth, the gains it is driving are not evenly distributed. In fact, the unique dynamics of this medium are creating an environment that favors the larger and more established retail brands or the most highly differentiated niche players.

To understand why this is the case, one must take a deeper look at how consumers engage with mobile media and whether they do so through apps or the mobile web. Conventional wisdom among most retailers is that the mobile web is a more important driver of activity. That certainly is true from the perspective of most retailers, but it is actually not the case from the vantage point of the consumer. In the retail category, there is a roughly even split between mobile app and mobile web—and mobile app activity is highly concentrated among a select handful of retailers, beginning with Amazon.

Amazon and its pure-play counterpart, eBay, were early category leaders in mobile app usage. For many smartphone owners, these two well-known online retail brands were the first two apps they added onto their device. The expectation of using these apps with a certain degree of regularity

	% of Total Consumer Discretionary***	Percent Growth	Growth Points
Brick & Mortar	85.0%	2.3%*	+2.0%
Total Digital	15.0%	12.7%**	+1.9%
Desktop	12.6%	5.9%**	+0.7%
Mobile	2.4%	49.0%**	+1.2%

+3.9%

NRF: reported **3.0%**
BCG: forecast **4.5%**
MasterCard: reported **4.6%**

* ShopperTrak **comScore

Figure 3 Retail Sales Growth Contribution by Channel: 2015 Holiday Season

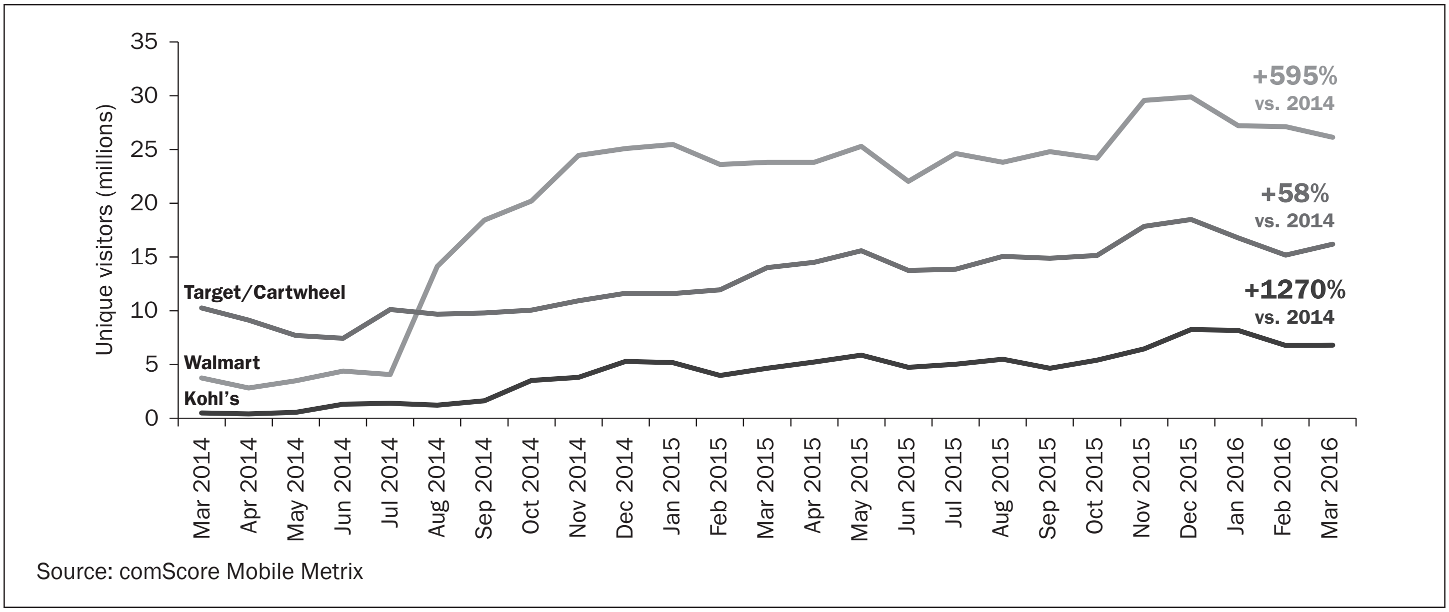


Figure 4 Select Retail Mobile Apps: Trend in Unique Visitors (MM), March 2014–March 2016

was one of the most important reasons people downloaded them. For a few years, these two apps dominated retail category app usage (See Figure 4).

Around 2013, a few multichannel retailers developed smart strategies to help increase usage of their apps. Target introduced its Cartwheel app, for which user volume accelerated when Target supplemented the in-store shopping experience with the integration of mobile coupons. Following Cartwheel's initial success, Walmart introduced the Savings Catcher feature to its app around the 2014 back-to-school season, and usage quickly accelerated. Kohl's incorporated a similar feature that also propelled its app to large gains. All apps benefitted by including some form of mobile couponing that could be redeemed at the register.

Having an app available when a consumer looks at his or her phone is critical in winning mindshare and generating the mobile traffic that converts into sales, whether online or in store. The prominence with which that app is viewed represents a potentially enormous advantage. Indeed, when we examined the likelihood of using a retailer's app in a given month compared to the likelihood that the app appeared on a user's home screen, we found a direct correlation between the two, with Amazon far ahead of the pack on both usage and home-screen incidence (See Figure 5).

One does not necessarily cause the other, however. There is likely a self-selection effect, whereby users choose apps for their home screen that they have the highest expectation of using, but they also likely will use those same apps more than they would otherwise by virtue of the apps' accessibility on the home screen. This creates a dynamic where the rich get richer; Amazon is the biggest beneficiary, but eBay and Walmart also fare well.

What these dynamics ultimately mean is that as the channel shift to mobile accelerates, more value likely will accrue toward the biggest players—particularly Amazon. That shift creates an environment where profits are harder to come by, and retailers that do not have the benefits of scale or serve different marketing niches extremely well will have a harder and harder time getting by. What happened to Blockbuster and Circuit City a decade ago is destined to happen to a number of retailers who do not make an effective transition to a mobile-driven future.

MOBILE MEASUREMENT INNOVATION

With profits harder to come by in the future, many retailers will be challenged to become much smarter marketers. They will have to find unique ways to reach consumers and better ways to measure the performance of their marketing efforts.

Reaching the Right Audiences

Major advancements in the area of advertising research and audience targeting significantly are improving the efficiency of ad spend for retailers. The digital advertising ecosystem in recent years widely has adopted measurement technologies that qualify that an advertisement not only is viewable and free of fraudulent traffic but also reaches the right audience target. This represents huge savings to advertisers that make use of these capabilities in order to reduce wasted spend. With more than half of all advertisements today being delivered either out of view

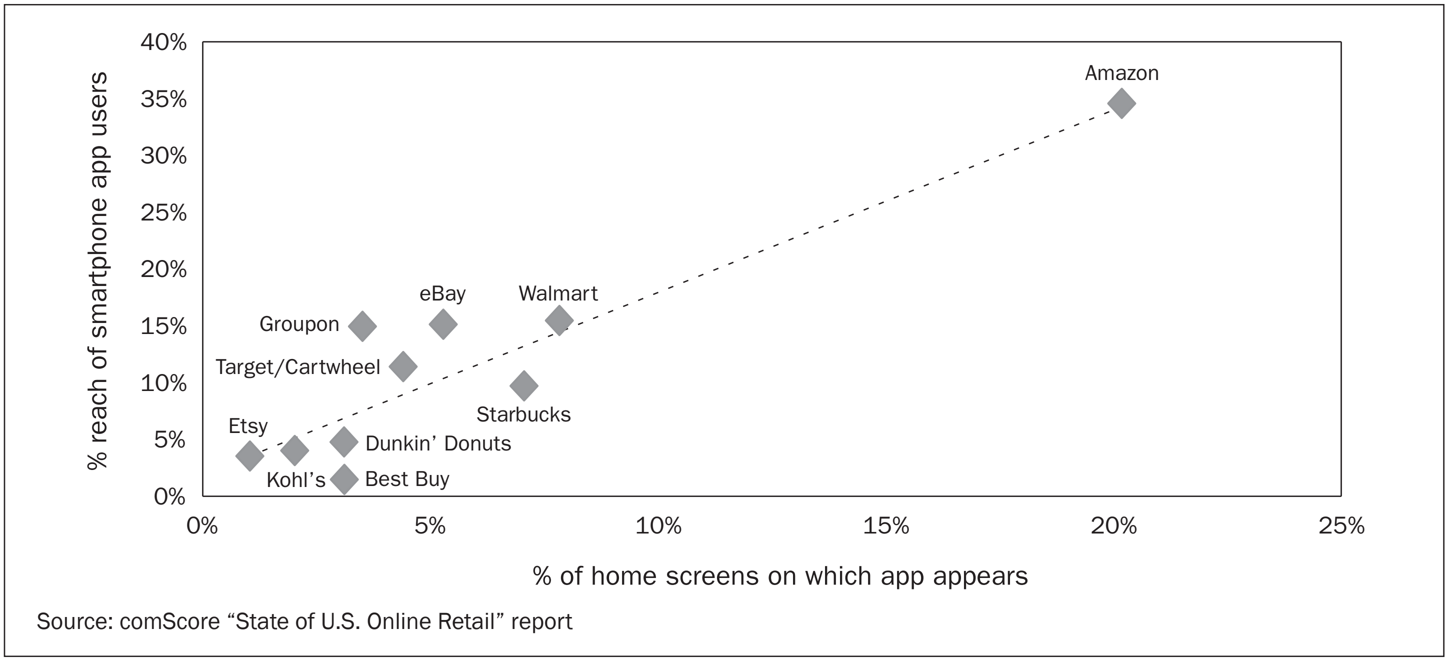


Figure 5 Selected Smartphone Retail Apps: Visitor Penetration Versus Percentage Home Screen Incidence, Quarter 1, 2016

or to bots,[4] this can be a significant source of savings.

Mobile Ads Are More Effective Than Desktop

In the mobile environment specifically, there also is opportunity to be gained on the effectiveness side of the equation, with data showing that mobile advertisements are more effective than desktop advertisements. comScore's 2015 desktop and mobile advertising benchmarks, which the authors believe to be the most recent source of such data to have been published, show that mobile advertisements drive from 1.6 to 2.6 times higher branding effectiveness at various phases of the purchase funnel (See Figure 6). It is notable that the disparity increases in favor of mobile in the lower portions of the funnel, particularly purchase intent. Higher effectiveness of mobile advertisements may be due to the fact that they

- typically appear in less-cluttered advertising environments;
- often take up more real estate in the viewing pane;
- may be viewed while in closer proximity to a retail location.

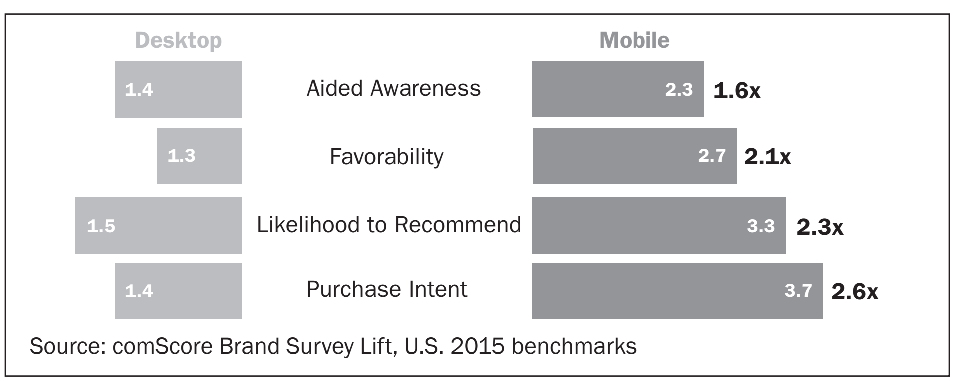


Figure 6 Percentage Point Lift in Brand Metrics for Desktop And Mobile Advertisements

IMPLICATIONS FOR 2017 AND BEYOND

Another recent development in measurement has been the use of sales lift attribution to digital advertisement exposure. By linking census-level digital advertisement measurement data to retailer purchase databases, retailers now have the ability to understand how differences in sales can be attributed to exposure to advertisement campaigns. In addition, when this

[4] *Lella, A., and A. Lipsman. (2016, March 30). "2016 U.S. cross-platform future in focus." Retrieved from https://www.comscore.com/Insights/Presentations-and-Whitepapers/2016/2016-US-Cross-Platform-Future-in-Focus*

information is combined with validation of whether or not an advertisement was seen and by what audience, retailers now can be much more intelligent about which of their digital ads are actually moving the needle at the cash register.

The attribution landscape now is advancing even further due to the integration of location data from mobile devices. These same digital advertisements—whether they appear on desktop or mobile—also can be linked to consumers' in-store visitation behavior at specific retail locations.

Retailers in 2017 should be asking these key questions:

- Will people exposed to an advertising campaign in a given city be more likely to visit that retailer's store location in the same city?
- Which geographies are most responsive to advertisement exposure?
- How can budgets be steered toward the advertisements that are getting the customer off the couch and into the store?

Retailers that want to stay relevant will deliver seamless omnichannel shopping that effectively leverages mobile touchpoints while also making use of a marketing platform whose value has not been fully realized as both an advertising medium and a data source.

In the future, mobile will cease being an emerging marketing channel and will instead become foundational to how retail brands market and measure themselves. Those that do not adopt and integrate a mobile mind-set today are destined to become the next casualties of a digital paradigm shift. JAR

AUTHORS' BIOS

Gian M. Fulgoni is cofounder and chief executive officer of comScore, Inc. Previously, he was president and chief executive officer of Information Resources, Inc. During a 40-year career at the C-level of corporate management, he has overseen the development of many innovative technological methods of measuring consumer behavior and advertising effectiveness. He is a regular contributor to the *Journal of Advertising Research*.

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