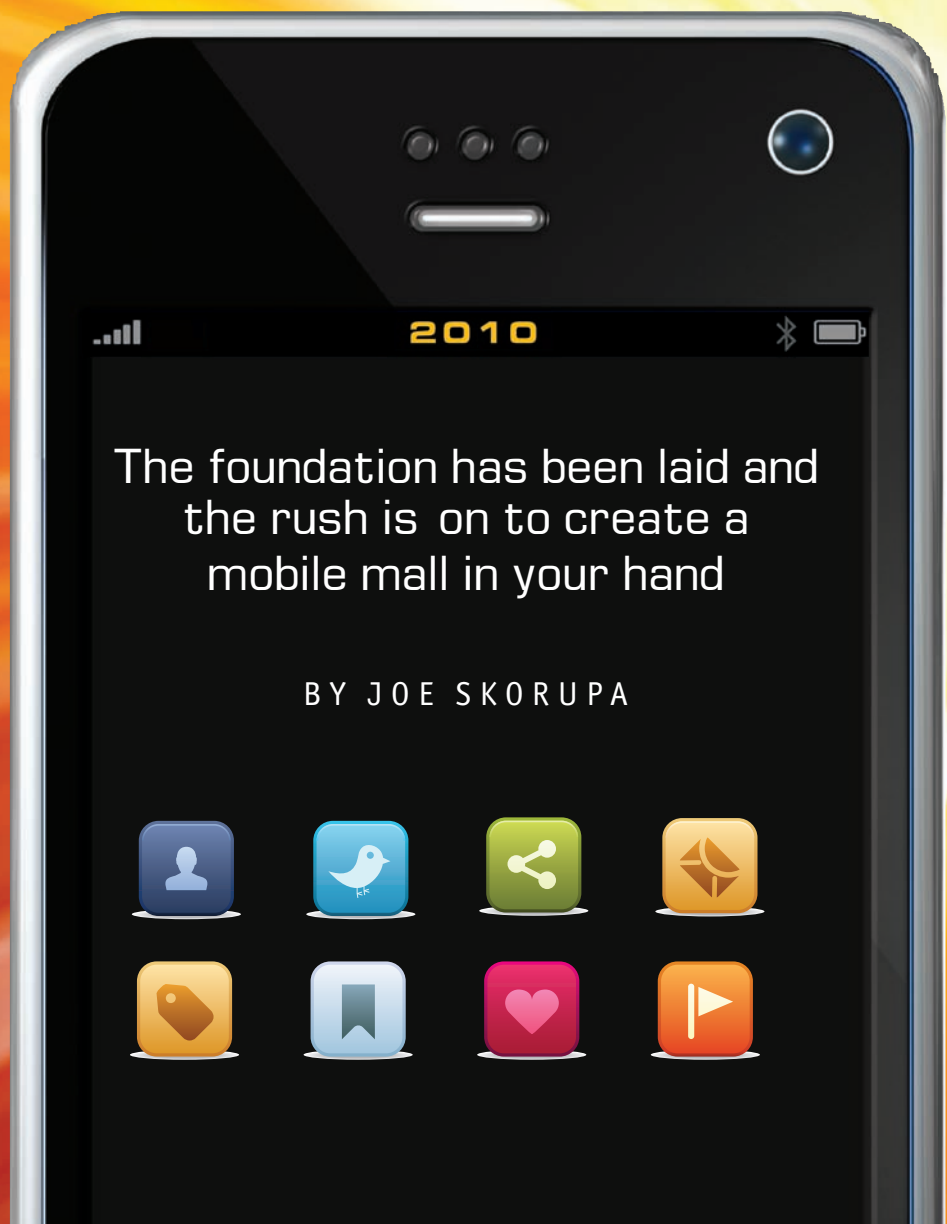


# 2010: The Year of



# M-Commerce

If you are getting tired of all the stories saying “Mobile Commerce Is Here Today!” don’t worry. This is not one of them. It is not a dazzling aggregation of statistics. It is not a fabulous vision of an ideal end-state reachable in one to two years.

Instead, this is a solutions brief that will bring you up-to-date with the most important game-changing development in retailing since the dot-com revolution. If you think this is hype, then check your Web traffic logs and see how many visitors come through cell phones. Numbers like these don’t lie.

This report recognizes that M-commerce is still an emerging channel with many obstacles to overcome. But it also recognizes the impact it has as a powerful one-to-one branding tool, a tool that fosters a new level of social and cultural engagement, an attribute that equals or surpasses its value as a selling medium.

In this story you will find out how leading retailers are currently tapping into M-commerce and getting first-mover benefits. You will also learn why they are moving now instead of waiting, and what goals they expect to achieve.

And, perhaps most importantly, you will get ammunition to overcome organizational hurdles and help convince traditionalists within your organization that M-commerce is not just a new retail channel in 2010, but a force that holds the potential become THE retail channel of the future.

“When it comes to experimentation with mobile commerce, today is a good day to start,” says Jeff Roster, vice president and retail analyst for Gartner. “But yesterday would have been better and tomorrow is too long to wait. The nice thing about the mobile channel is you’re not making a significant investment in infrastructure. At least not yet. But the mindshare captured by early adopters is of significant long-term value.”

## Mobile eBay Racks up \$380 Million

Generating sales and profits in this economy is a difficult feat in itself, but doing it in the Wild West frontier of M-commerce is akin to difficulty squared.

Major problems retailers face include: immature vendors and technologies, lack of proven practices, uncertain channel security, disparate smart-phone operating platforms, and a lack of industry-wide standards for e-wallet payment.

Despite these hurdles, CEO John Donahoe revealed in the first report in retailing to break out revenue for M-commerce that eBay generated \$380 million in sales

through the mobile channel so far in 2009. In a company with \$59.7 billion in annual revenue this is not a large figure, but just two years after the launch of the iPhone it sent shock waves through the retail industry.

Donahoe made this revelation in an October earnings call with financial analysts, where he also said: “The eBay iPhone app, which has been downloaded more than 4 million times, is expected to generate more than half a billion dollars in gross merchandise value this year. We are rapidly iterating in mobile and will soon be introducing the next version of our eBay iPhone app with improved functionality and features.”

The eBay mobile tool lets cell-phone users search and bid on auction items, receive alerts when they are outbid, and finalize payment to complete transactions.

In the earning’s call, eBay senior executives said customers using the mobile channel visit several times a month and they are buying a full range of merchandise, especially “deals of the day,” which are featured on the mobile site and consist of new, in-the-box, fixed-price products.

Donahoe went on to add that eBay attracts 5.4 million unique mobile shoppers each

month, and generates 60 percent of its M-commerce sales from iPhone app accounts and the other 40 percent from its own mobile site accounts.

### First-Mover Strategies

Since the lion's share of eBay mobile revenue comes from the iPhone app it might be said its success is dependent on the user-friendly iPhone ecosystem. This is partly true. But since the other 40 percent comes from eBay's own mobile site it has a solid base to build on and devise growth strategies for the future.

Nevertheless, the eBay experience shows that smart retailers should place equal importance at the start of their M-commerce journey on launching both an

iPhone app and development of their own mobile storefront. Future iterations for Blackberry, Microsoft and Android platforms are logical extensions, but it is important to include iPhone from the beginning to drive the number of shoppers needed to ensure success.

eBay is not alone in achieving strong first-mover success in the mobile channel. In mid-2008 the Papa John's International pizza chain began letting customers order food and drinks on a Web site tailored to a cell phone's small screen. By December, customers used their cell phones to order \$1 million in Papa John's products. Papa John's says that mobile sales are rising at an annual tenfold pace.

There are estimates that at least 120 retailers have launched M-commerce initiatives this year. These retailers run the gamut from apparel to gifts to food to drugs. Here are a few leaders paving the way for others to follow:

**1-800-Flowers.com**, one of the first retailers with M-commerce capability, has learned that offering just a few featured products increases conversion. As an aggressive marketer, 1-800-Flowers.com also sends out e-mails with banners and content about its mobile sites and apps, as well as including it in print, online and text messaging campaigns. All of these efforts, specifically around events like Mother's Day, have doubled sales in the mobile channel.

**Armani Exchange** has a mobile site accessed through the retailer's standard URL, which automatically redirects shoppers to the mobile-optimized version. Features and functions include product details, shopping cart, store locator and a section called Armani Life, which includes videos of models and fashion shows.

**CVS.com Mobile** allows customers to enter a ZIP code and then locate the closest CVS/pharmacy store complete with maps and driving directions. Customers also can refill or transfer prescriptions, access detailed pharmaceutical information, and view their prescription histories. Additionally, the new mobile site fea-

## The Evolving Mobile Wallet

"Retailers need to get ahead of the curve on this next revolution in consumer payment behavior, and specify the policies and processes for mobile transactions," says Richard Mader, executive director of the Association of Retail Technology Standards (ARTS).

Here's a look at how the mobile payment processing landscape is shaping up right now:

- Apple's iPhone users create iTunes accounts where credit card information is stored for future one-click purchasing. This enables over 50 million iPhone and iPod owners to make purchases on a mobile device by inputting a password to access their iTunes account.
- On October 5 Amazon announced it was rolling out a mobile payment service to third-party Web sites and mobile applications called Pay with Amazon. Customers that already have billing and shipping information stored in an Amazon account can pay by entering a password. This puts mobile-based merchants in touch with 94 million customers that are just one-click away from a purchase.
- Paypal, owned by eBay, which has opened its payment platform to third-party developers, calls its payment mechanism PayPalX. It enables customers who have either linked a bank account or credit card account to PayPal to make purchases within a mobile app or Web site. PayPal reaches 78 million customers, 45,000 merchants and 24 currencies.
- Google has launched Google Checkout for use on mobile devices. It also has Android Market, which has 10,000 apps right now and is growing fast as the number of Android handsets grows. The Android market is moving toward a "bill-to-carrier" model where purchases made will be billed to the users' mobile phone number and billed by the carrier.
- T-Mobile, which will launch four Google Android handsets by the holiday season, is working with Google to integrate the Android Market into its billing system.
- Nokia, the global leader in smart phones, recently announced in August a new mobile payment system, Nokia Money. The service will allow mobile users to transfer funds or make payments via their handset by entering in mobile telephone numbers.

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tures a Drug Information Center allowing rapid access to critical details about medication.

**Sears Holdings Corp.** already has an M-commerce site, a mobile app and a text messaging program. Recently it added an

M-commerce site for its Kmart brand called Kmart2go.com, which lets mobile shoppers access the entire product catalog found on the e-commerce site. It lets customers shop via search or by product category, highlights weekly offers, enables phone and e-mail links to personal shoppers, offers a store locator, and allows customers to check order status.

**Starbucks** now lets shoppers use mobile barcodes to access their pre-paid Starbucks card. The downloadable app displays a barcode on a smart phone that is scanned at checkout. The app also can be used to load money into card accounts, and can be set to auto-reload for serious coffee drinkers. It also allows customers to find the nearest open Starbucks and browse its menu. In the first week, this iPhone app was downloaded more than 500,000 times. Starbucks is now developing apps for Blackberry and Nokia smart phones.

## Mobile-Friendly Sites

When the digital marketing firm Acquity Group audits retailer mobile Web sites it asks the following questions: Does it use a .mobi top-level domain? Can it automatically detect a mobile browser or device? Does it have different functionality than the desktop site? Is it optimized for mobile browsers? Is it optimized for iPhone? Does the retailer's main Web site feature the mobile offerings? Are downloadable apps available for iPhone, BlackBerry, Windows Mobile or Android devices?

Here are some other tips to keep in mind:

- Avoid early-adopter missteps by basing your strategy on known customer behavior. Do your homework and base project goals on analysis of customer demographics and mobile patterns.
- Determine which platforms your mobile app will be compatible with. iPhone is a no-brainer. But ultimately plan on a multi-pronged approach to include Blackberry, Nokia and others. This means optimizing graphics and sound for each platform.
- Make sure the mobile channel has a consistent look and feel compared to all other channels.
- But don't just clone the Web site. Mobilize it, don't just miniaturize it.
- Determine the top three to five things customers want most, and then make it easy for them to do it.
- Simplicity rules. Don't use complicated navigation. One rule of thumb is this: for every level of navigation required you lose half your customers.
- The only constant in M-commerce is change. Browser technologies change. Networks get faster. New technologies like augmented reality and geo-location marketing are rapidly approaching.

## Playing the Numbers Game

One of the interesting things about the M-commerce revolution is that it is taking place in plain sight. Anyone with children or young relatives knows they hold the future in their hands, both literally and figuratively. But is 2010 the year for mainstream retailers to move forward with M-commerce initiatives?

"Yes," says Gary Williams, president and founder of wRatings, a Wall Street analyst firm that tracks the retail industry. "Keep in mind that three of the nine sources of competitive advantage we track are first-mover advantages. So, if a retailer can occupy a unique spot in a shopper's mind before their

rivals get there, that could end up converting into substantial profits.”

Nearly 20 percent of retailers plan to at least pilot an M-commerce project by the end of 2009, according to an *RIS* study published in May 2009 call “M-Commerce: Retail in Motion.” This finding and others in the study were referenced by many media outlets and retail sources at the time, because it showed a surprisingly high level of interest among retailers for an emerging channel.

Since then, this finding has been bolstered by massive volumes of supporting data.

- Last January, ABI Research projected

The eBay iPhone app, which has been downloaded more than 4 million times, is expected to generate more than half a billion dollars in gross merchandise value this year.

North American sales of physical goods ordered via cell phone would reach \$544 million in 2009, up from \$346 million in 2008. Now, ABI is considering updating its forecast to \$800 million, and predicting it will double in 2010.

- Most of the M-commerce growth in 2009 can be traced to eBay and Amazon.com, which accounted for about 70% of all mobile sales of physical goods. This is an estimate because Amazon does not break out its M-commerce revenue like eBay, but analysts have confidence in this ballpark estimate.

- Top five mobile retailers through the first eight months of 2009 by number of unique monthly visitors are, according to the Nielsen Company: eBay (5,422,000), Amazon (3,494,000), Gamespot (2,517,000), Fandango (2,367,000) and

Netflix (2,203,000).

- Apple’s App Store passed the milestone of two billion app downloads in September.

- Web-enabled smart-phones are the fastest-growing segment of the mobile phone business. In the first half of this year, according to Gartner, global sales of mobile phones declined while sales of smart phones grew 27 percent to 40 million units.

- In the second quarter of 2009, 28 percent of all handsets sold in the U.S. were smart phones, up from 19 percent a year earlier, according to the NPD Group.

- This past summer, Harris Interactive and Billing Revolution released a study that found 45% of smart phone users were very comfortable making mobile transactions.

- 32 percent of Americans (97.3 million) have used a mobile phone or smart phone to access the Internet, according to the Pew Research Center’s Internet & American Life Project. On a typical day, 19 percent of Americans (57.8 million) access the Internet on a mobile phone.

- In 2008, approximately four times as many mobile devices shipped worldwide as compared to the volume of PCs, according to Forrester Research.

Despite this avalanche of statistics what is really important for merchants to keep in mind is the first law of retailing: Know thy shopper. The second is: Rush to give them what they want.

And shoppers want mobile phones. A mobile phone is always with the user. It is location aware, and always connected. It is not just for calls and texts. It is a camera, Web browser, business tool, music player, entertainment system and TV.

And it is also a shopping mall in your hand. Smart retailers know better than to sit on the sidelines when a disruptive technology threatens to encroach on their turf. It happened during the dot-com revolution, and those who learned the lesson will not let it happen again when M-commerce explodes in 2010. **RIS**

# Delivering on the Mobile Promise

## Q&A: Ensuring a Strategic Approach to the Mobile Channel

### Which important business goals should retailers focus on as they develop their mobile commerce strategy?

Retailers that create mobile Web sites, shortcodes, and downloadable applications that mirror their successful Web applications discover that mobile users have different needs but expect the high performance levels typical of their Web experience. Slow download times and inconsistent availability create a great deal of frustration and often result in abandonment.

Retailers making the transition to the mobile channel need to deliver a great user experience. They need to determine the must-have features of their mobile applications and the performance metrics that need to be delivered (for example, an average 5-second download time or 98% availability). Retailers should design their mobile strategy around these metrics and then monitor performance of their mobile site and applications to make sure that these metrics are being met. Not doing so will disappoint customers and that can make a lasting impression.

### What mobile strategies should retailers think about implementing right now?

There are two effective ways that retailers can use mobile to grow their business; using it for cross-promotions, and also as a transactional vehicle.

Many retailers are getting good results by taking advantage of mobile applications and services to complement their other channels. One national sandwich chain sends out text promos right before lunch to influence their customers. A well-known electronics retailer allows their users to look up a SKU with their shortcode for product information delivered via the mobile Web. The great thing about a mobile device is that customers are highly unlikely to leave home without it. Effective cross-promotion with mobile requires that the applications perform in a timely manner. Someone isn't going to wait for 20 minutes for their coupon to appear — they are on to the next store. Unfortunately, mobile applications do not perform with the speed and reliability seen on the desktop. Vigilant monitoring is required to ensure end user satisfaction.

Besides the cross-promotion opportunity, some companies are using mobile as a true transactional platform. This is still a distant second to shortcodes but it has become more possible and is becoming more popular with smartphones flooding the market. Several retailers are using downloadable applications to facilitate actual purchases. For these transactions, the stakes are much higher when it comes to performance. People are very sensitive with their money, and if a transaction confirmation doesn't come through quickly they will place angry calls to customer service.

### If you were to suggest a strategic priority list for retailers to follow as they roll out m-commerce, what would be high on the list?

As retailers are rolling out m-commerce, we suggest that they use the mobile channel to grow sales as a priority. We often see retailers focus on mobile as an advertising and awareness channel, but many don't yet use it as a strategic channel for directly growing sales.

Because retailers may not be counting on the mobile channel for sales growth, they often don't make the kind of investment that would produce success. They simply assume that what works on the Web also works on mobile. However, the Web experience may be significantly different than the mobile experience for their customers.

Success is dependent on creating mobile Web sites and applications with the mobile experience in mind, and includes monitoring them to provide a consistent customer experience across different mobile devices and geographic locations.

### How critical is m-commerce to the future of retailing in 2010?

Just as the Internet changed the competitive landscape in the 1990s, mobile has the potential for a similar impact. We've seen a sea change in the last 12 months but there's still a long way to go. We think 2010 is the year to invest and be ready. Why miss out on a new channel? Like the Web, mobile provides consumers with more access and information, helping them optimize their purchase decisions. And while the consumer gains an informational advantage, the retailer gains additional means to stay in continual contact with the consumer and build a strong and profitable relationship.

*Keynote is the leading provider of on-demand test and measurement solutions for continuously improving the online retail experience. We help retailers know precisely how their Web sites, content, and applications will perform on actual browsers, networks, and mobile devices long before their customers and business are impacted. For more information, visit: <http://www.keynote.com/industries/retail.html>*

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