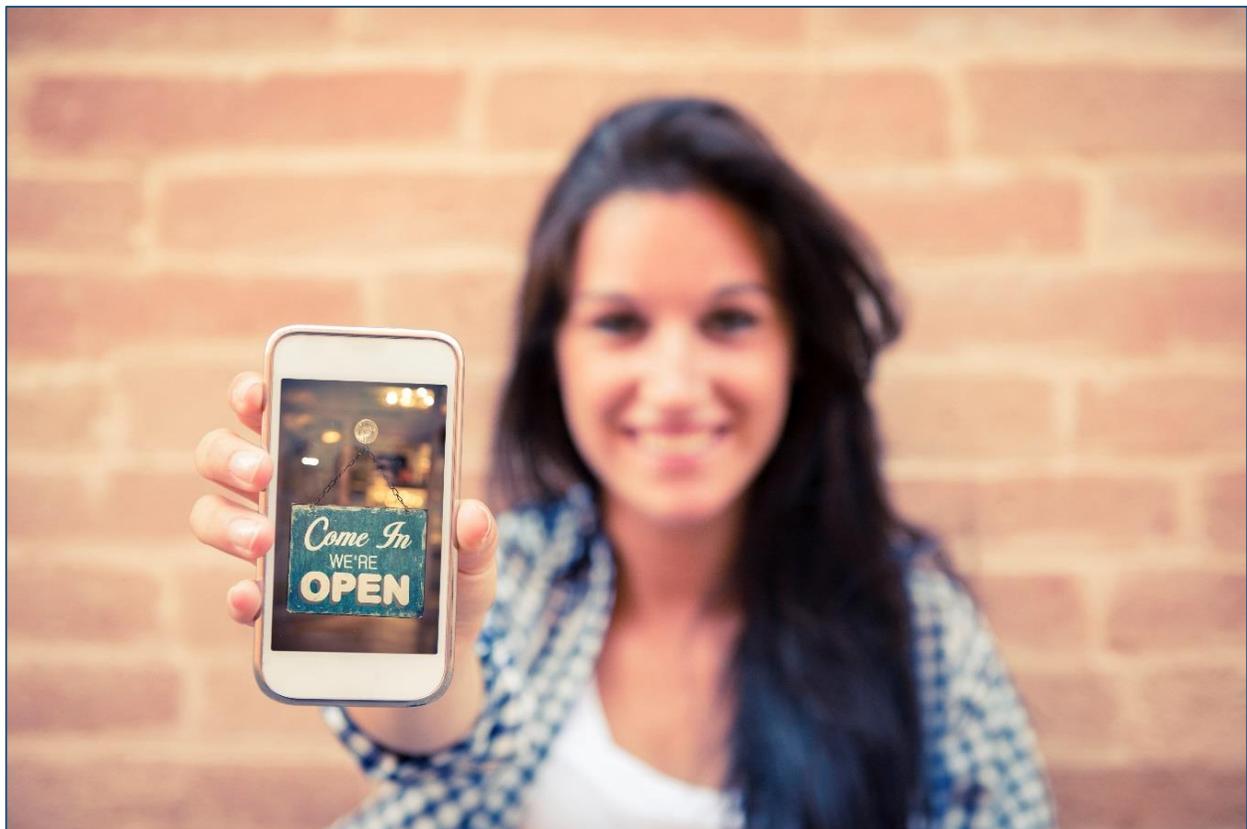


Mobile Commerce and the Brick and Mortar Retailer

Opportunities for the Traditional Stores in a Global Omni-Channel Marketplace

January 2015



Executive Summary

Retailing has reached a fork in the road. Opinion leaders are captivated by the emergence of an “omni-channel” model that encompasses all the media and technologies by which retail organizations reach out, sell merchandise, and provide customer support to consumers. But what’s on the horizon for the old fashioned, brick and mortar store?

This white paper examines the opportunities for retail stores despite the challenges from declining traffic; globalized competitors; conflict with online channels; and the ascendance of the wired, informed customer). It looks at the mobile information technologies transforming retail, online and, increasingly, in the store aisles. It describes a new paradigm of Mobile-Assisted Shopping – and introduces **TouchStore™**, a unique new tool to help retail organizations provide a richer, more satisfying purchase experience for the mobile-armed customers.

Some key findings:

- Retailing once pitted stores against online retailing competitors like Amazon and Zappo’s. But brick and mortar retailing is increasingly a facet of an omni-channel corporate retailing

strategy, with *complementary* online channels.

- The consumer increasingly calls the shots in retail. The web has given shoppers access to more information than ever on pricing, features and the opinions of their peers about brands. And they are carrying that information into stores, on their mobile devices.
- “Mobile-assisted shopping” is changing the in-store retailing experience. Stores that embrace this change are finding that the customer’s mobile device provides new ways to deepen their relationships with customers. The device can be a tool to convert browsers to buyers, giving shoppers the information to make confident in-store purchase decisions, and incentives to buy (or at least order) products on-premises, as opposed to online.
- A new solution called TouchStore can give retailers the means to provide in-depth product information through a centralized chat or guided browsing function, without burdening the in-store staff, allowing more conversions even when products are out of stock.



“Shoppers are growing increasingly confident in their online buying. Many feel they are better informed about their purchases when they make them on the web or through a mobile device, as retailers provide increasingly information-rich sites with better price-comparison, sizing and other decision-making tools.”

Retail Customers Seize the Initiative

Traditional brick and mortar retailing is facing a transformation. Some call it a crisis. Foot traffic has been declining for years in downtown shopping areas and even in malls that were glamorous destinations a decade ago. The consulting firm ShopperTrak reported that store traffic in the US for the 2013 holiday season had declined 50% from two years earlier, as online shopping continued to grow and captured an increasingly important share of the shopper's wallet; ShopperTrak projected another, smaller drop in traffic in 2014. According to Adobe's annual "Digital Index" study, "Black Friday," for many years the biggest in-store retail sales event of the year, has also become the fastest-growing online sales day.

Retail is now an "omni-channel" game, in which the consumer calls the shots. Brick and mortar stores are battling to defend their continued relevance to consumers who have grown to rely on online shopping and, increasingly, on the new buying opportunities available to them through their smart phones and other mobile devices.

It is important to keep these trends in perspective. A December 2014 eMarketer study projects that, while most Americans are online consumers now, only 6.5% of 2014 retail sales came from internet transactions – that is, \$10 out of every \$11 in retail sales are still spent in physical stores.¹ By 2018, when the world's total retail market will grow from the current \$22 trillion to more than 28 trillion, e-retail's share will still be only 8.8%.

Still, the growth of online retail is rapid and transformative. An equally impressive trend is



the growth of mobile devices' share of the ecommerce market. IBM Digital Analytics reported that mobile sales accounted for 22.6 percent of all online sales for the 2014 holiday season, an increase of 27.2 percent over 2013 holiday sales. Mobile generated 27.6% of Cyber Monday sales, a 27% jump from 2013.

Convenience has a lot to do with the transition. Customers' lives are increasingly hectic, and shopping, once a principal pastime for middle class consumers, is seen more and more as an exhausting chore for which customers have less and less time. Meanwhile, shoppers are growing increasingly confident in their online buying. Many feel they are better informed about their purchases when they make them on the web or through a mobile device, as retailers provide

Online Holiday Sales - Mobile



Cyber Monday Sales - Mobile





If you are an omni-channel retailer, odds are the channel your customers prefer is the web. In a 2014 study by UPS, comScore and the e-tailing group, consumers given the choice overwhelmingly preferred researching a product online. As for purchasing the item, 55% said they prefer to do so online, vs. 41% who prefer to buy in a store.

Intent doesn't translate directly to action. Among 28 omni-channel retailers surveyed by InternetRetailer.com, online sales still accounted for only 14.3% of total revenues in Q2 2014 - up from 12.9% for the same period in 2013. But most of these retailers reported online sales grew faster than in-store sales, and many saw store sales declining year to year.

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Competition from online sellers isn't the only issue for retail stores. All retailing is feeling the pain of changing consumer demographics and economics. All of the industrialized countries are stuck in a pattern of low economic growth; while the unemployment rate in the US has declined, the nation's economic recovery is weak and many in the middle class are not feeling the benefits. Sluggish sales have begun to affect the big-box budget retailers like Walmart, which in August 2014 saw its seventh consecutive quarter of declining store traffic.

Small, single-store retailers face punishing competition from both larger chains and the online trade. But bigger chains are under enormous pressure as well. Many are corporations, with the constant investor demands for earnings growth driving their executives to reduce costs, amid increasingly strident demands from workers for wage and benefit increases.

One of the most important difficulties for retailers is retention of the expert sales and support help that has long differentiated brick and mortar stores from online sellers. Those experts enable the retailer to answer questions and provide help customers need to buy confidently, especially complex products like electronics, appliances or personal care products. Certain brand-captive retailers, like the Apple stores with their "Genius Bars" offering guidance from elaborately-wired product experts, provide outstanding in-store support. But for many retailers, expert help is becoming an expensive luxury.

Additional pressure has come from competition with increasingly agile, aggressive new chains whose lean, sophisticated business models and globalized logistics and supply chains enable

"Consumers have more information available to them about the products they buy than ever before in history, and their smart phones and tablets allow them to tap those resources whenever and wherever they want to."



them to provide “just-in-time” inventory control tuned to rapid turnover.

Traditional business models will not sustain retail into the future. One of the things successful retail organizations must change is their relationship with technology.

The Always-On, Mobile-Connected Consumer

Stores are becoming increasingly technology-intensive operations, tightly integrated with the inventory, supply chain, human resources and marketing systems of their parent corporations. “Big Data” analyses from the parent company headquarters enable store management to anticipate consumer tastes and trends. Store staffers frequently are wired as well, with scanners for shelf-stocking, but also smart phones and tablets with applications designed to retrieve product information and store inventory data for the benefit of shoppers. Human cashiers now share the traditional checkout function with increasingly sophisticated, automated self-service scanning and payment systems, which are capable of accepting cash, cards or the growing array of mobile secure payment systems.

Meanwhile, a computer hundreds of times more powerful than the onboard systems that took the Apollo astronauts to the moon sits in the jeans pocket of every soccer mom who walks into the store. The future looks very dark for any retailer who fails to see the transformative implications of this.

Consumers have more information available to them about the products they buy than ever

before, and their smart phones and tablets allow them to tap those resources whenever and wherever they want to. Some of this information is provided by retailer and brand web sites, which tend to present brands in the best possible light. But consumers also have instant access to more objective information on products, from media reviews and third-party sites offering feature and price comparisons across categories.

“A true omni-channel strategy tends to remove the silos in which channel teams operate, casting them as complementary touch points in a common chain of customer experience. Each channel – print and broadcast advertising, the call center, the web site, the mobile site and the physical store – has its own role to play in building customer engagement.”



And then of course there are social media – Facebook, Instagram, Pinterest, Tumblr and many other social sites where marketers maintain a presence. Retailers have been the targets of freewheeling social media commentary – sometimes supportive engagement, and sometimes quite heated criticism. Many consumers are strongly influenced by these comments, because they view them as the unbiased impressions of people like themselves.

Consumers go to stores well-armed. What worries retailers most about this is the potential for smart phones to equip customers for a tactic called “**Showrooming**,” in which the shopper goes into the store to examine an item close up and gather information on it, and then searches

online for an a web site or another store offering the same item at a lower price.

The jury is out on showrooming. Published research by retail management consultancies has come to conflicting conclusions, with some studies rating it a fundamental concern for stores and others suggesting that consumers who use smart phones in a store usually go on to complete the purchase in the same store. Research by Interactions² (May 2014) suggests that 76% of shoppers showroom – but 88% have developed the habit of “Webrooming.” That is, they research products online with the intention of then buying them in stores.

One thing that is clear is that **consumers have not given up on brick and mortar retail**, notwithstanding the inroads made by Amazon and other online retailers. Consumers have diverse reasons for continuing to shop in brick and mortar stores, as shown in the research summarized in Figure 1. The ability to touch and feel the product before buying and to have it immediately is essential for some purchases. Stores also continue to attract buyers who like imaginative merchandising, in-store events and

the like – experiences that cannot be replicated online.

And consumers respond to price breaks and online coupon offers; a 2014 study by KeyRing found that almost half of respondents take advantage of coupon promotions on products they have been researching via their mobile devices.

Omni-Channel and the Customer Experience

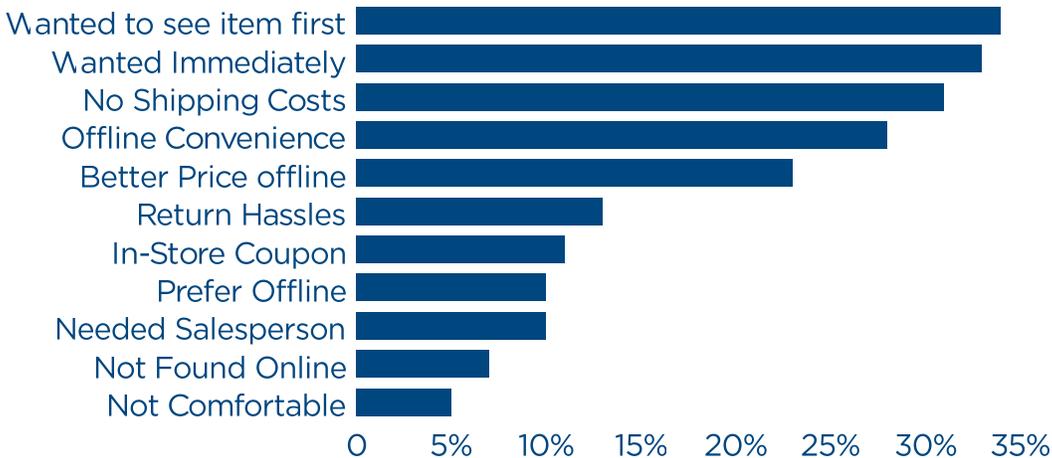
Seventy percent of retailers have at least begun to evolve an **omni-channel merchandising** strategy, according to the 2014 Retail Outlook Survey by KPMG, with substantial proportions of revenue coming from online sales. Most now have corporate staff dedicated full-time to **mobile commerce** – online sales targeting consumers shopping via phones and tablets.

The omni-channel strategy is having a profound impact on the retailer’s perspective on brick and mortar merchandising. Forward-thinking

companies have embraced the study of the **Customer Experience** and **Customer Journey Mapping**, techniques for understanding and optimizing the consumer buying process that evolved over the last decade among service design thought leaders.

A Customer Journey Map is a tool designed to profile customer types

Customers were asked about products they researched online but purchased offline, “Why did you purchase that product offline?”



and illustrate how they progress from curiosity to information-seeking to an actual purchase decision. Along that path, the marketer interacts with the customer through a variety of **Touch Points**, corresponding to various marketing channels.

Conventional retail companies have had separate teams responsible for different channels (in-store, online and now mobile sales), often setting these teams in competition with one another to spur performance and innovation. But a true omni-channel strategy tends to remove the silos in which channel teams operate, casting them as complementary touch points in a common chain of customer experience. Each channel – print and broadcast advertising, the call center, the web site, the mobile site and the physical store – has its own role to play in building customer engagement.

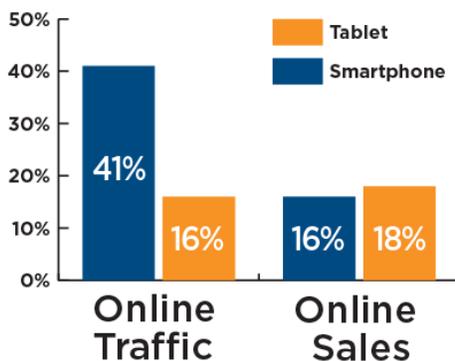
The store may actually complement the online sales channel by devoting space to fulfillment of orders that originate online. And the reverse may be true: It is increasingly common that in-store transactions resulting in sales are fulfilled by the corporate logistics operations that serve the online sales team.

In-Store Assisted Shopping – A New Paradigm

The store continues to be a crucial link in the chain of touch points over the course of the customer experience. The difficulty large brick and mortar retailers face in staffing sufficiently for peak hours has opened the door to a new reliance on automation to enhance the shopping experience.

The retailer needs to provide to an individual browsing in the store:

- A way to get **oriented** in the physical space, to find the products s/he is looking for;
- Quick access to **product information**, to make informed decisions about which brands best meet his/her needs;



When it comes to mobile devices, apparently the larger the screen, the more likely the user is to actually buy. According to the IBM Digital Analytics Benchmark, published in January 2015, although smartphones drove 40.6% of total online traffic (versus 16% for tablets), tablet sales accounted for 18% of all online sales; smartphones only accounted for 16%.

The growth, however, is faster for smartphones. The National Retail Federation's 2014 State of Retailing Online study found sales via smartphone are growing at 135% year over year, versus 86% for tablets.⁴

- **Incentives** – in the form of personalized offers or coupons – to help him/her overcome the hesitation to make the purchase decision;
- **Reassurance** that the purchase risks have been minimized (e.g., best price guarantees, simple return policies); and
- **Solutions** to buying issues, such as out-of-stock situations.

Today, almost everyone who walks into a store is carrying a powerful medium for purchasing assistance in her own pocket or handbag: A smart phone or tablet. Most mobile device owners already use these gadgets as aids in shopping. A 2013 study by the Google Shopper Marketing Agency Council⁴ found that more than 90% of mobile device owners use the devices in “pre-shopping” – looking up store locations and hours, find promotions and the like; 84% use their phones while shopping. Seventeen percent of consumers surveyed said they used their phones in shopping at least weekly.

More than 80% search online for product information and compare prices while in the store. This is true across virtually all product categories. About half of shoppers who use their phones in shopping say they are on these devices for 15 minutes or longer; one third say they now prefer to look up product information on their own than get help from a store employee. These, the Google study found, are the retailer’s prime targets. The more time they spend on their phones in the store, the more they buy, especially in categories like health and beauty, appliances and electronics, where market baskets for smart phone users can be 34 to 50% larger versus shoppers who don’t rely on their smart phones for help.

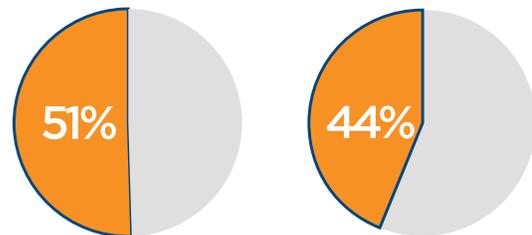
The principal motivator for these consumers is **time-saving**; 51% of the shoppers surveyed by

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Google said that was a significant benefit of using their smart phones in shopping, while 44% said it **saved money**. Where are these shoppers headed when they go online in the store? Most often, to search engines, followed by store web sites and brand web sites. Relatively rare, Google found, was the use of store or brand apps – 65% of consumers surveyed preferred the mobile web site experience over tools that need to be downloaded and learned, while 35% leaned toward apps.

Customers Say Online Shopping Saves Time Saves Money



Other research, conducted by A.C. Nielsen³, suggests tablet users go through a similar decision process: Research on the device, followed by completion of the transaction offline, either over the phone or in a store. Tablet users, however, have a higher tendency to buy online using the device than do smart phone users.

Net: Consumers are turning to their mobile devices for help in shopping – before they arrive in the store, and while they shop. Retail operators need to embrace this fundamental fact, and turn it to their advantage.

TouchStore – In-Store Online Buyer Assistance

In recent years, retailers have quietly introduced an important piece of omni-channel infrastructure into stores: The **QR code**. The mobile camera-readable square pattern encoding the URL for a web page is by



now familiar to consumers in industrialized countries from its wide use in advertising. But QR codes can now be found in many retail store displays as convenient tools for shoppers to access detailed

information on products, generally from manufacturers' web sites. This approach enables customers to gather the facts they need to make informed purchase decisions, either when sales assistants are unavailable to answer questions or when the customer simply prefers to do his own research.

Into this emerging context of mobile-assisted shopping, **TouchCommerce** has introduced a solution that enables retailers to provide a uniquely personalized, mobile enhanced shopping experience, giving shoppers live, in-store access not only to product information but to **expert product support**, including technical advice, as well as individualized offers and promotions. The solution is called **TouchStore**.

“The TouchStore solution is designed to eliminate the incentive for showrooming, by providing a customized offer while the customer is still in the store. And for customers who are receptive, TouchStore can provide all the information and guidance the hesitant customer needs to make an informed, confident purchase decision he might otherwise defer.”



TouchStore provides a service designed to help retailers convert more “smart phone shoppers” from browsers to buyers, and to increase the purchase volumes of the shoppers who do convert.

Smart phone shoppers will leave the store without purchasing for a variety of reasons. Research by the consultancy SeeWhy (2013) found that 21.6% of them are clearly showrooming – they will browse in one store and then buy from a competitor. Another 19% will look but ultimately fail to purchase. Each of these scenarios represents a conversion opportunity. The TouchStore solution is designed to eliminate the incentive for showrooming, by providing a customized offer while the customer is still in the store. And for customers who are receptive, TouchStore can provide all the information and guidance the hesitant customer needs to make an informed, confident purchase decision he might otherwise defer.

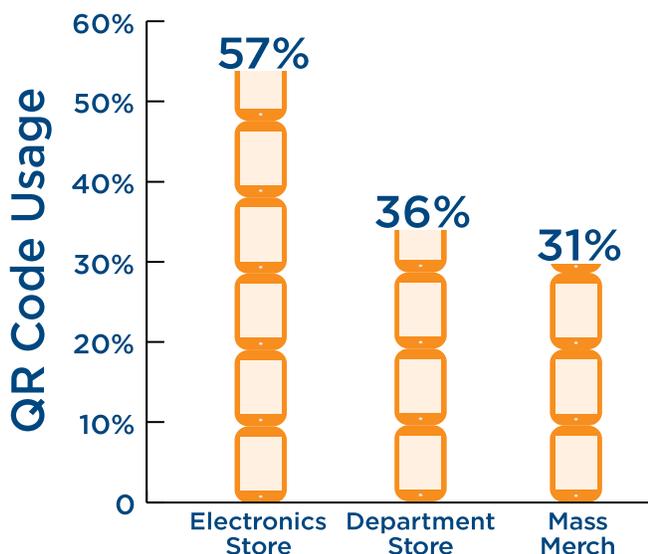
TouchStore can provide this support to the retailer without burdening the store's own staff – even at peak hours of the busiest selling season – because the experts providing the assistance are remote. While the transaction is linked to a specific aisle of a retail location, the expert agents who assist the customer work for

the parent company, not the individual store. (In fact, the agents might not work for the parent company either – in some instances, a retailer may choose to host in-store displays in which QR codes connect the shopper to a brand web site and brand-specialist experts via TouchStore.)

The process starts with the customer and the item on display, with a scan of the item’s QR code.

QR codes are in common use. In the US, retailers like Best Buy, Home Depot and Staples use them in displays for many products, and customers with mobile devices can scan them to get detailed specifications, customer and media reviews, feature comparisons with similar products and the like – potentially all the features that make online shopping attractive. And customers do use them – more so in some merchandise categories than others, but widely. According to Nielsen, 57% of smart phone users scan them in electronics stores; 36% in department stores and 31% at mass merchandisers.

The QR code is central to the TouchStore experience, although it is not required; customers who prefer SMS can simply text their



information requests to an address provided alongside the QR symbol.

But a QR code can capture and transmit much more than a URL for a web page. Most obviously, it can convey information about the store location, so that a sale that originates in a specific branch can be credited back to that branch if the customer proceeds to buy online. The scan, however, is only the beginning.

The mobile web site enabled with TouchStore sends a cookie to the customer’s phone. If the

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customer has searched the retailer’s resources for product information with this phone previously, the transaction history enables information, online coupons or offers provided to be personalized for his known or anticipated preferences. For a regular repeat customer, the degree and quality of personalization will improve with each mobile browsing experience on the retailer’s site.

More importantly, TouchStore offers the customer expert help, through a **live chat session** or, for buyers who prefer a self-service experience, a **scripted online “guide” session**. Either medium will provide individualized, expert support, including informative “how-to” videos, product specifications and pricing, and allow the retailer to push customized offers and

promotions, uniquely coded for that customer. The buyer can either complete the transaction online, or take the promotion code provided to the register to take advantage of it in the store.

A typical chat session might focus on giving the customer the information she needs to decide between alternative products so that she can complete on in-store purchase. A crucial advantage for the store's management arises in **out-of-stock situations**. The chat agent will have access to inventory data, for the individual store and for the entire chain. If the desired product is out of stock in that store, the agent can locate it elsewhere within the corporate inventory or order it from the manufacturer, and can then offer incentives – e.g., free shipping, a price match guarantee – for the customer to complete the order on the spot. The store can still retain credit for the sale.



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TouchStore leverages several components from the TouchCommerce omni-channel marketing automation platform, including:

- **TouchChat** – A chat system that presents the customer with live agent assistance in context. It offers a differentiated chat experience depending on whether the customer needs proactive help (e.g., at the beginning of the session), or reactive help (when the customer has a question

or runs into a problem). The agent has access to the transaction data collected via the QR code, and the customer's past history of smart phone interactions, and can provide individualized guidance, advice and promotions.

- **TouchGuides** – A “virtual agent” system that uses business rules to lead the customer through a carefully scripted interaction with online information, forms and calculators. The Guide can recognize when the customer is having a problem and, if necessary, escalate to a live agent.

Benefits of TouchStore for the retailer include:

- **Higher revenue and lower support costs** by confronting showrooming head-on and reducing in-store walkaways;
- **Higher operational efficiency** by enabling expert remote support across multiple stores for cost-effective product training and improved ability to handle store support peaks, busy periods, special promotions and holiday seasons; and
- **Increased targeting capabilities & lead generation** with targeted offers, customer experience surveys and better tagged cross-channel interactions.

Benefits of TouchStore for shoppers include:

- **An enhanced shopping experience** with higher quality, personalized, more timely mobile support while shopping in the store;
- **Improve loyalty programs and in-store satisfaction** by making information about products available at customer's fingertips without having to wait for the store clerk; and
- **Enhanced product availability** by making it effortless to acquire product in-store or buy it online while in store, thus fulfilling the original goal of store visit.

Retail's Future: Continuous Reinvention

Innovations like TouchStore will allow stores, and the brands they carry, to draw mobile-assisted customers into new kinds of mutually beneficial relationships.

Consumers increasingly say they care about brand attributes that go far beyond style, quality and price: When asked, they cite companies' ethical stances, environmental policies, supply chain transparency and the way they treat their employees as factors in their decisions about whether to adopt a brand – or a retailer. The dialog between retailer and customer about these issues often will be conducted via smart phone. Consumers may seek access to new kinds of non-selling experts to address issues like these through a medium like TouchStore.

Technological innovations may one day extend the capabilities of mobile devices to tighten the bond between shoppers and stores. For example, for consumers who are willing to



accept the connections, Bluetooth-enabled displays may soon be able to reach out to the phones or tablets of passersby, calling their attention to in-store promotions on key products (especially those in which these customers have expressed interest in previous online encounters). Customers may one day be able to locate certain products in stores by initiating a callout to RFID-tagged displays, from their mobile devices.

Continual investment in technology innovations will help keep retailers closely connected to mobile shoppers. But technology alone will not suffice. The retail successes of the future will belong to companies that constantly reinvent and refine not only their systems, but their business strategies, and their corporate brands to meet changing customer habits and expectations.

More information about TouchStore can be found at www.touchcommerce.com/touchstore

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