

Shaping the mobile experience

USING A MOBILE PLATFORM TO ENGAGE CUSTOMERS

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KEY TAKEAWAYS

The world is being transformed, from a place of in-person commerce that has been facilitated by physical payment forms, to one that is heavily reliant on mobile, digital transactions and online conversations – a transformation that will result in winners and losers.

Succeeding in this new world will require a shift in thinking:

- Payments are no longer outside the realm of marketing; instead, they form a critical jumping-off point for customers to engage more meaningfully with a retailer's digital brand.
- Retailers must migrate to the next generation of promotions and loyalty programs enabled by today's mobile environment – one that emphasizes frequent, personal relationships, rather than formulaic deals.
- Customer experience must be at the heart of mobile thinking, whether supplementing existing brand experiences or innovating with new services.

Retailers must begin to consider the integration of mobile payments, rewards and loyalty programs, and other value-added customer services into a unified mobile experience strategy.



MOBILE PAYMENTS

Consumer payments in commerce are undergoing tremendous change: Mobile shoppers and buyers are more prevalent, digital transactions are increasing, and new players are emerging. As a result, retailers face significant financial and strategic risks – but those retailers who take on innovative and aggressive strategies have a major opportunity to enhance their customers' experience. In this context, retailers must understand five key transformations in this changing world of payments.

New providers are radically changing payments business models and ecosystems. No longer just populated by banks and card networks, the payments value chain now includes startups (Square), tech companies (Apple, PayPal), telecom (Verizon), and retailers offering closed-loop payment systems (Starbucks).

Transformational solutions are offering superior value propositions in payments and beyond. New providers and new types of partnerships offer faster, cheaper payment options that are more convenient, more inclusive, and more secure than traditional card and cash payments. For example, online retailers with one-click shopping and apps like Uber are making the payment process essentially invisible – the transaction and receipt delivery occur automatically with no effort from the customer.

Customers' evolving expectations are driving innovation. "Anywhere, anytime" is the new standard for shopping, buying, and paying. And as value propositions improve, customers increasingly expect seamless usability when they use mobile devices to search for products and retailers, read reviews, and compare prices, as well as make payments or purchases. Higher expectations are not limited to consumers alone – retailers and businesses are also demanding faster, safer, more global solutions from B2B services.

Rules and standards are challenged with faster pace of change. Previously, payments networks like Visa and MasterCard dominated branding and rule making across the value chain. But as new economic models come into being – along with new security, authentication, and tokenization standards – other players (including retailers) are gaining the ability to set the rules in the ecosystem.

Data is becoming a major battleground. Mobile platforms are enabling collection of far more customer data, including identities, location data, search histories, purchases across multiple merchants, and time spent in-store. But who exactly owns this data, and who is allowed to use it? New players, especially phone companies and open wallets, are already staking their claim, but retailers must be cognizant of the potential of this data – and the risk of being shut out.

Together, these trends have three major implications for retailers:

1. Customer payments, as well as commerce relationships, will increasingly be at risk

As payments business models and ecosystems evolve, social platforms, phone manufacturers, and open wallet providers seek to own customer relationships that were once solely the domain of retailers. The result is that these companies are gaining the leverage to steer customers toward commerce channels and merchants of their choosing.

If retailers fail to take action, they risk losing their ability to communicate with the customer, decreasing brand

awareness and loyalty. Further, they may face increased competition to enter and remain in a customer's consideration set within these broader platforms.

Unfortunately, traditional retailers can be at a disadvantage in this new relationship-building process, as social and mobile platforms are often the front line of customer interaction. Buying and shopping are becoming embedded in these online platforms – many decisions are made based on conversations in digital channels and in social media. And the impact is great: 69 percent of mobile shoppers changed where they made a purchase after price comparisons, while 79 percent changed what they purchased after reading product reviews while at a retail store.¹ Ensuring that the retailer remains in the conversation is now a key consideration for merchants.

2. Understanding the payments environment is a "must"

Retailers are already moving past viewing payments as just a "to-do" on the operations checklist. Beyond shifting their approach, however, retailers must take care to refresh their thinking and stay current with their understanding.

1. Federal Reserve, *Consumers and Mobile Financial Services Report*, 2016



The reason for this refresh is that payment types, channels, and technologies are multiplying, requiring frequent assessment to ensure that costs and operational processes are optimized. Indicative of this is the fact that investments in new payments companies rose to around \$3 billion in 2015, nearly tripling their level in 2013.² Further, consumers' growing comfort with nontraditional banks introduces the potential for higher payments costs and complexity – processing, fraud, technical connections, store operations, and settlement must all be considered.

Particularly for chief merchants and marketers, this understanding comes into play when considering new opportunities for retailer-branded forms of payment and mobile experiences. Successful execution means that the retailer can retain ownership of the payments process, helping to protect existing data sources and customer relationships.

3. Payments and digital commerce innovation create significant opportunities for retailers

The most important realization for retailers is that mobile and digital commerce provides the opportunity to have richer engagement with their most loyal customers. The buying and payment process can now be better integrated with the overall customer experience, allowing for more creative and value-added services.

In-store and at the point-of-sale, this could mean digital payment options, store-specific marketing and guidance, or scan-as-you-go functionality in a mobile app. Using new mobile capabilities, retailers can make the customer's in-store experience more frictionless and more personalized.

Going beyond bricks-and-mortar shopping, examples include mobile click-and-collect and delivery services, or partnerships with social media and payment providers. Finally, there are opportunities to increase customer adoption by integrating payments with an upgraded loyalty program, as described in the next section.

REWARDS AND LOYALTY PROGRAMS

Rewards and loyalty programs are an important strategy for retailers to maintain and improve the customer relationships that are coming under threat from new competitors. However – as is the case with the payments environment – loyalty programs are undergoing major transformations driven by mobile and digital capabilities.

Today, many food retailer loyalty programs can be described as undifferentiated, underexploited, data purchasing, and break-even/minus:

- Loyalty programs are often formulaic and transaction-based – offering points or discounts to customers but disconnected from retailer branding and lacking personalization or unique experience.
- These programs have very little impact on brand perception. (See Exhibit 1.) Retailers are missing opportunities to influence customer behavior and to enhance shopping experiences, especially for their most loyal customers.
- With the low perception impact, many retailers instead justify the cost of their loyalty programs by the data they yield – which can be employed to inform business decisions, sold to suppliers, and used to develop targeted campaigns.

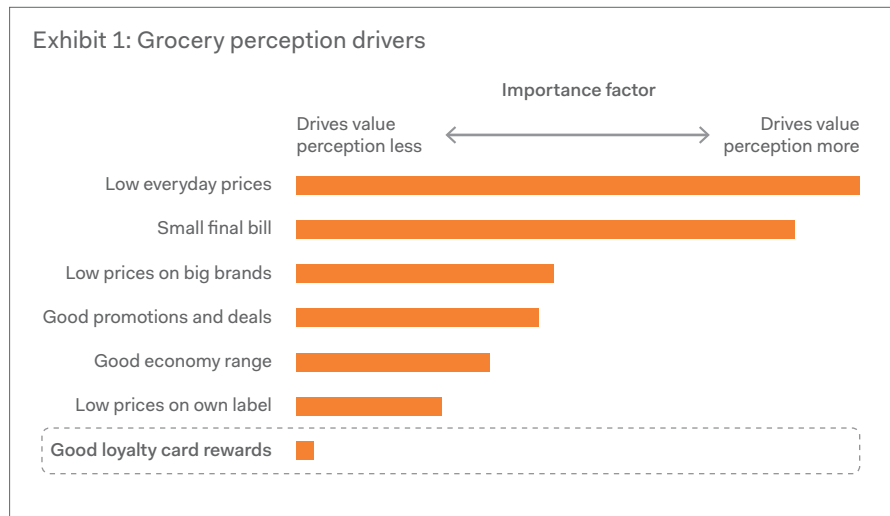
- However, these benefits are often not enough to recoup the cost of the scheme. Significant volume uplift is required to recoup the costs of running the program, and data cannot be the only value proposition.

Instead, the next generation of loyalty programs needs to be more “human” – based heavily on customer relationships and offering broader benefits, rather than formulaic discounts (see “The Future of Customer Loyalty”). The programs should take a broader view of building customer relationships and providing benefits – in turn driving loyal behavior through intrinsic value and nurturing relationships as assets, rather than focusing only on P&L. Retailers are already innovating with a variety of techniques beyond simple transactional exchanges.

Gamification: Teleflora offers points for actions, including user reviews, comments, answering other customer queries, and posting on Facebook. As customers earn points, they are rewarded with higher levels of badges; a leaderboard also highlights the top performers.

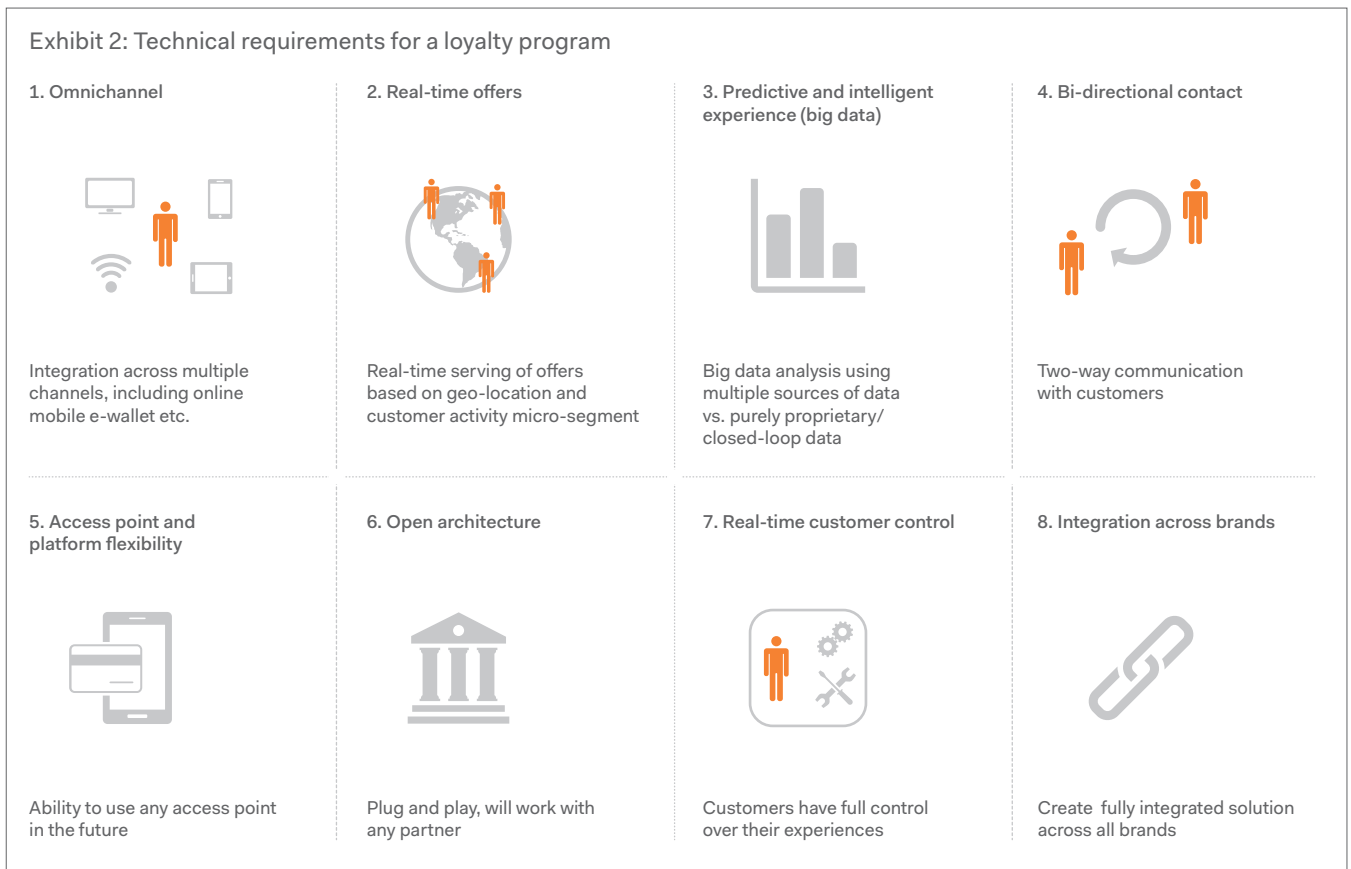
Social media integration: Victoria's Secret has held contests offering \$500 prizes to customers who submitted the best photos through Instagram. To participate, customers had to sign up for the loyalty program and download the mobile app.

Exhibit 1: Grocery perception drivers



2. CB Insights, *Funding to Payments Startups*, 2016

Exhibit 2: Technical requirements for a loyalty program



Personalization: GameStop store clerks are equipped with tablets to view customers' shopping history and make personalized shopping recommendations. Rewards and discounts offered are unique to customers, based on their transaction history.

Alignment with brand positioning: Instead of a traditional loyalty program, Pret A Manger allows cashiers to hand out perks at their discretion, like a coffee on the house. Pret uses this technique to promote itself as a more personal and less corporate brand.

Of course, there are also significant requirements for internal capabilities, platforms, and brand insights in order to deliver a loyalty program. (See Exhibit 2.) Beyond technical prerequisites, we also discuss in the next section a number of strategic building blocks to successfully create a mobile platform that fosters loyalty.

EXECUTING A MOBILE APP

It's easy to get caught up in the "land of shiny objects" when it comes to mobile apps and designs, but the reality is that customer adoption is a huge challenge for all app designers. Retail apps represent only about 5 percent of usage time, and a majority of new apps are deleted after just one day. On the other hand, a successful mobile platform creates several important outcomes for retailers:

- Boost revenue by easing transactions, increasing engagement and allowing for a higher degree of personalization and interactivity (engaged app users spend up to 25 percent more per month and visit stores 59 percent more often)
- Lower costs by providing a permission-based market for suppliers, open to valuable interactions with your products and services

- Position yourself for long-term growth by setting up the infrastructure needed to have highly relevant conversations with customers

We've seen so far that payments and loyalty programs are crucial components for realizing these outcomes. But how do you successfully combine them to create a vibrant and engaging mobile platform?

The key is to take a holistic approach – not just toward mobile, but one that is also integrated into a company-wide branding and customer strategy. (See Exhibit 3.) Therefore, several key building blocks of company perception and consumer understanding must be well established before launching a mobile app. As we walk through these building blocks, we'll also look at two retailers, Bed Bath & Beyond and Sephora, who have successfully built mobile platforms around existing brand strategies.

CASE STUDY: WHAT DOES “GOOD” LOOK LIKE?

Starbucks' mobile app, integrated with their loyalty program and payments platform, has grown to more than 12 million users and accounts for almost a quarter of all Starbucks transactions.³ The effectiveness of the app stems from the way it is embedded into the broader ecosystem:

The program is an inextricable part of the customer experience. Customers receive individualized offers for bonus “stars” (the rewards currency) based on preferences and location. Also, features such as Mobile Order and Pay to avoid lines and free refills on brewed coffee and tea are only available to program members.

It is an integrated part of the distribution channel strategy. In addition to in-store purchases and online ordering, items from other retailers and distribution channels (such as coffee beans, tea, K-Cups, bottled drinks) can also earn stars through the app.

The payments approach is seamlessly incorporated. Rewards currency, prepaid Starbucks cards, and monetary payments (such as a linked credit card) are integrated into the program and easy to use at the point-of-sale. Using the app to pay is also more convenient, accelerating the purchase process for the customer.

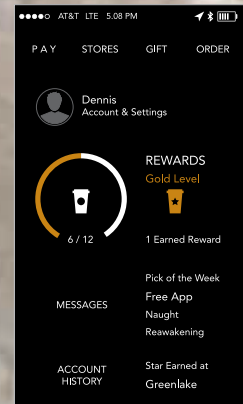
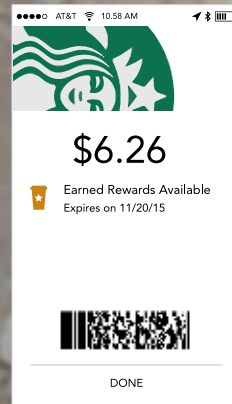
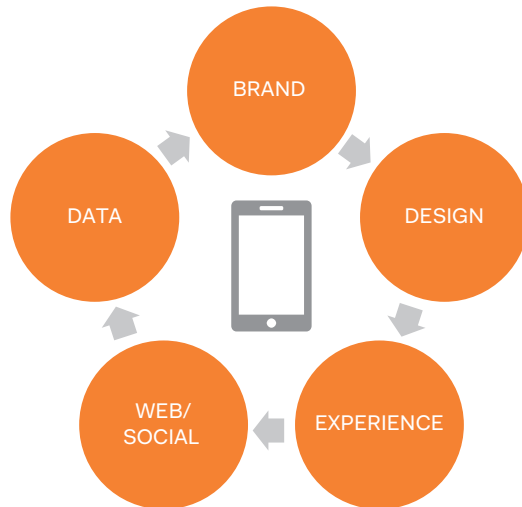


Exhibit 3: Technical Components of a holistic brand and customer strategy



First, you need **signature brand experiences**: the elements of your experience that draw in your most loyal customers. The mobile platform can capitalize on these experiences to provide coherent branding and messaging.

For example, Bed Bath & Beyond's 20 percent coupons have become more than just a discount – they are a branded, recognizable marketing tool that serves as an “indicator to buy” for their most frequent customers. Their mobile app occasionally displays these coupons so customers no longer have to wait for them in the mail and can use them when convenient. To further integrate the experience, the app allows users to track all existing coupons and offers, apply them automatically to in-app orders, and scan in additional coupons that are still made available through direct mail or email.

A signature brand experience for Sephora is the free in-store beauty class, an important way to demonstrate and promote products, as well as provide expert advice. The app notifies users of nearby classes, and allows them to directly reserve spots in the app. For customers who like to frequently change or experiment with their look, Sephora also offers free mini-makeovers with pop-up reminders through the app when customers are in-store. And even if customers can't make it into the store, the app's “Virtual Artist” feature allows users to experiment on photos of themselves.

You must also be able to **identify your most important and loyal customers** and understand how to **enhance their experience**. These customers will be the core users of the mobile platform, and adoption can branch out from this initial customer base. Without this foundational support, it can be difficult for an app to gain momentum.

Knowing that Bed Bath & Beyond is a big destination for wedding registries, the app provides customers with a 360-degree view of products, which require just an easy click to add to your registry. Registry creators also have the option to scan items in-store or from a catalog, while gift-givers can use the app to search for existing registries. Another key customer segment is college students, perennial shoppers at Bed Bath & Beyond. The app offers college and apartment checklists, a search function for school-specific requirements and permissions, as well as easy options to ship items at specific dates to stores near schools. It also links to YouTube and Pinterest showcases for age-targeted sources of inspiration.

Sephora has fully integrated their Beauty Insider loyalty program into their mobile app, helping to augment the mobile experience. Basic members can use key features directly in the app, such as tracking points, redeeming points for merchandise, and viewing birthday offers. The most loyal customers, Very Important Beauty Insiders (VIBs), also have exclusive benefits available in-app – they can reserve exclusive classes, book free custom makeovers, and redeem handpicked gifts and offers.

Further, you must identify **high vitality products** that represent your brand and generate traffic to your locations. Promotion of staples or innovative new products through the mobile platform can act as a way to prompt a purchase or a store visit.

Bed Bath & Beyond features popular and innovative SKUs prominently in their mobile app, with easy access to order the items directly, find them in store, or add them to a registry. Product highlights are both customer-specific and seasonal, such as for Back-to-School or Christmas shoppers.

In addition to showcasing new products in the app, Sephora's app also utilizes beacons to send out specialized “surprise-and-delight” offers that allow customers to experiment with products in-store. Beacons allow Sephora to target customers walking in specific sections of the store or can be activated at specific times, such as when a customer's birthday is approaching.

Finally, you need a **well-developed omnichannel sales experience**. The mobile experience works in tandem with options like delivery and click & collect – as much as omnichannel can be bolstered by an effective mobile app (see “Digital Equality”), the reverse is also true: The mobile experience is limited if customers do not have the ability to order items directly. Bed Bath & Beyond and Sephora both have well-established channels, allowing customers to find items in-store, reserve them for pickup, and have them delivered via their respective mobile apps.

CONCLUSION

The rise of mobile devices is reshaping retail and commerce, transforming customers' shopping and buying behavior, as well as the retail ecosystem's approach to payments, data, loyalty, and customer relationships. Although this shift can be a threat to traditional models, winning retailers will view it as an opportunity to grow their customer experience. They will also realize that building a mobile platform is a significant investment; therefore, retailers must be thoughtful about creating a holistic mobile strategy that integrates with their existing brand and provides customers with true value-added services.