



Apigee Digital Impact Survey 2015

Digital is Destiny

apigee

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Executive Summary

Digital has changed how we spend and how we save. What's next: how we stay healthy.

The Apigee Institute's third annual Digital Impact Survey of U.S. smartphone owners over the age of 18 illuminates how digital transformation has affected commerce and life, even more deeply and broadly than before.

Since our initial survey in 2013, smart connected devices have won over new enthusiasts at an average rate of over two million people per month, or more than 65,000 per day. Over half (54%) of adult smartphone owners in the United States—more than 93 million Americans—now feel “very favorably” toward the Internet of Things (IoT).

Smartphones and apps added to their already sterling reputations, with positive feelings toward smartphones rising to a nearly unanimous 99% among Millennials (the digital-savvy generation born roughly between the early 1980s and the early 2000s).¹

Research on the [diffusion of innovations](#) points to 67% market penetration as the threshold for reaching fully half of the “late majority” of technology adopters. The impact of smartphones and apps on the shopping experience reached this milestone by 2013. Banking followed in 2014. Health management appears poised to do this by 2017. Expectations for digital’s impact on managing health over the next two years are now comparable to those we measured for banking in our 2013 survey.

Digital’s potential to transform managing health and fitness shows both promise and momentum. Nearly eight in 10 (78%) of those who already use both wearables and apps to manage their health and fitness agree with the statement “I am healthier thanks to my smartphone and apps.” Nearly half of all Millennials (48%) share this opinion. More than one in four Millennials (28%) would prefer doctors who use apps as a regular part of their practice.

The theme of this year’s report is “digital is destiny.” Connected consumers have spoken. Most are delighted with the digital experiences they know today and are open to using more devices and even greater “app-centricity” at work, at play, and in commerce. The open question: which enterprises will seize this as an opportunity for growth or instead lose relevance in their digitally transformed lives?

¹Millennials (also referred to as “Generation Y” or “Generation Next”) are typically identified as those born in or shortly after 1980 and 2004. For the purpose of this report, we define Millennials as respondents currently between the ages 18 and 34, inclusive.

"Digital delight" is a force to be reckoned with

Smartphone ownership among U.S. adults has nearly doubled (to 68%) since 2011 and is just five points of shy of computer ownership, according to the Pew Research Center.²

Our survey finds plenty of reasons why mobile's meteoric rise may continue.

Smartphones and apps are changing the lives of millions of U.S. smartphone owners for the better. Nearly two-thirds (64%) say their smartphones and apps give them more control over their lives. More than eight in 10 (83%) feel they are more productive because of their electronic devices. Nearly all (89%) like the fact that mobile devices enable them to be more available to others.

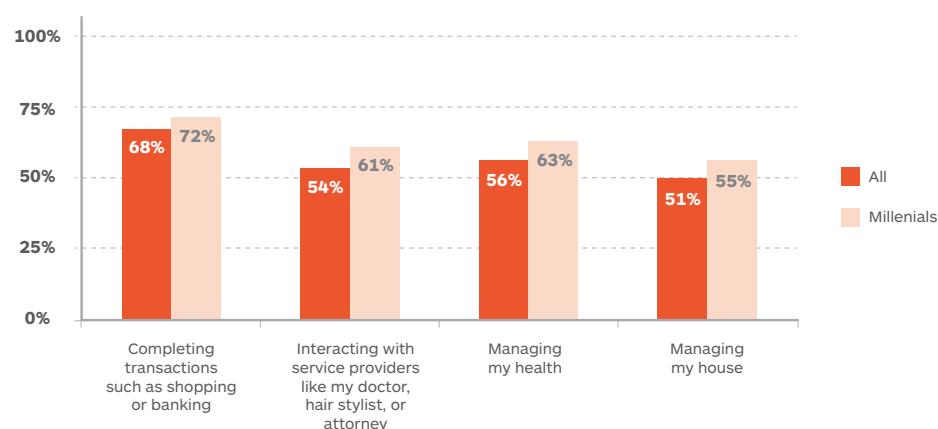
And U.S. smartphone owners show signs they are hungry for more.

Three quarters (76%) are more excited about predictive apps that learn from their use than standard apps. This rises to 84% among Millennials and 90% among those ages 18-24. A majority (63%) is more excited by connected devices for the home (thermostats and lights, for example) that can learn from use than standard home appliances.

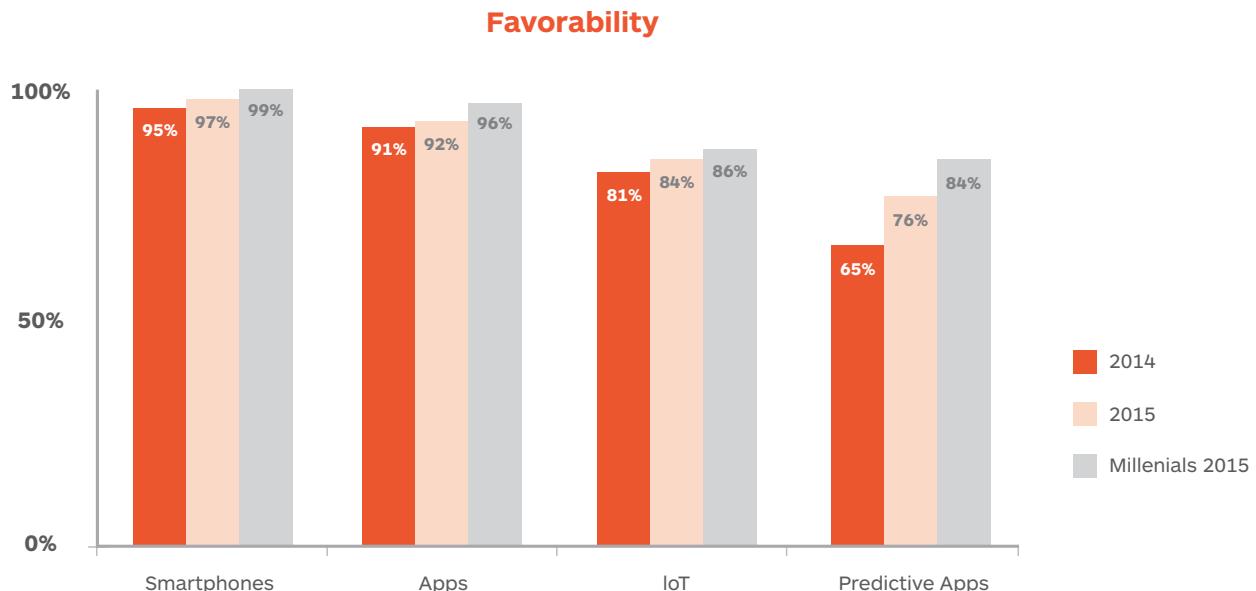
Majorities believe being able to make greater use of apps in four scenarios, including managing their home and managing their health, would improve these experiences. Fewer than 10% of respondents express concern that greater "app-centricity" might make each of these experiences worse.

²See "Device Ownership Over Time" at pewinternet.org.

Respondents who said that "being able to use an app more often" would make these experiences better



"Digital delight" is a force
to be reckoned with



54M

Smartphone-owning Millennials with favorable feelings toward their devices outnumber those with unfavorable feelings by 99 to 1. At just over 46M, the number of U.S. Millennials with "very favorable" feeling is about greater than the population of South Korea

Digital is more than mainstream in banking and shopping—health is next

In his landmark book “Diffusion of Innovation,” sociologist Everett Rodgers synthesized hundreds of studies on technology adoption. First published in 1962, it has been reprinted multiple times and cited in thousands of scholarly articles and in subsequent breakthrough works such as Geoffrey Moore’s Crossing the Chasm.

Rodgers’ enduring contribution was a model for how adoption progresses from a tiny number of innovators who embrace the risk of adoption that may ultimately fail through to market saturation. It provides a basis for understanding when adoption has progressed from opinion leaders and influencers to followers.

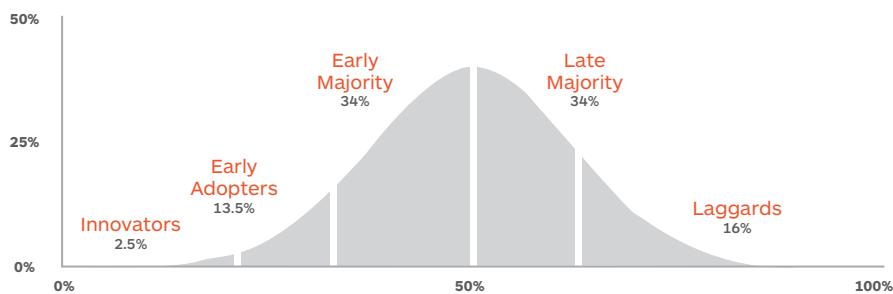
For decision makers, it identifies the “hump” at 50% market penetration as a key transition point. At half of the market, adoption shifts from the “early majority,” who themselves exert some influence, to the “late majority” who follow the pack.

Past 50%, it may be fair to say “resistance is futile” and change will continue. In some respects one might say there are no opinion leaders left who might fight back against the technology’s momentum. At 67%, half of the late majority has been won over. At this point, leaders are likely to reap the benefit of having an installed base of influential users and get a jump on what may be coming next with innovators.

Smartphone ownership has crossed this threshold. And by this measure, among them, digital’s impact on shopping and banking is “more than mainstream.” Enough smartphone owners report that devices and apps have changed these experiences for them to account for more than half of the late majority.

Managing health is not far behind. Those without a strong offering risk running well behind adoption by the “fat part of the market.”

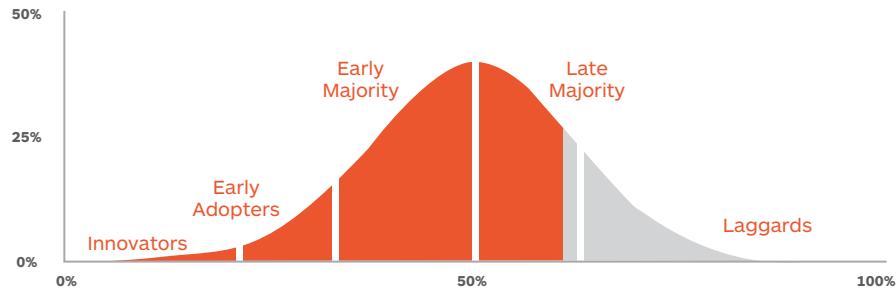
Innovation Adopter Categories and Share of Market



Digital is more than mainstream in banking and shopping—health is next

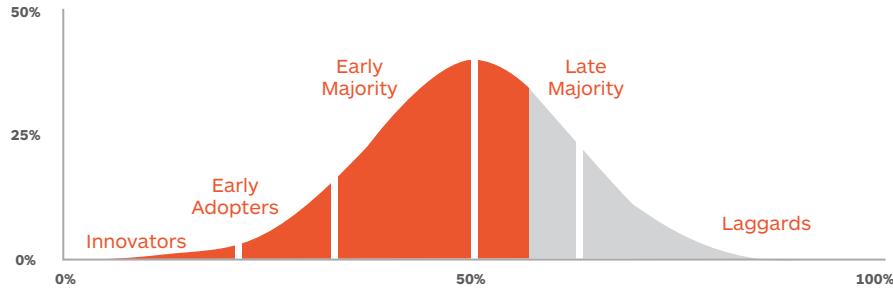
Shopping

Digital's impact on changing how people shop has affected 81% of smartphone owners. Among Millennials, this rises to 86%, crossing the line into the technology laggards in this generation.



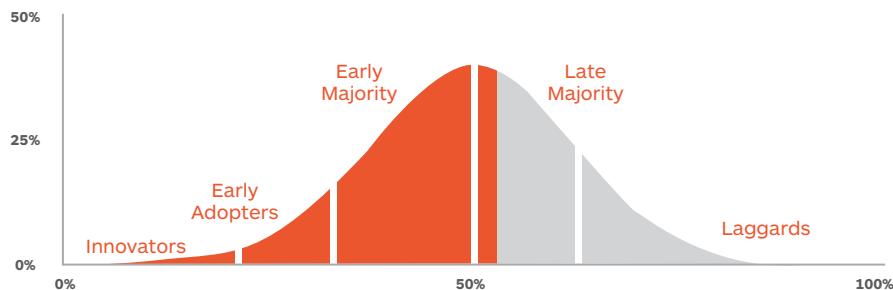
Banking

At 73%, the overall impact of digital on banking has affected more than half of the late majority among smartphone owners. Digital has changed the way 82% of millennials bank, putting it on the doorstep of pulling in the laggards.



Health

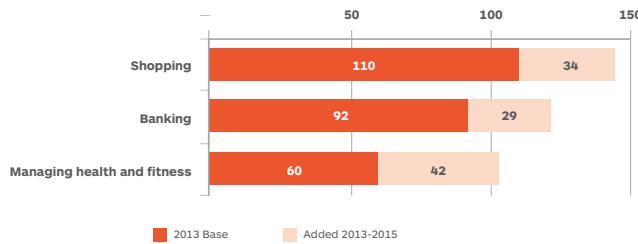
At 60% of the market, digital has begun to penetrate the late majority of smartphone owners. This rises to 71% among Millennials. This survey suggests health is set to follow in banking's footsteps within the next 24 months.



Health and fitness: the promise and momentum of digital

Compared to 2013, more than 42 million additional Americans—a 70% increase—report that smartphones and apps have changed how they manage their health. Managing health and fitness has joined shopping and banking as an experience that smartphones and apps have changed for more than 100 million Americans.

People for whom smartphones and apps has changed (millions)...



Expectations that smartphones and apps will change how people manage their health have risen to 69%, surpassing the comparable figure for banking in 2013 (68%). Eight in 10 expect a doctor to offer key services via apps either now or within the next one to two years. This is also on par with expectations for banks in 2013.

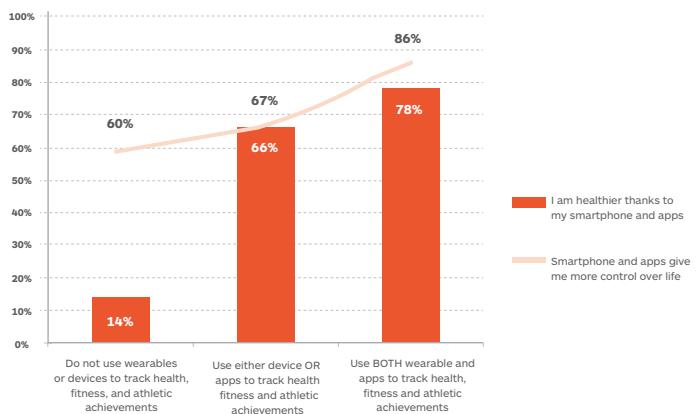
Moreover, nearly half of all smartphone owners (49%) and a majority of Millennials (53%) say they “want my doctor to use my fitness tracker and/or health apps data.” Millennials’ opinion goes a step further. More than one in four (28%) would prefer a doctor who uses app and fitness tracker data as a regular part of their practice, implying it

may be a reason for choosing a doctor, rather than just a “nice to have.”

Enthusiasm for using apps, devices, and data to improve fitness and health appears to be well-founded:

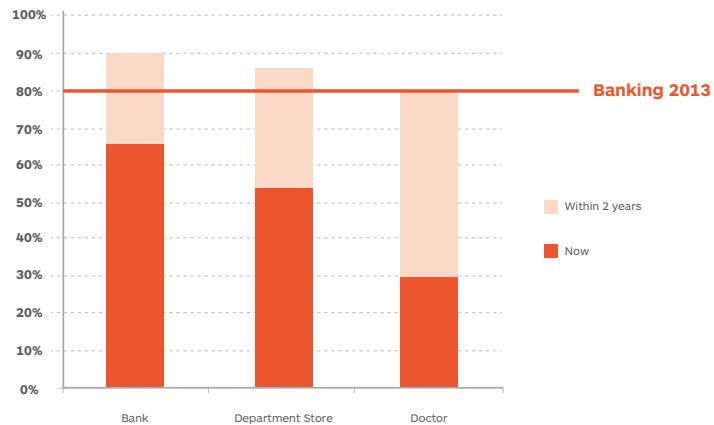
- ▶ More than third of (37%) adult smartphone owners—62 million Americans—report that they are healthier thanks to their smartphones and apps.
- ▶ This rises to 66% of those specifically reporting that they use either fitness devices or apps to track health and fitness, and a striking 78% among those who report already using both.
- ▶ Feeling healthier and fitter correlates with feeling that smartphones and apps give people more control over their lives—64% of adult smartphone owners feel this way, and this rises to almost nine in 10 (86%) among those currently using both a fitness device and apps to manage their health.

Evidence of a virtuous cycle...

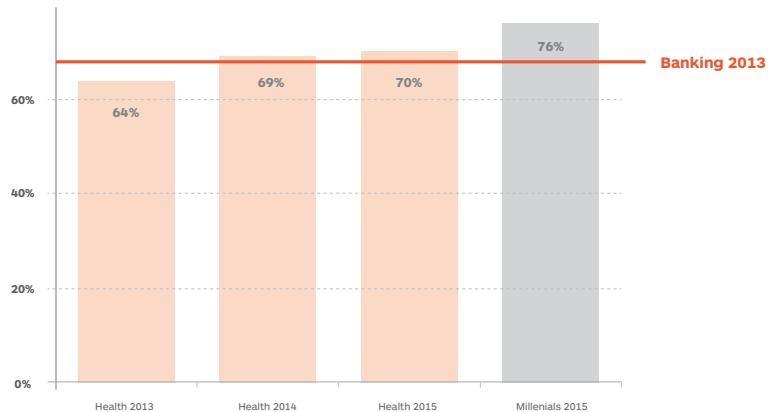


Health and fitness: the promise and momentum of digital

Expecting key functions to be available via app...



Expecting change in managing health within 2 years...



42M

The number of U.S. smartphone owners who started using their smartphone or apps to manage their health in the past 24 months is nearly equal to the population of Argentina

Banking: new digital experiences may shift the center of gravity

When it comes to banking, smartphones and apps have penetrated well over half the late majority of technology adopters. A solid majority prefer to bank using their smartphone and apps (58%), rising to 71% among Millennials. Only 6% of the latter and 12% of respondents overall report that their devices have “not at all” improved their ability to manage spending, savings, or investments. But inroads by new digital experiences and the declining relevance of brick and mortar facilities may continue to shift the center of gravity in financial services.

Overall, about one in four respondents report using their smartphones to pay in-store, to make or receive a direct payment via app, and to use an app or website other than one from their bank to manage expenses. Millennials are leading the way, with about one in three having done each in the past year.

While 2015 was not a breakout year for any of these new digital options, we believe the pump is primed. Dipping a toe in the water is taking place in a context where 92% of adult smartphone owners in the U.S. have positive

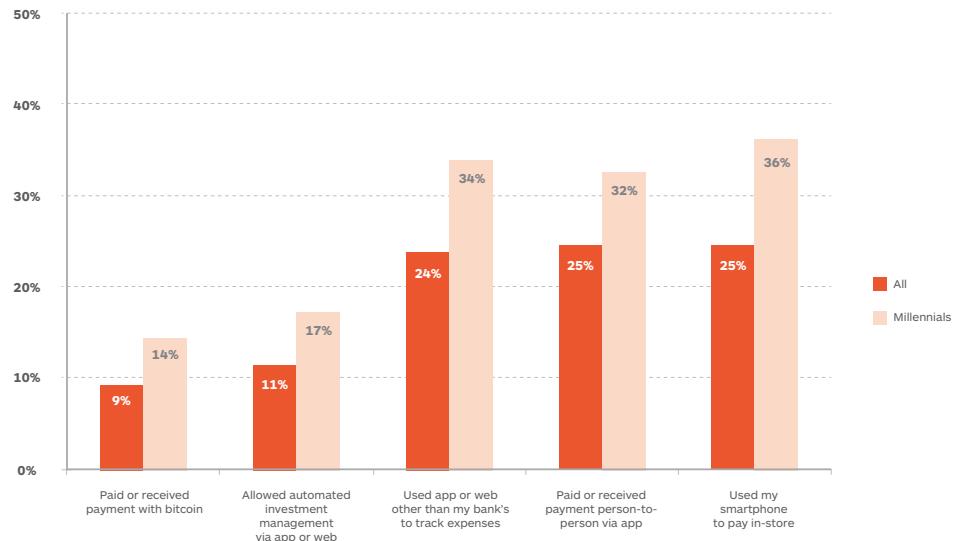
feelings toward apps (driven by 65% “very favorable”). A solid majority (68%) believes greater “app-centricity” would make transactions such as banking or shopping better for them.

The powerful appeal of digital is starkly illustrated by the shift in engagement with banks. Year-over-year, the percentage of respondents who use a banking app daily rose from 13% to 20%, while the percentage who reported going to a bank branch for a reason other than using an ATM fell four points (to 41%). This represents over 50% growth in daily banking app users: over 11 million more year over year. A drilldown into demographics illustrates why the “writing is on the wall.” Recent branch use is heavily driven by those over 50, while among those under 30, more than one in four use a banking app daily.

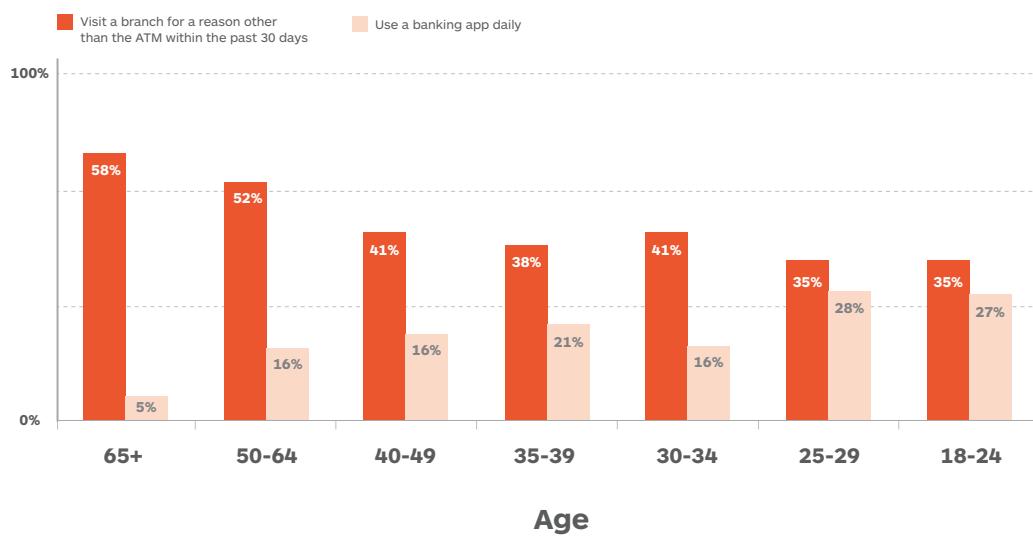
²See “Device Ownership Over Time” at pewinternet.org.

Banking: new digital experiences may shift the center of gravity

Digital financial activities in past 12 months



Recent bank branch visit versus daily app use by age



Shopping: digital transformation continues



Eight in 10 of all U.S. smartphone owners (81%) say that their devices have changed how they shop, with nearly one in four (23%) saying how they shop has “changed completely.” This rises to nearly one in three (31%) among Millennials.

Similarly, one in five (21%) of adult smartphone owners started shopping at a new store in the past year because of its app. Among Millennials, this also rises to nearly one in three (32%). One third overall (34%) prefer shopping for clothing using an app on their smartphone, rising to 45% among Millennials. More than one in five overall (22%) and one quarter of Millennials prefer using a smartphone app to shop for food.

Initial reports on “Black Friday” spending in 2015 suggest strong growth in mobile usage and spending and the likelihood of a year-over-year decline in in-store spending. These results were telegraphed by spending intentions measured in 2014’s Digital Impact survey, and this year’s survey points to more of the same over the next 12 months. (See Where retailers must go to grow below).

Digital: where retailers must go to grow

Smartphone owners have constituted a majority of adult U.S. consumers since 2013. This is the second consecutive year we reported on a proportionately weighted sample about their expectations for retail spending. Last year, actual holiday spending was consistent with extrapolations from 2014 Digital Impact Survey data and initial reports from Black Friday 2015 appear so as well.

This year's responses reinforce the trend. In the U.S. market, digital is where retailers must go to grow.

As in 2014, we asked respondents about their expectations in the next year for spending by channel:

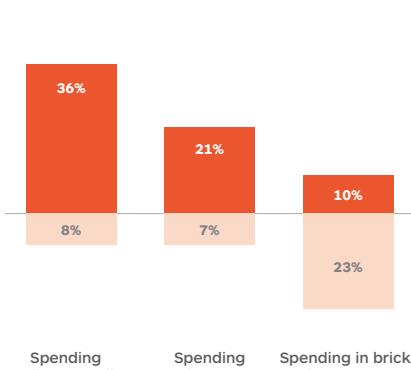
- ▶ Amount spent online overall
- ▶ Amount spent via apps
- ▶ Amount spent in brick and mortar stores

Once again, expectations for increasing versus decreasing spending favor online and in-app over brick-and-mortar:

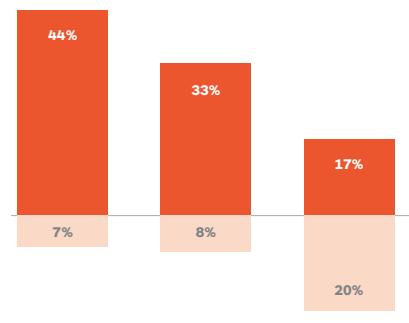
- ▶ More than two in five (44%) expect to spend more online in general versus 7% who expect to spend less, a "net score" of increasers versus decreasers of 33 points
- ▶ One in three (33%) expect to spend more via app versus 8% who expect to spend less, a "net score" of increasers versus decreasers of 25 points
- ▶ By contrast, one in five (20%) expect to spend less in brick and mortar stores versus 17% who anticipate spending more, a "net score" of -3 points

Brick-and-mortar diehards may take some comfort in the fact that expectations for this channel improved somewhat year over year. In 2014, the net of decreasers versus increasers was four times larger (-13 points).

2014 expectations for 2015



2015 expectations for 2016



■ Percentage indicating they expect to **increase spending significantly** by channel in the next year

■ Percentage indicating they expect to **decrease spending significantly** by channel in the next year

Digital: where retailers must go to grow

However, thanks to strong growth in both online and in-app expectations, this wasn't enough to narrow the "growth gap." Comparing the "net of net" cores for each channel highlights where the growth is. Online spending maintains the same 41-point advantage over brick and mortar we saw in 2014. In app spending's ticks up slightly to +28 points.

The picture becomes starker if we drill down into those who specifically expect to "significantly" increase or decrease their spending. At 8 million, the absolute number of those anticipating spending a lot more at

brick-and-mortar stores is not simply dwarfed by the number of those planning to do so online and via app. It is in danger of being "eclipsed" by nearly the same number—6 million—who expect to spend a lot less.

The good news is that smartphone owners are receptive to digital commerce from established companies: 43% overall and half of Millennials downloaded an app from a big retail chain in the past year. One quarter overall and just over one in three (34%) Millennials downloaded an app from a consumer products company.

People expecting significant increase or decrease in spend by channel (millions)...



Have an "Appy New Year"

Apple came up with (and trademarked) the catchy phrase “there’s an app for that” to promote the hundreds of thousands of apps available for the iPhone. In this year’s Digital Impact Survey, we put the idea to a new test. We asked smartphone owners if they planned to set any New Year’s resolutions for 2016 and whether apps would play a role in fulfilling them.

A plurality (43%) of respondents aims to set a New Year’s resolution, with about a third (32%) saying no, and the remainder undecided. Just over one in five of those setting resolutions (22%) plan to use apps.

Personal motivation was the leading use, with just over half (51%) intending to do so. “Tracking progress” was a close second at 42%. Sharing with others for accountability or for the purpose of competition were less popular reasons.

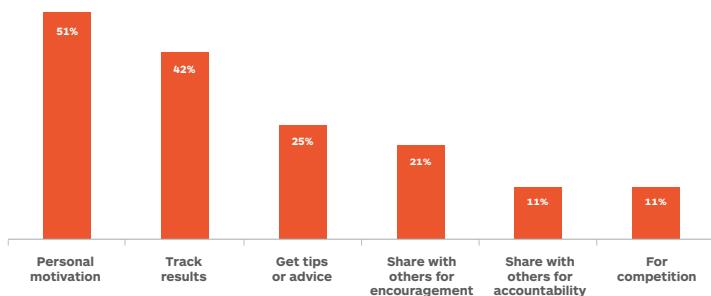
Notably, those who plan to set resolutions appear to have a stronger and more positive relationship with apps and devices than those who don’t plan on doing so. By more than 20 points (77% versus 53%) they agree with the statement that devices and apps give them more control over their lives. They are nearly four times as likely to strongly agree that they are healthier thanks to their smartphones and apps (23% versus 6%).

Accordingly, respondents who plan to set resolutions seem more open to making greater use of devices, apps, and data. They are three times as likely to have started

shopping at a new store in the past year because of its app (34% versus 10%). More than one in four (27%) strongly agree they want their doctor to make use of health and fitness data versus one in 10 (11%) of those not planning to set New Year’s goals. And almost a quarter (24%) say they are “very likely” to buy a new smart device such as a connected thermostat or appliance in the next year, compared to 7% of those not setting resolutions.

Having an experience that demonstrates the use of apps or devices to help achieve personal goals ranging from fitness to energy conservation may be either “the chicken” or “the egg.” We suspect it could be a little of each.

Reason for using apps to help fulfill New Year’s Resolution



Conclusion



We believe that “digital is destiny,” as the impact of smartphones, smart devices, and apps is increasingly influencing how connected consumers live, work, and play.

Over the years, Apigee’s annual Digital Impact Surveys have helped paint a picture of the opportunity for businesses to harness increasing demand for digital experiences as an engine for growth. This year’s survey highlights the growing interest and expectations for connected experiences in health management and reconfirms strong digital demand in both retail and banking.

It’s worth noting that through other research, we have seen equally compelling evidence of the threat posed by falling behind in the digital race. In tandem with surveys of connected consumers, over the past several years the Apigee Institute has surveyed more than 1,300 executives and decision makers in large companies.

We’ve found that companies with stronger digital capabilities are, on average, 1.5 times more likely than those lagging behind on digital to have outperformed their peers across five business outcomes, including customer satisfaction, market share, and revenue in the previous 12 months. And they are 2.5 times more likely to have strongly outperformed their competition. Keeping pace or catching up with these “digital leaders” may be the new reality for businesses.

To realize your digital destiny, we suggest that you:

- ▶ Assess what percentage of your customer interactions incorporate a digital dimension. We recommend 50 percent as a minimum target for today’s market conditions.
- ▶ Benchmark yourself against today’s digital leaders. The Apigee Institute report [“Digital Leadership 2015: Making a Difference”](#) lays out best practices of those who have built strong capabilities to deploy apps, operate APIs, and use data analytics on five dimensions including IT and management practices. Get a quantitative benchmark for where you stand based on answers to 25 key questions in under 10 minutes at <http://iloveapis.com/benchmark>.
- ▶ Save the date. I Love APIs 2016, the world’s largest annual networking and training event dedicated to APIs and digital business, will be held Oct. 17-19 in San Jose, Calif. Build a team of functional leaders across business, IT, and software development to attend together.

About the Research

The 2015 Digital Impact Survey surveyed 1,000 smartphone owners 18 years of age or older in the United States. Respondent data was modeled on key demographics proportional to known benchmarks for smartphone owners. Respondents were weighted to match the November 2014 omnibus survey by the Pew Research Center, filtered to smartphone owners over 18. Those polled demographically match Pew's sample in terms of age group distribution, income, education, and regional representation. The Digital Impact Survey is conducted online with respondents sampled from leading industry consumer panels who clear multiple quality checks during the survey process.

About Apigee

Apigee® (NASDAQ: APIC) provides an intelligent API platform for digital business. Many of the world's largest organizations select Apigee to enable their digital business, including more than 25 percent of the Fortune 100, five of the top six Global 2000 retail companies, and five of the top 10 global telecommunications companies. Apigee customers include global enterprises such as Walgreens, Burberry, Morningstar, and First Data. Apigee is headquartered in San Jose, California and has over 400 employees worldwide.

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