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Run, Don't Walk: Chasing Customer Expectations in Retail

Retailers struggle to deliver engaging apps

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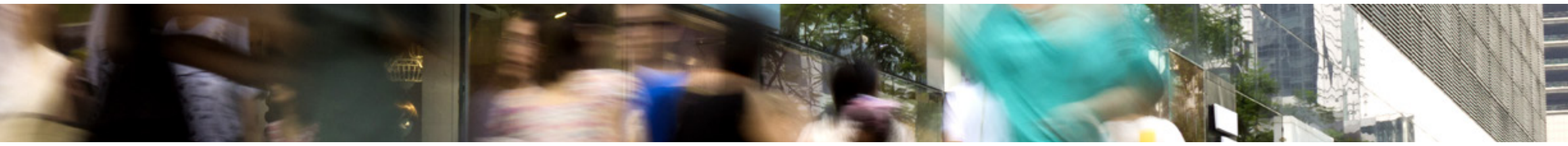
Executive summary

The importance of smartphones and apps continues to grow ferociously for both consumers and the companies most dependent on reaching them. The Apigee Institute's 2014 Digital Impact Survey shows that engagement with phones and apps has increased year-over-year, as has the technology's influence on shopping behavior.

The survey of 1,000 smartphone-owning adults in the United Kingdom and the United States revealed that when compared with companies like Amazon, Facebook and Google—businesses that were founded to do business in the internet age—and the banking sector, large retailers are far behind the curve when it comes to meeting connected consumers' expectations.

This is a problem. Given that smartphone owners estimate that they will spend a combined $20.4 billion via mobile devices—with more than one-third of that figure via apps alone—retailers can hardly afford to lag behind consumers' expectations. A strong majority of shoppers with smartphones say that their mobile devices have changed how they shop. A similar percentage say that they expect to significantly change how they shop in the next two years due to those same devices. The retailers that do not catch up to the changed expectations of their customers will be left in the dust of those that do.

Mobile devotion



Although the rapid growth of smartphone ownership has decelerated in the developed world, the reach of these devices (58% of adults over 18 in the U.S. and 59% of adults over 18 in the U.K.) and their pervasive influence continue to reshape daily life. Smartphone owners are hardly reluctant or disinterested participants in this transformation—in fact, they welcome the changes, love their devices, and look forward to even more impactful phones and apps.

Smartphone use is pervasive, regardless of time, place, or social milieu. Smartphone owners wake up and go to sleep with their phones: 90% say they've used their phones in bed. More than half of all smartphone owners report using their phones either every time they are in bed or almost that frequently. Nearly as many—81%—acknowledge using their phones in the bathroom. Even one in four worshipers confess to using their smartphones in church.

Respondents in the 2014 Digital Impact Survey repeatedly expressed appreciation for their smartphones and apps:

- **Eighty-one percent** of respondents gave smartphones a very strong favorability rating (above 75 on a 100-point scale).
- **Seventy percent** of smartphone owners say that overall, their phones have made them more productive.
- **Eighty-six percent** state that they like how mobile devices allow them to be more available to others.
- **Fully half of respondents** say that giving up their smartphone would be "very hard" for them, with reluctance to part from the device rising to near unanimity (85% in total) when including those who say that it would be "somewhat hard."

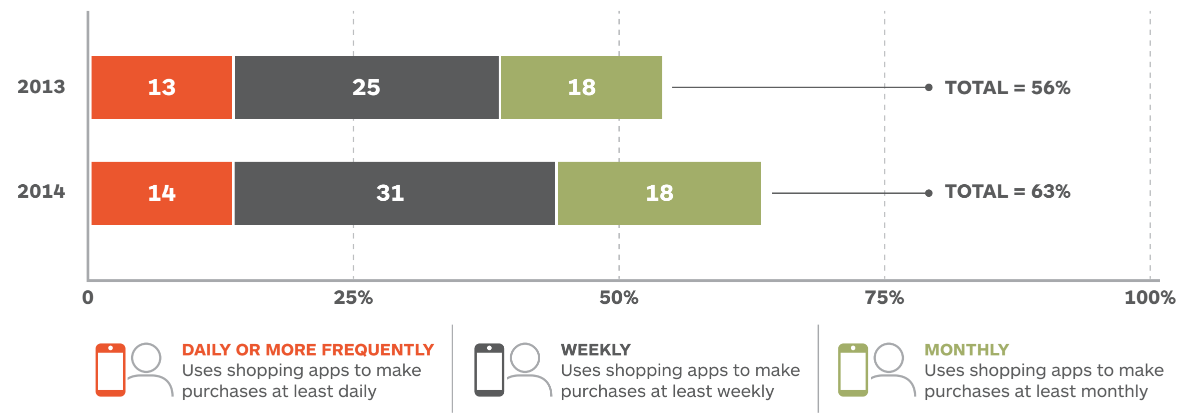
As affinity for smartphones and apps increases, their usefulness is winning over skeptics. In 2013, 15% of U.S. respondents worried that their phones caused them to have less control over their lives; in the past year that figure was halved (down to 7%). Nearly all U.S. smartphone owners (96%) report that their mobile devices significantly help them stay in touch with friends and family; 77% report that mobile devices significantly help them share ideas and creations with others; and more than half (56%) say that mobile devices significantly improve their ability to do their jobs. Affirmative responses for each of these measures grew year-over-year (three, five, and six percentage points, respectively).

Moving at the speed of shoppers

This acceleration is critically important to retailers, who compete to win attention and sales from smartphone owners everyday. As figure 1 shows, more than three in five U.S. smartphone owners (63%) report using apps to shop at least once a month (up from 56% last year). Smartphone owners project that they will spend $20.4 billion via mobile devices during the upcoming winter holidays in the United States and United Kingdom, 37% ($7.7 billion) of which will be spent via apps (see figure 2 on page 4).

Further, 20% of smartphone owners anticipate increasing how much they spend via apps in 2015. Smartphone owners are clearly looking to shop more and more on the smartphones, apps, and tablets they love; two years of consumer data paints a stark picture for retailers who have ignored the call to offer truly useful and engaging apps.

FIGURE 1 - HOW OFTEN DO CONSUMERS USE SHOPPING APPS?
USE AT LEAST ONCE A MONTH UP 7 PERCENTAGE POINTS FOR 2014 OVER PREVIOUS YEAR



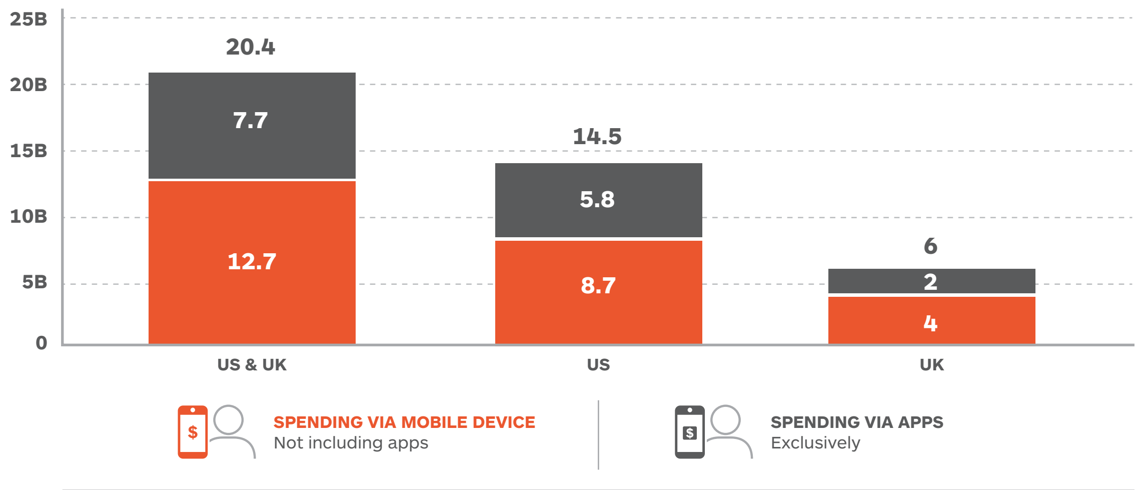
Source : Apigee Institute

Self-service retail: mobile spending on the rise.

Smartphone owners in the U.S. and U.K. believe that they will spend about $20.4 billion via their phones this holiday season and $7.7 billion of that through apps. This represents $14.5 billion spent via smartphone in the U.S., and £3.6 billion ($5.9 billion) spent via smartphone in the U.K. These quantities would represent year-over-year growth of 51% in the U.S. and 20% in the U.K.[1] Sixty-five percent of smartphone owners reported an intention of shopping via their mobile devices, and 48% reported the same intention with apps on their mobile devices.

These projections are a strong indicator of smartphone and tablets as shopping vehicles for respondents, and of the accelerating importance of mobile websites and apps for retail stores.

FIGURE 2 - MOBILE SPENDING STACKS UP
SPENDING PROJECTIONS FOR UPCOMING WINTER HOLIDAY SEASON (IN US DOLLARS)



Source : Apigee Institute

[1] For year-over-year comparisons, we used data from the 2013 IMRG Capgemini e-Retail Sales Index in the UK and Business Insider 2014 Report on Holiday Spending

The results of this survey suggest potentially dire consequences for stores that do not become competitive as app providers.

- **Three-quarters (74%) of U.S. smartphone owners** say they would be more likely to shop at a store offering key functions and services via an app; this represents an increase of 11.2 million people in the past year.
- **Nearly 60% of U.S. smartphone owners** report that having a mobile phone or tablet has changed how they shop, either somewhat or completely; this figure is up from 46% last year.
- **Consumer expectations of retailers** have become clear: 90% of U.S. smartphone owners expect department stores to provide key services via apps within the next two years—growing from 67% in 2013.
- **Overall, 17% of smartphone owners** in the U.S. and U.K. say they've started shopping at a new store because of its app; among app enthusiasts (the top quartile of smartphone owners by app usage) this figure rises to 37%.

The upshot: mobile app mastery is a way for some retailers to take market share from those who fail to adapt.

Overall, retailers are lagging behind other consumer-centric industries when it comes to delivering apps that consumers use and enjoy. Digital natives still set the standard for discovery and satisfaction, with 56% of smartphone owners having downloaded and been satisfied by an app from a big internet company like Google, Amazon, or Facebook.

The banking sector is also performing well among smartphone owners, with 45% of respondents having downloaded and been satisfied by apps from banks. It should therefore be no surprise that apps have become the most common daily interaction channel for the banking industry as a whole, and millennials used them just as frequently as a bank's website. In comparison, only 27% of smartphone owners in the United States and United Kingdom have downloaded and been satisfied by apps from large retailers.

Looking ahead: The Internet of Things and adaptive apps

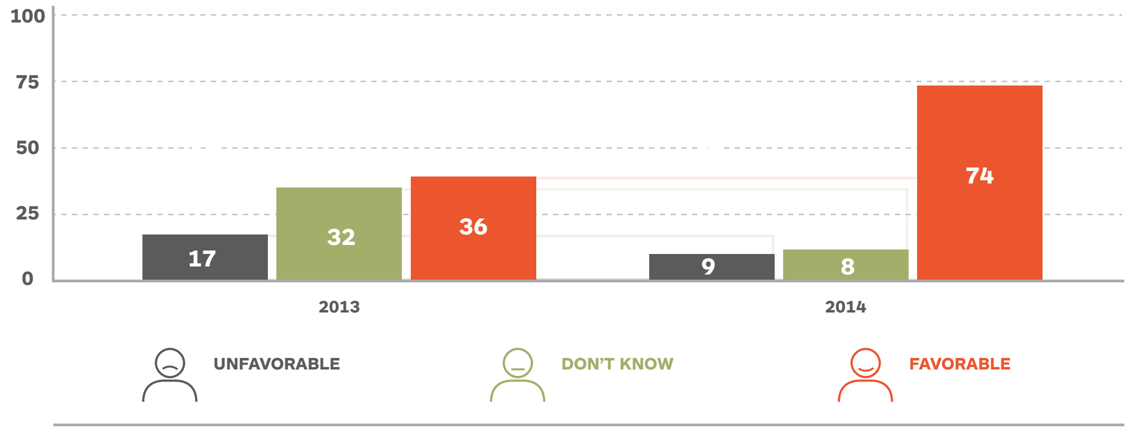
How can retailers respond to the disruptive threat and growing opportunity posed by the changing expectations and behaviors quantified in this year's survey?

To compete and win in this new market context, every retailer needs to master a great mobile user experience, deliver apps as planned, and, to keep pace with today's leaders, embrace the Internet of Things (IoT) and adaptive apps.

The best-laid plans for apps will come to nothing without solid execution. But delivering apps on time, on budget, and with the intended impact is a challenge for many enterprises.

As described in the Apigee Institute report, "Lessons From the App Masters," nearly half (45%) of large companies failed to meet their expectations for app development and deployment in the past 12 months. Conversely, the companies we identify as "app masters" exceeded expectations on pace, cost, and business impact. An outside-in, cloud-first, mobile-centric approach separates the masters from the rest.

FIGURE 3 - FEELINGS TOWARD "THE INTERNET OF THINGS"
FAVORABILITY AND RECOGNITION HAS SKYROCKETED SINCE THE 2013 DIGITAL IMPACT SURVEY.



Source : Apigee Institute

Looking ahead: The Internet of Things and adaptive apps

The most significant area of year-over-year growth in the 2014 Digital Impact Survey was the massive improvement in perception of the "Internet of Things."

In the U.S., response to the phrase "Internet of Things" grew from a 36% favorability rating in 2013 to a 74% favorability rating this year. Just as important, this year only 8% of respondents were unable to place the phrase, or had no opinion of the "Internet of Things," down from 32% of respondents in the 2013 survey (see figure 3). Using sensors (such as Apple's iBeacon) to enhance the shopping experience is key to future app development within the IoT ecosystem. Recognition of the IoT is growing quickly, and excitement is growing in tandem; retailers are already being left behind. Retailers looking to do more than just catch up to the pack should produce apps that can connect to the growing ecosystem of devices and sensors in the Internet of Things.

Interest in adaptive apps is close to the levels of interest in the Internet of Things. Adaptive apps employ predictive analytics to leverage customer data to

The Oncoming British Wave

In almost every important way, the British respondents in our survey mirrored their cousins across the sea. The British feel just as favorably about their phones, they depend on their phones for work, and they definitely prefer to shop at stores with apps. The only result that set apart the British is their attitude toward adaptive apps and the Internet of Things.

While the British feel positively about both the Internet of Things and adaptive apps, their enthusiasm is more muted than American respondents. In general, British smartphone owners are more likely to not have heard of the Internet of Things or have no opinion on it (25% of U.K. respondents versus 17% of U.S. respondents), and fewer of them have a favorable opinion of the Internet of Things (49% in the United Kingdom versus 74% in the United States). Similarly, they are less likely to appreciate adaptive apps over standard apps (49% of U.K. respondents versus 66% of the U.S. respondents).

This distinction only means that U.K. app developers and retail stores have a little more time before facing the same expectations as their U.S. industry compatriots. Despite this lag, near majorities of British smartphone owners still react favorably to both the IoT and adaptive apps. Given the fast evolution we've seen in the United States, we expect to see similar shifts in the U.K. market, and soon.

individualize the user experience, and predict the best possible offer. Adaptive apps could recommend a product based on purchase frequency (recommending toothpaste two months after a purchase of a single tube of toothpaste, for example), style preferences (showing designs from a designer the customer has previously preferred), demographic information (basing recommendations on age, gender, and geographic data), previous research (notifying users of sales on products they previously browsed), or some combination of those factors. Currently apps and products such as Google Now, Nest, and Square Order are setting the curve for all app producers in this area.

Despite the emerging nature of adaptive apps, two out of three U.S. respondents agreed that they are more excited by these apps than they are by standard apps. A similar proportion of respondents (60%) say that they feel favorably toward appliances and products that learn from their own use—that is, adapt to the app user.

The companies that will be able to meet their customers' digital demands are those that focus on delivering high-quality engaging apps, enhanced by data analytics to understand the user and powered via the sensors and products of the Internet of Things.

Conclusion: Engage or fall behind

In the **2013 Digital Impact Survey**, we found striking enthusiasm for smartphones and apps and a clear opportunity for retailers to grow customer loyalty. The 2014 Digital Impact Survey tells us that retailers (and most consumer-focused companies) will be left behind by consumers' quickly growing affinity toward companies that have mastered modern mobile apps. The path forward for retailers is to prioritize useful, engaging, forward-looking apps and ensure continuous improvement of these apps to meet market demands.

Already, retail leaders are showing that offering useful, engaging apps produces real results. In the past year alone, Target has managed to grow its online traffic by 22% (or 8 million people) by focusing on a mobile-first strategy that resulted in 57% of all of its web traffic originating from mobile devices. This bested those companies founded to do business in the internet age, like Amazon (34% of web traffic via mobile devices) and eBay (43% of web traffic via mobile devices).[1]
By producing mobile apps that customers find engaging and enjoyable, such as their coupon-clipping app Cartwheel, the amount of time Target customers spent browsing and shopping Target via mobile devices rose 251% year-over-year. Target also reported that Cartwheel users spend 30% more per trip to Target stores and visit Target stores more frequently.[2]

If you are retailer without a compelling mobile app, you are leaving cash on the table. If you are a retailer that met the bar for customer expectations in 2013, note that the bar has risen to encompass use of the Internet of Things and adaptive apps. The leaders in the sector are already seizing the opportunity. "Wait and see" is no longer an option. The opportunities, however, are expansive.

[1] Smith, Cooper. "E-Commerce Sales Could Top $100 Billion During The Holidays." Business Insider. Oct. 24, 2014.
[2] Wahba, Phil. "Target Finds Rare Tech Edge: It's Popular Cartwheel Shopping App." Fortune. June 5, 2014.

Methodology

The 2014 Digital Impact Survey surveyed 1,000 adult smartphone owners in the United States and the United Kingdom from Sept. 30 through Oct. 7. The survey was developed in conunction with **Stanford University's Mobile Innovation Group**. Respondent data from each country was modeled on key demographics proportional to known benchmarks for smartphone owners in each country.

The 600 U.S. respondents were weighted to match the January 2013 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, region, income, education, and gender.

The 400 U.K. respondents were weighted to match the third wave of the UK Office of Communication's (Ofcom) 2013 Technology Tracker (filtered to smartphone owners over 18) fielded from Oct. 5 through Dec. 14, 2013. The U.K. respondents demographically match Ofcom's 2013 tracker in terms of region, gender, and age.

All comparative points are exclusive comparisons for the U.S. respondents, and compare with the 2013 Digital Impact Survey. The 2013 Digital Impact Survey polled 1,000 smartphone owners in the United States, with demographics weighted to match a mid-2013 Pew survey identifying the demographics of smartphone owners.

Where the report cites data aggregating U.K. and the U.S. smartphone users, the data was weighted to reflect the population difference between the number of smartphone owners in the United States and the smartphone owners in the United Kingdom.

The Digital Impact Survey is conducted online with respondents sampled online from Research Now. Research Now uses a double-opt-in recruitment model to ensure the validity of all respondents.

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