MULTICHANNEL 3.0

THE MOBILE REVOLUTION

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WHEN NEW TECHNOLOGIES ENTER a marketplace, there is almost always a shift in the balance of power among market participants. Today, consumers are gaining increasing control in the buyer-seller relationship through the rapid emergence of feature-rich mobile devices, social networking, and cloud computing. In 2011, global shipments of smartphones and tablets exceeded those of desktops and laptops for the first time. By 2015, more consumers will access the Internet through their mobile devices than from their desktop computers.

In just a couple of years, mobile commerce is expected to well exceed $100 billion worldwide, with some companies (such as Domino's Pizza in Australia) forecasting that mobile sales will represent more than one-quarter of total sales. To exploit the opportunities that these changes will bring about, manufacturers and retailers must anticipate where and how they will be affected—and act quickly.

From our work with clients, The Boston Consulting Group has developed a three-pronged approach for thriving in a multichannel world, a reality we call Multichannel 3.0. It entails creating ways to interact with consumers at all levels of the purchase process, seizing new marketplace opportunities, and developing new formats for mobile consumers.

Digital Drivers

Three recent trends in digital technology are driving the mobile revolution. First, mobile connectivity is making Internet access ubiquitous. In 2010, 43 percent of the mobile phones sold were smartphones; that number is expected to grow to 71 percent by 2015. Second, online social networks are transforming retailing by creating new marketplaces. Every week, 800 million Facebook users share 7 billion pieces of content, and nearly half of these users access Facebook through their mobile devices. Third, cloud computing, the newest technology, is liberating storage from the limits posed by hard drives. By 2013, 60 percent of server workloads will be virtualized. Together, these trends are untethering consumers from their desktops and laptops and allowing them to conduct more of their online lives on the go. In Asia and Africa, billions of consumers are leapfrogging the PC and turning directly to mobile devices. A similar phenomenon is taking place in developed economies, where slow adopters (such as baby boomers) are moving straight to mobile devices for Internet access. Indeed, smartphone penetration is reaching critical mass in all markets. It's just under 50 percent in Western Europe and just over half in North America.

Consumers are using their mobile phones in their cars, on the street, and everywhere in between to pay their bills, interact with friends and relatives, watch movies and

sports, monitor their diets, virtually tour potential destinations, and remotely connect to their other devices. The impact on shopping behavior has been dramatic. Without entering a store, consumers are accessing information on products and services, downloading personalized deals and offers, and making purchases through their smartphones. And once they are inside a store, they are using their phones to compare prices with online offers, check product reviews, order out-of-stock items directly, and pay for their purchases.

The Power of Social Networks

Through social networks, which smartphones have made even more popular, consumers can secure discounts using collective buying power, critique products and services, and make recommendations for product development. They can even affect a company's decision to raise prices or change a business model—witness the recent humbling of Netflix when it tried to do both. BCG's 2011 Consumer Sentiment Survey found that consumers are increasingly looking to reviews on social networks as a trusted source of product information—65 percent of respondents between 18 and 34 years old said that they trust information from social networks, whereas only 14 percent trusted information from companies.

Mobile commerce is the next growth-market opportunity for retailers.

Most important for consumer companies, social media transforms marketing from a monologue into an interactive dialogue—introducing both opportunities and risks. On the one hand, social media can offer a strikingly clear view of what customers really think about a product, and it can generate word-of-mouth product endorsements—the very best kind of advertising. Companies can monitor discussions to glean consumer insights, tap into online communities and curate conversations about their brands, and manage their own websites to strengthen customer relationships.

On the other hand, customer reviews won't always be flattering, and they are out there for the whole world to see; word of mouth could come back and bite you. But some companies find that even mixed reviews are better than no reviews. A sporting-goods retailer found that user-generated product ratings and reviews were a direct contributor to sales: shoppers who used a sort-by-ratings feature placed 36 percent more orders than did shoppers who didn't use one.

The Mobility Imperative

Executives across the consumer industry—Google's Eric Schmidt, eBay's Steve Yankovich, and Sainsbury's Tanya Lawyer among them—agree that mobile commerce is the next growth-market opportunity for the retail industry. Both manufacturers and retailers are discovering that connecting with consumers wherever and whenever provides a tremendous opportunity to attract brand advocates and enrich customer relationships. With consumers expecting to be able to interact with companies 24 hours a day, every day, some leading multichannel and online retailers are experimenting with the possibilities across the three major channels.

Offline Retailing. Brick-and-mortar retailers are leveraging the mobile trend to improve customer service in their stores and distribute offers that tap into the available time and present location of potential customers. Tesco's Home-plus in South Korea is an early experiment with this approach. It provides virtual stores in subway stations. Commuters waiting for their train can order goods by scanning codes and have the products delivered to their homes. Total online sales increased by 130 percent in just four months. And other companies around the world, such as grocery retailer Ocado in the U.K. and cosmetics supplier Budnikowsky in Germany, are quickly replicating the model.

Online Retailing. Online retailers are expanding their reach and gaining access to offline stores through price-comparison applications. About one-quarter of food-and-beverage customers and nearly half of all purchasers of apparel and do-it-yourself products say that they often compare prices online. Online price-comparison applications, such as

RedLaser (recently acquired by eBay), allow customers interested in a product at one store to instantly learn what the competition is charging and to find product information and store locations.

Potentially more threatening is the new Amazon Remembers tool, which could turn brick-and-mortar stores into show rooms for Amazon.com. Using this feature, shoppers in a store can snap a picture of a product with their mobile phone, and the photo is automatically uploaded to Amazon.com, which then searches for a similar product. Customers can purchase the Amazon product immediately or "remember it" in their Amazon account. Customers who couple the tool with an Amazon Prime membership also get free shipping. And now a new application from Amazon called Flow brings together barcode scanners and multimedia content to make in-store price comparisons even easier.

Social Networking. Social networks offer a platform that allows both online and offline retailers to market their products and interact with consumers. Facebook has been a tremendous source of innovations, both on and off its site. Facebook members can buy goods on Facebook, find deals tailored for a particular time or place, and use virtual currency to pay for games and apps. Facebook also helps users find brick-and-mortar stores that send location-based offers and coupons to consumers as they shop on-site. Starbucks, for example, has more than 25 million fans on Facebook, where customers can monitor their accounts and purchase gift points for friends. Many companies value their Facebook pages more than their own websites. Indeed, one marketer told us that everything his company once communicated through its brand website is now communicated through Facebook because that's where people go looking for the brand.

Preparing for the Future

When mobile commerce first entered the marketplace, many considered it a separate and distinct phenomenon. But time has shown that it is an accelerator of online sales growth and a critical element within the multichannel marketplace. M-commerce as a percentage of e-commerce is by far the highest in Japan. But even in countries such as the U.K., where e-commerce represents a higher portion of all retail than in Japan, m-commerce penetration is rapidly gaining. (See Exhibit 1.)

EXHIBIT 1 | M-Commerce and E-Commerce Are Rocketing Around the World
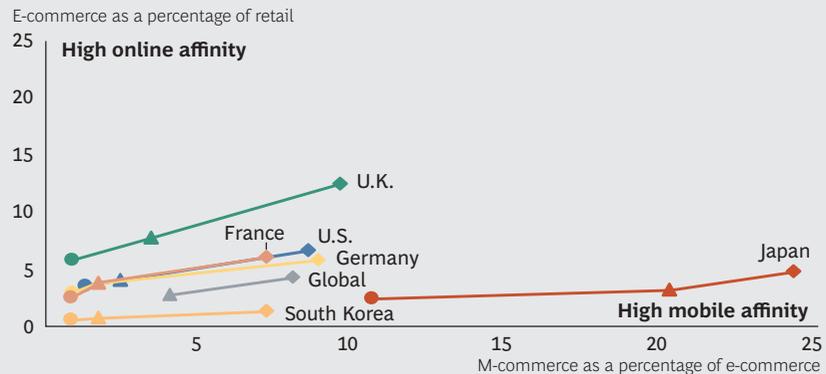
	Global	U.S.	France	Germany	U.K.	Japan	South Korea
M-commerce compound annual growth rate (CAGR), 2008–2015 (%)	n.a.	44.7	51.7	49.8	51.3	24.7	44.3
E-commerce CAGR, 2008–2015 (%)	15.2	10.2	10.4	7.3	6.9	10.8	6.0

○ 2008 △ 2010 ◇ 2015e

Sources: Euromonitor; Forrester; BCG analysis.
Note: E-commerce figures reflect purchases made via PCs and mobile devices; national m-commerce figures have been calculated based on BCG's market model; global m-commerce figures are from external sources.

Furthermore, the rapid growth of online shopping, especially through mobile devices, is fundamentally changing consumers' social interactions and shopping behavior. Mobile apps and secure mobile-payment solutions have been shifting sales from offline stores to online sites—and now to mobile media. M-commerce is already a top priority not only for digital media and travel but also for all retail categories.

Mobile media have become a crucial bridge between offline and online environments.

It's not always easy for a company to know just where or how to develop a mobile strategy. From our experience working with clients that are winning in this rapidly evolving arena, we've pinpointed the three most important areas in which to focus a company's activities:

- *Find new ways to interact with consumers along the "purchase funnel."* Mobile commerce is revolutionizing how companies connect with consumers across all stages of the shopping process, increasing awareness of the product, creating interest, optimizing the purchasing experience, increasing loyalty, and soliciting recommendations. As Exhibit 2 shows, there could be a mobile approach for each of these moments of truth along the purchase funnel.

- *Seize new market opportunities.* Virtual stores make every location a point of sale. Social networks offer new markets with millions of shoppers. Aggregator and price-comparison websites can attract customers shopping in offline stores. And new technologies for mobile shops and apps provide greater opportunities to reach new customers. Whether they opt to join them or to fight them, incumbent retailers must decide quickly how they will deal with social networks, aggregators, and comparison sites.

- *Make mobile platforms a key element in Multichannel 3.0 strategies.* Companies must create a seamless shopping experience across offline, online, and mobile channels through easy access to product information, browsing, shopping, purchasing, and after-sales service. Mobile media have become a crucial bridge between offline and online environments, especially in integrating social networks with the purchasing process. Companies must do more than repurpose their websites for mobile platforms—they need a dedicated approach and a team to develop viable m-commerce models.

Implications for Companies

The best place to begin when developing a mobile strategy is understanding where your company is today, where its opportunities might lie, and what the organization should do to meet the challenge. For instance, retailers may want to make the experience of be-

EXHIBIT 2 | Mobile Platforms Optimize Every Stage of the Purchase Funnel

Funnel stage	What can you do?
Awareness (Push)	• Send out personalized and regional advertisements
Interest/Information (Pull)	• Use quick-response codes to offer additional product information online
Purchase/Experience	• Use apps to bring the convenience of online shopping into stores
Loyalty	• Add brand touch points by involving consumers in product development
Recommendation (Push)	• Use the linkage to social networks to engage customers as brand ambassadors

Source: BCG analysis.

ing in their physical stores more interesting in order to compete with online sellers. Manufacturers may need to differentiate their products so as not to limit themselves to pure price competition. The following questions can help you and your senior managers explore what you need to do:

- Do we currently have a well-developed and adaptive digital and mobile strategy?

- Do we use online and mobile channels as part of our company's go-to-market strategy?

- Do we have deep insight into how our customers are using new mobile tools?

- Are we aware of technology-enabled competition? Can we develop a better system to respond to the threats and opportunities?

- Do we understand how digital and mobile products and services could fit into our business?

- How can we leverage new mobile tools and measure their effectiveness to enhance our traditional marketing campaigns?

- Are we able to continuously adapt our value propositions and operations to the changing demands of mobile customers?

- Do we have the organizational flexibility to conduct serial experiments and to adapt to rapid changes in technology and the environment?

- Do we have the adaptable IT infrastructure and operations needed to implement our m-commerce strategy?

To win in mobile commerce, companies need to prepare the whole organization to join in the evolution of Multichannel 3.0. Marketing and information technology are the obvious functional hot spots, but the implications of a mobile strategy will ripple across the entire organization. Success will often require new business models, imaginative approaches, and learning through experimentation.

Companies that do not capture the Multichannel 3.0 opportunity risk being quickly overtaken in the marketplace by those that do.

For most companies, making the business case for mobile investment won't be as challenging as building the capability. But companies that adopt a long-term perspective, have strong leadership, and follow a central mandate will find the investment worth the effort.

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