



The Marketplace of the Mobile Consumer: What to Expect

The rapid adoption of smart phones and tablets is changing how consumers are engaging brands and making purchases. With a million smartphones being sold every month in the U.S. today, we predict more than half of U.S. consumers will be using mobile devices regularly for shopping within the next five years.

To gain perspective on this consumer shift, L.E.K. Consulting surveyed 1,600 U.S. consumers to better understand how mobile technology is changing consumers' decision-making and purchase behavior.

At a macro level, L.E.K. research finds usage is widespread: two-thirds of smart phone owners today have used their devices to make purchases and more than 80% have used them to assist in purchasing decisions through product research at least once in the past year.

Digging deeper, we found that 39% actually make purchases with their handheld devices at least every month (excluding music and video downloads), with 60% using smart phones to assist in purchases every month: we refer to these consumers as "Active Mobile Consumers" and those smart phone owners who shop less frequently as "Mobile Window Shoppers." Our research also highlights that no product category is excluded in mobile activity, as respondents have a similar mix of category purchases on their mobile devices and on the web.

Not surprisingly, Active Mobile Consumers tend to be younger – more than two-thirds of Generation Y survey participants (16- to 24-year-olds) fall into this category, compared to 31% of Baby Boomers (ages 45 to 64).

Using a blend of survey findings and market analysis, the L.E.K. Consulting Mobile Commerce Survey identifies four key findings that will impact businesses.

1. Driving Price Harmonization

The walls between physical retail space and the digital domain continue to disappear as savvy consumers are using mobile tools to research product information and locate the best deals while in-store. Within the past six months, more than half of Active Mobile Consumers surveyed reported using at least one mobile coupon app (e.g., Coupon Clipper), nearly one-third checked a pricing comparison tool (e.g., RedLaser), and 29% tapped a loyalty or similar tool (e.g., Shopkick). And they did this while standing in store aisles.

This new level of price transparency across stores and channels provides consumers with added impetus to seek out the best deals. Eighty-five percent of Active Mobile Consumers would either leave a store and drive to another location upon learning that a different store in the same chain was selling the same item at a 20% discount, or they would demand the lower price at the store they were in.

Faced with this exposure, retailers and brands will need to step up their efforts to differentiate their in-store value proposition or risk losing customers before they even get a chance to speak to them.

2. Fostering Deeper Customer Relationships

Unlike traditional advertising, the very nature of mobile allows retailers and brands unprecedented direct access to consumers – and mobile customers are welcoming this connection. In fact,

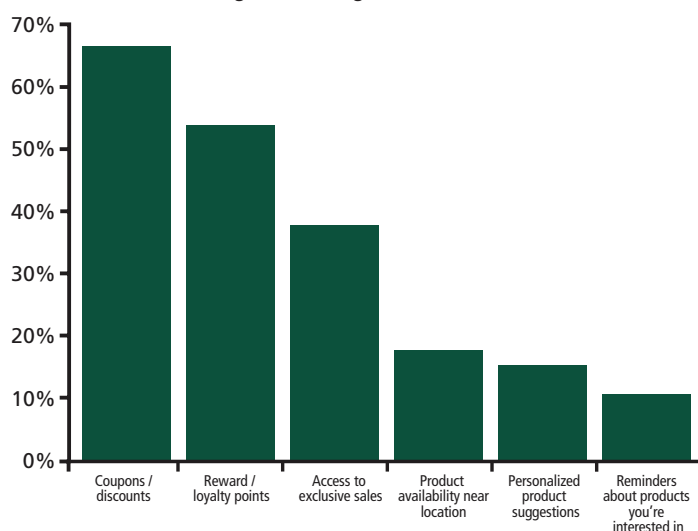
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more than half of Active Mobile Consumers are willing to share their location with brands in exchange for real-time offers when they “check in” via Foursquare or similar geolocation-based apps, which is twice the rate of Mobile Window Shoppers.

Most interestingly, 37% of Active Mobile Consumers are willing to have brands track them *all the time* in order to receive special deals. By contrast, only 14% of Mobile Window Shoppers are willing to do the same. Based on our broader work in this area, it appears that privacy concerns significantly outweigh the allure of special offers for this group.

Figure 1

Active Mobile Consumers Rate Preferred Incentives in Exchange for Sharing Location Information



Source: L.E.K. Consulting Mobile Commerce Survey

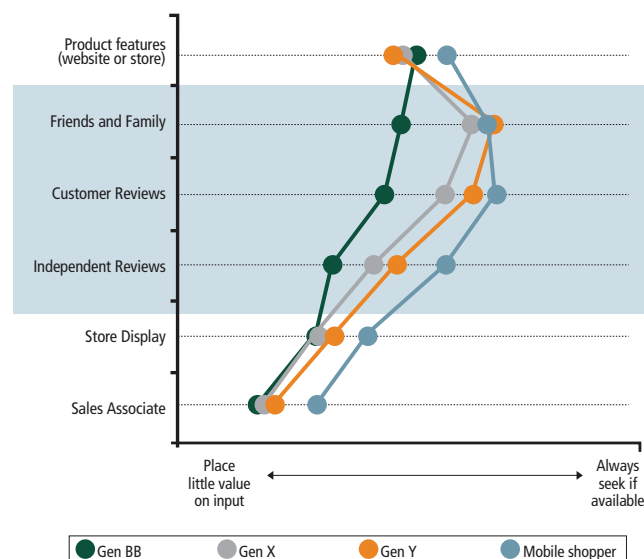
But brands must provide the right incentives to keep mobile consumers engaged and willing to share certain information (see Figure 1). The high interest in receiving coupons and access to exclusive sales offers reflects mobile shoppers' focus on getting the best prices. Marketing tactics with an immediate payoff resonate strongly with this consumer group (e.g. coupons, discounts, rewards or loyalty points), and mobile shoppers express less interest in receiving information such as personalized product suggestions from brands and retailers.

3. Increasing the Influence on Social Media

So although consumers are bypassing traditional marketing campaigns, they are highly influenced by the reviews and other posts from members of their social networks. Active Mobile

Figure 2

Key Influencers on Active Mobile Consumers



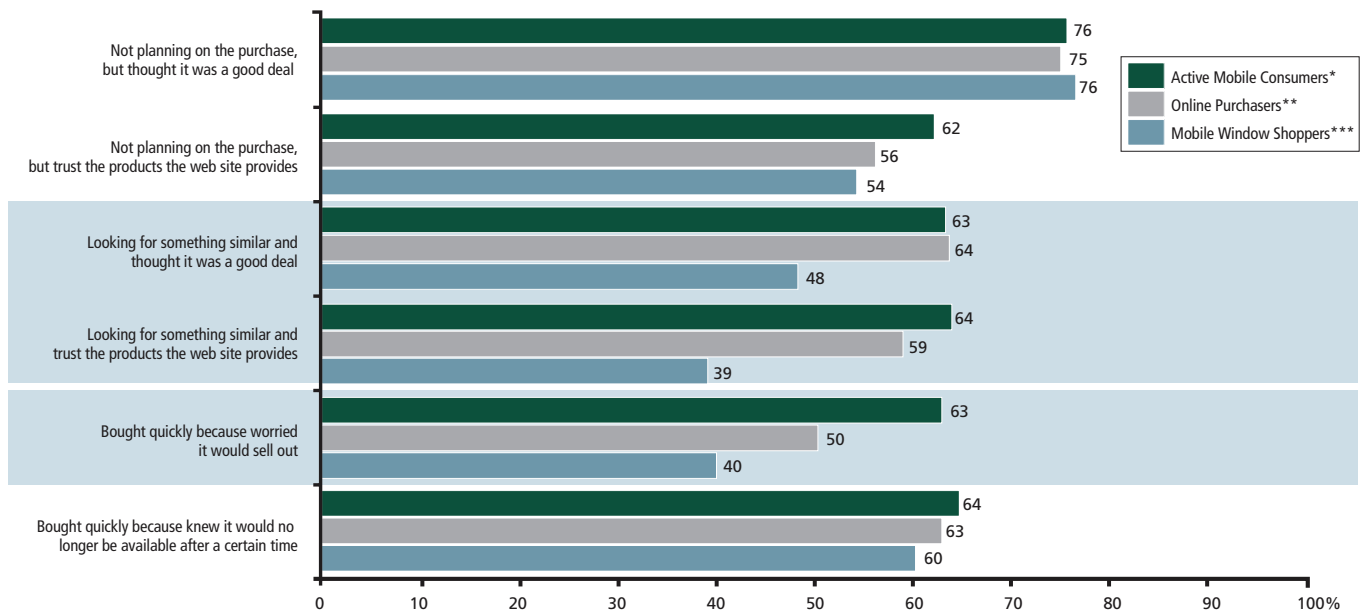
Source: L.E.K. Consulting Mobile Commerce Survey

Consumers, and by extension a sizable percentage of Gen Y, are much less influenced by traditional information sources than their older counterparts. Instead, they turn to independent reviews, friends and family for recommendations before making purchases (see Figure 2).

Mobile technology provides instant access to the web sites and social networks that can help sway consumer purchasing decisions. L.E.K.'s recent survey on consumers' media consumption habits found that 27% of U.S. consumers accessed their social media accounts multiple times per day. These highly engaged consumers also report that social marketing influences their purchasing decisions, with 25% saying that Facebook content has directly resulted in their making a purchase at some point.

4. Enabling Flash Retailers

Flash sales sites like Gilt Groupe and Rue La La are providing millions of consumers with a steady stream of discounted products and services. And the immediacy of mobile shopping creates new opportunities for consumers to keep up with the latest deals on these sites. More than 40% of Active Mobile Consumers use flash sites, more than twice the percentage of Mobile Window Shoppers.

Figure 3**Consumer Attitudes Toward Flash Site Purchases**

Note: * Active Mobile Consumers who purchased flash deal using mobile device; ** Active Mobile Consumers who purchased a flash deal online; *** Mobile Window Shoppers shoppers who purchased a flash deal online
 L.E.K. identified Active Mobile Consumers as those owning a smart phone or tablet who use their device to research or make a purchase on their mobile device at least once a month
 Source: L.E.K. 2011 Mobile Commerce Survey

Flash sites are also disrupting the market by capturing share of planned purchases from other channels (see Figure 3). L.E.K. found that flash sites are successfully penetrating traditional purchasing decisions for Active Mobile Consumers, and furthermore driving conversion given the immediacy and perishability of the mobile flash proposition. We see the combination of mobile and flash as being an important driver in migrating flash retailing beyond just conventional impulse purchases.

Implications

There are several strategic steps that senior executives should take to address consumers' growing reliance on mobile devices, and the resulting impact on sales and marketing strategies.

1. Review pricing strategy:
 - Factor the impact of price harmonization across channels and on competitiveness
2. Fine-tune marketing strategy:
 - Rebalance promotional spend across marketing channels
 - Develop a new promotion strategy for Gen Y and the "mobile enabled" shopper

3. Revisit sales channel strategy:

- Calibrate channel priorities given new pricing dynamics
- Establish a strategy for the flash channel

4. Reassess loyalty programs:

- Address how mobile offers new ways to recognize and reward loyalty

5. Review your in-store value proposition and labor model:

- Identify added services that can recapture margin
- Pinpoint changes to your in-store cost model

Mobile is quickly becoming a powerful and influential shopping companion for consumers, with a far-reaching impact across your entire business. Consumers using mobile for shopping have new expectations for pricing standardization across channels, require a steady stream of promotions to remain engaged, and want to capitalize on powerful tools that enable them to get independent recommendations, price comparisons and reviews anytime, anywhere.

Several retailers and brands already recognize the importance and speed of this trend: now is the time for all retailers and brands to act to ensure that their brand or store meets the needs of this new kind of consumer, and is ready to compete in this new marketplace.

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded more than 25 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns.

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