



Digital
Commerce

White Paper:

Spotlight on Digital Commerce in Retail in the US

Analysis on the state of the market 2014

SEPTEMBER 2014

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1.

Introduction

The last twelve months have seen a significant uptake in the levels of deployment and adoption of digital commerce in the US market. During this period, many of the major stakeholders have more closely aligned, in terms of issuance, acceptance infrastructure and consumer readiness, triggering a 'tipping point' in the global migration towards mobile payments and commerce.

IN-STORE PURCHASES USING MOBILE HANDSETS ARE STILL SMALL, BUT SPIKING UPWARD

% Percentage of current users in each country

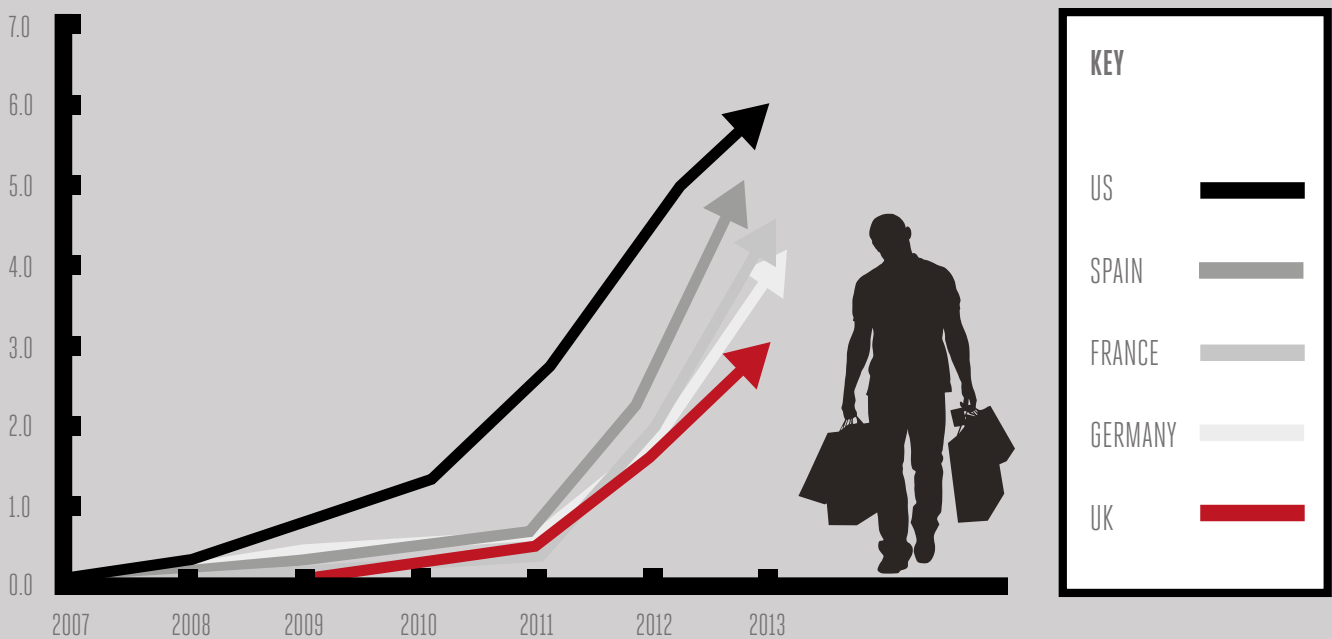


Figure 1. Source: Bain and Company¹

A recent survey of users¹ in the US and Europe found that nearly twice as many consumers started to use mobile payments in 2013 compared with 2012. And while only between 3% and 7% of consumers use their phones to buy goods in store, this figure is rising sharply.

In the US, this uptake is due in part to increased smartphone penetration, which started to rise rapidly in late 2012 reaching 72% by June 2014². Other significant factors include increased activity on behalf of retailers and new entrants to the payments space.

¹ Mobile Payments: Finally Ready to Take Off. [Bain & Company 2014](#). ² comScore June 2014 US Smartphone Subscriber Market Share [August 2014](#).

2.

General Trends

Retailers driving mobile payments in the US

Retailers have been at the forefront of digital commerce in the US as they drive to improve the purchasing experience for their customers. Starbucks is the global case study for retail mobile payments, reporting³ that its payment app is used for one in three transactions. And it seems likely that use will continue to grow once the announced ‘order ahead’ feature⁴ goes live. This means it will soon be available at Starbucks cafes in the US allowing people to order coffee and other goods before or while they are still in line using their mobile phones.

Further strengthening the retail hand, US retailers partnering under the Merchant Customer Exchange (MCX) recently announced⁵ their mobile payment network CurrentC™ setting expectations for a 2015 national launch, building on trials and pilots conducted throughout 2014. Interestingly, MCX differs from Starbucks in that consumers won't need to link a payment card to their app. Instead, the retailer lead approach will use a ‘push payment’ which by-passes the payment networks operated by Visa/MasterCard/American Express to initiate a payment from the consumers' bank account into the merchant's bank account. CurrentC™ will be made available to consumers in two ways; through existing retail apps, which is likely to help with uptake and as a discreet app, which will give them access to the entire CurrentC™ network and all its benefits.

Online retail giant Amazon has also added momentum to mobile payments, launching its own Mobile POS⁶ for payments acceptance. This move by Amazon is notable for the delivery and redemption of deals. Amazon Local, the retailer's deals site is favoured by smaller retailers that do not compete with Amazon and the Mobile POS could provide an effective path for combining payment with the digital redemption of vouchers and deals. Amazon added nearly \$10 billion in internet sales last year⁷ and is the first pure play e-tailer to make it to become a top 10 retailer in the US.

Mobile wallet providers remain on the periphery, yet Apple has laid significant groundwork for mobile payments

A recent survey of US consumers¹⁹ found awareness of mobile wallet providers is high, although adoption is low. The top digital wallets used are:

- PayPal (79 %)
- Google Wallet (40 %)
- Apple Passbook (17%)

³ Starbucks 2013 [Annual Report](#). ⁴ Starbucks Plans to Test Mobile Ordering This Year. Bloomberg, [March 2014](#). ⁵ MCX Unveils its Mobile Payment Network – CurrentC. MarketWatch. [Sept 2014](#).

⁶ Amazon unveils mobile payments service for local shops. WSJ. [August 2014](#). ⁷ Amazon becomes the first pure play e-tailer to crash the top ten. [July 2014](#).

Of these three, despite current low use, Apple has arguably laid the most significant groundwork for retail mobile payments, in terms of embracing a consumer base. Apple's recently announced support for NFC on iPhone6 and the launch of Apple Pay, with major US payment card issuers and retailers onboard⁸, is likely to renew interest in NFC. It has also been reported that Apple will launch a partner program with merchants⁹ for loyalty and rewards. While handset market share is the subject of significant debate, recent figures¹⁰ for iOS in the US give Apple a 30% market share which, if sustained, could see a significant number of US subscribers with the iWallet in their hands. The same set of figures put Apple's share in the UK at 30%, but highlights a vastly different story for other major European countries, with Spain at just 6% and Germany and France at 9.5% and 14% respectively. The implication for mobile payments is that Apple's influence and direction, while significant in some markets, may not be the overriding game changer in others.

Social networking sharpening focus on mobile payments

Mobile has become the largest platform for social network activity. For Twitter it accounts for in excess of 85% of activity¹¹ and Facebook recently reported over 1 billion monthly active mobile users¹². Both have recently announced their plans for payment. Facebook has confirmed that a payment feature will be added to messenger¹³ and Twitter has added a buy button¹⁴ for select brands while it trials a payment service.



Mobile has become
the largest platform for
social network activity

⁸ Apple's New Mobile Wallet Lets you Pay with a Tap of Your iPhone. Wired. [September 2014](#). ⁹ Apple to Launch Pilot Program for Merchant Partnership. Bank Innovation [September 2014](#).

¹⁰ Smartphone OS market share. Kantar Worldpanel Comtech. [August 2014](#). ¹¹ Social Networking is Moving on from the Desktop. WSJ [December 2013](#).

¹² Facebook now has more than a billion mobile users every month [April 2014](#). ¹³ Zuckerberg Confirms: A Mobile Payments System Will Come to Facebook Messenger [July 2014](#).

¹⁴ Twitter. Testing a way for you to make purchases. [September 2014](#).

3.

Improve In-store Experience to Drive Retail Activity

Mobile is the catalyst

For many retailers, mobile is the key to transforming the in-store experience. This point is made well by Walmart's SVP mobile and digital, Gibu Thomas¹⁵, who commented in a recent interview that mobile influenced offline sales are projected to reach more than \$700 billion. This figure dwarfs the projected \$345 billion for e-commerce and m-commerce (which is predicted to be 10% of e-commerce). Thomas's enthusiasm is matched by customer behaviour; with almost 60% of shoppers that have the Walmart app opting to switch on Store Mode, a feature which lets the retailer deliver a mobile experience to help its customer shop. Store Mode aims to take the best of the online shopping experience – such as easy search and product discovery – and apply it to the offline experience.

Beacons are also enabling retailers to form a new type of partnership with mobile app publishers

¹⁵ Interview in The Atlantic. Get Ready to Roboshop. [February 2014](#).

TYPE OF MOBILE CONTENT THAT WOULD MOST LIKELY INFLUENCE A PURCHASE DECISION WHILE GROCERY SHOPPING IN-STORE ACCORDING TO US MOBILE WIFI USERS, SEPT 2013

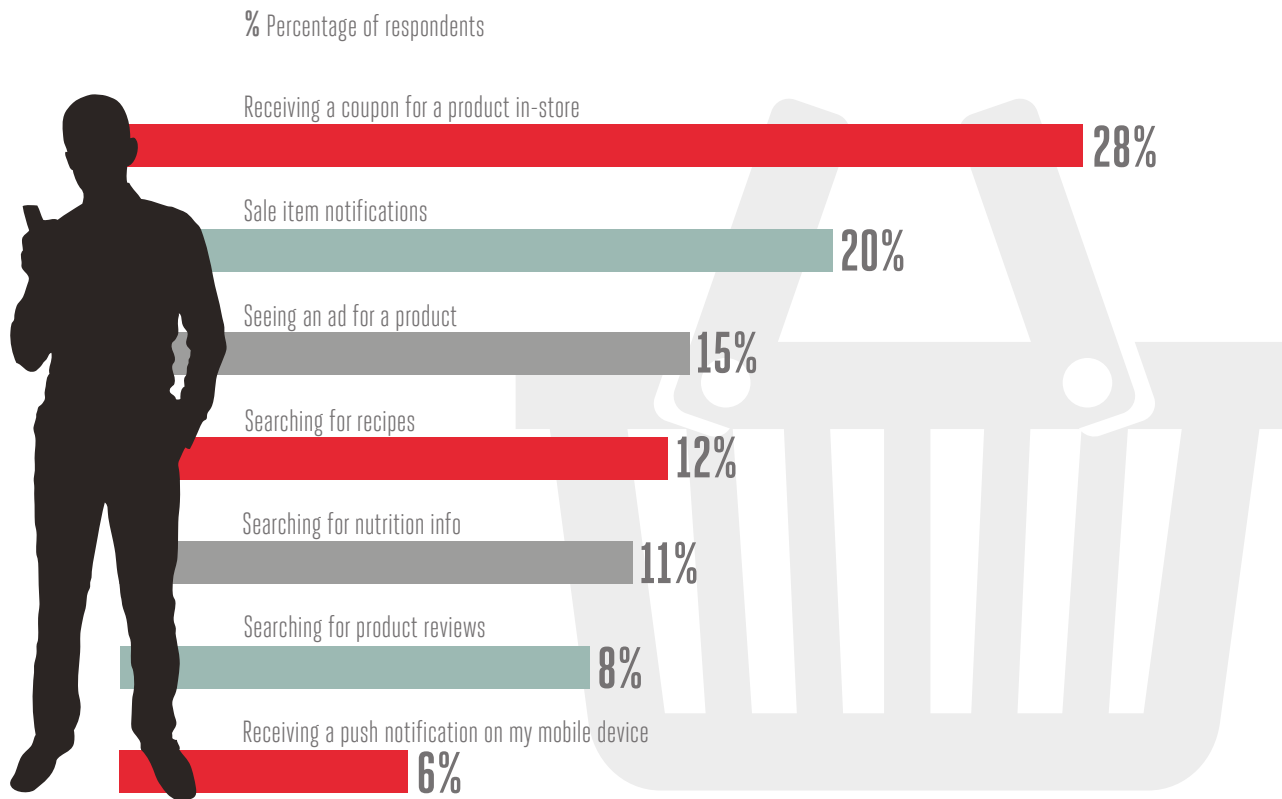


Figure 2. Source: JiWire, 'Mobile Audience Insights Report Q3 2013', Nov 20, 2013.

The importance of mobile and mobile couponing in particular, is made equally strongly by Ryan Craver¹⁶, Lord and Taylor's, SVP of Strategy. Craver points to the fact that a visit to the mall is no longer the leisure activity that it once was and that with less time for browsing, consumers are engaged in more purposeful shopping. Facing 50% reduction in the number of visits to their store, Lord and Taylor is using mobile to bring customers into the store and improve their shopping experience. Craver highlights the importance of beacons, pointing to their ability to enable retailers to combine proximity with previous purchase behaviour. Beacons are also enabling retailers to form a new type of partnership with mobile app publishers.

Craver describes Lord and Taylors plans to integrate their beacons into apps such as Pandora and Spotify, so that shoppers passing the store can be made aware of relevant offers. Craver also highlights the importance of mobile couponing apps such as SnipSnap that lets consumers scan, save and redeem printed coupons on their mobile handsets; SnipSnap holds important data on which coupons shoppers are clipping and redeeming.

Mobile coupons impact shopping choices

Corroborating the Walmart positive experience about the influence of in-store search and discovery, consumers cite the receipt of a coupon in-store as most likely to affect their buying behaviour¹⁷.

¹⁶ Interview recorded at [Beacon](#) run by Launch in NYC in June 2014. ¹⁷ eMarketer. Type of mobile content that would most likely influence a purchase decision. [July 2014](#).

4.

Digital is Winning

Consumers are carrying less cash but security remains a concern.

A recent survey of 2000 US shoppers¹⁸ found that over 50% carry less than \$20.00 on a regular basis. The same study reports high awareness but low adoption of mobile wallets, with security cited as the main concern. Poor use is also linked to the fact that wallets are not ‘top of mind’ as payment options.

This research is corroborated by a study of 25,000 consumers across the US and Europe¹⁹. The study found that while over 50% of consumers (and over 70% of Western European consumers) are aware of mobile payment options, only 25% of consumers surveyed are willing to use them in store. Barriers to use cited include concerns over security and a lack of incentive to switch from existing payment options.

Given the rise in the number of data breaches²⁰, with the Identity Theft Resource Center reporting a 21% increase for the first half of this year, and the high profile of some retailers implicated such as eBay and Target, this concern expressed by consumers will require careful management.

Retailers are embracing digital

A recent report from Juniper Research²¹ predicts that there will be 1.05 billion mobile coupon users by 2019, up from just under 560 million in 2014. Juniper cites retailers’ focus on mobile and their plans to use the mobile device to reach consumers directly, rather than relying on third party services such as daily deal sites, as a major contributing factor to this rise. This is supported by a UK study²² that highlights the demise of print, with 60% of retailers intending to scale back direct mail, print promotions and print advertising.



Retailers are embracing digital

¹⁸ The 2014 Digital Wallet Usage Study. Thrive Analytics. [July 2014](#) ¹⁹ Bain. The consumer View of Mobile Payments. [March 2014](#).

²⁰ The 5 Biggest Data Breaches of 2014 so far. [July 2014](#). ²¹ Mobile Coupons. Consumer Engagement, Loyalty & Redemption Strategies. [August 2014](#).

²² Are Retailers Ready for the New Digital Frontier? [April 2014](#).

Digital is winning

50%
of
2000
US shoppers*



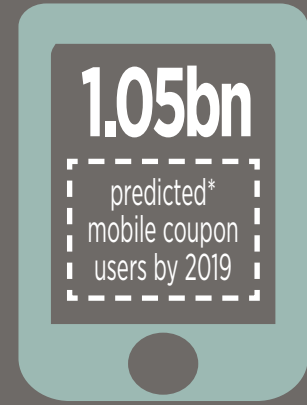
carry less than



on a regular basis

* Interview in the Atlantic. Get Ready to Roboshop

Embracing digital



* Juniper Research, August 2014.

Retail activity drivers

Mobile influenced offline sales expected to reach

\$700 billion

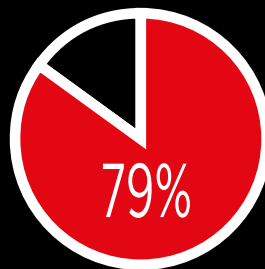
v
a projected

\$345 billion

for e-commerce & m-commerce*

* Source: Interview in The Atlantic Get Ready to Roboshop

E-commerce & m-commerce



INTEND TO SHOP
AS MUCH OR MORE
ONLINE
IN 2014 VERSUS 2013*

24% intend to shop online **MORE** this year*



* 2014 Retail Forecast from RetailMeNot Shopper Trends Report Volume 3 Edition 1

E-commerce & m-commerce



PLAN ON USING
A SMARTPHONE
FOR SHOPPING
IN 2014*



19% INTEND TO USE THEIR
SMARTPHONE **MORE**
THAN LAST YEAR*

* 2014 Retail Forecast from RetailMeNot Shopper Trends Report Volume 3 Edition 1

* From a sample of 1,014 residents - 2014 Retail Forecast from RetailMeNot Shopper Trends Reports Volume 3 Edition 1

5.

Cloud and Mobile Provide the Supporting Infrastructure

The move toward EMV in the United States is accelerating, with a number of significant announcements that provide milestones for migration. Visa took the lead with its announcement on August 9, 2011, with MasterCard, Discover and American Express following suit with announcements on January 30, 2012, March 15, 2012, and June 29, 2012, respectively.

The payment brand milestones include retailer incentives, processing infrastructure acceptance requirements and fraud liability shift. Payment brands have aligned their milestones to streamline payments industry migration to EMV²³. More than 575 million EMV payment cards will have been issued by the end of 2015 by nine leading US card issuers who are members of the Payments Security Task Force (PST)²⁴, which is accelerating the POS migration towards contactless. From 2010, the POS terminals across the US increased by ~50% to nearly 12.2 million terminals by the end of 2013, out of which ~0.33 million are EMV compliant. NFC-enabled POS terminals in the U.S. represent about 10% of the largest merchants to date.

Cloud-based POS supports faster integration

The importance of cloud-based platforms to the evolution of retail was highlighted by Euromonitor's payment predictions for 2014²⁵.

The benefits of a POS system that can be accessed directly from the internet will prove pivotal in the shift towards digital offers as well as payments, supporting faster integration of data relating to customer purchases and the subsequent improvement of a personalised shopping experience.

Beacons and mobile are at the heart of micro-location marketing

Gartner includes high precision location sensing technology (aka beacons) in its 'Top 10 Mobile Technologies and Capabilities for 2015 and 2016'²⁶. A recent survey of US retailers found that 14% of omnichannel retailers either currently employ, or intend (within the twelve months from April 2014)²⁷ to employ beacon technology.

In the UK, the 'Weve' joint venture between the UK's three largest mobile operators EE, O2 and Vodafone has also begun trialling iBeacons²⁸.

²³ EMV Migration driven by payment brand milestones, [2014](#). ²⁴ US to get 575m chip cards next year, [August 2014](#).

²⁵ Five Payment Predictions for 2014. Euromonitor. [February 2014](#). ²⁶ Gartner. Top 10 Mobile Technologies and Capabilities for 2015 and 2016. [February 2014](#).

²⁷ Could Beacons Push People Off the Couch and to the Store. [July 2014](#). ²⁸ UK's leading operators back loyalty app. [February 2014](#).

Quantity

Add to cart 

Proceed to checkout

Continue Shopping

6.

The E-Commerce and M-Commerce Divide is Shifting

The mobile has made its mark

E-Commerce continues to grow. According to Walmart*, by 2016, e-commerce sales are projected to reach \$345 billion in the US with mobile commerce sales projected to be about 10% of that number. Analysis of US holiday traffic makes the mobile point even more strongly, more than half of the traffic to Walmart.com coming from mobile devices, compared with less than 10% just two years ago.

As reported in IBM's Digital Analytics Benchmark²⁹ data, US sales over mobile devices on Black Friday 2013 grew nearly 43% year-on-year to 21.8% of all site sales. Cyber Monday 2013 saw mobile sales rise by more than 55% on the previous year to 17.2% of total online spend.

This is mirrored in other markets. According to the IMRG Capgemini e-Retail Sales Index³⁰, the total forecast online spend for the UK in 2014 will be in excess of £100 billion, which represents a 17% growth on last year. The index also highlights an increase of 138% for retail sales via mobile devices, reporting that in December 27% of all online sales were from a mobile device. Click-and-collect was also a key driver of sales, with 25% of online orders from a high street brand being collected in store.

Retailer optimism is mirroring consumer confidence. A survey of US consumers³¹ found that more than 79% intend to shop the same amount or more online in 2014 versus the prior year, with nearly a quarter (24%) saying they intend to shop online more this year, with 53% planning to use a smartphone for shopping and 19% saying they intend to use their smartphone more than during the previous year.

* Interview in The Atlantic. Get Ready to Roboshop. [February 2014](#). ²⁹ IBM. [2014 US Online Retail Holiday Readiness Report](#). ³⁰ IMRG Capgemini [e-Retail Sales Index](#).

³¹ 2014 Retail Forecast from RetailMeNot [Shopper Trends Report Volume 3 Edition 1](#).

7.

Payment Initiatives from Mobile Operators Remain Steady

Strong activation figures lay a good foundation

In the US, mobile operator-led payment initiative Softcard (formerly Isis) reported healthy activation figures of 20,000 per day in May 2014³². The high number of activations puts Softcard in a strong position to capitalise on the growth.

2014 has been a challenging year for Softcard as retailers have reportedly switched off their contactless terminals³³ and negative associations with the ISIS brand have impacted consumer appeal. However the renewed focus in the US on EMV and contactless payments is likely to provide momentum to capitalise on the activated base of Softcard wallet users.

This can be seen in a recent deal Softcard has done with Subway restaurants as from October 2014 they will be able to accept NFC payments via Softcard branded POS terminals³⁴.

2014 also saw the successful launch of Suretap from Canadian operator Rogers. Given that Canada has one of the highest concentration of contactless readers in the world³⁵. (250,000 out of 800,000 POS terminals) the prospects for Suretap looks good.

Meanwhile, in Europe and Asia 41 mobile operators having commercially launched mobile payments and it is forecast there will be more than 200 million registered users by 2017.

HCE has yet to deliver on its promise at scale

While the advent of Host Card Emulation (HCE) was seen to offer a faster route to market for retail banks wishing to launch NFC payment products, it is still early days for this alternative approach. Spain appears the strongest market in the HCE stakes³⁶ with the US next in line to having HCE technology rolled out³⁷ but mobile payment innovation in other EU markets such as the UK has been dominated by the facilitating power of the Faster Payments³⁸ network. Faster Payments initiates a bank account to bank account transaction and in this respect has parallels with CurrentC. It is exemplified by Barclays Pingit which supports mobile initiated P2P and C2B (for some SMEs business). Following Barclays lead, all the major UK banks launched Paym³⁹ in this year, built on the same Faster Payments infrastructure.

³² Isis newsroom. 20,000 new Isis wallets per day over last month. [May 2014](#). ³³ Isis CTO accuses retailers of turning off NFC and smartcard payment tech. [March 2014](#).

³⁴ [Subway](#) to accept mobile payments in 26,000 US locations. ³⁵ Canadian Mobile Payments. A Case Study in Co-operation. [January 2014](#).

³⁶ BBVA implements HCE mobile payments through visa to improve security. [July 2014](#).

³⁷ BBVA introduces HCE mobile based NFC payments. [June 2014](#). ³⁸ [Faster Payments](#). ³⁹ Paym launch confirmed. [April 2014](#).

8.

Conclusion: Retail Mobile Commerce Appears Set for Fast Growth

Mobile consumers are attractive to retailers

In both the US and Europe mobile spenders are an attractive customer segment for retailers. Mobile spenders pay for* nearly twice as much through digital channels overall as people not buying on mobile devices. Additionally, 70% of digital wallet users take advantage of one or more digital wallets at least monthly, and daily digital wallet users tend to use more types of digital wallets (3) than infrequent users (1).

But security concerns** and a lack of adoption incentive* need to be addressed

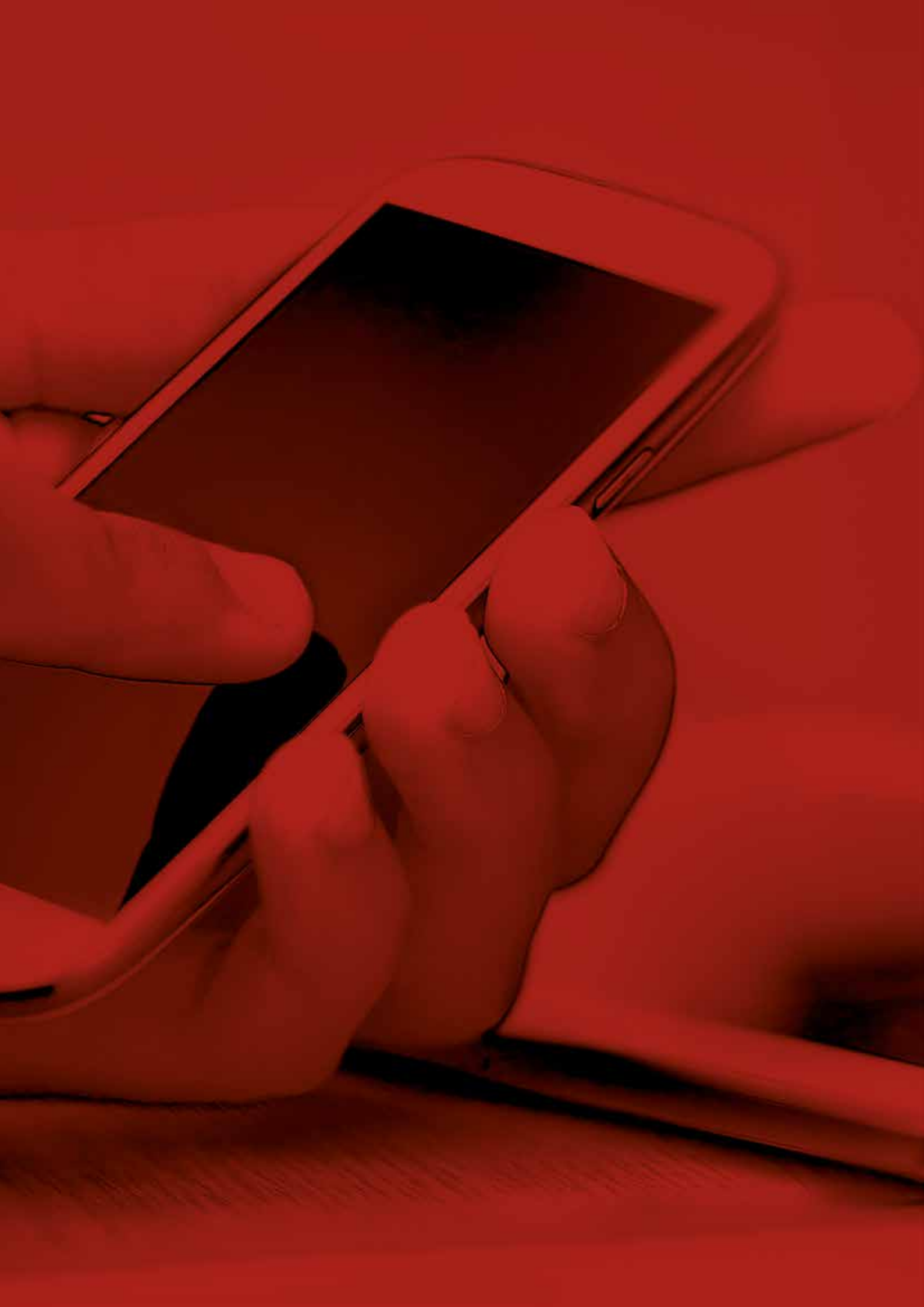
In Europe, in the last quarter of 2013⁴⁰, consumers were more inclined to think of their mobile phone as a shopping aide than a tool for redeeming coupons. While this is changing, thought must be given to security and the user experience.

Beacons, smartphones and the cloud will speed growth

Given the potential around streamlining delivery and redemption, as well as improved personalisation and targeting, these technologies will combine to accelerate the adoption of mobile commerce, in terms of payments as well as coupons and offers. With beacon solution providers like Estimote, Roximity and Sonic Notify able to reach up to 95% of smartphone users, leading the way.

* Bain. The consumer View of Mobile Payments [March 2014](#) ** The 2014 Digital Wallet Usage Study, Thrive Analytics. [July 2014](#)

⁴⁰ eMarketer. October 2013. [In-store mobile offers still finding their feet in the UK](#)



About the GSMA

The GSMA represents the interests of mobile operators worldwide. Spanning more than 220 countries, the GSMA unites nearly 800 of the world's mobile operators with 250 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and Internet companies, as well as organisations in industry sectors such as financial services, healthcare, media, transport and utilities. The GSMA also produces industry-leading events such as Mobile World Congress and Mobile Asia Expo.

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