

The UK Mobile Retail Opportunity

Why consumers will spend £2.5 billion in 2016 on shopping on their mobiles

Executive Summary

With a market projected to be worth over £438 million by the end of 2011, mobile retail sales represent slightly over 1% of overall UK online retail sales. Steady growth, fuelled by a rise in the number of smartphone owners and a growing pool of retailers enabling easy-to-use and sophisticated mobile shopping experiences, will drive mobile retail sales to the £2.5 billion mark by 2016.

Introduction

In a survey commissioned by PayPal, Forrester Consulting examined the mobile buying habits of 550 current mobile shoppers in the UK. This research, along with wider projections of the overall size and growth of the online retail market, has been used to create a five-year forecast projecting the growth of mobile retail in the UK. The forecast model encompasses a wide range of commonly purchased categories and concentrates on predicting the impact of the emerging mobile shopping behaviour on traditional retail channels. Digital downloads (MP3s, apps, games, etc.), while an important mobile category, are not included in the forecast.

This document outlines the findings of both the survey and the forecast and also looks at the wider role of the smartphone in retail over the coming years.

The Survey Results: Meet The Mobile Shopper

PayPal commissioned Forrester Consulting to conduct an online survey of adults aged 16 and over in the UK who have used their mobile phone to buy products or services, without speaking to someone. The survey was conducted in June 2011 and 550 surveys were completed.

Current Mobile Shoppers Aren't Just Early Adopters

Simple, intuitive and functionally rich smartphones have helped to create a growing mobile shopping market in the UK. While mobile retail in the UK is not as advanced as in some other countries such as Japan or the US, UK smartphone users of all ages are turning to mobile retail. The survey found that:

- **Mobile shoppers are seasoned web shoppers.** The universal appeal of smartphones means that men and women shop via their mobiles in broadly equal numbers. UK mobile shoppers are generally above the average income level and spend more than twice as much annually online as the average web shopper, spending an average of just over £1,600 a year on the web and approximately £100 a year via their mobile. Their enthusiastic embrace of online shopping translates into a faster than average acceptance of the emerging mobile channel.
- **They have only just started using their mobile to buy.** Sixty percent of mobile shoppers have been buying via their mobile phone for less than a year (see Figure B).
- **They often use their mobiles when they can't reach a PC.** Forty-two percent of mobile shoppers used their phone because they were buying something like a download that was only available on the phone (see Figure F). Thirty-eight percent of mobile shoppers turn to their phones because they are away from their computer.

Mobile Shopping Is Not Yet An Established Habit

Unsurprisingly, the survey found that mobile shopping is not a well-established habit even among people who have used their mobile phone to shop. The survey found that:

- **Mobile shoppers don't buy on their mobile phones very often.** Mobile shopping isn't a frequent behaviour even among the mobile users who have used their phones to buy goods and services in the past. Just half of mobile shoppers have bought at least once in the past three months (see Figure 1).

How often do you buy or order products or services on your mobile phone?

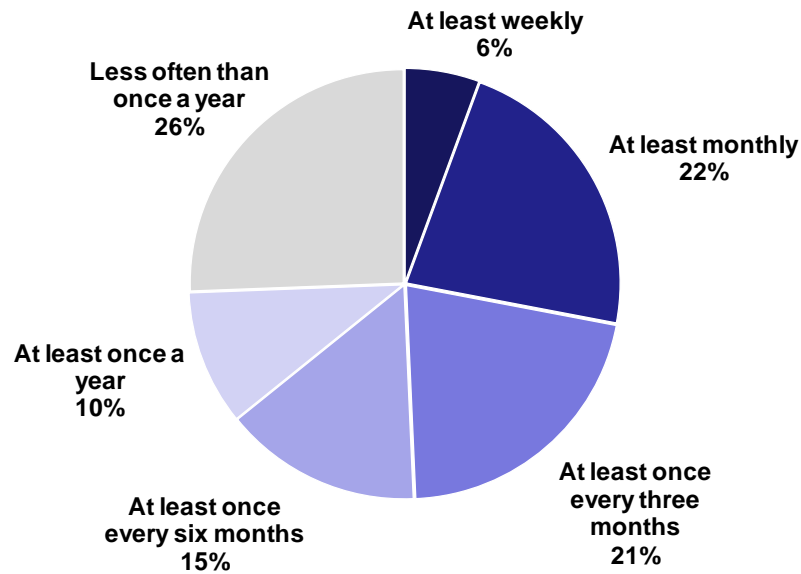


Figure 1: Mobile shopping isn't a frequent behaviour

Base: 550 UK mobile buyers

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, July 2011

- **Mobile shoppers aren't spending much via mobile yet.** Fifty-three percent of recent mobile shoppers (those who shopped on their mobiles within the last three months) spend less than £20 on orders placed on their mobile phone in any three-month period (see Figure 2). Eighty-five percent spend less than £100. However, familiarity does breed an increased level of confidence, frequency of purchase and spend. While newer mobile shoppers spend less than average, those who have shopped via their mobile for three years or more are twice as likely as the average mobile shopper to spend over £100 every three months.

In the past three months, about how much in total have you spent on purchases made on your mobile phone (including purchases made in an app store)?

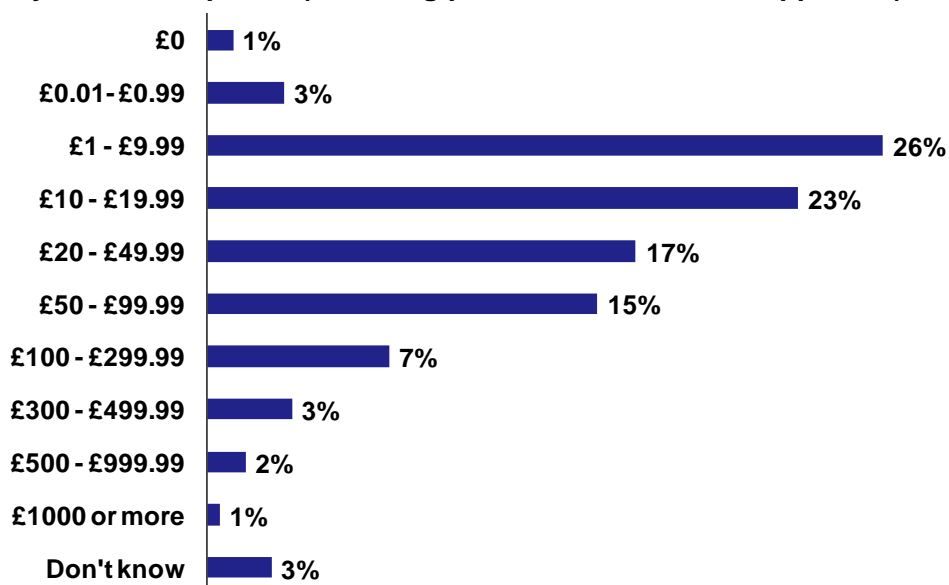


Figure 2: Mobile shoppers aren't spending much on mobiles yet

Base: 396 UK mobile buyers

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, July 2011

- A quarter of mobile shoppers expect to use mobile shopping less in the future.** When asked how they expect their mobile shopping habits to change, 10% of people who have made mobile purchases in the past said they will stop making purchases on their phones altogether (see Figure 3). Another 15% say that they expect to make fewer purchases using their mobile phone in the next 12 months, while only 10% expect to make more purchases on their mobile phones.

The last time you bought something on your mobile phone why did you choose to use your mobile phone to make the purchase?

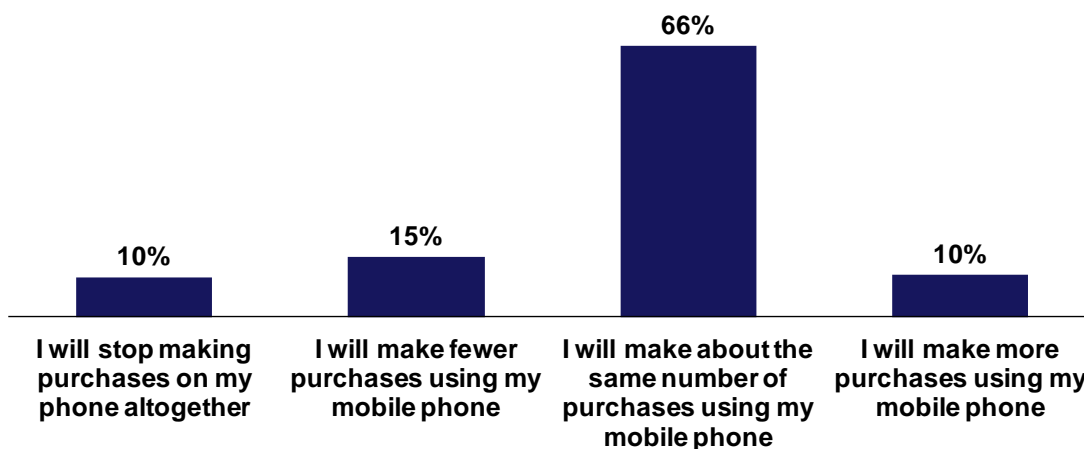


Figure 3: 10% expect to make more purchases in the future

Base: 550 UK mobile buyers

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, July 2011

- **There is no common way of paying.** Mobile shoppers are paying for mobile purchases in many different ways, including digital wallets like PayPal, entering debit or credit card numbers directly, using payment details previously registered with an app store and paying through their mobile operator. When asked why they chose to pay in a particular way, most mobile shoppers said that they chose the most convenient way to pay, the quickest way to pay or a method that they trust is reliable and secure.

Mobile Shoppers Buy Much More Than Just Digital Downloads

Digital downloads designed for consumption on mobile phones, from MP3s and streamed videos to GPS maps and games, are natural targets for mobile purchasing. These are the things consumers purchase most regularly. Many of these products only exist because of smartphones and can only be bought by smartphone users. However, as Figure 4 shows, mobile retail is broader than just digital downloads, with products such as books, tickets and even clothing being bought by mobile shoppers:

Which of the following types of products have you purchased on your mobile phone including anything purchased in an app store) in the past three months?

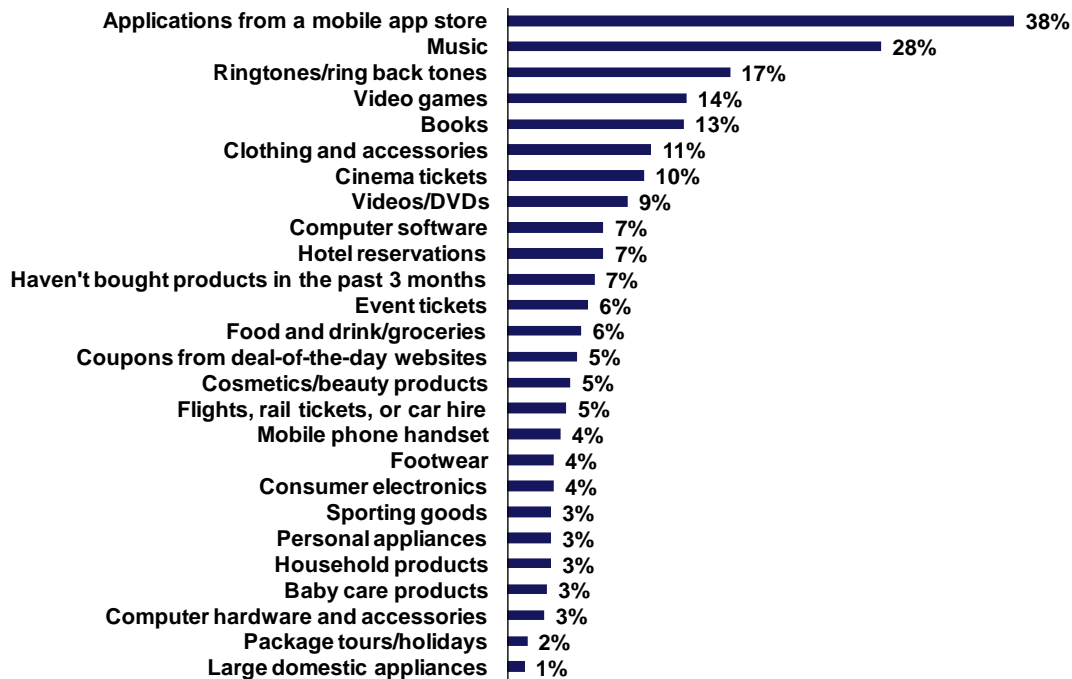


Figure 4: Digital downloads lead the pack

Base: 396 UK mobile buyers

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, July 2011

- **Buying from an App store is the most common route to purchase.** Fifty-four percent of mobile shoppers buy from app stores. With spending levels typically below £40 a year, digital products will remain an important entry category for mobile shoppers, just as CDs and books were for

online shopping in the late 1990s. These “safe” products help to generate a familiarity with the channel that encourages further experimentation and acceptance.

- **Mobile access to traditional ecommerce sites is the key to success.** Thirty-six percent of shoppers are using the mobile Internet while on the move to browse websites. They are shopping primarily in categories such as books and DVDs, where a quick and easy sale is key. However, sales are not limited to such categories, with 13% of mobile shoppers spending over £400 a year on complex products such as computers and household appliances.
- **Use of shopping apps is growing.** With 29% of mobile shoppers engaging with retailers through mobile apps, shopping apps are an important mobile retail enabler. Young, high-income shoppers are the most likely to use apps for shopping, though the lack of standardization across handsets and mobile operating systems will remain a headache for retailers for some time yet.

In which of the following ways have you ever bought a product or service using your mobile phone? (Select all that apply)

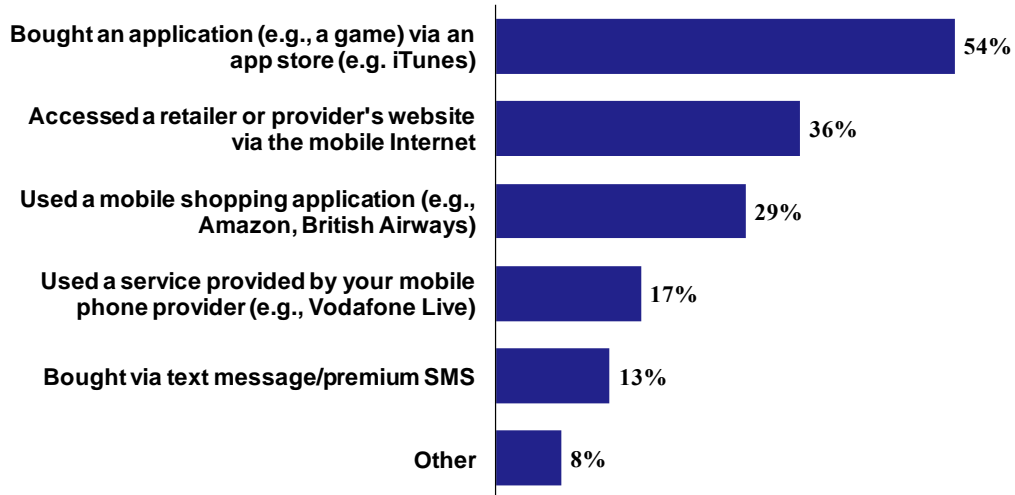


Figure 5: Mobile shoppers buy in a variety of ways

Base: 550 UK mobile buyers

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, July 2011

The Forecast: Mobile Retail Projections 2011 – 2016

The results of the online survey were used by Forrester Consulting as one of the inputs for a forecast model that estimates the size of the mobile retail market in the UK from 2010 to 2016. The forecast excludes digital downloads, and excludes travel and financial services. The conclusion of that work is that mobile retail will grow steadily in the UK, to exceed £2.5 billion per year by 2016, compared with £300 million in 2011. This will represent over 4.5% of the UK online retail market. More people will shop on mobile phones and those mobile shoppers will shop more frequently and spend more across multiple categories as:

- Fourteen million adults will shop on their mobiles by 2016.** Mainstream smartphone adoption and a growing familiarity with the technology will encourage more people to shop on their phones. Using the mobile Internet will become a mainstream activity, with 42% of UK adults doing so regularly by 2016. Many of them will shop on their mobiles. As Figure 6 shows, just over 14 million UK adults will shop via their mobiles by 2016 at least once every three months.

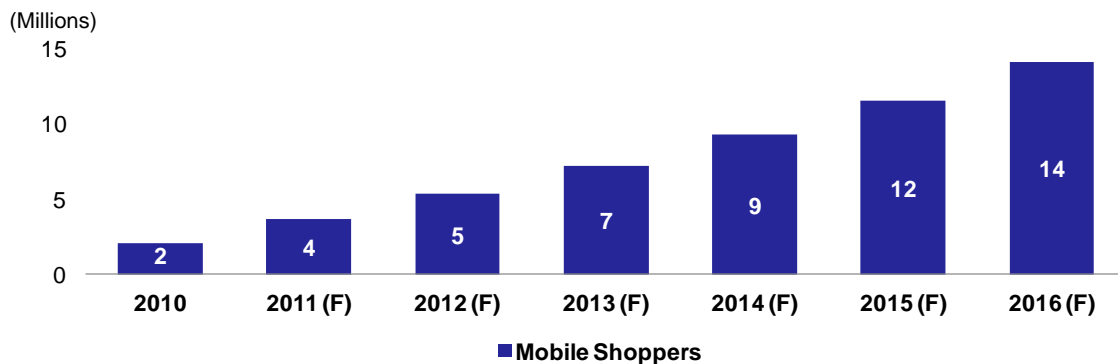


Figure 6a: UK mobile buying will become a mainstream activity

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, July 2011

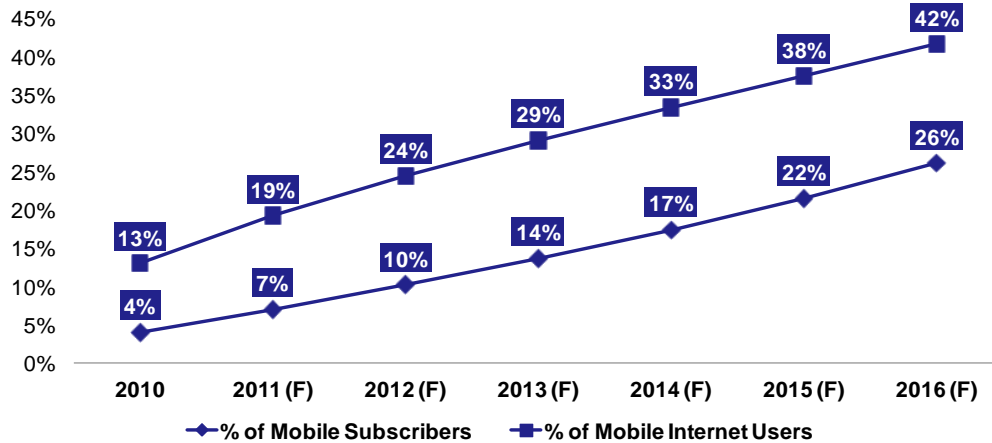


Figure 6b: UK mobile buying will become a mainstream activity

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, July 2011

- Mobile retail sales will reach £2.5 billion by 2016.** Although the average spend per shopper will increase, to an average of approximately £180 per year compared with about £100 today, growth will mainly be driven by growth in the overall number of mobile shoppers. Figure 7 shows the forecast growth of the overall mobile retail market in the UK. While mobile retail sales will undoubtedly cannibalise some existing retail sales, many of these sales will be incremental as mobile shopping encourages people to make impulse purchases that they would not otherwise have made.

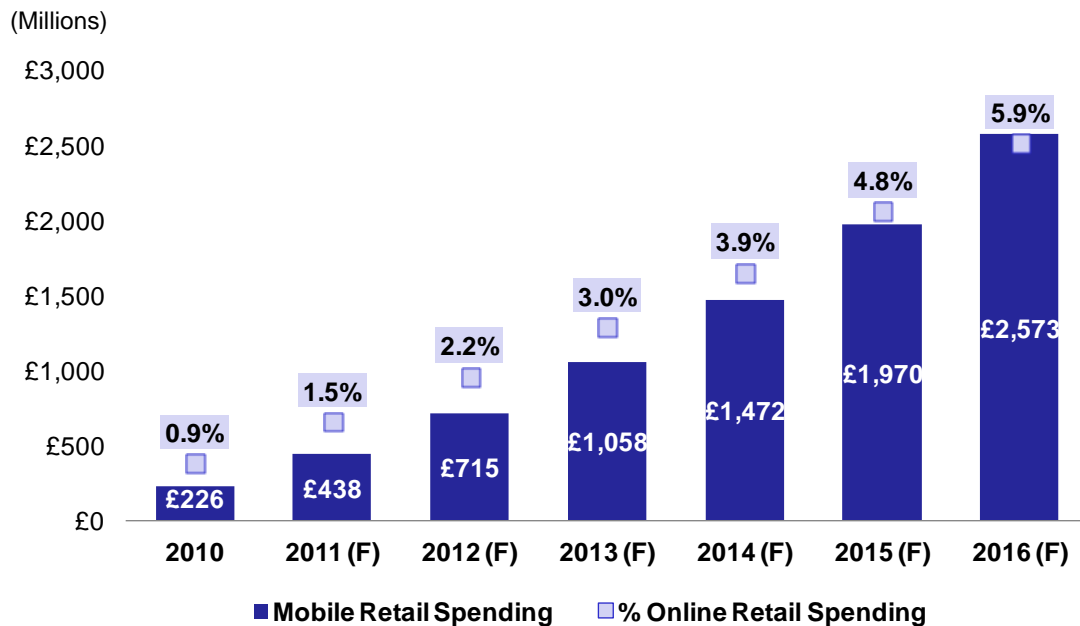


Figure 7: The UK mobile retail market will exceed £2.5 billion by 2016

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, July 2011

Mobile Shoppers Will Buy From Many Categories

As existing online shoppers take to mobile shopping, mobile retail will grow across all categories. Figure 8 shows the overall growth projections by category.

- Simple and impulse products will see the strongest growth.** Convenience is the key driver for mobile shopping overall. Impulse categories like music and film, where little research is required and quick decisions can be made, will see stronger growth than other categories.
- Event tickets will be the mobile sweet spot.** Mobile handsets will increasingly be used as a bridge between the physical and virtual world. Technologies such as QR codes will turn the mobile phone into a convenient and cost-effective way of distributing products such as event tickets and coupons. These categories will see strong growth, with the mobile event ticketing market growing at an average rate of 46% per annum as ticket vendors, loyalty providers and retailers integrate the ticket purchase, fulfilment and redemption process onto smartphones.
- Computers, electronics and electricals will also grow fast.** Computers and electronics were among the first sectors to see significant online sales in the UK, and the same will be true of

mobile sales. Early adopters of new technologies tend to be big spenders on computing and electronics. The high ticket price of items like PCs and washing machines also encourages customers to shop around, giving a further impetus to checking prices and buying on a mobile phone.

- Fashion will keep pace, despite the merchandising challenges.** On the web, fashion retailers live or die by the quality of their visual merchandising, relying on techniques such as product zoom, video and 360-degree views to give shoppers a rich picture of their products. Even though the screen size of a smartphone limits this, the innovative way in which many fashion retailers are approaching mobile retailing -- integrating store locators with in-store stock levels and offering multi-channel deals such as “order online or via mobile and collect in-store” -- will ensure that mobile clothing sales keep pace with other categories that are simpler to merchandise via a mobile device.
- Groceries will be less affected than other sectors.** Grocery purchases typically involve shoppers adding multiple items to their shopping cart, a process much less well suited to the small screen size of mobile phones. Even so, mobile grocery sales will become a substantial proportion of overall mobile retail sales because groceries are by far the biggest retail sector and account for such a large proportion of UK online spending. Supermarkets such as Tesco are enabling rich mobile shopping experiences for their customers and will continue to push the boundaries of what is possible, luring more shoppers into experimenting with mobile grocery shopping.

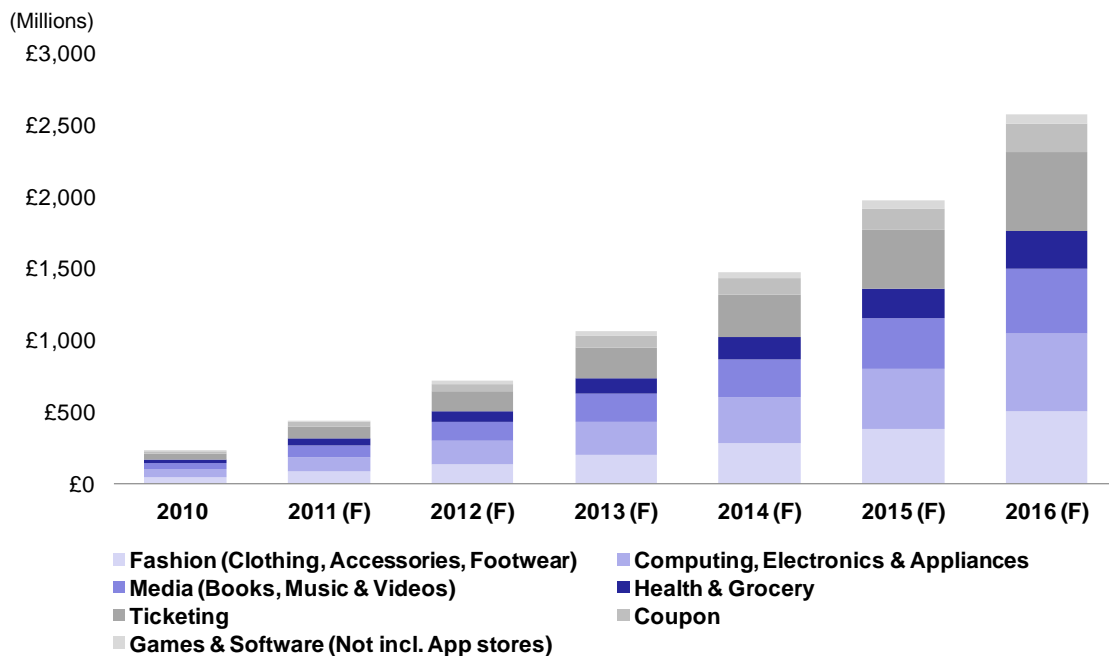


Figure 8: Mobile retail will show strong growth across all categories

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, July 2011

Smartphone Adoption Will Be The Key Driver

Shoppers who embrace mobile retail quickly become confident, repeat shoppers, and a continued commitment by retailers to deliver both mobile apps and an optimised mobile eCommerce site will boost adoption. The forecast growth outlined in this document will be underpinned by the following:

- **Users will experiment with mobile shopping as smartphones become the standard handset.** While it is possible to shop online using a traditional “feature phone”, it is the rapid growth of smartphones that is driving the uptake in mobile retail sales. With 45% of mobile shoppers already accessing the Internet via their phone several times a day, smartphone users are moving their web use from their desktops and laptops to their mobile handset. Handsets such as Apple’s iPhone, which is used by 25% of UK mobile shoppers, have turned the phone into a portal to the web for all manner of activities, from updating social networks to shopping. Mainstream smartphone adoption and a growing familiarity with the technology will encourage more people to shop on their phones.
- **“Digital Natives” will adopt a “lifestyle” approach to the mobile Internet.** The mobile Internet is changing the way younger consumers access the Internet, creating a learned behaviour that, over time, will cement mobile phones as the primary way they access the web. Seventy-two percent of mobile shoppers aged 16 to 24 use their smartphones to access the Internet daily or more often, and they are more likely than other shoppers to turn to their mobile handset even when they have access to a traditional computer.
- **Retailers will get better at offering compelling mobile experiences.** Many of today’s mobile apps are standalone and are not well integrated into retailers’ web or high-street experiences. A continued commitment by retailers to deliver both smartphone apps and mobile-optimised eCommerce sites that are part of a broader multi-channel strategy will boost adoption. Shopping apps play an important role in driving cross-channel shopping, providing functionality such as store locators and stock checkers. However, with more mobile shoppers turning to the mobile internet than use shopping applications (see Figure 5), mobile-optimised websites are a key enabler for retailers wishing to capture a share of the growing mobile shopping audience.

Security Will Be The Key Inhibitor

Despite a steady growth, not everyone will embrace this new way of shopping. Twenty-five percent of current mobile shoppers told us they expect to use their phone to shop less in the future. Even some seasoned web shoppers will be reluctant to turn to their mobile phone to shop due to a number of significant inhibitors:

- **Mobile users worry about the security of their personal information.** Just as with traditional online shopping, the security of personal data is one of the primary reasons people don’t shop via mobile. Twenty-five percent of the mobile shoppers who expect to make less use of mobile shopping in the future are concerned about the safety of their personal financial information. Payment providers such as PayPal that remove the need for shoppers to enter personal payment card details into new and unfamiliar sites can help build trust, but retailers, payment

providers and mobile network operators must work together to build consumer trust if this market is to grow.

- **Mobile payment is complex.** Building a simple, trusted mobile payments ecosystem in the UK is a key stepping stone to convincing shoppers to adopt mobile commerce (mCommerce). The 2012 Olympics Games is driving a range of investments in mobile payment infrastructure in London, with more major brands such as Lloyds TSB and Orange beginning to join others like Barclaycard and Visa in backing contactless mobile payments. Convincing shoppers to use their smartphone as a payment device will help drive overall adoption of mobile shopping.
- **The smartphone has some fundamental limits.** Although processing power, connection speed and reliability, and features and functionality will improve, smartphone screen sizes are unlikely to change. Commodity products and impulse purchases that need little research or explanation are ideal for mobile sales. Complex products that require configuration or an information-intensive sale are unlikely to be mobile favourites.

Why aren't you interested in using your mobile phone to pay for things at a cash till or check out in a shop?

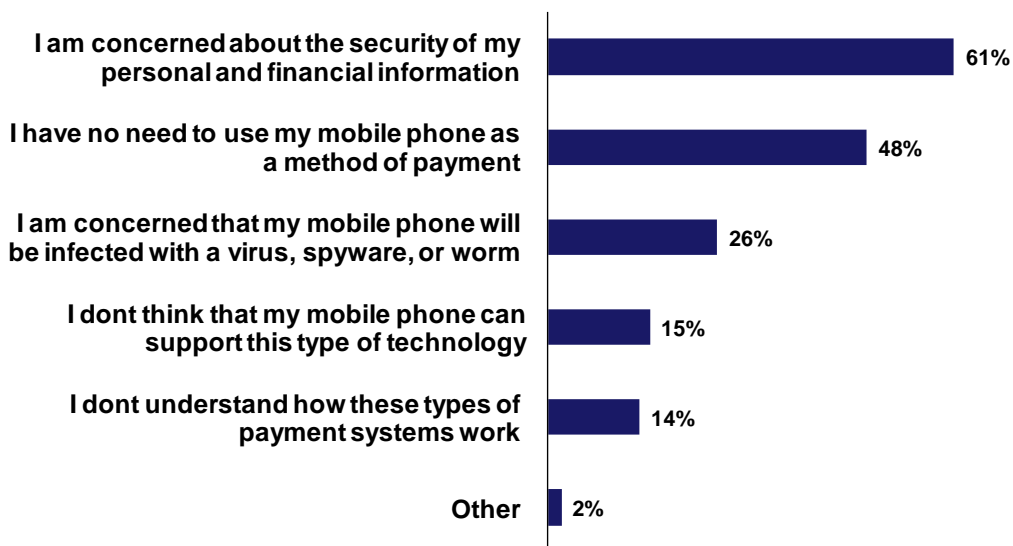


Figure 9: Security concerns remain top of mind

Base: 550 UK mobile buyers

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, July 2011

Mobile Retail Is Just The Tip Of The Iceberg

While mobile retail will grow slowly but steadily in the UK over the coming years, using the mobile handset to complete a retail transaction is just the tip of the iceberg. The wider value of the smartphone to retailers and customers alike lies in the role mobile phones will play in the everyday shopping experience of the future. Increasingly, shoppers will use their phones to:

- **Locate and learn.** Store locators, price comparison apps, location-based deals and stock checkers will enable shoppers of the future to locate the products and deals they want when they are on the move. Increasingly, smartphones will become the “retail glue” that links a shopper’s digital activities to how they interact with high-street stores.
- **Reserve and collect.** Buying a product on a mobile phone is one aspect of mobile retail. Where smartphones are more likely to play a critical part in the future of retail is in enabling shoppers to start a transaction on one channel (at home on the web, for example) and then use their handset to act as the digital link to allow them to complete the sale on another channel (for instance, in a store). This cross-channel approach transcends “mobile retail”, placing the smartphone at the centre of a new style of interaction.
- **Pay for goods and services.** Not only will phones be used to pay for products purchased through the mobile Internet, but phones of the future will also play an increasingly important role as a payment device in the store. The growing investment in contactless payment infrastructure and the potential that the smartphone has to become a digital wallet will position the phone as an offline as well as online payment device.
- **Share their experiences.** Smartphones provide shoppers with a way to engage with social networks while on the move, allowing them to learn about products through their peer networks and share their opinions of a retailer, good and bad. As this becomes a real-time experience, smartphones will become a critical way in which shoppers give retailers immediate feedback.

Conclusions

Mobile shopping is a growth market for UK retailers. While the smartphone isn't going to replace more mainstream methods of shopping online, the convenience and immediacy of a portable device that can be used almost anywhere will lure an increasing number of UK mobile users into mobile buying. This consumer pull will be matched by a retailer push, with mobile-savvy retailers offering slick, sophisticated mobile experiences that rapidly become a key part of an overall multi-channel strategy.

Though consumer trust remains a key barrier, getting the basics right, such as a mobile-optimised website, a coherent app strategy and an understanding of where mobile fits in the overall channel mix, is the ticket to entry in this new game. It is vital that retailers, payment providers, mobile network operators and handset manufacturers work together to build secure and trusted payment platforms. Just as in the early days of the Internet, a "build it and they will come" attitude is not enough. Trust must be earned.