Mobile and the New Digital Store

UNCOVERING OPPORTUNITIES IN THE
IN-STORE RETAIL EXPERIENCE

APRIL 2016

OVERVIEW

Uncovering Opportunities in the In-Store Retail Experience

HOW AND WHY PAYPAL CONDUCTED THIS EXPLORATION

PayPal hired a third party strategy firm to conduct neutral, in-depth interviews with several retailers across the Americas, Asia-Pacific, and the EMEA region (Europe, the Middle East and Africa). The goal was to understand key challenges and opportunities in the in-store shopping experience; how retailers expect the ideal experience for their consumers to evolve and the role of mobile devices in this evolution.

These retailers spanned a wide range of industries including apparel, electronics, mass retail, gas, grocery, quick service restaurants and specialty retail. Participants included senior leaders across technology, finance and marketing.

PayPal

Mobile and the New Digital Store

The Retail Landscape

Retail is fundamentally changing, driven by the rise of mobile and access to the Web. The Internet has not only enabled retailers to create personalized e-commerce experiences, but it has changed consumer expectations as well. With the power of information, the abundance of inventory, and fast shipping options at their fingertips, consumers can find what they want, when they want it, and at the price they're willing to pay.

Retailers and consumers are now looking to bring the power of digital shopping to physical stores, as well. Add to this the mass adoption of mobile devices, and retail stores are undergoing perhaps their largest transition in recent history.

Several new digital technologies have emerged to capitalize on this shift, but true revolution of the in-store experience won't come from technology alone. On the contrary, the new digital store must solve a real consumer need – threading together the planning, inspiration, delight, speed, convenience and incentives that people have come to expect.

This report will explore the major challenges retailers and their consumers are facing in transforming the retail experience into one that is immersive, inspiring, and customized across each step of the shopping journey -- providing unmatched value to consumers and helping retailers build loyalty.

KEY CONCLUSIONS

The consumer shopping cycle consists of four interconnected stages, and this entire cycle can be optimized with mobile technology.

| MOTIVATION TO SHOP | SEARCH / EXPERIENCE | DECIDE / SHOP | PAYMENTS / REWARDS |
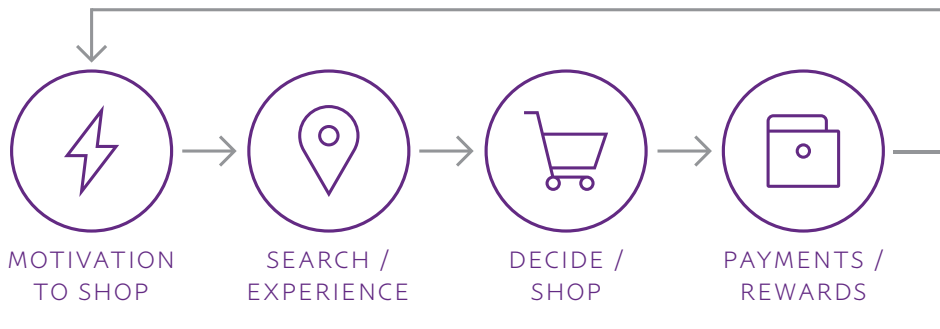
Smartphones are already a consumer's most trusted advisor throughout these stages, and retailers are looking for new ways to leverage mobile as a way to build deeper connections with their consumers within and across each stage of the shopping journey.

Retailers constantly seek the sweet spot between their own goals and an ideal consumer experience.

MOTIVATION TO SHOP	SEARCH / EXPERIENCE	DECIDE / SHOP	PAYMENTS / REWARDS
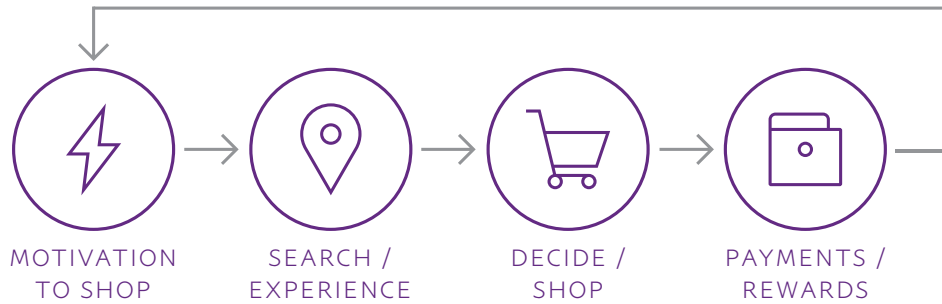
RETAILER GOALS

Drive regular floor traffic: Give consumers a reason to come to store	**Increase shopping basket while optimizing traffic to and in store:** Upsell and cross-sell relevant products	**Aid purchase decisions:** Reduce shopping cart abandonment due to indecision or lack of information	**Drive loyalty and get consumer information:** Give easy access to incentives and frictionless checkout

DELIVER TO CONSUMERS IDEAL EXPERIENCE

Easy, efficient trip planning	Short journey to store	Reviews, price comparisons and deals to finalize decision	Earn/ redeem rewards and coupons without friction
Feel inspired to shop	Quick trip through store	Simpler decision making for routine, repetitive purchases	Shop and pay online, but pick up or return in store

Retailers constantly seek the sweet spot between their own goals and an ideal consumer experience.

Retailers have identified some critical building blocks to create the ideal consumer experience across all four stages of the shopping journey.

MOTIVATION TO SHOP	SEARCH / EXPERIENCE	DECIDE / SHOP	PAYMENTS / REWARDS
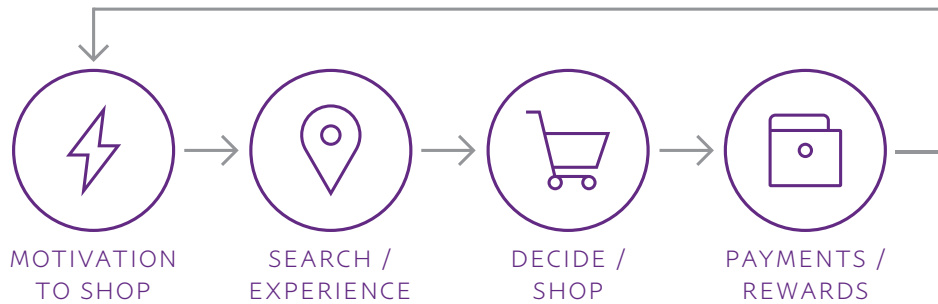
Planning: Simplified planning for repetitive purchases brings consumers to stores more often in Grocery and Mass Retail.

Inspiration: Consumers need inspiration to motivate them (emotionally or financially) to go to stores in Fashion and QSR.

To Store: Better location mapping brings more traffic to stores for Gas and QSR.

In Store: Consumers need better navigation tools in large store layouts for more efficient trips across Grocery, Department Stores and Mass Retail.

Reviews, Price Comparisons: Access to reviews and price comparisons prevent showrooming* and abandoned shopping carts in Electronics, Mass Retail and Department Stores.

Simplify Repetitive Decisions: Access to historic repetitive purchases can simplify decision making in Grocery, QSR, Mass Retail.

Rewards/ Incentives: Easy access and seamless use of relevant incentives is a loyalty driver across categories.

Seamless Omnichannel Shopping: Delivers the convenience of online shopping PLUS instant gratification across categories.

* showrooming: the practice of visiting a store or stores in order to examine a product before buying it online at a lower price.

P **PayPal**

Mobile technology can help retailers fix inefficient or bad experiences and delight consumers across the shopping journey.

"Fix" opportunities could stem the loss of consumers and profits to online marketplaces and competitors.

Seamless Omnichannel Shopping
Help consumers find the closest stores and navigate stores efficiently;
Sync inventory perfectly between offline and online stores, enabling seamless purchases online and pick up/ return offline

Informed and Optimal Decision Making
Through an ecosystem of reviews, ratings and price comparisons

"Delight" opportunities offer growth potential for retailers by creating a better in-store experience, encouraging upsell, and building loyalty.

Frictionless and Rewarding Checkout
Access and apply incentives in a seamless checkout experience

Make Shopping a Social Experience
Inspire through social media and enable digital feedback

Personalize the Shopping Experience
Match relevant items to consumers based on history and personal information

4

Mobile payments are critical enablers of retailer and consumer goals.

Mobile payments are the critical link between key retailer priorities (loyalty and access to consumer information) and and key consumer priorities (a frictionless and rewarding shopping experience). However, payments should virtually disappear into the background, working so smoothly with loyalty programs, coupons, rewards and other in-store engagement tools that consumers will barely notice the final step in their shopping experience.

5

Success for in-store technologies will depend on enabling an integrated mobile in-store platform that delivers retailer and consumer needs.

Mobile devices are already transforming each stage of this journey. Consumers are searching for the nearest store on their smartphones, creating shopping lists and using their favorite price comparison apps. However, these experiences still exist in silos, provided by various and disparate technologies that do not interact. Addressing a problem at one stage but not at another only adds to consumer frustration. In-store technologies have an opportunity to truly delight consumers and gain a competitive edge by providing **a seamless and integrated experience across the whole journey** and **a consistent level of intuitive functionality through a mobile platform**.

OPPORTUNITIES TO FIX & DELIGHT

PayPal

FIX   DELIGHT

Stem loss of consumers
and profits to competitors
and online marketplaces

Enable a Seamless Omnichannel Experience

(1) Shop online, buy or return offline

Click and Collect:
Consumers seek instant gratification and faster shopping trips by placing orders online and picking up in store. Retailers are working to enable this across categories to provide a more seamless shopping experience and prevent lost sales to online marketplaces.

Returns and Refunds:
Consumers expect to be able to order items online and return them in stores. Retailers are looking for ways to facilitate a seamless link between paying online (or via mobile) and getting fast and accurate refunds.

Real-time Sync of Omnichannel Inventory:
Consumers often plan for store trips by checking store stock online. Inventory is impacted by other consumers shopping online and picking up OR returning items in stores. Enabling seamless and real-time updating of these inventory systems across channels is critical to avoid frustrating consumers when items are out of stock.

> "ALLOWING OUR USERS TO ORDER AHEAD AND PICK UP LEAVES MORE TIME FOR THEM TO EAT, AND LESS TIME TO WAIT IN LINE."
> – Quick-service Restaurant, U.S.

> "WE HAVE AN IN-STORE SOLUTION CALLED 'QUICK CHECK,' WHICH IS A HANDSET THAT A CONSUMER CARRIES THROUGH THE STORE AND SCANS THE BAR CODES OF ITEMS AS THEY PUT THEM IN THE CART. THEY CAN SIMPLY GO TO A SELF-SERVICE TILL WHICH TELLS THEM HOW MUCH THEY OWE, AND THEY PAY AND GO." – Grocery, EMEA

PayPal

FIX DELIGHT

Stem loss of consumers
and profits to competitors
and online marketplaces

Enable a Seamless Omnichannel Experience

(2) Get in and out of stores fast

Identify nearest location:
For daily categories like Gas, QSR and Grocery, consumers sometimes trade preferred brands for store proximity. Hence, enabling better location mapping and trip planning is a big need for retailers. Current examples include interactive mapping tools within store apps and alerts when consumers are close to a store.

Help consumers navigate to items in store: For discretionary categories like Fashion, Electronics and Mass Retail, consumers navigate stores with the help of maps and sales associates. In the future, retailers want to leverage their mobile apps to make it easier and more efficient to find items in their stores.

"WE ARE WORKING TOWARD A SOLUTION THAT FACILITATES SEAMLESS TRANSACTIONS, OF PEOPLE MOVING IN AND OUT OF THE STORE WITHIN MINUTES, AS OPPOSED TO LINGERING, TRYING TO FIND ITEMS, AND WAITING IN QUEUES." – Grocery Provider, EMEA Region

FIX   DELIGHT

Stem loss of consumers
and profits to competitors
and online marketplaces

Enable Informed
& Efficient Decision Making

Reviews, ratings & price comparisons

Digital reviews and ratings: Consumers want relevant, in-context reviews to enable sound decisions, especially in high-ticket categories. Enabling these reviews within the retailer's ecosystem dissuades showrooming and lost sales to online marketplaces.

Price comparisons and offsets: Price comparisons are important to consumers, especially in daily spending categories. However, for retailers who rely on discretionary spending dollars, such as fashion, electronics and specialty, it is more important to provide exemplary consumer service and lenient return policies in lieu of lower prices.

ACCORDING TO FORRESTER RESEARCH , 56% OF US CONSUMERS WHO CHECK PRICES IN-AISLE STATE THAT THEY USE THEIR MOBILE PHONES TO DO THIS MOST OF THE TIME OR EVERY TIME.* CONSUMERS TEND TO RESEARCH HIGHER TICKET ITEMS BEFORE PURCHASING, SO IT MAKES SENSE FOR RETAILERS TO MAKE IT EASIER FOR CONSUMERS TO COMPARE BRANDS, PRICES, CREDIT SCHEMES, PRODUCT INFORMATION AND REVIEWS IN THE STORE.

> "WE USE A COMPANY THAT HELPS US WITH THE POSTING AND COLLATION OF REVIEWS ON OUR SITE. CONSUMERS WILL SCORE ITEMS AND WRITE A LITTLE BIT OF A BLURB. THEY'RE ACCESSIBLE IN STORE ON ASSOCIATES' IPADS, AND CONSUMERS' CELL PHONES. IT'S ALL PART OF THE JOURNEY. PEOPLE ARE OFTEN RESEARCHING HIGHER TICKET ITEMS SO THEY WANT TO VALIDATE THEIR CHOICE." – Specialty Retail, APAC

Frictionless and Rewarding Checkout

Easy access to & application of incentives

Organize incentives for easy access:
Consumers want to be able to access incentives such as loyalty programs, rewards points, coupons, and member discounts without clipping and carrying paper coupons in a wallet.

Application and redemption of incentives:
Even if retailers can enable quick access to incentives, trying to apply and redeem these at checkout can lead to longer lines and wait times. Retailers are keen to find ways to help consumers use their rewards points, rebates, vouchers and stored value automatically via their mobile devices, without complicating the checkout experience.

Mobile payments:
Mobile payments, while not a stated need, are the only way to enable a seamless incentive management and application system that also gives retailers insights on consumers' purchase and incentive history. Having access to this history enables retailers to personalize future incentives.

> "OUR CONSUMERS USED TO COME IN WITH 50 COUPONS IN HER WALLET. NOW SHE CAN JUST PULL THEM UP ON HER CELL PHONE. WE'VE GOT A PREFERENCE ENGINE THAT RUNS THROUGH AND GIVES HER THE BEST DEAL. THEN SHE CAN CHOOSE WHAT SHE WANTS. SHE DOESN'T HAVE TO CARRY ALL OF THE COUPONS. SHE DOESN'T HAVE TO WORRY WHAT'S EXPIRED." – Department Store, US

> "WE DON'T HAVE A LOYALTY CARD OR KIND OF A VIEW OF THE VIPCONSUMERS, BUT THAT'S SOMETHING I'D WANT TO PUT INTO ANY FUTURE APP DEVELOPMENT, WOULD BE TO INTRODUCE A LOYALTY CARD AND THEN DELIVER REWARDS WHICH WOULD BE MOBILE AND WEB-ENABLED." – Department Store, EMEA

FIX   **DELIGHT**

Opportunity to drive future
growth, competitive edge
and delight consumers

Frictionless and Rewarding Checkout

Frictionless checkout

Instant checkout:
Consumers are keen to skip checkout lines whenever possible, and retailers today enable this in varied ways: order online for curbside or in-store pickup, scan items as they add to cart, self-checkout, etc. Select retailers provide their associates with tablets and smartphones to assist the selling process, which then act as on-floor checkout devices.

Flexible and fast payments:
Once a consumer makes a decision to buy, payments can't be a hurdle. That's why it's important to give consumers the option to pay in whatever way they prefer. Mobile payments can't be limited only to certain devices, credit card brands, or technology protocols. In addition, by offering credit options like store credit, installments, or branded cards, retailers can drive higher-priced purchases. Quick, one-touch payments online provide a more convenient checkout and help lower shopping cart abandonment.

> **"OUR APPROACH TO RETAILING, AND SPECIFICALLY TO PAYMENTS, IS WE'D LIKE TO OFFER AND ACCEPT ANY FORMS OF PAYMENT THAT OUR CONSUMERS WANT TO USE, AND MAKE SURE THAT IT'S A SAFE AND CONVENIENT AND GREAT EXPERIENCE FOR THEM."** – Gas, U.S.

> **"IT JUST SEEMS UNNATURAL THAT YOU HAVE TO GO AND QUEUE UP IN THE STORE ONCE YOU'VE SELECTED ALL YOUR ITEMS, WAIT FOR THE CASHIER TO GET TO YOU, AND THEN HAND OVER THE CARD AND GET THE TRANSACTIONS DONE THAT WAY. IT ALMOST CREATES ANOTHER BARRIER."** – Apparel Retailer, APAC Region

FIX **DELIGHT**
Opportunity to drive future
growth, competitive edge
and delight consumers

Personalize Purchases to Consumer Habits & Tastes

Make shopping a pleasure through automation and personalization

Retailers value consumer data because it helps them automate and personalize the shopping experience. Automation is a big need in daily categories where consumers yearn for reduced repetitive thinking, which also frees consumers to notice new and different items. Retailers want to personalize the experience by upselling and cross-selling relevant items that delight consumers. Similar to the online world, where retailers make suggestions ("You just bought that – you'll love this as well"), mobile brings the power of consumer insights data into the store.

For example, if it is time for a consumer to restock his favorite red wine, the store could suggest a better vintage, or point out complementary food pairings. The gas station consumer who refills at the beginning of every week might be drawn into the store by offers for a free Monday morning coffee with the purchase of a breakfast item.

> **"WE WANT [CONSUMERS] TO SAY, 'THIS GROCERY STORE REALLY GETS ME. IT UNDERSTANDS WHAT MY HEALTH DESIRES ARE, MY RECIPE FAVORITES, MY SHOPPING LIST … IT HELPS ME WITH THAT. IT MAKES MY LIFE EASIER.'"**
> – Grocery Provider, EMEA Region

FIX   **DELIGHT**

Opportunity to drive future
growth, competitive edge
and delight consumers

Make Purchasing More Social

Inspire through digital feedback & social media

Link inspiration to in-store inventory:
A clear opportunity in the age of social media is to let consumers go straight from inspiration to purchase – for example, the chance to buy an outfit after seeing it on Instagram, or purchase a new home accent after seeing an inspirational design on Pinterest.

Enable social sharing of purchases: Retailers are beginning to build social sharing and feedback into their mobile apps, so shoppers can post and share their purchases to inspire others.

Social trial and feedback: Real-time feedback from friends and family is a big driver of purchases in some categories and even replaces reviews and ratings. Retailers are seeing an emerging opportunity to enable virtual feedback and aid decisions, even during solo shopping trips.

"WE SEE A HEAVY SOCIAL PRESENCE … PEOPLE CONSISTENTLY POST THEIR OUTFIT OF THE DAY, OR EVEN USE [SOCIAL MEDIA] AS A COMPLAINT CHANNEL IF SOMETHING GOES WRONG WITH A PRODUCT. WE'RE SEEING CONSUMERS MOVE AWAY FROM TRADITIONAL RATINGS AND REVIEWS TO STYLE RATINGS FOR OUR PRODUCT." – Apparel Retailer, APAC Region

MOBILE PAYMENTS

Mobile Payments

Payment players should stop thinking about mobile payments in terms of discrete, one-off point solutions that address one-off discrete needs. Rather, a true partner will aspire to provide a holistic, integrated platform that addresses needs at every stage of the consumer's shopping journey.

MOTIVATION TO SHOP

SEARCH / EXPERIENCE

DECIDE / SHOP

PAYMENTS/ REWARDS
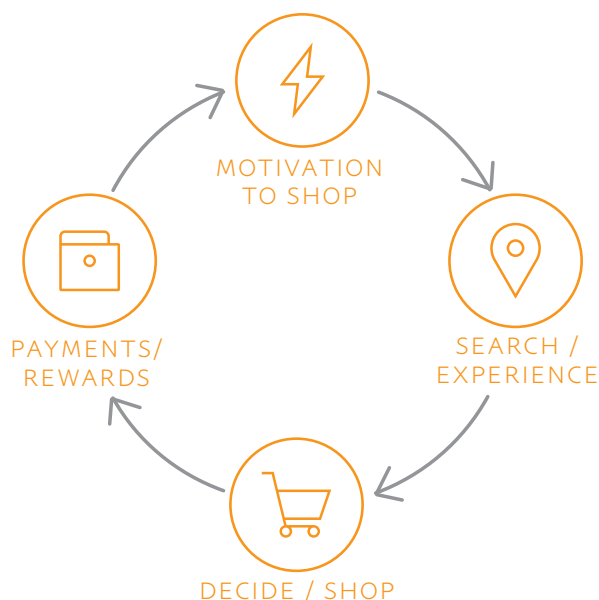
WHEN SEARCHING FOR A PAYMENTS PARTNER, RETAILERS CONSIDER THE FOLLOWING FACTORS IN THEIR DECISION-MAKING:

Reputation for Security
A known brand that is perceived as secure by consumers and retailers.

Technology Agnostic, Future Proof
To absorb emerging technologies like EMV, NFC, QR codes and others across operating systems such as iOS and Android without expensive hardware upgrades and added complexity.

Consumer choice without complexity
Letting consumers choose how they want to pay (credit, debit, cash, store credit, or installments) while also steering them toward the most rewarding method (reward points, gift card balances, offers, store card, etc.).

Marketing and Education
Willing to do the heavy lifting to educate and market to consumers about the benefits of mobile payments, including loyalty and personalization.

Frictionless
A checkout experience that is seamless and enhances the retailer's brand perception (whether store branded, white labeled or a meta wallet brand like Apple Pay or PayPal).

Consumer Information
Ready to share, not withhold, consumer information with retailers so they can personalize experiences and incentives.

True Partner
Ability to integrate payment functionality with critical in-store needs such as loyalty, omnichannel payments, and personalization through the retailer's app.

For more information about how PayPal can help you transform your in-store retail business, please visit https://www.paypal.com/us/webapps/mpp/retailer.