

My Shopping, My Way

Bringing the Internet Experience into the Store— and the Store Experience onto the Internet

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May 2011



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Executive Summary

- Increased deal-seeking by consumers, the rise of the Millennial Generation (defined for the purposes of this study as consumers born between 1981 and 1992) as a shopping segment, and rapid innovation in shopping technology are creating a retail environment marked by real-time price transparency and rapidly increasing competition for consumer mindshare at the “point of decision” (the time and place shoppers make their purchasing decision, whether it is at home on the PC, on-the-go via mobile phone, or in the store aisle).
- The Cisco® Internet Business Solutions Group (IBSG) conducted original, groundbreaking research involving 1,000 shoppers from the United States.¹ The research revealed that retailers have the opportunity to prosper in this new environment by bringing the Internet experience into the store, and the store experience onto the Internet.
- Approximately 1 in 2 consumers in the United States are “calculating shoppers” who regularly use their PCs to search for product and pricing information. About 1 in 10 consumers are “extreme shoppers” who are pioneering the use of emerging technologies to find the lowest available prices.
- Growth of these price-sensitive consumer segments is creating a retail environment that is conducive to product commoditization. Retailers will need to find ways to protect pricing, margins, and market share through value-added interactions with their customers.
- Shoppers’ “landscape of trust” (the people and resources consumers use to help them make buying decisions) is evolving. The research revealed that online reviews have become a top source of trusted information for shoppers looking for unbiased, third-party feedback on products they want to buy. A surprisingly low percentage of shoppers view store employees as a preferred source of advice.
- Price, convenience, and selection emerged as the most important reasons for consumers’ use of shopping technology.
- The research suggests that shoppers will respond positively to what Cisco IBSG calls “mashops”—solutions that mash up the physical and virtual worlds to provide Internet-like experiences in the physical store environment.
- Fifty-four percent of shoppers expressed interest in a service that sends personalized offers such as coupons, discounts, and updates about products and services to them while they are in stores.
- Fifty-four percent of shoppers were interested in using a service that provides access to detailed product information, comparative pricing, online customer reviews,

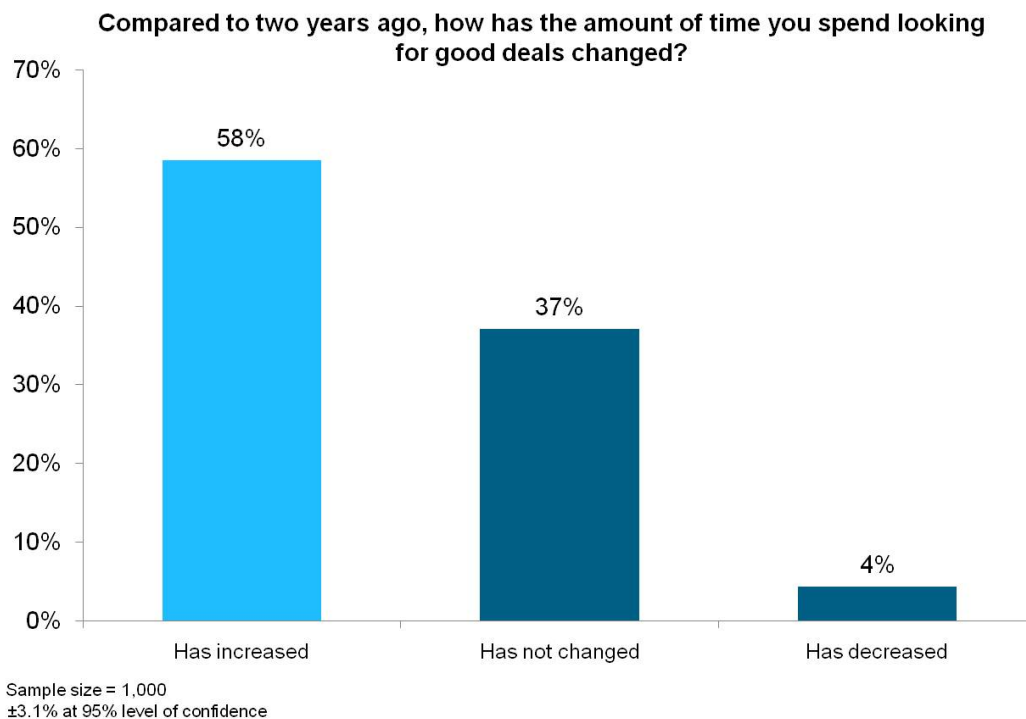
Facebook and Twitter comments, press articles, and videos about products—all from the store aisle.

- Forty-four percent of shoppers expressed interest in a service that offers a high-definition video link to provide access to remote product experts who can provide “face-to-face” advice on which products may best fit their needs.
- By combining the best of both virtual and in-store shopping experiences, mashops provide shoppers with the information and convenience of web-based experiences, while at the same time enabling them to touch, feel, and see the products they want to buy.
- For retailers, mashops promise to preserve margins and increase sales, while also driving operational improvements in areas such as labor staffing, merchandising, store planning, pricing, and promotion.
- Retailers should create a plan and timeline for mashop deployment that maps to the composition of its customer base (e.g., generational mix) and the type of products and services it sells.

Introduction: New Shopping Behaviors Emerge

Three fundamental changes in the retail market are occurring simultaneously. These trends promise to transform the business of retailing and challenge the sales and margins of retailers for years to come.

Figure 1. Shoppers Are Spending More Time Looking for Deals.



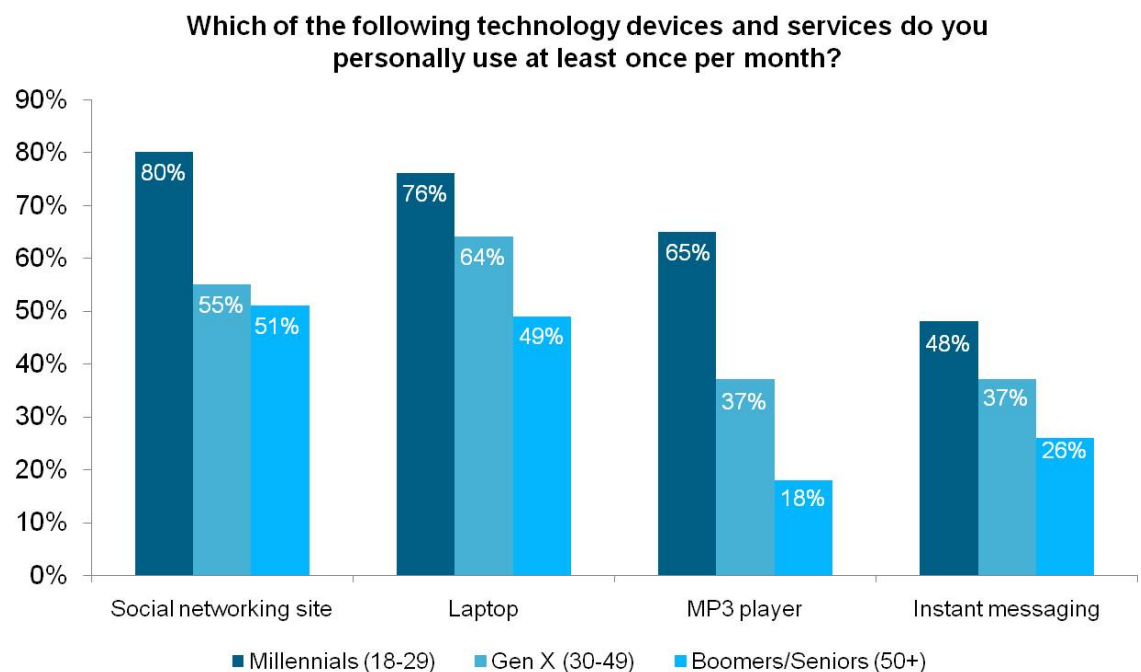
Source: Cisco IBSG Research & Economics Practice, November 2010

The first trend is the increase in deal-seeking behavior by consumers. Original, groundbreaking research conducted by the Cisco IBSG Research & Economics Practice in October 2010 with 1,000 consumers in the United States indicates that the majority of shoppers have increased the amount of time they spend looking for good deals compared to two years ago (see Figure 1). Furthermore, about half of shoppers surveyed expect to increase the time they spend deal-seeking in two years.

The second trend is the rise of the Millennial Generation (or Gen Y) as an important shopper segment. Millennials are set to enter their prime spending years within the next five years as they become homeowners and start raising families. By 2015, Millennials will constitute 30 percent of the total number of consumers in the United States, compared to just 2 percent in 2000.²

In addition, Millennials have a technology usage profile that is very different from that of previous generations. They are avid users of mobile devices and social networking, and are comfortable with virtual relationships (see Figure 2). This behavior has far-reaching implications for retailers working to build relationships with Millennial shoppers.

Figure 2. Higher Levels of Technology Adoption by Millennials.



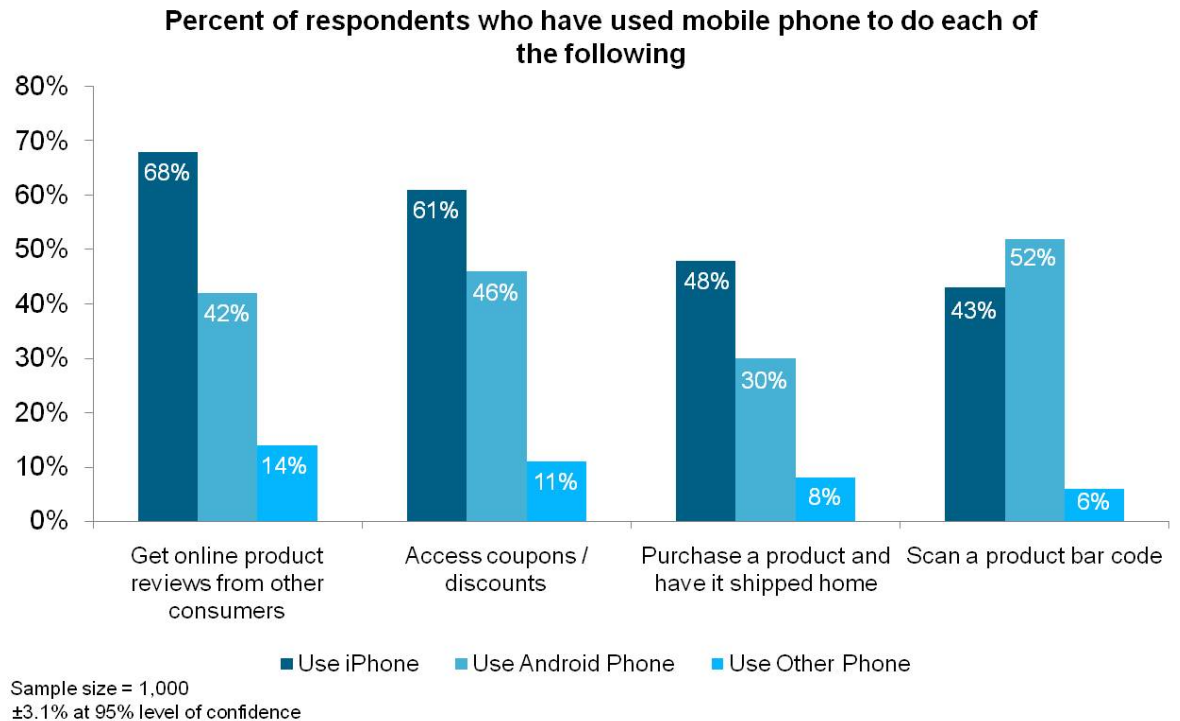
Sample size = 1,000
±3.1% at 95% level of confidence

Source: Cisco IBSG Research & Economics Practice, November 2010

The third trend is the rapid pace of innovation, which is accelerating the deployment of new forms of shopping technology. Analyst firm In-Stat predicts more than half of all mobile handset shipments in the United States will be smartphones by 2012. Increasing smartphone penetration is an example of how an emerging technology can act as a catalyst for the adoption of shopping technologies. For example, the research reveals that iPhone and Android smartphone users are four to six times more likely to use their handsets for

shopping tasks. This high level of usage is likely driven by factors that are characteristic of these devices, such as highly usable interfaces, availability of hundreds of thousands of applications, and 3G and 4G connectivity.

Figure 3. iPhone and Android Phones as Catalysts for Mobile Shopping Adoption.



Source: Cisco IBSG Research & Economics Practice, November 2010

Other foundational technologies such as online video, cloud computing, and social commerce are also experiencing a similar rate of innovation and adoption, fueling further growth in shopping technology innovation. As a result, a growing base of technology-wielding shoppers is resetting expectations for empowering consumers at the point-of-decision.

Shoppers increasingly expect technology to help them save time and money, and to access the best product selection. Retailers, on the other hand, will be faced with the challenge of protecting margins in a retail environment increasingly shaped by real-time price transparency and rapidly increasing competition for consumer mindshare.

Even so, retailers have an opportunity to prosper by *bringing the Internet experience into the store, and the store experience onto the Internet* to increase sales, grow conversion rates, and preserve margins.

Deal-Seeking Behavior Is Here to Stay

The Cisco IBSG research revealed that approximately 1 in 2 consumers in the United States are “calculating shoppers.” For this paper, calculating shoppers are defined as consumers who regularly use PCs at home to look for product and pricing information before making a

purchase. Across the board, calculating shoppers utilize shopping technologies more often than non-calculating shoppers (see Figure 4).

Figure 4. Calculating Shoppers Use Technologies More Often than Other Consumers.

Shopping technology	Use by calculating shoppers	Use by other shoppers
Price comparison sites	58%	23%
Local retailer review sites (e.g., Yelp)	40%	15%
Coupon-sharing sites	33%	14%
Retailer Facebook pages	31%	19%
Group buying sites (e.g., Groupon)	23%	12%
Retailer's pages on Twitter	13%	7%

Note: Percent of respondents who regularly use or have tried each technology

Source: Cisco IBSG Research & Economics Practice, November 2010

The research findings also show the population of calculating shoppers is growing and is on its way to becoming mainstream. Fifty-eight percent of shoppers surveyed said they use technology more often to find good deals than they did two years ago. Most important for retailers, calculating shoppers expect to increase their deal-seeking behavior over the next two years, further accelerating margin pressures.

Fueling this trend is the explosive growth of shopping tools that help consumers locate good deals—from group buying sites to mobile bar-code-scanning applications (see Figure 5). From its launch in November 2008, “deal-of-the-day” site Groupon has amassed 50 million registered users across 35 countries through January 2011.³ On the mobile side, ShopSavvy, a mobile phone bar-code-scanning application that was also launched in 2008, had 7 million active monthly users by January 2011.⁴

Figure 5. Explosive Growth in Number of Shopping Tools Available to Consumers.



Source: Cisco IBSG Research & Economics Practice, November 2010

Even with this explosive growth, some retailers are seeing mixed results from their initial experiences using new technology-driven interactions with deal-seeking shoppers. A recent study of 150 businesses that ran Groupon promotions found they were unprofitable for 32 percent of the businesses. Additionally, 42 percent of the Groupon customers stated they would not use the company's service again. Many respondents expressed disillusionment with the extreme price-sensitive nature and transactional orientation of consumers using Groupon.⁵

IBSG's research identified an even smaller group (about 1 in 10 consumers) of "extreme shoppers" who are avid users of shopping tools like Groupon. When compared to other consumers, much higher rates of extreme shoppers are pioneering use of emerging technologies for deal-seeking purposes (see Figure 6).

Figure 6. Extreme Shoppers Use Technologies More Often than Other Consumers.

Shopping technology	Use by extreme shoppers	Use by other shoppers
Price comparison sites	69%	39%
Local retailer review sites (e.g., Yelp)	67%	25%
Coupon-sharing sites	60%	20%
Retailer Facebook pages	66%	21%
Group buying sites (e.g., Groupon)	42%	15%
Retailer pages on Twitter	31%	8%

Note: Percentage of respondents who regularly use or have tried each technology

Source: Cisco IBSG Research & Economics Practice, November 2010

Evolving shopping technologies, such as smartphone-based bar-code scanners, price-comparison search engines, and coupon-sharing sites provide real-time, multichannel price transparency to consumers, giving them an advantage over retailers hoping to win their business. This situation is creating a market environment that is increasingly conducive to price wars among retailers, potentially reducing industry margins. In fact, a recent study found that price battles can erode retail industry profits by up to 45 percent. The same study found it is better for retailers to pursue strategies such as maintaining pricing and improving service levels to create "price walls" that counteract competitors' price drops and act as barriers to profit losses.⁶

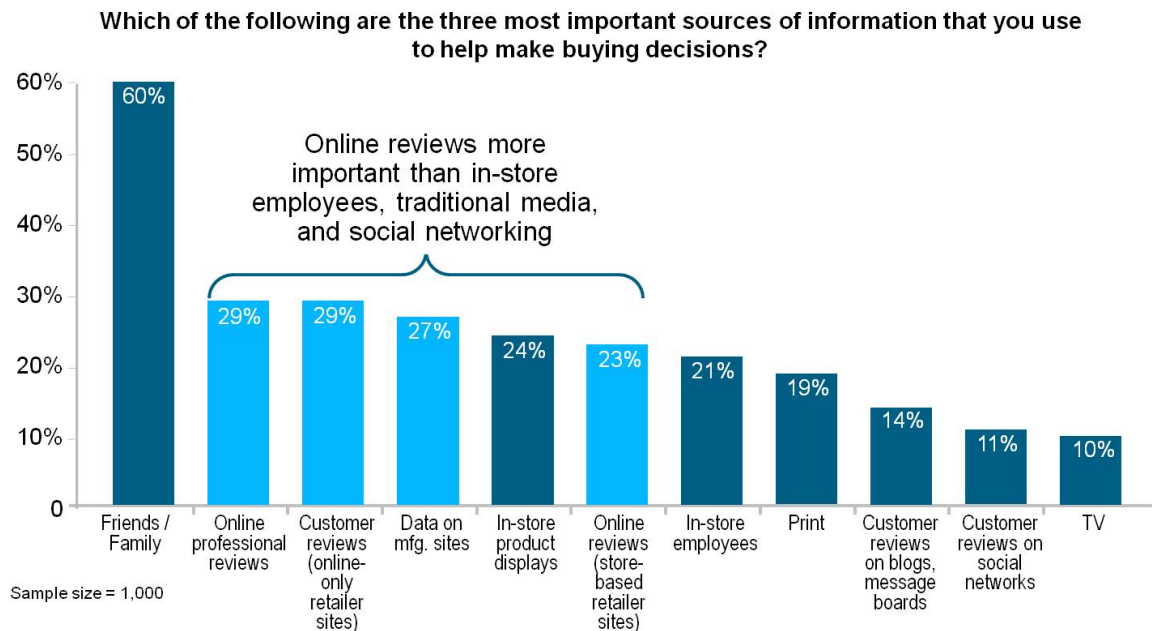
Based on these findings, a compelling case exists for retailers to protect pricing through value-added interactions with their customers. Cisco IBSG believes that while technology is driving pricing pressures in the retail industry, it will also play a key role in helping retailers compete and achieve their financial targets in this challenging environment.

A New “Landscape of Trust”

In their quest for good deals, consumers are increasingly shifting their focus to online sources of information at the expense of traditional data sources. This shift in behavior has far-reaching implications for the way retailers must influence shoppers in the future.

The survey showed that shoppers rely on a variety of sources to help them make informed purchasing decisions (see Figure 7). By far, their most important source of information is advice from family and friends. Historically, this has been the primary source of information for shoppers, and it's not expected to change in the near term.

Figure 7. Percentage of Survey Respondents by Investable Assets.



Source: Cisco IBSG Research & Economics Practice, November 2010

The survey indicated that the next most important source of information is online reviews—both from professionals and actual customers. It's clear that online reviews have become a trusted source of information for shoppers looking for unbiased, third-party feedback on products they want to purchase.

Reviews from professionals and customers at online-only retailer sites tied at 29 percent each as the second-most-trusted sources of information. Amazon.com, in particular, has built a consumer reviews program that some observers say is unmatched. According to Amazon.com, more than 5 million consumers have posted tens of millions of reviews on its site. Amazon.com has also launched community-based features such as wish lists and discussion areas that allow shoppers to share their opinions and solicit feedback from others in a variety of ways.⁷

In essence, Amazon.com has successfully built a centralized source of trusted decision-making intelligence for shoppers. This creates an opportunity to capture business from shoppers who want to consult online reviews before making in-store purchases. When these

customers find a better price or product while looking at reviews on Amazon.com, they often make their purchase on the company's site before ever making it to a store.

Surprisingly, reliance on advice from store employees ranked seventh, even behind in-store product displays. Shoppers expressed concern about their ability to receive assistance from store employees when needed. Respondents also felt store employees lacked product knowledge, especially when compared to online sources of information. Some shoppers even expressed concern that store employees sometimes put sales goals and commissions ahead of customers' needs.

In this evolving landscape of customer trust, retailers must determine how to scale the product knowledge of store associates. This will become especially important as purchase options for shoppers continue to multiply, and as in-store shoppers gain access to virtual channels, such as using smartphones to browse offers from other retailers. Retailers will also need to explore ways to arm store associates with tools—including tablet PCs and cross-channel data—that can be used to provide shoppers with real-time, detailed product information. When properly trained and enabled, a knowledgeable and persuasive staff may be the best line of defense when in-store customers receive better offers from competitors via their mobile devices.

If retailers are not able to solve this challenge, the primary responsibilities of store associates may be limited to shelf filling, compliance management, and transactional duties such as checking out customers and handling product returns. In fact, for retailers that have aggressively deployed in-store, self-service technologies such as self-checkout and price lookup stations, this shift is already under way.⁸

Magazines, newspapers, and TV ranked near the bottom of the list. Because these traditional media sources are static rather than interactive, they do not allow consumers to take an active role in researching the products they want to buy. Online sources of information also offer the advantage of immediacy—delivering the desired information when it is needed. Compared to traditional media, online sources can be updated in real time, ensuring that viewers have access to current, relevant information.

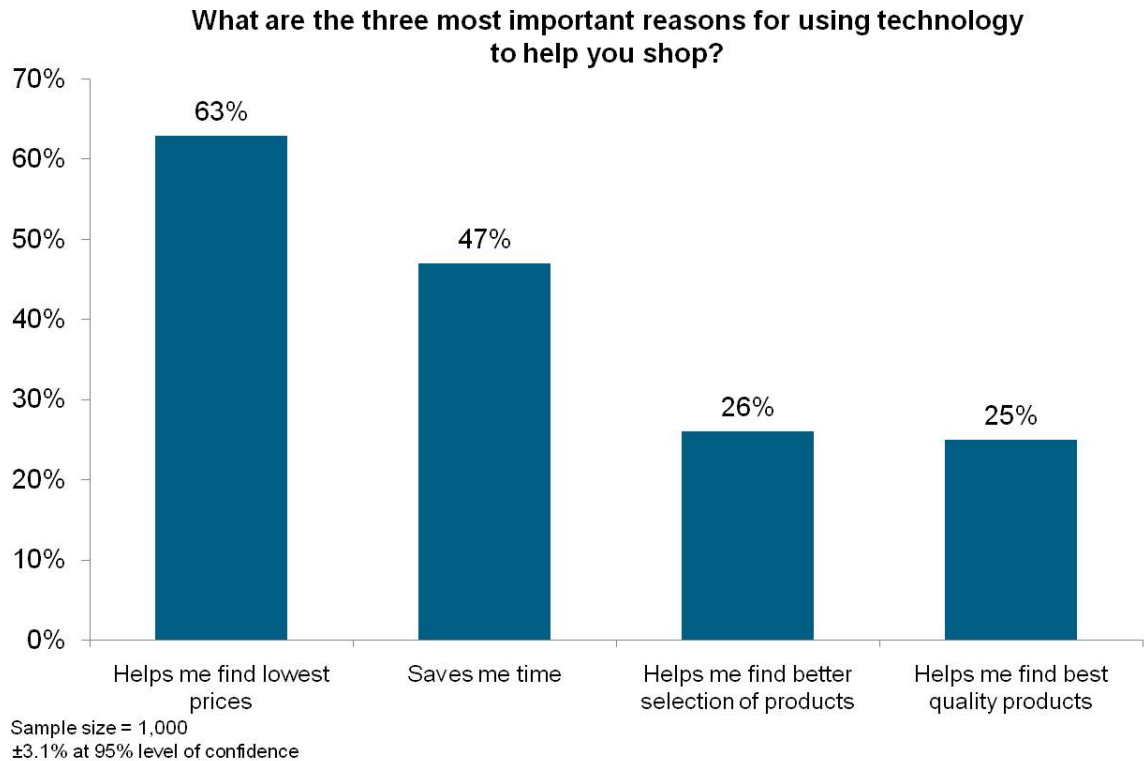
For the past half-century, marketers have used a trusted set of mass media—TV, radio, print, and billboards—to target consumers. While these avenues remain a dominant part of today's advertising and marketing mix, their influence over purchasing decisions, and the priority accorded to them by companies, is on the wane.⁹ Advertisers are quickly shifting their spending from traditional media to digital media. eMarketer predicts that digital media advertising spending will reach \$40.5 billion, growing from 15.3 percent of total U.S. ad spending in 2010 to 21.5 percent by 2014.¹⁰ In targeting shoppers during the research and decision process, retailers should use online channels at the expense of traditional media.

Finally, customer reviews on blogs, message boards, and social networks also ranked near the bottom of the list. While shoppers—particularly extreme shoppers—are using these sources of information, they are still doing so at a relatively low rate. This may be because these sources do not offer the critical mass of customer reviews that are available from the sites of online retailers and professional reviewers. Consumers may also be drawn to the clear value propositions (e.g., find the lowest price, the best product) of purpose-driven shopping sites and services, as opposed to sites like Facebook that are not primarily focused on shopping.

What Consumers Want from Shopping Technology

Shoppers have clear motivations with regard to technology and shopping. By a wide margin, most respondents (60 percent) chose “helps me find the lowest price” as the most important reason for using technology to help them shop. This finding supports the view that calculating behavior is becoming mainstream. It also aligns with the high use of shopping services such as coupon sharing and price comparison sites by those surveyed.

Figure 8. Why Consumers Use Technology for Shopping.



Source: Cisco IBSG Research & Economics Practice, November 2010

Convenience and selection were ranked as the second- and third-most-important reasons for consumers' use of shopping technology. There are also well-established reasons to explain why consumers purchase online rather than in stores. As early as 1998, Jeff Bezos, founder of Amazon.com, stated:

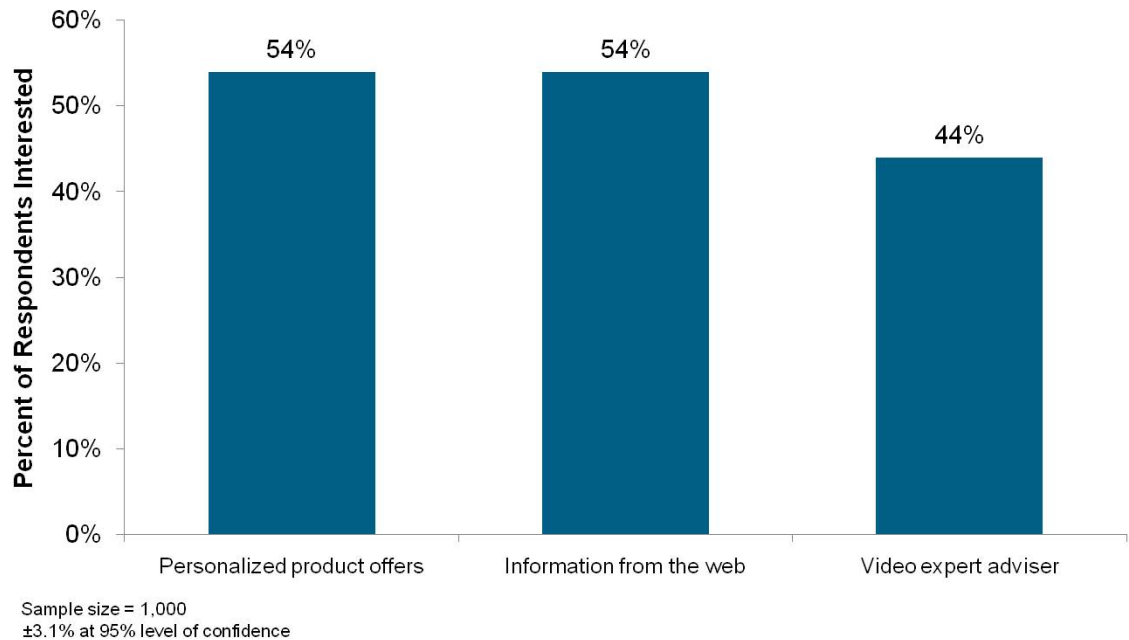
“There’s only one way. It’s very simple, but very hard to execute—that is, to figure out exactly what it is your customers want and then deliver it better [than they expect]. We know our customers want selection, ease of use, convenience, and good pricing, so we’re making sure we offer them the best of all these [things].”¹¹

Since then, Amazon.com has experienced phenomenal success by focusing on fundamental shopper expectations. Cisco IBSG believes store-based retailers now have the opportunity to achieve competitive differentiation by transforming in-store shopping into an experience that excels at providing ease of use, convenience, and good pricing.

Mashops: “Mashing Up” the Best of Virtual and In-Store Shopping

A key goal of the survey was to explore how retailers can deliver technology-enabled shopping experiences that empower shoppers in the store environment. To that end, Cisco IBSG tested shoppers' interest in “mashops”—solutions that provide Internet-like experiences in the physical store environment. The research suggests shoppers will respond positively to these solutions. Three of five mashop concepts demonstrated especially encouraging results: personalized product offers, information from the web, and video expert adviser (see Figure 9).

Figure 9. Respondent Interest in Mashop Concepts.



Source: Cisco IBSG Research & Economics Practice, November 2010

Personalized Product Offers

Fifty-four percent of respondents expressed interest in a service that sends personalized offers and updates about products and services to them as they enter a store or browse in specific areas of a store (see Figure 10). Of those interested, 73 percent said they would prefer to access the offers and updates at the shelf edge using a touch screen, while 60 percent wanted to use the service on a kiosk at the store entrance.

Figure 10. Mashop Concept 1: Personalized Product Offers.



Source: Cisco IBSG Research & Economics Practice, November 2010

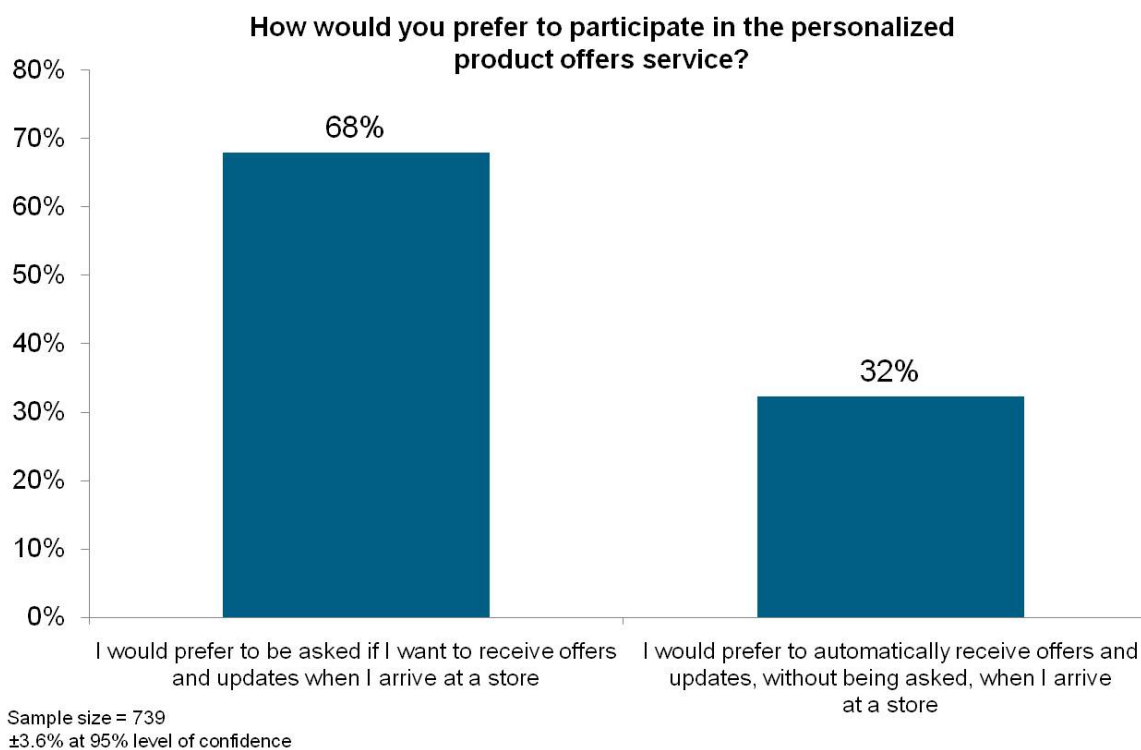
Respondents believed the primary benefit of this service was its ability to provide personalized discounts and coupons. Shoppers also saw value in receiving offers electronically rather than dealing with the hassles of paper coupons.

Consumers have already demonstrated they are receptive to receiving relevant offers electronically. A 2010 study by analyst firm ABI Research found that 45 percent of mobile phone users in the United States expressed a willingness to receive coupons and discounts via mobile phones.¹² Previous studies have shown consumers are up to six times more likely to redeem mobile coupons than traditional paper coupons.¹³ Retailers have been quick to respond to this opportunity. In March 2010, Target became the first national retailer to launch a scannable mobile coupon program that allows shoppers to receive exclusive offers directly on their mobile phones.¹⁴

Like the concept of providing customers with personalized product offers, mashups provide retailers with a way to achieve even more differentiation by giving shoppers targeted offers directly at the point of purchase.

The retail industry has begun experimenting with ways to use increasingly sophisticated tracking technologies, including multidirectional pedometers embedded in mobile phones, to offer personalized discounts to shoppers. By using location- and context-based services such as geotagging, retailers can track shoppers' paths as they wander store aisles.¹⁵

Figure 11. Shoppers Prefer To Receive Personalized Offers in the Store.

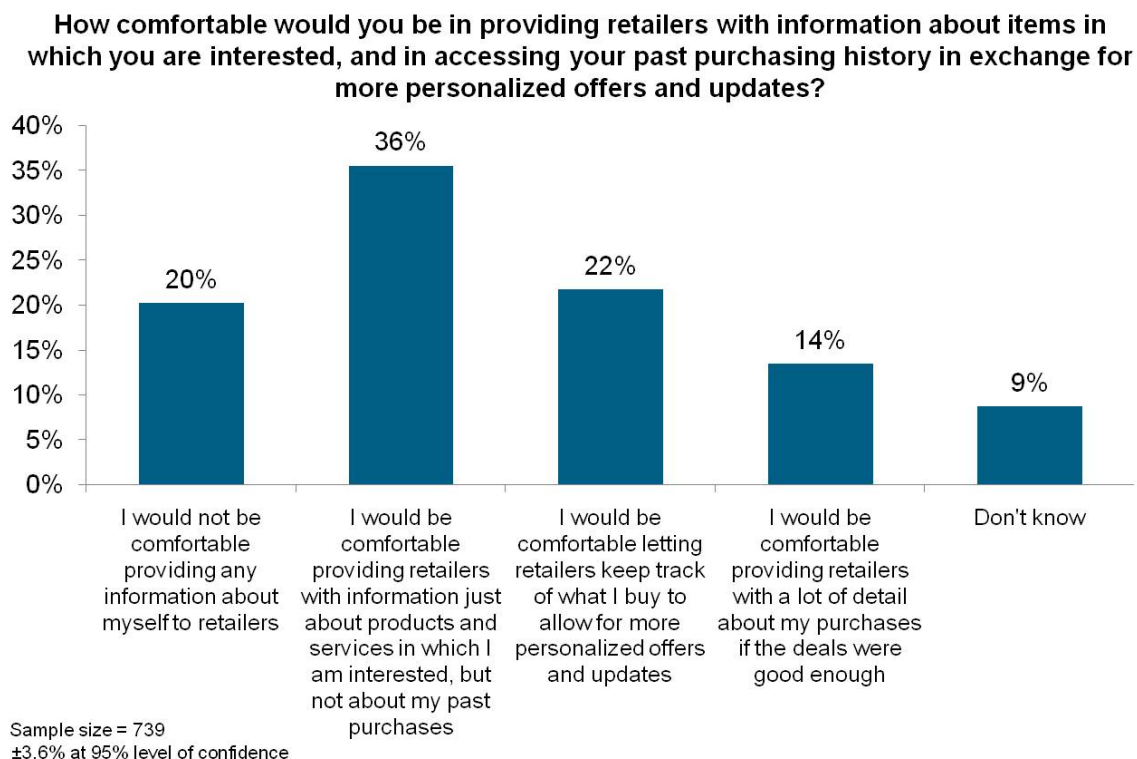


Source: Cisco IBSG Research & Economics Practice, November 2010

Given the power of these new technologies, it's imperative for retailers to approach personalization in ways that minimize the privacy concerns of consumers. When respondents who expressed interest in the personalized product offer concept were asked how they wanted to participate, 68 percent said that they preferred to give their permission to participate, rather than receiving offers automatically (see Figure 11). Even so, it's interesting that approximately 1 in 3 respondents were open to receiving offers automatically, without "opting in"—a sign that there is a significant base of shoppers who are willing to let retailers take a more proactive role in this area.

Only 14 percent of interested shoppers stated they would be comfortable sharing a lot of detail about their purchase histories or products they were interested in buying (see Figure 12). The highest percentage (36 percent) indicated they would be comfortable sharing information about the products and services in which they were interested, but not about their purchase histories. Notably, 20 percent stated they did not want to share any information with retailers.

Figure 12. Comfort Level Sharing Information with Retailers in Exchange for Personalized Offers.



Source: Cisco IBSG Research & Economics Practice, November 2010

Information from the Web

Fifty-four percent of shoppers were interested in using a service that provides in-store access to detailed product information, comparative pricing, online customer reviews, Facebook and Twitter comments, press articles, and product videos. Of those interested, 65 percent stated they would prefer to access this information using shelf-edge touch screens, while 54 percent expressed interest in accessing the information from touch screens in the store aisle.

Figure 13. Mashop Concept 2: Information from the Web.



Source: Cisco IBSG Research & Economics Practice, November 2010

The primary value of this service was being able to see comparative pricing information. Shoppers also recognized value in receiving detailed product information such as demonstration videos. These results are further confirmation that the landscape of trust has changed. In the retail environment of the future, in-store shoppers may be more likely to check online reviews using digital signage than to seek advice from store associates.

Virtual Expert Adviser

Forty-four percent of shoppers expressed interest in a service that uses a high-definition video link to provide access to remote product experts who could offer “face-to-face” advice about which products best fit customers’ needs.

Figure 14. Mashop Concept 3: Virtual Expert Adviser.



Source: Cisco IBSG Research & Economics Practice, November 2010

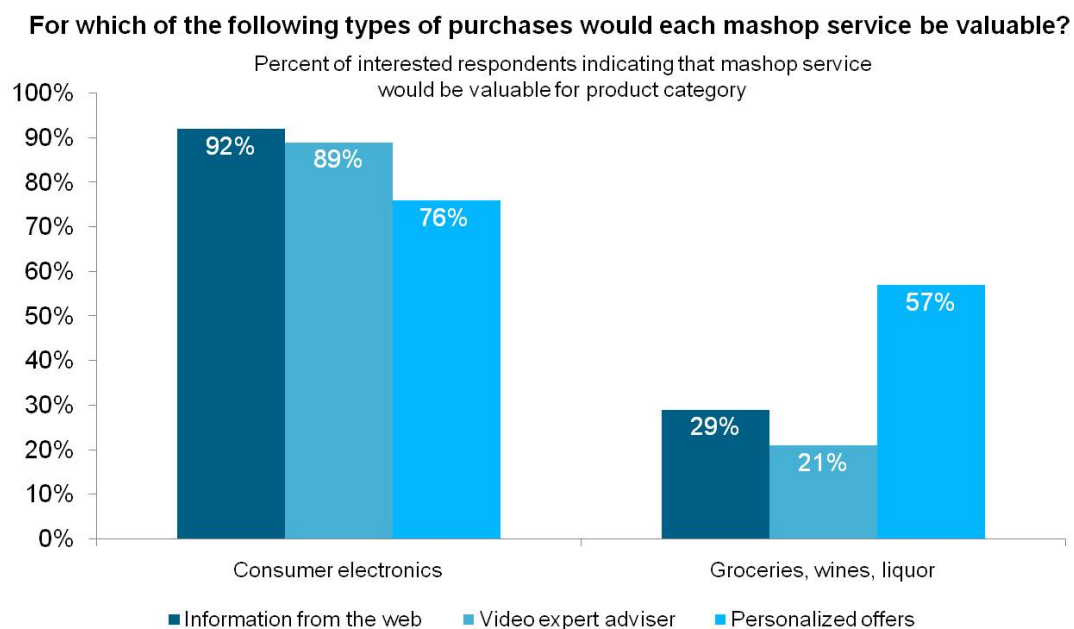
The primary value shoppers found in this service was the ability to talk with someone who was more knowledgeable than in-store employees about the products they wanted to buy. Shoppers also liked the ability to receive assistance whenever they needed it, without having to wait for an in-store associate.

Interestingly, respondents stated a PC-based webcam at home was their most preferred method of interacting with experts. This preference may be due to most consumers having past experience using webcams for video communications as opposed to high-definition video conferencing or telepresence.

The most preferred option for in-store access was interacting with a remote product expert using a tablet PC provided by a store associate. The second most popular in-store option was interacting with a life-sized screen.

Use of mashop concepts varied significantly based on the type of product being purchased (see Figure 15). Mashops that deliver information from the web and advice from remote experts were viewed as being most applicable for complex, high-value product categories such as consumer electronics and home improvement. In contrast, mashops that focus on discounts and offers were viewed as being more valuable for lower-value, repeat purchases such as apparel and groceries.

Figure 15. Perceived Value of Mashops Varies by Product Category.

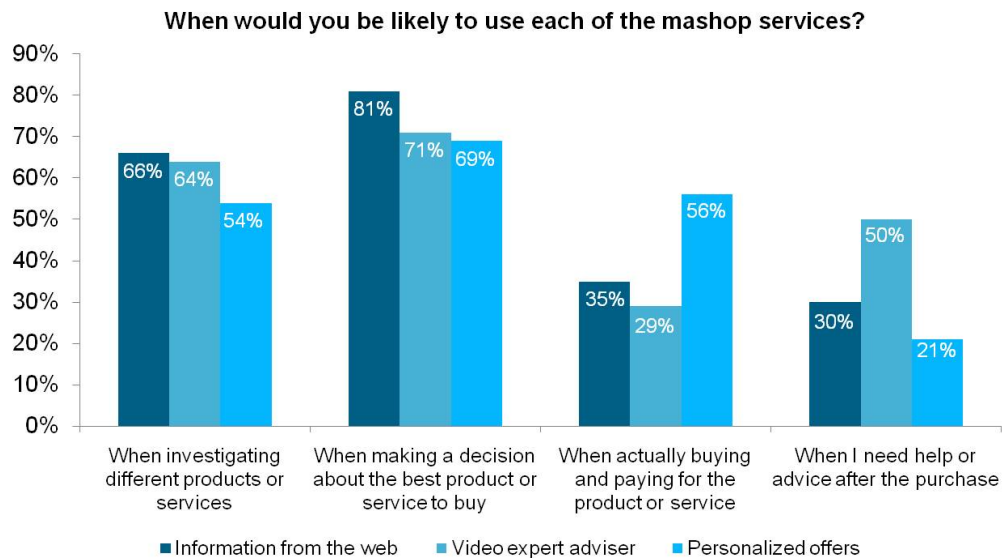


Source: Cisco IBSG Research & Economics Practice, November 2010

Shoppers who expressed interest in mashop services indicated they would be most likely to use them when researching various product or service options and making decisions about which product or service to purchase (see Figure 16). The “personalized offers” mashop was also perceived as being of value during purchase transactions, while a large percentage of interested shoppers (50 percent) indicated that they would use the “video expert adviser” mashop service to obtain help or advice after making a purchase. These findings reveal that well-designed mashops can empower consumers throughout all stages of the shopping process—from initial awareness to post-purchase support.

Already, several retailers are creating mashop experiences. Best Buy in the United States, with its Connected Stores concept, and John Lewis in the United Kingdom have brought the web into their stores. Additionally, a U.S.-based home improvement retailer has combined web design portals with access to remote video experts in stores to offer affordable and effective design services to customers. These early pilots are increasing sales, conversion rates, and cross-channel purchases.

Figure 16. Mashops Perceived as Most Valuable During Research and Decision Stages of Shopping.



Source: Cisco IBSG Research & Economics Practice, November 2010

Mashop Alignment with Market Drivers

Mashop experiences help retailers address three market drivers that are reshaping the shopping environment: (1) increased deal-seeking behavior, (2) the rise of Millennials as an important consumer segment, and (3) the rapid pace of technology innovation. By aligning mashop solutions with these trends, retailers can meet the rapidly evolving needs of shoppers.

1. Provide deal-seeking shoppers with the right content at the point of decision. Given the new landscape of trust, shoppers want to use information from online sources that can help them make informed buying decisions. In addition, they want access to this information at the point where they decide to buy—in the store aisle, on the go, or at home.

Mashop solutions are essential for providing shoppers with the right information, at the right time, in the right location. Information should not be limited to product and pricing data to help shoppers identify the best deals. Rather, retailers hoping to avoid price wars, and resulting margin erosion, need to identify high-value content, such as trusted third-party product reviews and personalized assistance via high-definition video, since these enhance the shopping experience and provide a point of competitive differentiation against low-price competitors.

Retailers should explore new ways of supplementing in-house content with third-party comparative pricing information, customer reviews, and product information available from retailer, consumer-review, and price-comparison websites. This can be done through content syndication partnerships and API links into mashops.

2. Enable shoppers to interact on their terms. Mashops give retailers the opportunity to interact with all types of shoppers using a variety of endpoints. The survey showed respondents were open to interacting with mashop solutions using kiosks, touch screens, high-definition video collaboration, tablet PCs, and smartphones. Well-designed mashops

allow shoppers to interact with retailers in the way they prefer. This allows retailers to provide personalized shopping experiences to a diverse base of customers.

3. Take advantage of shopping technology innovation. At the 2011 World Economic Forum in Davos, Switzerland, Mike Duke, CEO of Walmart, stated he expects to see a “technological inflection point” in 2011 as shoppers embrace the use of technology at an accelerated rate.¹⁶ This prediction mirrors findings from Cisco IBSG’s survey that show shoppers are eager to embrace new technologies to help them find the lowest prices, save time, and access a wide selection of products.

Mashop solutions are primarily multifunction, thin-client applications that enable targeted content delivery to shoppers, high-quality interactions with retail staff, and shopper transaction support. Mashops also incorporate the latest infrastructure and point-of-decision technology innovations, including cloud computing, wireless, and content delivery networks. From a consumer perspective, mashops promise to help retailers keep up with the rapid pace of innovation in consumer-driven technology.

The Path Forward for Retailers

During the research, Cisco IBSG uncovered several critical implications for retailers who aspire to gain a competitive advantage by empowering shoppers through the use of technology.

Retailers must proactively address shoppers’ evolving technology needs. Technology has become an important shopping tool. Retailers who effectively respond to their customers’ unique technology adoption patterns and address the evolving need for improved experiences will win market share at the expense of competitors. This is primarily because these retailers will be the ones who succeed at influencing shoppers at the point of decision, where so many competitors are trying to enter the conversation and “steal” sales.

Retailers will be challenged to add value through timely and personalized interactions to prevent shoppers—even “extreme shoppers”—from looking elsewhere. This becomes even more urgent as mobile, location-aware deals become more prevalent.

Store aisles are the new battleground for retailer relevance. Since the emergence of online retailing in the mid-1990s, industry watchers have pondered the relevance of “brick-and-mortar” stores, with some even predicting the collapse of the commercial real estate market.¹⁷ Given that current in-store spending is approximately 20 times greater than total online retail spending, physical stores appear to be safe for the time being.¹⁸ The research reveals that rather than abandoning the store environment, shoppers are instead searching for improved in-store shopping experiences.

Store-based retailers should, therefore, consider the physical environment a competitive asset—a platform to empower consumers. By optimizing the in-store experience, store-based retailers can offer something that pure online retailers can’t—the best of both physical and virtual worlds. Ultimately, this will help store-based retailers differentiate themselves based on a holistic experience and extend the decision-making process for shoppers beyond just product assortment and pricing.

Left to their own devices, shoppers will continue to exert pricing pressure on retailers. Retailers need to offer shoppers an experience that enables them to factor in both online

and store-based sources of value when making purchasing decisions. Mashop experiences provide shoppers with price transparency and detailed product information, as well as the ability to experience products firsthand in stores. Highlighting these complementary sources of value will help retailers fight the trend of shopping based purely on the best price, a behavior that is driving commoditization in the retail market.

Shoppers want to combine the best of virtual *and* in-store experiences. The research revealed that shoppers expect the Internet experience in the store, and the store experience on the Internet. They want to combine the benefits of virtual shopping (price transparency, wide selection, and customer reviews) with the best of the in-store experience (immediate product availability and human interaction). Moreover, they want these combined benefits at the point of decision, whether on a retailer's website or in the store aisle. Mashop solutions offer retailers the opportunity to meet these new shopper expectations.

Mashops will drive new operational models and financial benefits for retailers. Cisco IBSG believes mashop solutions will drive new operating models across retail functions:

- **Labor staffing.** As mashops increasingly enable self-service in the areas of product discovery, product research, and checkout, retailers will want to reassess the role of store associates, focusing on the unique value they can offer to shoppers, such as providing personalized assistance. One opportunity to consider is the bifurcation of labor between more highly paid product experts and lower-paid stock and shelf management staff. In addition, as mashops enable the scaling of expertise across stores, such as through virtual expert adviser services, retailers will have the opportunity to consider new models for how they train and staff product experts.
- **Range and space.** Mashops will enable retailers to offer in-store shoppers an exhaustive, virtual range of products comprised of both personalized product choices on the store shelf and access to online marketplaces (even “long-tail” niche categories) without the P&L burden of inventory investment.

Some online retailers such as Amazon.com are already benefiting from offering consumers a “one-stop shop” by consolidating their own offerings and those of third-party retail partners. Mashops now give store-based retailers the same opportunity to offer an extended range of products from the virtual world in their stores. This new merchandising model offers compelling opportunities. Store-based retailers will be able to offer a larger product range to shoppers, while reducing the size of their stores. In addition, store-based retailers will be able to cross-sell across store and online channels, directly from the point of decision in the store.

- **Predictive analytics and personalization.** Historically, online retailers have been prodigious users of analytics to convert website visitors into buyers.¹⁹ While store-based retailers have amassed huge volumes of customer data through loyalty programs and membership cards, they have just begun to use this information to drive personalized, in-store marketing efforts.

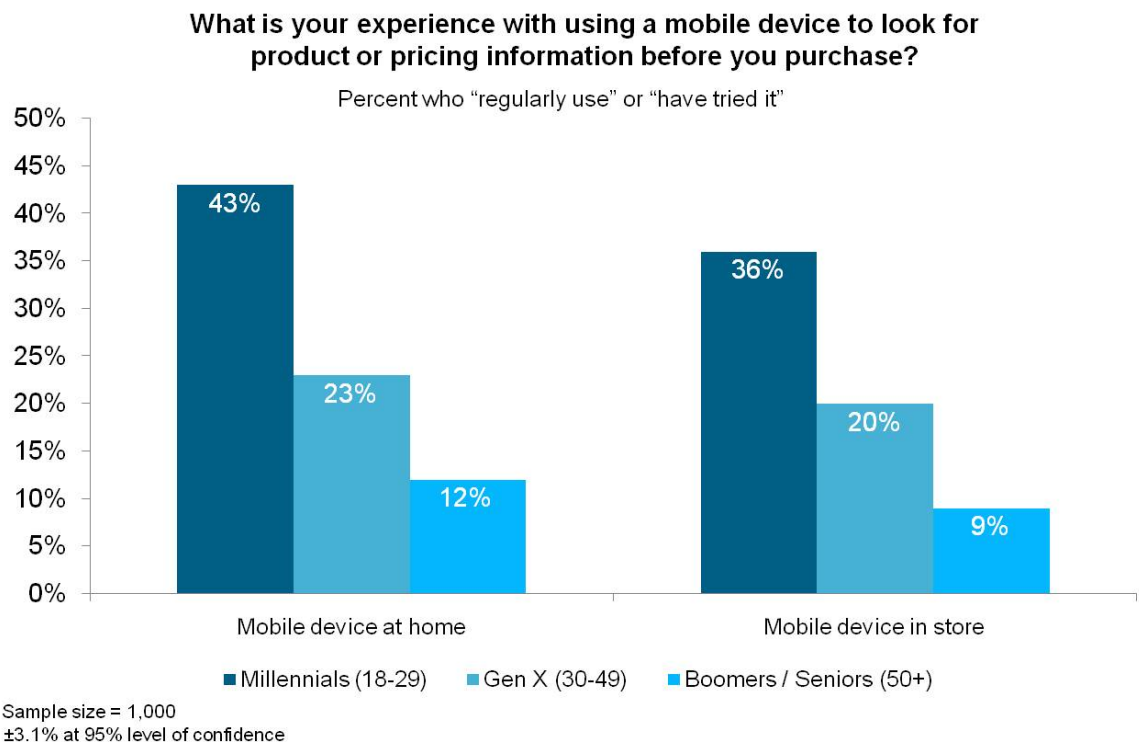
As part of its eValues program, Sam's Club was among the first retailers in the United States to deliver personalized electronic discounts and offers via its website and in-store kiosks. As many as 20 to 30 percent of the retailer's eligible customers redeem their eValues discounts. This compares to a 1 to 2 percent redemption rate for traditional coupons.²⁰

Mashops offer store-based retailers an avenue for using analytics to move customers from consideration to purchase by providing personalized content and offers at the point of decision. Store-based retailers can also use analytics-enabled mashops to prevent competing retailers from “stealing” sales while in-store shoppers search for better offers on their mobile devices.

Cisco IBSG expects mashops to offer similar opportunities in areas such as fulfillment, customer relationship management, and post-purchase support. These changes will offer significant top-line financial benefits through improved shelf-edge conversions, increased up-selling and cross-selling, and greater cross-channel shopping traffic. In addition, store-based retailers can expect to realize significant cost savings through reduced labor and real estate costs.

Retailers must prepare for generational shifts in shopping behaviors. The research has shown that the Millennial Generation will soon represent nearly 30 percent of consumer spending in the United States. Fifty-eight percent of extreme shoppers are also Millennials. The technology adoption patterns of shoppers from the Millennial Generation are significantly different from those of Generation X, baby boomers, and seniors. For example, the use of mobile phones for shopping by Millennials is roughly twice as high as it is for Gen Xers, and about four times greater than it is for boomers and seniors (see Figure 17).

Figure 17. Much Higher Use of Mobile Devices for Shopping by Millennials Compared to Others.



Source: Cisco IBSG Research & Economics Practice, November 2010

Retailers must understand the generational composition of their customer bases and the resulting implications for mashops. By knowing these generational differences, retailers can create a timeline for mashop deployment that is mapped to the unique generational mix of their customer base.

Conclusion

By combining the best of the virtual and in-store shopping experiences, mashops create a win-win situation. Shoppers receive the information and convenience of web-based experiences, while at the same time being able to touch, feel, and see the products they want to buy. For retailers, mashops promise to preserve margins and increase sales in a retail environment increasingly characterized by price transparency and competition for shopper mindshare at the point of decision.

Pursuing the mashop opportunity will require retailers to make investments, create pilots, and refine a new set of capabilities. Of course, deployments will vary based on factors such as product categories and types of customers. Nonetheless, for store-based retailers, the way forward is clear—*bring the Internet into the store, and take the store to the Internet*.

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Acknowledgements

This survey and report required a collaborative effort among several members of Cisco IBSG. The authors would particularly like to acknowledge the contributions of James Macaulay, Jeff Loucks, Dick Cantwell, Michael Adams, Bob Moriarty, Alicia Swanson, Clive Grinyer, Lindsay Parker, and Carol Ferrara-Zarb.

Endnotes

1. The Cisco IBSG research involved 1,000 shoppers from the United States, all of whom were at least 18 years old. Feedback was captured in October 2010 using an online survey. A separate survey was also conducted with 1,000 shoppers in the United Kingdom. Findings from this survey were consistent with those from the U.S. survey.
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