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Henry Elkington

is a vice president of The Boston Consulting Group and leads the firm's technology and communications practice in London.

Tomas Linden

is a vice president in The Boston Consulting Group's Stockholm office and leads the firm's Nordic consumer practice.

M-commerce changes the marketing game

Henry Elkington and Tomas Linden

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Abstract

During the next three years, mobile technology with the potential to revolutionise consumer markets will sweep across our markets. With mobile network operators under pressure to recoup the high prices of their licences, consumer companies that can bring them large numbers of loyal customers might be in a position to negotiate very favourable deals. This paper describes how retailers can become powerful forces in a new industry. If your brand is strong and your customers are mobile, if you can provide content and creativity, you could find yourself at the beginning of a valuable new relationship.

Keywords: MVNO, marketing, database marketing, mobile, m-commerce, e-commerce, wireless

3G really is important

Mobile commerce will sweep across much of the Western world over the next three years, creating new opportunities to captivate the most valuable consumers. Advanced second- and third-generation broadband technologies (2.5G and 3G) will offer what has only been dreamed of: the chance to communicate with and promote products and services to individuals in all segments of a market. The promise of instantaneous one-to-one database marketing is now a reality.

That reality began over the past year with auctions for 3G mobile phone licences in Europe, where the bidding was far higher than expected. In the UK, offers capped out at nearly US\$34bn. Bids in Germany reached \$50bn. In both countries, bidders have committed to paying more than \$600 per capita just for the licences; start-up costs and additional investments in technology are likely to be equally large. Since those auctions, the market has become disenchanted with the telecoms sector, and auctions in other European countries have failed to reach the same heights. However, expectations for the potential of next-generation mobile networks remain high. Within a few years, 3G auctions are expected in the USA; their outcome is anyone's guess.

The high costs of setting up 3G mobile services have significant implications for retailers and consumer service providers. The authors believe that the power now residing with the companies that control the communication spectrum will shift to the companies that own customer franchises. Mobile network operators, particularly new entrants with small or non-existent customer bases, will be under immense pressure to recoup their licence and network investments. Consumer companies that can deliver large numbers of loyal customers to those operators could be in a position to negotiate favourable deals for themselves and their customers. Furthermore, these deals could go far beyond traditional co-

Henry Elkington
The Boston Consulting Group,
5th Floor,
Mayfair Place,
Devonshire House,
London W1J 8AJ
Tel: +44 (0)20 7753 5353
Fax: +44 (0)20 7753 5750
E-mail: elkington.henry@bcg.com

branding and co-marketing arrangements, opening up many opportunities.

Third-generation technology promises to provide a bundle of Internet-enabled mobile services — everything from instant messaging and video games to alerts and reminders — as well as myriad forms of personalised and location-specific commerce. These services represent much more than just a new channel. Depending on which forms of m-commerce consumers eventually favour, marketers could use 3G technology to extend their brands in many directions. A retailer could, for example, act as the middleman between existing customer bases and m-commerce providers. In that role, the retailer could obtain a share of the revenue stream — in the form of commissions or fees from transactions involving m-commerce goods and services — while enhancing its own customer franchise.

Banks, retailers, media companies and even car companies could also step into the shoes of some of the weaker 3G licence winners and become so-called mobile virtual-network operators (MVNOs). In that role, they would become the newest wireless players, offering competitive phone service and a free phone, which would just happen to connect directly to their own Internet portals.

There is little time to waste. Within four years, 350 million people worldwide are expected to be using the mobile Net, up from a relative handful now. That transformation will have a lasting effect on all aspects of buying and selling. As consumers begin to think differently about how they shop and make purchases, marketers will have no choice but to think differently about how they attract and retain those consumers.

The new retail connection

Wireless service providers make money selling ‘talk minutes’. But as competitors have proliferated, tariffs for phone calls have plunged. Mobile data and the Internet will now be the strongest drivers of growth.

As mobile technology advances, consumers might use their wireless phones to pay for products from vending machines, locate parking spaces, call up movie reviews, check train schedules, book concert tickets, and even contact prospective mates through dating services. They will be able to send pictures and music, gamble, balance their bank accounts and make point-of-sale purchases. A consumer in a bookstore might be able to compare the cost of buying a book at the store with the costs of ordering it online and receiving it in a few days or in an hour.

The benefits on the supply side are equally exciting. In Japan, NTT DoCoMo’s i-mode service, which delivers both voice and data through a palm-sized terminal, is providing retailers with opportunities to steer customers into their stores. For example, Tsutaya, Japan’s largest video rental chain, e-mails i-mode users discount coupons which they can redeem in video stores. During periods when the company has offered such promotions, it has seen rental revenue jump nearly 60 per cent and sales of non-discounted products increase substantially as well.

In addition, the ability to link an e-mail address to the sender’s phone number creates an opportunity for marketers to send text messages to

**Mobile’s multi-uses
for consumers . . .**

. . . and for marketers

Speech recognition technology could overcome security issues

mobile phone users while customer service representatives stand by for voice replies. And because marketers can easily access callers' buying preferences and other personal information, they can send customised advertisements and discount coupons to individuals over their cell phones.

Consider what TeleVend is doing. This small telecommunications vending company based in Israel is piloting a programme with several fast-food and other retail businesses in New York to allow customers to pay for purchases using their mobile phones. Customers simply dial a number and, after a brief authentication process, the transaction is charged to their phone bill, credit card or bank account. Once they are in the system, users can receive customised ads and discount coupons.

One of the most interesting features for retailers may be the speech recognition technology that TeleVend is developing, which will allow customers to make purchases using a 'voice signature'. If the technology works, the security it provides could pave the way for clerkless transactions in stores.

The ability to speed the transfer of personal data from customers to service providers will also affect the transportation industry. Delta Airlines is already working with IBM and Modem Media, an e-commerce company, to develop and test a service that will not only give customers wireless access to flight and gate information, but also allow them to purchase tickets and make flight changes using their hand-held organisers and mobile phones.

Opportunities for retailers

From e-commerce to m-commerce

As the mobile Net becomes a bigger force, how will m-commerce marketers attract and keep customers? Early data from Japan suggest that controlling portal access will be crucial. Retailers cannot control portal access for personal computer users, but they could for their own mobile phone subscribers. Through their own portals, retailers could offer services provided by themselves or by others with whom they have revenue-sharing arrangements.

Retailers gain another advantage from mobile technology. Whereas online retailers have to wait for people to log on to their computers, mobile retailers will be right beside them, in their purses, briefcases and glove compartments. And i-mode service is always on — the user does not have to dial in to access the Internet or receive messages.

The most successful mobile retailers will use these advantages to add richness to their reach. Rather than simply booking a customer's plane reservations, for instance, a mobile retailer could serve the customer throughout her vacation by providing information about flights, recommending accommodation, suggesting activities and venues, finding local doctors and helping with itinerary changes.

Some branded marketers are already leaping into the mobile business. Richard Branson, chairman of the Virgin Group, purchased idle cell-phone capacity in Britain and launched his own phone service, Virgin Mobile, in November 1999. By leveraging Virgin's brand, customer

franchise and distribution skills, Virgin Mobile has grown rapidly, gaining half a million customers in its first year.

Planning ahead

Now is a good time — before 3G has arrived — for consumer marketers to investigate whether they might have real m-commerce opportunities. Some companies may even want to jump in with a 2.5G deal, as Virgin Mobile has, and be ready when 3G hits. Bear in mind, however, that not all of the m-commerce products and services that have been predicted will materialise. Marketers should thus ask themselves several questions before they commit to an m-commerce strategy.

Key questions for marketers to ask

- Do our target customers have mobile phones? If they do, you can expect that those people will soon own wireless Internet-enabled personal assistants which will provide a range of services.
- Could we enhance and deepen our existing relationships with customers by offering personal mobile services linked to our core proposition? If the answer is yes, then you should play in the m-commerce space. Otherwise, you risk losing your customers to competitors with a superior proposition.
- Is our brand strong enough to market a bundle of personal mobile services? If this answer is also yes, you need to consider offering your own mobile services as an MVNO. This would enable you to control the total customer proposition — as well as the customer data — and capture m-commerce commissions as the mobile portal. In particular, you should consider how becoming an MVNO could enhance your overall offline and online brand.

If you decide that there is a wireless opportunity for your company, the next steps are to develop your offering and the commercial relationship that you can bring to a mobile network operator as a partner.

Without a doubt, mobile technology will elevate consumer database marketing to a new level. Although no one knows which forms of m-commerce will prove competitively sustainable, the ability to communicate and do business with individual consumers — wherever they might be, whenever they might choose — will undoubtedly pave the way for new kinds of products and services as well as new ways of marketing them. Armed with enormous customer bases and marketing savvy, retailers entering the mobile services business have the potential to become powerful forces in their newly adopted industry. The brave new world of mobile buyers and sellers is just around the corner.

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