

MAY 2015

Learning from South Korea's mobile-retailing boom

Heeyoung Hwang, Paul McInerney, and Jun Shin

As omnichannel retailing transforms this nation of 50 million people, retailers around the world should be watching—and learning.

How much do South Koreans love their smartphones? Well, the country has the highest smartphone penetration in the world: more than two-thirds of South Koreans own one, compared with 47 percent of Americans, 57 percent of Australians, and 52 percent of Britons.¹ South Koreans are also big users of their smartphones, with sales of goods purchased using mobile devices jumping more than fourfold since 2012 to about 10 trillion won, or \$9.8 billion.

This enthusiastic adoption has put the country at the vanguard of so-called omnichannel commerce, where physical stores and online shopping are complemented by mobile (m-commerce). The majority of South Korea's consumers already have experience with m-commerce, and on-the-go shoppers spend about as much on each mobile transaction as they do in stores. In addition, consumers who turn primarily to their phones to shop—"mobile first" consumers—tend to spend more than shoppers in other channels. South Korea's rapid m-commerce growth means not only that local companies are taking their know-how elsewhere—witness SK Planet's recent purchase of Silicon Valley start-up Shopkick²—but that the country's experience holds lessons for players around the world.

Four m-commerce insights

Every year since 2010, South Korea's mobile-commerce market has more than doubled in value. Today it represents nearly one-third of all web-based sales. Using smartphones to buy products and services has become so commonplace (tablets play an extremely limited role in South Korea) that nearly two of every three people have done so at least once, up from fewer than half in 2012 (exhibit). By comparison, just one in four US and Australian consumers have had a mobile-shopping experience.³

¹ Data are from Strategy Analytics and measure number of smartphone users in total population as of 2013.

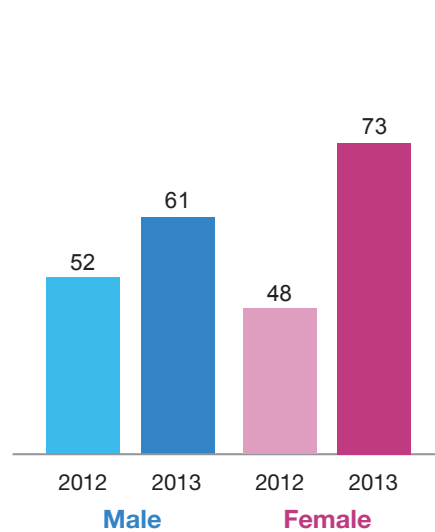
² See "SK Telecom agrees to acquire Shopkick," *Wall Street Journal*, Sept. 27, 2014, wsj.com.

³ For more, see *Mobile Life*, a global study published by TNS, 2013, tnsglobal.com.

Exhibit Mobile commerce shows strong momentum in South Korea.

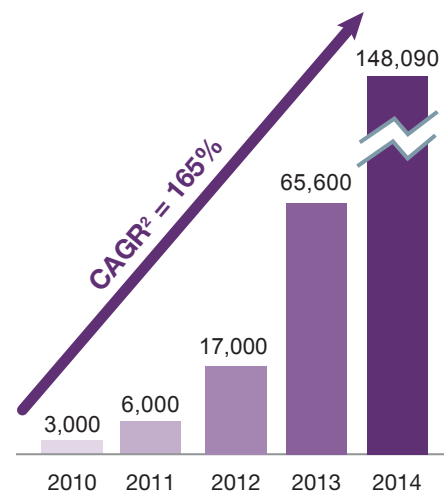
Mobile shopping is rising exponentially in South Korea, and the majority of consumers already have mobile-shopping experience.

Share of consumers with mobile-shopping experience,¹
%



Total value of mobile-commerce market is growing rapidly in South Korea.

Mobile-commerce market size,
KRW 100 million



¹DMC survey report, 423 males/females aged 19–49.

²Compound annual growth rate.

Source: Daewoo Securities; KCCI

Our latest research on the South Korea market shows that winning in m-commerce requires much more than simply a reformatted website or smartphone application.⁴ Although all digital channels might share the same backbone infrastructure, such as order management and logistics, m-commerce requires fundamentally different approaches to identifying, reaching, and satisfying consumers. Indeed, there are important distinctions between mobile-shopping behavior and online or in-store behavior, especially among women. Here are four critical areas that companies seeking to tap into the mobile revolution need to consider:

1. Reach: Tap into the uniqueness of mobile-first consumers

Mobile-channel buyers have distinct demographics. In South Korea, women account for 60 percent of transactions. Additionally, most are in their 30s and are likely to have preschool-age kids.

⁴We asked 560 South Koreans between the ages of 15 and 64 to keep “mobile diaries” on their smartphones, making a note whenever they spent more than 5,000 won, or about \$5. In two weeklong waves, they recorded more than 6,000 purchases.

They are also, somewhat surprisingly, likely to be full-time housewives. There has been an assumption that m-commerce is dominated by busy working moms; in fact, working moms spend much more time in front of a PC, mostly at their jobs, while housewives or moms with young kids are more likely to use their smartphones to shop. Companies have noticed: social-commerce player Coupang has aggressively targeted mobile-savvy young moms by offering baby gear such as diapers at low prices.

Yet mobile shoppers, regardless of their age, gender, or life circumstances, seem united in turning away from stores and online retailing. Our research found that among those who shopped on a mobile device, 13 percent did not shop in stores, and 53 percent did not shop online. Increasingly, these consumers can only be reached through their smartphones: We found that offline and in-store marketing motivates only 7 percent and 2 percent of mobile purchases, respectively. Yet mobile ads or promotions influence three out of four mobile purchases.

2. Curate: Trigger impulse purchases through well-crafted offers

Since it's harder to compare products and study details on a phone's small screen, mobile shoppers deliberate less when making purchasing decisions. Our research shows that more than half of mobile consumer decision journeys—from considering products to purchasing—last just a single day, compared with only 36 percent online. In addition, mobile shoppers visit on average fewer than two sites before making a purchase, versus 2.75 for online shoppers. In essence, m-commerce consumers are driven much more by impulse than by product features or prices: some 17 percent of mobile transactions in South Korea are made without prior research, compared with just 6 percent of online transactions.

For retailers, this has enormous implications. While it has been critical for online retailers to keep a long tail of products in order to capture whatever consumers are searching for, mobile shoppers want quick satisfaction. Their purchasing decisions are often governed by impulsive or emotional factors (which encompass product categories including apparel, fashion accessories, and shoes) or habit (such as buying groceries and kid/baby items). For its mobile-dedicated shopping platform, for example, online market 11th Street has reduced its total number of SKUs to only 7,000 and emphasizes “deals of the day.”

3. Entertain: Make shopping fun and easy, not just cheap

In contrast to the bargain-hunting mentality that pervades online, mobile shoppers place the greatest value on intuitively easy navigation and convenient shopping experiences. In our research, more than 60 percent of South Korea's mobile shoppers cited convenience as their top priority, compared with 44 percent of online shoppers. To connect with mobile buyers, many successful retailers are providing less information on their mobile sites. Quick delivery of

products is also essential for many regular mobile shoppers, particularly those who buy groceries and other staples. To satisfy this consumer demand and expedite the delivery of products purchased on mobile, GS Shop opened a mobile-dedicated warehouse, for example, and many mobile-commerce players now offer next-day delivery for grocery and kid/baby items. GS Shop has opened a mobile-specific call center so shoppers can get specialized assistance with a single click, and players are also adopting new payment solutions such as KakaoPay, a social-media-based payment system.

4. Lock in: Capture the loyalty of mobile shoppers early

Consumers are known to buy online from a smaller number of retailers than they use when they shop in brick-and-mortar stores. Similarly, mobile consumers are more likely to go directly to a retailer's site or app than to use a search engine, meaning there is a significant opportunity for retailers to lock in customers. As a result, South Korea's m-commerce players use multiple tactics to drive repeat visits, offering mileage points or coupons to those who interact at least once each day with their mobile site or application.

Connecting the mobile-shopping experience to physical stores also goes a long way toward building a true omnichannel experience and locking in customers. The mobile application for retailer Lotte, for example, offers an "in-store mode," where shoppers get real-time mobile notification of promotions and coupons when they step into one of its department stores and pass a specific brand's area. Hypermarket Emart has a virtual-store application that shows products displayed in the same layout as in its physical stores to provide an easy, consistent shopping experience.



International retailers have much to learn from South Korea's booming m-commerce market. They should recognize the unique demographics and characteristics of mobile shoppers—their less-studied approach to purchasing, their emphasis on a fluid shopping experience, and their loyalty. Successful retailers will need to invest in mobile marketing to capitalize on impulse shopping and use data analytics to build real-time connections with consumers. We believe that in the years ahead, winning omnichannel retailers will achieve above-market growth by reaching the growing population of valuable mobile-first shoppers. □

Paul McInerney is a director in McKinsey's Tokyo office; **Heeyoung Hwang** is an expert in the Seoul office, where **Jun Shin** is an associate principal.