

The background features a vibrant green color palette with abstract, concentric circular patterns. A large white circle is centered on the left side, containing the main title. Below the white circle, a dark green band contains a white hexagonal pattern. The overall design is modern and tech-oriented.

FAST TAKE ON:
Mobile Payments

May 2014

IMPACT SERIES

MCS
ME



To leave home
without your
wallet has never
been less
frightening.

In this 'Fast Take' we review the evolving space of mobile payments and the new consumer behaviors that are being witnessed at retail.

We also examine the varying opportunities for brands and marketers to drive increased value for shoppers both in-store and at the register.

WHAT'S INSIDE

- 1 A look at the current mobile payment landscape

- 2 Capitalizing on the growing trend

- 3 Consumer behaviors and perceptions

- 4 Top mobile payment trends

- 5 Opportunities for marketers

MOBILE PAYMENTS LANDSCAPE

“Wallet... check. Keys... check. Phone... check.” For years, these have been the “don’t leave home without them” items. However, your pocket might soon become much lighter, as mobile phones become an increasingly accepted form of payment.

Mobile payments are set to grow globally by **38% in 2014 to \$235bn** (Source: Gartner, 2013).

The current mobile payments landscape is extremely fragmented, with startups, financial institutions, retailers, tech giants and manufacturers all trying to capitalize on consumer’s desire for portable payment options. In the US, though, there is yet to be one core platform dominating the marketplace, resulting in mobile payment adoption growing at a slower pace.

The UK and US currently lag behind the Southeast Asian markets, who actively use NFC and QR codes for payments and mobile commerce (Nielsen, 2013). However, the current rush of companies into the space means that this will fast become a hot topic.

GROWTH OF A CHANNEL

In recent years, much talk has been focused on near field communication (NFC) chips, which allow for secure contactless payment at short proximities using radio frequencies, and their integration into mobile handsets.

Launched in 2006, Nokia’s 6131 was the first handset to include an NFC chip. While major smartphone manufacturers like Samsung have continued to include them, Apple’s exclusion of NFC chips was seen as a barrier for NFC being the core mechanic for mobile purchase. Google Wallet, which is powered by NFC, has also struggled to create **significant usage, despite 41% awareness and growing penetration among merchants** (Nielsen, 2013).

However, the amazing success of Starbuck’s mobile payment application illustrates how everyday purchases through mobile could become common practice. Estimates show that **10M Starbucks customers are driving \$1bn in mobile based revenue for the company from its new mobile payment application**, driving other brands to enter the space (Business Insider, 2014).

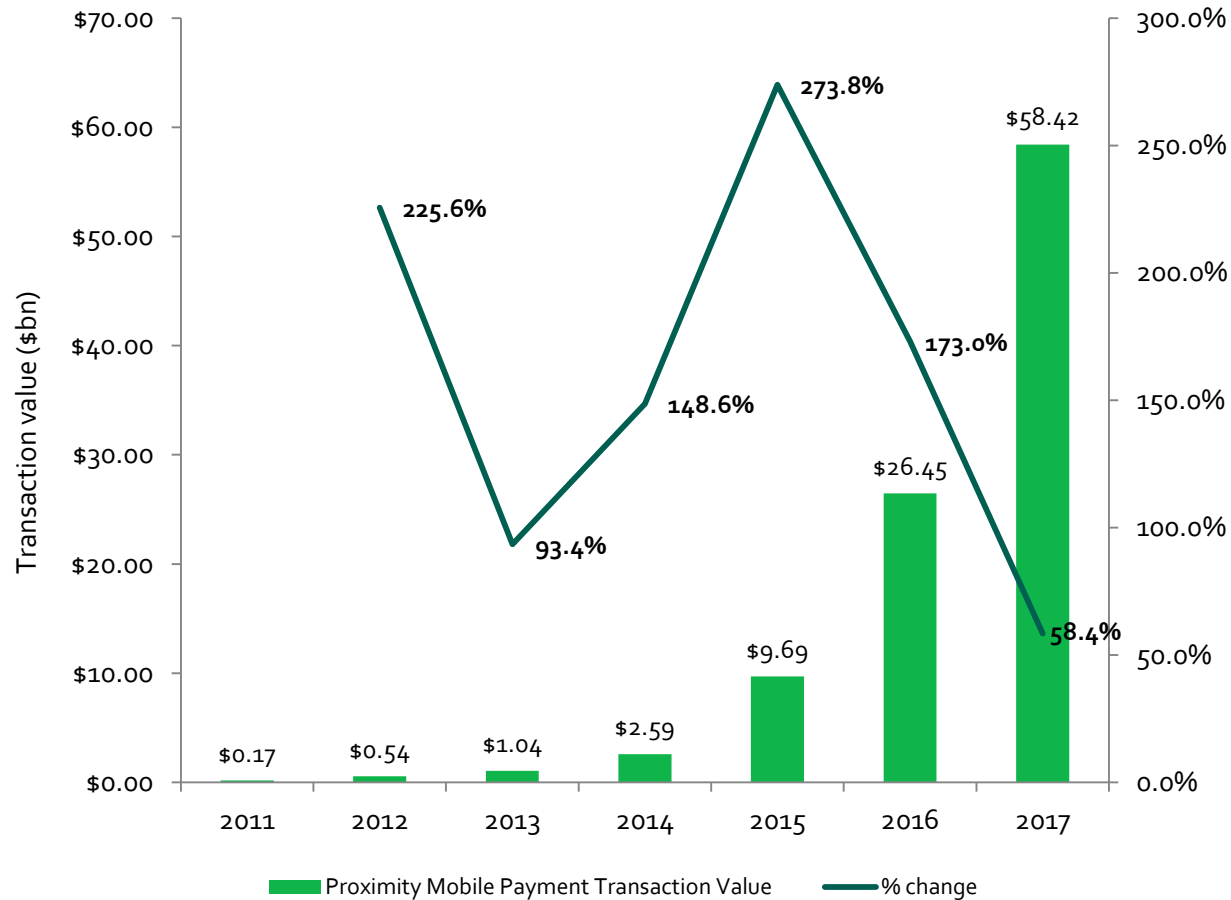
CAPITALIZING ON THIS GROWING INDUSTRY

Predictive models for mobile payments are challenging as forecasts often include money transfers and bill payments. However, it can be quite tricky for transactions at point of sales specifically.

The current push is to accelerate mobile payments as a part of everyday consumer usage.

This will initially drive significant growth, but, once it becomes a frequent, commonplace behavior, it will quickly decelerate.

Predicted Growth in Proximity Mobile Payment in the US



CONSUMERS NEED ASSURANCES

Systems have been in place for a while, but consumer adoption has been slow

For consumers, mobile payments provide quicker and more efficient ways to complete transactions. But while merchants have begun using various forms of mobile payments, overall adoption has been slow due to...

QUESTIONS AROUND PRIVACY



With new technologies, come new concerns. Consumers are nervous about wirelessly transmitted information being stolen, as well as the possibilities of fraud and theft with all of their credit information stored in one place. Recent high-profile cases of data loss (e.g. Target, Saks Fifth Avenue) have only heightened consumer caution about housing data.

FEAR OF DEVICE LOSS

LOST ANDROID



REWARD IF FOUND

Smartphones are considered an appendage for many people, always on or near their bodies. Losing a smartphone is already an extremely stressful situation, and it only becomes more nerve-racking when the device is also the main way consumers complete payments and access money.

PHYSICAL DEVICE LIMITATIONS



With consumers demanding so much of their mobile devices, using them for an increasing number of digital activities, device usage continues to grow while smartphones' battery power has yet to drastically improve. Losing mobile device power leads to a sense of helplessness and disconnect, something many consumers do not want to risk with payments.

THE FRAGMENTED MARKETPLACE

Many different players within the space

NFC

- Combines debit, credit, loyalty and gift cards within virtual wallet for in-store and online purchases.
- Uses NFC technology for proximity payments at retailers' register points. Online purchases available, both require PIN code.

Examples include: Google Wallet, Visa Paywave and ISIS payment systems.

- Partnerships with Visa and MasterCard providing significant footprint into retailers.
- In-store offers appear via Google Maps and Google+ check ins or notifications.

APP-BASED

- Access to all credit, debit and loyalty programs within a mobile application across all operating systems.
- Customers can check into stores and complete payment from their phones.
- Alternatively QR or 4 digit codes can be provided for secure payment with existing merchant POS systems.

Examples include: PayPal and Square.

- PayPal with Discover card provides instant access to over 7 million merchants across US.
- Square Wallet integrated into Starbucks mobile payment.

HARDWARE

- Consumers maintain their existing physical wallet, with merchants changing their POS systems to mobile and tablet devices.
- Allows for a fluid retail experience, and purchases can be completed through store assistance or through servicing tablet and mobile devices.

Examples include: Experience within the Apple store, as well as Square and PayPal hardware.

- Square's hardware is being introduced to several Whole Foods stores as a checkout option. Square has already seen success as Starbucks POS system.



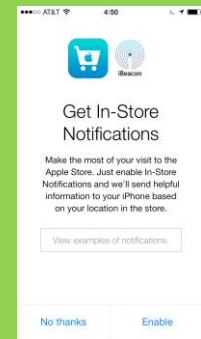
MOBILE AT RETAIL

Your personal shopping assistant and secure register

Smartphones are never more than an arms length away for most consumers, and retailers can take advantage of this constant connectivity to provide shoppers with an immersive mobile experience throughout the store and at checkout.

Security has been a key barrier for mobile payments over the past few years. Apple and Samsung's latest smartphone devices featuring biometric fingerprint scanners for unique identification of shoppers, may help assuage those fears. Apple's scanner currently only works for digital store purchases made via Apple mobile device; however, Samsung has integrated PayPal's mobile wallet into their handsets and wearables, allowing users to complete in-store and online purchases through retailers that allow for transactions through PayPal.

Social networks are also entering the mobile payment arena. Foursquare has launched partnerships with MasterCard and Visa, allowing users who sync their credit cards with Foursquare to receive discounts in stores they check in to. Twitter recently worked with Starbucks on the 'Tweet A Coffee' campaign, enabling Starbucks card members to gift \$5 mobile gift cards to friends via Twitter.



The introduction of Beacons as part of Apple's iOS7 launch, gives increased opportunity for Bluetooth-enabled technology to revolutionize the shopping experience at retail.

Beacons work by creating micro-geofences around physical store locations, which can communicate to digital devices via Bluetooth Low Energy. This allows brands to 'speak' to consumers at specific locations in a retail space without the need for Wi-Fi or cellular connectivity, giving brands the opportunity to connect with consumers at critical points in the decision making process. The technology allows for secure payments within a transmission distance of 50 meters, substantially more than NFC's eight inch radius.

Major League Baseball (MLB) has already conducted a trial run with beacons, with a full rollout across ballparks expected soon, while Coca Cola is also looking into similar experiences at the 2014 World Cup in Brazil. PayPal has released details around their own beacon for retailers, promising seamless integration into their existing POS systems.

TOP MOBILE WALLET TRENDS

There are four payments trends MEC expects to evolve in 2014.

1 SECURITY TAKES CENTER STAGE

With advancing technology for both consumer and merchant products, the opportunity to provide a safe ecosystem that allows users to complete purchases either in-store or remotely are coming to fruition.

Ex: PayPal in-store purchases require both unique codes and facial recognition from a user's profile before a transaction can be completed at a register.



2 IN-STORE PERSONALIZATION

Brands and merchants are now better understanding the consumer's purchase behaviors and preferences, allowing them to serve creative, personalized in-store opportunities.

Ex: Mobile couponing and incentives allow retailers to promote products directly to those most likely to convert and purchase. This allows brands to limit the waste of unredeemed offers while maximizing the opportunity to upsell.



TOP MOBILE WALLET TRENDS

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3 POINT OF SALE HARDWARE RECEIVES UPGRADES

Point of sale systems across multiple retail outlets are receiving significant investment and technologically-driven upgrades, with PayPal and Foursquare already promoting ways to integrate mobile payment into existing store hardware, keeping stores' costs down and mobile payment opportunities up.



Ex: Foursquare partnering with Visa, American Express and MasterCard to allow consumers to receive discounts through Foursquare location check-ins.

4 FRAGMENTATION ACROSS THE MARKETPLACE

As opportunities to evolve mobile payments continue to arise, we are seeing an influx of all types of companies looking to provide consumers with the ability to purchase via mobile devices.

Ex: Facebook is testing a new mobile payment platform, allowing users who provide Facebook with their credit card details to make purchases on partnering mobile apps.

facebook®

Buy Now



WHAT THIS MEANS FOR BRANDS

For consumers, the advantages of mobile payments are abundantly clear. Who hasn't left a store because the line at the check-out register was too long or because you forgot a coupon at home? Providing consumers with quicker and more convenient ways to complete purchases in-store helps brands and retailers drive awareness, sales and even basket growth.

There are even more enticing reasons for brands and retailers to pursue mobile payments. Traditionally, credit card companies charge retailers up to 3.5% in fees per transaction. However, both Square and PayPal's fee-per-swipe falls around 2.75% for mobile based transactions. This is why a slew of retailers and merchants of all sizes and industries are using Square, reducing the overall cost to accept a credit card.

With most retailers now providing loyalty/discount platforms and programs to entice consumers, mobile payment solutions offer consumers a one-stop shop to house all their information (e.g. brand and price preferences or credit cards), ultimately helping to drive price-sensitive customers to purchase. Mobile coupons are already big business, and importantly, they are redeemed more readily vs. traditional paper coupons - 10% vs. 1% (Source: Juniper Report, 2012)). For brands looking to couponing as a way to drive customer trial, mobile wallet integration allows them to efficiently target offers to those most likely to redeem and drive incremental sales.

More specifically, the impact of mobile payment allows brands to capitalize on multiple types of shopping habits and regular purchases. For example, Google's ever expanding ecosystem gives brands the opportunity to utilize purchase data and internet consumption behavior to power advertisements.

VARIOUS WAYS TO INTEGRATE MOBILE PAYMENTS INTO YOUR STRATEGY

QUICK SERVICE RESTAURANTS

QSRs are optional test beds for mobile payments as they are designed to deliver speed and convenience to consumers at relatively low costs.

Google Wallet has already been integrated into McDonalds, but Starbucks' mobile app highlights the value of having a stand-alone app solution to encourage regular usage.

Bringing mobile coupons into a solution is enticing as they already average 10 times the redemption rate vs. paper coupons (Juniper, 2013).

WATCH OUTS : App retention is extremely challenging, so brands need to ensure they provide updated content and technology to keep active users engaged.

RETAIL

Tap into the existing synergy between in-store visitors and their reliance on mobile devices at the point of decision making.

PayPal has a number of new initiatives designed to make retail spaces more valuable both when the store is open and even when it is closed.

The introduction of beacon technology within retail spaces further aligns with consumers' desires for increased speed and ease via a mobile device.

WATCH OUTS: To provide the optimal consumer experience, brands will need to be able to connect their mobile solution to real-time product offerings including available inventory.

HOSPITALITY

Provide guests with the opportunity to manage, view and pay their bills from their own mobile devices to help them make the most of their experience on-the-go.

Provide seamless and easy check-in & check-out opportunities by allowing guests to complete payments on-the-go, as well as have access to their preferences, receipts, and other needs.

Loyalty cards can also be integrated into mobile payment solutions to ensure they are easily accessible for redemption.

WATCH OUTS: Most hotel chains have a significant number of properties, so a full roll out would take significant investment and integration.

As the mobile payments landscape continues to evolve, marketers can benefit from exploring the optimal test-and-learn opportunities based on their business objectives to truly evolve the consumer experience.

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