



Why the Apple Pay Launch Means Mobile Payments Have (Finally) Arrived

Kurt Salmon ✨

More than 40% of active users worry that their personal information is at risk when making mobile payments.

Whether or not Apple Pay becomes yet another home run for the Cupertino-based behemoth will become clear in the coming months and years. In the meantime, however, one thing is certain: With its launch, mobile payments are here to stay.

For banks, the arrival of mobile payments via Apple Pay is an opportunity to drive more purchase transactions to the credit and debit cards they already issue, especially smaller-value purchases that would otherwise be transacted with cash. Similarly, payment networks can boost revenue by capturing the increase in gross dollar volume that flows through their electronic pipes linking retailers and card-issuing banks. Meanwhile, merchants of all kinds can benefit from faster throughput at the point of sale, as well as the customer data that comes with the geolocation capabilities embedded in mobile phones.

As a consumer survey of U.S. mobile payments usage conducted by Kurt Salmon in 2012 and again in 2014 makes clear, consumers are poised to make the transition to mobile payments. But as our survey results also make clear, banks, payment networks and merchants still have work to do when it comes to addressing consumer concerns about mobile payments and crafting a compelling use case for the new technology. While mobile payments are here to stay, when they will reach mass adoption will depend on how quickly and how well those concerns are addressed and a use case is established.

THE CANARY IN THE COAL MINE: ACTIVE USERS

As with any technology, early adopters who are active users of a product can offer a unique window into that product and its segment. Our study found that active mobile payment users exhibit unique characteristics, interests and opinions that should be considered in the quest to attract a broader audience and customer base to mobile payments.

Active users tend to be between 25 and 34 in age, are high income earners, and are well educated.

Though active users are more comfortable using their phones to make payments, they are also more likely to agree that paying via smartphone is currently too complicated. Interestingly, this group has significant concerns about the security of mobile payments as well.

To capture a meaningful percentage of payment transactions from this young, forward-thinking, more affluent consumer, mobile payments participants will be well advised to address three meaningful needs: security, convenience and rewards. The mobile payment consumer is no less demanding than users of traditional credit and debit cards, and failing to satisfy interest and concerns in these three areas will relegate mobile payments to the dustbin of failed innovative technologies.

SAFETY FIRST

Security is top of mind, with more than 40% of active users worried that their personal information is at risk when making mobile payments and 37% feeling that making an online purchase via smartphone is not secure. View these attitudes in light of recent high-profile data breaches, and it is obvious that addressing security and safety must be a top priority to win consumers over to mobile payments. Apple Pay's fingerprint scanning technology, as well as other features embedded in their and others' solutions (e.g., tokenization), may assuage consumer concern. Communication about mobile payments security, however, will need to remain strong, unambiguous and consistent to win support from a critical mass of consumers. Safety and security are table stakes in payments—satisfying this requirement is foundational to succeeding in mobile payments.

MAKE IT CONVENIENT AND THEY WILL COME

Our research demonstrates that smartphones are at the center of consumers' lives; 37% of all consumers rely on their smartphones to manage every part of their lives; this number shoots up to 68% among active mobile payment users. Putting payment

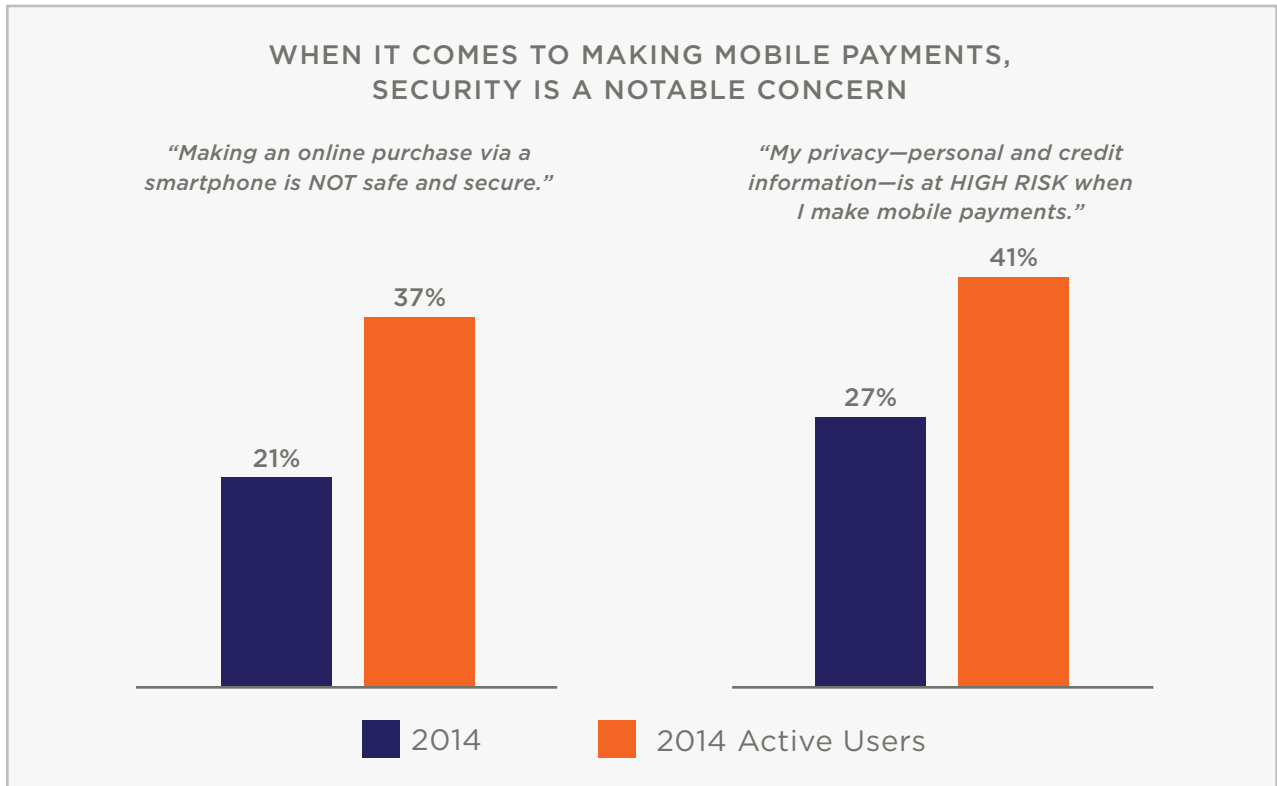


Exhibit 1: Active users are even more likely to say that their privacy is at risk when making mobile payments and that making a purchase via their smartphones is not safe and secure

capabilities into these devices adds yet another benefit to a technology already central to our day-to-day activities.

To achieve broad adoption, however, mobile payments need to be easy to use and easy to find at places consumers shop every day. Payment transactions at the point of sale need to be accurate, efficient and fast from the moment the customer provides their form of payment to the instant the transaction is completed. We know today that the three payment forms—cash, plastic cards with magnetic stripes and mobile payments—have observable transaction speeds at the point of sale. Our analyses in quick-serve restaurants, for example, revealed cash to be the slowest tender type, with transactions taking, on average, 15 seconds, plastic

payment cards taking four seconds and mobile payments also taking four seconds. On this measure, mobile payments have at least achieved parity with plastic. In order to gain an advantage in transaction speed, mobile payments will need to move the payment activity to well in advance of the cash register, within the aisles, at the point of selection.

Achieving a critical mass of locations that accept mobile payments is the next wall to be scaled. This challenge is made more significant due to the expense of replacing or upgrading payment terminals in nine million U.S. locations where credit cards are accepted. The coming mandated transition to EMV in the United States marks the perfect time for retailers, service providers and banks alike to consolidate the investment, estimated to exceed \$7

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billion, to upgrade point-of-sale terminals so they can handle EMV chips and mobile payments. There will also be a need to train and educate store personnel in both of these technologies to ensure an optimal customer experience and efficient operations at the point of sale.

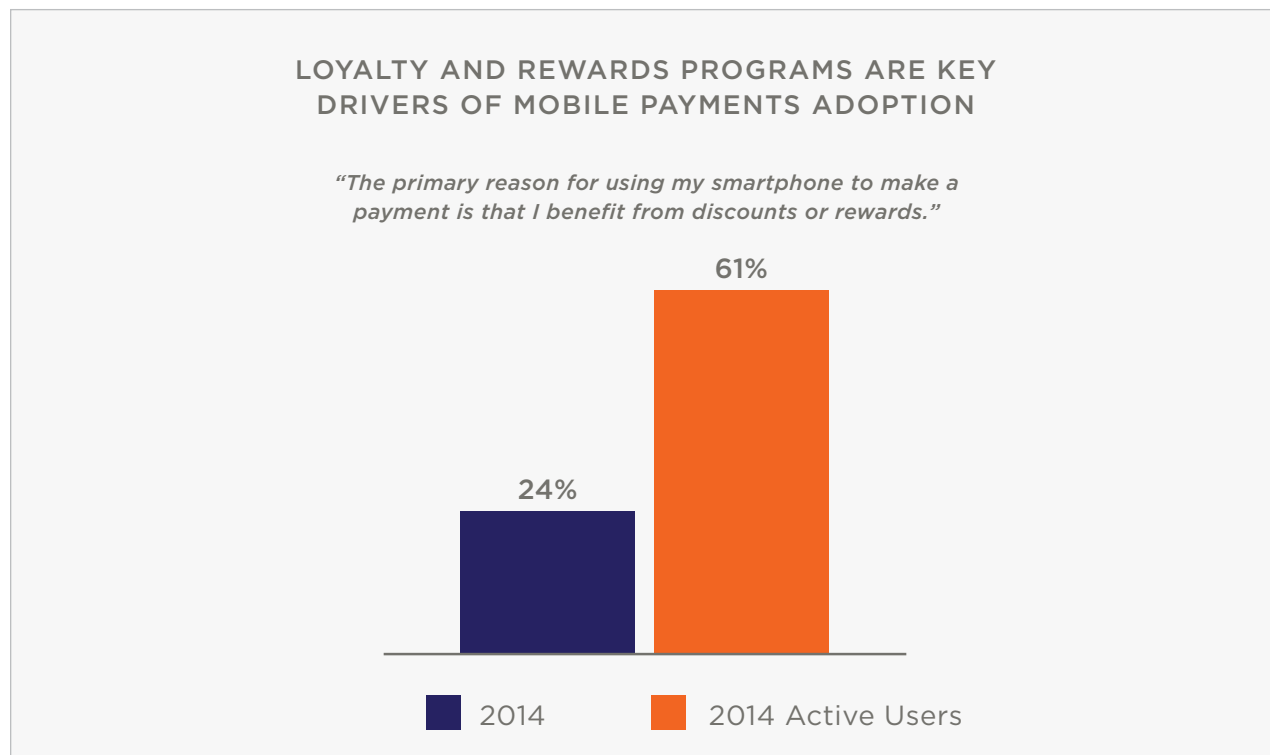
A SUCCESSFUL MOBILE PAYMENT PROPOSITION WILL BE REWARDING

As stated at the outset, the incentive for credit, debit and prepaid cardholders to move their purchases to a mobile payment application has yet to materialize. Furthermore, there are three distinct decision points where today's cardholder must elect to adopt or stay with mobile payments in order for the technology to succeed. They must decide to add their payment card information (card number, expiration date, etc.) to the mobile

payments application, use their mobile payment device at the time of purchase and retain the mobile payment functionality on their phones. Each of these decision points will need a consumer incentive to ensure customers decide in favor of the mobile payment application.

Our research results show that incentives, in the form of reward points, loyalty coupons and in-store recognition, are a powerful motivator among active mobile payment users. Sixty-one percent of active users' primary reason for using their smartphone to make payments is the discounts and rewards they earn. And more than 60% of active mobile payment users check their phones for discounts from local and national merchants—casting this group of consumers as savvy, informed and responsive to rewards.

Exhibit 2: The majority of active users say the primary reason they use their smartphone to pay for things is to receive related discounts or rewards



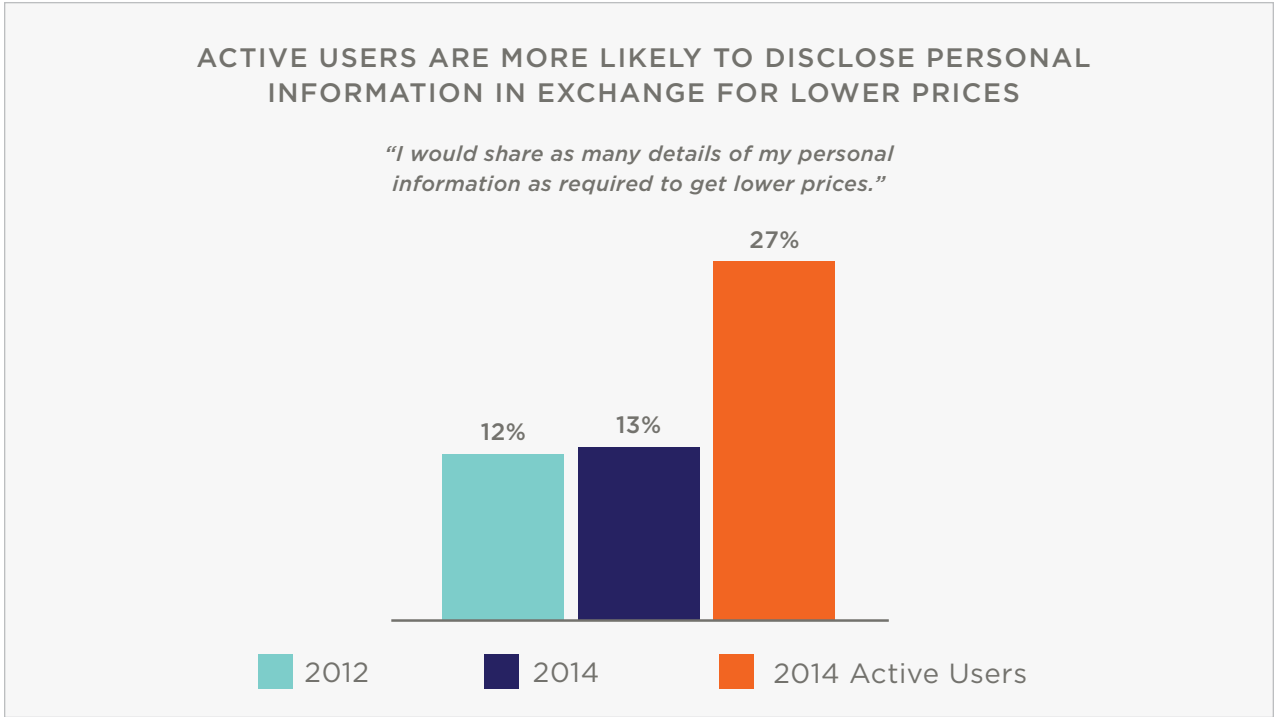


Exhibit 3: Active users will share as much of their personal information as is necessary to get lower prices

Active mobile payment users even find reducing the number of cards they have to carry a motivation to add their payment card information to a mobile wallet; 51% of active users identified this benefit as the primary reason they use mobile payment technology. Driving usage of a mobile payment solution, as Starbucks has demonstrated with its payment and loyalty app, which now accounts for 15% of overall sales, can ensure the technology’s ongoing use and enhance customer loyalty.

Targeted rewards are generally the most effective, and our research shows the likely user of mobile payments is willing to provide personal information in order to receive a lower price on purchases. (See Exhibit 3.) Within this group, 27% of active users say they would share as many details as required to get lower prices, compared to only 13% of survey respondents overall. Furthermore, when considering users signing up for loyalty and rewards programs,

64% of active users surveyed sign up for as many programs as they can, compared to only 45% of the overall population.

WINNING IN MOBILE PAYMENTS

While the recipe for success in mobile payments is complex, and the investment from all players in the payments value chain will be significant in order to shift consumer behavior, we firmly believe that the role mobile payment technology will play in the future of the payments industry should not be underestimated. Furthermore, our data lays out a clear course ahead for mobile payments participants to put forth a compelling customer use case, driven by relevant inducements and rewards aimed at driving widespread consumer adoption. When the tipping point is achieved and broad adoption of mobile payments occurs, we will witness the most significant evolution in consumer payments in more than two decades. ❖

Kurt Salmon

Success for what's next

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Succeeding in today's increasingly complex, consumer-driven environment is an enormous challenge.

But companies need to look beyond today; they need to position themselves for continued success in the even more uncertain future. That's where Kurt Salmon comes in.

We call it delivering "success for what's next." The results are transformative.

AUTHORS

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