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Ipsos

Mobile POS: Moving the Needle in Mobile Payments

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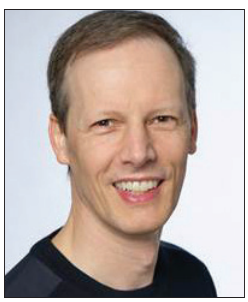
GAME CHANGERS

We gathered a panel of experts from merchant acquirers, mobile payment systems, and merchants to talk about mobile point of sale payments

Peter Donat
Founder, Commerce Technology Partners and former SVP Business Development at First Data Corporation

Val Cole
Founder, Career 2.0 and former Senior Director, Business Development at Apple Pay

Meysam Mouradpour
Former director, digital ventures, Yum! Brands/ Pizza Hut



Jim McKelvey
Co-founder and current board member of Square, Inc.

Ipsos has been investigating consumer usage of mobile payments applications for over a decade for our clients. And, while we have all learned a lot, it is clear that the work has only just begun.

Is this surprising? Many of us had read optimistic forecasts regarding consumer adoption in the last three years, only to see usage stall here in the U.S. Skeptics chortled at the news reports of disappointing results. How could we think we are just getting started?

Certainly, the mobile payments world has quite a few big brand names, including Visa, Mastercard, Google, Walmart and Apple, among others. The growth data seemed real. The Federal Reserve reported a surge in mobile POS transactions from 300 million to 1.3 billion from 2012 to 2015. Despite advisory services' forecasts of $150 billion in mobile POS by 2020, the current trajectory makes this number seem unlikely. If we look to 2017, only 15% of adults had tried mobile POS. Sources like eMarketer were revising 2020 forecasts downward, some by as much as 12%. Interest in proximity payments seems to be cooling off.

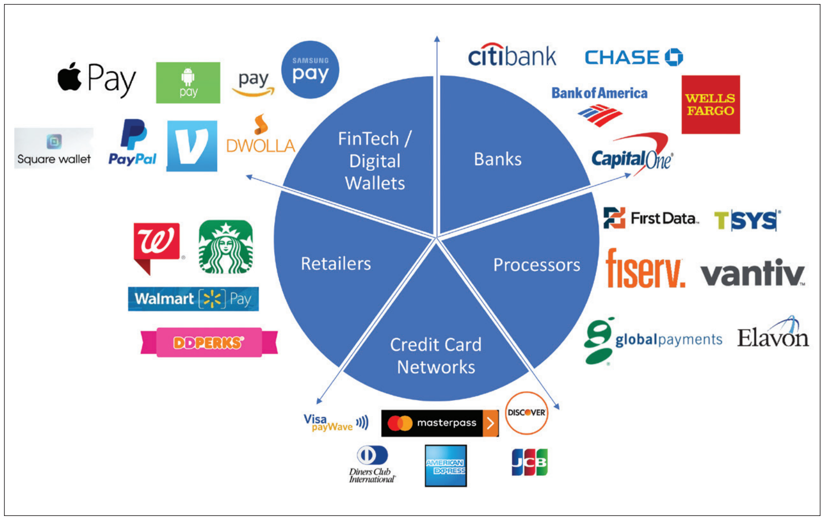
What could be causing this? Could consumers simply be overwhelmed with technology and the wide range of payment options available to them? Have their attention spans merely lapsed when it comes to mobile payment applications? Perhaps, but we think there are many factors at work.

Now, during a time of lull in the growth cycle for mobile payments, we say it is the perfect time for a realistic, practical and pragmatic look at how to make growth happen. In 2018, we see the mobile payments market at an important stage for widespread adoption by consumers. And what will follow will be more convenience for consumers and more business utility for merchants. Simply speaking, consumers and merchants will not adopt mobile payment systems just for the sake of it; it has to be mutually beneficial for both. We see great potential for growth—not just for consumers, who we think will be the biggest winners—but for the card networks, banks, fintech, acquirers and merchants as well.

To research the matter further, Ipsos gathered a panel of payments system experts and spoke with them about what worked, what failed, and the future of mobile payment adoption at point of sale.

The selected panel was curated based on their direct experience with major players—merchants, tech brand advocates and POS payment system partners—which gives them valuable perspective to see the forest past their own trees.

Mobile POS is a complex ecosystem of acquirers, tech companies, banks, card networks and merchants



*When mobile is best in class, it starts with a degree of ubiquity for consumers and merchants. Secondly, it's **friction-free**—quick and easy, and it has business functions that are helpful and enable buying. The lack of ubiquity has lead to just a lack of habituation.*

At Ipsos, we study all the moving parts in the environment to set an objective foundation of understanding for our clients, in order to effectively help them address their needs.

Nonetheless, Mobile Payments is a complex space. As the diagram above shows, the five major sectors involved in enabling a mobile POS payment—retailers, banks, fintech players, credit card networks and processors—represent dozens of top brands, each with their own business needs, agendas, and consumer appeal. But it gets even more complicated when you consider consumers' needs, and those of merchants that accept card payments.

Despite the fact that our experts came from different industries, we found some striking similarities in their commentaries. Essentially, they identified four critical components for future success in driving consumer adoption of Mobile Payments applications:

1. **Habituation:** As we have seen with Starbucks, Dunkin Donuts and other quick service food providers, people need to tie mobile wallet use to something habitual. For some, buying coffee and a donut each day is enough to drive repeat behaviors. For others, grocery and food markets may be likely venues when it comes to creating frequent behavior and common practice.
2. **Ubiquity:** People need to constantly see mobile wallets in common use since "seeing is believing." TV spots are helpful, but witnessing quick and easy mobile transactions while waiting for coffee, unloading their grocery cart, or paying for their groceries will effectively do more than any commercial.
3. **Incentives:** In loyalty marketing, you need incentives and rewards to drive behavior. Over the last 20 years, we've seen a preponderance of loyalty and rewards programs tied to restaurants, hospitality, travel and credit cards. You must give people the reasons they need to load a mobile payments application and then use it repeatedly in a retail environment.
4. **Retailer Support & Training:** The biggest barrier to adoption may still be at the checkout. Getting retailers on board with mobile payments, which ranges from hardware to staff training, remains a challenge. There are also on-site issues such as signage around acceptance. For success, people must not have any reservations about pulling out their phones to pay at POS.

"They're a different feel, trying to reinvent quick hit trips, in and out, to remove friction, so Starbucks had 25% of their transactions going through their App. That's really remarkable."
— VAL COLE

"You go to a really decent Starbucks and you see it, there's all these people not going through checkout, they just pick it and go, they're all over it. Dunkin was all over it, as well. Think of it: how important loyalty programs are, that being able to move those out of the wallet and digitize them, that's sort of a next wave. And that matters to particularly class of trade that is high frequency, short, in-and-out kind of tricks, it's not as important to a Best Buy or a Target."
— VAL COLE

"Walgreens would come to mind as a company that had banked on NFC, 18 months before Apple came to market, and they were stoked because we validated what the CIOs usually wanted to do."
— VAL COLE

So, what gets in the way of making digital payments ubiquitous and a "force of habit?"

In our conversations with our panelists, all shared examples of the service working well in some venues, but overall, they all felt a disconnect between the ideal vision and common experience. The payment process should be virtually frictionless, so that repeat behavior is seamless and consumers see the repetition for it to become common practice.

As examples of systems that were successful in shaping consumer habit, all panelists cited Starbucks and Dunkin Donuts as truly effective, and both build in years of experience. Starbucks' QR code system preceded wide adoption of NFC in smart phones, and worked well for people to quickly load the app, get a QR code, and check out with a click from a laser reader at the register. It also required pre-loading dollars on to a stored value account, reducing Starbuck's cost of payments.

Dunkin Donuts DD Perks app focused on "speeding through the line" by remembering your favorite drinks and sandwiches. Both QR systems could track users, focus on habitual, simple transactions where rewards were easily redeemed, and complete a sale quickly. With 37% of Americans using a coffee mobile app last year, both made gains through habitual coffee rituals.

The question remains, how do we transfer this kind of success to other retail venues? Mobile "best in class" lends itself best to transactions that are low fraud risk, and executed very simply. However, our panelists often referred to Walmart Pay. Similar to the coffee brands, it also uses a QR code-based transaction within its branded store app, now on 72 million smartphones in the U.S. Despite that, it offers "faster, easier and more convenient shopping," and a promise to "keep your financial information secure." It has achieved only 11% adoption among American consumers.

But that level of adoption belies the ultimate success of Walmart Pay with its most loyal consumers, for the same reasons Starbucks succeeded. It simply saves its customers time and money. Walmart Pay conveniently lets its users access in-store offers, promotions, rewards and gift card balances all in one place. They can scan in at the beginning of checkout, so there is no waiting for the cashier to finish. And the app upgrades added other time savers, which could be used while customers were waiting in line for money order services or prescription refills. The app pre-filled some paperwork. In its own world, Walmart Pay is convenient, easy, and serves both customers and the company.

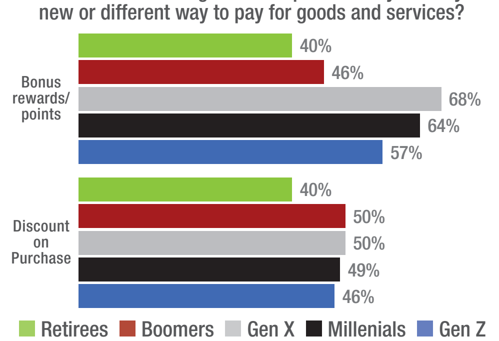
The key term we heard frequently from our panelists in our discussions was "frictionless." But that encompassed much more than the final beep of an approved transaction. There were other things to consider, like: How easy is it to load? How quickly does it register for usage? Where, if any, is the reward captured? And, how many impatient customers are waiting behind me in line?

Walgreens is another retailer our panelists deemed successful. First, they had the foresight to anticipate wide adoption of Near Field Communications (NFC) systems, even before Apple Pay had backed that technology in its iPhone 6. Secondly, they built their Balance Rewards loyalty system to integrate with mobile wallets, and NFC wallets. Apple Pay, Samsung Pay and Android Pay

"Best in class? It should make life easier for the consumer and the merchant—eliminating friction, enabling loyalty, and creating speed. Any checkouts where a consumer must go between their phone and then doing something else on a terminal is needlessly creating friction in the checkout process."
— PETER DONAT

"I'll say you have awareness and implementation gaps through numerous stages. So are they even aware on their phone? I think there continues to be a huge, just awareness gap, of hey, is it on my phone? And if I've installed it, do I have an active card?"
— PETER DONAT

Which of the following would help convince you to try a new or different way to pay for goods and services?



Source: Worldplay; Socratic Technologies. N=700. September 2017

allow consumers to apply their rewards balances to transactions. And there are currently over 20 million people counting their Balance Reward points with the Walgreens store app.

Despite these modest success stories, we see consumers still looking for the right reason, or incentive, to create habitual use. A recent Federal Reserve survey asked people what stopped them from using mobile payments, and more than half cited information security. The truth is with tokenization, mobile POS transactions are arguably more secure than a card swipe, but consumers are not clear about that. We think the issue is really more about market confusion—too many wallets and systems combined with an explosion of retail apps.

Are Incentives the Answer?

If incentives can drive both habit and ubiquity, will digital payments conquer traditional methods? Recent survey results show that if businesses want people to change the various ways they pay for things, they have to provide some kind of incentive.

While the Fed study pointed to security as a barrier, another study asked, "what would get you to try a new payment method?" Incentives like reward points or POS discounts, especially amongst younger consumers, was the answer. If businesses want people to change the ways in which they pay for things, they must provide some type of incentive for success.

Three years ago, with nearly concurrent launches of new mobile payment options, there was an expectation that Apple, Samsung, and Google would push mobile POS into broad adoption by virtue of their brand names alone. To some extent, these players tried to enroll major retail brands into Mobile POS acceptance. This graphic from 2014, just after the Apple Pay launch, did quite a lot of name dropping for Grocery and QSR brands supposedly enabled for mobile wallets.

"The main issue that all merchants face is operations. Do they have enough signage within the store? If so, can it simply explain what you can do, and why it is beneficial to you? Does the staff know how an Apple payment is supposed to work? Does somebody at McDonald's have the incentive to push the customers to use NFC tap and pay? A huge miss."
— MEYSAM MOURADPOUR

"What all the retailers have really been hoping for is that Apple would save them money. And that didn't work that way. There were no follow up emails and no education. There's no awareness campaign, there are no Ads, there's no promotional effort—there wasn't anything. And for something that important as paying for stuff, to not focus on building trust, awareness and education, I believe that was a huge miss."
— VAL COLE

"At the end of the day, it all ties up to conversions. How can we increase the conversion rates, how can we increase the number of transactions per user? And how much friction (many clicks and taps were required before), and how many clicks can we remove to make it more seamless?"
— MEYSAM MOURADPOUR

"We only had success with our payment strategy at Pizza Hut when we provided enough training for the staff. We initially started with trainings of three hours per week, per store, if the launch was four to six weeks away. So we've done two to three of those trainings, which in the end is about six to nine hours of total training. But within four to six weeks, nobody was really using this solution. Because where are my benefits? Who is there to remind me? And how am I supposed to do it, if I've never done it before?"
— MEYSAM MOURADPOUR

But, over the next two years, none of these mobile wallet players showed any real support for the merchants that were expected to take on these phone-based payments. And certainly, scaling up a change at every register in each store in a major retail brand would prove to be an expensive undertaking. Our panelists cited the lack of a compelling rationale for merchants to wholeheartedly adopt mobile payment systems:

Merchants were initially enthusiastic about mobile POS, and they had good reasons to believe a change was at hand. They could see a tipping point in consumer payment behaviors, supported by industry statistics.

In 2014:

- Smartphones reached 60% mobile users, and projected to hit 70% by 2017.
- 80% bought something online using a phone.
- Overall mobile payments were booming. They hit $50 billion that year, and were poised to reach $100 billion by 2017.

The moment looked right.

But was it, really? It was hard to find where mobile POS fit in. And the decision was further complicated with what to do once people started pulling out their phones to pay at the cash register. If proximity payments were finally going to take off, what would be measured? What would success look like?

Retail IT departments had to start to consider the analytics involved in measuring Mobile POS success. Our panelists agreed that the core metric for merchants was the finished transaction—the conversion of sales. Would accepting payment by phone in stores increase the volume, the frequency of visits, or the size of orders?

There was additional interest in softer metrics, like improved user experience and brand loyalty. Would a phone wallet sale be easier to manage than cards or cash? But if points or discounts were offered, would having a phone in hand improve the management of those incentives?

Our sources tell us that there was not much help forthcoming. There was limited to no IT support, along with merchandise discounts and no customer service numbers for fixing problems. Besides providing decals for cash registers, and some spot TV ads, Apple, Samsung and Google were leaving merchants to promote proximity payments on their own.

Merchants were not completely without support since Apple and Samsung both ran national TV ads promoting their new payment apps. Was it just hubris to assume that their big names alone would and could single-handedly drive consumers to use their new mobile wallets in stores?

Just following the Apple Pay launch, Apple ran the ad, *"This is an iPhone, and This is Apple Pay"*; it ran in co-promotion with American Express and major national brands like Macy's, FootLocker, Toys R Us and McDonald's. It's interesting to note that despite the promoted brands, the only value proposition was that Apple Pay *"helps you shop in faster, simpler way."*

"If you look into the bigger merchants, then obviously the stats don't lie. Apple Pay is by far the most successful player. It's not that they offer something that Samsung or Google doesn't. Their success comes from the Apple ecosystem of users with more disposable income, purchasing more, and being more comfortable with digital payments."
— VAL COLE

It's hard to measure if the card and merchant brands got a boost from their association with Apple, but there is no question that Apple Pay is currently the leading mobile wallet brand at this time. 51% of Americans have reported usage in the past 12 months. Android Pay is a close second with 48%; Samsung has a respectable 33%.

Samsung took an entirely different strategy with its ads. It placed comedian Hannibal Buress into small merchant locations (like the famous Katz's Deli) to highlight some merchants might not even know they were mobile POS enabled, when they were. By driving people to try to use their phone, they drove adoption and potentially demonstrated consumer demand. In our view, it exposed a formidable weakness at point of sale with all mobile wallets, which is merchant staff understanding and training. It shows how mobile wallet brands needed merchant investment, in both IT dollars and staff training time, to create an effective environment for consumer adoption.

In 2017, a small business survey showed that only 28% of small businesses were taking digital wallet payments—a number that includes both website and POS. Merchant adoption of proximity payments is still slow to grow.

Given all the barriers on this implementation roadmap, the merchants chose a reasonable middle path in which they would promote payment systems within their own retail apps. At checkout, within an app, they would present Samsung, Apple, or Android Pay options to complete a sale. It was an effective compromise. It met their already established priorities of improving conversions, supporting mobile sales, personalizing transactions, while allowing them to start to measure what these wallets could do to improve sales performance.

What is the role of the banks in driving adoption?

Perhaps part of the mobile wallet providers' strategy was to focus on the banks and merchant acquirers. After all, they expected to receive a tiny revenue share from enabling transactions with credit cards. They needed merchant service providers to develop more turnkey solutions in POS systems to accept NFC transactions. It could be argued that these card issuers and acquirers were priorities, and merchants were expected to just move with the trend.

"Overall the banks believe a digital wallet is a good thing. It's secure, it is consumer friendly, but mostly it is preserving their card economics. With Apple Pay, it prevented the largest potential disruptor from pursuing a bank disruptive strategy. But then when you get beyond that, can the banks do more? Can they influence what the technology specs look like at the point of sale? I'd say no, they're not powerful enough to do that."
— PETER DONAT

Major card issuers like American Express, Discover, JPM Chase, and Bank of America all touted Apple Pay in their customer communications. Even with Chase and Bank of America promoting their own digital wallets, both moved to provide cash incentives for Apple Pay purchases made through Bank of America Cash Rewards or Chase Freedom credit cards. Discover also engineered their cash back rewards to be applied within the Apple Pay app.

But clearly, card issuers had only one mission: To get their card loaded into the app as the preferred payment. None of the current digital wallets make switching cards easy, so initial placement can contribute to overall charge volume on that card.

And the fact that all digital wallets cooperated with the current card network systems alleviated fears that Apple was about to get into the bank's business. Thus, banks emerge unscathed no matter what happens with wallet adoption.

What's Next?

At Ipsos, we see the broad adoption of mobile payments at point of sale as an inexorable, although gradual, change in payment behaviors. Critical mass may not happen as soon as some advisories predicted, but we expect that higher frequency of usage—levels around 5 times a week for mobile wallet enabled phones—is possible by 2020.

We know it's a bit obvious, but tech giants, banks, merchant acquirers, will all continue to promote mobile POS even if for very different reasons. Their different agendas will continue to cause some customer confusion, which may be unavoidable on some levels.

Ipsos remains committed to help our clients measure, understand and track these market trends and consumer attitudes as they evolve over time. The Ipsos Customer Experience (CX) Team offers a wide range of services that will help clients understand the dynamics of Mobile Payments. These services include:

- ***Mobile Payments Mystery Shopping*** helps clients identify gaps in **support & training** at POS. Ipsos Mystery Shopping provides strategic insights to the delivery of the mobile payment experience that covers the multiple touchpoints of the experience—associate knowledge, ease of use and signage presence.
- ***Mobile Rewards Optimizer*** delivers insights on how to make your **incentive and rewards** programs as compelling as possible to increase consumer loyalty.
- ***Mobile Power Panels*** bring together consumers from varying states of mobile payments adoption to discover what it will take to build **habituation and ubiquity** of mobile at POS.

These are but a few of the powerful CX solutions in the Ipsos CX toolkit. Contact us to find out more.

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