Building Usage & Acceptance in Mobile Payments

A conversation with Ipsos' Jeff Repace and Reena Roy, along with special guest, Jim McKelvey

In this edition of an *Ipsos Minute,* Jeff Repace and Reena Roy discuss Mobile Payments and digital wallets with their special guest, Jim McKelvey, co-founder and current board member of Square, Inc. These are the encapsulated highlights from their discussion.

Despite early growth in Mobile Payments/digital wallets, adoption of this payment method has stalled. While there are a number of applications available to consumers, mobile pay acceptance has not taken off as forecasters predicted it would. Why is this the case? Technology overload? Too many applications? Merchant interference? Lack of consumer knowledge? Confusion? Just what are the barriers and 'stumbling blocks' to more commonplace usage and adoption among consumers? Read on as we examine the barriers and opportunities for building acceptance and, ultimately, usage.

> 66 …consumers are willing to have payments occur automatically, as long as they think they're being treated fairly. 99

JEFF: Jim, can you introduce yourself and tell us a little bit about you?

JIM: I'm an engineer and an economist… I started Square ten years ago and I've been in the payments space since then.

JEFF: What are the characteristics of the best-in-class Mobile Payments systems?

JIM: Best example would be **UBER** rides. At its fundamental level, the payment experience for Uber/ Lyft is **invisible…** there really isn't one. For the consumer, the best experience is convenience, i.e., invisible, convenient, habitual and ubiquitous.

JEFF: Convenience and ease?

JIM: Payments generally shouldn't be the focus of a transaction…they should be done in the background. However, you also need some signal for consumers to pay attention. Generally, consumers are willing to have payments occur automatically, as long as they think they're being treated fairly. If you can do that, you **remove friction from the purchase.**

JEFF: What types of companies are best equipped to be successful in the future with Mobile POS?

JIM: Single technology platform. That is, a streamlined system with no interruptions. For example, **First Data** versus **Vantiv.** First Data is a hodge-podge of different systems while Vantiv is much nimbler, meaning every time they (Vantiv) acquired a company, they took the extra effort to move that company into their core platform. And, it is important that all features be operational at all times. When we started, we were working with Payment Tech—a great company. They did everything we needed, but we were writing their platform called Omaha. We needed a feature that Omaha didn't support, so we slipped over to the Nashville Platform, a completely different tech stack. It was so unstable that they froze all changes between Black Friday and New Year's. In other words, two months of the year they did not push any changes and that's because the code base was so unstable, they were afraid it was going to crash during Christmas. Companies must have the ability to react because payments are one of these things that is going to continue to see an increasing rate of change…more control you have over your data…ability to move faster.

JEFF: Do you think there'll be a convergence around one or two technology providers or firms, or is it whomever is fastest and best at delivering?

JIM: Mergers are only successful if they are successful in integrating the tech—then you've got some real synergies. And, with Point-of-Sale (POS) systems, scaling is notoriously difficult because every time you scale it up, you make some future assumptions that favor a certain set of merchants and hurt another set of merchants. If you keep scaling up, you will eventually lose some of your install base and somebody else will write a feature for them.

REENA: Do you think consumers understand mobile payment technologies? What do you see as the main factors influencing consumer adoption? Is it Information overload or security concerns?

JIM: If you were to balance security versus convenience, convenience will almost always win. Security problems tend to come up as isolated events—hacks, identity theft, etc. I think consumers are just starting to wake up to the fact that they have these massive online identities that are completely out of their control, and in the hands of corporations that may or may not have their best interests. In other words, I give up my security every time I use Gmail. The trade-off is implicit vs. explicit.

JEFF: What about Point-of-Sale (POS) transactions and retailers/retail outlets? What is success? Is it just sales or do they have a vested interest in promoting Mobile Payments?

JIM: Retailers really need to figure out a way (especially if they're brick and mortar) to handle big online onslaught— more consumption is going online, partially for convenience. But, there's also tremendous convenience of being in the store and being able to grab the item, a matter of asymmetry. Stores, like WalMart, if they somehow could encourage their consumers to adopt mobile technology, then in-store experience can rival or possibly exceed online experience. Remember, the online experience isn't going to get me instantly, whereas in-store, you can bait me with instant purchases. There has to be a value proposition for the user to pull out their phone. It requires a behavior change via some sort of incentive, and also the ability to trust that the store is going to treat your data well—eventually becoming habitual and ubiquitous.

> ❝ If you were to balance security versus convenience, convenience will almost always win. ❞

JEFF: What about security? It seems like it is only an issue when something happens.

JIM: Much more consumption is going online, part of that is convenience. So, I give up my security every time I use Gmail. And, I like Gmail, but it reads all of my phone messages, it reads all of my correspondence. If I thought about it, it would probably freak me out a lot more that it does. But I like Gmail. In exchange for that, I don't get as much spam as I used to.

JEFF: With Point-of-Sale (POS) transactions, (retailers and retail-outlets), what is success? Is it just sales, or do they have a vested interest in promoting Mobile Payments? Do you create incentives and rewards? Are retailers doing a good job of servicing consumers?

JIM: Get the consumer to opt-in. Right now, if you look at your phone, it is pretty good at knowing where you are outdoors, but inside it goes blind. That's going to have to change. You have to build a system which gives a user a really fantastic experience, once the phone becomes location-aware, indoors.

JEFF: Do you think cashiers and people in-store understand how the systems are used?

JIM: You have to build the system, the point-of-sale system, so that any person can operate it. Simplification may be a bigger boon than education.

REENA: So, simplification is the key?

JIM: When you build a system for point-of-sale, developers keep wanting to add features. That is a fundamental driver of complexity. There is a need for simplicity. Also, one of the magical things that phones are good at is identity. But, the consumer has to have trust. The big companies seem to be trustworthy. I'm used to going into a restaurant and paying one way, you have to train a new behavior. You have to get me to notice something, and that's very difficult. It's a different habit, so changing the habit.

JEFF: We're seeing a lot of variation in trust. We've seen growth in folks transmitting payments to one another. Now, Peer-to-Peer (P2P) transfer seems to be becoming more ubiquitous.

JIM: P2P has been fantastic. The interesting thing is it is now becoming a new habit, particularly among younger consumers. You're seeing a wave of adoption. Friction has been removed from the system, so it's a real innovation.

JEFF/REENA: So, in addition to trust, what's the biggest hurdle for consumers to adopt a digital wallet?

JIM: There has to be ubiquity. And, there has to be value.

JEFF: What are the two or three things that must happen for Mobile Payments to really take off? We know that it's complicated, there are a lot of players, parties and technologies with different interests.

JIM: In the U.S., you would have to see the designs of Visa or Mastercard, because right now their systems are so good, they're efficient. However, not the retailer—they're a bunch of guys who can't get into interchanging stuff. But if you look at operational costs, you would have to have some sort of seeding of the top spot because nobody's going to knock the top spot of Visa-Mastercard out. You will need a company, like the Chinese do. They have a very good system (Baidu, Tencent, Ollie Pay, WePay and WeChat). The Chinese are so far ahead of us. They're like a hundred X (meaning multiplied by a factor of 100) our size in Mobile Payments, primarily because they were able to start with a clean slate and consumers went straight to mobile. In the U.S., you've got a different system that works and I don't see anything radically changing here. I think you're going to see person-to-person becoming increasingly important. As that becomes increasingly important, we find new advantages to sharing our identity and then consumers are going to adopt into this thing where the payments will begin to become invisible, that's when things are going to begin to be great. Like if I could walk around and have all of the payments in my life be as smooth as my Uber ride across town, well, that's a pretty cool thing because now things are just happening. They don't require my attention—they happen invisibly.

Closing Points:

In addition to ubiquity and value, success for Mobile Payments/wallets requires habituation, incentives, trust and education. Acceptance, though, is key.

Providers, like Visa-Mastercard, along with the banks, must be onboard with Mobile Payments and overcome any resistance to sharing a phone number with Apple, Google and AT&T. They will have to let a lot of other people into the party.

Ultimately, there is a need for more linkage of credit/debit cards within the mobile environment. Right now, we've got something of an identity battle since payments are about identity, and identity is interconnected with payments.

This situation, along with the accompanying technologies, will continue to evolve. It will be a matter of how the industries affected respond to that change.

Ipsos continues to work with its clients to closely monitor and measure the most relevant aspects of Mobile Payment. We strive to provide thought leadership to our clients on consumers' attitudes, experiences and intentions regarding Mobile Payments, so they can anticipate and respond to consumer needs for seamless payment methods.

For more information, please contact:
Jeff.Repace@ipsos.com
or
Reena.Roy@ipsos.com

About Ipsos

Ipsos is an independent market research company controlled and managed by research professionals. Founded in France in 1975, Ipsos has grown into a worldwide research group with a strong presence in all key markets. Ipsos ranks fourth in the global research industry.

With offices in 89 countries, Ipsos delivers insightful expertise across five research specializations: brand, advertising and media; customer loyalty; marketing; public affairs research; and survey management.

Ipsos researchers assess market potential and interpret market trends. They develop and build brands. They help clients build long-term relationships with their customers. They test advertising and study audience responses to various media and they measure public opinion around the globe.

Ipsos has been listed on the Paris Stock Exchange since 1999 and generated global revenues of €1,780.5 million in 2017.

GAME CHANGERS

3   18-12-51