How Payment Apps ADD UP

FRAGMENTATION IN THE WORLD OF **MOBILE PAYMENTS** LEAVES AN **OPENING** FOR **RETAILER-SPECIFIC PAYMENT APPS**—BUT **HOW LONG WILL THAT LAST?**

> By Pan Demetrakakes

Consumers who are interested in paying by phone have a lot of choices.

Retailers who are interested in being paid by phone have a fundamental one: Wait for one or two systems to become dominant, or develop their own?

Mobile wallets are like the Wild West: no central authority and lots of open territory. Estimates vary, but some put the number of apps and systems that allow for payments via mobile device at more than 100.

The rapidly evolving space has drawn a lot of interest considering the relatively small (for now) pie. In-person retail mobile payments are estimated at $10.4 billion for 2016, according to Forrester Research—which represents less than a quarter of one percent of total U.S. retail sales. The share is even smaller for grocery: In a consumer survey last year by Interactions Marketing, grocery didn't even place among the top six most frequent retail segments for mobile payments (although mass merchants were second and drugstores fifth).

Walmart Pay, rolled out nationally in June, is being sold as a quicker alternative to conventional card payments.

But the pie is getting bigger. Retail mobile payments are expected to more than triple by 2019, to $34.2 billion, according to Forrester Research.

Given that state of affairs, retailers—the biggest ones, at least—must decide whether it would be worthwhile to set up their own mobile payment systems, through their existing phone apps, as either an alternative to or a substitute for a universal payment system.

Two big retailers have recently done so. Walmart rolled out its app, Walmart Pay, to all of its U.S. stores in June. And CVS Health introduced CVS Pay in August to selected stores in the mid-Atlantic states, with plans to establish it in all stores by the end of 2016.

ONLY THE BIG ONES

For a proprietary payment app to be worthwhile, enough customers would have to use it to sustain the costs of maintaining it. Practically speaking, this puts it within reach only of the largest retailers, with many outlets. But for such retailers, running their own payment app has several powerful potential advantages.

One of the biggest is paying lower fees to credit card issuers. Establishing a proprietary payment app requires striking a contract with a financial institution to handle the transactions. A big, clout-heavy retailer will almost always be able to strike terms more favorable than the standard deals between retailers and card issuers.

"The primary advantage of a proprietary retail payment app would be financial. More precisely, the ability to re-capture a large portion of transaction fees otherwise paid

"Dedicated retailer payment systems place retailers at the top of the hierarchy and bring platform-agnostic ease to shoppers."

—CAROL SPIECKERMAN, *Spieckerman Retail*

to financial institutions," says James Tenser, head of consulting firm VSN Technologies. "The transaction fee issue has been a sore point between retailers and credit card companies for decades. Clearing some payments through a captive financial institution can save many millions of dollars for a large retailer. It's not cost-free, but the retailer gains back a good deal of control over those transactions."

Another big incentive for retailer-exclusive payment apps is that they have the potential to help forge a more direct relationship with customers.

"Retailers' apps are a gateway to their ecosystems that allow them to deliver personalized promotions and collect valuable data on shoppers' digital and, in some cases, physical journeys," says retail consultant Carol Spieckerman. "Transactional data is one thing; user data is another, arguably more valuable, asset."

Collecting this type of data can either enhance a loyalty program, or serve as a substitute for one. CVS is incorporating its ExtraCare loyalty program into its payment app; users will be able to load points, or redeem them, with every purchase. Walmart, on the other hand, has no loyalty program; Walmart Pay will offer an opportunity to keep a record of participants' purchase activity.

CROSS-CHANNEL ENHANCEMENT

Retailer-specific apps also offer the potential to enhance the customer experience across multiple purchase channels, both in-store and online.

Daniel Eckert, senior vice president for services at Walmart U.S., mentioned omnichannel strategy in a statement about Walmart Pay. "We're connecting all the parts of Walmart into one seamless shopping experience with great stores, easy pickup, fast delivery, frictionless checkout and apps and websites that are simple to use," Eckert said.

Allowing payment through a phone app can serve as a big step in integrating many customer interactions across channels, says Ralf Kern, global vice president with SAP Retail.

"The rise of mobile point-of-sale and mobile 'wallets' connect retailers to a customer's path to purchase," Kern says. "Mobile commerce, inside and outside the traditional store, creates significant incentives for retailers to add payment options along with other mobile offerings, such as promotions and reward applications." This can help retailers make using their proprietary payment apps more attractive to customers, Kern says: "Incorporating innovative mobile services from payments, coupons, store value cards, bill payments and others into a single device will provide the incentive for customers to adopt retail-specific, mobile-payment platforms without additional incentives."

These incentives are needed, because from the customer's point of view, a retail-specific payment app, whatever its advantages, has some powerful negatives.

The most obvious one is that it only can be used with a single retailer. Doing so would make sense only for shoppers who really want to use mobile payments, frequently shop at the retailer in question, and either get incentives like discounts to use the app, or have no alternative because the retailer won't take any other form of mobile payment (as Walmart doesn't).

Where there are alternatives, they'll probably be more convenient than a retailer-specific app, in addition to being more universal. For instance, Walmart Pay requires users to launch the app, then take a picture of a QR code that appears on a screen at checkout. (The selling point is that this still takes less time than paying by card.) The leading universal systems, on the other hand, use near field communication (NFC), which merely requires holding the phone near a point-of-sale terminal. Apple Pay and Android Pay require only a finger scan; the user doesn't need to launch an app, enter a password or even be connected to a network.

Mobile payment systems can be divided into three broad categories, depending on how they're driven: By retailers, like Walmart and CVS (perhaps the most successful retailer-driven payment app to date is Starbucks'); by technology companies, like Apple Pay; and by financial services companies, including

"If [Walmart Pay succeeds], they will have substantial leverage in negotiating to sell their system to a major card fulfillment company."

—HERB SORENSEN, *Kantar Retail*

Living in the Micro-Moment: The Importance of Providing Correct, Consistent Content

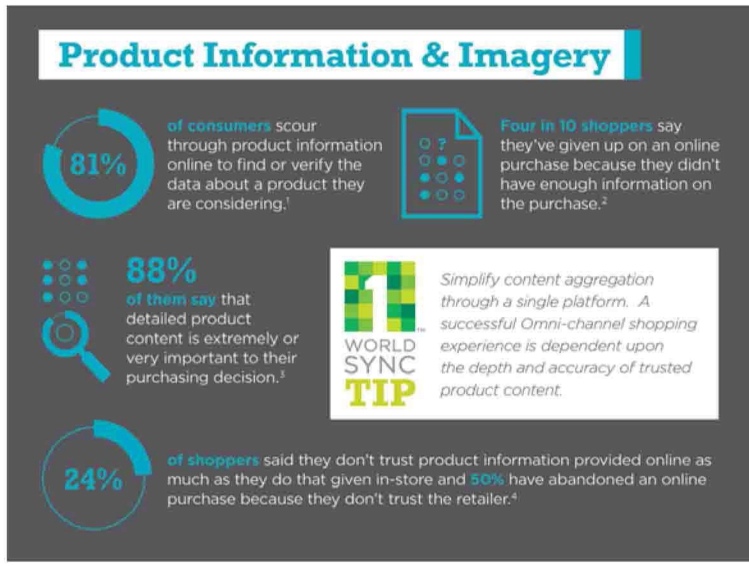
By Ken Sickles

It's not just the channel. It's the moment.

Beyond "omni channel", the term "micro-moment", from my view, is fitting when describing how people shop today, because those micro-moments happen anytime. With mobile technologies, everyone is able to find and look for information quickly, easily, whenever and wherever they want.

Consider this: if you go buy something from Amazon, you look on their website and then look on the mobile app. You don't say, "I'm going to look on the web channel and next, I'll check the mobile channel." Consumers don't think in channels. They think in moments.

At the same time, people look for transparency in the information they find. With a tap, they can find all kinds of evaluations and ratings about a certain product or business.



Because of the type of connectivity and access available to them, consumers are in control. That is as true for a car ride service like Uber, an online retailer like Amazon and a local hotspot restaurant as it is for, say, a bag of organic apples. In what city — or orchard — were those apples grown? What is the nutrient profile for a single apple? How can I get a recipe for apple pie?

As consumers move along different interaction mechanisms and take control of the flow of information, consistency is needed. Many retailers we work with are doing their best to break down silos around channels. From a content standpoint, manufacturers, retailers, distributors and others in the chain have a real opportunity to partner and provide consistent, correct information at the fingertips of consumers at any micro-moment in their purchase decision. That includes smaller suppliers, who can create a great experience and get content to recipients through elements like high quality images, product sourcing background, ingredient information, third party certification, etc. Meanwhile, as more suppliers and manufacturers sell products in larger online retailers with partners like Amazon, Google and Walmart, getting correct, consistent content is crucial, especially when so much content is available and often challenging to sort through and aggegrate.

Content doesn't have to be entirely out of the control of manufacturers or retailers, even if it is the consumer who is wielding more power over what, how, when and where they make purchase decisions in the moment or micro-moment. On the flip side, if you aren't doing your very best to get real content to consumers where they are and when they want it, they will move along to the next moment — and sale. ■

Ken Sickles is vice president of product strategy for 1WorldSync. 1WorldSync solutions helps suppliers and brand owners get their products to Google, Amazon, Walmart and beyond, through mobile, desktop and storefront. The company works to build scalable processes to capture customers' product information and scale globally across the portfolio of brands in an effort to ensure the highest impact, consistency, and levels of quality. Whether it's a video, warranty information or other details and assets, 1WorldSync distributes content through a closed property network or in an open API that allows for content grab.

About 1WorldSync

1WorldSync is the leading multi-enterprise product information network, helping more than 23,000 global brands and their trading partners in 60 countries — share authentic, trusted content with customers and consumers, empowering them to make the right choices, purchases, health and lifestyle decisions.

Through its solutions, technology platform and expert services, 1WorldSync provides solutions that meet the diverse needs of its customers. For more information, please visit www.1worldsync.com

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A YEAR AFTER DEADLINE, CHIP CARDS STILL DRAGGING

One of the ongoing sources of turmoil in the world of retail payments has been the migration from magnetic swipe credit and debit cards to "chip" cards, also known as EMV cards (for Europay, MasterCard, Visa). The cards, already widely used in Europe, use an electronic chip instead of a magnetic stripe to store information, making them more secure and harder to copy.

Oct. 1, 2015, was supposedly the date that retailers had to have POS terminals capable of reading chip cards, or else suffer liability for any fraudulent card transactions. But to their frustration, a lot of merchants who had the necessary equipment found that they couldn't accept chip cards because they couldn't get the necessary credentials from certification companies established by the major card issuers. This meant that the merchants stayed liable for fraud. Some of them, along with industry advocates like the National Grocers Association (NGA), accused the financial sector of dragging their feet to avoid the shift of liability.

As the one-year anniversary of the "liability shift" approaches, the situation is improving slowly but still has a long way to go, says Greg Ferrara, the NGA's senior vice president for government relations and public affairs.

"More and more of our members are coming on line and being able to accept EMV," Ferrara says. "We believe that the certification delay had to do with the card networks not adequately foreseeing how long it would take to get U.S. retailers certified, and I don't think they put enough resources, quite frankly, behind it." He also maintains that there were, and still are, some card-issuing banks that took advantage of the certification delays to avoid liability.

On the other hand, Jared Drieling, business intelligence manager at The Strawhecker Group, says that when it comes to EMV migration hassles, neither the merchants nor the financial institutions are totally guilty, or innocent.

"Merchants, networks, card processors—they all knew the October 2015 liability shift date was coming for years," Drieling says. "So there was clearly a lack of being prepared from all sides."

Drieling also contends that, all things considered, the EMV situation in the United States really isn't that bad.

"I think it's important to realize that, looking at how these migrations happened across the globe, they typically took five to seven years," he says. "And we're not even a year into it, and approximately half of all merchants in the U.S. have an EMV terminal now. We're well ahead of curve compared to the rest of the globe, especially being in a very complex market."

banks, credit card companies and payment services like PayPal. (The latter usually require the shopper to log in and specify the merchant, who then scans a code on the phone that allows money to be deducted from the shopper's account.)

THE NFC ADVANTAGE

Android Pay (which replaced Google Wallet last year) and Apple Pay are the two most popular mobile payment platforms in the U.S. Both use NFC, which gives them an advantage over not only retail-based systems, but payment-service-based ones like PayPal.

Another strong tech-driven contender is Samsung Pay, which has universality to a unique degree. Through an acquisition last year, Samsung became the sole owner of magnetic secure transmission (MST) technology. Like NFC, it works when the user holds his phone near a POS terminal. But MST mimics the data found on a credit or debit card's magnetic strip, which means it can be used with almost any POS system that takes swipe cards. (Samsung Pay also has NFC capability.)

Technology-based payment systems, however, have their own limitations. They can only be used with a certain type of phone—in the case of Apple Pay and Samsung Pay, phones from a single manufacturer. With Android and Apple, the phone's owner must hope that her favorite store will accept her phone's system. Samsung Pay is more universal, but its MST technology can't be used with POS terminals that only take chip cards. Those won't come for a while—but eventually, they will.

"The retailer-specific payment solutions definitely have an advantage here," Spieckerman says. "Dedicated retailer payment systems place retailers at the top of the hierarchy and bring platform-agnostic ease to shoppers."

The fragmentation of universal mobile payment systems, with no clear market leader, is what gives retailer-specific payment apps their opening. But if and when a market leader emerges, retailers who have their own payment apps will be at a crossroads. They will be under increasing pressure to accept the leading system in their stores, meaning that they'll have to compete with it, whether by offering discounts for purchases with their own app (which Walmart currently doesn't do) or some other way.

Herb Sorenson, a scientific advisor with Kantar Retail, doesn't think retailer payment apps will survive this kind of competition—or may even die before it arrives.

"I don't believe Walmart [Pay] will succeed," he says flatly. "But maybe they will, and if they do, they will have substantial leverage in negotiating to sell their system to a major card fulfillment company." **RL**