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MOBILE PAYMENTS ARE ON FIRE: WHO WILL (FINALLY) USURP THE PAYMENTS MARKET?

BY ERIC GROVER, PRINCIPAL AT INTREPID VENTURES

After years of hype and disappointment, the mobile payments market – specifically payments initiated from handsets – is heating up. It's a significant development because mobile phones now expand the point of sale to anywhere and will change how consumers, merchants, and value-add suppliers engage around payments.

Payments initiated from handsets, commonly known as digital wallets, are becoming more valuable. They provide Internet-connected platforms with the ability to store and manage payment keys as well as loyalty, reward, and promotional programs. They bridge e-commerce, mobile commerce, and payments at the physical point-of-sale. And they offer a potentially powerful means to engage consumers.

Because of this, a mobile payments land rush is underway with hundreds of digital wallets vying for payments share, ranging from venture-capital-backed startups to long-standing industry titans. Most will fail.

Many high-profile wallets already have because they were too early and/or had flawed approaches and shareholders: mobile network operators EE, O2, and Vodafone shuttered their joint venture Weve; O2 pulled the plug on its own wallet; Jack Dorsey's much-hyped and richly valued new-age Square wallet was abandoned last year; France's Worldline and mobile network operators Bouygues Telecom, Orange, and SFR threw in the towel on Buyster; and recently (after reputedly spending one billion dollars) AT&T, Verizon, and T-Mobile ditched Softcard.

But a host of giants still remain committed to building mobile payments platforms.

THE APPLE PAY EFFECT

Last October, Apple launched its mobile wallet, Apple Pay. Some had hoped, while others feared, it would attempt to upend existing payment systems. But astutely, the Cupertino tech giant embraced them by tapping into the traditional card payment process, and instead focused on features and functions, increasing its chances of success at enhancing the iOS platform and customer loyalty – its real aim.

Unlike other wallets, out of the gate Apple was able to demand a piece of banks' revenues – 15 basis points for credit cards. Some analysts attributed this to Apple Pay's security (to reduce fraud, Apple Pay stores tokens rather than card numbers on the handset's secure element and employs fingerprints for authentication), but rather it is because Apple could credibly threaten to shift spend between card issuers. Some of its brand loyalists would more likely switch credit card providers than stop using Apple Pay.

OTHER PAYMENTS PROVIDERS TO WATCH

Since 2005, Google has struggled in payments, despite its ample resources, the world's most widely used mobile operating system, and a 67 percent share in search. Although more open (less of a controlled environment than Apple), Google relies on third-party handset manufacturers, has less ability to migrate users to its current operating system, and employs host card emulation (HCE), enabling service providers to store and retrieve payment credentials in the cloud rather than on the handset's secure element. While in theory Google's open system should foster payments innovation, it has failed to gain much traction, and Apple's platform control has given it an edge.

But recognizing the stakes are huge (according to Forrester, U.S. mobile payments alone are expected to rise to $142 billion in 2019), Google is soldiering on in payments, mainly aiming to capture payments data by tracking purchases, to enhance its search-and-advertising business.

In February, Google acquired Softcard assets, agreeing to pay AT&T, Verizon, and T-Mobile to preload Google Wallet. It also announced Android Pay, an API for developers to implement their own payments service.

Under pressure from Apple and low-cost Android handset manufacturers, in February Samsung acquired proximity payments and wallet pioneer LoopPay. To differentiate itself from other competitors, Samsung's new Wallet uses near-field communication (NFC) and LoopPay's technology, which tricks traditional point-of-sale terminals into thinking they're reading a magnetic stripe. The technology will allow a near ubiquitous (~90%) acceptance, stealing a march on Apple.

Last month, network processor and leading wallet PayPal acquired Paydiant, a white-label digital-wallet provider. Coupled with credit, the feature-rich private label wallet should strengthen PayPal's retailer value proposition.

And don't count out the traditional payment powerhouses. With their bank licensees, Visa and MasterCard are promoting Visa Checkout and MasterPass, respectively, to reduce e-commerce and mobile-commerce friction. And an association of U.S. retail giants, Merchant Customer Exchange, promises to launch its wallet, CurrentC, this year.

WHAT WILL THE WINNERS GAIN?

In payments, consumers and merchants are conservative and tend to adopt new payment systems slowly. Although in e-commerce, and especially mobile, commerce wallets do address real friction challenges at the physical point-of-sale, existing systems work well and are habit. That said, if in a decade, billions of consumers are won over by convenience and use digital wallets for a majority of their retail spend, colossi such as Apple, Google, PayPal, and Samsung could extract significant rents from – and diminish brand and relationship capital of – banks, mobile network operators (MNOs), and merchants.

Player	Mobile payments motivation
Mobile handsets and OS suppliers (Google, Apple, Samsung)	Customer loyalty, innovator status in the market, enhanced core business
Banks	Maintain brand primacy, maintain spend
Retailer	Ease transaction process for consumers at point of sale
Traditional card networks	Increase number of transactions and interchange fees
Merchant acquirers	Maintain business

Yet, it's still early in the game. Business models are unproven and in flux, and many of the players aren't chasing payment revenues, but market position and perception.

Any disruption will ripple through (roil) many industries: the fate of banks, networks, mobile-network operators, retailers, and operating system suppliers hang in the balance over the long term.

In the meantime, this market is surely one to watch.

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ABOUT AUTHOR

Eric Grover is principal at Intrepid Ventures, providing corporate development and strategy consulting to financial services, payment network, processing, and technology businesses. This Guidepoint Advisor has comprehensive understanding of the global electronic payment network, processing, and payment card landscape and is a renowned expert on the electronic payments space. His prior experience includes Visa International, GE Consumer Finance, Bank of America, NationsBank, and Transamerica, and he has over 25 years of experience in the financial services space.

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730 Third Ave | 11th Floor | New York, NY 10017

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