

Paying with Your Phone:

The Present & Future of Mobile Payment

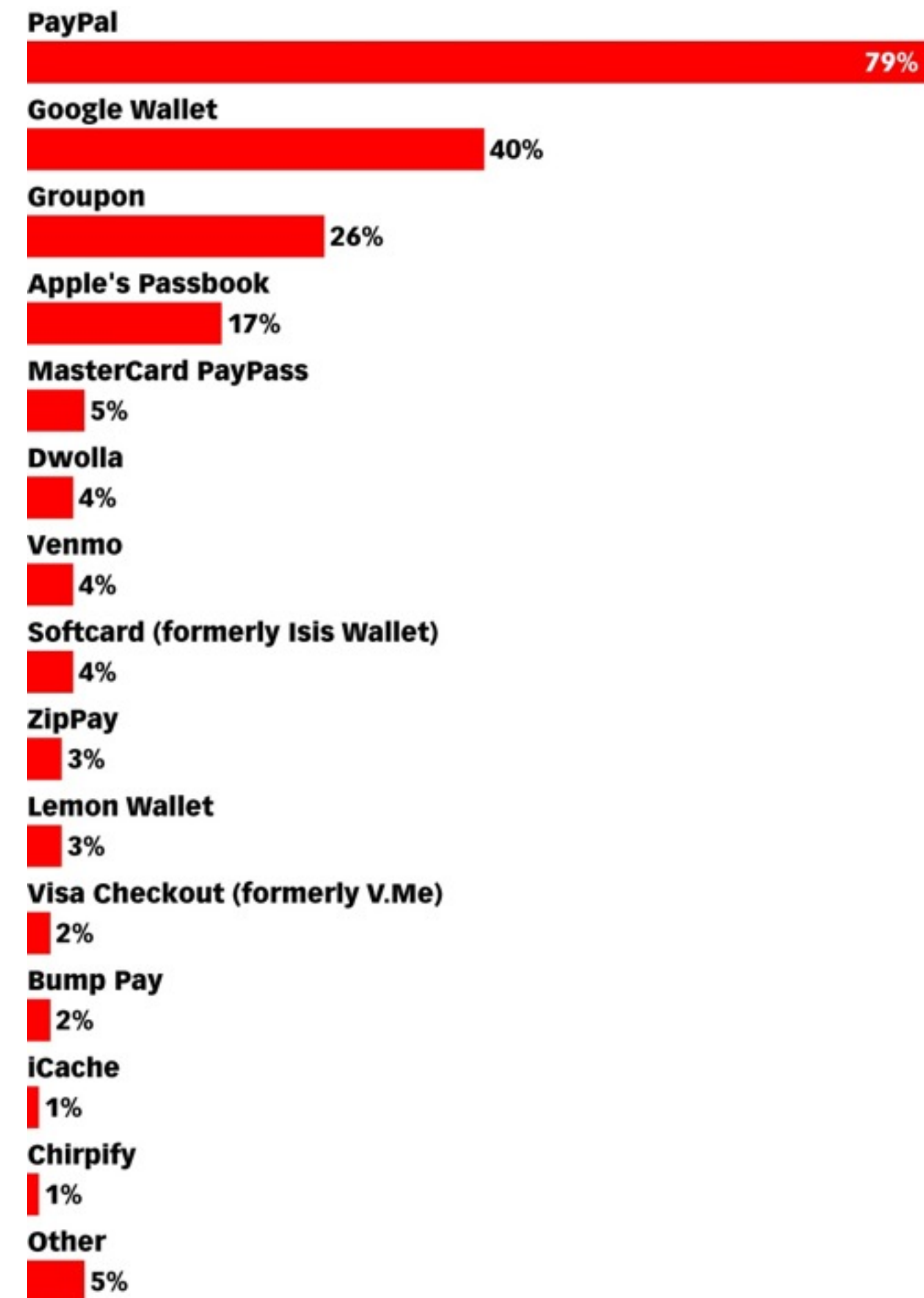
October 20, 2014

With the introduction of Apple Pay, mobile payment is poised to hit the mainstream.

Although it looks like only PayPal and Google Wallet could withstand the surge of Apple Pay, the reality is that everyone in the market wants a piece of the mobile payment pie.

With over **4,700 billion** in retail transactions this year, it's no surprise that payment is becoming a major battleground for both industry giants and ambitious startups.

Digital Wallets Used by US Digital Wallet Users, June 2014
% of respondents



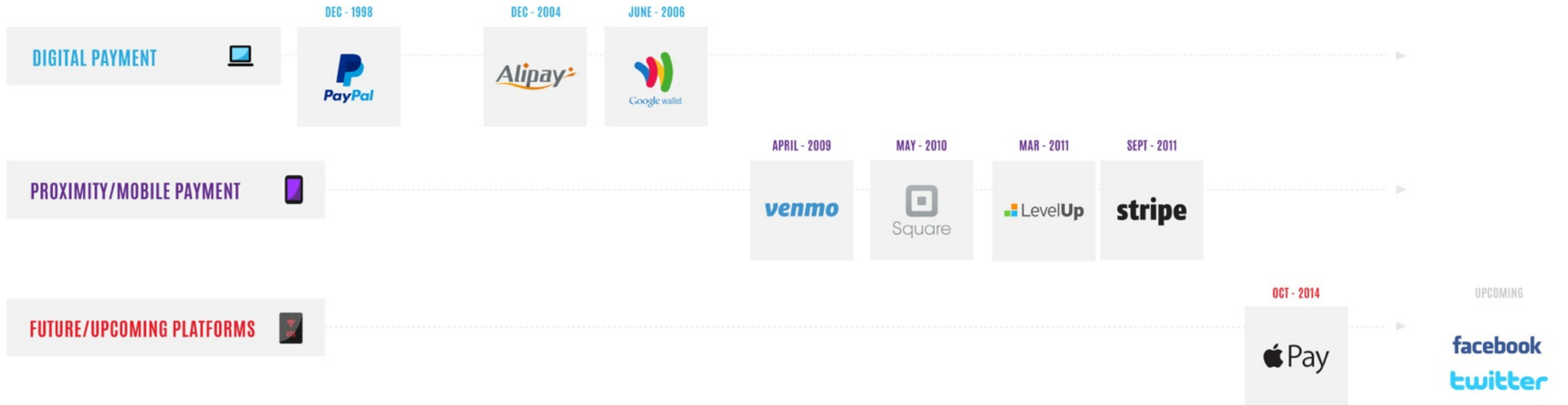
Note: n=652 smartphone owners who have ever used a digital wallet
Source: Thrive Analytics, "Digital Wallet Usage Study," July 23, 2014

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Market Overview

THE DEVELOPMENT OF DIGITAL PAYMENT 



The general public feels optimistic about its future, too.

Over two-thirds of users surveyed believed that it's likely that mobile payments will become a major way people make payments in stores in the next five years.

Mobile Payment Usage and Attitudes Among US Internet Users, Aug 2014

% of respondents

Mobile payment usage

Use to make payments	13.5%
Use to accept payments	6.0%
Don't use	82.2%

Attitudes toward mobile payment usage

Definitely will become widely used in the next 5 years	23.2%
Probably will become widely used in the next 5 years	53.7%
Probably won't become widely used in the next 5 years	16.7%
Definitely won't become widely used in the next 5 years	6.2%

*Note: n=400 ages 18+; numbers may not add up to 100% due to rounding
Source: AYTM Market Research as cited in company blog, Aug 18, 2014*

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**But look around. Hardly anyone you know is paying
with their smartphones.**

Why?

Mass consumers haven't adopted mobile payment yet...

...because it is not sufficiently:

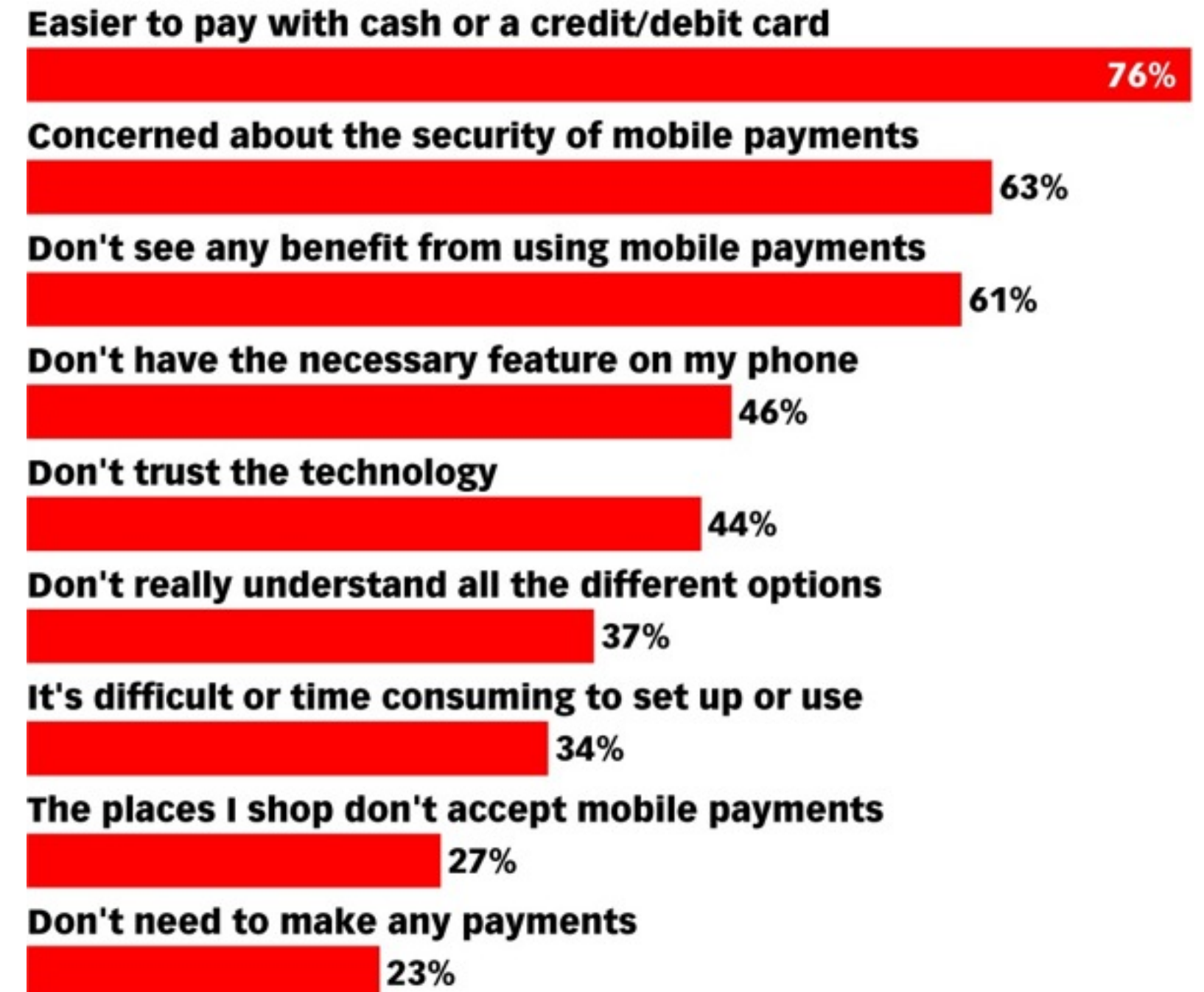
Universal

Convenient

or Secure

Reasons that US Mobile Phone Users Do Not Use Mobile Payments, Dec 2013

% of respondents



Note: n= 1,956 ages 18+

Source: Federal Reserve Board, "Consumers and Mobile Financial Services 2014" conducted by GfK, March 25, 2014

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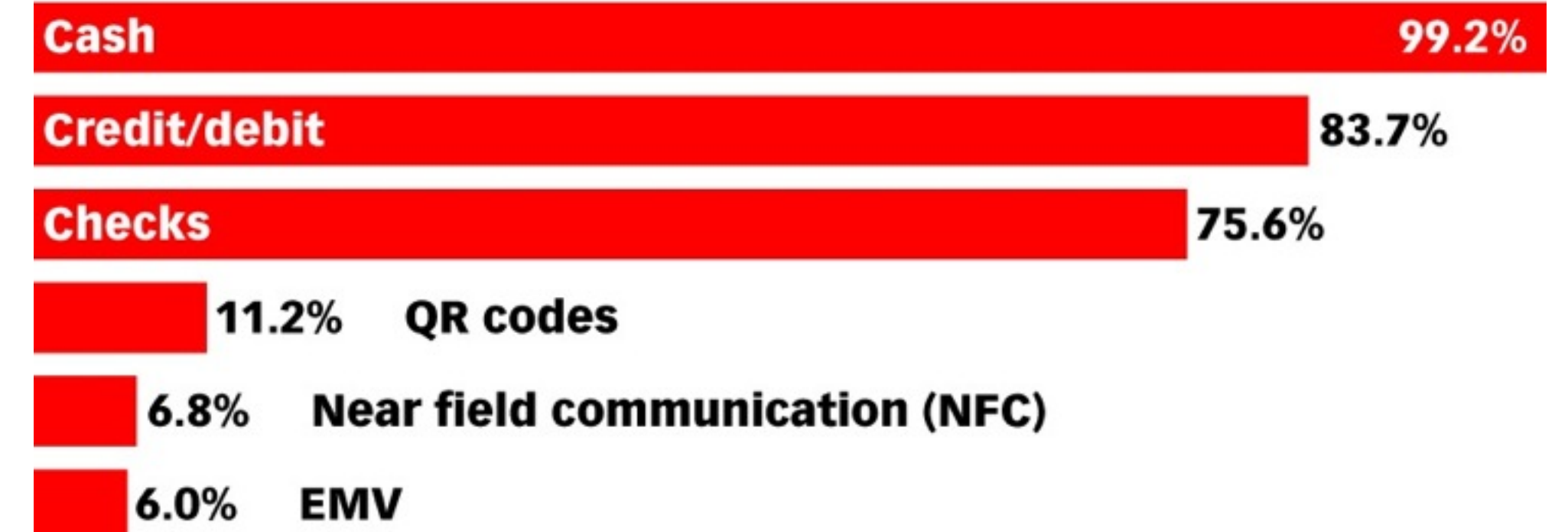
Cash is still king; but may soon have to share the throne

Of course, for a payment system to work, it must be adopted by both consumers and retailers, and retailers have been slow to adopt new methods. Cash still dominates, while more advanced methods like QR codes and NFC are accepted by less than a quarter of the market combined. Successful adoption will require a careful balance of on-boarding retailers and consumers.

That being said, mobile payment is quickly gaining ground. PayPal, for example, processed more than \$27 billion in mobile payments in 2013, around 15 percent of total payment volumes. And with Apple Pay going public this week, large national retail chains that reach the vast majority of U.S. consumers will start accepting NFC-based payment, significantly increasing the acceptance rate of mobile payment.

Payment Methods Currently Accepted by US Merchants, Q3 2013

% of respondents



Note: n=123

Source: Merchant Warehouse, "Mobile Survey," Oct 22, 2013

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Too many options confuse customers

Sometimes it's not just the lack of payment options, but the proliferation of methods. Between peer-to-peer mobile transfers, NFC and beacon payment, QR codes, pay-by-Tweet, and more, consumers don't know what to expect when they check out.



Integration encourages adoption

In China, Alibaba's Alipay has been dominating the ePayment market and overtaken PayPal as the largest mobile payments platform in the world. With a comprehensive and centralized service, it has amassed over 300 million total users, with its mobile app Alipay Wallet recently reaching 190 million annual active users.

Alipay shows a potential future for mobile payments. Started as a supportive service for Alibaba's ecommerce sites, the company has since moved on to provide a plethora of payment services across platforms, from paying the cable bill online with a laptop all the way to ordering a cute gift from Alibaba's sites on a smartphone.

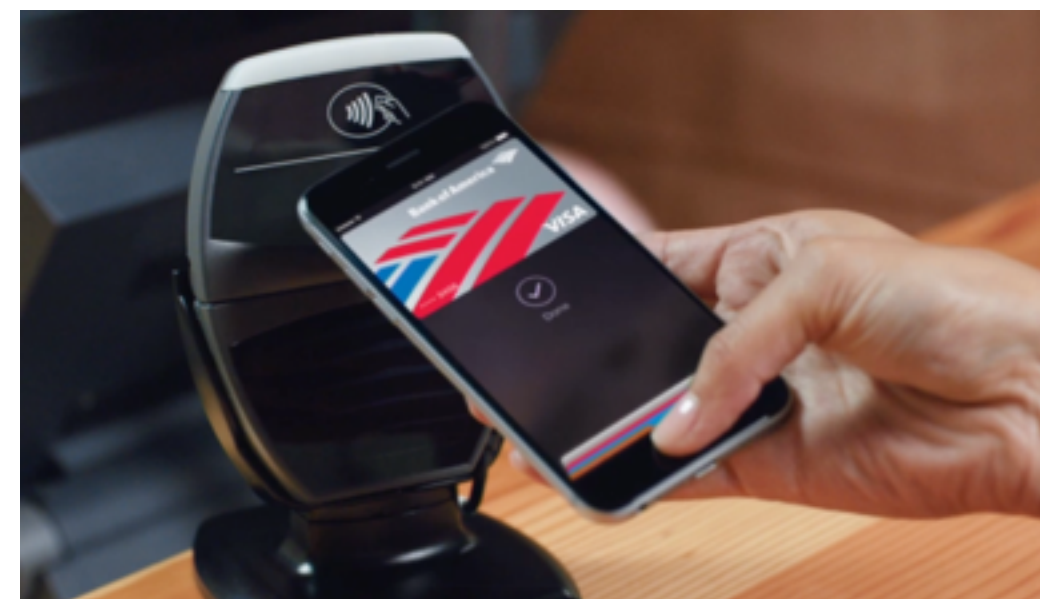


Why make the switch?

Even if payment methods were widely available in stores, consumers may not be clear about the benefits of switching to another method. Currently, services require complex set-up and end up not being much faster than traditional payments.



1. Take out wallet
2. Pick out a credit/debit card
3. Swipe
4. Enter PIN number/Sign



1. Take out smartphone
2. Enter password to unlock
3. Open payment app
4. Choose the right card
5. Tap to pay
6. Enter PIN Number/Sign

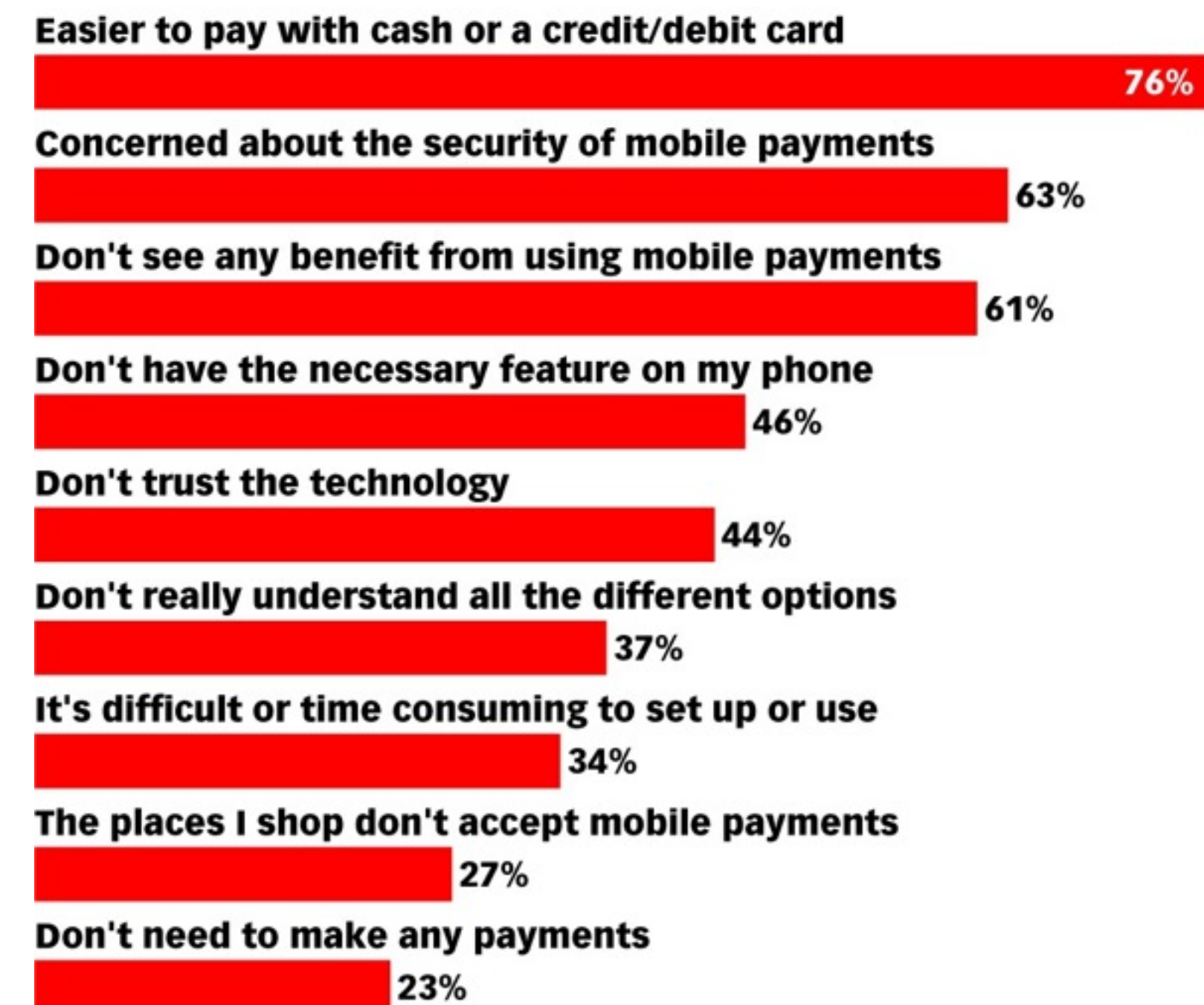
Security could be the key (or the Achilles' Heel)

Over 60% of people surveyed cited security as the main reason for not using mobile payments, ranking right after inconvenience as the top hinderance for mass conversion. But poor security is by no means limited to mobile payments; the recent slew of data breaches at major retailers like Home Depot and Target have demonstrated how risky existing credit cards are.

This provides both a challenge and an opportunity for mobile payments: extra security measures may convince consumers to switch, but any well-publicized breaches will negatively affect the entire industry.

Reasons that US Mobile Phone Users Do Not Use Mobile Payments, Dec 2013

% of respondents



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Source: Federal Reserve Board, "Consumers and Mobile Financial Services 2014" conducted by GfK, March 25, 2014

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So how can mobile payments move into the mainstream?

1. Keep it simple
2. Add more value to mobile payment with rewards and discounts
3. Employ new technologies for extra security measures

1. Keep it simple

There are three factors in mobile payment that are in need of simplification:

1. The process of set-up should be streamlined using either already stored payment information, or easier input methods such as image-analysis.
2. The process of mobile payment needs to be simplified to point where paying with smartphones is easier than paying with cash or cards.
3. Integration with wearables, especially smart watches, needs to be explored to bring new possibility of a more natural and simplified experience of mobile payment.

For Your Consideration:

- Is your mobile payment set-up simple and user-friendly?
- What are the key steps that would ensure a natural and hassle-free user experience?
- What smart devices or apps could provide a more convenient way for mobile payment?

2. Add more value to mobile payment with rewards and discounts

Extra incentives, like reward programs, can help convince consumers to switch to paying with their phones. This also increases the amount of data that brands can collect, which should ultimately be used to provide more value to the consumer.

For Your Consideration:

- Are you providing your consumers with extra value or incentive if they pay with their smartphones?
- Is the overall experience for consumers sticky enough to convert to mobile payment and stick with it?

3. Employ new technologies for extra security measures

A few technologies have emerged as new ways to secure mobile payment, both on the users' end and the merchants'. And they should be adopted to provide a necessary peace of mind for the payers. Apple Pay, for example, uses both fingerprint-identifying Touch ID and Tokenization of payment information to to secure the transaction. Mastercard has followed suit with a plastic card that has its own NFC chip and fingerprint sensor, demonstrating how developments in mobile payments are already affecting other forms of payment.

For Your Consideration:

- Are you using technology to secure the payment process and information?
- Have you properly informed and educated your users about the security measures of using mobile payment?
- Are those security measures convenient to use and not disruptive to the user experience?

Thanks!

We hope you've found this POV interesting and provocative. If you have questions or want to talk more about the future of media, please contact us:

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