

## Consumer Products and Services Industry Perspectives

*Your monthly blog and industry news round-up*

### June 2017 Retailers, Tech Firms and Financial Services Providers: It's Time to Shape the Future of Mobile Payments — Are You Ready?

The global mobile payments market is **projected to reach US\$780 billion** by the end of 2017, according to research firm TrendForce. That figure seems impressive until you consider that the ability to pay for goods and services with a mobile device has been a reality for years. It's been **nearly a decade** since Starbucks, one of the biggest mobile payments success stories to date, launched its app and rewards program. And **recent research** by the Mobile Economic Forum found that one-fifth of global consumers have made a mobile payment in-store. Given the exponential growth in smart device innovation and adoption over the past decade and consumers' inherent desire for convenience and speed when making a purchase, it is logical to think that the mobile channel would dominate as *the* avenue for payments by now. It's where we're headed, to be sure. But some formidable obstacles have been impeding the growth of the industry, such as:

- **Persistent concerns about fraud, privacy and security:** Even though most consumers are aware of “digital wallets” — apps on smartphones that store credit card information and facilitate mobile payments — many remain wary of the risks. Fraud has been a problem, with weak authentication practices and identity theft at the root of many incidents — including those involving well-known brands like Apple Pay and Samsung Pay.

Consumers also worry about how companies are collecting and using data, including purchasing history and even geolocation. How and if that sensitive information is being protected from hackers is yet another concern. Tokenization helps to secure valuable transaction data, but data stored in digital wallets or merchants' payment systems may still be vulnerable. Also, new entrants to the market may lack the security sophistication needed to protect sensitive data from compromise.

- **Bad timing:** When solutions like Apple Pay, Google Wallet and Android Pay were being rolled out by mobile manufacturers and tech providers a few years ago, EMV chip card technology was also hitting the market. Retailers were initially confused, and frustrated, about whether to adopt mobile payments or EMV chip card technology. Most prioritized the latter. Now, adoption of that technology is near-universal in retail, even though EMV chip card transactions are slower than mobile payments or even traditional credit card payments.
- **Lack of a consistent experience:** Merchants of all types have been racing to launch their own digital wallets. But it is unlikely that many will achieve long-term success with their ventures because consumers are already overwhelmed by choice in the market. Plus, these offerings are diverse, which means the mobile payments experience for consumers also varies. That works against efforts by retailers, and the mobile payments industry to engage consumers and convince them to pay with their smart devices at every opportunity. And there's another ingredient for mobile payments success that not all retailers can capture: A key reason that apps from brands like **Starbucks, Taco Bell and Dominos** are so popular is that consumers do business with these retailers frequently — sometimes daily.
- **The fact that old habits die hard:** One more dynamic that's working against mobile payment adoption is the simple fact that it's still easier and faster, in most cases, for consumers to pay for goods and services with cash, debit card or credit card. They're comfortable with these methods, so they're in no hurry to change. And many businesses that offer mobile payment options fail to do enough to incentivize consumers to make the switch — for example, they don't provide compelling rewards to customers who use their app frequently.

## A Growing Swell of Expectations From Consumers

The picture is not all bleak. There are other strong trends in motion that will help to drive mobile payments innovation as well as consumer adoption and use of these solutions. Here are some of the dynamics to watch:

- **New shopping trends will help mobile payments grow — a lot.** Showrooming — where consumers examine merchandise in a traditional brick-and-mortar retail store or another offline setting and then buy it online, sometimes at a lower price — is just one example. It's a retail experience that's made for mobile — and it's expanding as large e-commerce players like Amazon and Microsoft get in the game. Retailers can use mobile payment apps to incentivize shoppers to buy items in the store by offering discounts, special rewards or free delivery.
- **Mobile shopping apps are becoming more experiential for consumers.** The core purpose of a mobile payment service is to facilitate transactions, of course, but that's not enough to engage a consumer. Mobile shopping apps are evolving to help customers discover and research products before they are at the store and then help them locate those products while they're in the store. These apps can also store shoppers' receipts, gift cards and shopping lists; present discounts and coupons; enable comparison shopping; make the checkout process simple and fast, and more. Look for customer loyalty programs to evolve, as well; for instance, using data insights, a retailer could offer individualized incentives to mobile shoppers and reward them for specific behaviors.
- **A friction-free experience is becoming an expectation, fast.** Mobile payments success hinges on creating a simple, seamless, value-adding and branded customer experience. Leading players in the person-to-person (P2P) payments space are setting the standard for the frictionless consumer experience — and winning over mobile-minded millennials. **Recent research from Bank of America** found that 62 percent of millennials use a P2P service.

Entrants in the P2P space are also focusing on the back end, trying to simplify operations and bake in security wherever possible without undermining the consumer experience. Good infrastructure that supports a secure and seamless customer experience is essential to the future of mobile payments. In the coming months on the blog, we'll be exploring topics that retailers, technology companies and financial services providers, specifically, should consider when developing their mobile payments strategy. These topics include operational effectiveness, risk and compliance issues, technology strategy, and security and data privacy. Each of the industries mentioned above has an important role to play in helping to shape the evolution of the mobile payments industry. It will be through their collaboration, cooperation and innovation that the mobile payments experience can become what businesses and consumers alike envision it can — and should — be.

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