

A First Data White Paper

Consumers Going Mobile: The Transformation of Payments

Welcome to the age of Universal Commerce — commerce that is integrated, personalized, secure, open, and smart.

The lines between in-store commerce, eCommerce, and mobile commerce are blurring. Consumers expect a more integrated buying experience that is quick, consistent, secure, and available wherever they happen to be, at anytime, and through any type of device.

In First Data's continuing series on Universal Commerce, this paper explores the findings of a recent research survey on consumer purchasing and payment preferences.

Introduction

There is no question that in recent years there have been momentous changes in the ways we communicate with each other, consume media, and make purchases. The rapid proliferation of advanced mobile devices like smartphones and tablet computers has created an entirely new commercial landscape to which retailers and financial institutions must adapt. Consumers increasingly rely on uninterrupted access to digital entertainment from online providers like Amazon and Netflix, recommendations from websites like Yelp and TripAdvisor, daily discount offers from Groupon and LivingSocial, and sophisticated mobile shopping apps that provide instant price comparisons and inventory checks wherever they are. The boundaries between mobile commerce, e-commerce, and brick-and-mortar commerce have virtually disappeared, and a new retail environment has formed according to the needs of connected consumers who expect technology to be integrated into nearly all aspects of their lives.

Obviously, these consumer trends profoundly affect the way merchants and financial institutions will do business in the future. Not only are the channels for marketing and customer interaction evolving; the very foundation of payments is in the process of undergoing dramatic changes to accommodate consumer expectations for convenience, security and mobility. To meet these developing payment needs, throngs of new players are crowding into the marketplace, including technology providers, mobile network operators, Internet start-ups, and other untraditional new entrants that threaten to disrupt existing consumer relationships.

The altered payments ecosystem clearly presents both challenges and opportunities for merchants and financial institutions. In order to help them better understand the consumer behaviors and expectations that are shaping the market, First Data commissioned Forrester Consulting to conduct "The Evolution of Payments" research survey in August 2011. The findings illustrate the various ways in which consumers are employing mobile technology in their shopping activities, as well as their attitudes toward alternative payments and daily discounts. For merchants and financial institutions alike, the insights revealed by the study will suggest ways they can better serve the needs of their customers.

Smartphone Adoption

Mobile phone technical capabilities have advanced rapidly in recent years, and the adoption rate of smartphones continues to escalate. Gartner estimates that by 2013, mobile phones will overtake the personal computer as the most common web access device.¹ By that same year, Forrester predicts that 48 percent of all U.S. mobile phone subscribers will be smartphone subscribers, a striking jump from just 7 percent in 2008.²

Smartphone users' habits are different than the habits of feature phone users. According to First Data's research, smartphone users are five times more likely to make mobile purchases (40 percent vs. 8 percent), and across the board are more interested in using phone-based mobile wallet functionality for a range of payment-related activities, such as organizing and tracking rewards, paying for mass transit, and managing gift cards and coupons. As smartphone penetration increases, it is likely that interest in mobile payments and mobile commerce will accelerate.

What Do Consumers Really Want?

The unprecedented velocity of consumer technology adoption in recent years continues to transform the retail landscape and payments ecosystem. While financial institutions and merchants may sometimes have opposing interests, it is critical for both entities to understand what consumers really want as disruptive technologies like mobile payments move into the mainstream.

First Data believes that the following five factors are driving consumer purchasing and payment preferences:

- 1. Immediacy.** Today's consumers have become accustomed to immediacy in all aspects of their lives: instant search results, music downloads, e-mail messages, digital photography and streaming video, to name a few. As the pace of daily life continues to accelerate, consumers will expect their payments to keep up. With 60 percent of consumers in a previous First Data study stating that they believe contactless payments translate into faster payments, and results from contactless mobile payment trials showing a measurable decrease in transaction time, it's clear that mobile payments will play a key role in supporting consumers' desire for immediacy.³
- 2. Convenience.** Consumers have also come to expect convenience in every activity, from hands-free, voice-activated phone commands to the ability to order everything from diapers to diamonds with the click of a button. Mobile commerce appears to support consumers' thirst for universal convenience. First Data's research found that 36 percent of consumers believe that mobile purchasing is more convenient than using a credit or debit card in person at the store. Meanwhile, a whopping 70 percent said that the experience was easy or very easy, compared to just 6 percent who said it was difficult or very difficult. Mobile wallets also provide enhanced convenience, allowing consumers to manage their credit cards, debit cards, gift cards, and rewards programs electronically, all in one place.
- 3. Control.** Control comes from access to information for decision-making, and consumers now rely on real-time data wherever they are. What once required a trip to the bank or a phone call with a credit card provider can now be accomplished with a few clicks. A mobile wallet can consolidate control of financial information and spending activities into one simple application on a single device—and consumers have expressed enthusiasm in using this functionality for a variety of purposes. Among First Data survey respondents, 44 percent specified interest in using mobile wallets to track and use coupons, 42 percent to organize rewards and loyalty points, 38 percent for transit e-tickets, 36 percent to track purchases and transactions, 35 percent to organize gift cards, 34 percent to make purchases, 32 percent to organize spending by category, and 32 percent for budgeting.
- 4. Relevance.** In an environment marked by continuous streams of information and advertising, consumers demand relevance. They have less and less patience for generic marketing from retailers and financial institutions; they desire smarter communications, with tailored messaging that addresses their specific needs. It's no wonder that three in ten survey respondents stated that they are "very interested" in mobile marketing. The marketing opportunities enabled by mobile commerce support consumers' requirements for relevance, through location-based promotions, personalized mobile coupons, and real-time reward redemption.

Daily Deals Popular in Spite of Shortcomings

Fueled by enthusiastic consumer acceptance and the relative ease with which they can be promoted through e-mail and social media, "daily deals" from providers like Groupon and LivingSocial are thriving. In First Data's recent survey, 59 percent of respondents had signed up for daily deals services—and of those who signed up, 79 percent had made a purchase. Even among non-adopters, 90 percent revealed that they would consider purchasing a daily deal.

Given the exploding popularity of this type of Internet-enabled marketing promotion, it is no surprise that their underlying technology and processes haven't been able to keep up: less than half of respondents felt that using daily deals coupons was more convenient than conventional coupons, indicating a need for the marketplace to better align with consumer expectations if its growth and success is to continue.

- 5. Security.** Consumers continue to be concerned about the security of their personal information and the integrity of their financial transactions. Sixty percent of respondents in First Data's survey expressed concern about the security of their information or losing their phone, and more than half feel that making payments with mobile phones is less secure than making a payment in person with a credit or debit card—a misperception that merchants and financial institutions will need to address. The good news is that consumers will adopt new payment methods once they are familiar and comfortable with the process. According to the survey, 60 percent of consumers agreed or strongly agreed with the statement, "I would use [my mobile phone] to purchase products if mobile payment services were more secure." And 59 percent felt the same if their mobile phone number would be kept private.

Strategies to Avoid Being Marginalized

Disruptive technical innovations and corresponding shifts in consumer behaviors have a cumulative effect on traditional commerce that cannot be denied. These factors pose two key business challenges for merchants and institutions:

1. Intelligently deploying new technologies so that they remain relevant to their customers. Many organizations are trying to accomplish this through mobile- and tablet-optimized websites, custom mobile applications for shopping and banking, and technology investments that allow them to offer and accept new payment types.
2. Avoiding becoming disintermediated by new participants in the payments ecosystem. Driven by consumer demand, technology is enabling a new age of mobile and social commerce, but it is also profoundly changing both the shopping experience and the way purchases are initiated, funded and settled.

Understanding and anticipating consumer needs will be required if incumbents are to succeed in an increasingly crowded and unpredictable marketplace. So how can merchants and financial institutions respond so that they avoid being marginalized?

Strategies for Merchants

Key strategies for merchants should be to maintain their position in the customer relationship so that they can continue to build customer loyalty while benefiting from the advantages of emerging marketing and payment capabilities. Consider these strategies:

- Give customers what they want. Customers want immediacy, convenience, control, relevance and security, and they will go where they can get these things. Through mobile and online commerce strategies, merchants are able to give customers what they want, when they want it, and how they want it.
- Revisit loyalty and coupon marketing strategies. New couponing technologies such as mobile vouchers and card-linked coupons greatly enhance the value proposition of daily deals and targeted promotions by making them more relevant and streamlining the redemption process.

Younger Consumers Enthusiastic About Mobile Payments

Recent Forrester research revealed that consumer interest in mobile payments has jumped from 11 percent in 2008 to 36 percent in 2011, and 25 percent of online consumers have already made at least one mobile purchase.⁴ First Data's survey also found—not surprisingly—that young consumers are the most enthusiastic about this new technology. The study revealed that among Gen Y users, 55 percent said they were interested or very interested in mobile payments. For Gen X, that figure dropped to 43 percent. Among younger boomers, the level of interest dropped to just 29 percent, falling further to 20 percent among older boomers and to 16 percent for those 65 years of age or older.

- Revisit online and branded mobile application strategies. Nearly a third of First Data's survey respondents said they would be likely to use a mobile shopping app offered by a retailer they visit. Merchants can and should enhance these applications so that they become as useful and relevant as possible to their customers.
- Develop a plan for updating POS equipment. Mobile payments are here, and adoption is expected to accelerate. It is time to rethink the checkout line and begin upgrading for alternative form factors. Planning efforts should also consider the growing trend of shoppers toward making an e-commerce purchase and coming to the store to pick up their items.
- Consider partnership opportunities with new players in the commerce ecosystem. There may be ways to partner with untraditional players like device manufacturers, daily deal syndicators, and social media sites. It is important that merchants maintain the connection with their customers by participating in the right channels.

Strategies for Financial Institutions

For financial institutions, it is important that they retain their position in the payments value chain by focusing on adapting to changing consumer needs. Consider these strategies:

- Card issuers should think about how they can turn card accounts into mobile payment accounts. With the imminent rise of mobile commerce, if a financial institution is not in the phone, it will risk losing relevance to a growing segment of consumers.
- Card issuers need to establish a mobile commerce Trusted Services Manager (TSM) partner. The TSM is the backbone of the mobile payment account provisioning process. Payment accounts do not get inside a phone without going through a TSM, so it is essential that issuers establish the right TSM relationships.
- Card issuers should rethink their partnership strategy with other players in the new commerce ecosystem. First Data's survey found something interesting: 46 percent of consumers would consider buying daily deals offers through their bank or credit union. This kind of preference becomes an opportunity for financial institutions to use an entirely new activity to strengthen their customer relationships and improve their partnerships with merchants.

A new era of consumer-driven, technology-enabled commerce is rapidly taking shape. While it is difficult to predict exactly which trends and technologies will prevail, it is certain that organizations that adapt successfully to the altered retail and payments environment will do so because they provide products and services that satisfy consumers' desires for immediacy, convenience, control, relevance and security.



The Global Leader in Electronic Commerce

Around the world every day, First Data makes payment transactions secure, fast and easy for merchants, financial institutions and their customers. We leverage our unparalleled product portfolio and expertise to deliver processing solutions that drive customer revenue and profitability. Whether the payment is by debit or credit, gift card, check or mobile phone, online or at the point of sale, First Data helps you maximize value for your business.

Sources

¹ Gartner, Inc. "Gartner's Top Predictions for IT Organizations and Users, 2010 and Beyond," January 13, 2010.

² Forrester Research, Inc. "Forrester Research Mobile Adoption and Sales Forecast, 2010 To 2015 (US)," January 2011.

³ First Data and Market Strategies International, "Multi-Country Consumer Payment Study," 2011.

⁴ Forrester Research, Inc. "North American Technographics Financial Services Online Surveys," Q3 2008; A commissioned survey conducted by Forrester Consulting on behalf of First Data, "Evolution of Payments," August 2011.

Survey Methodology

The commissioned research survey was conducted by Forrester Consulting on behalf of First Data in August 2011 as an online survey of 2,100 U.S. consumers between the ages of 18 and 88, with checking accounts. The sample was drawn from members of Research Now's online panel. The data was weighted by age, gender, income and region in order to achieve a demographic representation of the adult U.S. online population.

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