A First Data White Paper

Invigorate Your Mobile Commerce Strategy with Low-Cost Payment Steering

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Introduction

The market for mobile payments is nascent but growing quickly. According to Juniper Research, the total value of mobile payments will reach $670 billion worldwide by 2015, up from $240 billion in 2011. North America (along with Asia and Western Europe) is among the top three regions expected to account for 75 percent of the global gross transaction value by 2015.[1]

The adoption of mobile payments is part of a wider mobile technology revolution that is transforming personal lifestyles and business practices. The rapid proliferation of smartphones is changing the way that consumers shop and engage with merchants. Consumers are using mobile apps and web browsers to interact, review, browse, compare, manage, and buy—whether in a store, at home or on the go. This new era creates both opportunities and challenges for retailers: access to innovative tools for cultivating customer relationships, but also the nuisance of "showrooming," whereby consumers use a store to investigate a product, but make their purchases online from a competitor.

How will your company reach mobile consumers and capture your share of the purchases they'll make? Because mobile payments are a critical component for your overall success in a Universal Commerce world, now is the time to formulate your organization's strategic plans for meeting customer needs and accepting mobile payments.

Planning is a challenge, however, as the market is still evolving and quite fragmented. There are many different approaches to mobile payments and mobile wallets based on a variety of technologies, and the market has no clear winners yet. There's considerable buzz around NFC for mobile payments, but NFC terminal and handset penetration in the U.S. is still quite low. If your business is waiting around for NFC to take off before you accept mobile payments, you may be late to market and playing catch-up with your competition. As for mobile wallets, there is not yet a universally accepted model for how a wallet should work, or even what it should do—and it takes a range of partners to support a secure mobile wallet-based payments process.

Your company's long-term mobile strategy will be determined by many factors, not the least of which is cost, both up-front and ongoing. There are many factors influencing your company's approach to mobile commerce, including implementation time and effort, the relative size of the market population you intend to reach, and the length of time to achieve a significant return on investment.

> "We are on the verge of one of the biggest changes in decades in how we pay for goods and services. For the first time since the 1980s, what we call the 'form factor'—the physical device that initiates a financial transaction—will shift to new technology. Smart phones and tablets are becoming an integral part of people's daily lives around the world and soon will replace the familiar plastic cards we all carry. In fact, your smart phone will become your 'wallet'—replacing a host of cards, coins and cash."
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> *Theodore Iacobuzio, vice president and head of the Global Insights group at MasterCard Worldwide.*

[1] Howard Wilcox, Juniper Research, "Mobile Payment Strategies: Opportunities & Markets 2011-2015," July 2011

Clearly, developing your strategic plan for accepting mobile payments requires a careful evaluation of a wide variety of factors. And even if you have an initial plan today, it's time to consider your next phase. **As you think about all of your options in a mobile world—and you may end up implementing several different approaches—you should consider utilizing a process that is familiar, efficient and quite cost-effective: ACH-based payments.** That is, processing a non-check electronic payment through the Automated Clearinghouse Network. Focusing mobile payments on the ACH network is an approach that's easy to implement, takes advantage of existing infrastructure, has less risk and lower costs, and has strong customer appeal. It's a course of action that can be executed today without waiting around for other technologies, companies, or networks to develop, and it can be a critical part of your broader mobile strategy.

This paper explores ACH as a key approach to mobile payments and how your company can use it now to engage leading edge mobile adopters as well as to gain valuable insight to the future of payments.

How your business can benefit from going mobile with ACH

ACH is historically synonymous with processing paper checks, but other payment form factors can be processed through this network, as well. In fact, even as the use of paper checks declines each year, ACH payments are on a growth path: NACHA reported that ACH payment volume totaled more than 20.2 billion transactions in 2011, with consumer-initiated transactions increasing about 13 percent over the previous year.[2] There are many everyday uses of ACH that people already feel comfortable with, such as purchasing with an e-check online, paying their bills through their checking account, using decoupled debit cards, and setting up payment for recurring services. Because it is a familiar, mainstream payment type for many consumers, ACH represents a compelling approach to mobile payments—especially when you consider some of the benefits of implementing mobile ACH.

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Dramatically lower payment acceptance costs

The cost of accepting ACH payments is significantly less than most other non-cash payment types. The transactional fee on ACH payments is typically equal to or less than face-to-face (card present) card rates, and significantly lower than non-face-to-face (card-not-present) rates. This is especially pertinent for mobile payments because the card associations consider most mobile transactions to be card-not-present (CNP) purchases. As a result, debit and credit mobile transactions incur heftier interchange fees, as well as increased fraud liability.

[2] "ACH Payment Volume Grows to 20 Billion Transactions," American Banker, April 13, 2012

In any shopping scenario—and especially for mobile payments—ACH is consistently the lowest cost electronic payment type. Your company can minimize your out-of-pocket expenses for mobile transactions with an approach based on ACH. You can apply these savings to improve cost efficiencies or to drive more customer loyalty by giving incentives to consumers who use this payment method.

A more strategic rewards program

A merchant's loyalty program can also be easily tied to ACH payments. For example, customers would register their bank account with the merchant's loyalty program and use the smart phone application to initiate an ACH payment transaction while also tracking loyalty benefits. The related transactional savings from driving payments through the ACH network (rather than credit/debit) help fund the rewards program; meanwhile, the customer enjoys a more seamless loyalty experience.

These kinds of programs have positively influenced and can even steer customer behavior. For example, a national service station chain offers an ACH-based payment and loyalty program that provides a discount on fuel purchases. According to a recent survey, 48 percent of its customers reported increased purchases at these stations after registering their ACH account. As customers enjoyed their savings, the merchant reaped increased revenue. This example demonstrates the effectiveness of using the savings from lower cost ACH payments to fund customer incentives—and can easily be applied in mobile payment scenarios, as well.

Having a mobile payment program aligned with a rewards program makes it very easy to offer your shoppers rewards for spending their money with your company. These incentives can be offered as a direct tie-in to your regular customer loyalty program, or take the form of customized virtual coupons or discounts for your products and services. Consumers respond to these offers: according to Aite Group, rewards "trigger a higher spend that not only pays for the cost of the program but also generates incremental transactions, revenues and profits."[3] (See First Data's white paper, *Enhance Loyalty and Reduce Costs with ACH Payments*). Leveraging the program with the cost-saving associated with ACH payments only enhances this benefit.

Reduced payment risk

While mobile commerce is relatively new and does not come with a precedent for expectations on fraud, mobile payment programs can actually help your company reduce the risk of accepting payment. When a consumer registers with a mobile app and provides payment and demographic information, their identity can be more easily authenticated—by you or by a third party—to reduce anonymity and fraud risk.

In addition, utilizing the ACH network lowers your risk with supplementary services offered by some providers to protect the transaction. For example, TeleCheck® specifically provides warranty services against fraudulent transactions and NSF (not sufficient funds). This ensures that your business will receive prompt payment for the transactions processed through ACH, even if there is a problem with the account.

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[3] "Buying Loyalty: An Evaluation of Merchant Loyalty Vendors," June 2008, Aite Group, LLC

Reduced implementation effort

Many of the most promising mobile payment solutions coming to market will require a significant time and capital investment from your company in order to implement. With mobile ACH, however, your business can likely utilize your existing payments infrastructure—including your current POS hardware and systems. This makes it that much easier and less expensive to offer an ACH-based mobile payment approach. For example, hundreds of thousands of retailers connect to ACH today through TeleCheck. This connection can be leveraged to implement a full mobile ACH-based program rather quickly. One option that provides quick time-to-market entails adding a front end application interface to connect to the First Data PayEdge solution. Full implementation and quality assurance testing can be completed in a matter of weeks, not months, and at minimal cost. Furthermore, an ideal mobile ACH solution utilizes payment tokenization and cloud-based storage of customer account information, so payment details are stored outside of the merchant's environment—minimizing security and compliance requirements.

Conclusion

It is not yet clear which technologies and applications will be most successful in the emerging mobile payments space, nor how rapidly widespread adoption of mobile payments will occur. Accordingly, there is significant uncertainty about the timing and types of mobile investments that need to be made by merchants. One thing is certain, though: smartphone adoption continues to accelerate, and with it, consumers' enthusiasm for employing mobile technology in their shopping activities. In order to take advantage of the corresponding payments and marketing opportunities, merchants must undertake comprehensive mobile strategic planning to determine how they will participate.

Regardless of how the mobile payments landscape develops over time, ACH-based mobile payments are a valuable component of any strategic plan. Such a program is relatively easy and inexpensive to implement and operate. It's an effective way to get consumers involved with mobile payments early—and you can keep them engaged through payments-integrated loyalty programs, coupons and discounts that are funded by your transaction cost savings. What's more, this payment option appeals to the preferences of a significant percentage of today's consumers—an increasingly connected customer base that expects a shopping experience enhanced and improved by technology. It may also take your competitors by surprise and give you a competitive edge since they may not think to put "ACH" and "mobile" together as a formidable option.

ACH-based mobile payments are the ideal way to jump in and get started, whether you are adding to an existing mobile program or contributing to a future strategy. Learn from the process. Get customer feedback. Make enhancements. And above all, get ahead of the curve so that by the time there are specific standards or clear market winners, it's possible to focus on what's really important to your business.

Did You Know?

Millennials prefer to spend existing funds…
Members of the lucrative Millennial Generation (i.e., those people aged 18 to 35) have a preference for spending from their checking accounts, according to DebitSavvy.org. This smart spending practice helps young consumers with budgeting, monitoring their finances and controlling their spending.

…and they want to go mobile.
This generation that grew up with the Internet and with mobile phones is very tech-savvy. According to the MasterCard Mobile Payments Readiness Index (MPRI), young, affluent consumers between the ages of 18 and 35 years old are the most willing to engage in mobile payments, as they recognize the value of using mobile payments instead of cash or payment cards.

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.

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