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MOBILE PAYMENTS:  
DEVELOPING A MOBILE COMMERCE  
STRATEGY IN UNCERTAIN TIMES

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*A Mercator Advisory Group Research Brief Sponsored by Merchant Warehouse*

June 2013

## About Merchant Warehouse



Merchant Warehouse® is a recognized leader in the payments industry, offering innovative solutions for payment processing and product innovation to help online and brick-and-mortar merchants, agents, POS developers and VARs grow strategically while achieving strategic business advantages.

With Merchant Warehouse's Genius™ Customer Engagement Platform™, businesses can dramatically enhance the merchant-customer experience by connecting with customers in the most important place – the sale. A single, intuitive platform that integrates every transaction technology, loyalty program and more, Genius ensures businesses never lose a sale due to a lack of compatibility. Merchant Warehouse is one of the fastest growing payment technology companies in North America.

For more information on Merchant Warehouse, please visit <http://merchantwarehouse.com>.

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## Introduction

For years, mobile payments have been described as the “future of the payments industry.” Industry observers have detailed the intelligence of the mobile device, the security of NFC, the effectiveness of cloud-based solutions, as well as dozens of other mobile payment solutions, and the advantages they provide. However, amid all of this excitement, one important fact is overlooked: the current payment system based on plastic cards is sufficiently effective, convenient and secure.

While it is true that many merchants, and even more consumers, have been vocal about their frustrations with credit and debit cards, rarely are those complaints about the card itself. Merchants perceive interchange fees as too high and consumers are regularly unhappy with poor customer service, but the plastic form factor isn’t the cause of those problems.

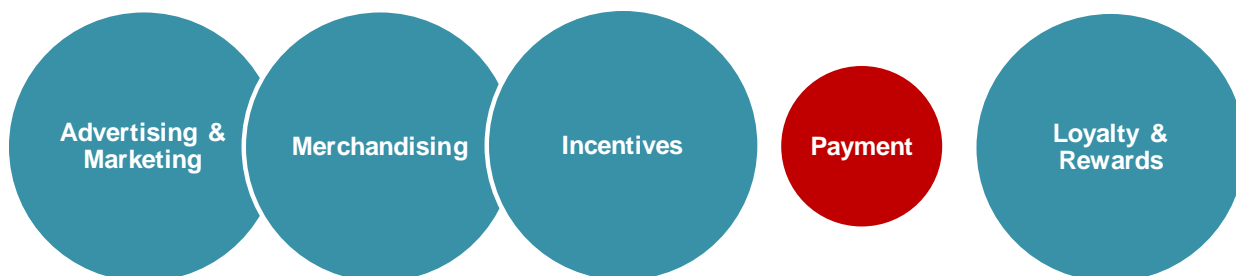
Plastic cards are convenient for consumers to carry and sufficiently fast and secure for them to use; for merchants, cards are reliable, at least to the extent that merchants feel confident that a card-based transaction will result in their receiving the correct amount of funds within a matter of days. In short, cards work.

The advancements offered by the mobile platform, while significant compared to plastic cards, are not enough to motivate consumers and merchants to migrate en masse. Mobile payments may be faster than card payments, but not by an amount of time that would make a significant difference to either the merchant or consumer. Any increases in security, convenience, or reliability are often perceived by merchants and consumers to be similarly nominal. The underlying fact is that the payment process can be completed without requiring the complexity of a mobile device.

## The Real Benefit of Mobile Payments

The reason that, despite all of this, mobile payments still attract such a great level of interest is that the benefits of “mobile payments” have little to do with the payment itself. Traditionally, the transaction at the point-of-sale (POS) was limited to the consumer paying the merchant for goods and services. Integrating the mobile device into the transaction allows consumers and merchants to interact beyond the payment, before, during, and after the transaction takes place. The mobile platform enables the act of payment to incorporate loyalty programs, coupons, social media, identification, and marketing, all with a single tap, scan, or wave of the mobile device. Traditionally, the payment was the most significant portion of the transaction; as the capabilities of the transaction process develop, the payment itself is on the verge of being relegated to secondary status (see Figure 1).

Figure 1: Payment Is Just One Interaction Element of the Transaction



Source: Mercator Advisory Group, 2013

The term “mobile payment” is somewhat of a misnomer as, for both merchants and consumers, the greatest benefits of bringing the mobile platform into the transaction process are the additional features and capabilities surrounding the payment itself. Whether or not plastic cards could be designed to support these features, the mobile platform makes it simple and more practical to do so. Consumers and merchants may not be looking for a more effective way to conduct payments, but any consumer who has forgotten a coupon at home and any merchant who has funded an unsuccessful marketing campaign is certainly interested in improvements to the overall merchant-customer interaction.

## Unique Advantages of Mobile Commerce

By involving the mobile device in the transaction, a number of new functions and capabilities are available to both merchants and consumers, ranging from easier redemption and application of discounts to completely revolutionizing marketing strategies.

### Centralized Storage

As mobile devices store contents digitally, a mobile wallet is able to store a greater amount of objects and information than a leather wallet without becoming too large to carry conveniently in a pocket or bag. In terms of transactions, this means that consumers can carry hundreds of payment cards, loyalty/rewards cards, coupons, ID cards, information (e.g. sales flyers), and more, all in one location. By consolidating all of these items onto a smartphone, consumers are more easily able to keep track of everything, preventing them from losing coupons, forgetting rewards cards, or overlooking marketing material.

Centralized storage benefits both consumers and merchants. Consumers are more easily able to organize all of these documents, preventing them from losing items, forgetting or ignoring the items that couldn't fit into their leather wallets. As a result, consumers are more likely to use these items, resulting in the merchants experiencing

more effective implementations of their incentive, loyalty, and marketing programs. After all, if consumers lose a desired coupon, it is similar to them never receiving it in the first place. Providing consumers with the centralized storage on a mobile device is an easy method of preventing such issues.

### Automation and Simplification

Not only does the mobile platform make it easier for consumers to store the items they need for a transaction, it also improves the process for using and redeeming those items. Traditionally, consumers and merchants would be required to manually find all necessary coupons, scan each coupon individually, find and scan the correct loyalty card, present an ID card (if necessary), and then swipe the payment card, as well as incorporate any other necessary information for that particular transaction. By consolidating all of the items within the mobile device, they can all be accessed automatically by the merchant's system with a single tap, scan, or wave. In addition to decreasing the time necessary to complete a transaction, this automation also provides an additional level of convenience to consumers by preventing them from having to worry about loyalty, coupons, or any other aspect of the transaction beyond the actual payment. In other words, while consolidation prevents consumers from forgetting coupons at home, automation prevents consumers from forgetting coupons in their pocket.

This advantage is even more pronounced with near field communications (NFC), as NFC technology enables two-way communication between the consumer's mobile device and the merchant's POS system. This means that not only can consumers unload all of their information onto the merchant's system, but the merchant can also add information to the consumer's device, including coupons, marketing information, or potentially even advertisements paid for by other merchants (e.g. an ice cream store paying a burger restaurant to provide information about the ice cream store to all of the restaurant's customers), providing merchants with additional marketing and revenue streams.

### Integration with other Mobile Apps and Functions

Obviously, mobile devices are not tools strictly meant for transactions. Consumers use their devices to make phone calls, access the internet, send messages, and many other uses. By integrating the mobile device with the transaction, merchants can interact with their customers across a number of these other functions as well.

For example, merchants can program their POS systems to prompt their customers as to whether they would like to have the sale added to their calendar apps. The merchant can connect with social media to ask consumers if they'd like to check in on Foursquare, leave a review on Yelp, share a coupon with their Facebook friends, or follow the merchant on Twitter. Merchants can send receipts via email or SMS without asking the consumer to slowly spell out letter-by-letter, number-by-number. The opportunities for merchants to connect with their customers over new media are seemingly endless.

## Push Notifications

Currently, many merchants use email to send information immediately to their customers. As email is both fast and inexpensive, it is a useful marketing tool for merchants. However, for many consumers, email marketing has become overwhelming. Many consumers receive dozens of marketing emails a day, making it nearly impossible to sort through all of those emails to find the ones they truly care about. Furthermore, many merchants convolute the process to unsubscribe from those emails, making it difficult for consumers to limit the emails they receive. Furthermore, this leads to consumers marking unwanted emails as spam rather than unsubscribing, which results in other consumers' spam filters preventing them from receiving wanted emails. All of this has combined to render email more useful in theory than in practice.

The good news is that the mobile platform provides a potential solution to these issues by enabling merchants to provide push notifications. Because apps integrate with the device's operating system, merchants can program the app to immediately notify customers that they have received marketing information, which provides similar advantages to email while eliminating a number of the issues. First, these notifications would pop-up in the same location as notifications when a new text message is received or a phone call is missed, enabling customers to see the information just as fast as they would see it in an email. Second, because notifications can only be received via apps installed on the device, it is more difficult for spammers to overwhelm consumers with unwanted information. Third, consumers can stop push notifications from a certain merchant altogether by either turning off the notification or deleting the app altogether, which prevents merchants from making the process to unsubscribe difficult. On top of this, these notifications can use other functions of the mobile platform to customize when they are sent out. For example, the app can access the device's GPS, enabling the merchant to only push a notification when customers are within 500 feet of a location.

This is admittedly of the greatest benefit to merchants who have the resources to develop their own applications, thus creating a direct and customized link from the merchant to its customers. However, small merchants can take advantage of third party applications that, while not customized to fit the merchant's precise needs, enable merchants to provide important information to their customers via push notifications.

## Enable Consumers to Interact with their Environment

Once again, the functions contained within the mobile device enable merchants to connect with their customers creatively. Merchants can use the device's camera, GPS, NFC receiver, and more to reach consumers via their environment. Billboards can include QR codes that lead consumers to download the merchant's app. Posters can include NFC chips that provide coupons. Consumers can be alerted to sales when they enter a shopping complex. Utilizing the consumer's surroundings as a medium for communication was possible before, using posters or billboards, but the mobile platform enables merchants to communicate with individual consumers directly.

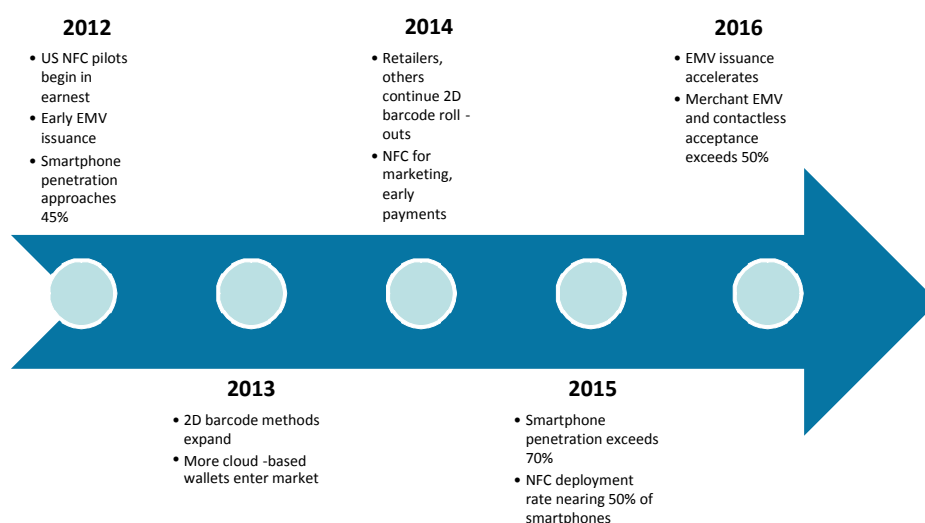
The primary advantage of this method of communication with customers, besides using a unique and attention grabbing format, is the ability to limit the consumers who receive the information to those who frequent a certain

area. Merchants can update the information every day, but only send the updates to consumers who are close enough to take advantage. Furthermore, merchants can effectively engage in price discrimination. For example, a restaurant can include QR codes containing discount coupons in advertisements placed around college campuses. This enables the merchant to keep most customers paying full price, while allowing the students to pay a price they are more easily able to afford. As with many of the previously described advantages of the mobile platform, the possible uses of this capability are essentially limitless.

## Developing an Approach to Mobile Deployment

The introduction of the mobile platform to the point of sale is one of the many changes that are currently altering the payments space at an unprecedented rate (see Figure 2).

**Figure 2: Mobile Wallet Will Come To Market Incrementally**



Source: Mercator Advisory Group, 2013

The most important preparation merchants can make for the vast array of changes that will potentially occur over the next few years is to ensure that their POS hardware and software are highly adaptable. Although the idea that change is coming to the POS is accepted as fact, precisely what those changes will involve, as well as when and in what order those changes will occur, is not as certain. To ensure readiness for whatever the future of payments holds, it is in the best interest of merchants to adopt POS systems with a number of qualities and capabilities.



## Flexibility

A merchant's device should be future-ready, providing all the capabilities needed to accept payments both today and tomorrow. This means that, in addition to magnetic stripe, the CED is prepared to accept chip-on-chip EMV, contactless EMV, NFC, and QR codes. An ideal POS solution should also be based on traditional POS terminals, functioning using payment behaviors (credit swipe, PIN debit, signature capture) already familiar to both consumers and merchants.

## Ease of System Updates

With the vast amount of changes expected to occur over the next few years, software updates will become even more frequent and necessary than they are today. Merchants should ensure that their systems are able to update seamlessly and without interrupting the merchant's ability to conduct business. One method of easing the update process is to move the platform into the cloud. A cloud-based platform provides for easy maintenance via remote configuration and management.

## Enhanced Security

Any POS system used by a merchant should be certified as PCI/PED compliant. Furthermore, in addition to easing the process for updates, a cloud-based system takes the POS "out of scope" from PA-DSS, thus reducing the merchant's requirements and concerns surround PCI compliance. Transactions are further protected by systems capable of tokenizing all sensitive data and securing all communications with point-to-point encryption (P2PE). All together, this results in zero cardholder data exposure system-wide, reducing risk for both merchants and their customers.

## Increasing Capabilities

A POS platform that solely enables merchants to accept payments is no longer sufficient. Merchants need a POS system designed to help them take advantage of all the changes just over the horizon. This means everything that is now or soon will be possible as a result of mobile, as well as any other variable merchants might experience that would influence their POS strategy. Ultimately, merchants require a flexible solution that adjusts alongside the growth or reduction of a merchant's business and industry needs.

## Merchant Warehouse's Genius Customer Engagement Platform

Merchant Warehouse has developed the Genius platform largely with the intention of providing these capabilities to their merchant customers. The Genius payment technology solution securely integrates and aggregates multiple payment types and mobile commerce programs into a single platform.

Keeping mobile readiness as a primary focus, Merchant Warehouse has already partnered with mobile payment solutions LevelUp and Isis, and they continue to bring in partners to help expand the mobile payment acceptance opportunities for their merchant customers.

Genius is a cloud-based, PCI/PED compliant platform, providing both security and seamless system updates. Finally, the system features an app store like environment, which enables merchants to accept many new payment forms immediately upon customer request. Genius offers merchants scalability and flexibility to customize their payment platform to suit their individual business needs.

As the mobile platform continues to develop, opportunities for merchants to engage consumers are increasing, resulting in yesterday's breakthrough becoming today's obsolete technology. With market requirements changing quickly, merchants need to prioritize flexibility. The goal is to become the de-facto marketplace for all payment-related needs for the merchant. Genius has the ability to serve as a single payments hub for merchants, addressing the challenge of how to support traditional credit and debit payments *and* future mobile commerce on the merchant countertop from a single platform



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