

COLUMNS

## Digitizing stored value: Challenge of going mobile

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Everyone along the payments value chain has been grappling with the big question not to mention the experiential reality of how to integrate a mobile offering into their current modes of customer interface.

Consider that 90 percent of adults in the United States own a mobile phone, and that 60 percent of Americans own smartphones. In just one year, from June 2013 to June 2014, mobile application usage was up 52 percent, with more consumers using their smartphones than their laptops to make buying decisions even though when it came to completing purchases, consumers were more comfortable on their laptops.

So it is no wonder that retailers want to get it right and seamless with mobile payment acceptance.

In the world of gift and other prepaid card solutions, we have been categorizing this move as "digitizing stored value."

In this introductory piece on digitizing stored value, I will attempt to lay out and describe some of the components of what currently exists, as well as what is in the works, starting with channels and applications.

POV on POS

Channels are the ways and spaces through which retailers interact with their customers. There are at least four channels of concern to those taking or processing payments: in-store, ecommerce, mobile and other third parties.

For the moment, we will be looking at what is happening in the in-store channel's journey toward mobile acceptance.

Applications, or branded mobile apps, are another important mode of consumer interface. We will be thinking about those in a future article.

When it comes to the in-store channel, you first have to consider the point-of-sale (POS) challenges within the store.

Right now, many merchants are unable handle NFC or off-the-phone bar code scans at the POS.

An evolution needs to take place wherein these functions NFC and bar code reading become more prominent. And it is underway.

Many of the new POS terminals that are being installed now are NFC-capable.

In further support of this needed changeover, payments companies are simultaneously in the process of a long-overdue conversion from cards that are read by magnetic stripes on the back to EMV cards that have a microchip embedded in them.

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These chips enable a much greater degree of security as well as highly detailed tracking.

EMV cards are read differently than mag stripe cards: instead of swiping the card, you insert it into a reader.

So this different form of payment acceptance is requiring that merchants get new POS terminals.

The new POS terminals going out that are EMV capable will in many cases also be NFC capable.

So now in addition to mag stripe, bar code and keyed entry, there will be NFC as a redemption method.

In the past, most in-store digital redemptions of stored value cards gift cards, in-kind store credits and promotions have involved printing out an email on a piece of paper, taking it to the merchant and having them scan that bar code or key-enter the number if they are unable to scan it.

At present, it is true that gift cards are not yet capable of NFC processing. But this will inevitably become possible. It is just a matter of time.

Consumers are quickly going to become accustomed to having the bar code on their phone, and just showing the phone to the retailer.

The challenge in this is that many merchants cannot currently read a bar code off the phone and will need to upgrade their bar code readers to enable this capability.

Redeeming factor?

One of the biggest hindrances to mobile adoption is that people are still not comfortable using the phone as their redemption method.

Seventy percent of consumers still prefer other redemption methods to the digital redemption format.

Not surprisingly, the younger the audience, the more they prefer using their phone.

But we have found that no one likes to hand over their phone when making a payment and heaven forbid anyone take the phone out of their sight.

So before digital can really take off, a POS evolution has to occur.

Thinking in terms of how Apple Pay and other competing digital wallets operate, some operational challenges need to be met before they can become standard methods of payment.

Some major merchants such as Panera, Best Buy, Toys "R" Us and Starbucks are accepting phone-scanned bar codes already. In some cases, the functionality is not a hundred percent successful, but many more retailers such as Target and Walmart are not yet.

I SUSPECT that this evolution is going to take a few years to catch on.

The mature credit card market has represented 70 percent of payments for some time now. It is going to be awhile before that method is dislodged in favor of mobile payments.

Next time we will look at the mechanics of digitizing stored value: how do mobile cards show up for the consumer and how do retailers deal with them?

Until then, I will leave you with the thought that we are in the early evolutionary stages of digitizing stored value.

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