

COLUMNS

Rapidly evolving mobile payments market is table stakes for retailers

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In 2015, the payments market experienced more change in a single year than it had seen in the previous decade. Apple rolled out Apple Pay, followed by Android and Samsung Pay, EMV cards created as much confusion as conversation, and the number of new mobile payment applications and platforms entering the market was staggering.

This year brings even more excitement as momentum powered by innovation continues to push the boundaries of the status quo and old-school transactions become a thing of the past.

As we look forward, we offer a peek into some critical trends and developments shaping the payments industry for both consumers and retailers. Here are our predictions for what is next in payments this year:

1. Consumers will leapfrog EMV

In 2015, we watched as the buzz surrounding EMV chip card replacements caused a lot of sleepless nights for business owners who struggled to update their card readers with onerous technology in time for a fast deadline one that was missed by many.

In 2016, we believe that the combination of a protracted EMV card and point-of-sale (POS) device rollout, consumer frustration at a less-than-ideal, slower and confusing payments experience and an increasing number of consumers with NFC phones and access to mobile payments options will drive more consumers and retailers to adopt faster, easier and more convenient mobile payment technologies such as Apple Pay and Android Pay.

Savvy merchants and consumers will effectively leapfrog EMV entirely. In fact, EMV could be the cause of a more rapid acceleration of these mobile payments technologies as the full effect of the conversion hits this year.

2. Mobile payments will grow up

Powered by the now-ubiquitous smartphone and increasing adoption of mobile payments by millennials, it is clear that this is the year that mobile transactions go mainstream.

Forrester Research forecasts that mobile payments by United States consumers will go from \$52 billion in 2015 to \$142 billion by the end of 2019. That number will continue to be fueled by new phone sales.

For example, during the 2014 holiday season, Apple sold 74.5 million iPhones. What is expected to be strong smartphone sales from this past holiday season will put mobile payments technology in the hands of that many more consumers.

And consumers are just warming up to mobile payments.

and consumers are just waking up to mobile payments.

As a cashless technology provider to the small-ticket retail market, we have heard from our payments partners that vending machines are often the gateway tap for first-time mobile purchasers.

We are seeing increases in mobile technology use, particularly at colleges and universities by tech-savvy students who are often first to embrace new technology. And more merchants are setting themselves up to accept new technology, including major drugstore chains, coffee shops and retailers.

There is no doubt that the simplicity and ease-of-use of mobile payments will catch on in a big way and, in our view, that tipping point is going to come this year.

3. Millennials will continue making the rest of us feel old

Just as many consumers are getting used to the idea of replacing their wallet with their phone, millennials have already ditched plastic for digital in large numbers.

Raised with technology in hand, a study conducted by JWT revealed that 44 percent of millennials surveyed prefer to pay using their mobile phone than with cash, particularly for smaller purchases.

More than half said they would be comfortable connecting their payment information to a mobile application provided by a retailer or service provider that they buy from frequently.

Nearly 50 percent said they would also connect their mobile payment information to a wearable device such as a smart watch.

In addition, millennials enjoy the possibility of collaborating with businesses and brands, as long as they believe that their actions matter.

What is also interesting about this demographic and something that retailers should pay particular attention to is that, according to customer service guru Micah Solomon, millennials prefer an experiential retail environment where shopping is more than a transaction and the pleasure of being in the store is not limited to the goods that customers take home.

We believe that 2016 will be the year of consumer engagement and that smart businesses and brands will look for ways to connect with millennials through technology to build loyalty, that self-service markets such as vending will look to create that connected experience through loyalty programs, cashless and mobile payments and contextual offers, and that no matter how fast we run, millennials will happily stay one step ahead.

4. Loyalty programs will go mobile and include easy link to mobile wallet

With widespread adoption of smartphones and mobile payments catching on this year, businesses will move away from the traditional loyalty punch card in favor of mobile loyalty programs.

Forrester recently reported that 44 percent of consumer respondents to a recent survey want to see coupons, discounts and special offers in mobile wallets. Further, 64 percent of retailers said customer loyalty programs that operate via mobile phones are the most effective.

So with 68 percent of millennials saying that they would not be loyal to a brand without a strong loyalty program according to Bond's 2014 Loyalty Report loyalty programs will be critical as businesses of all sizes look to engage with consumers.

As one of the first innovators in mobile loyalty programs, all eyes will be on Starbucks as it works to fulfill promises made through hefty investments in loyalty and digital apps in 2015.

Consumers want one simple mobile app for all their payments, but they also want that app to hold everything they need to complete that transaction, including loyalty cards.

We expect to see Apple, Android and Samsung Pay continue to move more value through their mobile payments apps by making it easy for consumers to store, manage and redeem loyalty rewards in a single tap.

We also anticipate a continued influx of retailers launching their own mobile payment options and clamoring to take a stake in a potentially huge mobile payments market.

Companies will not only use mobile payment apps of their own to compete with other retailers, but also to personalize the consumer's shopping experience and move beyond a relationship based on simple transactions.

Ultimately, consumers will pick the mobile winners and losers in 2016, but expect consolidation to occur by year-

end as consumers cry "uncle" and start deleting the less-valued apps from the prized real estate on their smartphone screens.

5. Cash will be marginalized

Currencies such as Bitcoin and Litecoin have been primarily adopted by niche audiences and are still a small fraction of the cashless payments market. But they are not going away any time soon.

Do not expect them to go mainstream in 2016, but these alternative cashless payment systems, along with technology such as Square, PayPal and Venmo and the growing mobile payments market creates even less need for cash in hand.

This may be the year that cash truly becomes old fashioned and relegated to an older generation of traditionalists and luddites.

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