

COLUMNS

Apple has killed NFC. Next up: an Amex purchase?

October 25, 2013



By **Tim Dunn**

With the release of the iPhone 5S and 5C, we saw the death of mobile payment as we know it, and the hundreds of thousands of NFC-enabled retailers across the world are now scratching their heads about what to do next.

But why has Apple been so violently opposed to the NFC standard that the rest of the payments industry has adopted?

The answer lies in Apple's proven business model, which is based on a relentless desire to own outright any value chain in which they play a part. In short it wants all of the pie, not just a thin slice.

Beacon of hope

Apple makes money, and plenty of it, from reinventing staid business models with revolutionary and much improved customer experiences. It has done this again and again.

Gaming, music, publishing, phones, messaging and now online radio: all these sectors have been substantially disrupted by Apple devices and services.

With the launch of iBeacon, the Bluetooth standard that is causing fresh excitement among retailers for its hyper-local marketing opportunities in stores, Apple seems to be taking aim at a new pair of targets: payment and retail.

These are arguably two of the most traditional sectors left untouched by Apple's magic wand.

Both come with a clear path to significant revenue. Should Apple be able to do for them what it has done to the music business, an almost limitless new line of profit could be open.

iBeacon is being posited as a way to take a march into this territory. Yet what iBeacon's champions fail to recognize is that the technology itself does not solve the transaction issue.

How does the money get from the shopper into the till to pay for the goods?

iBeacon is currently a short-range communication channel not a payment protocol. That role is still fulfilled by credit card schemes Visa, American Express and MasterCard and the banks.

In this respect, both iBeacon and its first cousin Passbook have been distinctly underwhelming. Without the ability to deliver real-world payment or secure voucher redemption, they are toothless to cause real change.

To do this, Apple needs to cut out the middlemen in this case, the credit card schemes and potentially also the banks themselves.

But processing millions of dollars of credit card purchases requires an infrastructure that Apple does not have, and would be impossible to build. And you simply cannot work around the credit scheme payment model that has been

entrenched for decades.

A better solution would be to buy it.

Charged up

Buying a credit card scheme sounds far-fetched, but is it? Apple is sitting on \$145 billion, and the total valuation of American Express is \$115 billion, with MasterCard priced at \$76 billion. It starts to seem possible.

Analysts such as Mark Moskowitz at JP Morgan have previously posited the notion of an "iPay" system that Apple could develop, but this does not overcome the need at some point to use a credit card scheme to facilitate money transfer.

Armed with a proven and trusted payments subsidiary, and millions of retailers and consumers already on board, Apple would be armed and ready to truly take on the payment space, and deliver rapid ROI by trouncing the other banks and payment providers who would now be trailing in its wake.

Further, a 2012 survey from marketing consulting company KAE revealed that 43 percent of Apple product owners would already consider dumping their current banks for Apple.

Passbook would instantly become a voucher and ticketing system of genuine utility discounts could be directly passed through to the Amex account through the Amex merchant terminal.

iBeacon would become a route to stimulate direct commerce built into any iOS app, offering to all retailers the chance to transform the retail experience like the Apple stores have done already.

This would not only provide a huge new revenue stream to Apple through credit card fees, but it would also allow Apple to innovate in a completely new area and reframe consumer expectations leading up to and at the very point of purchase.

THIS IS THE kind of scenario where Apple grows significant market share.

By buying Amex, it would not just add another layer of experience exclusively to iOS devices, but it would simultaneously take the Amex offering and elevate it above its MasterCard and Visa competitors, raising the value of its acquisition beyond recognition and driving real differentiation into a generic product sector.

And that is what Apple does best. It has been a slow three to four years for Apple in innovation. Has it been saving it all up for this next big leap?

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