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SUCCESS FACTORS FOR ASSESSING MOBILE PAYMENT SOLUTIONS

Mobile payments, or m-payments are taking off without a doubt. In 2015, close to half a trillion dollars were transacted globally using m-payment methods, and analysts predict that figure could double by 2019. The trend seems to be unstoppable considering that mobile connectivity is widespread and affordable, mobile user interfaces reduce payment friction, and mobile technology increases financial inclusion.

This highly dynamic m-payment scene presents virtually endless opportunities for businesses. Implementing m-payment initiatives can drive strategic objectives such as:

1. **Improving productivity of core business.** Improving the way payment is performed can boost business productivity. A good example is Starbucks' m-payment app, which accounts for more than 21 percent of the company's transactions, and represents more than 50 percent of all in-person m-payments made in the United States: when getting a coffee, a user activates the app on his or her phone, which stores the user's digital profile linked to a debit or credit card, and earns and tracks reward points to release promotions. A QR code is displayed, which the user waves at the barcode reader of the cashier. This solution increases customer throughput rate by processing payments faster, decreases average waiting time by decreasing the user's time spent at the cashier, increases the average size of individual sales by using the users' payment and consumption data to offer personalized promotions and discounts, decreases working capital requirements of the company because of its pre-paid nature, and increases customer lifetime value by increasing customer loyalty due to the above factors.

2. **Generating new business.** Companies operating in adjacent spaces can benefit from an incumbent position when competing in m-payments. Their ability to integrate m-payments into existing operations can create synergies that generate new revenue streams. For example, T's leading mobile network operator, KCom, launched a mobile money transfer system called MPS in 2007, which accounts for 20 percent of KCom's revenues today with more than 40 percent of T's population using it. MPS allows users to deposit, withdraw and transfer money, pay bills and make purchases with USSD (Unstructured Supplementary Service Data, a GSM-based messaging protocol similar to SMS) and a basic feature phone. Users just had to deposit cash into an MPS account in any KCom store or with a registered agent (usually individuals operating small stores in rural areas). KCom leveraged its mobile subscriber base to become a strong player in the payments sector in an environment where only 20% of the population was banked, but mobile penetration was 50%. Another important success factor was using a pricing model that was attractive to agents, thus it could generate the network effect of widespread MPS acceptance.

3. **Increasing stickiness of core business.** M-payment solutions in the service portfolio of a company can help reduce churn rates and increase customer retention. By making it costlier for users to switch to the competition, the core service tends to stick longer, increasing customer lifetime value. China's second largest internet company used app and payment tools (e.g. the now infamous Red Envelope app) to hook active users on its WeChat and Tpay services, paving the way for building a one-stop platform where ancillary services, such as food ordering or taxi hailing can be linked, thus increasing its platform's value to the customers.

But alongside the great successes mentioned above, there are plenty of high-profile m-payment failures including Chase Pay (launched by America's largest bank) and Square Wallet (the app, which provided what many considered to be the best-ever in-person m-payment experience). So what makes a mobile payment solution successful, and how can you assess what kind of m-payment solution might be suitable for your business? The short answer is that every prospective solution must be designed with the key drivers of supply and demand in mind. Key drivers of supply include maturity and openness of technology, interoperability, effect on the P&L of merchants, the transaction margin hitting OPEX, and the infrastructure needs hitting CAPEX targets. Key drivers of demand include serving a latent need (security, privacy, rewards, etc.), modifying user habits, and user learning requirements.

For example, to foster user adoption, any new m-payment solution should improve convenience over existing payment methods in a simple and natural way, without compromising security or privacy. To mobilize merchants, it should help them improve their P&L with as little exposure to technology risk as possible.

Here is a simple framework for analysis that narrows these issues down to the following three key success factors:

1. **Address a clear business need/end-user pain point.** Without a clear value-add to merchants and/or users, no new payment solution will fly over existing alternatives.

2. **Use the right technology/platform.** If technology requirements are too selective, adoption will be limited. In contrast, if technology requirements are loosened too much, the user experience will suffer.

3. **Mobilize the ecosystem by removing business model uncertainties.** to gain traction quickly, the responsibilities and remunerations of all the players in the value chain need to be clearly defined.

There is not yet a dominant standard or widespread solution that has achieved global, relevant reach, but whoever is able to design, implement and roll out an m-payment solution delivering on all three dimensions – business need, technology and ecosystem mobilization – will have found a killer app with a transformational impact going far beyond the payments value chain: massive adoption could strengthen the competitive positions of companies even in industries where payment is a non-core activity.