

RESEARCH

Merchants' digital wallets leading the migration to mobile payments: report

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Walmart offers a mobile wallet

By CHANTAL TODE

Merchants are having a bigger impact on shoppers' payments behaviors and encouraging the transition to mobile compared to universal wallets such as Apple Pay, according to a new report from Mercator Advisory Group.

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A growing number of merchants are offering their own branded mobile wallets and incentivizing the use of them through offers and loyalty, something universal wallets have not taken advantage of as much. As a result, merchants are better positioned to change customer behavior and become preferred payment options, according to the report, *Merchant Mobile Wallets: Mobile Payments in Action*.

"What you are seeing with the successful programs, if you can have it be consistent, where you can change a habit, that is where it is really going to be successful," said Joseph Walent, senior analyst of the emerging technologies advisory service at [Mercator Advisory Group](#).

"To that, it seems that the merchant wallets have really figured that out and you are not seeing that as much from Apple Pay, Android Pay and Samsung Pay," he said.

Table stakes

Despite a growing array of mobile payment options, adoption is not yet widespread.

Even so, savvy merchants recognize the need to be able to offer shoppers their preferred methods of payments, which is why many are integrating with Apple Pay, Android Pay and Samsung Pay.

A growing number of merchants are also launching or considering their own payment apps or wallets, such as Starbucks offers.



Tesco's PayQwiq app

"For a couple of business lines, it is almost becoming table stakes to have some sort of merchant mobile wallet that you can use to forge that closer customer connection," Mr. Walent said.

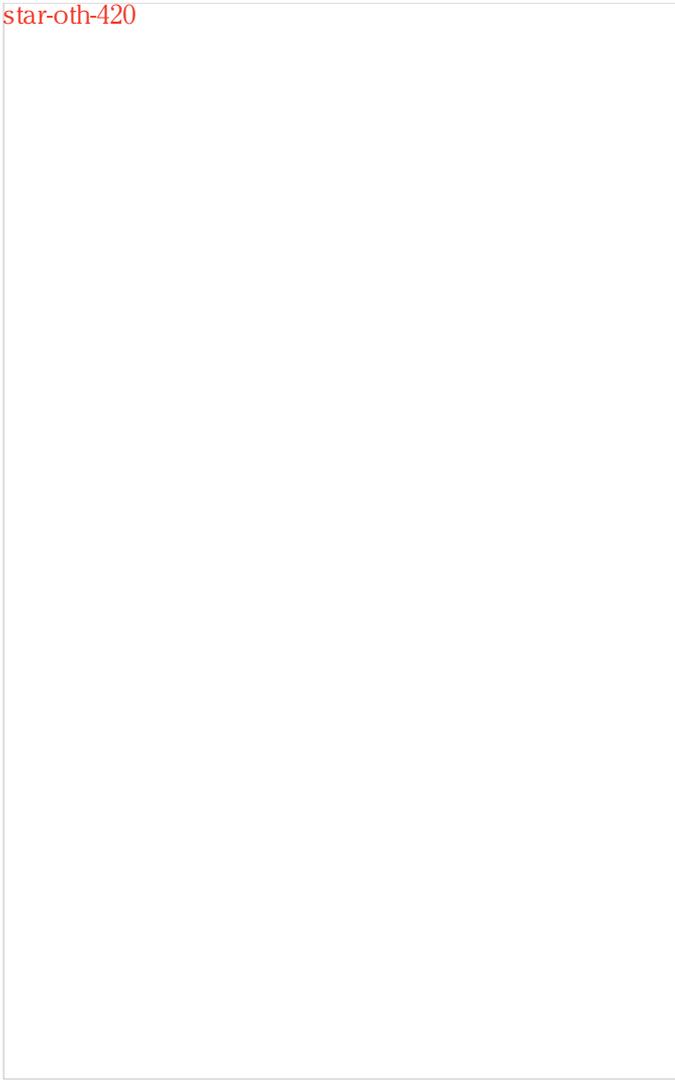
"For a provider that is going to help facilitate this for merchants, they will see a heat up in the marketplace, especially in quick service restaurants and gas stations," he said.

Distributed technology

Merchant mobile wallets follow in the footsteps of ride-sharing app Uber by integrating payments with the entire shopping experience.

A good example is what Starbucks has done with its mobile ordering service, enabling app users to place an order and pay for it in advance and then simply pick up their order when they get to a location.

These merchant-based solutions offer a number of advantages.



Starbucks' app

Because merchants' mobile wallets are largely built on distributed technology, they are not contingent on the gradual refresh cycle universal wallets face with consumers needing to upgrade their mobile devices in order to function. Merchants' wallets can also work without the need for merchants to upgrade their point-of-sale systems, something that is holding back universal wallets.

The advantages of distributed technology are inherent in both single merchant wallets such as Starbucks' app and merchant-aggregator wallets such as Level Up as both use more accessible QR code technology.

The right offer

Merchant mobile wallets also integrate incentives encouraging adoption, a practice that universal wallets have yet to address in a meaningful way.

Walmart has integrated incentives with its mobile wallet, helping users insure they are getting the best price and crediting their accounts if another store advertises something at a lower price, per Mr. Walent.

Target is reportedly building a wallet that is tied into its own store credit offering. If the retailer can offer customers points or some sort of loyalty tie-in, this could help change shopper behavior.

The universal wallets are starting to catch onto the need for more incentives.

Samsung Pay is offering users a \$30 gift card after their first three purchases made via the platform.

"It has to be that extra kind of sweetener, so that rather than pulling out a card, I am going to use my phone, which is probably already in my hand if I am standing in line at a store," Mr. Walent said.

Time to act

The merchant mobile wallet also provides greater interaction and information sharing between consumer and merchant. As a result, merchants have an opportunity to gain greater insight into buying patterns and cycles and to shape customers' shopping and payment behaviors.

Mr. Walent sees the opportunity to for merchant wallets extending as far as to some regional retailers. Although, it

probably does not make sense for single-store independents.

Eventually, more universal payments systems will become widely accepted but this could take some time.

In the meantime, merchants have an opportunity right now to build relationships with customers via mobile payments.

"If merchants can jump in front of the line and get people used to using their app right now, it is another way that they can create that app and shift that habit rather than having customers shift over to another platform," Mr. Walent said.

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