

COLUMNS

The threat to brand loyalty from Apple Pay

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By **Sean Claessen**

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It is no surprise that retailers are now striving for more intimacy with their customers. What is a surprise is how many of those retailers will allow mobile brands such as Google Wallet, Apple Pay, Android Pay and Samsung Pay to insert themselves in the midst of the encounter.

Have they indeed, have you thoroughly considered what is really at stake?

Pay off?

Apple Pay, if you remember, originated as an NFC credit card payment vehicle. It was the first and is still the leader in the space.

But over time, Apple Pay has moved into new areas such as loyalty. And loyalty, being my domain, makes me take a closer look.

First, some background.

Apple Pay digitally places itself between the card and the payment terminal. Apple has been promoting features such as the ability to assign and call up default credit cards for different stores.

Apple Pay is now determining which cards will be front-of-wallet for particular consumers at particular retailers.

The control of presentment as it is referred to is an important trade in the ritual of the transaction.

The process which has been concerning banks may serve to further fragment which credit cards people use where.

As for loyalty?

For most retailers, part of the modern transaction at the point of sale involves customers identifying themselves as members or not of a loyalty program.

Loyalty can now be loaded into the digital wallet, so when a mobile payment service such as Apple Pay is used, all transactions by loyalty program members will be tagged.

Rightly or wrongly, one of the signals of engagement for any loyalty program is whether or not the consumer values

the program enough to remember to carry and use the loyalty card.

Automating the process removes that marker.

Automation might sound attractive on first blush, but the result is that everyone's signals will eventually be muted.

There is a reason why loyalty programs have avoided the automatic factor thus far: they are aimed at those willing to raise a hand, stay engaged and earn points along the way. They are supposed to be linked to how much consumers care about the brand.

The effort often referred to as friction is an integral part of any valued relationship.

But this will change a lot of data, and not necessarily in a good way.

Our recently released research shows that 57 percent of loyalty program members up 6 points from the previous year would like to engage with the programs via mobile, and 30 percent have downloaded a program mobile application.

As a result, this issue of automated engagement is not going to go away.

What will go away instead is the competitive advantage of brand-owned data.

Pay back

If you are a retailer, I am sure it is appealing to hear promises from mobile payment services such as Apple Pay, and believe that the company's purported growth of 1 million new users each week would eventually be bonus new customers.

Between that and the promise of seconds shaved off of transactions, there are significant dollars at stake. But there is more than that and please hear me: I have nothing against Apple Pay or any of the others.

I believe that most retailers will have no idea how many of those "new" customers they already have. And none of them will know what accepting Apple Pay will do to strengthen or weaken their relationship between the brand and the customer, or whether it will end up being a competitive advantage even.

In March, a PYMNTS Innovation Project 2016 presentation at Harvard University stated that an increasing number of consumers are trying Apple Pay, but they are not inspired enough to use it again. Repeated use is on the decline.

Samsung Pay, interestingly, is doing better with repeats.

So ask yourself if Apple Pay is going to be ubiquitous, then what is the real advantage of being the first mover? What sustainable differentiator can that be? When and under what circumstances is it right for you to subscribe to this payment evolution?

And here is the other alarm worth sounding: What will keep these mobile payment brands from eventually selling your anonymized data and insights to someone else or even back to you?

The laws and regulations set up to protect our consumers' privacy may be the very thing that obfuscates a brand's ability to know if that target is already a customer to whom you can already speak. All it would take is a quick update to a user license agreement. When was the last time you read one of those?

Similar challenges face ecommerce in retargeting and real-time bidding as it relates to audience matching.

Retailers may spend time and money cultivating a relationship with a consumer and sink investment in their COA, only to see that consumer's preferences and behavior sold to someone else.

WITH THE PERVASIVENESS of the brands involved in mobile payments, it might seem like signing on is inevitable. I do not think it has to be.

I think it is time for a little caution and careful consideration first.

Involving a third party in any relationship threatens to cheapen it.

Let that third party get too close, and the result is that significant bonds can end up broken.

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I thought on "The threat to brand loyalty from Apple Pay"

1. **Kim Stuart** says:

September 20, 2016 at 9:09 pm

I'm not sure how you liken using Apple Pay to disengaging the user from the loyalty process. In the exact same way that a customer chooses to use Visa, MasterCard or old fashioned cash to pay for a transaction, their loyalty data should have been entered into the typical system well before the payment is actually processed, and that data is acquired by the merchant in the same old way – phone number, name, loyalty card scan, whatever the merchant is using to record the id of the user.

What Apple Pay, Android Pay and Samsung Wallet (or Paypal or any other tokenization system) does for the transaction is add a layer of security between the purchaser and the data storage. Which is a good thing.

Merchants don't generally record loyalty points at the transaction level, that is something that the card itself does if there are points associated with the card (and that also determines the fees the merchants pay to accept the card), but again, the merchant should have their own loyalty data in hand well before this point.

Apple Wallet/Apple Pay also offers merchants the ability to integrate their loyalty directly into the wallet/payments process, and Walgreens is already doing it.

Karen Webster is possibly the most anti-Apple person on this planet, so keep that in mind as well.

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