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How mobile apps are reviving branded walled gardens

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Back in 1994, right before the World Wide Web burst onto the scene with the IPO of Spyglass, the big online business was America Online, otherwise known as AOL.

AOL chat rooms ruled the day and electronic mail use accelerated with AOL Mail. The entire experience was the ultimate "walled garden," where users logged into and took advantage of all the capabilities offered by the AOL service.

And, yet, the Web was the beginning of the end for AOL and for walled gardens because it opened up information access and transformed online experiences forever.

Déjà vu all over again?

So does that mean that the walled-garden model was killed with no chance of making a comeback? Hardly.

In fact, mobility and the emergence of mobile applications represent a re-awakening of the walled-garden idea.

At their core, online walled gardens represent specific destinations that consumers tap into to engage and interact.

While AOL was a large, horizontal walled garden that offered general purpose utility, other walled gardens such as Bloomberg or Facebook have continued to flourish.

Now that mobility is enabling 24/7 information access and engagement, a new walled garden is emerging that is highly focused and delivers unparalleled experiences. It is the retailer's branded mobile app that is the next-generation "loyalty card" and will evolve into the combined engagement, loyalty and payments vehicle for many large retail organizations.

This walled garden is a closed-loop system for engagement, loyalty, customer service and payments that begins with opening the mobile app and ends with closing the mobile app.

And it is rapidly becoming the epicenter of engagement, and represents an amazing opportunity for brands to consolidate their relationships with their best customers.

Who uses branded apps anyway?

The first generation of branded apps for retailers engendered a bad reputation for all apps.

Most people downloaded them once and realized that they did nothing more than the mobile Web site, and the app was never opened again after the first or second use.

Now, with capabilities that create true multichannel engagement such as in-store and out-of-store location sensitive offers, mobile app specific specials and localized content, the next generation of branded apps offer much more promise.

At worst, retailers can expect their best customers to download the app and engage with modest frequency. For some merchants, this could be as many as 20 percent of their unique customers and be in the many millions of people.

Some retailers have tens of million unique holders of their own branded credit card. This is the total available market for their branded mobile app, and grows in size when we consider other consumers who could be attracted to the benefits of emerging capabilities available in these apps.

That is a lot of people, and certainly represents enough of an opportunity to support extremely significant investments that create a vibrant community through the mobile application.

How and when is this a walled garden?

So how is a retailer's mobile app a walled garden? While I will admit that it is not necessarily in full force today, let us consider where it is headed.

One of the largest expenses of a retailer is the interchange fee that is paid to the credit card companies for processing transactions and fraud protection.

The credit card companies also have access to the merchant's customer transactional history, enabling them to drive rich marketing campaigns that are highly personalized and

outside the participation of the merchant.

There is tremendous value in having access to this wealth of information, and this value is reflected in the credit card companies' market capitalizations.

These companies trade at incredible multiples that exceed the multiples of their retail "partners" by significant orders of magnitude.

This is arguably "leakage" in the walled garden of the retailer – it is a key area that is not only expensive but also gives more control to the financial services players than most merchants are comfortable with.

As a result, there is significant value in a "loyalty app" that delivers personalized offers, great shopping experiences, differentiated customer service access, engaged communities and potentially many other features.

However, the final step to creating a closed loop shopping, loyalty, customer service and payments system, aka, a branded mobile app, may depend on stopping the leakage.

Many merchants are accelerating their investments in alternative digital offer redemption and mobile payments technologies with a goal of reducing their interchange fee expenses and gaining back full control over their customers' buying histories.

Significant sums are also being invested in mobile payments technologies from incumbent payment players such as Mastercard, Visa, American Express and PayPal.

MCX is a new model that is emerging and being driven by a consortium of more than 40 retailers. Its aim is to eliminate interchange fees by circumventing the complex incumbent payment processing networks and directly connecting a consumer's bank account with the payment mechanism that resides on a mobile device. This would not only disintermediate the payment processors in the economics of a transaction, but also the transactional fingerprints.

NO MATTER WHICH mobile payment system emerges, retailers who make the move now are in the best position to regain control over more of their customers' actions, from offer redemption to simple messaging to final payment.

This is the branded mobile app of the future – a closed-loop shopping, loyalty, customer service and payments system. This is the walled garden of the retailer that will reside on the mobile device of its best customers.

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