



Mobile Wallets & the Evolution of Loyalty

Mobile commerce and in particular mobile wallets are presenting many new opportunities in payments, including new engagement capabilities. The nature of digital commerce and the blurring of card-present (CP) and card-not-present (CNP) lines are driving – and changing – consumer loyalty. New technology like Near-Field Communication (NFC) has opened up new sales opportunities for merchants who can harness the additional data collected via that technology in a meaningful way. Loyalty - currently hard to measure and expensive - will evolve into a seamless, trackable and convenient consumer experience.

NFC is the technology behind mobile wallets, which are continuing to gain popularity. It's predicted that loyalty will be a large driving force behind the continued adoption of mobile wallets – and vice versa. Businesses that integrate robust loyalty offerings into their mobile wallets will likely see an uptick in the number of consumers adopting mobile payments for in-store purchases.¹

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Mobile Wallet Popularity

Mobile wallet popularity is growing and that trend will continue as big names like Google and Apple continue to drive adoption. The global market for mobile wallet technology is projected to grow at a 36.8% CAGR over the next 4 years.² In order for mobile wallets to make sense to consumers, they have to be as inexpensive, safe and convenient as traditional payment methods.

One of the biggest hurdles the technology faces in adoption is establishing itself as a secure option. Given the data breaches over the past years, consumers are

still highly sensitive about whose hands their data is in. Consumers today are savvier about where they put their personal information online and how that data is accessed, but are still generally wary about pushing any personal data into the digital realm. Lack of awareness and consumer concern about how mobile wallets use personal information as well as the security features used to protect data, and consumer concerns about privacy can hinder mobile wallet adoption. Security and privacy issues must be thoroughly ironed out before adoption will largely take off.

Additionally, user experience or “UX” has a lot of room for improvement. Researchers at Aite Group point to Apple’s success in UX with Apple Pay, noting that other mobile wallets will need to follow suite and enhance the UX at point-of-sale to experience the same success. When it comes to adoption, the bottom line is that mobile wallets will have to find a way to add value to the consumer experience that outweighs the convenience of traditional payment options. This is where loyalty programs can play a substantial role.

Loyalty – The Next Logical Step in Mobile Wallet Adoption

Loyalty is the logical next step in mobile commerce and mobile wallets in particular. Linking merchant’s loyalty programs to mobile wallets and enabling customers to manage rewards from the mobile platform can contribute to overall adoption. In order to do this successfully, most loyalty programs need a face-lift. Acquisition of points, miles, free hotel nights or other “collection” incentives are no longer enough to drive consumer behavior. It’s proven in the fact that consumers are now spending more and earning more loyalty points, but these are going largely unredeemed.³

The integration of mobile wallet technology and loyalty has some roadblocks. Most mobile wallets don’t work with corporate or co-branded credit cards that are tied to loyalty programs. That disconnect is hindering the seamless shopping experience via mobile that consumers are looking for.⁴ And the consumer interest is there: a recent report from a section of the Federal Reserve Board’s Division of Consumer and Community Affairs showed that many mobile users are interested in receiving discounts and deals on their mobile phones.⁵

Mobile and loyalty are intriguing to merchants because they offer new opportunities for partnerships and the ability to market to new customers, opening up incremental revenue streams when executed well.⁶ Kohl’s is a good case study to consider, as its loyalty program consists of a mobile wallet built into the mobile app, making it incredibly easy for consumers to participate without having to deal with the hassles of printing, carrying and scanning a physical

coupon.⁷ A mobile device is typically with its owner, making it a convenient option for digital coupons. The success of Kohl’s loyalty program is tangible: the majority of loyalty members do not have Kohl’s charge cards, yet tests revealed that they spend an extra \$80 per year and make two extra trips to the department store each year.⁸

Kohl’s uses its own proprietary logic to manage the loyalty program and has extensive customer shopping data. In considering the option to use an outside payments system, executives from Kohl’s acknowledge that there would need to be tight integration with the card and checkout process within the store to preserve the ability to collect that valuable data.⁹



The Key to Driving Both Loyalty and Mobile Wallet Adoption

Merchants need to remember that the evolution of mobile payments is about loyalty and promotion. Loyalty – and mobile sales overall – will ultimately be driven by appealing offers. Merchants will need strong data and clear insights across channels to provide a personalized, one-on-one shopping experience that takes into account the revenue and payments impact at each customer touch point.

Good customer service is not enough to drive loyalty and retain customers anymore. Mobile payments offers a way to ease the payments process for customers while retaining customers and building loyalty, especially in cases where a mobile app is used.¹⁰ Pairing the convenience of the mobile experience with rewards for continued interaction with a brand (whether through purchase behavior, signing up for a demo or even just showing up to a brick-and-mortar location) builds strong loyalty and continued repeat purchases.

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In order to be sustainable, the integration of mobile and loyalty must be agile enough to add capabilities as the market grows to aid in retention. This type of comprehensive, adaptive mobile payments infrastructure is key. As the marketplace evolves and payments systems become more advanced, the infrastructure must enable merchants to do more than just process a transaction. The inertia of adopting a new payment method will require mobile payments to provide additional value.¹¹



How Your Gateway Provider Can Help Your Success Today and Tomorrow

When it comes to the intersection of mobile wallets and the new world of mobile loyalty, merchants need a gateway that is equipped to manage today's challenges and is agile enough to adapt to emerging technologies and demands. From safe, secure transaction processing and fraud and risk mitigation to improving authorization and omni-channel optimization, there are a number of capabilities and areas of focus that merchants need to evaluate when considering a gateway processing partner.

PROTECT YOUR BRAND REPUTATION AND PROFITS

Mobile wallet providers in particular face consumer skepticism over the collection and use of personal data. Safe, secure processing across channels is the cornerstone of any CNP business, but mobile users are particularly sensitive about how they shop online. Fifty-seven percent of mobile app users in the U.S. have declined to install an app or have uninstalled an app over concerns about how personal data is used.¹²

Data security and rising fraud statistics illustrate the devastating effects non-secure processing has on a merchant's brand and bottom line: roughly 60% of fraud victims reported a significant decrease in trust of retailers after having their data compromised.¹³ Merchants can't afford the brand damage that comes from non-compliance with PCI DSS standards, inadequate security measures or data breaches. Additionally, as the EMV migration occurs, fraud will escalate and evolve in the CNP channel, making chargeback prevention, dispute management and fraud risk mitigation essential components of any gateway.

CLEAR AND COMPREHENSIVE LINE OF SIGHT ACROSS THE BUSINESS TO RETAIN LOYAL CUSTOMERS

To fully optimize profitability, merchants need a collective and global view of business priorities and robust reporting capabilities. Big data and advanced analytics technology is essential to provide mobile wallet and loyalty users with a personalized shopping experience. One-to-one customer engagement and the ability to assess consumer shopping behaviors across channels and provide personalized offers based on the data will separate successful merchants from the rest of the herd. Merchants need to cater to consumers with personalized and relevant offers, which requires the ability to drill down into multiple segments for marketing insights while assessing profitability.¹⁴

This global view of business priorities is necessary to effectively measure and boost consumer engagement and loyalty; however, you cannot improve customer loyalty if you are bleeding customers. The cardinal sin of commerce is to lose customers that WANT to continue paying you and merchants need a reliable way to lower attrition and churn. Advanced analytics and reporting help merchants provide a seamless, personalized customer shopping experience that entices consumers to shop. Merchants must also ensure that they aren't losing customers due to card processing errors and processes. The cost to acquire a new customer is 5 to 10 times the cost of retaining an existing one, so involuntary churn has a significant impact on merchants' long-term revenue streams.

SPEED AND ABILITY TO ADAPT TO EMERGING TECHNOLOGY

The rise of omni-channel commerce has opened up new sales opportunities, but also significant new vulnerabilities, particularly with the sophisticated and rapidly evolving techniques used by fraudsters looking to steal a merchant's hard earned profits. Lack of real-time insight and the cost of updating legacy systems that don't offer comprehensive reporting can inhibit your profitability. Your processing partner should be highly scalable, agile and flexible to support needed changes to best facilitate business growth and risk management. Rigid or limited processing options can cause decreased performance, increased costs and processing bottlenecks that degrade the customer experience and hurt sales. A static solution will not be enough.



How Verifi Can Help – Global, “Super Gateway”

Merchants need a gateway with end-to-end chargeback, fraud and security protection, deep insights from real-time analytics and the expertise to optimize billings to improve customer loyalty and lower attrition. With a decade of experience, Verifi continually invests in its Global, “Super Gateway” to address these evolving needs and challenges.

SAFE, SECURE PROCESSING ENVIRONMENT WITH COMPREHENSIVE FRAUD PROTECTION BOOSTS CONSUMER CONFIDENCE...AND PROFITS

Compliance is expensive, but non-compliance can be costlier. Our Global Super Gateway is PCI, Level 1 certified and offers a number of features and integration options to easily support merchants’ needs while maintaining the secure customer experience that is right for unique processing needs. Verifi’s platform supports tokenization and the virtual terminal provides maximum security and control from any computer or location.

The gateway also acts as a fraud prevention hub, providing comprehensive, layered fraud protection across the entire transaction lifecycle. Tools like device intelligence, geolocation and digital fingerprinting can be tested and toggled on the fly to adjust to emerging threats. Our embedded rules engine gives merchants the ability to centralize and easily accept or decline transactions with pre-set business or custom rules. Merchants can layer and modify multiple fraud prevention tools seamlessly through one integration to minimize risks, without adding IT costs or turning away good sales. On the backend, the Cardholder Dispute Resolution Network™ (CDRN) connects merchants and Issuers, so merchants can resolve disputes with customers directly before they become costly chargebacks. CDRN provides the balance that keeps front-end fraud prevention tools from becoming overly restrictive, allowing them to respect the limits of the risk threshold without experiencing too many false positives that can negatively impact sales.

MAXIMIZE THE PROFITABILITY OF YOUR BEST CUSTOMERS WHILE DECREASING ATTRITION

The Super Gateway allows merchants to maintain line-of-sight into recent changes to business priorities through in-depth performance, risk, profitability and chargeback analysis and reporting. This powerful, unique data is available in a unified view and in real time. With this global view, merchants can develop custom strategies to maximize profitability by segment, addressing unprofitable segments while shifting marketing dollars to highly profitable channels. The Chargeback Representation (CBR) service also uses sophisticated reporting to streamline dispute management and improve fraud and risk management to increase profitability. CBR’s in-depth analytics help merchants decide when to dispute a chargeback and how to maximize revenue recovery so that they can focus on their core business.

Merchants should also consider solutions to boost retention of current, happy customers to increase billings and lifetime customer value. With Decline Salvage, Verifi works alongside the internal billing process or takes over after internal authorization attempts are exhausted. Either choice provides merchants with clear incremental gains and flexibility as well as the ability to improve authorization rates by up to 20%.

MANAGE ALL CURRENT AND FUTURE NEEDS FROM A FLEXIBLE, PROCESSOR AGNOSTIC PLATFORM

Verifi's "Super Gateway" addresses the limitations and inflexibility of less robust processing solutions that degrade the customer experience and hurt sales. Verifi's solution is a processor agnostic platform supporting more than 70 major domestic and international acquirer and processing networks. Verifi's Dynamic Transaction Routing allows you to consolidate and manage all transaction processing through a single user account and interface, with visibility across all product lines and business units. The Gateway provides acceptance support for all major international and domestic payment types: Visa, MasterCard, American Express, Discover, Maestro, and ACH and Multi-Currency allows you to manage all of your domestic and international business, accepting payment across multiple international currencies.

In the dynamic and highly regulated payments world, fraud threats and new requirements are constantly emerging. Verifi's PCI Level 1 Certified platform reduces the cost of compliance and makes it easy to adjust permissions to ensure that transactions are secured from start to finish, even as compliance requirements change. The Super Gateway provides customizable fraud and risk mitigation tools that can adapt to your business needs over time to minimize risks without turning away good sales or wasting time and money on numerous re-integrations.



Conclusion

Bridling the power of mobile wallets and developing an effective loyalty program requires an efficient and agile payment processing platform. A solution that can provide deep insights on consumers helps merchants enable a more personalized payment experience, provide more relevant incentives to retain a loyal base and drive more purchases. This customization along with the ability to stay current with emerging risks will have a positive impact to the bottom line.

As the industry continues its growth bolstered by new technologies, merchants will find themselves inundated with new tools and "shiny objects" from which they can choose to protect payments, streamline payment processing and fight fraud. But merchants will not be able to effectively use these new tools without a capable processing environment that is stable enough to withstand today's challenges and agile enough to adapt to tomorrow's threats. A gateway partner should offer flexible capabilities that can be tailored to your business and evolve alongside the changing market.

About Verifi

Verifi, an award-winning provider of end-to-end payment protection and management solutions, was founded in 2005 to help our clients effectively manage the payments challenges they face everyday. Verifi helps merchants safely process payments, combat fraud, prevent and resolve costly chargebacks, as well as increase billings and keep loyal customers. Our best-in-breed solutions and white glove support are trusted by a wide range of industries from emerging companies to the Fortune 500. Headquartered in Los Angeles, California, we process more than \$20 billion transactions annually and currently serve more than 7000 accounts internationally.



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