



## From solutions to adoption: The next phase of consumer mobile payments

The competition for mobile payments has been intense over the last year. In the U.S., dozens of new digital wallet applications have launched, and the outcome of this new phase of competition will provide important lessons for other markets. As diverse players now shift focus from solution development to consumer adoption and sustained usage, they need to clearly understand the key drivers and carefully define the scope of their mobile offerings. New research from McKinsey suggests that market leaders should deploy mobile solutions rapidly to speed adoption and build scale. Fast-followers should be prepared to protect long-standing consumer relationships against digital innovators.

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The findings in this article are based on McKinsey's 2013 Mobile Payments Consumer Panel, which collects data from a randomly selected panel of 1,000 consumers, matching the demographic profile of the U.S. adult population. Comparing results of the new survey with the previous survey in 2011 provides an overview of changes in consumer behaviors, perceptions and expectations regarding mobile payments (See "The evolving mobile payments consumer: Strategic insights from around the globe," *McKinsey on Payments*, June 2012.).

### **A window of opportunity for consumer adoption**

Rapid changes in technology are not only fueling consumer adoption but are also quickening the evolution of consumer behavior. In the U.S., smart phone penetration reached an important threshold in 2012, rising to 50 percent of consumers from about 40 percent in 2011.

Consumer enthusiasm for mobile payments remains high but is moderating, according to the survey. This moderation may reflect a more pragmatic view of mobile payments, likely due to existing product shortcomings.

Seven of every ten consumers believe strongly that mobile payments at the point of sale (POS) will be widely available in three to five years (Exhibit 1). Moreover, usage levels for various types of mobile payments, ranging from digital app purchases to money transfers, provide a solid foundation for growth. A third of all U.S. consumers, for example, have purchased an app in the last year and many have made multiple transactions.

Three drivers of consumer usage top the list: deals and offers, convenience and integrated payments; but consumer interest in these drivers has cooled (Exhibit 2). Deals and offers, for example, are now ranked most important by 16 percent of consumers, compared to 21 percent in 2011. Consumer

enthusiasm has also diminished more broadly, with the proportion of “early adopters” and “selective users” shrinking from one-third to approximately one-quarter.

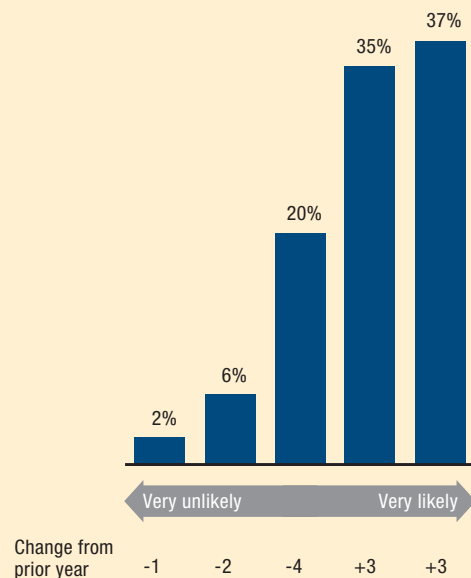
For providers, these changes mark an important window of opportunity: As consumer expectations settle to reflect a more pragmatic view of mobile payments, both established players and new entrants need to shore up current usage levels before indifference leads to disengagement. If late to market, they could squander the current level of consumer interest and face an uphill battle to convert disaffected consumers.

Beyond payments, customer familiarity with mobile shopping tools is translating into a moderate shift in shopping behaviors. While half of panel participants report having

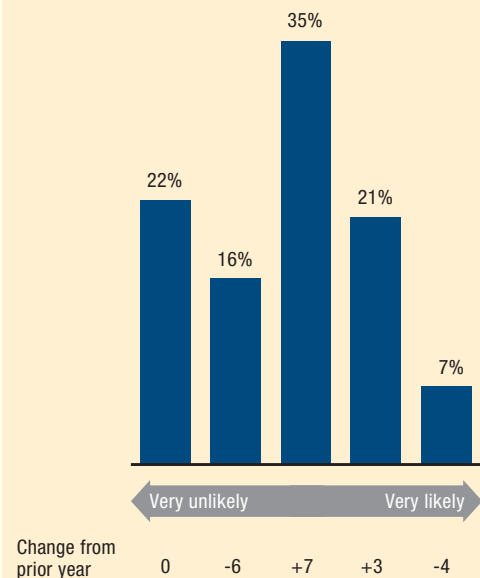
Exhibit 1

**Consumers widely expect retail stores to accept mobile payments but do not plan to use mobile payments exclusively**

**“In 3 to 5 years, do you expect the widespread ability to make mobile payments at retail stores?”**



**“Do you anticipate ever making all payments with mobile phones and not using a traditional wallet and plastic cards?”**



changed a purchase decision after checking products while in-store, only one-quarter use a mobile device regularly to check competitor pricing and research alternatives while in-store. Perhaps surprisingly, only 6 percent of survey respondents reported actually making an m-commerce purchase while in-store, suggesting that the “show-rooming” phenomenon may be contained to a smaller group of consumers in specific retail situations.

### Shifting competitive dynamics

The market for digital wallets is highly fragmented and changing rapidly, with diverse players locked in a high-stakes battle for consumer relationships. High-tech and alternative payments players have made inroads over the past 18 months, with

launches by Google Wallet, PayPal at the POS, Square Wallet and others. At the same time, traditional payments players are gaining ground. Visa has launched V.me, and major banks are actively working on their own digital wallet solutions. Merchants have also entered the field, with MCX (Merchant Customer Exchange) developing a collaborative solution and Walgreen’s, Safeway, Starbucks and others promoting their individual applications.

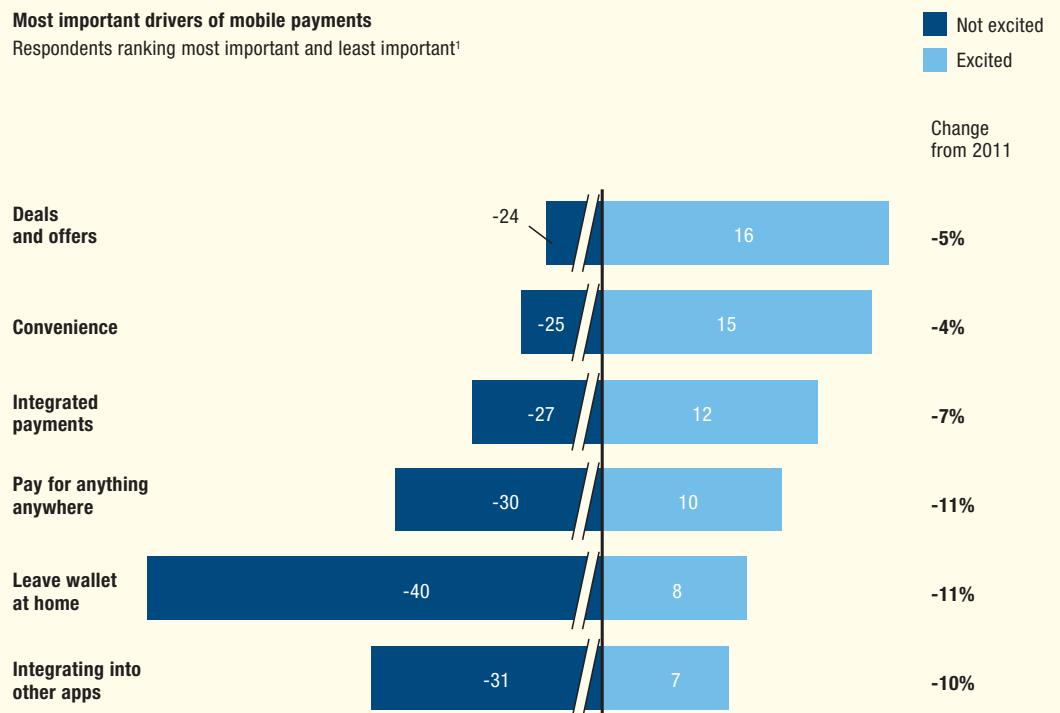
A leading model has yet to emerge, but the majority of consumers (62 percent) prefer to use a single digital wallet. If this preference holds, the current period of expansion will give way to market consolidation. Consumer perceptions about trust, innovation and product performance show that a broad

Exhibit 2

**Consumers see future benefits in mobile payments but are less enthusiastic than they were in 2011**

#### Most important drivers of mobile payments

Respondents ranking most important and least important<sup>1</sup>



Source: McKinsey Mobile Payments Consumer Survey

range of banks, network processors and new entrants are building strong brands as leaders in mobile payments and digital wallets. The question is which one will dominate.

Generally, banks and major payments networks are well-positioned as trusted providers for digital wallets. Digital innovators Amazon and PayPal also rank highly (Exhibit 3). In a separate question about innovation, JPMorgan Chase is perceived as the “most digital bank” with highest engagement in their customer base on mobile apps and customers rating this as an important aspect. Retail clients at several other banks are less enthusiastic about their bank’s digital innovations and show a higher degree of indecision about bank-based mobile solu-

tions. To maintain their pre-eminence as payments service providers, banks must strike the right balance between trust and innovation and make a clear decision to be either a leader or fast-follower.

Alternative payments providers score highest for broad consumer satisfaction. PayPal, which enjoys a general market perception of both trust and innovation, tops the customer satisfaction charts with a score of 3.9 (out of 4.0) and penetration in approximately one-fifth of smart phones. Google Wallet and Square score well on satisfaction but have lower consumer adoption (Exhibit 4).

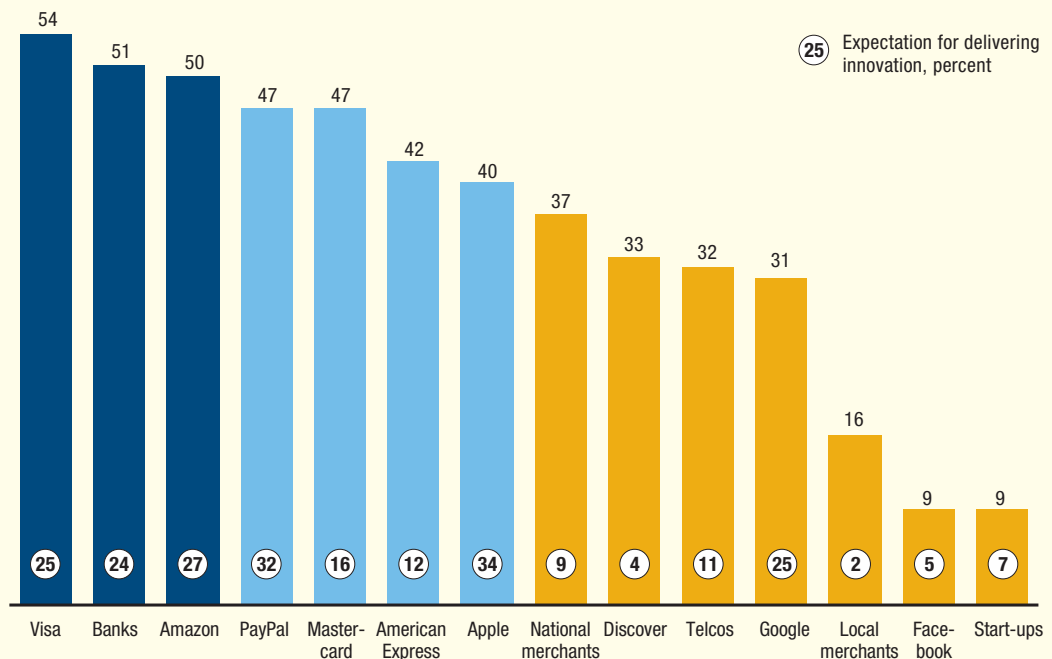
Merchant-led wallets, by contrast, face a mix of challenges and opportunities. On the one hand, merchant-based wallets appear to

Exhibit 3

### Networks, banks and established digital innovators have the highest levels of trust in mobile payments

#### Trust in provider

Percent of respondents expressing high trust



Source: McKinsey Mobile Payments Consumer Survey

have limited appeal. U.S. consumers generally express less trust and interest in merchants' wallet offerings. On the other hand, seven in ten consumers expect national retailers to accept mobile-based digital wallets, and many consumers favor wallet solutions that integrate the loyalty programs of diverse merchants.

The survey also underscores the continued importance of deals and offers in driving consumer adoption of mobile payments solutions. The majority of respondents show higher or stable levels of interest in offers and overall positive experiences. Most describe themselves as "selective" and as "deal hunters" with only small segments reporting being overwhelmed by the amount of choice.

Interest in offers remains high. Convenience and payments integration are also key to consumer adoption, which suggests that a narrowly focused solution may need to partner in order to maintain consumer usage. (Groupon's struggles provide an object lesson on the need for partnering.)

### Implications for payments providers

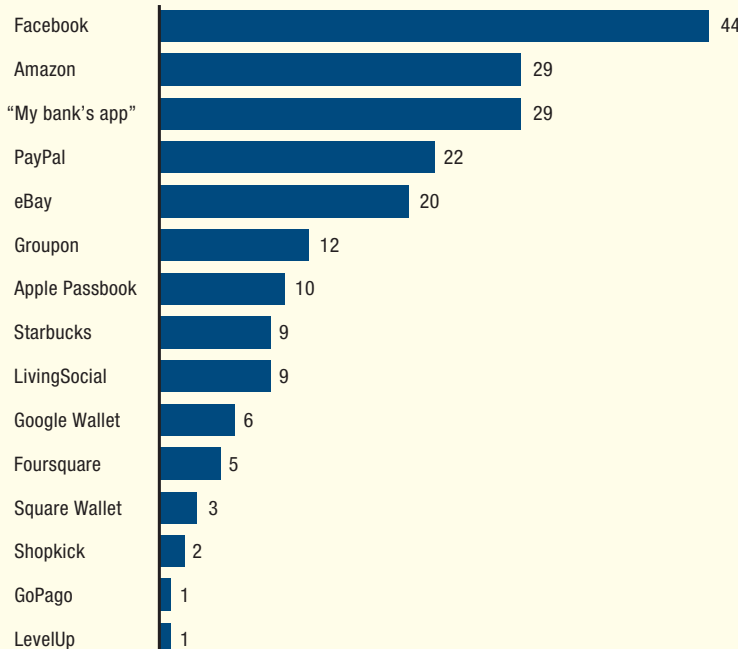
The results of McKinsey's mobile payments research hold several major implications for payments providers. The fact that multiple providers have viable value propositions increases the likelihood that the current crop of fragmented offerings will give way to consolidation. Against this backdrop, payments players should focus on four strategic imperatives:

Exhibit 4

### A number of mobile payments apps score well on satisfaction but lag on adoption

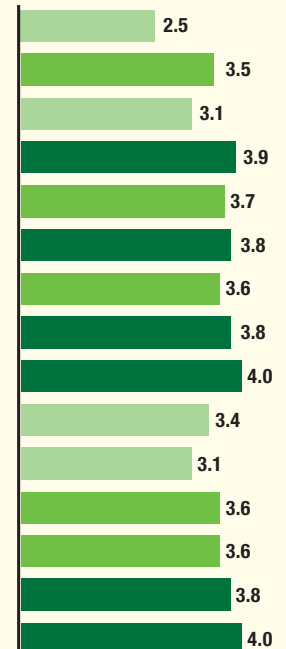
#### Mobile apps

Respondents with app, percent



#### Average rating

Score



Source: McKinsey Mobile Payments Consumer Survey

- 1. Accelerate consumer adoption.** With a temporary window of opportunity to connect with consumers and drive adoption, mobile payments players must build quickly to cement their lead.
- 2. Refine the value proposition.** The optimal balance of functional scope and payments integration has yet to be defined.

Deals and offers, while compelling, have yet to realize their full potential, and other features, such as redeeming loyalty points, have untapped potential. Integration will likely be the “killer differentiator,” but the question is one of scope: that is, will it be limited to integrating funding sources, rewards and offers in a purely

## The ideal digital wallet?

We asked consumers to design their “ideal digital wallet.” Their responses were compelling. Most important, consumers want flexibility, with rewards redemption and credit/debit card accounts topping the list of preferred funding sources (Exhibit A). Consumers’ emphasis on deals/offers and rewards redemption suggests that virtual currency exchanges could be a valuable part of a wallet offering.

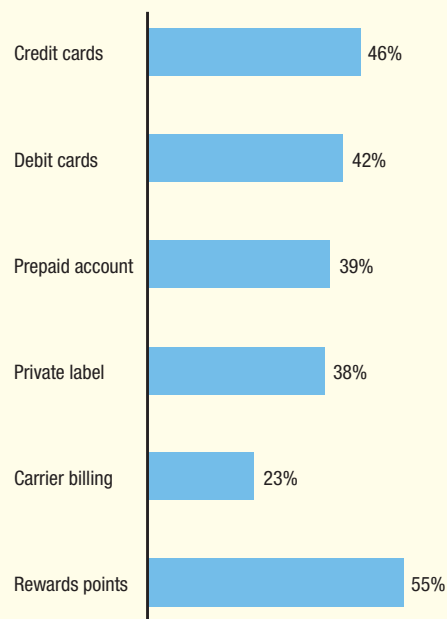
Consumers view bank-based financial controls and bill payment options as the second-most important feature of a digital wallet, which could prove a strategic differentiator for banks. Additional features, such as in-wallet credit, customization, cross-border commerce and charitable payments may appeal strongly to niche groups, but will likely have little impact on broad consumer adoption.

Exhibit A

### U.S. consumers place different values on wallet features

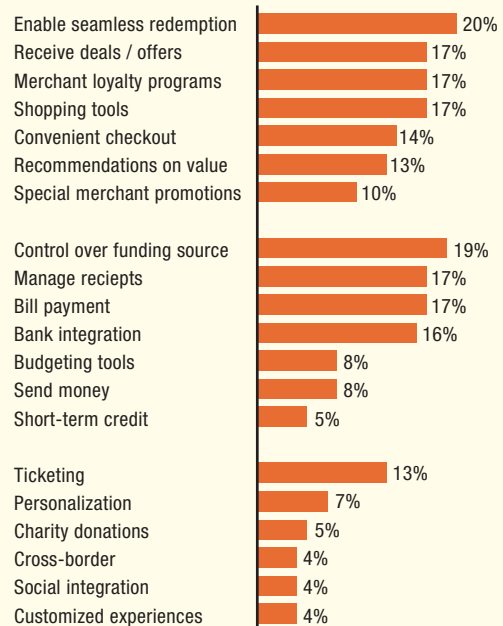
#### Preferred funding source for wallets

Respondents ranking as “essential” or “very important”



#### Main features for wallets

Respondents ranking “essential”



Source: McKinsey Mobile Payments Consumer Survey

shopping context or will consumers respond more to a “bank-based” wallet that integrates shopping tools with household finance tools, including bill payment and credit products?

**3. Align perception and values.** Consumer views on trust, innovation and security are in play. Providers need to evaluate the strategic importance of these attributes and shape their offers accordingly. Banks must question whether it is important to be perceived as innovative, and how they can insert themselves into the “deals and offers” steps of the customer decision journey (see “The role of data analytics companies in mobile commerce,” *McKinsey on Payments*, March 2013).

**4. Begin planning for the next round.**

While many players are focused on near-term issues of launching mobile offerings, they should also be thinking about the next round of competition. When the period of multiple wallets arrives, competitors will need to fight for share and

relevance, and determine their strategy for a potential period of consolidation.

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The stakes in mobile payments are high, and given the fast-changing competitive dynamics, it is impossible to predict a single winning model. The good news from our panel findings is that various offerings have firm traction with consumers, and that experimentation, usage and acceptance should continue. At the same time, consumers ultimately want a more consolidated digital wallet landscape where they can concentrate their banking and payments activities. So the coming battle will mark a period of major strategic importance, where scale and durability will be the keys to success.

(See page 29 for additional data from the McKinsey Mobile Payments Consumer Survey.)

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