Mobile Payments for Corporations: Should You Care?

Claudia Swendseid, SVP, Federal Reserve Bank of Minneapolis
Terry Crawford, SVP & Treasurer, AMC Entertainment Inc.
Brad Larson, VP & Global Treasurer, Claire’s
Gavin Waugh, VP & Assistant Treasurer, The Wendy’s Company

October 15, 2012
Claudia Swendseid

- Senior Vice President
- Federal Reserve Bank of Minneapolis

- Central bank of U.S.
- U.S. government’s bank
- Provides payment services to financial institutions
- Mission in payments is to foster integrity, efficiency, & accessibility of United States payments & settlement systems in support of financial stability & economic growth
Terry Crawford

- Senior Vice President & Treasurer
- AMC Entertainment Inc.
- Kansas City, MO

AMC is a world leading theatrical exhibition company with $2.5B in annual revenues
- Operates 347 theatres, with 5,048 screens, employs 17,000+ associates
- Serves nearly 200M theatre guests per year, with 400,000 transactions per day
- Food service business ranks AMC as one of top 60 restaurant chains in U.S.
Brad Larson

- Vice President & Global Treasurer
- Claire’s
- Hoffman Estates, IL

- Specialty retailer of value-priced jewelry & accessories operating under trade names Claire's & Icing
- Operates over 3,000 stores in 25 countries through company-owned, joint ventures & franchises
- Global workforce of 16,500
Gavin Waugh

- Vice President & Assistant Treasurer
- The Wendy’s Company
- Dublin, OH

- Wendy's Company is the world's third-largest quick-service hamburger company
  - 6,500 franchise & company restaurants in the U.S. & 27 countries & U.S. territories

- Wendy’s corporate has revenues of $2.4 billion & employs 40,000 people in the U.S.
Mobile Payments Defined

Today’s Focus

1. Mobile banking applications for corporations
   – Using a mobile device to access a bank account, access banking services, & make or approve payments

   – Using a mobile device to find product & pricing information, use loyalty programs, access promotions, locate merchandise, shop, & to buy products or services
   • P2P is excluded from today’s discussion
Corporate Mobile Banking
Corporates Gearing Up

- Business professionals are buying smartphones & tablets at a faster rate than general U.S. population. Why?
  - Increases work efficiency
  - Facilitates B2B purchases decision-making
  - Supports treasury function work

Sources: Survey of financial executives by Informa Telecoms & Media; Think B2B; Connecting with the Customer, Compete & Google, October 2011
Mobile’s Growing Importance in Treasury

Treasury Managers Rate Importance of Smartphone Capabilities

Average on a scale of 1 to 5, in which 1 is low & 5 is very important

- Receive email alerts
- Release wire transfer
- Accept/reject positive pay exceptions
- Review account balances
- Initiate wire transfer
- Monitor intraday activity

Source: Phoenix-Hecht, Treasury Management Monitor 2011
Benefits of Mobile Banking to Businesses

• Provides access to banking services & info when & wherever you need it
• Increases efficiency & convenience
  – Offers immediate accessibility & control & reduces work flow hurdles for out-of-office executives
• Facilitates fraud prevention – near real-time monitoring, stop payment faster
• Strengthens business continuity plan
Risks of Mobile Banking

• Privacy & integrity of corporate banking data on or accessed through mobile device may be compromised
• Malware & viruses may infect corporate banking data on or accessed through mobile device
• May be difficult to authenticate & authorize corporate mobile users accurately & securely
• Corporate mobile device may be used by malicious actors to “listen in” on private meetings
Audience Questions & Discussion

1. How many of you use mobile devices (smartphones, tablets) for work-related banking functions?

2. How many of your organizations use or benefit from corporate banking apps? Do you limit apps on corporate devices to company-approved ones?

3. How many of your organizations have been the victim of malicious activity directed at your mobile devices?
Developments in M-Commerce & M-Payments
Defining C2B & B2B M-Payments

Shop & pay for items at POS or online, with money debited from account (e.g., card, bank) linked to device
M-Payment Usage

55% of all Americans own a smartphone

- Over 70% of those ages 18-34 own a smartphone
- Just 11% of smartphone owners conducted a transaction in the last 6 months
  - Of this group, 63% were 18-34

Smartphone Shopping

Shopping Categories

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone Apps</td>
<td>61%</td>
</tr>
<tr>
<td>Music</td>
<td>45%</td>
</tr>
<tr>
<td>Movie Theater/Event Tickets</td>
<td>45%</td>
</tr>
<tr>
<td>Clothing</td>
<td>42%</td>
</tr>
<tr>
<td>Electronics</td>
<td>40%</td>
</tr>
<tr>
<td>TV Shows/Videos</td>
<td>33%</td>
</tr>
</tbody>
</table>

Shopping Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redeemed offer from daily deals svc.</td>
<td>16%</td>
</tr>
<tr>
<td>Purchased item due to merchant email</td>
<td>20%</td>
</tr>
<tr>
<td>Searched for coupon to use at store</td>
<td>24%</td>
</tr>
<tr>
<td>Used barcode app to comparison shop</td>
<td>24%</td>
</tr>
<tr>
<td>Downloaded merchant app</td>
<td>34%</td>
</tr>
<tr>
<td>Made online purchase</td>
<td>34%</td>
</tr>
<tr>
<td>Accessed website of retailer</td>
<td>44%</td>
</tr>
<tr>
<td>GPS/mapping app to find retail location</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Appeal of Mobile Payment Solutions, Radius Market Research, March, 2012

Source: emarketer.com May, 16, 2012 Mobile Phone Shoppers Show Growing Preference for Text Marketing
Future Use of M-Payments?

• 57% of consumers say same or less, due to:
  – Security/fraud concerns
  – Prefer debit cards or cash

• 43% say more

• #1 reason why:
  – “Allows me to shop when I want”

Source: Appeal of Mobile Payment Solutions, Radius Market Research, March, 2012
Starbucks customers use phones for 1M transactions per week on average (or 25% of total). Since January 2011 customers have made over 55M mobile transactions at more than 9,000 U.S. locations. In 2011, customers used the mobile app to load $110.5M onto prepaid accounts.

Sources: Starbucks’s Big Mug, Time, June 25, 2012; "Starbucks Mobile Transactions Exceed 26 Million within First Year" December 6, 2011 press release
Mobile Wallets Still Emerging

- **Definition:** An encrypted storage medium holding credit card & other financial information to initiate electronic payments (online & at POS) without re-entering the stored data at transaction time.

- **Players:** Issuing entities (now or announced for future) include Apple, Isis, Google, Visa, PayPal, MasterCard, & merchant coalition of retailers.

Benefits vs. Risks

Success Failure
Potential M-Commerce & M-Payment

Benefits & Opportunities

Benefits

• Enhance customer satisfaction & loyalty
• Project progressive image
• Appeal to younger, tech-savvy consumers
• Remain competitive

Opportunities

• Generate revenues
• Leverage lower cost payment channels – e.g., ACH
• Offer coupons & deals
• Use geo-location marketing
Potential M-Commerce & M-Payment Risks

- New types of data breaches
- New types of fraud
- Tarnished reputation & loss of customer confidence or loyalty if new mobile service doesn’t work as promised
- Merchant may not gain all of the expected benefits
Do M-Payments Provide Attributes Consumers Want?

- Payment attributes consumers want:
  - Convenience
  - Low cost
  - Ease of use
  - Access anytime, anywhere
  - Security
  - Peace of mind

Source: FRB Boston, Study of Consumer Payment Choice
M-Payment Adoption Drivers

• Business model that incents all participants effectively
• Merchant acceptance & readiness
• Consumer demand & readiness
• Customer data ownership that’s appropriate
• Enabling infrastructure (technology, telecommunications, banking services)
• Rational regulatory environment
Potential Inhibitors of M-Payment Adoption

- Consumers may be skeptical or wary of m-payments
- Consumers may be satisfied with existing payment methods – why change?
- Some mobile phone equipment may need to be upgraded to support m-payments
- Standards may not be in place to enable broad acceptance – e.g., merchant reader technology may not be compatible with all mobile devices
- Business strategy of 3rd party wallets may foster fragmented market
Audience Questions & Discussion

1. How many of you have used your smartphone for shopping activities related to business purchases?

2. How many of you have bought something using your smartphone via the Internet?

3. How many of you are merchants or retailers?
   a. Of this group, how many of you offer a mobile app?
   b. How many of you accept mobile payments at the POS? How many are exploring this capability?
Your M-Payments & M-Commerce Strategy
Pursue M-Payments & M-Commerce with Eyes Open

• Form a cross-functional team (including treasury)
• Confirm demand & benefits are truly present for your business
• Identify & evaluate all costs
• Apply same due diligence used to manage all payment methods
  – Develop contingency plans
  – Perform data security & privacy audits
  – Monitor continually
Your M-Payments & M-Commerce Strategy

• Stand & watch; or stand & deliver?
• Go it alone, or partner with a vendor?
• Deciding factors
  – Meet customer demand
  – Address customer concerns
  – Find solutions that satisfy business-specific needs
  – Make clear business case for strategy
  – Manage all relevant risks
  – Protect customer data
Should You Care about Mobile Payments & Commerce?

• Yes!!
  – Corporate mobile banking services can provide value if used appropriately & risks are managed
  – Early days now for m-payments & commerce but likely to grow in next few years
  • Today’s market is fragmented, but taking shape & building momentum
  • If you ignore mobile, you may miss key opportunities!

AFP® Annual Conference
QUESTIONS????
Contact Information

Claudia Swendseid  
Federal Reserve of Minneapolis  
Claudia.swendseid@mpls.frb.org

Brad Larson  
Claire’s  
Brad.larson@claires.com

Terry Crawford  
AMC Entertainment Inc.  
Tcrawford@amctheatres.com

Gavin Waugh  
The Wendy’s Company  
Gavin.waugh@wendys.com
M-Commerce Research/Resources

Research Studies/ Surveys
- Appeal of Mobile Payment Solutions, Radius Global Market Research, March 2012
- Consumers & Mobile Financial Services, Federal Reserve Board of Governors, March 2012
- Survey: Mobile, Social Essential to Shopping, Mobile Payments Today, July 20, 2012; cites Empathica Inc. Consumer Insights Survey findings
- Consumers Going Mobile: The Transformation of Payments, First Data white paper, 2012

Readiness Models
- Mobile Payments: The Importance of Trust & Familiarity & the Need for Cooperation, GFK, May 2011
- Mobey Forum (non-profit, global, financial industry driven forum) white papers; “Mobile Wallet – Definition & Vision” 2011 & “Control Points in Mobile Wallets” 2012

Market Analysis
- Insight: Mobile Money - Eight Key Mobile Payments Players, PaymentEye, June 2012

33
M-Commerce Research/Resources, continued

**Market Analysis, continued**

- Mobile payments: Three winning strategies for banks, SWIFT white paper, April 2012
- Mobile Warming & Taming the Mobile Wild West, M-Commerce section, Digital Transactions, July 2012
- The Future of Money & Mobile Commerce Infographic, Mashable.com, May 2012
- Two-Thirds of New Mobile Buyers Now Opting for Smartphones, Nielsen.com, July 12, 2012
- Fighting Mobile Fraud: Protecting Business & Consumers from Cybercrime, Iovation white paper, 2012
- Shipments of NFC-Ready POS Terminals Doubled to 2.5 Million in 2011, Berinsight.com, June 4, 2012
- Google Shipping 1 Million NFC-Enabled Devices per Week, PaymentEye, June 29, 2012
Market Analysis, continued

- How to Select a Mobile POS Solution, Leapfrogpos.com white paper, 2012, Mobile Payments Today


- An Explanation of NFC, Symon white paper in Mobile Payments Today, 2012 Networld Media Group

- Opportunities & Challenges to Broad Acceptance of Mobile Payments in the United States, Elisa Tavilla, Federal Reserve Bank of Boston, Payment Strategies, July 24, 2012


Forecasts

- Gartner Says Worldwide Mobile Payment Transaction Value to Surpass $171.5 Billion
  Mobile Payment Market Will Experience Fragmented Service Offerings in the Short Term, May 29, 2012

- Smartphones Will Influence $689 Billion in Retail Store Sales by 2012; Deloitte Study, Deloitte.com press release, June 27, 2012


Online Newsletters Featuring Mobile Commerce & Payments

- Mobile Payments Today
- Mobile Commerce Daily
- Digital Transactions
- Emarketer
APPENDIX

• Additional slides
Mobile Payment Types

3 TYPES OF MOBILE PAYMENTS
Mobile payments are being adopted all over the world in different ways—combined market for all types of mobile payments is expected to reach more than $600 billion globally by 2013.

- **COMMERCE**
  - Mobile Internet Browser (Online Wallets and Standard Web Commerce)

- **PAYMENTS**
  - Uses Contactless/Mobile App Technologies

- **WALLETS**
  - Aims to Replace Your Full Wallet

5 MOBILE PAYMENT MODELS

- **CONTACTLESS**
  - NFC, RFID, and FeliCa

- **MOBILE APPS**
  - Internet Enabled

- **SMS**
  - Text Messaging Service Component

- **WEB**
  - Mobile browser based payment

- **USSD**
  - Similar to SMS but is quicker and has ability to invoke commands with common codes rather than opening a messaging application

Many Players Dot Mobile Landscape; with Different Business Models

<table>
<thead>
<tr>
<th>Player Category</th>
<th>Example of Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile network operators</td>
<td>(Vodafone, Verizon, AT&amp;T, MTN, Orange)</td>
</tr>
<tr>
<td>E-commerce companies</td>
<td>(Google)</td>
</tr>
<tr>
<td>Retailers</td>
<td>(Carrefour, Macy’s, Walmart)</td>
</tr>
<tr>
<td>Payment service providers</td>
<td>(PayPal, Western Union, Isis, Square, Intuit)</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>(numerous)</td>
</tr>
<tr>
<td>Card companies</td>
<td>(Visa, MasterCard, Amex)</td>
</tr>
<tr>
<td>Application developers</td>
<td>(shopkick, ZooZ, Jumio, Paydiant)</td>
</tr>
</tbody>
</table>
Some Retailers Using M-Commerce

- 88% of the leading 100 retailers (accounting for 45% of U.S. retail sales) are leveraging mobile to enhance interaction with customers & create digital shopping experiences

  - **How?** Offers, coupons, loyalty programs, product searching, incentive marketing, wallet or alternative payment into mobile channel, etc.

  - **Who?** General merchandise retailers & “everyday spend” categories

Source: First Annapolis Press Release, *First Annapolis Publishes 2012 Top 100 Retailer Mobile Payments & Marketing Study*
Key Takeaways

- Develop overall m-strategy that achieves best fit with corporate objectives
- Ensure treasury has a key role in developing m-strategy
- Ensure addressing customer demand is central to m-strategy
- Identify & engage key delivery partners – internal & external
- Identify key risks & how best to mitigate them