

# Digital Wallet Services – Myths and Reality

A commercial perspective  
on success and failure  
factors



# Contents

<b>Overview</b>	<b>3</b>
<b>Understanding consumer behaviour: payment facts</b>	<b>4</b>
<b>A successful digital wallet service: what are the key components?</b>	<b>6</b>
What is slowing down digital wallet adoption?	7
How can you make the digital wallet commercially viable?	9
Solutions: what are the options?	11
Key success factors for commercially viable digital wallets	13
Revenue generating opportunities: the real economics of digital wallet services	13
The optimum launch strategy: a perspective on the key ingredients	15
<b>Conclusion</b>	<b>17</b>
<b>References</b>	<b>18</b>
<b>About CardMobili</b>	<b>18</b>



# Overview

Look back through the media over the past two years, and the number of digital wallet and associated service launches is numerous. So too are announcements about changes of tactic or simply admissions of failure. Less evident are tangible success stories, illustrating how the digital wallet concept can be made to succeed and what the core components need to comprise. There is clear evidence that while the digital wallet concept continues to hold considerable attraction for mobile network operators, merchants, financial institutions and technology providers, there is no magic formula that guarantees market traction.

Considerable attention continues to be paid to payment methods within the digital wallet, sometimes accompanied by the promise of revolutionising customer payment habits, or advocating mobile payments as the way forward. There is, however, a fundamental difficulty inherent in these approaches – card acceptance in developed markets is high and, thanks to well-established ATM networks, there is no issue with access to cash. It is also fair to say that payment alone does not automatically create an ecosystem of mobile-enabled users. So there are some essential elements missing from the payment-led argument.

This white paper looks to set out the pros and cons of the digital wallet concept, and identify some of the factors behind adoption patterns. It includes a detailed discussion of payment-centric strategies versus consumer-benefit focused approaches, using the latest market data and analysis from several existing digital wallet solutions operating in

the marketplace. The paper sets out the argument that the digital wallet most definitely has the potential to disrupt conventional commercial practice, adding an important new dimension that can deliver viable revenue benefits. This does not rely, however, on reinventing payment practices, but rather on recognising and capitalising on customer engagement and personalised marketing. By focusing on the consumer journey and understanding how value-added services can be used to aggregate the shopping lifecycle, we can achieve a greater understanding of the factors needed to create a successful digital wallet.

The objective is to dispel the myths about the digital wallet, and argue the case for what really does work within a successful service strategy.

**Figure 1: Understanding the consumer - value-added services provide the all-important aggregation factor in the shopping lifecycle.**

Source: CardMobili



## Understanding consumer behaviour: payment facts

Consumers rely on cash and cards – these are immutable facts, borne out by many leading surveys and market polls. Carrying one or two universally accepted payment cards is second nature on a day-to-day basis. Changing what has become standard consumer behaviour

is no easy task. Another issue is how to link the online and physical commerce environments. There are plenty of solutions for online digital payment in existence, but it is a great deal harder to solve the offline challenge. At present, it is fair to say that there is no single digital payment solution that has successfully bridged this divide and gained traction with both consumers and merchants.

Taking these factors into consideration, it is clear that there has to be a considerable incentive and benefit to the consumer, with most of us electing to choose a payment option that represents the best possible value.

*A study by Accenture provides a good illustration of this point and found that merchants need to incentivise consumers through value-added tools to encourage adoption, as well as attract more valuable customers. The same study also found that 60% of consumers, who already make mobile payments, said they would probably do so more often if they received instant coupons, while some 36% said they would hand over personal information in exchange for such rewards. Nearly half said they would increase their mobile payments usage, if offered short-term, location-based coupons.<sup>1</sup>*

It is a fact that we are not yet leaving our wallet at home. The reasons behind this almost certainly rest on a question of incentive. Why would consumers change their habits unless there was a compelling reason or incentive to do so? To date, the digital wallet focus has revolved around the issue of payment, proposing it as an instrument for mobile payment as opposed to something

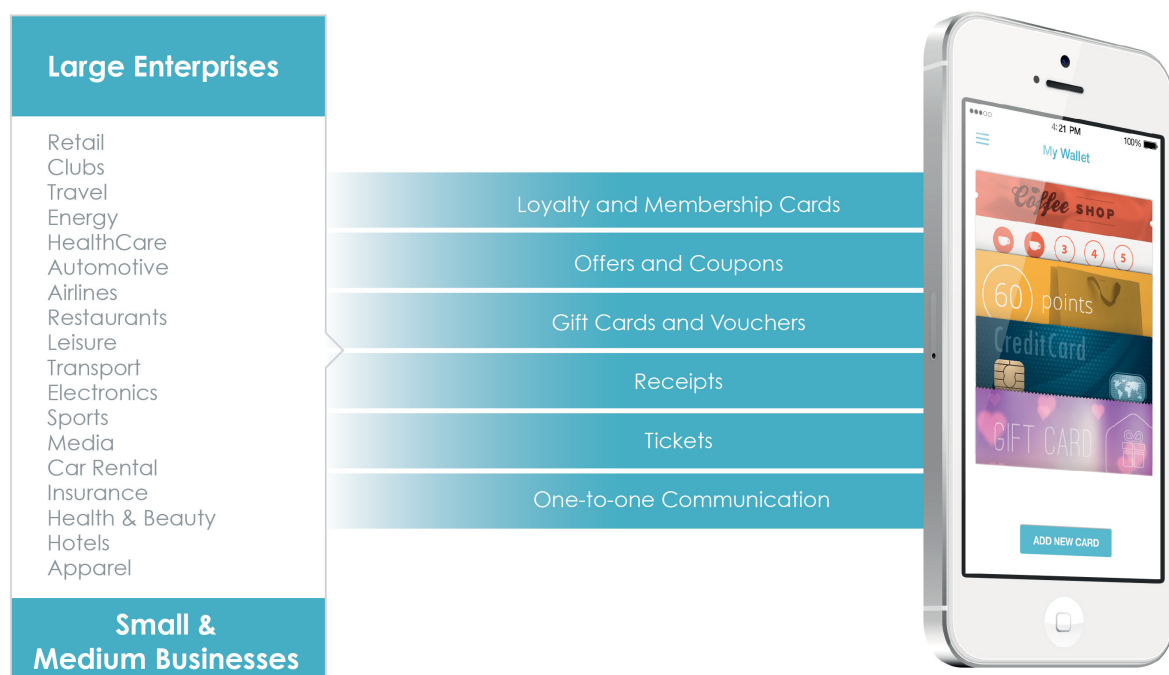
that delivers additional value-added benefits to the consumer. Hence the wallet continues to come with us when we shop.

If one follows the idea of understanding consumer behaviour further down this track, it becomes clear that a useful wallet needs to be all-embracing; a repository for many other elements that are relevant to the overall shopping experience. This includes loyalty cards, coupons, offers, receipts, lists, and tickets, as just a few examples. By combining all of these elements into a wallet, we start to realise some tangible business benefits – transitioning “dumb” formats into intelligent propositions that have the potential to connect a retail brand with individual customers. Quite simply, they combine to create the catalyst that powers the digital wallet service.

*84% of global respondents in a recent Nielsen survey said they were more likely to visit retailers that offer a loyalty program.<sup>2</sup>*

**Figure 2: Enabling an ecosystem - aggregating all the key elements from different service providers.**

Source: CardMobili



In the simplest terms, consumer purchasing is driven by the need to get the best product or service at the best price, particularly against a background of tough economic times. For a merchant, the objective is to stand out from the competition, and win the consumer's business every time a shopping decision is taken. The actual process of money changing hands is a key part of the process, but by no means the sole imperative. The key is to engage the consumer during the decision-making process, and maintain loyalty thereafter to encourage repeat purchasing.

Within current payment practice, card payments continue to offer the most convenience for the majority of consumers. Merchants are accustomed to card payment fees, albeit disliking the perceived high level costs, and are unwilling to invest in what seems as yet unstable or unadopted alternatives. Mobile payments solutions therefore have some way to go to address the convenience aspect for consumers or the CAPEX implications for merchants, if they are to offer a genuine and viable alternative.

## A successful digital wallet service: what are the key components?

As already stated, digital wallets have attracted considerable attention for a number of years – without actually taking off in the marketplace. The idea of paying with your phone is slowly beginning to gather

some pace, although it has not really won over consumers and brands as a strong value proposition. No-one has yet managed to find the magic formula that will transform the ugly duck into a swan!

So what are the factors behind this lasting strong interest? Why do large organisations such as mobile network operators, financial institutions, digital brands and merchants continue to regard digital wallet services as potential money-spinners capable of generating new revenue opportunities?

In order to provide some answers to these questions, we will look at five key areas:

1. What is slowing down digital wallet services adoption?
2. How can you make the digital wallet commercially viable?
3. Solutions – what are the options?
4. Revenue generating opportunities: the real economics of digital wallet services.
5. The optimum launch strategy – a perspective on the key ingredients.

## What is slowing down digital wallet adoption?

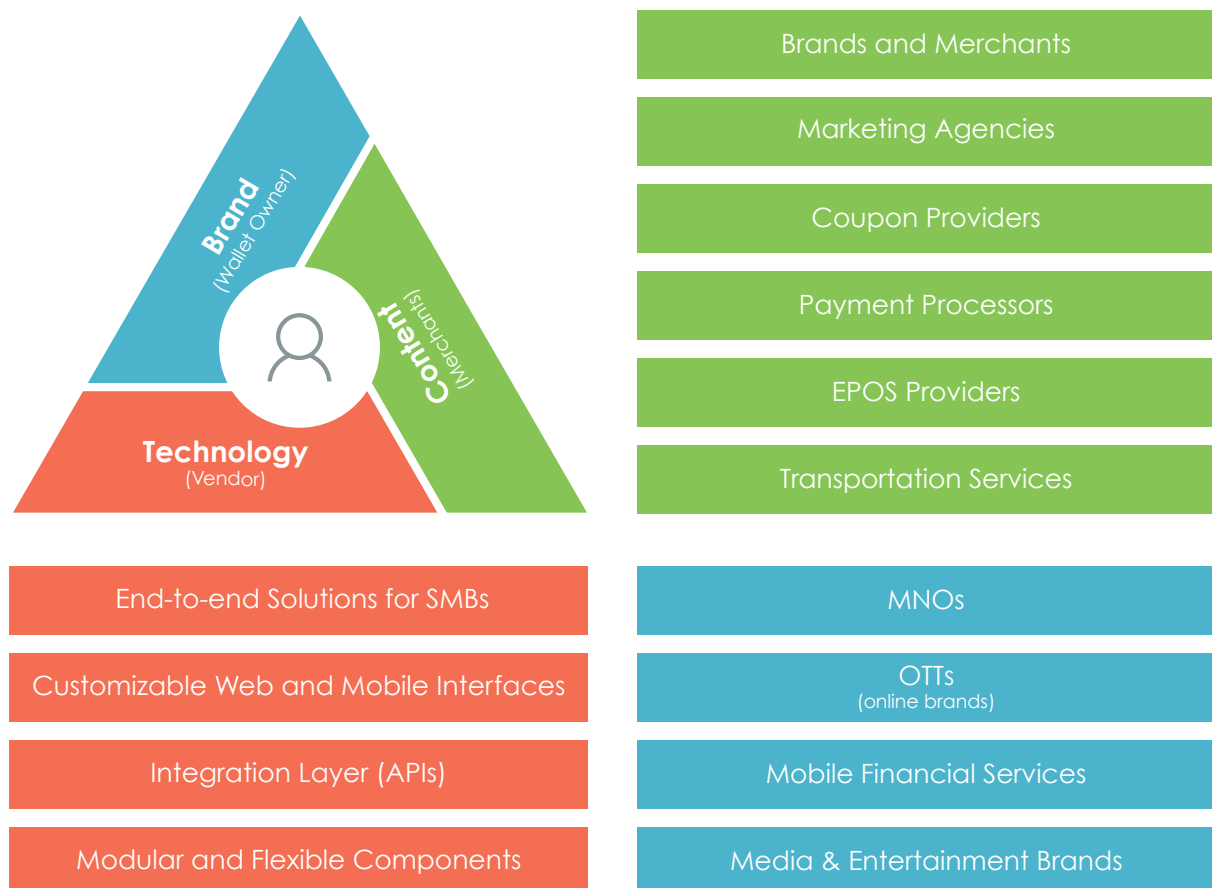
- A digital wallet service is a complex ecosystem.

A digital wallet service requires a promoting B2C and B2B brand, diverse and valuable content and a robust, scalable and flexible technological platform. Support

for this ecosystem has to be catered for from the wallet's inception, if it is going to offer the structure to sustain growth across multiple criteria. Its initial build specification needs to incorporate the inherent capabilities and technical flexibility to enable multiple players across vertical markets to get on board (finance, merchants and other service providers). The ecosystem has to be able to support and project their programmes, operations and contents – both online and offline – if it is to succeed.

**Figure 3: A consumer-driven wallet - the complete picture.**

Source: CardMobili





- **The ecosystem requires incentives.**

Value-added services that support commerce, such as loyalty and promotions, are central components for a digital wallet. Consumer rewards, bonus programmes and similar tools such as loyalty points and coupons, have a powerful impact on a brand, when they are accommodated intelligently in a mobile service. They combine to encourage adoption and are essential for the ecosystem to scale. Consumers are looking to see an aggregated value within a mobile format, and today retailers of all shapes and sizes rely on intelligent tools for personalisation and targeting.

*Mobile coupons can broaden consumers' horizons.*

*In addition to cultivating loyalty, a digital coupon via smartphone can also persuade customers to try a new brand. Nearly half of those surveyed (47%) said they are open to doing so.*

*Digital coupons continue to rule the world of promotions.*

*59 % of respondents said that out of all the different types of promotions a retailer can employ, digital coupons still sway them the most when it comes to influencing a purchase decision.*

*Consumers are likely to spend more when redeeming digital coupons via smartphone.*

*The survey found that 55% of smartphone coupon users will spend more money during their online or in-store visit.<sup>3</sup>*

- **Technology lacks compliance standards.**

The lack of consensus regarding which technology to deploy raises some major questions, particularly for merchants. For example, just how many digital wallets are there going to be in the market? How many should they be prepared to accept? From a straight business perspective, any merchant is understandably reluctant to risk making costly changes based on potential alone. The result is that the majority are adopting a "wait and see" stance, on the basis of only making a decision to upgrade hardware and back office systems, once they can be assured that their investment will be protected.

Merchants are looking for two things in particular from technology: flexibility to help preserve the high costs of initial investment, and a future-proof technology foundation that is scalable and will serve the business bottom line.

- **It's mostly a business problem not a technology problem.**

While the introduction of new technologies can present its own set of unique challenges, the market is prepared to address these if there are tangible benefits to be gained. Take for example the situation with NFC adoption - its prospects are being challenged and proving difficult, partly due to fragmentation, and other hybrid technologies that are emerging. Other companies are pursuing BLE or QR Codes/barcodes, on the basis that they are sufficiently mobile phone and consumer friendly to show or scan in-store. Technology itself is not the main driver – it is what it enables that provides the all-important incentive.



If one looks beyond the payment-based element in the equation, putting the emphasis back on a digital wallet concept that uses cost-effective, business-friendly and proximity-based engagement solutions, the picture becomes a lot broader and simpler. Using this approach, traditional and existing marketing initiatives can be realised, enabling brands to engage with consumers rapidly and easily. It helps overcome the technical complexities at a stroke, providing a platform from which to build engagement and the necessary ecosystem to support a long-term and successful digital wallet strategy.

- **Mass-market appeal is fundamental.**

This is without doubt the end game for any digital wallet service. For it to succeed, there has to be widespread consumer take-up and ongoing adoption. However, consumers have well-publicised fears about mobile payment security, particularly with regard to how their personal data is stored, secured and used. It is fair to say that we are a long way off this issue being resolved – clarity on the subject does not exist. For retailers considering the in-store context, there simply is not a strong enough argument showing the commercial benefits of mobile payment-based solutions, so adoption at their end is also a challenge.

## How can you make the digital wallet commercially viable?

In order to be truly successful, a digital wallet service has to be an end-to-end experience. It has to adopt a holistic approach that is designed first and foremost to promote commerce and customer interaction.

- A digital wallet service is a companion app to everyday activities, supporting the commercial experience irrespective of any payment method. Traditional payment scenarios such as card debit or credit and cash are likely to remain current for a considerable period of time, and there is no clear incentive for consumers to choose mobile payments over conventional cash-based methods. It therefore seems sensible to pursue a digital wallet strategy that provides a value-added shopping experience, regardless of how a transaction is completed.
- Payment does not define a digital wallet service by itself, nor does it provide a viable commercial platform for an attractive ecosystem that connects stakeholders. A solution that aggregates loyalty programmes and campaigns from multiple merchants, all co-existing under a single wallet brand as a standalone proposition, offers a substantially greater chance of successful market take-up. Existing mobile payment solutions stand a greater chance of success if they added this distinctive edge, providing a combination package to encourage consumers to adopt it.
- Commercially strong value-added services such as loyalty cards and promotions have always provided a critical link between consumers and merchants. There is clear existing momentum for a digital wallet service that aggregates a bundle of loyalty cards, offers and coupons, recognising that consumers are highly cost aware. The recent global crisis, which impacted most of the developed economies, has simply put this fact into sharper contrast and made it more relevant. It has also become fashionable to bargain hunt. All

of these factors have contributed to make it harder for merchants to attract customers, fighting ever harder for some portion of the consumer wallet. The only way to influence shopping decisions is to get in front of the customer – by providing the best offer or the best deal and, importantly, communicating that to the consumer.

*49% consumers wish more stores offered mobile apps to collect and redeem loyalty points.*

*46% consumers choose to shop at stores that offer mobile loyalty programs over stores that do not.*

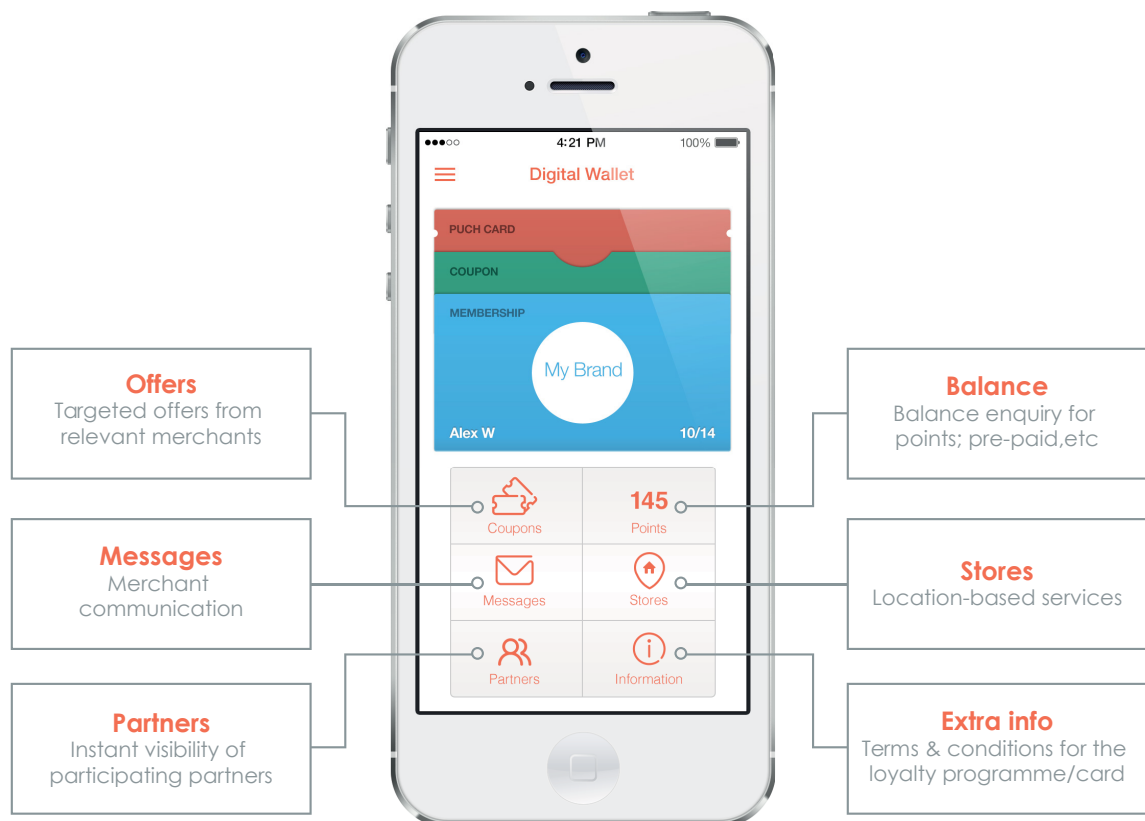
*44% consumers would strongly recommend a company to friends and family if it offered a mobile loyalty program with personalized rewards.<sup>4</sup>*

- Propositions that are purely mobile payment-centric are stalling adoption rates for digital wallet services per se, on the basis that they appeal only to early adopters and specific market outlets. They are extremely limited in terms of data collection opportunities, with the actual act of payment representing an intermediate touch point in a consumer engagement lifecycle. Mobility in this context is, we argue, all about projecting business services and programmes, generating awareness, footfall and repeat business via multiple touch points during the customer journey.

Following this logic, there are some key components that constitute the ideal digital wallet as depicted below.

**Figure 4: An aggregated wallet - delivering an outstanding customer experience.**

Source: CardMobili



## Solutions: what are the options?

A digital wallet service must meet the need to reduce complexity and generate a straight-forward and consistent mobile customer shopping experience. An example of this is organising a variety of loyalty cards, providing easy access to digital coupons and discounts, tickets, receipts and other items for the consumer's own reference.

It is clear that content providers need a firm business rationale in order to commit to any digital wallet service, with the provision of new marketing tools representing a strong incentive. A priority for these support tools is to achieve a balance between empowering the consumer's lifestyle on the one hand, versus making a tangible contribution to the retailer's bottom line. They need to be provide a seamless set of features in terms of enabling functional control across operations, marketing, customer care and partners' workflows, with a minimal impact from the user's perspective.

So what are the best solutions on offer? Here is a guide to what they need to provide:

- Replacement of old-fashioned and cumbersome tactics and formats that push consumers away from brands, with simple mobility solutions such as self-service registration forms for real-time, automated issuing of digital cards. These are already available, and are valuable from a customer acquisition perspective.
- Allow new levels of engagement with personalised, relevant and direct communication. Include actionable and real-time promotional contents that generate in-store footfall and influence shopping decisions.

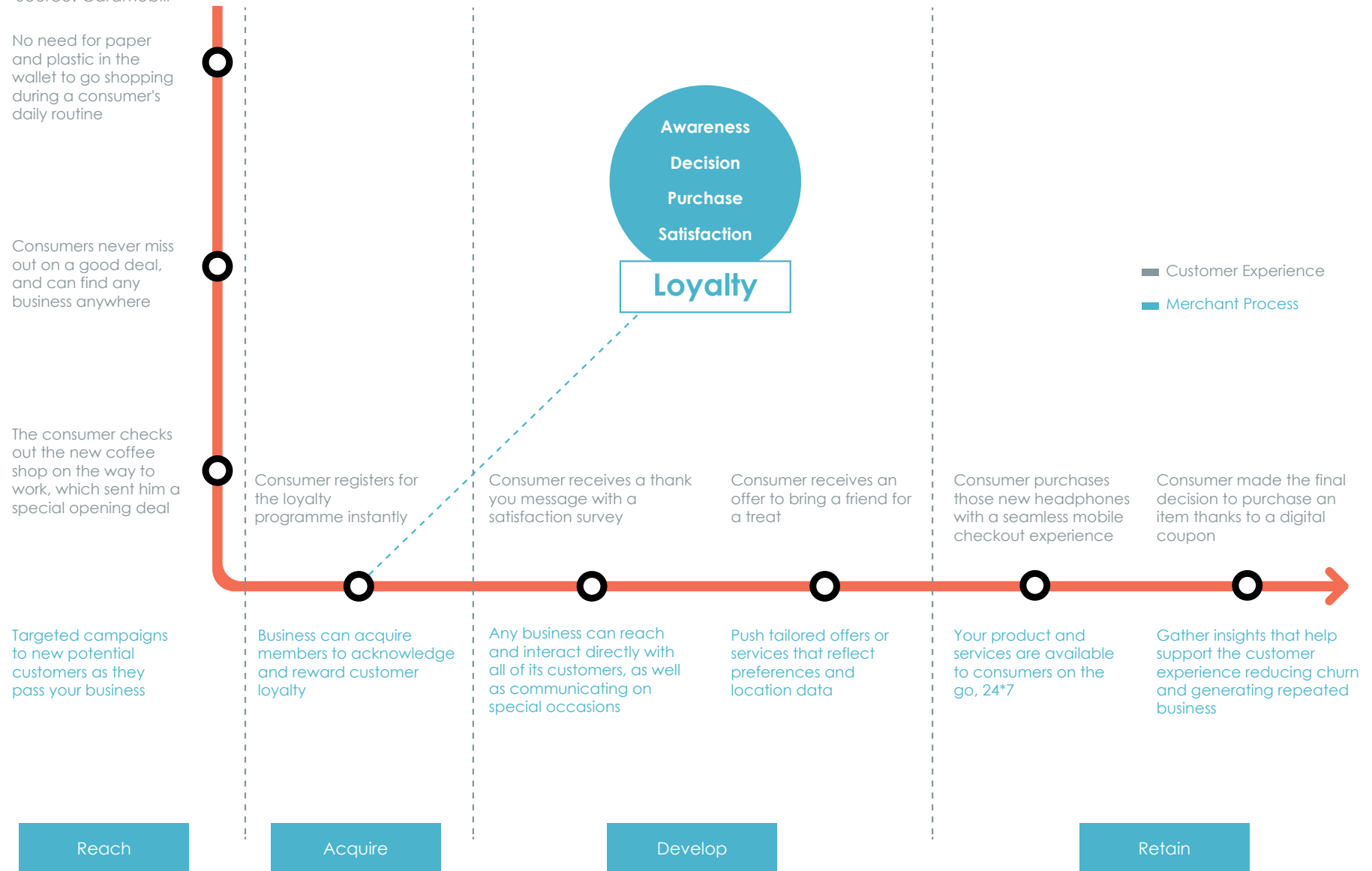
- Extend existing loyalty programmes and marketing initiatives instantly, elevating the status of loyalty programmes and using new digital and mobile-friendly formats for distribution of content and in-store customer identification.
- Seamlessly collect consumer behaviour data to enrich customer relationships and campaign management systems, with actionable insights to retain those consumers.

Interestingly, there are existing solutions that retailers are already using that correspond to the qualities identified above. They are called digital loyalty schemes – enabling retailers to reduce the overheads associated with printed paper and plastic, plus the distribution of the loyalty cards and coupons that currently fill up our wallets.

Above all, a good solution needs to support the customer journey, something that is essential in today's digitally connected lifestyle. Anytime and anywhere customers never want to miss a discount, while wanting quick access to their points or loyalty status and the ability to use their coupons. This is just the tip of the iceberg – add the option to access their own details, check where the nearest store is or even call them in a single click, and we are closer to the current "ideal" for a simple digital service.

**Figure 5: Bringing the digital wallet to life – the customer journey and the merchant engagement process.**

Source: CardMobili



## Key success factors for commercially viable digital wallets

We believe that there are six key factors to create a successful and commercially viable digital wallet service:

1. The core technology needs to deliver the value-added commercial element within the digital wallet, focusing on services that drive consumer and merchant value.
2. Loyalty, rewards and membership programmes need to be well designed to provide additional value to the consumer.
3. Offers, promotions and coupons: all forms of marketing and promotional services to consumers must be supported.
4. Communication tools between merchants and consumers must support additional brand engagement through targeted communication.
5. Location-based features: where to go, where to buy and real-time reminders.
6. Mobile shopping capabilities for online and in-store shopping.

Underpinning all of this should be a flexible and robust technology foundation, capable of supporting and extending existing marketing initiatives, while rolling out effective new features and mobile touch points within the wallet.

## Revenue generating opportunities: the real economics of digital wallet services

There are a number of factors that should be considered within the optimum wallet business model, as defined from the wallet service owner's perspective. Firstly, there is the initial upfront investment for wallet deployment and launch, followed by the operational costs of running the service 24\*7, and thirdly, the monetisation strategies for revenue generation.

When it comes to investment and costs, the fundamental principles underlying the business model are:

- Investment: the wallet service owner's upfront investment is divided into the promotion and marketing of the service to build traction, plus the technology licensing and integration for service deployment. While the latter can be kept to a minimum, particularly as technology licensing models become more and more subscription-based, the former of necessity demands the lion's share of the wallet owner's resources. The priorities involve attracting content and consumers to generate traction at launch, which may include, in some instances, subsidised merchant enrolment to accelerate the ecosystem.
- Revenue-generation: technology licensing follows a "pay as you grow" model, which reduces risks and allows for return on investment to be achieved earlier in the process. This is achieved as a result of the wallet owner implementing a revenue-generating service from the outset.

Platform hosting and operating costs, which are also relevant from an operational costs' perspective, also follow a flexible model, with capacity being adjusted according to growth and traction.

- Offers and coupons, available to both loyalty programme members/cardholders of a specific brand or non-customers, and priced differently if viewed, saved and/or redeemed.

As a result, the wallet service owner has a predictable cost base for the service, and multiple revenue generating services that can provide attractive content monetisation, such as:

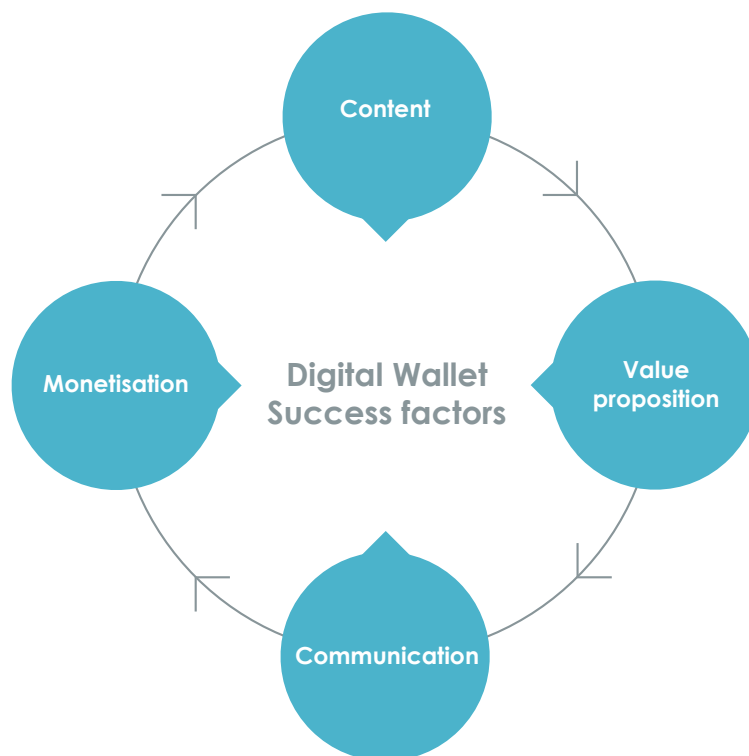
- Digital cards for loyalty and membership programmes, charging a fee/card/period of time and leveraging the multiple cards a user carries in its wallet to multiply monetisation opportunities.
- In-app communication messages for brand-to-consumer communication, which can be priced differently according to its effectiveness: message sent vs. message viewed.

In all scenarios, volume-based pricing ensures that there are built-in incentives for merchants and brands, enabling them to focus on growth and continuous usage of their content. The model itself is tuned as "pay for performance" and, as such, is very effective from a return on investment perspective.

It is also possible to achieve monetisation of a digital wallet service with elements and services other than the payment transaction, providing merchants, brands and all other content owners with a genuine "value for money" proposition.

**Figure 6: Creating the virtuous circle of mass market adoption.**

Source: CardMobili



## The optimum launch strategy: a perspective on the key ingredients

In CardMobili's extensive experience, as one of the longest-standing providers of digital wallet services in operation, launching and operating a successful digital wallet relies inherently on understanding the customer perspective and matching a digital wallet to their digital lifestyle.

This is our blueprint guide for a successful launch strategy:

### Identify different value propositions for different business needs

- Existing loyalty programmes: the key elements involve replacing plastic, going digital, providing convenience to customers, increasing usage and perceived benefits, adding speed and customer intimacy.
- Serving the SMBs: their need is to move fast, offer a service that is 100% relevant to consumers, and compete creatively. As a result, they need a turnkey solution that works out of the box, simply and without significant costs.

### Content is king

- Getting the right mix of large or flagship loyalty programmes from nationwide merchants with a variety of local business or SMB content. Including several large merchants, combined in a non-competitive matter reinforces confidence in the solution and pulls consumer adoption.
- The inclusion of small merchants ensures local reach and frequency of shopping.

- Identify and encourage participation from other content providers that are looking for additional channels – this will encourage rapid sourcing, accurate distribution to the relevant audience, and maximise effectiveness.
- Above all, good content will accelerate adoption and create momentum.

### There is no such thing as too much communication

- It is very important to design a simple communication plan with a clear objective: user acquisition!
- Use your customer database and communicate one simple benefit with a supporting call to action url: "Make your wallet lighter" or "Too many cards in your wallet?" Communicate via SMS and email newsletters.
- Direct all initiatives to a single, device-responsive landing page with simple "call to action" items and encourage registration. Include download links for mobile applications.
- Use social media teasers to communicate a single simple benefit "Too many cards in your wallet?" with an image of the mobile phone application holding multiple cards. Early adopters will share that one simple benefit with their friends.
- Distribute a press release to media outlets, detailing the benefits for users and the merchant's ability to access the users.
- Be prepared to give feedback to users via customer care service, app stores and social media channels.



- Promote selected partners loyalty programmes and offers.
- All of the above activities can be combined for the launch day and then again for major service updates and content additions.
- Follow-up with regular reminders of the service for late adopters and feature the best functionalities and what's new.
- Look out for the best users within your community and have them share their stories with others; testimonies are very powerful and effective.

**“You don't need to be big to start, but you need to start to be big” Zig Ziglar**

- It's more important to launch with some features and content rather than take the extra time and try to be perfect. Otherwise you will be too late.
- The solution will scale with the fundamentals as long as you focus on user convenience they will be hooked with the basics.
- Maintain the solution with a permanent cycle of evolution based on user and merchant feedback. We are all used to update cycles in our apps.

A well-conceived and intelligently launched service will by its very nature help ignite a virtuous cycle of growing adoption and content, attracting both sides of the equation: users and merchants. Adoption by both sides will without doubt generate valuable insights, and as a result fuel a roadmap of service improvement, which is absolutely fundamental to success.

# Conclusion

We would define a digital wallet service as an aggregator of contents sourced from multiple merchants, brands and service providers that support a digital and mobile shopping experience. Payment represents a component of a digital wallet service, but is not the sole rationale. Commercially oriented value-added services are a critical element within a successful digital wallet – in fact, they are the catalyst that transforms a digital wallet service into a successful and viable commercial entity.

As consumers become more demanding in terms of what they expect brands to provide via digital and mobile touch-points, they will also become less forgiving about failures to deliver. Merchants wanting to reach out to them will have to provide both the incentive and the quality service to encourage frequent usage and transactions. Essentially, the digital wallet offers a new consumer channel, from which to deliver traditional services – using new non-disruptive and consumer-friendly digital and mobile formats. The ultimate objective is to generate a comprehensive and successful digital wallet ecosystem that develops and evolves organically of its own accord. By delivering personalised services instantly and directly to the consumer, the digital wallet has the potential to become the single most important channel to extend brand influence and achieve monetisation.

When we look back over time, it is interesting to note that many of the most successful concepts stem from the simplest ideas. In the context of the digital wallet, we may be in danger of overlooking this – by putting the major emphasis on payments or money, the

intrinsic value of the digital wallet becomes diluted and too difficult to execute. Merchants are already well aware of the importance of customer engagement and personalised marketing. Therefore, if we return to basics, and put the emphasis on building consumer confidence with a digital wallet that they really want to use, the chances of success are far more likely. This involves creating an ecosystem within the digital wallet that provides real value for both service providers and consumers. By designing a digital wallet from the outset for commerce, without any limitation imposed on the payment options, you start with a dynamic and viable platform.

There is an interesting parallel with Apple's recent decision to focus on the digital wallet – "it's all about the wallet" cited Apple CEO Tim Cook at the launch of Apple Pay. Apple identified that most of the activity in this field to date has focused on creating business models that were driven by self-interest, rather than the user experience. By turning the problem on its head, Apple is adopting a new approach, albeit in tackling the issue of payments in the first instance, with a value-added and user-centric twist.

The digital wallet has enormous and as yet largely untapped potential. It deserves to attract ongoing market interest and engender new initiatives, because it resonates with how consumers want to live their lives. From a commercial viewpoint, it is exactly that point that holds the key to success. Look at how consumers want to track down deals, shop conveniently and interact with retail brands, then match a digital wallet strategy to reflect these patterns, building the vital ecosystem that will support the entire user experience with intelligence, innovation and accelerating potential for commercial success.

## References

<sup>1</sup> Source: "Driving Value and Adoption of Mobile Payments - Consumers Want More", Accenture, April 2013.

<sup>2</sup> Source: "Global Survey of Loyalty Sentiment", Nielsen, November 2013.

<sup>3</sup> Source: "The State Of Digital Coupons: How Digital Coupons Are Adapting To Mobile And Omnichannel", A Forrester Consulting Thought Leadership Paper Commissioned By RetailMeNot, August 2014.

<sup>4</sup> Source: "US Mobile Marketing and Commerce Survey", 451 Research, June 2014.

## About CardMobili

CardMobili has been innovating in the digital wallet sector for a number of years, making the company one of the most experienced players in this rapidly evolving market. Operating across Europe and the Middle East, the company is a leading developer and supplier of cutting-edge digital wallet services and solutions, powered by an advanced technology platform. CardMobili provides mobile network operators, retailers and financial institutions with end-to-end solutions for deploying and managing a self-service, digital and mobile-based digital wallet ecosystem.

For more information, please visit  
[www.cardmobili.com](http://www.cardmobili.com)



