



UK mobile payments market: an update

Millions of pounds have been invested in mobile payments and now Amazon has joined the market, but what has actually been happening and who's in the driving seat? Mark McMurtrie has his say.

Definitions are always key when writing about mobile payments as the term often means completely different things to different people. In this article I am concentrating on card-based payments rather than other types of payment transaction and the focus is not on mobile banking or eCommerce, but instead on mobile point of sale (MPoS) and merchant acceptance.

Merchant tiers

The initial focus in the UK was to develop smartphone-based solutions as a new type of payment acceptance device. The primary target was micro-merchants. These newly established businesses were looking for a simpler and lower cost way to start accepting card payments. This became a new tier to be added at the bottom of the classic retail market triangle. Due to the lack of trading history and predicted low initial transaction volumes, the traditional route of sourcing a payment terminal from an acquirer did not work. To serve this new market segment MPoS providers started to appear.

As time has progressed mobile payment solutions are now also appearing for use in Tier 1 and 2 retail businesses. The main use cases for this larger size of merchant are queue-busting services and to provide assisted selling. The solution design varies for these larger businesses reflecting the higher transaction throughputs, longer operating hours, merchandise management and larger screen sizes. Tablets are therefore proving to be the primary device types for mobile payments use in Tier 1 and 2, whilst smartphones remain the most popular for Tier 4 small businesses and micro-merchants.

Square

The most significant player in the MPoS industry is Square, established by Twitter co-founder Jack Dorsey. This well-financed company is set to rewrite all the rules. They connected a card reader to the headphone jack of a smartphone, launched a payment app and established completely new pricing models. They have achieved great success in the US and created a broad range of products and service for retailers. But as they are yet to launch in the UK a whole host of Square-like companies have emerged to serve retailers on this side of the pond.

Chip & PIN

The UK market, unlike the US, requires an MPoS solution to read chip cards (rather than the old style magnetic stripe) and to support customer verification by secure PIN. The international payment networks decreed that the touchscreen of a mobile phone could not be made secure enough to support direct PIN entry. These two demands have had a significant impact of the UK market. It has resulted in the need for a far more sophisticated and expensive card reading PIN pad, plus the sales assistant having to carry an extra device around with them. Multiple complex certifications are further reasons why the UK market lags behind the US and has seen adoption rates well below forecasts. Many investors must be disappointed with the poor results currently achieved.

Key players

Swedish firm iZettle was the first to position itself as the European Square and one of the earliest MPoS suppliers to emerge. But its progress was delayed when Chip & Signature was not allowed in the UK and they needed to redesign their product offering. They now have serious competition from a whole host of directions. Today there are a large number of firms selling MPoS in the UK offering retailers a very wide choice of provider. These companies come from continental Europe: PayLeven (Germany), Adyen (Netherlands) and Jusp (Italy); established payment providers like: PayPal, WorldPay, BarclayCard and Kalixa; technology players such as: Intuit, NCR and Hibu; and new entrants such as: Droplet, Powa Technologies and Sum-Up. With further new launches each month it is difficult to keep up with the full line-up of suppliers. Despite large marketing budgets and lots of attention, successes have been disappointingly slow.

Pricing strategies

The new MPoS providers are offering far simpler commercial terms to encourage small businesses to start accepting cards. Multi-year contracts are no longer required, set-up costs often removed, the cost of the hardware (smart card reading PIN pad) subsidised and flat rate transparent transaction fees introduced. Initially the most popular rate being offered in the UK was 2.75% for each transaction. However we are starting to see MPoS providers moving to a sliding fee scale based on monthly sales volumes in order to win business and appeal to larger-sized merchants. iZettle, as an example, is offering 2% for £4,500 of sales and 1.54% for £10,000 of monthly sales. The market is very competitive and retailers should negotiate with a few providers before making a choice.

Market sizing

Recent research by Payments Consultancy Ltd has shown that there are now 1.65 million card accepting devices live in the UK market but only around 10,000 of these are for new smartphone-based solutions. Larger quantities of MPoS devices have been purchased from manufacturers but many of these are currently sitting in warehouses and yet to start processing card transactions. This shows that MPoS represents less than 1% of payment acceptance solutions. So the UK does offer large market potential, but currently has failed to live up to all its forecasts and predictions.

Range of technologies

In addition to Chip & PIN acceptance there are a wide range of other technologies being offered as part of mobile payment solutions. These include QR codes, which can be scanned at the point of sale (PoS) and payment wallets that offer the secure digital storage of all card details. Probably the most exciting new technology though is NFC, which is expected to make its much-anticipated UK breakthrough in 2015 thanks to the growing number of NFC capable smartphones now being shipped, and as sufficient UK retailers have installed contactless readers.

Amazon

Last week saw the launch of the Amazon Local Register in the USA. This is a significant move into the world of physical store systems for Amazon and a clear indication of their aspirations. At a cost of \$10 for the reader and 1.75% transaction fees until January 2016 they are looking to gain significant market share. But we will have to wait for a UK launch as here in the UK – as mentioned above – Chip & PIN readers are required, coupled with a raft of more rigorous certifications.

Tablet PoS

In parallel with the arrival of MPoS is the emergence of a range of new tablet-based PoS registers. The Amazon launch described above is just the latest example. These typically combine payments acceptance with full cash register functionality and management reporting services. This is the primary focus for Square these days. In the UK, retailers have a wide choice of hardware manufacturers like Toshiba Global Commerce Solutions and Casio; application providers including Vend, and StoreEnabler

from PMC; plus new players like Clover, eBizmart and GoPago. Many further new solutions are expected to be launched over the coming quarters by both established retail system suppliers and new players.

Summary

Mobile payments is a very fast moving and changing topic. So far it has failed to meet its forecasts but perhaps this is because expectations were set too high. It is being served by both established suppliers and new providers and is a highly competitive market.

Many millions of pounds have been invested but like in the .com days not every provider is expected to survive, so it is important to pick carefully. Retailers should take the time to assess what is needed for their particular business and only then conduct a review of solutions and providers available on the market. Pilot implementations make a lot of sense and help avoid taking the wrong route.

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