

# Account Insights: mPoS

*Capitalising on the power of smart devices to widen card acceptance*

**The mPoS phenomenon has been happening for some years now and has been leveraged to extend card payments into new merchant segments across the world. The so-called mobile Point of Sale ("mPoS") proposition has proved a substantial step-change in the penetration of payment card acceptance amongst smaller businesses; it is also contributing to a substantial re-engineering of the retail experience globally.**

We introduced the topic of mPoS in our previous white paper, and our article published in Lafferty's *Cards and Payments Insights* of May 2012. Since then the US and Europe in particular have accelerated rapidly in this field with numerous mPoS announcements and developments, other regions such as Asia, Africa and South America have also witnessed and partaken in the adoption of mPoS, and so we have produced this market update.

As a reminder, the mPoS proposition leverages the capabilities of a customer's existing smartphone or tablet, thereby substantially reducing the costs of accepting card payments.

All that is required in addition is a card reader accessory (typically magstripe in the US, EMV in Europe) and an app (which securely manages the transaction end-to-end) downloaded to the smart device. The incremental hardware cost is therefore much lower than for a traditional acquiring solution.

Furthermore, many providers have adopted a "master merchant" commercial structure and have a completely different philosophy on merchant risk management compared to that of most traditional acquirers. As a consequence, many providers can now help new merchants to become live within a few minutes of signing up.

## **US the pioneers**

mPoS was pioneered in the US by players such as **Square** and **Intuit GoPayment**, but many alternatives have been introduced by

numerous others including **PayPal Here**, **VeriFone Sail**, and most recently Amazon with its mPOS solution **Amazon Local Register** and **Groupon** with its Gnome point of sale.

Square's success has been evidenced by its growth rates and the rapid rise in its enterprise value. Starbucks (one of Square's investors) and Square teamed up in late 2012 to provide consumers with the option of paying for food and drinks using a barcode within their product 'Square Wallet.' It never took off as a way to pay for items in Starbucks, due in part to the popularity of the coffee retailer's own app that accounts for the bulk of mobile payments at its stores. Starbucks now wants to use its own wallet app - instead of that from Square - which allows consumers to pre-order drinks, building on its loyalty programme and its own successful mobile-payment app.

Square's processing volume is almost all incremental for the card schemes (Visa is an investor) -and for Square's acquirer partner (Chase Paymentech). It has expanded internationally in Canada and Japan, a cash-heavy market by teaming up with credit card company Sumitomo Mitsui Card Corporation. The swipe fee will be 3.25 percent, slightly higher than the 2.75 in the US. It has been diversifying its offering beyond mPOS services, most recently with an online marketplace similar to eBay.



*Figure 1 -Square card reader in action*

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Figure 2 - Intuit GoPayment with a tablet

**PayPalHere** was a late-comer to the market, launching after Square had already gained significant acceptance among retailers. Both companies have worked hard to gain a competitive edge by expanding their credit card reader solutions to include more services for targeted merchants. Most recent announcements include Groupon, Apple, Google and Amazon. **Groupon** is trying to directly compete with Square. Their objective is to eventually tie the Groupon voucher to Groupon's software platform and merchant tool set which could generate more revenues for the business in the long-term. Apple recently (late 2014) launched their **Apple Pay** service, which allows users of the iPhone 6 to link their phone with their credit or debit cards and then pay for goods at many retailers with a tap of their phone, thus far it has proven relatively popular among consumers and major retailers. **Google** is currently in talks to acquire Sotfcard (formerly known as ISIS, the joint venture between AT&T, T-Mobile and Verizon) in an attempt to compete with the increasingly popular Apple Pay. Amazon made its widely anticipated move into mobile credit-card processing with the launch of **Amazon Local Register** in mid-2014, taking on rivals Square and PayPalHere by offering a low transaction rate of 1.75 percent per swipe. The difference is that Amazon is already a competitor of every merchant they may potentially serve and the latter are payment-only firms.

## Europe is a well-served market

Although the US is now looking at EMV mPOS, Europe has been privy to the development of EMV-based mPOS since the

beginning.

European examples include:

- **iZettle**, whose chip and signature offering was launched in Sweden in August 2011 has since expanded into the rest of the Nordics followed by the UK, Spain and other European countries. Initially iZettle could not accept Visa cards outside of Sweden, as it did not comply with Visa Europe standards to overcome this, iZettle launched a CHIP & PIN reader allowing for acceptance of Visa cards. It has raised circa \$110m in four rounds so far (end of 2014) from 11 investors, MasterCard and Banco Santander being two key investors.
- **CardEase Mobile** in partnership with **Creditcall** launched in the UK in January 2012, having Elavon as the acquiring partner, with what was described as the "world's first chip and PIN" mPOS solution. CardEase Mobile is currently working in partnership with Barclays, ChasePaymentech, Elavon, First Data, Global Payments, HSBC, TSYS and WorldPay among others.



Figure 3 - Creditcall PED connected via Bluetooth

- **Elavon's** current solution called Elavon Mobile Merchant seems to be falling short of the alternatives in the UK, mainly for its price tag of £99 for the device and the 2.75% fee (regardless of the transaction volumes) plus 1percent for a magstripe payment.
- **mPowa** initially came to market in January 2012 with a magstripe-only

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solution. Following adverse reactions to that initial launch mPowa then (June 2012) announced their CHIP & PIN solution. In 2013 the company raised \$76m from a series A round to take its solution and e-commerce platform to a global level. The company behind mPowa, Powa Technologies, raised circa \$100m in March 2014 which helped launch PowaTag, a product which allows customers to buy products by taking a photo of the item.



Figure 4 - Powa mPoS Solution

- **WorldPay Zinc** was launched in the UK in mid-2013; a CHIP & PIN-based solution priced at £59.99 (now it costs £69.99) and available at John Lewis stores. Transaction fees are 2.75% on a pay as you go plan or 1.95% if a monthly fee of £5.99 is paid. Acceptance is somewhat limited since it only accepts Visa and MasterCard (debit and Credit) whereas iZettle also accepts AMEX and JCB
- In late August 2012, Berlin-based **SumUp** launched, leveraging funding of some \$20m and covering Germany, Austria, the UK, Spain, Poland and Ireland among others; they have currently (2014) raised over \$10m in a series C financing round. In that movement they are losing two of their co-founders although they will remain shareholders. There are not monthly fees, the CHIP & PIN device costs £79 and there is an attractive flat fee of 1.95%, which is lower than iZettle and Payleven and it now accepts Bitcoin.

There are many other players in this market, a number of major European acquirers and

banks are actively working on mPoS solutions; other mobile operators are also likely to introduce solutions; we have also seen leaders in mPoS in the US expanding into Europe such as Square and PayPal. As the mPOS acceptance has been gaining momentum numerous acquisitions have followed, such as that of **eMerit** which was bought by **Monitise** in December 2012 and the purchase of **ROAM** by **Ingenico** in January 2015.

## ***mPoS has taken off in Asia and other regions as well***

Whilst a little behind Europe in adoption, it is clear that mPoS has applicability in Asia and other regions too.

For example, **PayPal Here** has been launched in Hong Kong and Australia; and **GoSwift** (formerly *Swift*) launched in Singapore and Malaysia in 2012 and since then has expanded across the South East Asia, Caucasus and Africa regions. In 2013 it received the approval from Visa through the Visa ready programme and it is expected to grow over 300% by 2017.

Central and South America, Australia and India are also examples of markets where mPoS have made its presence either through an international firm or a local start-up.

## ***Opportunities for acquirers and for others***

In our previous white paper and article, we forecast a "land grab" by mPoS providers in European markets to sign up the new category of "micro-merchants". It seems with all of the different launches that this land grab is well underway.

Albeit European uptake to date has been quite noticeable, there remain opportunities for players who are not yet active in the market. We have recently seen very rapid adoption in major Western European economies from early 2013, as a result of increased market awareness and comfort with such solutions.

Both existing acquirers and organisations

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with substantial customer bases in relevant segments, for example mobile operators or supermarkets, could capitalise on this. For many such players, selecting the right partner(s) will be key. New skills or operational capabilities will be required – whether that is mobile operators understanding the card payments market, or acquirers changing their boarding and risk management models to suit the requirements and economic constraints of this new market.

## ***mPoS is not just a micro-merchant opportunity***

The addressable market is not just micro-merchants. mPoS is equally applicable to much larger businesses, for example distributors, where payment is required from customers on delivery, or for queue-busting purposes in mainstream retail – Apple's stores in France and the UK have already adopted such technology. Nordstrom, Gucci and many other major retailers in the US have done the same, and are transforming their customers' shopping experience: instead of being behind a desk and a large till, their staff are literally on the shop floor helping customers with buying decisions.

Since customer receipts are provided via SMS or email, the retailer can capture contact details during the transaction and subsequently market directly to the customer.

## ***How can Account help?***

Account is very actively engaged in a number of mPoS initiatives and so we are very familiar with the different solutions and how they could be adopted. Our subject matter experts can help your business to answer key questions such as:

- *Should I capitalise on the mPoS opportunity? If so, how?*
- *What is the commercial model and business case?*
- *What are the different possible solutions*

*available, and which are most appropriate for my needs?*

- *With whom should I be partnering?*
- *What are the implementation and risk management considerations?*
- *What is a "master merchant" structure?*
- *How can I change my processes to support instant boarding of new merchants?*
- *What are the implications for and of card scheme rules?*

Contact **John Berns** at Account to arrange a full briefing on mPoS.

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