MOBILE PAYMENTS: A CORE BUSINESS?

No apologies for returning to one of the hottest topics in financial services – m payments.

Reasons for its relevance are as various as the people who use their mobiles to transfer money. Convenience, of course, but human ingenuity knows no bounds: some markets find that customers use m payments to avoid carrying cash in insecure areas.

The settings are equally diverse: in war-torn Somalia, phone transfers through the Zaad system are seen as being more reliable than bank payments. In the UK, innovation leaders Barclays have just launched Pingit, a channel for P2P transfers – 10,000 customers a day are reported to be signing up – and PayTag, a contactless phone sticker. Around the world, m payments are capturing business that previously used pathways barely changed for half a century.

In many countries, mobiles aren't just cool: they're a path to prosperity. For example, farmers and fishermen use them to find the markets where they can get the best prices

It was Eric Daniel, one-time leader of Lloyds TSB, who suggested that financial services had still had not had its Industrial Revolution. Maybe so. But our question this time is, if there's to be a revolution, who will lead it?

It's pretty clear that m payments will evolve through a marriage of payments and communications: brokering a marriage between these two very different groupings will be tough enough. But m payments includes m commerce – and that means merchants. Sceptical of anything likely to raise their costs, merchants will take a great deal of wooing before they say "I do". And, as professional marketing people, let's not forget customers, who have to be persuaded that m technology does a lot better job than existing options. In markets which have pioneered m payments, there's evidence that telecoms companies have been flag-carriers for the revolution. That certainly seems to be the case in South Korea, Japan, Kenya and the Philippines, for example.
But it's not set in stone that telcos will always lead the charge. Could the revolution find a leader elsewhere?

Perhaps there's a different way of asking the question: who has the deep pockets (this will not be cheap), the appetite, the global reach, the retail customer franchise, and the technical smarts to make this happen?

Here's a suggestion: could it be Apple?

Soaring ambition, soaring assets
After all, this is the most valuable company in the world: its market cap beat the $600 billion barrier in early April, barely a month after it reached $500 billion. And, unlike in the dotcom boom, these soaring valuations aren't based on ludicrous price/earnings ratings: Apple's historic PE ratio is a relatively modest 22.

Do they have the cash? Yes – and how. Would $100 billion seem like enough? Because that's what they have tucked away on their balance sheet. Even after the recently-announced dividend pay-out (the first since 1995) and a planned share buy-back, analysts estimate that so much cash is flowing in from sales of the new iPad that the company could still end 2012 with $35 billion more in its coffers than it has now.

Do they have the appetite? The honest answer here is, Who knows? But, compared with other businesses in which they are rumoured to be interested – TV sets, for example, where Sony, Sharp and Panasonic are all losing their shirts – payments offers scale and potential profitability orders of magnitudes larger.

Just for starters?
In March, Apple announced a patent whose description suggests the technology could be used by a parent to set up a prepaid subsidiary account for a child or by an employer setting up rules for an employee's payment account on a mobile device.
Mobile Commerce Daily, 8 March 2012.

Global reach is self-evident: it's doubtful whether there's a market in the world where it isn't possible to buy an Apple product.

As to retail customer franchise, by many measures this is the most successful shopkeeper ever: its network of 300 Apple Stores in 13 countries generates well over $1000 in sales per square foot. By way of comparison, Best Buy, a leading US electronics retailer earns around $20.

Technical smarts? If anyone can do this, it has to be Apple. And their skills aren't confined to hardware: iTunes is just the most remarkable example of their ability to create hugely desirable software and then, crucially, impose it on suppliers. Predictably, start-ups have developed payments solutions based around Apple's phenomenally successful products. But, given the company's commitment to owning or at the very least controlling (not to mention taking 30% off everything piped through its kit – the controversial "walled garden" model) it's hard to believe that over in Infinity Loop, Cupertino, they're not figuring out a killer app.

This isn't to say that they will be able to pull this off on their own.

Take your partners….
Even Apple would be hard put to build from scratch the global infrastructure for authorisation, payments, clearing, fraud control and charge backs so painfully built up over decades. They'll need support and co-operation from payment schemes, banks, issuers and acquirers. They'll need to convince merchants and consumers to make the investment, and change long-established behaviours.

But it would be a very brave man indeed who would bet against their at least being interested in the possibilities.