

After early successes, Apple Pay will soon confront holiday shopping bonanza

December 4 2014, by Julia Love, San Jose Mercury News

Apple Pay hasn't made the wallet obsolete just yet. But since launching its mobile payments system, Apple has deftly sidestepped problems that flummoxed other tech giants, delivering a smooth experience at the register and steadily grabbing more territory in the mall, analysts say. That'll come in handy in the coming weeks as Apple Pay confronts the retail industry's greatest test: the holiday shopping bonanza.

Though the Cupertino-based company appears to have no aspirations of becoming a bank, Apple Pay is its bid to stake out a place in the burgeoning [mobile payments](#) industry - which will be worth \$142 billion in the U.S. by 2019, according to Forrester Research - and weave its services more tightly into consumers' daily lives. Analysts say Apple Pay - which lets users buy items in stores by waving their iPhones, rather than reaching for their wallets - is off to a strong start.

But it will be critical for the service to keep running smoothly during the holiday season, when tempers will be running high in stores and many consumers who don't have the latest Apple gadgets will be seeing the mobile payments system in action for the first time, said James Wester, a research director for global payments at technology research firm IDC.

"If you're behind someone using Apple Pay, and they're having a hard time, that's not very encouraging," he said.

Analyst Patrick Moorhead of Moor Insights & Strategy said the frenzied shopping rush will test the scale and reliability of Apple Pay. But judging

by the smooth rollout, he doesn't expect many hiccups.

"Apple Pay has demonstrated that the experience is the easiest to use of any of the alternatives, and very safe, to boot," he wrote in an email.

Some of the first retailers to embrace Apple Pay have pulled back the curtain on their sales, showing signs that consumers are willing to trust in Apple at the register. About \$4 million in weekly sales at Whole Foods stores across the country currently stem from Apple Pay transactions, a spokeswoman said, and the figure appears to be rising as customers grow more comfortable with the service.

"We're really impressed with the program - it's smooth, seamless and our team members are picking it up quickly at the registers," Angela Lorenzen, vice president of operations for Whole Foods Market Northern California, said in a statement.

Other retailers report that Apple Pay has driven up the volume of mobile payments that they are seeing in their stores. A spokeswoman for Walgreens said payments involving near-field communications - a technology woven into Apple Pay that lets information jump the short distance from phone to register - have doubled since the service's debut. NFC transactions have spiked 80 percent at Wegmans, an East Coast supermarket chain, a spokeswoman said. A spokeswoman for McDonald's said Apple Pay accounts for half of the tap-to-pay transactions at the fast-food chain.

As they unveiled Apple Pay in September, Apple executives played a video of a customer fumbling with a wallet, vowing to forever change the way purchases are made. Shortly after its October debut in stores, Apple CEO Tim Cook proclaimed Apple Pay a success, saying the service saw more than 1 million activations during its first three days.

"We're already No. 1," he said at a tech conference hosted by The Wall Street Journal in late October. "We're more than the total of the other guys."

To be sure, Apple has emerged as a leader in a niche field, Wester said. The road to making mobile payments mainstream remains long.

"These companies are trying to replace some really ingrained habits," he said. "This isn't going to happen overnight."

Mary Monahan, an executive vice president at Javelin Strategy & Research, said the obstacles to bringing Apple Pay to the masses are twofold: getting the proper hardware in consumers' hands, and getting more retailers on board. Many consumers are still waiting to get the latest iPhones, Monahan noted. And the Merchant Customer Exchange, a consortium of powerful retailers including Walmart and Best Buy, has held off on accepting Apple Pay as it waits on its own mobile payments system, which is set to arrive next year.

That's a real roadblock for Apple, as the merchants in the group drive about a quarter of the retail spending in the U.S. each year, Monahan said. And until Apple Pay is accepted in the lion's share of stores, many consumers will continue to reach reflexively for their credit cards, she added.

"That's one of the nice things about a card - you can take it out and you know everyone will accept it," Monahan said. "With mobile wallets, consumers get confused."

One shopper out on Black Friday said he was a fan of Apple Pay. Jonysus Tabula, a financial analyst from San Jose, said, "I like it for the fact that I don't have to issue checks or go through the hassle of marking down a payment," he said. "And it's a secure thing. ... You use a credit

card, and you are out in the wild. You don't know what happens - there are always cases of identity theft."

Wester said he initially questioned how motivated retailers would be to accept Apple Pay, with little financial incentive to do so. But they seem to be driven by the spirit of competition instead.

"They're joining in because they don't want to be left behind," he said. "It's a very good thing for Apple Pay and mobile wallets in general."

THE BASICS OF APPLE PAY

- Consumers who own an iPhone 6 or iPhone 6 Plus can use the gadgets to pay for items at many popular stores, from Macy's to McDonald's.

- Rather than reaching for their wallets, customers simply hold up their iPhones at the register while touching the fingerprint sensor.

- Apple has struck partnerships with Visa, MasterCard and American Express as well as the nation's major banks, meaning the vast majority of credit cards are covered.

- Customers can also use Apple Pay to make purchases in apps on the latest iPhones and iPads.

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