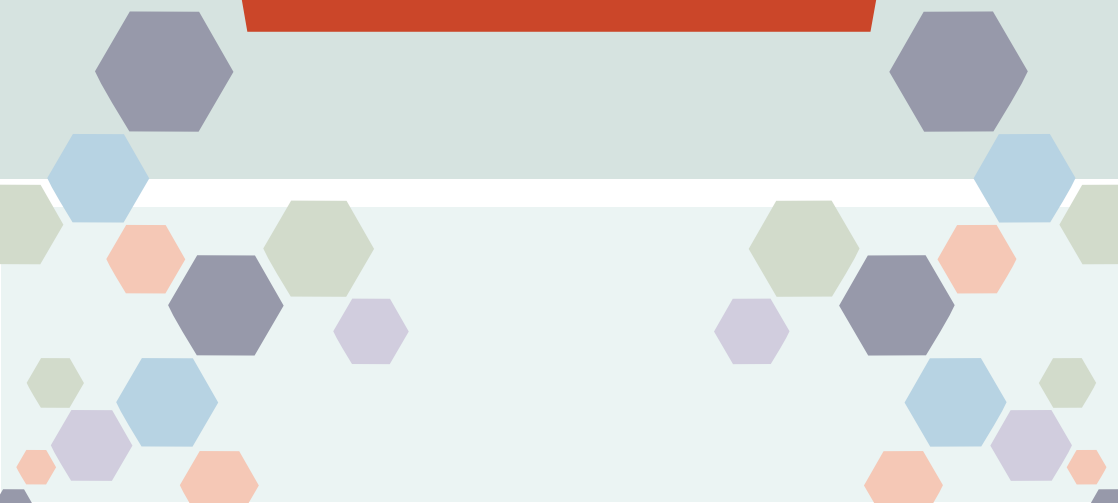




WALLET WARS



THE WAR OF THE WALLET

The battle lines are being drawn. The arsenals are being assembled. And all out war is our prediction for 2012.

The War of the Wallets is set to be one of the biggest land grabs ever. And, because the disputed territory lies at the confluence of mobility, money, retailing, media and analytics, the stakes really couldn't be higher.

Just like the physical wallet, the mobile wallet is set to contain all of your most important credentials (identity, affiliation, payment, and personal). It will be a repository for vouchers, offers, discounts and rewards. It will also help you log all of your purchases and your preferences. **So, clearly, the winning wallet provider will wield real power.**

Although mass-market adoption may not follow til mid-decade, 2012 will nonetheless be the critical period. It's when rules of engagement will be established, and ground occupied. On the front line, the warring parties will include banks, payments systems, mobile operators, retailers and technology companies. Behind the scenes, many others will be vying to supply the armaments. And, as in all wars, there will be winners and losers.

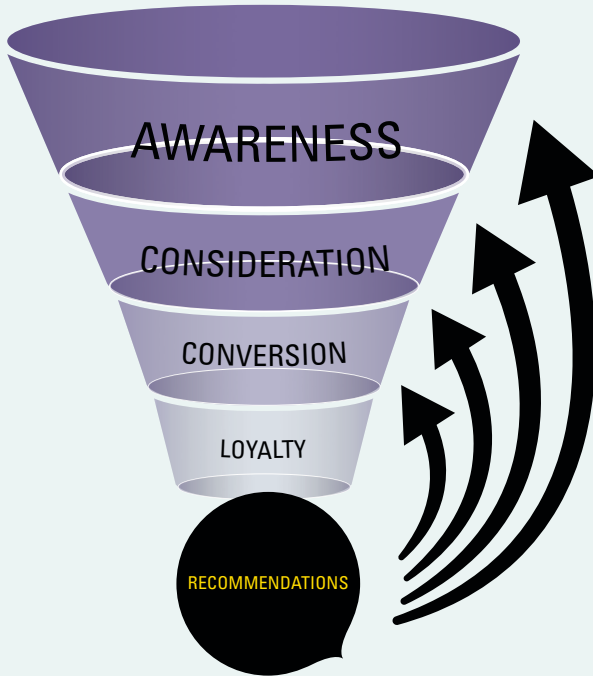
But, remember, this is not just about military might. It's also a battle for hearts and minds. And, to a large degree, the consumer will determine the outcome.

Which is why we commissioned this research. To get a better insight into what the consumer **already** knows about mobile, to see if there were new consumer segments forming and to investigate who consumers trust most among the contestants in the Wallet Wars.

We think the research throws clear light on these issues. There is **a clear mobile 'recommender' group** who are critical to confidence and consideration, for example, and (more obvious) barriers around security and privacy which marketers and communications professionals need to address if they are to be successful in the **Wallet Wars**.

A RECOMMENDATION FUNNEL

At Lexis, The Recommendation Agency, our job is to help clients build recommendations for their products and services up and down the 'Recommendation Funnel'. So, we set out to identify where the mobile 'recommendation' challenges lie.



AWARENESS

Consumers already have a high degree of awareness of the potential for their phone to do **MORE** and see their phones as highly useful devices for doing a number of things. For example, two thirds(61%) are using it to research or compare prices, 47% are using it to check their bank balances and 46% are already using it to **BUY** things.

Critically, for those interested in engaging mobile users to trial new offers or services or to become recommenders of these things, the data shows that 41% are **already** using their mobile phone to **MAKE RECOMMENDATIONS** and **SHARE** things.

CONSIDERATION

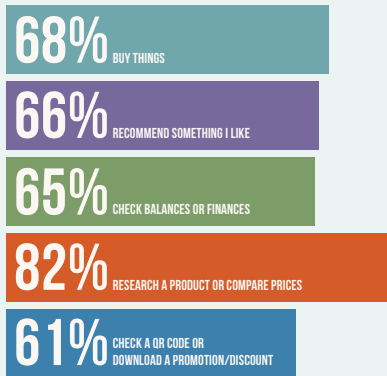
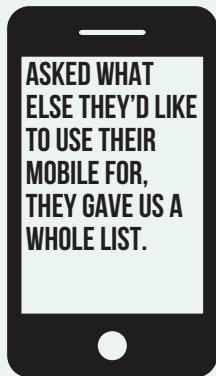
As the issuance and acceptance of mobile expands in 2012 (look at what Transport for London or McDonalds are doing for a sense of the scale of the change going on in the UK), awareness of the possibilities of mobile will grow rapidly. As will the chance to use mobiles more, and for more things.

But is the consumer ready for this explosion of mobile choice?

Yes. The data shows British consumers are ready and willing to surf more, spend more and share more via their mobile. 40% would consider using their mobile to pay for things, settle bills and transfer money.

CONVERSION

We also wanted to know **WHAT** would drive consumers to use their mobile more to shop and bank?



The answer was accessing **DEALS** on the move.

Followed by control, convenience and choice.

So the consumer **GETS IT**.

But that's not to say that it is going to be all plain sailing for brands chasing the consumer's mobile pound.

There are some potentially big barriers to adoption....

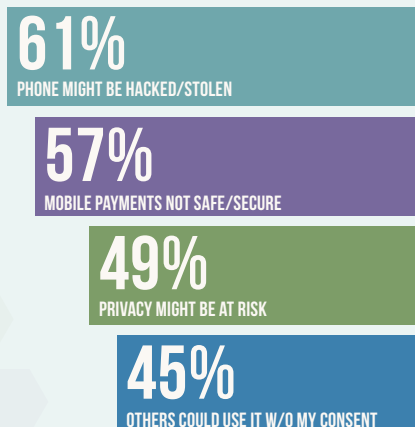
Lexis Agency: Wallet Wars 2011

BARRIERS

We asked what would prevent consumers from using their mobiles to bank, shop and pay.

The biggest obstacle to take up is perceived **SECURITY** weaknesses and the potential losses, which might flow from this.

These concerns are driven by many fears: a quarter of the sample had suffered credit card fraud, for example. Individually and combined, each of these issues will need to be addressed by the brands and businesses engaged in the Wallet Wars and the ability to reassure and educate the consumer will be a determinant of early success among the different contestants.



Lexis Agency: Wallet Wars 2011

THE TRUST ISSUE

We wanted to understand whether the on-going banking crisis might weaken the relationship the consumer has with their bank. Could mobile banking be the 'offer' that triggers consumers to switch banks, perhaps even, for a non-traditional banking supplier?

In theory, the power of giant brands like Apple and Google should be highly credible in delivering what is in effect a technology based service.

The answer was **YES.**

Nearly, one third of consumers (31%) would **SERIOUSLY** consider, or indeed **PREFER** getting

their mobile banking from someone **other than their existing bank.** That's six million customers, theoretically, willing to switch banks if the mobile banking offer was right.

That doesn't mean, of course, that all those will switch or that they would switch to a non-traditional provider, but it does show that mobile has the potential to break the traditional bank/customer relationship.

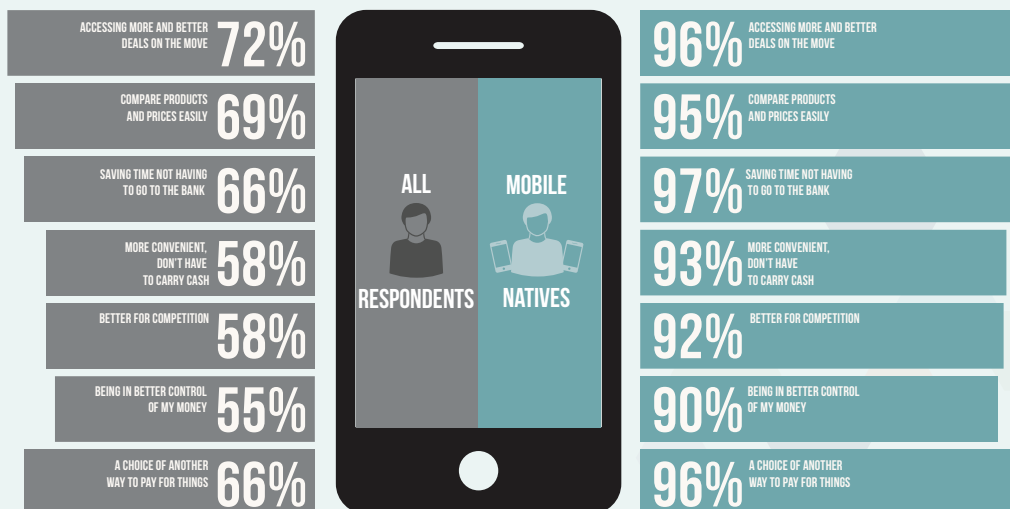
And some are far more willing to switch than others.

We've called them Mobile Natives.



THE MOBILE NATIVE

Mobile Natives are characterised by a much higher willingness to choose their mobile banking from a new supplier.



Mobile Natives expressed the highest interest in adopting a mobile wallet, coupled with the lowest interest in maintaining their credit or debit cards. They also showed the least amount of concern that mobile phone payments are not safe and secure.

So, Mobile Natives showed the highest propensity towards mobile payments and represent the greatest opportunity, from a sales and advocacy perspective, to endorse mobile payment services.

Finding and influencing Mobile Natives is tricky, but potentially rewarding.

They show the least amount of trust in banks, and the most in Facebook.

They're most likely to be influenced by opinions on social media and are also quite vocal in expressing their own recommendations of things they like, with more than half actively recommending products and services. Many of them, in fact, are already using the mobile itself as a key tool for making & sharing their experiences and recommendations.

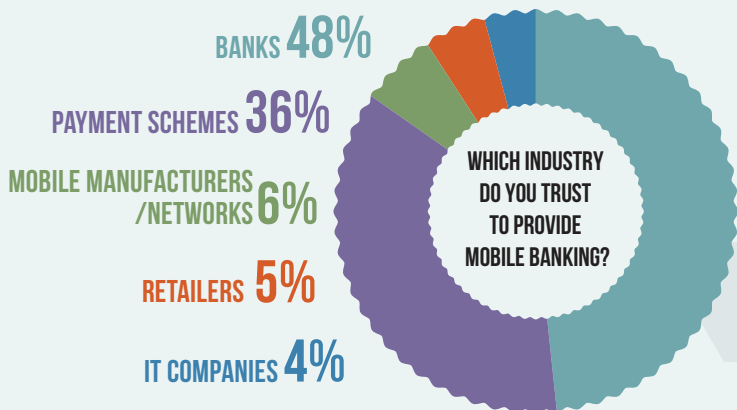
Mobile Natives are the 'Movers and Shakers' of the mobile world, then.

So, as customers AND recommenders, they are critical. And they represent nearly 40% of the smartphone base.

But while Mobile Natives may represent a significant opportunity to switch customers away from their traditional banking relationship, the rest of the population is far less promiscuous when it comes to its preferences for mobile banking services.

With so many new providers trying to target this market, we asked which INDUSTRY consumers TRUST most to be their mobile banking provider. The banking industry was a clear winner with 48% choosing them as opposed to others.

Women trust banks more than men (51% vs. 45%) and perhaps more surprisingly the YOUNG trust them more than those over 55 years of age (53% vs. 40%).



Lexis Agency: Wallet Wars 2011

The preference for retailers, mobile manufacturers and networks and the technology players was minimal.

These answers highlight the brand challenge which is at the heart of the marketing challenge for anyone seeking to break the traditional banking relationship.

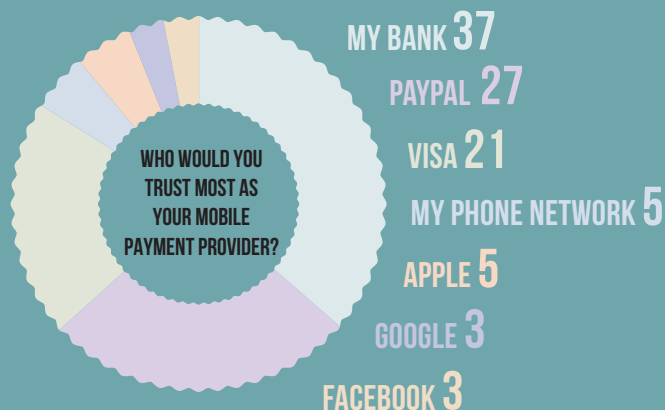
We also asked people to say who they would TRUST most to be their mobile financial services provider.

Top of the table, came MY bank (37%). That's right despite all the anger shown against bankers and the banking industry when faced with a new service, which connects directly into their wallets, consumers default to the bank they know.

Second, came Paypal (27%) ahead of payments giant Visa (21%).

The rest (again) polled less than 10%.

And when asked WHOSE OPINION they'd seek before proceeding to use a mobile banking or payment service, consumers ranked their bank ahead of everyone else, further underlining the power of the banks' brands and their position of strength.



Lexis Agency, Wallet Wars 2011

THE POWER OF RECOMMENDATION

Mobile banking, of course, is not the whole story. The 'Wallet Wars' is also about the battle for processing payments. It's about customer relationships and customer data.

It's a massive opportunity to build better service propositions as well as drive sales and to enhance brand loyalty and experience.

And what's interesting is that the field is genuinely open. At the moment. Which makes it an important opportunity for marketing and communications professionals.

Our research shows that there will be different barriers and solutions depending on where the

players 'sit' and who the customer is. But there are some overarching problems: the need to generate BRAND TRUST, the need to REASSURE consumers on security and privacy, for example, which will be familiar to many of the contestants from previous battles (for example, at the birth of e-commerce).

But the British consumer has changed, irrevocably. Understanding that is key, which is why we think Wallet Wars will be partly won or lost by the ability to harness the power of recommendations, especially initially among the Mobile Natives.

As Visa CMO, Antonio Lucio said 'recommendations are the new advertising.'

LEXIS AGREES.

Our **Science of Sharing** data shows UK consumers are already **making recommendations via their mobiles**, weekly. This 'posting and purchasing' behaviour covers even high value, complex purchases like financial products. Our research breaks 'recommenders' into seven categories. Of these **Careerists, Provocateurs** and **Trendspotters** are, surprisingly, the most active **RECOMMENDERS** on mobile, which creates interesting opportunities and threats for mobile marketers.

Wallet Wars data reinforces and refines this insight. Mobile Natives are already actively sharing and recommending. Many are at the epicentre of networks of consumers and influencers. They are **RESEARCHING, REVIEWING** and **RECOMMENDING** mobile services, products and offers, now.

The good news with Mobile Natives is that they're over the 'trust' issues, and far less fearful of the security challenge.

The bad news is that Mobile Natives are marketing and tech savvy, highly promiscuous and very judgemental. They'll compare offers and walk past your shop front when they know they can get a better deal around the corner.

So building **LOYALTY** through long term engagement strategies is key. They'll criticise you if you don't deliver so living up to your **BRAND PROMISE** and **EXPERIENCE** is critical. And if the **CONTENT** isn't compelling, they won't even give you the time of day.

The critical issue for brands and businesses is to get the insight right about **WHO, HOW** and **WHY** these recommendations are built and shared.

If they can do that then they can plan their content, channel and communications strategies to shape consumer behaviour and maximise revenues.

This is where Lexis the Recommendation Agency comes in. We can use our insight into the 'Science of Sharing' and our understanding of the 'mobile recommenders' to help brands and businesses interested in how mobile can help achieve better revenues, relationships and reputation.

The challenge will be about turning the right insight into compelling content, conversations and coverage.

We have developed a number of 'Recommendation' strategies for addressing these issues with the Mobile Native, which can help brands and businesses competing in the Wallet Wars to win (which we'd be delighted to share!)

Which is why, if you'd like to know more about how a Recommendation approach could help you win in the Wallet Wars, give us a call on 0207 908 6488 or mail JThellusson@lexisagency.com

MOBILE SEGMENTATION

MOBILE NATIVES

39% OF RESPONDANTS

By far the most technologically savvy group, who use smartphones extensively. A majority male group, representing the highest proportion of younger smartphone users (aged 18 to 34) and highest adoption of iPhones (42% vs. 22% avg amongst other three groups). This group is very open to mobile commerce and trying new services.

SCEPTICS

20% OF RESPONDANTS

This group of technological laggards prefer traditional bank and credit card usage, expressing very low interest in a mobile wallet, or any other new services and technologies. They do the least with their mobile phones and are mostly represented by women, of an average age (35-44). They are also high users of Symbian OS and lowest in terms of iPhone adoption.

REJECTERS

10% OF RESPONDANTS

Predominantly more mature (aged 45 plus) group, composed of mostly women, who currently use their mobile phones for little else apart from making calls. They strongly favour traditional banking relationships and expressed no interest in a mobile wallet. Interestingly, they are the highest users of Symbian OS.

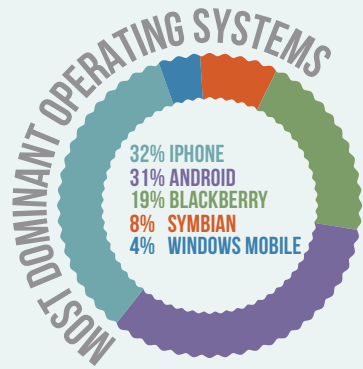
MOBILE ACTIVES

10% OF RESPONDANTS

This younger group (mostly aged 25-35) are relatively versatile in their Smartphone usage. They are also reasonably technologically competent and open to new technology, but need to be convinced of the benefits of a mobile wallet and expressed the highest security concerns.

SECURITY

Concern over security is the big barrier in the mind of the consumer. But, in reality, what are the risks? Compared to PCs, which contend with tens of thousands of threats, mobile risks are still relatively modest in scale. But, as they become used as payment and banking devices, mobiles are likely to attract significant criminal scrutiny. Five main risk types are immediately apparent.



Lexis Agency: Wallet Wars 2011

• App-based threats

Part of the appeal of any smartphone is the array of apps available. The danger is that a maliciously developed app may unwittingly be downloaded, or a legitimate app may contain vulnerabilities.

• Web-based threats

Simply browsing the internet can have its perils. You could, for example, succumb to a Phishing Scam, you could get embroiled in a Drive By Download, or you could fall victim to some form of Browser Exploit.

• Network-based threats

The issue here is so called sniffing attacks, where the fraudster seeks to intercept unencrypted or poorly encrypted data as it passes over public networks – perhaps an unsecured Wi-Fi hotspot down at your friendly local café.

• Device-based threats

What if your mobile is lost or stolen? What's to stop an opportunistic thief from accessing your wallet, stealing your identity, or spending your money?

• Biologically-based threats

This is perhaps the most potent vulnerability. The threat is you. And the risk is that you do something a little too adventurous – like jail breaking your device, or downloading a dubious app, or refusing to use a pass code.

But it's not all bad news. The abundance of computing power within today's devices can be used to interrogate, validate, authenticate and encrypt. By using over-the-air updates, wallet providers can remotely disable payment and banking applications. And, in a highly competitive market, OS providers (like Apple, Google, Microsoft or RIM) have a vested interest in building trust and maintaining security.

THE TECH FACTORS

So, when we're talking about mobile payments, what do we actually mean? There are four main areas of opportunity.

Face-to-face payments

Using your mobile to pay in all those places where, traditionally, we've used a physical card or hard cash. This could be a tap-and-go system, using an NFC-enabled smartphone across the existing (and rapidly growing) contactless infrastructure. Or (if things go Paypal's way) it could be web-based payments, which are initiated via your mobile phone, but don't require the retailer to support that entire costly infrastructure at the point of sale.

Remote payments

This is an extension and evolution of traditional e-commerce, except that websites are accessed, orders are placed and payments are made using a mobile or a tablet. The big difference here is that what was just about tolerable on a PC (keying in all those digits and then getting Verified by Visa) is completely intolerable on a mobile. Surely, the world is crying out for a simple, secure pass code-protected solution, available from any device, enabling you to just click and pay.

Person-to-person payments

This is a real Achilles Heel for the banks, who've had their collective noses bloodied on the bungled withdrawal of cheques, and just don't have a viable alternative. They could turn to the card payment schemes for help. They could also adapt the existing Faster Payments infrastructure. But, in the meantime, the coast is clear for the likes of Paypal to develop a compelling mobile solution and occupy some very interesting territory.

Value-added services

This is where things get really interesting. It's about using the innate capabilities of mobile to make payments and money management easier, more interesting and, ultimately, more rewarding. So, for example, you could receive automatic spending alerts and confirmations. You could browse through and categorise your spending history. You could also receive and redeem relevant real-time or location-based offers. And wallet providers and retailers alike could collect a wealth of user information in return.



Methodology:

The quantitative study was carried out by Redshift Research on behalf of Lexis, The Recommendation Agency in October 2011. The sample represents a cross-section of 1,000 smartphone users across the UK, aged 18 and over. The report is supplemented with secondary research conducted by Lexis, referenced accordingly throughout this document. The profiling clusters were developed using a statistical method known as K Means Cluster Analysis, which sorts different respondent patterns into groups in a way that the degree of association between two respondents is maximal within the same cluster, and minimal otherwise. The clusters developed were based on several specific questions relating to respondents' attitudes towards technology, mobile phone usage and mobile commerce. Each cluster was then analysed by demographics and against all other questions included in the questionnaire.
