

Reimagining Retail: Why mobile wallet adoption matters in retail and predictions about how it will evolve

Audio



On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss how many Americans have a mobile wallet, which ones are most popular, and what's happening with retailers' branded wallets. Then for "Red-Hot Retail," our analysts give us four spicy predictions about the future of mobile wallets. Join our analyst Sara Lebow as she hosts analysts Sky Canaves and Jaime Toplin.

Subscribe to the "Behind the Numbers: Reimagining Retail" podcast on [Apple Podcasts](#), [Spotify](#), [Pandora](#), [Stitcher](#), Podbean or wherever you listen to podcasts. [Follow us on Instagram](#)

In the experience economy, every business must be digital, and Adobe Experience Cloud is the global leader for powering digital businesses. With solutions for journey management, data insights and audiences, content personalization, commerce and marketing workflows, Adobe drives Customer Experience Management across B2B and B2C companies of every size.



Episode Transcript:

Sara Lebow:

Hello listeners. Today is Wednesday, May 17th. Welcome to Behind the Numbers: Reimagining Retail and eMarketer podcast made possible by Adobe. This is the show where we talk about

how retail collides with every part of our lives. I'm your host, Sarah Lebow. Today's episode topic is mobile wallets. Let's meet today's guests. Joining me for this episode, we have senior analyst and retail podcast regular Sky Canaves. Hey Sky.

Sky Canaves:

Hey, Sarah, it's great to be back.

Sara Lebow:

Great to have you. And joining us for the first time on the Retail podcast is senior analyst Jaime Toplin. Hey Jaime.

Jaime Toplin:

Hey Sara. Great to join Reimagining Retail for the first time.

Sara Lebow:

Yeah, happy to borrow you from the banking and payments folks. Okay, let's get started with our first segment, news and reviews, where I give the news and our guests tell me their reviews.

Today's story is a May 12th Wall Street Journal story titled Why Amazon Isn't Checking Out of Groceries. Amazon's not dominant in grocery the way it is in other retail categories. To become more dominant, it's investing more in stores and pushing the potential of its retail media network. Sky, your review of this headline in 60 seconds is...

Sky Canaves:

I think it's a really interesting story in terms of what Amazon might need to do to get ahead in grocery. Because as the article points out, and our forecasts also show, most of grocery, the vast majority around 90% will still take place in stores in the coming years. And even digital grocery is often connected to stores through things like delivery or click and collect.

And so I think it's real interesting that the possibility that Amazon could engage in more acquisition of stores. It mentioned too, one is Sprouts, which is a fairly big natural like grocery chain that's focused on kind of a value driven consumer. As opposed to Whole Foods, which has always been very upscale. And the other possibility is the store is divested from an

Albertson's Kroger merger, which might be a legal requirement to increase competition in certain areas.

I don't know that they're going to want to spend that much at a time like this. But I think it's an interesting possibility because at the end of the day they will need more physical retail in order to successfully grow their grocery. And it's not happening with Amazon Fresh and Whole Foods is still a little too niche.

Sara Lebow:

Sure. Sprouts is like if Whole Foods were cheaper, that could be a good investment for sure.

Sky Canaves:

Yeah, I love Sprouts. I have it here in Texas. I did not know it in New York. So it's been all new to me and it's nice. It's a little more accessible and you can al... They also have great private label, too.

Sara Lebow:

Jaime, your review of this headline in 60 seconds is...

Jaime Toplin:

I think grocery is really valuable for Amazon if you take a look at it from a payments perspective. Amazon has been aggressively investing in payments technology. They're rumored to be building a point of sale terminal. They've been working hard on Amazon One, which is a palm scanning payment solution where you can pay with a palm as opposed to with a card or tapping your phone. And they've also been building out Amazon Go and Just Walk Out, which is the licensable version of that technology. Which is where restores are fitted with sensors and other technology that allow you to go in and shop and pay without having to stop at a cashier.

Grocery is a segment where there's a lot of room to experiment in payments, people do it regularly. So there's room to sort of form habits. There's questions about lines. And so investing in grocery can also really help Amazon build up its payments business by giving its stores in which it can test these kinds of solutions without worrying about retailers not necessarily wanting to give arrival access to its footprint.

Sara Lebow:

Yeah, this is something we've talked about on the podcast. Amazon's so far ahead in terms of its payments technology. It's just waiting for its consumer to catch up.

Jaime Toplin:

Definitely. And I think it also, it's so far ahead and it doesn't necessarily have a great audience. Because so many other retailers don't want to give one of their biggest rivals space in their stores. So building out its own grocery business is a really good way to test some of that without feeling like it's necessarily forced to impede in a place where it's going to be unwelcome.

Sara Lebow:

Definitely. Let's move on to our next segment. Retail me This, Retail Me That, where we discuss an interesting retail topic. Today's topic is mobile wallets. More than half of the US uses mobile wallets right now. More than 60% of smartphone users use them according to our forecasts. Those refer to tap to pay, in-store QR codes and peer-to-peer payments. But if we included in-app payments, that number would probably be even higher. Before we jump into discussing that, Jaime, can you break down what we mean by mobile wallets?

Jaime Toplin:

I can. So we define mobile wallets as smartphone apps that include payment features like in-store or peer-to-peer payment transactions serving as their primary function. They may also include other functions like in-app shopping, like banking like features, cryptos, et cetera. But the payment method is linked to these.

So for example, you might put your credit card or your debit card something else into these wallets. Our forecast excludes closed loop apps like retailer apps, although those also count as mobile wallets. So that's a very high level definition. If we're looking at specifics sync apps like Google Pay, Apple Pay, Samsung Wallet, Venmo, PayPal, Cash app, which is owned by Block or Square. And then like I said, even though those are excluded from some forecast numbers we might talk about, a product like the Starbucks app, also very relevant in this conversation.

Sara Lebow:

Gotcha. So Jaime, you're the payments expert. Can you break down some recent moves in the mobile wallet space?

Jaime Toplin:

For sure. So there's a lot of different mobile wallets right now. I'm going to talk specifically about four of them that I think take up a lot of the air in the conversation. The first is Apple Pay, which is the wallet that's built into customers phones who have iPhones. Apple is really pushing into financial services. They started doing this with Apple Card. It's a credit card that rewards customers for paying with Apple Pay, for example. But they're continuing with Apple Pay Leader, a new buy now pay later program that's built into Apple Pay as well as a new high yield savings account. That could really tap customers who are interested in financial services integration into their digital wallets.

We see other players really pushing e-commerce and commerce in general and looking to build commerce integrations beyond just being able to pay in a store. So Google Pay for example, they launched Wallet which lets you store hotel keys, car keys, loyalty passes among other things. But they're really taking advantage of some of the [inaudible 00:06:52] they have with Chrome to build out their e-commerce offerings. So they're launching virtual cards in partnership with really big banks like Capital One and Amex that make it easier and safer to pay online. They started dabbling in some couponing technology. They're adding flight price guarantees for people who book. Just really cool stuff.

Venmo, we're seeing, they've done some QR stuff in store over the past few years. But they're continuing to build out pay with Venmo, which lets customers pay online and in store at key partners. Most recently they added Live Nation, which is the parent company of Ticketmaster. So you can now or soon will be able to pay with Ticketmaster online using Venmo and you can also pay at Amazon using Venmo. Which isn't super recent but is a huge development, especially given how kind of hesitant Amazon has been to accept alternative payment methods on its site.

And the last one I wanted to talk about briefly is Cash App, which they've opened up a lot of their in-store integration. But now they're building Afterpay, which is buy now pay later technology into their platform, too after they acquired the company. So now you can search Afterpay merchants and check out using BNPL in Cash app.

Sara Lebow:

It's interesting, I don't think of myself as a pioneer of mobile wallet use, but I use three out of the four systems that you just mentioned.

Jaime Toplin:

Yeah. It's really interesting and that's a huge part of the conversation right now, is that that the kind of adoption is reaching this critical mass both on the proximity. Which is what we call in the in-store payment side or the P2P side. People are using multiple wallets. So it's like how can these providers build services that get customers to be more loyal. And these financial services, e-commerce integrations are one way of doing that. Because customers will start using the wallets for more things and then put all of their transactions through one provider.

Sara Lebow:

Okay. So we have talked about this from the payments angle and what some innovations are. Sky, why is mobile wallet adoption important in retail specifically?

Sky Canaves:

So for consumers, I think convenience is just the number one factor and that's both for in-store and online shopping. In the real world, just being able to rely on your phone, being able to forget your wallet, it's just one less thing to worry about. And then there's also security and safety implications because the encrypted mobile wallets have an added layer of trust where consumers don't have to share their payment info directly with a merchant. And then you have just... It removes a friction from shopping. I think friction points are becoming smaller and smaller, nowadays. Credit and debit cards used to be more convenient than carrying cash. But now as consumers become more used to doing things like tapping to pay than the act of pulling a credit card or something like signing a receipt or entering a PIN, just become extra steps and they feel unnecessary, I think.

And we'll especially see that among younger consumers, some of which may never come to own or use a physical credit card. I know with the Apple credit card, which I got to enjoy the benefits of integrating it with my Apple Wallet and Apple Pay. I never look at that credit card, it's in a drawer somewhere. It's secure, but I've never used the physical card.

And then you have other really easy uses of things where it saves consumers time. One of my favorites now is in some restaurants you can scan a QR code on your bill and just pay through an app through something like Apple Pay. And it takes waiting out of the process of like... And you don't even have to think about tipping because it's calculated right there and you can choose your options.

And then in the online realm, I think payment issues, long checkout processes, these are some of the leading sources of card abandonment. And card abandonment is a huge issue for online retail. I think it's an average of around 70% of shopping carts are abandoned according to a 2022 study from the Bay Mart Institute. And I think complicated checkout processes and lack of preferred payment options are some of the leading reasons why shoppers abandoned carts. And it's also something that's more in retailer's control to manage.

Some of the other reasons why shoppers abandoned carts are high shipping fees or people just like to use their shopping carts as a place to save things like a wishlist. In terms of payment, reducing the friction around that, not having to enter credit card information, especially on a mobile phone, is really important to keeping consumers going through the purchase journey. And it's a pretty low lift at this stage.

Sara Lebow:

Yeah, I think it's hard to overemphasize how important frictionless mobile payment is to unlocking less cart abandonment. I've moved around a lot. If I find myself having to enter the credit card and then guess which zip code is the correct one for that credit card. Because I'm lazy and didn't update it when I moved, and that much less likely to make that purchase.

Sky Canaves:

And especially when it comes to mobile commerce, which might be smaller purchases, more impulse type of purchases, having to enter credit card information might push a consumer to then not make the purchase after all or put it off till later.

Sara Lebow:

I want to talk about a specific kind of mobile payment tool. So on my phone I have the Starbucks app, I have my payment in the Starbucks app. Same with the Amazon app. Probably same with other apps that I can't even remember. My question is should retailers have their own branded wallets like these?

Jaime Toplin:

So I think the answer to that is a little bit complicated because on one hand these wallets are great for retailers. They can help drive loyalty. They can help drive engagement. They keep customers coming back. On the other hand, they also are a point of some of that friction that Sky was talking about. Because no one is going to have an individual app for every single

store that they shop at. If you think about it as a consumer, I have the Target app because I go to Target all the time. I have the Amazon app because I shop from Amazon periodically. And pretty much everything else I'll use on the mobile web or elsewhere.

And I think that is sort of the end goal here is that you have your daily app that you use for the vast majority of your transactions. And then maybe at some stores where you're a super shopper, you go all the time. You have separate apps for that. Finding that balance is hard though because all the retailers want customers on their app. So it's about for wallet providers, like the phone-based wallet providers and the retailers trying to find some synergy where maybe they can incorporate some of their features into the phone-based apps, target a larger base. While also having their separate apps for proprietary users. And I think that's a development we're going to see a lot of energy focused on in the next couple of years. Not necessarily immediate short term, but probably in the medium term.

Sara Lebow:

Sky, do you have a different perspective on this from the retail angle or do you agree with what Jaime said?

Sky Canaves:

I agree for high volume or repeat purchase or loyalty type of apps where you know can target your most loyal consumers. And I think it also depends, are you targeting your most loyal consumers only or are you just targeting your casual consumers as well? Like Starbucks for example, I think had a real early mover advantage in this space 'cause it was one of the first to have an app which is totally integrated with payments. And it offers so many different payment options that you can store in the app from PayPal to gift cards to the credit card of your choice.

And then on the other end, you have Target which has a mobile wallet in its app, but it only works with the target red cards. So you can't add any other payment methods into their... If you want to pay a target and you're using your phone, you have to then go to your other mobile wallet like your Apple Wallet and pay with a card from there. And that's really only going to appeal to not only the mobile shoppers who use the target app. But then those who take the next step and get the Target credit card as well.

Jaime Toplin:

Definitely. And I think what Sky said about Starbucks is really valuable. And I think the quick service restaurant players actually have a bit of a leg up here. Because it's something that people will often do 2, 3, 4 times a week for different types of retailers that looks different. Target and Walmart also because people tend to shop online. But there's a lot of in between customers who are making e-commerce purchases or stores where customers are going every day and everywhere else people shop.

Sara Lebow:

Yeah, I saw a stat probably two years ago now that Starbucks had the second-highest adoption in the US of in-person mobile proximity payments after Apple Pay.

Jaime Toplin:

Yep.

Sara Lebow:

I kind of doubt that's the case now. Do you know offhand... I would guess that Google Pay has surpassed them.

Jaime Toplin:

So Google Pay, we expect to hit 33.8 million this year. Starbucks, we expect to hit 36.3 million this year. So Starbucks is still bigger than Google Pay. But Google Pay is on its heels and I think Starbucks has been remarkably successful. It was really the first successful mobile wallet in the US. And it's not an exact model for the phone-based wallet just because what it does is so different. But there are a lot of lessons to be taken there about effective loyalty, about building customer relationships, about getting people to keep coming back even when you change your offering. All that good stuff.

Sara Lebow:

Yeah, that's like one of the biggest lessons from the Starbucks Wallet, right? Is if you make the payment with the Starbucks wallet, you can build your, what are they points for Starbucks?

Jaime Toplin:

Stars.

Sara Lebow:

Stars. That makes more sense. Good branding Starbucks and that'll keep you coming back. Are there other lessons that retailers should be taking away?

Jaime Toplin:

I think there's just a lot of opportunity in loyalty and I'm sure Sky can talk more about the specifics of this. But loyalty integration is something that customers really, really want. And while all the major mobile wallets for example support loyalty cards, there's still a lot of greenfield there. There's not necessarily a lot of personalized marketing. Retailers haven't really started to work with these providers yet in a big way. We're starting to see some of that especially on Google Pay, but there's tons of room. I think that's a huge lesson is to see how you can integrate maybe personalized offers and other stuff, not just into your own app, but into some of the phone based apps. And I'm looking forward to seeing if that comes to pass this year.

Sara Lebow:

Great. Well we're going to take a quick break before jumping into some predictions for mobile wallets. But first, a quick message from our sponsor, Adobe.

This year retailers are making ultra personalization a priority. When you're able to create and deliver personalized shopping experiences on your customer's terms in real time, you don't just define the future of retail, you own it. Visit the Adobe retail industry website. A hub of insights, resources and success stories to help you scale your personalization efforts like a pro. Go to adobe.com/go/reimagine to learn more.

Welcome back from the break. Now it's time for our segment, Red Hot Retail. This is our guest opportunity to give us their very specific and potentially risky predictions on a topic. The predictions can be mild, medium, spicy or extra hot. The higher the spice level, the riskier the prediction. Our guests are going to tell me what spice level to expect and then share the prediction. Today, Sky and Jaime are making predictions about the future of mobile wallets. So Jaime, why don't you kick us off with a spice level and a prediction.

Jaime Toplin:

Thanks, Sara. My prediction is definitely on the mild side and it is that mobile wallets will be able to replace physical wallets but won't necessarily do so anytime soon. I think mobile wallets are inching towards becoming increasingly all-encompassing. They started out with

payment cards and loyalty cards as well as ticketing. I'm sure the vast majority of our listeners use boarding passes in their Apple Wallet or their Google Wallet. For example, concert tickets are now mobile only as well at a lot of major shows.

And we're starting to see other documents get digitized, too. Apple and Google are adding support for student IDs. They're starting to work with some states to digitize driver's licenses. COVID vaccination proof can be added in certain cases in certain states and that's only going to continue. Hotel keys, car keys as well. So all of these things are creating a product that can replace the physical wallet. Google even rebranded their product as Google Wallet for example, to convey that that's coming.

But customers especially in the US really love their payment cards. People are attached to plastic. They like having something tangible and something physical. And so just because the functionality is coming and I think it certainly will, doesn't necessarily mean that the adoption is going to follow that in the short term.

Sara Lebow:

Yeah, I mean this is similar to what we talked about at the top with Amazon. Right? The tech is there. The consumers not necessarily.

Jaime Toplin:

And we even saw that with mobile payments, right? Mobile payments in a big way really hit the seed in the US in 2014. That's when Apple Pay launched. But customers didn't really start to warm up to them until 2019 and it was only in 2020 and 2021 that we saw adoption get closer to a critical mass. This is going to be similar and could maybe even be a bit slower.

Sky Canaves:

I mean, we still have cash at fairly high usage rates compared to some other markets. Like China where they just leapfrogged credit cards and went straight to digital payment methods starting about 7, 8, 9 years ago. And I think it's really going to be the generational shift. Gen Z is on their phones. I don't think they have much need for physical cards anymore. And that's going to drive the change into the full digital wallets. And states, of course, will take longer, government agencies in terms of digitizing the driver's licenses, the passports, et cetera. That's also going to take a little longer.

Jaime Toplin:

Definitely.

Sara Lebow:

Yeah. This is what makes me a bit older than Gen Z is that I'm still tapping my physical credit card.

Jaime Toplin:

No, and that's so common. I think people love contactless plastic. And getting people who contactless plastic from tapping cards to tapping phones is one of the biggest hurdles and one of the biggest goals that these providers have.

Sara Lebow:

Sky, why don't you give us another spice level and another prediction?

Sky Canaves:

Sure. This one is also pretty mild and this one is that mobile wallets will become more accessible. And I'm thinking in terms of reaching a larger share of the population, which we're already seeing. According to our most recent forecast, this year is actually the tipping point where more than half of the US population will be mobile wallet users. So it was 49% last year and this year it's going to 53%, which isn't like a small gradual change. It's pretty significant and most of that is coming from Gen Z user growth. But it's continuing to grow at a healthy rate and I think by 2027, something close to two thirds of the population is going to be using mobile wallets.

So I think companies investing in this space really have to ensure accessibility so that no one gets left behind, not just obvious features like larger text and storing information so things don't have to be entered. But I think broader education services in this area. So looking to China, Alibaba, Taobao, big e-commerce platform, they have a pretty good model they introduced a few years ago with the pandemic. They really had to make sure that seniors could use mobile apps for e-commerce as well. They added features like voice shopping and simplified navigation and more support features. So peer-to-peer chat functions that allow family members to help their older family members buy products or even pay for them was another thing that they did.

Jaime Toplin:

I also think a different sort of take on accessibility is making sure that these wallets are usable by financially underserved communities. Because if you don't have access to a payment card, it's really hard to use a mobile wallet. Because you have nothing to put in it. And that's, I think, some of the impetus for some of the financial services offerings that these providers are building. Like Cash App and Venmo have debit cards, for example. Cash App now has a savings account. These things let customers hold a balance and then it sort of embeds them in the ecosystem even if they don't necessarily have a bank account of their own.

And they also have the side effect of helping with growth because you're reaching into communities as we're getting to this tipping point that aren't accessible. So I think that paired with a lot of the stuff that Sky is talking about is going to be really, really important in the near future.

Sara Lebow:

Absolutely. Obviously not everyone owns a smartphone, but something like 70, 75% of people in the US do. So definitely accessibility aspect will be important. I hate using cash, but retailers that don't allow the use of cash are inaccessible to people who don't have credit cards necessarily. So building out that accessibility will be key. All right. Let's hear one last prediction, spice level and prediction from you, Jaime.

Jaime Toplin:

Yeah, so this is medium spice.

Sara Lebow:

Ooh.

Jaime Toplin:

Probably fall somewhere between mild and medium if we're going to get really specific, which is that someone will make a super-apps. I think payments super-apps are really on the horizon. Providers like Venmo for example. Venmo allows peer-to-peer payments. It lets you pay in store. It lets you... It has a credit card that you can apply for. It has a debit card that you can apply for. It just added more crypto functionality. PayPal, same parent company, but they also haven't even broader ambit of services.

And I think we're going to continue to see payment riders really push in these directions with their mobile wallets for the exact reason I just mentioned. Which is that customers are using a lot of these wallets and building these super-apps helps make sure that they're pushing more transactions through one provider even if it's not all of their transactions.

Sara Lebow:

We haven't seen a super-apps in the US yet. An app that combines messaging, payments and shopping all in one place the same way that they have in China. Elon Musk says that he wants to make one out of Twitter. Good luck with that. But I do think we'll see one from somewhere else. I'm going to push you guys both to make a spicier prediction. Why don't you both tell me who will make the first super-apps? I'm putting you on the spot here. Jaime, who's going to make the first super-app that's adopted in the US?

Jaime Toplin:

So I think Western super-apps are going to look a little bit different just because of the way that we use mobile technology than those in China. But I think our best contenders are probably either PayPal or perhaps Meta. Although Trust might be an inhibitor there.

Sara Lebow:

Sky, what are your thoughts?

Sky Canaves:

So I would go with Apple and just because of the huge use, overwhelming usage of young people, gen Z and teens of iPhones. They're still not quite there yet. They're investing like others heavily more in the financial services part and we still haven't... No one's cracked that killer app part of integrating the payments with broader shopping integration and services as well.

So the apps we have now, the ones we've been talking about, they're still mostly payment methods. They lack that next level. In China for Tencent, it was social messaging. And then you had all these mini programs, like mini apps within Tencent built on top of that that enabled commerce and payment for services. And for Alibaba it was also e-commerce and especially mobile commerce. And from there they were able to expand with payments as a base into so many other services. So we haven't yet seen that link. It's kind of an evolutionary leap that

needs to take place. But I'm pretty confident that it will take place with the younger generation and their overwhelming use of iPhones.

Jaime Toplin:

I was going to say, Sky, I think has actually convinced me because I think the Apple ecosystem already has most of the pieces with iMessage, with Apple Pay and Apple Wallet. It's still missing the e-commerce piece, but so maybe I'll shift my prediction to join her.

Sara Lebow:

Really interesting to see how much Apple has moved away from the, there's an app for that model, into there's an Apple app for that. A lot of Apple's like... Apple did such a good job with branding by making messages blue, if you're talking to Apple users, green if you're not talking to Apple users. It makes me wonder what the blue messaging app of payments will be for Apple. The blue messaging bubble of payments will be for Apple.

Jaime Toplin:

Yeah, for sure.

Sara Lebow:

That is all we have time for today. So thank you so much for joining me Sky.

Sky Canaves:

Thanks Sara. Great to chat with Jaime, too.

Sara Lebow:

Thanks for being here, Jaime.

Jaime Toplin:

It was really fun. Hopefully I can join you guys again soon.

Sara Lebow:

Yeah, please give us a rating and review wherever you listen to podcasts and follow us on Instagram at [behindthenumbers_podcast](#). Thank you to our listeners and to Victoria who edits the podcast. We'll be back next Wednesday with another episode of Reimagining Retail,

an e-Marketer podcast, made possible by Adobe. And tomorrow, join Marcus for another episode of the Behind the Numbers Daily.