Apple Pay Case Study Analysis

Apple Pay is a mobile payment service provided by Apple Inc. where customers can make online payments through their Apple devices.

Revenue streams: For each transaction made through Apple Pay, it received a fee from its bank partners (15 basis points which equals 0.15% per credit card transaction and half a cent per debit card transaction). Apple could also earn interest on the money added to the wallet by the consumers.

Costs: The costs incurred for implementing NFC technology (putting chips into the devices) and encryption technology for security.

Customers: The banks of the merchants and the consumers are the customers of Apple Pay.

Core Competence: Apple's focus on providing a seamless user experience is its core competence.

Below are the **major stakeholders** in Apple Pay's ecosystem.

- **Payment Networks** – To payment networks such as MasterCard, Visa, and American Express, Apple Pay would drive the payment volume. Also, Apple Pay included these payment networks in their marketing which resulted in a positive brand image to the payment networks.
- **Banks** – Apple Pay would bring in more customers for the banks. As Apple pay is reducing the fraud rates, this would greatly benefit the banks as they now don't have to bear the heavy costs. Also, banks are going to make more money through the increased number of online transactions done through Apple Pay. The downside would be that Apple Pay would cut down on the additional bank services and becomes a direct point of contact with consumers. Also, they now must pay Apple Pay some fees which is an additional cost to the banks.
- **Merchants/Retailers** – Although Apple Pay attracted more consumers initially, but when every retailer starts adopting Apple Pay, it would not make any difference to the consumers. As Apple Pay could be integrated into the retailer's apps, it would drive more traffic to the merchants, and they could get more data. Also, with the elimination of card payments, merchants could save on the fee. Merchant's data is also protected with Apple Pay.
- **Consumers** – To consumers, this was a quick and easy process as they could make the payments just by finger touch and faster than physical card payments. Consumer's data is secure as Apple started using a tokenization process that uses encryption methods. Also, the purchase history was not stored, and reward programs were provided. Consumers had a hard time when it came to retailers as not all retailers were good at using Apple Pay. Also, there is a device requirement of only applicable on Apple devices.

Other Available Payment Modes: Apple Pay had several competitors such as Samsung Pay, Android Pay, PayPal, Merchant Customer Exchange's (MCX) CurrentC, and the normal card payments. Through Android Pay, banks did not have to pay any transaction fees which was a major disadvantage to Apple Pay. The retailers benefitted from CurrentC as the transaction was linked directly to the banks and avoided 2% interchange fees. Also, retailers could track the consumer behaviors of other retailers using CurrentC. This is a pro as well as a con.

Motivation to Launch Apple Pay: Apple was motivated to replace the wallet with easy, secure, and private online payments. Apple did not try to disrupt the payment ecosystem, rather it included itself in the ecosystem where there was already a large network effect and integrated all the elements to provide a better experience to the consumers. Apple considered timing to be an essential aspect in their product/services success. Apple Pay was introduced around the time when merchants were ought to shift to EMV compliant cards and introducing Apple Pay would not seem like an additional cost to the merchants.

Apple Pay utilization was decreasing due to a variety of reasons such as competitors, fees incurred by banks, device computability etc.

Suggested Changes:

- Apple could provide incentives in the form of reward points to the merchants who use Apple Pay to avoid merchants coming up with their own payment systems.
- Apple Pay could be made as a platform-independent service, available on all devices and not just Apple devices. This would increase the consumer base for Apple Pay as many consumers would not go for high-end Apple devices and this affects the Apple Pay usage. An increase in the consumer base could get more revenue for the banks for the increased transactions and in turn more revenue to Apple Pay.
- Apple Pay is only compatible with the versions after its release. This would significantly reduce the consumer base within Apple itself. Hence, Apple Pay must be made compatible with older devices as well.
- Due to the fee incurred by banks for Apple Pay usage, Apple is not able to tap into the smaller banks. So, a different pricing model could be adopted based on the size of the bank and the number of transactions being made.