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Apple caught in feud between merchants, credit cards

Apple Pay or merchants' CurrentC? Consumers will have to decide which mobile payments system works better for them.

by Donna Tam @DonnaYTam / October 27, 2014 9:00 PM PDT

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Retailers and credit card companies are betting on two different payment systems, the more popular of which is Apple Pay.

James Martin/CNET

Apple finds itself in unfamiliar territory: caught in the middle of a long-simmering conflict between retailers and credit card companies as it angles for consumers' mobile payments dollars.

That feud, which CEO Tim Cook called a "skirmish" on Monday, came to a head last week when pharmacy chains Rite Aid and CVS disabled consumers' ability to use **Apple Pay**, the iPhone maker's mobile payments system that works with leading credit card providers. Both Rite Aid and CVS belong to the Merchant Customer Exchange, or MCX -- a consortium of retailers led by Walmart that has developed its own mobile payments system as a way to bypass credit card fees. In contrast, Apple allied itself with the credit card companies when it developed its Apple Pay mobile payments system.

MasterCard welcomes the competition from MCX, said James Anderson, head of mobile product development for the credit card company. MCX did not return requests for comment.

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At issue for both sides is which system consumers will prefer.

On one hand, they have Apple Pay, which will allow consumers to make credit card purchases with one tap just by authenticating their fingerprints on an **iPhone 6** or **iPhone 6 Plus**. Apple Pay works with a technology called near-field communication, or NFC, which allows the iPhone and the point-of-sale terminal to securely talk with each other over a short distance.

Apple is keeping everything else about the system at arm's length: The company has said it uses unique card numbers for Apple Pay and doesn't store the original in the phone or on its servers. The company also doesn't track what customers bought in the past; that information stays with the banks.

The MCX system, called CurrentC, relies on QR codes rather than fingerprint identification, potentially making the system less convenient and less secure than Apple Pay. It also lacks support for NFC and the tap-and-pay feature found on Apple Pay and Google Wallet, which also uses the same technology.

Additionally, CurrentC works with consumers' bank accounts and gift cards rather than with credit cards. That's a big plus for merchants, which claim **between \$2 and \$4 of every \$100 charged to credit cards** goes to banks, according to the Merchants Payments Coalition. But the biggest difference for merchants and consumers may be that CurrentC will allow retailers to build loyalty programs -- something that can only be done by tracking consumers' buying history and habits.

"It's all about loyalty. It's not about the new technology, not about the whiz-bang factor," said David Robertson, an analyst with the Nilson Report. "If you're the merchants, you are looking at 'how am I going to keep my head above water?'"

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CVS didn't respond to a request for comment to explain why it doesn't allow Apple Pay. Rite Aid said in a statement that it is evaluating its mobile options. "We are continually evaluating various forms of mobile payment technologies, and are committed to offering convenient, reliable and secure payment methods that meet the needs of our customers."

Rite Aid and others might not have much time for that evaluation, said Tom McCrohan, an analyst with Sterne Agee. He expects that CurrentC, which won't be as convenient to use as credit cards, will fail as Apple Pay gains momentum.

Retailers will be forced to adopt Apple Pay rather than turn away -- or turn off -- customers.

In fact, Apple Pay is already accepted at more locations. Apple CEO Tim Cook last month said that Apple Pay will be accepted at more than 220,000 stores. MCX has about 110,000 stores among its members.

An Apple spokeswoman told CNET that the company "is working to get as many merchants as possible to support this convenient, secure and private payment option for consumers."

Cook, speaking at a conference hosted by The Wall Street Journal on Monday, said there were more than 1 million activations of the service in the first 72 hours. He downplayed the issues with Rite Aid and CVS.

"Merchants have different objectives sometimes," he said. "But in the long arc of time, you only are relevant as a retailer or a merchant if your customers love you."

Tags: Mobile, Apple Pay

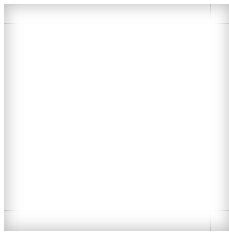
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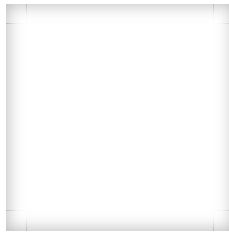
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Donna Tam covers Amazon and other fun stuff for CNET News. She is a San Francisco native who enjoys feasting, merrymaking, checking her Gmail and reading her Kindle. [See full bio](#)

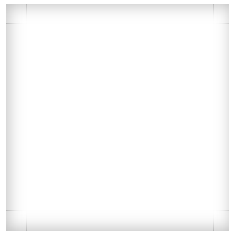
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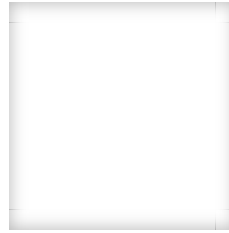
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