

The Hidden Opportunity in Mobile Payments

By [Motley Fool](#), September 21, 2014, 01:17:02 PM EDT

A lot has been made about **Apple**'s move to enable mobile payments through its new iPhone 6 -- a search on **Google** News reveals more than 750 articles published in just the last 24 hours -- but much of the discussion focuses on just one side of the equation: customers, not merchants.

In this context, one recent study reveals there is still a significant opportunity out there for companies such as **Amazon.com** and **Bank of America**.

The merchants

In every payment transaction, whether it's at a major retailer like **Wal-Mart** or a small business down the street, a merchant is paying some company's merchant services division a fractional amount of every sale to allow them to accept that credit or debit card payment.



The Nilson Report revealed that in the U.S. alone, the total 2012 purchase volume of the 78 billion transactions stood at nearly \$3.8 trillion. When you consider that transaction number is projected to grow to 120 billion by 2018, it is no wonder the payments industry gathers so much attention.

Not only are customers now increasingly able to make payments with their phones, merchants for years have been able to accept payments with physical cards on both mobile phones and tablets.

A 2013 survey from Gallup reveals a number of surprising realities about the current state of that industry, which IDC projects will process \$720 billion worth of payments by 2017.

The surprising outcomes

It first must be noted that companies in the merchant services business have been diving into mobile landscape with incredible velocity. Amazon made headlines in August when it [announced](#) Local Register, which the online retailer described as "a secure card reader and mobile app that provides local businesses with the tools they need to quickly and easily accept credit and debit cards from a smartphone or tablet and keep track of their growing business."



Source: Amazon & Business Wire.

The biggest news came not from the product itself, which in many ways wasn't new, but from Amazon's intention to charge a transaction fee of just 1.75% per swipe through the end of 2015 for merchants that sign up by Oct. 31, and 2.5% after that.

Popular mobile payment service **Square** charges 2.75%, while the Clover tablet **tool** from Bank of America Merchant Services -- a **Bank of America** and First Data joint venture -- starts at 2.5% plus \$0.20 and gradually progresses downward. So the service offered by Amazon dramatically undercut the industry standard rates for mobile payments.

This difference of 1% between the fees from Amazon and Square would mean an extra \$10,000 in the hands of a small business owner who had \$1 million in sales.

So why is all that important in light of the results of the [Gallup poll](#) ? The first surprising insight was that just a small fraction of businesses actually use mobile payments:

Payables & Receivables Product Usage

Product	Usage by Small Businesses	Usage by Mid-to-Large Businesses
Payroll/Direct Deposit	47%	67%
Merchant Services	47%	57%
ACH	40%	57%
Remote Deposit Capture	22%	40%
Mobile Payments	24%	26%
Lockbox Services	19%	26%

GALLUP

This survey data is nearly a year old, so these numbers have likely increased, but the fact remains that there is a massive opportunity for financial companies (and, indeed, nonfinancial companies such as Amazon) to expand to allow businesses to process payments on a mobile device.

Even more striking in the Gallup poll was how distinctly dissatisfied customers were with their current products:

Payables & Receivables Product Satisfaction

Product	Satisfaction by Small Businesses	Satisfaction by Mid-to-Large Businesses
Payroll/Direct Deposit	59%	55%
Merchant Services	53%	41%
ACH	56%	57%
Remote Deposit Capture	52%	57%
Mobile Payments	41%	41%
Lockbox Services	63%	61%

GALLUP

The key takeaways

To know such a small number of businesses can currently accept a standard card payment through a mobile device and an even smaller number are satisfied with the product they use, there is no denying the a massive opportunity that exists in the mobile payment industry for merchants, not just consumers.

I also have to wonder this: Assuming the number of merchants that have the flexibility and capability to allow customers to pay with their credit cards anywhere continues to grow, why would there ever be any reason for a customer to make payments with their own phones?

Bank of America + Apple? This device makes it possible.

Apple recently recruited a secret-development "dream team" to guarantee its newest smart device was kept hidden from the public for as long as possible. But [the secret is out](#) , and some early viewers are claiming its destined to change everything from banking to health care. In fact, ABI Research predicts 485 million of this type of device will be sold per year. But one small company makes Apple's gadget possible. And its stock price has nearly unlimited room to run for early in-the-know investors. To be one of them, and see Apple's newest smart gizmo, just [click here](#) !

The article [The Hidden Opportunity in Mobile Payments](#) originally appeared on Fool.com.

Patrick Morris owns shares of Amazon.com, Apple, and Bank of America. The Motley Fool recommends Amazon.com, Apple, and Bank of America. The Motley Fool owns shares of Amazon.com, Apple, and Bank of America. Try any of our Foolish newsletter services [free for 30 days](#) . We Fools may not all hold the same opinions, but we all believe that [considering a diverse range of insights](#) makes us better investors. The Motley Fool has a [disclosure policy](#) .

Copyright © 1995 - 2014 The Motley Fool, LLC. All rights reserved. The Motley Fool has a [disclosure policy](#) .

The views and opinions expressed herein are the views and opinions of the author and do not necessarily reflect those of The NASDAQ OMX Group, Inc.

This article appears in: [Investing](#) , [Stocks](#)

Referenced Stocks: [AAPL](#) , [AMZN](#) , [BAC](#)