

American Express Keys in on Point-of-Sale Device to Boost Payments

American Express is testing a radio frequency payment system as an alternative to cash or credit card transactions. Card issuers mulling a similar approach must build a strong merchant base.

Event: On 16 July 2003, American Express announced an expansion of its no-fee ExpressPay service trial throughout the Phoenix, Arizona, area. ExpressPay is a key fob with built-in radio frequency identification (RFID) technology, provided by Texas Instruments' TI-RFid Systems; it lets American Express customers make rapid point-of-sale purchases. American Express piloted the service among its Phoenix employees in 2002. More than 175 fast-food restaurants and other quick-service merchants now offer ExpressPay.

First Take: The payment industry and retailers — always eager to find new, easy-to-use ways to entice consumers to buy more goods — has likely hit on a winning method in this American Express pilot. In seeking payment alternatives to cash or credit cards, financial services providers must surmount the following challenges to win consumer and merchant acceptance and widespread use:

- Easy enrollment in the new payment system
- Quick, no-hassle use of the mechanism at the point of sale
- A critical mass of merchants willing to accept and invest in the new option

The ExpressPay pilot goes a long way toward addressing these factors. For example, ExpressPay's simple registration can be performed via the Web. Customers can arrange to link purchases to their American Express card or can prepay them via a link to a major credit card or a debit card. To use ExpressPay, customers wave the key fob over a reader connected to the merchant's cash register. By initiating the authorization process while placing their orders, ExpressPay users can reduce checkout time. Such expedited transaction processing also benefits participating merchants. Not only does ExpressPay enable them to serve more customers during peak hours (such as lunchtime), it also stimulates impulse buying. During the initial pilot, ExpressPay users on average purchased 20 percent to 30 percent more than those using cash.

However, ExpressPay also faces key challenges. American Express must expand the breadth of merchants beyond quick-serve restaurants, enlarge the number of participating retailers, move into larger geographies and offer merchants cost-effective RFID-reader machines (free to retailers during the trial).

Gartner believes that this pilot advances a consumer-friendly, multiuse payment system. Financial services providers should learn from American Express' example of providing convenience beyond simply making credit cards smaller and easier to carry. Card issuers considering offering competing systems

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must excel in the area in which ExpressPay faces its biggest challenge — ensuring that enough merchants adopt the system so that consumers need only one payment model.

Analytical Source: Brad Adrian, Gartner Research

Recommended Reading and Related Research

- “Overview of the Mobile Payments Market 2003 Through 2007” — Mobile payments will mushroom over the next few years. Stakeholders must focus on the market’s drivers. **By Bradford Adrian**
- “Technology’s Impact on the Future of Retail Payment Cards” — New technology will decrease use of payment cards, and electronic transactions will continue their steady growth. **By Kenneth Kerr**

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