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What Mobile Payments Will Mean for the Marketing World

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Unlike Credit Cards, Cellphones Allow Real-Time Contact With Consumers

What happens to marketing if mobile phones replace credit cards as a form of payment? It's something marketers need to start figuring out now. Even as more and more tests roll out across the world, marketing strategy is lagging behind new technology.

In Japan, mobile payments have been in use for about four years, and about 20% of consumers are using it. But merchants have only recently tied loyalty programs to mobile payment. McDonald's, for example, introduced a loyalty and payment program last year in Japan that lets customers choose their meals, redeem coupons and pay for purchases with their mobile phones.

Starbucks, the first national merchant to introduce mobile payments on an iPhone app, is piloting the feature in 16 stores in Seattle and Silicon Valley. Customers can use their iPhones as they'd use a standard Starbucks-issued gift card -- the app lets them pay for their lattes, using a 2-D bar code, refill their account and check their balance remotely.

It's an early, and somewhat clunky, example of mobile payment in the U.S., but it's pointing toward a future in which marketers condition consumers to view the phone as a wallet and a way to talk to customers one-on-one.

"If you've got a real-time device in the users' hands at point of sale, this gives you the opportunity to provide promotions and incentives at the time it matters and influence buyers' behavior," said Drew Sievers, CEO and cofounder of mFoundry, which supplied the technology that powers Starbucks' mobile payment feature. (Starbucks currently has no plans to offer mobile coupons to those app users.)

Big investments

So far, mobile-payment programs -- and complementary loyalty programs -- aren't widespread because companies are wary to invest the time and money to integrate their programs on the handset, according to Michael Keferl, a Tokyo-based managing director at CScout, which studies consumer trends. The programs can be expensive and complicated to launch; McDonald's program, for example, took nearly a year to go live.

The global standard for contactless technology -- likely to be Near Field Communications -- involves equipping a phone with a chip that contains the consumers' credit credentials and can talk to the POS device. While contactless mobile payment is most prevalent in Japan, it's also in use in South Korea and NFC payments will be tested all over the world in the coming years. Citibank, Vodafone and Mastercard, for example, are now testing in India.

With contactless payment, Japanese consumers can pay for their purchases by tapping their phones against a point-of-sale device, and merchants and brands can use in-store displays or posters to invite users to download coupons and offers. A point-of-sale reader, tied to a server, can sync the contents of the checkout basket to the coupons collected on the mobile wallet.

In earlier NFC payment trials of up to 600 consumers in Singapore, Taiwan and Canada, coupon redemption rates have ranged between 20% to 50%, compared to the 2% to 5% paper coupon redemption rate, according to Khan Mohammad, president and founder of ViVOtech, an NFC software provider working with Citibank on the pilot program in India. And when Japanese consumers transferred their prepaid convenience-store cards to their mobile phones, card usage rose an average of 40%, said Mr. Mohammad, citing data from Sony, which backs contactless payment technology in Japan.

"People will use a technology if it's easy and accessible; putting coupons on the phone is a lot easier than cutting out coupons and then pulling them out of a wallet," he said.

On the horizon

The infrastructure is also taking shape in the U.S.; about 130,000 merchant locations have NFC devices set up to read the 100 million contactless credit cards that have been issued, but NFC's mobile adoption has been stalled in the U.S. because the players can't agree on the business model, said Mr. Mohammad, who is working with North American carriers.

Operators are starting to see opportunity, however, in serving merchants that want to send their mobile-marketing messages and programs over their network and slowly but surely NFC-enabled phones are hitting the market. Juniper Research predicts that 123 million NFC-enabled handsets, equivalent to 46% of today's U.S. wireless subscribers, will come online in North America by 2013. And global mobile payment transactions are expected to reach \$110.1 billion in 2013, at a 105% compound annual growth rate, according to Dublin-based Research and Markets.

Most consumers, 84%, are interested in mobile payments, per a Yankee Group survey. Next year, North American carriers will gear up for a limited commercial rollout involving up to 100,000 NFC-enabled phones, Mr. Mohammad said.

The real promise in migrating loyalty and payment to mobile is that it lets retailers track customer behavior and make relevant offers.

"When you have dumb plastic, there's no communications vehicle with the consumer," said Kevin Grieve, CEO of Denver-based Mocupay, a technology provider that enables merchants' loyalty and gift card programs for mobile. "Once you mobile-enable these programs, you open a communication channel between the consumer and the brand."