

Paying with your mobile

Coming to a store near you

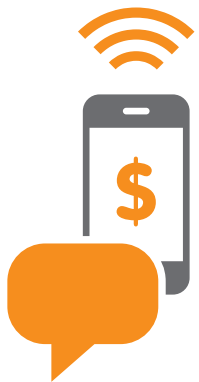


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With the emergence of new online payment alternatives such as PayPal and Google's recently announced Google Wallet, coupled with mobile internet now reaching 50% penetration amongst online Australians, paying for goods with your smartphone or tablet is on the way. And it might be here sooner than you think. There are numerous well known and emerging contenders currently trialling platforms that enable mobile financial transactions to be processed via voice, tap, bump, swipe or the capture of a QR or bar code.

It's a big shift in thinking for a lot of vendors, but a welcome relief to those looking for alternatives to escalating credit card fees and an exciting opportunity for those wanting to match the real time shopping desires of their customers.



Voice



Tap



Bump



Swipe



Capture

A brief history of virtual money

How did we get here?

As early as the 1900s, merchants offered their customers credit via the use of the store charge card, limited mainly to large-scale department stores that were able to handle the risk. Underpinning this movement was the rise in mass production of consumer goods such as kitchen appliances and washing machines, which required a steady inward flow of consumer credit to prop up consumer demand. People wanted more - and they wanted it now!

The 1950's saw the Diners Club card emerge for use at more than one merchant (mainly by business people for their hospitality expenses) and by 1960's, the introduction of general-purpose credit cards (now known as Visa and MasterCard) began to gain traction. By 1974 in Australia, banks had direct mailed their customers a BankCard with a letter advising them of their suddenly acquired \$1,000-2,000 credit. (These days, that behaviour is illegal.)

All this represented a significant leap forward for smaller retailers who previously couldn't afford their own charge card schemes, so they became enthusiastic adopters of the credit card system. With the banks now assuming the risk of consumer credit, it opened the door for smaller merchants to obtain potentially endless sales. Ironically, larger retailers then also followed suite adopting the credit card payment system to avoid being out-run by their smaller competitors.

The ability to use a plastic card easily and freely signaled a huge cultural change that focused on quality of life, rather than working and saving for the future. This attitudinal shift stressed living for today. Where once social stigma around 'borrowing to buy' had signified you couldn't afford to pay, the perception had now reversed and having access to instant money was perceived as a sign of financial security.

And this is where we begin to see the convenience of virtual money start to take hold. Suddenly, the absence of the exchange of any tangible currency made the process of spending all so easy and painless – on anything and everything, now! And of course, merchants loved it too as it also opened up their doors to endless sales.



An interesting sign of the times:

The United Kingdom has announced plans to rule out cheques by the year 2018 after a 70% decline in usage since 1990 and an expected 40% further decline in the next five years.

Enter the 21st century

Mobile payments

But as it turns out, 60 years or so later, many retailers are actively looking for alternatives to escalating merchant credit card transaction fees, coupled with their ever elusive interchange fees. Not only are merchants slugged increasing fees per transaction, but they also risk alienating potential customers as they attempt to pass these costs on.

Just look at Woolworths, who last year took the credit card giants head on as they declined to process Visa Debit cards to reduce the inherent costs of administering the payments. The outcry of consumer backlash was heard right across the country; many voting with their feet and choosing to shop with the competition instead.

“We know this move is confusing for some of our customers, but the simple fact is every time that credit button is pushed it sets off a chain of events that hurts small retailers and adds another level of cost that has to be passed on to the end consumer,” Tom Pockett, Head of Financial Services Woolworths, in *The Australian*.

As Marshall McLuhan once said, “Money is a poor man’s credit card”. Now the credit card may become a poor man’s mobile wallet. And it’s at this juncture where we see the prevalence of mobile transactions as being a natural progression of the ‘here and now’ instant sales of yesterday, put into hyper drive.

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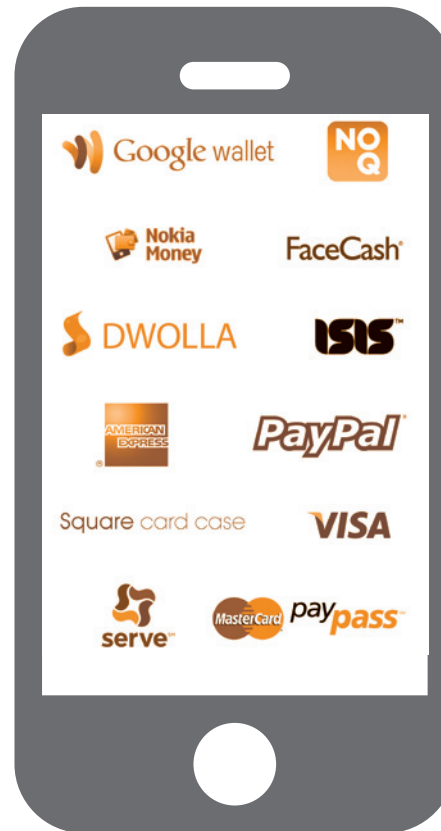
While the credit card, in one form or another, has set the standard for virtual money for over a century now, (gosh you couldn’t even purchase anything online without a credit card until a few years ago), mobile transactions and near field communications (NFC) are heralding the first significant shift we’ve seen in payment systems for over half a century.

And it seems the consumer is playing a significant part in shaping the way retailers approach money in the future. Tech savvy Japan has had NFC payment infrastructure in place for a while now and as of late last year, almost 10% of their mobile audience had made a purchase with their mobile wallet.

Recent research conducted in over 11 countries by global technology experts, Accenture, concluded that nearly half, 45%, of most active mobile users surveyed welcomed the opportunity to pay for goods and services on their mobile. Local studies also reveal that mobile internet is reaching 50% penetration amongst online Australians, which means that more and more people are already purchasing online from the convenience of their mobile.

Just last year, Amazon's founder and CEO, Jeff Bezos was quoted as saying, "In the last twelve months, customers around the world have ordered more than US \$1 billion of products from Amazon using a mobile device."

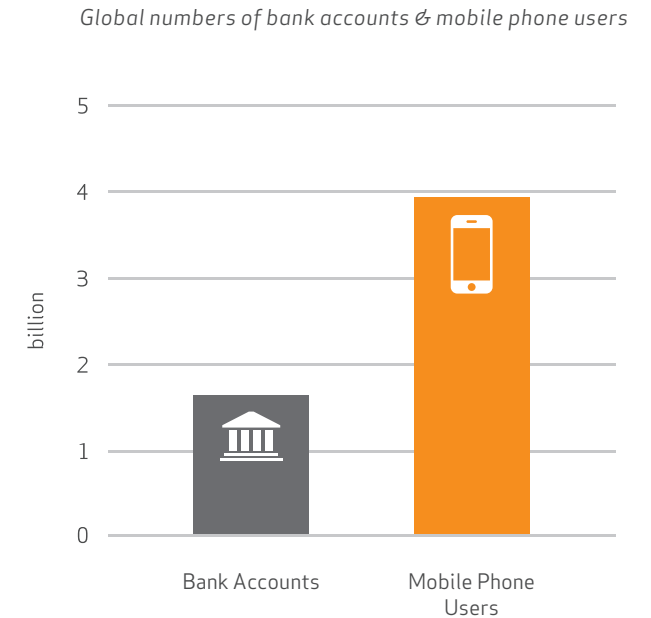
With more than 4 billion mobile phone users and only 1.6 billion bank accounts worldwide, the opportunity to turn the smartphone into a virtual wallet is undergoing a rapid evolution faster than you can say Visa. But, you can be sure of one thing: whether it be Nokia Money, Card Case, Facecash or Fusion's recently built queue-busting app for NoQ, there is potential once again for vendors to create new revenue streams from a world now in love with their mobiles.



Above: A few of the the current contenders, fighting it out for prime position in this emerging economy.

"More people pay for things than they use communications devices, than they use phones, than they use Facebook or Twitter... Having the opportunity to address that... is immense. Once you speak in those terms, then everyone's excited."

Jack Dorsey,
co-founder, Twitter & Card Case



Currently, there are two leading mobile payment methods emerging in the market: remote ordering and near field communication.

Near Field Communication (NFC)

Near Field Communication (NFC) uses short-range wireless transmitters to communicate with other devices within about 4cm. It acts as a secure smart key for services such as cashless payments, ticketing and physical access entry. Emerging NFC standards enable customers to quickly purchase products and transfer secure information across devices.

NFC involves two devices, an initiator and a target.

The initiator generates an electric field that is detected by the target. Initiators do not require batteries or any other type of electricity to transmit the field, as they use magnetic forces and radio frequencies through stickers or tags.

The target can be any mobile device such as a smartphone, tablet, laptop or other hand-held device. Smartphones can contain embedded NFC chips that send encrypted data a short distance (“near field”) to a reader located next to a retail cash register.



Remote Ordering

Remote ordering enables sellers to receive orders online from anywhere in the world. It allows their customers to both order and pay from their smartphones.

Online remote ordering employs the use of secure payment gateways to conduct transactions between a smartphone, financial institution and retailer, ahead of time.

And with the increase in mobile internet usage across the globe, it's clear to see this model has already proved highly successful for many Australian retailers.



According to Gartner, Inc, in 2011 global mobile payment users will exceed 141.1 million and payment volume is forecast to total over \$86.1 billion.

www.gartner.com

Nomophobia:

The fear of being out of mobile contact.

What does this mean for vendors?

Making mobile payments work

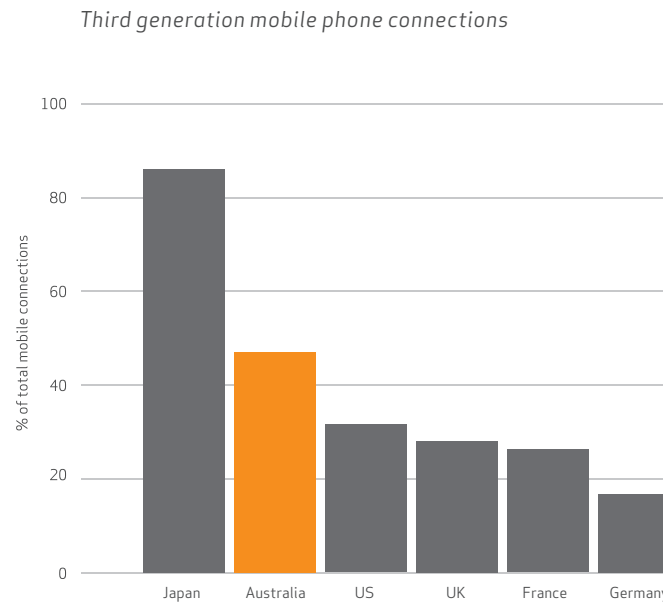
It means that it's time to think about what you can do to make mobile sales easy for your customers. With a mobile strategy rolled out, your business could be taking advantage of what customers are already waiting for.

The benefits to vendors are plentiful. Imagine new revenue streams with less cash handling, reduced merchant credit card fees, more efficient sales and improved productivity - all without increasing human resources.

Then there's the possibility of streamlining coupon offers, increasing customer loyalty and improving your customer experience - all by just offering your customers something that makes both of your lives just that little bit more convenient. And let's be honest, is also just plain cool!

3G Mobile technology is emerging in the Asia Pacific region as the leading innovation of consumer choice. Just like the introduction of the credit card, the opportunity for vendors to leverage this technology is just as exciting as it was back in 1950.

The mighty mag-strip has begun its slow descent into the annals of economic history.



Source: Australian Communications and Media Authority

“The market for mobile banking is set to achieve tremendous growth, with Asia-Pacific emerging as the predominant market in terms of customer base.”

Global Industry Analysts Inc.



“For vendors what it means is guaranteed payment, which is quite important. But whilst it's about vendors - it's not. It's about consumers. Ultimately people have the power and if this is something that people want, it's something that will become a necessity to them in 12 months time. And the vendors who provide it early will be the ones that get the market share dominance, the ones who'll get the competitive advantage.”

Brad Moran, Founder of NoQ

“The mobile phone has been transformed from a device that was invented for mobile wireless voice calls into a device that can now make purchases from vending machines, electronic payments and ticketing, online shopping and electronic keys for entrance into homes and offices. The inclusion of these personalised services in one device will make the mobile phone increasingly essential.”

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