

Smartphone Users Eager for Mobile Money

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Over the past few months, Mobile Commerce Daily has been reporting on the recent surge in roll-outs and adoption of banking applications and associated mobile Web sites and SMS systems within the mobile market.

Despite this spotlight on mobile financial applications, the majority of U.S. mobile money offers still consist of only scaled-down versions of Web-functionality.

There are several companies, however, which recognize the room for growth and innovation in mobile financial applications and are steadily working to transform the mobile phone into a mobile wallet.

The early adopters of these new financial applications are and continue to be Web- and mobile-savvy consumers of today.

Smartphone users make up a significant and ever-growing segment of total penetration. CTIA data indicates 286 million mobile phone users as of December 2009. Data from comScore in February 2009 showed 17 percent smartphone penetration or approximately 50 million smart phone users.

Sending the right signals

Marconi Pacific recently conducted an online survey of 250 smartphone users. The results showed a strong interest in the concept of mobile money while also indicating product confusion and lack of clarity around the potential options and services.

Of 185 mobile users with smartphones and data plans (subset of the 250 survey respondents):

- **97 percent have used mobile phones for more than two years, 51 percent for 10-plus years**

U.S. consumers now appear to be ready for some of the advanced services that have been in-market in Asia for several years due to higher levels of mobile adoption.

- **96 percent spend more than half their mobile time on data services, as opposed to voice**

While U.S. smartphone adoption is still modest around 17 percent, these consumers are using their phones more as mobile computing devices than as a means for voice communication.

- **43 percent currently use, or would be strongly interested in, “tap and go” functionality on their credit cards**

While security is usually indicated as a main concern of the use of mobile payments, the progressive adoption of technology and the relative convenience will ultimately assuage these concerns.

- **50 percent have used a mobile banking application**

U.S. consumer banks have been very successful in generating adoption of their mobile applications and have increased their interactions with high-use customers by migrating them from the Web browser to the mobile phone.

- **50 percent have strong interest in having mobile phones replace the functionality of their credit cards**

Data enabled phones have become like Swiss Army knives and are perceived to be potentially useful as a central device in any electronic system

Efforts to pay off

As consumers become more technologically and mobile-savvy, the level of interest in mobile payment systems will also increase. Suppliers, in turn, have taken several steps to meet latent demand for these services.

Three of the most recent efforts in North America – of the dozens around the world – are illustrative: In May, Visa announced a partnership with DeviceFidelity to provide a contactless payment system for the iPhone – a protective shell with an inserted memory card.

Also in May, Starbucks announced a combined mobile payments and loyalty program delivered through an iPhone application. In March, EnStream, a joint venture company owned by Canada’s three leading national wireless operators Bell Mobility, Rogers Communications and TELUS launched a mobile money contactless system with a MasterCard logo. Initial beta-testers can now tap their mobile phones to any paypass terminal and review the transaction on screen.

The move to mobile applications means that telecommunications providers can gain further adoption and usage from their products and networks.

Credit card providers can spur contactless adoption, increase security – lost phones with security features cannot be used for purchases – and decrease variable costs such as paper and theft.

Customers can track spending and usage more easily and in a more timely fashion rather than waiting until they access their account details.

Yen for payments

Japan has been at the forefront of mobile money technology.

Mobile users in Japan are approaching nearly five years with contactless payments. The FeliCa smart chip was widely used in plastic cards in the country before NTT DoCoMo launched the technology in mobile phones in July 2004.

Today, a contactless smart chip is standard in most Japanese phones and wireless carriers provide a wide range of services including payments, electronic wallets, marketing applications and loyalty programs.

In response to the success of FeliCa contactless chip technology in DoCoMo mobile phones in Japan, the country's second largest carrier, KDDI, is

set to launch a pilot program of its own NFC technology.

Similar mobile services as FeliCa will be offered, but KDDI is using a standard NFC technology form which is compatible with government ID applications such as driver's licenses.

The adoption numbers are compelling. An average of 43,527 phone-related contactless transactions occurred in 2009 among 3,141 trial customers – 14 per customer.

In 2009, Citibank launched its "Tap and Pay" pilot project in Bangalore, India. Eligible credit card holders can purchase a subsidized NFC-enabled handset that was payment ready and use it as a purchasing device in local stores.

While the program highlighted some obstacles to contactless adoption in India, the program generated growth in payment volumes and was generally well received despite the comparably low credit usage in the country.

Wall-to-wallets

We predict that mobile phones will become mainstream mobile wallets in the United States in the next four years.

This trend will enable a large opportunity for telecom companies to partner with the

credit card companies and to offer mobile payment services similar to that of the Bell Canada, TELUS, Rogers and the MasterCard venture in Canada.

Secondarily, credit card companies can pursue a go-it-alone strategy that reduces functionality provided to users without carrier or manufacturer assistance but still meets consumer demand without onerous partnerships.

Finally, savvy marketers such as Starbucks will find opportunities to disintermediate the current value chain and create more effective direct-to-consumer offers, which, in the Starbucks example enables "prebooking" revenue.

We believe that these value propositions need to be defined and further strengthened.

Simultaneously, early marketing information campaigns need to be created and positioned by potential suppliers.

The past decade of phone adoption, particularly smartphone and mobile application adoption, demonstrates an increased reliance on the mobile phone for information.

Before mobile money applications broadly roll out to consumers nationwide, the creation of fundamental education and marketing programs is vital.

About Marconi Pacific, LLC

Marconi Pacific, LLC is a strategy and venturing consulting firm providing business advisory services in the telecommunications, Internet and financial services industries. We build value for our clients by providing strategic analysis and practical solutions to complex business issues. In addition, we pursue selected investments in emerging companies, and we identify and pursue our own new venture opportunities.

Strategy Consulting: Marconi Pacific provides strategic advisory services to senior management to help build long-term shareholder value. Our clients select us over other consulting firms for our incisive analysis, industry knowledge and creative, yet pragmatic, recommendations. We work with clients to define a differentiated value proposition that can they can offer their customers. We then work to refine the core operational elements of the business to deliver this value. This requires understanding the market in detail; segmenting the customer base; determining demand; making decisions on positioning, pricing and channels of distribution; and then defining the operational processes and structures needed to deliver the value. We take a pragmatic view of our advisory work, recognizing that creating value requires strategies and plans with a singular focus on financial results rather than elegant studies and academic observations.

Venturing: The very applied nature of our management consulting work makes us very much "in the market" in which our clients operate. As a result, Marconi Pacific, unlike many professional consulting firms, is very involved in creating new ventures, both with our own capital and in partnership with our clients. We also maintain relationships with venture capital firms, private equity firms and investment banks with which we can work to create value.

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