

COLUMNS

Handicapping the mobile payments battle

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By **Daniel Flamberg**

New technical standards and consumers' extensive use of mobile media put us on the cusp of an explosion in mobile payments.

Long rumored and heavily used in Asia, mobile phones have the ability to be used as payment devices similar to credit cards.

In Seoul or Tokyo, people point their phones at Coke machines, parking meters and newspaper kiosks to make small purchases instantly. Three million Starbucks customers have already paid using first-generation mobile payments technology.

Chip's down

Now, the growing penetration of smartphones, the widespread use of phones to comparison shop, share price or product features or accept discount and coupon offers makes mobile payments the next high demand phone function.

There is finally a single technical standard called Near Field Communication (NFC) that everyone is embracing.

Snap-in chips for current model phones exist and are expected to become available by midyear, which is anytime now.

The first Android phones from Nokia, with NFC built-in, will also appear by midyear and other manufacturers will soon follow suit.

Google executive chairman Eric Schmidt not only expects payments to be big, but aspires to have phones replace credit cards, debit cards, loyalty cards and become an identity management tool basically transferring all your wallet functions onto a mobile device.

This could be the rationale for Google's purchase in December of Zetawire, a wireless payments startup.

Getting mobile payments to market will be a five-way fight. The contenders will be banks and credit card co-ops (Visa and MasterCard), online merchants (Amazon, eBay and Google), wireless carriers such as Verizon Wireless, AT&T, Sprint and T-Mobile, handset builders (Nokia, Motorola) and Facebook.

Each segment brings a different perspective and different set of skills, competitive advantages and perceptual baggage to the game.

Mobile payments will be data-rich and complicated.

Not only will players have to move transaction data around securely, they will have to instantly interact with multiple networks, process and bill payments, and handle tricky customer service issues.

The contenders' track record in each of these areas is a mixed bag.

Most are counting on large installed customer bases to give them a going-in posture and to piggyback marketing efforts and reduce marketing costs.

Nobody wants to miss out on the huge potential revenue pie and nobody wants to pay the other guy transmission, access, systems or processing fees.

In marketing terms, it will be a real dogfight since carriers, credit cards, social networks and online merchants have serious digital and CRM experience, big databases and partners or affiliates in-place.

The banks will be the weak sister in this battle both because they are conservative marketers and because this is an extension or add-on service that rarely gets the internal backing needed.

But the scale of the potential market everybody in the U.S. buying virtually everything using a pocket-held device is too big a pot of gold to ignore.

New currency

There are several technical options to do payments in the phone itself, tapping a terminal such as a gas fob, texting or having charges billed to your mobile phone bill.

Each approach has its unique technical and security challenges, but all are easy for customers to understand and do.

Two factors will shape the race.

First-movers will begin to accumulate scale and build partially exclusive merchant networks.

But the real trick will be to create a technology that mirrors the wallet and how consumers really use it.

Customers carry several credit cards in their wallets. At the point of sale, they decide which card goes with each purchase.

Providing this range of choice, essentially offering customers discrete financial control, will determine who gets hockey stick uptake and who is a Johnny-one-note also-ran.

Differentiating technical approaches and framing compelling customer value propositions by creating reasons to believe or claims of superiority for one method will require considerable creativity.

The horse race will draw consistent press attention and buzz since it is hot, a natural extension of mobile service and something that is very useful for consumers.

The branding and lead-generation work will have to be extremely creative and will live at the nexus of social-digital-mobile.

Stay tuned as the varsity brands take the field.

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