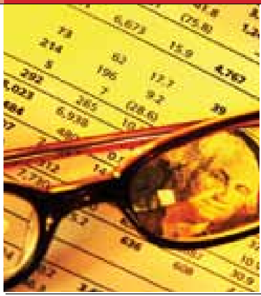

Texting for Dollars

Consumer trends, recent events trigger text-based payments explosion

By Todd Ablowitz

Although experts started predicting the rapid demise of the leather wallet more than 10 years ago, the adoption of mobile payments as a replacement has taken longer than expected. Hampered by a competitive and complex U.S. market, technological challenges, and limited consumer and merchant acceptance, mobile payments have yet to break the barrier as a mainstream payment alternative—until now.

Several developing trends indicate 2010 may be the year for the mobile payments market to finally hit its stride. Bolstering this idea is the fact that analysts are raising their forecasts for revenue and growth, countering a five-year trend of periodically lowered growth predictions and extended estimates of when the mobile payments market would take off.

Mobile online shopping in the United States rose to $1.2 billion in 2009 from $396 million in 2008, indicating "significant consumer interest," according to a recent report by ABI Research Inc.

Expanding Market

Increasing numbers of Americans are more comfortable than ever using their mobile phones for commerce. Consider the number of people who use their phones to cast votes during popular reality television programs such as "American Idol" and "Dancing With the Stars," and those who purchase and download ringtones, music, and smartphone applications.

Arguably, a number of recent events have further fueled this trend. Perhaps one of the most significant events was the devastating earthquake in Haiti in mid-January. Shortly after the earthquake was reported, The American Red Cross and several other nonprofits set up campaigns to raise donations using text messaging. It was a simple concept that allowed consumers to make a $10 donation by texting "Haiti" to the number 90999. Remarkably, more than $25 million was raised within just few days, according to CNN, and 14 percent of all donations for relief efforts came via text message, according to the Pew Research Center.

Remote Options

Many once thought the development and use of contactless payment technology would be the tipping point for driving mobile payments growth and full market adoption. Instead, this explosion is coming from a category referred to as "remote mobile payments," which do not require a complex ecosystem for support and market launches.

Unlike contactless payments—which are supported by near-frequency communication (NFC) technology and require a contactless enabled chip in the consumer's phone and an NFC reader at the merchant's location—remote mobile payments only require text messaging capabilities or, in some cases, the simple Web browser available on most smartphones. These payments can be categorized into three distinct approaches or models:

- **Carrier billing.** This is the model used for the Haiti donations and is by far the most mature type of mobile payment. With this approach, the payment is typically initiated via text message, and the charge is added to the consumer's mobile phone bill. This is a widely deployed mobile payment method, from vendors such as Boku and Zong.

Carrier billing has been used effectively for digital content such as ringtones and games, but it can be more challenging for other types of purchases. Further, the cost of this type of transaction is extremely high, with merchant fees ranging anywhere from 40 percent to 50 percent of the total transaction. And, there are transaction size limits, typically $20. In addition, funding usually is delayed because the carriers will not fund the proceeds until they have collected from the consumer. (In the case of the Haiti donations, however, merchant fees were waived, and the carriers prefunded the charges to expedite availability of the donations.)

- **Card-based billing.** This mobile payments model relies on the credit and debit card system for billing. Offered by companies such as Amazon Payments and Billing Revolution, these systems operate much

ask the Expert

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like an Internet e-commerce transaction in which consumers enter their card information on the mobile phone.

The advantages of card-based billing are that the fee amounts are similar to typical credit or debit card fees, often as low as 3 percent or less, depending on the size of the transaction and the merchant's overall volume. In most cases, the fees are funded to the merchant in one to three business days, and size of transaction usually is not limited.

There are a few downsides to this model, however. One is that not all consumers have mobile Web access. This is rapidly changing as more consumers adopt smartphones and advanced feature phones, which continue to improve the mobile Web experience.

But a much bigger issue is the challenge of entering large amounts of data required for a secure credit or debit card transaction. Mobile phones are not usually designed for entering long strings of data, which can include the card number, expiration date, customer code on the back of the card, and a billing address. While this can be cumbersome and is considered a barrier, at least one company, Billing Revolution, claims to combat this hurdle by securely storing most of the cardholder information after the first transaction, and allowing for a "single-click" payment for future transactions.

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• **Registration model.** Offered by companies such as PayPal or Xipwire, this model typically requires the consumer to first sign up for an account with a user ID and a password. Consumers must also identify a funding source, such as a bank account (typically accessed through the Automated Clearing House network), a prepaid account, or a credit card.

Once an account is established, payments can be made quite easily, so this tends to be popular for person-to-person payments. The biggest challenge to the registration model is getting consumers through the signup process and getting them to select or input a reliable funding source. Consumers generally must be highly motivated to make the purchase in order to complete the registration process. This is a barrier to adoption and makes impulse purchasing difficult.

ISOs or acquirers watching this space should pay close attention to companies that have a good consumer story and offer a clear value to merchants. If you see a good fit, test it out. Ultimately, 2010 may be the best time to jump into mobile payments. The signs are pointing to mobile payments as a major trend, and remote mobile payments are a good way to generate new revenue using today's technology. ***TT***

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