

# Mobile Payments Debate: Will You Be Ready?



By Robert B. Hedges, Jr., Managing Partner, Mercatus LLC

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**M**obile financial services have received significant attention from banks, mobile carriers, technology providers and investors. This attention is well-deserved, stemming from the ubiquity of mobile phones and the in-creasing willingness of consumers to use their phones for both text messaging and a wide variety of data services.

Mobile payments, in particular, are benefiting from the growing enthusiasm of potential service providers. In the United States alone, total investment in mobile payment startups easily surpassed \$300 million in 2008. U.S.

banks and card networks are pursuing their own initiatives. Citibank and MasterCard have both separately partnered with Obopay to enable peer-to-peer mobile payments, while Visa has partnered with bank part-ners including Bank of America, Chase and U.S. Bank, and Google's mobile platform, Android, to develop its own mobile payment offering.

Around the globe, the potential for mobile phones to evolve and transform economies and the lifestyle of market participants is well-documented. Already today, a host of mobile payment companies and initiatives are operating successfully. NTT DoCoMo in Japan, M-PESA in Kenya and GCash in the Philippines all have been hailed roundly as successes. Despite considerable investment, however, adoption and usage in the United States has lagged expectations.

The principal challenge faced by mobile payments providers has been primarily one of overcoming consumer inertia around initial adoption. Credible alternatives like credit cards, debit cards, money-transfer services

and online providers are available to serve consumers who are reluctant to change their payment behaviors. Additionally, misconceptions about the security, difficulty and limited availability of mobile payments hold back adoption among consumers.

## The Nature of the Mobile Payments Opportunity

Despite these obstacles, Mercatus' considerable breadth of work in the mobile payments space leads us to believe that mobile payments ultimately will be significant in the United States. According to our recent survey of 2,500 U.S. consumers between the ages of 18 and 44, 15 percent of U.S. consumers ages 18 to 30 will be using mobile payments by 2013, and close to 50 percent of U.S. consumers ages 18 to



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35 will be users by 2018, based on current adoption rates.

This forecast is supported by three key findings from our 2008 Consumer Payments Study:

- ➔ A healthy degree of awareness around mobile payments already exists among U.S. consumers, suggesting that much of the initial work to generate awareness of mobile payments already has been accomplished.
- ➔ Early adopters of mobile payments have definable demographic and behavioral traits, enabling mobile payment providers to segment consumers and conduct targeted marketing campaigns to promote adoption and use.

➔ Demand for mobile payment solutions from banks and carriers is evident in the way consumers are both expressly willing to invest time and energy to obtain mobile payment capabilities and are actively referring friends and family to mobile providers. These behaviors clearly indicate a legitimate opportunity for providers of mobile payments.

**Healthy Awareness Already Exists**

While only a small number of consumers in the United States actually have signed up for mobile payments, the potential for adoption among consumers is very strong. In the United States, 48 percent of consumers either have heard of or are familiar with mobile payments. Even more encouraging is the rate of usage among

adopters: Among the relatively small percentage of consumers who have signed up with a mobile payments service, more than 40 percent are actual users of mobile payments and have made or received a payment from their phone.

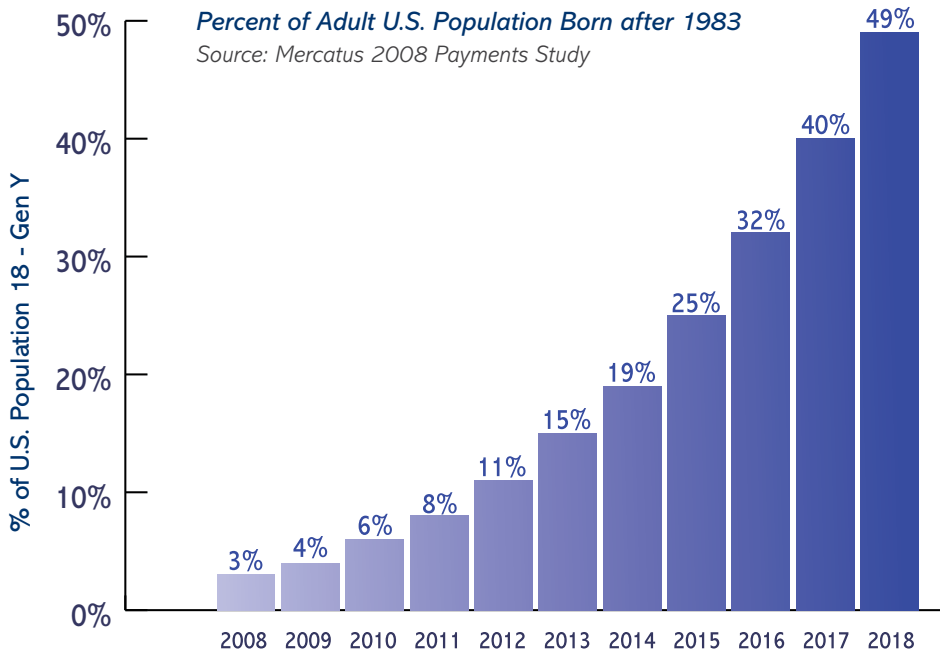
These numbers are highly encouraging in light of the limited publicity for mobile payment services. Importantly, the hurdle of “getting the word out” is greatly lowered, reducing the upfront investment needed to drive adoption.

**Early Adopters Have Definable Demographic and Behavioral Traits**

A clear view of those consumers who are interested and using mobile payments is beginning to emerge. Mobile payments, not surprisingly, are embraced by younger consumers, ages 18 to 34. More than 60 percent of consumers who use mobile payments have active mobile banking accounts and, more importantly, are frequent users of transactional and payment features such as bill pay and money transfers. Other factors, like the use of money transfer services, SMS and mobile data services, highly correlate to mobile payment adoption and usage.

These definable demographic and behavioral traits are critical to driving usage among consumers. Marketing of new financial services like mobile payments requires segmentation of the population to maximize the impact of the investment. As more data emerge around mobile payment users, the ability to segment the consumer market

**Forecasted U.S. Mobile Payments Adoption**



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and develop the required messaging becomes both more efficient and effective.

### Demand Is Evident

Among both users and non-users (consumers who are interested but aren't using mobile payments), there is a clear alignment around perceived value. Mobile payments are viewed as appealing because of consumers' attachment to their phones, the ability to conduct transactions anywhere and with anyone, and the potential for the phone to reduce consumers' use of cash and paper payments. Based on this underlying interest in mobile payment solutions, consumers are willing to go to significant lengths to acquire access to mobile payment services. In fact, 44 percent of interested non-users indicated a willingness to purchase a new phone; 38 percent were willing to set up a separate account for mobile funds. Twenty-two percent would switch their

phone carrier, and 14 percent would switch their bank.

Demand for mobile also is evident in the way consumers are making use of viral referral channels. Thirty-one percent of mobile users were introduced to mobile payments by a friend or family member. Among users, 44 percent introduced between one and three friends or family members to mobile payments.


### Drivers of Mobile Payments Adoption

U.S. consumers represent fertile ground for mobile payment adoption. There is widespread awareness, an emerging segmentation of likely adopters and users and an expressed demand for mobile payment services. All of this comes in addition to the growing reliance on mobile devices (our president now carries the “First Blackberry”) and the evolution of mobile capabilities in general. In time, these devices will come to bridge the gap between the familiar (online payments) and the emerging (mobile payments). The various mobile payments' value propositions are too great to fail.

Mobile financial services appeal to younger and technologically savvy consumers by providing a convenient means of exchanging payments over a preferred communication channel. Mobile financial services provide invaluable access to electronic payments systems and reduced-cost methods of remitting funds for the unbanked and underbanked. Small and midsize

businesses can benefit from reduced transaction costs that may be less expensive than fees associated with card acceptance. In the larger corporate market, commercial uses are emerging that replace or augment prepaid commercial applications with mobile at a far lower cost to program participants.

Banks and potential providers are well-positioned to launch successful mobile payment programs. Consumer awareness and interest is high, and consumer demand is generating action in the form of account openings and customer referrals. All competitors in the payments marketplace need both a mobile strategy and a mobile offer.

Mobile payments adoption is no longer a question of if, but when. Our research supports the case that the next five years are critical. We expect the potential for mobile payments adoption to accelerate rapidly. The real question is whether or not incumbent competitors in the payments marketplace are going to be ready. 

*Bob Hedges is the managing partner of Mercatus LLC, a financial services strategy consulting and investment firm based in Boston. Mercatus works with leading financial services providers and private equity firms to make investment and business growth decisions. For more information, visit [www.mercatuspartnersllc.com](http://www.mercatuspartnersllc.com).*