

# Digital wallet apps unfold as phone users, businesses catch on

July 30 2013, by Mark Davis

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Mark Logan ordered lunch at Mildred's Coffeehouse & Bistro in Kansas City's Crossroads Arts District and stepped to the register to pay. No cash. No check. No plastic.

Logan paid with his smartphone. He had previously loaded it with his debit card information, using a mobile application called Square Wallet, and snapped his own picture.

To make the payment, Square Wallet sent Logan's picture to the iPad that Mildred's uses for a register. The iPad tied his tab to his photo.

The barista, seeing Logan, tapped his photo from among several customers on the screen and told Logan the payment was going through. A second tap - technology took care of the rest.

"This is dead easy," said Logan, whose receipt popped up on his phone.

So why don't more of us pay with our phones?

Mostly, we don't know we can. A recent survey of smartphone users found that half had never heard of the idea of a [digital wallet](#), let alone downloaded and used one.

And few stores or restaurants take them.

All the same, you may be using one soon. Money is making a dash from

pockets to smartphones thanks to digital wallets like Lemon, Isis, LevelUp and others.

The Carlisle & Gallagher Consulting Group forecasts that within five years, half of smartphone owners will prefer to pay for their gas, food, gadgets and other consumer goods with phones and mobile wallets.

That's a big leap, and a lot needs to happen for that to prove true.

Several technologies are competing to migrate money to smartphones and they don't mesh. By one count, perhaps 280 digital wallets or more have sprung up or are in development around those various technologies. Some retailers, notably Starbucks, have built their own apps for mobile payments.

It leaves consumers and retailers both guessing which digital wallet the other will be using. Unless they match, it will be back to cash, check or plastic.

Security concerns pose another hurdle: Shoppers instinctively don't trust their money to what they don't know.

We are comfortable with credit cards and debit cards. They're reliable and accepted almost everywhere. Mobile payments have caught on faster in some countries with poor payment systems.

But consumers in Japan also pay with their cellphones more than Americans do, said Ray Ledford, who lives in Japan but spends half his time in the United States on work.

"Anytime you're there you'll see somebody using it during the day," Ledford said during a recent visit to Kansas City. "I don't see that here."

If the digital wallet is really going to catch on here, it has to do more than pay the tab. Advocates say successful digital wallets will need to help consumers save money, become savvier managers of their payment choices, earn discounts and coupons and increase their value as customers.

Besides helping him buy coffee, Logan would like his phone to hold not only his money but also his driver's license, proof of car insurance, and the other items normally stuffed inside billfolds.

"I'd love to stop carrying around a physical wallet," he said.

Smartphones already have wormed their way into shopping.

We use them in store aisles to check prices elsewhere. They allow us to read online product reviews while looking at the product. And who hasn't snapped a photo and texted it to a spouse or partner for some quick feedback?

Now phones can pay, too, using one of several competing technologies. If that's news to you, don't feel bad. It even catches some store clerks off guard.

When and where he can, Jared Jennings shops with the Google Wallet on his cellphone. As the clerk rings up the total, Jennings waves his phone near the machine where others would swipe their credit cards. Instantly, the payment is made.

"How'd you do that?" is what Jennings said he hears often enough. "Usually, it's a great point of conversation."

Other digital wallet users recount similar stories because the technology is rarely used even when available.

Google Wallet relies on something called near field communication technology, or NFC. It's embedded on a computer chip in some smartphones.

As the name suggests, near field communication sends the payment information only a short distance to the register's reader. The customer then gets a receipt, through email if he chooses.

Microchip payments are routine in Europe, where credit cards rely on embedded chips instead of the magnetic strips found on American credit cards.

Chips are coming here. They're more secure, said Carl Bradbury, Commerce Bank's director of consumer card products. He said Commerce is moving to them.

"They can't be counterfeited."

The added security means companies that sell register equipment to stores are including NFC technology, anticipating widespread use of those chips.

NFC technology does face one big roadblock: Smartphones are everywhere, but few come with NFC chips. No iPhone does; Apple Inc. hasn't put an NFC chip into any of its phones so far.

But Apple's not a problem for the Square Wallet, because it uses a different technology.

It relies on GPS positioning and "geofencing" technology to find the Square Wallets of customers who come in, or happen to be nearby the store's Square-powered register. The payment changes hands through the Internet - on the cloud, as they say - rather than through direct

communication between the register and phone.

The geofence around the store's register, however, can be bigger than the store. Bryan Merker learned this a few weeks ago when he fired up Square at Beignet in Kansas City's City Market where he is the chef and owner.

"Someone's sitting in the coffeehouse next to us or they're wandering around. I know they're in the market," he said.

He knows because their photos pop up on his iPad register but they aren't in his shop.

There are yet more mobile payment technologies. One called radio frequency identification, or RFID, works somewhat like NFC but has a longer range.

Another technology compacts the customer's credit or debit card payment information into a bar code specific to that transaction. The code pops up on the customer's phone and the clerk scans it to complete the payment.

The craziness right now comes from all the different ways mobile payment technologies are being pitched to consumers.

Be prepared for an onslaught of offers.

During a six-month stretch last year, a team of mobile strategy analysts at Citigroup counted 16 mobile payment announcements a day. Not all were new wallets, but it impressed upon the analysts how fast the field was moving.

"You can't do this 200 different ways," said Dom Morea, senior vice

president of advanced solutions and innovation at First Data. The company provides retailers with the technology to accept various kinds of payments.

"That will likely skinny down to some handful."

Peter Olynick, the card and payments practice leader at consulting firm Carlisle & Gallagher, sees an edge for the wallet that can handle multiple technologies, such as NFC, bar codes and through the Internet, rather than just one.

The winning handful may have to survive battle on several fronts.

Sprint Corp., the Overland Park, Kan.-based wireless phone company, embraced Google Wallet a couple of years ago.

The three other major wireless companies are building their own.

Isis Wallet, to which Verizon, AT&T and T-Mobile have signed on, is running in test markets Austin, Texas, and Salt Lake City, Utah.

Last August, a group of retailers announced plans to build their own digital wallet under the name Merchant Customer Exchange. Its website lists Best Buy, CVS, Gap, Target, Wal-Mart and others. Some of these have partnered with other wallet apps as well.

PayPal, a big name in online payments, has its version of a digital wallet.

Apple's Passbook is a digital wallet without credit or debit cards. So far it will store and redeem coupons, boarding passes, movie tickets and the like. The only money it takes are gift cards.

The two big credit card companies are in the mobile payments game,

Visa has V.me and MasterCard has PayPass.

Starbucks has carved out its own deal. Load the app on your phone, put money in the prepaid account and hit the store. At checkout, the phone app creates a black and white image - like the bar code on a package - on your phone's screen.

Starbucks' reader picks it up and collects the money out of your prepaid account. The app allows shoppers to reload the account through a credit or debit card through their phones.

Starbucks reports that 10 percent of its transactions are paid this way, and the company counts millions of users.

Thing is, it only works at Starbucks. Square Wallet also now works at Starbucks.

While Sprint was an early adopter of Google Wallet, it has found acceptance of the digital wallet less than expected.

The lesson, according to Sprint's Kevin McGinnis, was that mobile payments won't make inroads in a credit card world without doing more than making payments.

"You're kind of pushing string uphill," he said.

The answer is to use that string to pull in customers with freebies, discounts and other benefits to entice and reward their loyalty.

LevelUp promotes its digital wallet app by telling smartphone users they'll "instantly get a few bucks to spend" the first time they use it at a new place. Going back means more savings.

Loyalty programs like this are old hat in retail. Anyone working on punching that 10th hole on a prize card knows how they work. Square Wallet punches virtual cards with qualifying purchases.

Much more is possible with mobile payments because they open a two-way communication between consumers and merchants that isn't possible with other forms of payment.

The merchant gains the ability to send real-time targeted ads to individuals, based on where they are at the moment. Digital also means lots of data surrounding the phone owner's shopping behavior.

Harley Geiger, policy counsel with the Center for Democracy & Technology, said during a panel discussion on privacy that the choice should be left to the consumer.

"You ought to give consumers at the app level, at the wallet level, the ability to restrict disclosure of their information for anything that is not needed to complete a credit card transaction," Geiger said, according to a transcript.

Leawood, Kan.-based Front Flip has found a way to use the valuable shopping data made possible by smartphones without collecting shoppers' money.

It collects information instead. Front Flip's consumer app picks up the name, age and other identity data that helps restaurants and other retailers run loyalty marketing programs.

Diners find Front Flip's square scan codes at each booth and table of a participating restaurant.

Scan one, and up pops a virtual scratch-off prize card on your phone. If



it's a winner, you might get a free appetizer or half off an entree for that visit.

Each scan builds a history for the customer's visits, giving the restaurant the data to send more prices to customers' phones to reward or encourage more visits.

It makes sense, Front Flip CEO Sean Beckner said, to establish that mobile relationship with the customer before asking for the money. Layer on payments later, he says.

That's exactly how Rebecca Martin became a Square Wallet user.

She'd used Front Flip regularly and was ready to try Square Wallet when a co-worker told her about it about six months ago. She's a convert now.

But there was that one time when Martin's co-worker accidentally paid for her food. Rhett Del Campo said the guy running the register mistakenly thought Del Campo was picking up the tab for both. It could have happened with a credit card, too.

Still the incident made an unfavorable impression on a third co-worker who witnessed it.

"Seriously, that's one of the reasons I haven't downloaded it," Stephanie Brimhall said of Square Wallet.

Security questions about digital wallets, including loss or theft of cellphones, typically dwarf other issues in consumer surveys about mobile payments.

Advocates for smartphone payments point out that regular wallets get lifted and lost, too. The difference is that cell phones can be locked

behind a PIN, as can the digital wallets inside.

Additional security measures allow the owner to shut down a lost phone, and others to recover all the lost information relatively easily.

"I trust my phone more than my pocket, anytime," Jennings said.

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## LATER ADOPTERS:

Tech-savvy Americans are pikers in the world of mobile money.

Only 1 in 5 [smartphone](#) users here have digital wallets on their phones, according to Datamonitor. Its survey found digital wallets on more than twice as many of the smartphones in South Korea.

Kenyans are tops in mobile money. Roughly two-thirds of the eastern African nation's adults use its M-PESA system to pay with their phones, according to The Economist.

## Why Kenya?

It had an expensive, inefficient and limited banking system, for one. The dominant wireless company set up M-PESA, and use spread. Kenyans pay bills, do business with one another and send money to families in rural areas through M-PESA, The Economist reported.

Contrast that with America's smooth-working credit and debit card payments system and the hodgepodge of players pushing their own versions of digital wallets here.

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## MOVING TOWARD MOBILE MONEY

-1913: The Federal Reserve System was created to regulate the flow of money and to issue Federal Reserve Notes.

-1946: The first bank-issued credit card.

-1959: The first ATM was installed in a shopping center in suburban Columbus, Ohio.

-1966: The modern general purpose credit card was born - the BankAmericard.

-Early 1980s: Home online banking services were introduced.

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## PHONE BILLS GO UNIVERSAL:

Money has gone mobile not only on phones but also on phone bills.

Many of us texted \$10 donations in the aftermath of Moore, Okla.'s tornado or similar events and made good when our wireless bills came due.

Several companies - sporting names like Boku, Fortumo and payvia - handle mobile payments without hitting your credit or debit cards. The charge lands on your next wireless phone bill.

These direct carrier billing options often pop up, for example, when buying online games and ask you to text from your phone for confirmation.

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## DIGITAL WALLETS:

- Lemon Wallet
- LevelUp
- Isis
- Apple Passbook
- Google Wallet
- Mastercard MasterPass
- MCX Merchant Customer Exchange
- PayPal
- Square Wallet
- Visa V.me

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