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Cash, Credit or Smartphone? Consumers Skeptical of Digital Wallets

By Nancy Pekala

Brands that are banking on their customers ditching their leather wallets for their smartphone-based digital wallets may need to be patient. While nearly half of all U.S. consumers use smartphones, a new survey by Radius Global Market Research reveals the majority of Americans remains skeptical of smartphone-generated payment solutions and are not likely to give up traditional forms of payment in the short term.

"There's been a lot of speculation about how quickly consumers are moving to a wallet-less existence. Based on our recent survey, it won't be anytime soon," says Chip Lister, Managing Director of Radius. "The benefits of convenience, speed, and portability, are resonating with a niche population of younger consumers. But even with this segment there are important obstacles that must be addressed before pay-by-smartphone technologies will be widely adopted as a replacement to more traditional modes of payments."

One of those key obstacles is security which tops the list of consumer concerns about mobile payments. Half of all American consumers say potential security and fraud significantly influence their likelihood to use smartphone technology to make purchases in the future. In comparison, only 14% say security and fraud don't influence their future likelihood to make those purchases.

Interestingly, the under 35 set, the segment most likely to make purchases via smartphone and those identifying as digitally savvy, are also the most likely to be concerned with security and fraud issues. Fifty-four percent of consumers under the age of 35 are concerned with fraud. That figure rises to 62% among digitally savvy consumers.

"The more consumers know about smartphone technology, the more they worry about the security of mobile transactions," says Lister. "While marketers have done a good job at promoting convenience, they will also need to boost messaging efforts to address security concerns in a way that convinces digitally savvy consumers."

Complicating messaging efforts further is the fragmented nature of mobile payment service delivery. Several branded product and service providers are involved in executing a single smartphone generated transaction. Responsibility for flawless delivery is spread across several partners.

"Consumers appear to be very aware of the entire delivery chain associated with mobile payments," says Lister. "The company you keep will be extremely important in marketing efforts. Individual brand reputations of retailers, device makers, software developers, service providers, and financial institutions will be scrutinized. In consumers' minds the complete transaction is only as strong as the weakest link, especially as it relates to security."

"Consumers don't currently view banks and credit card companies as leading the way in the effort to develop innovative payment technologies," adds Lister. "To remain competitive in the very near-term, it may be important for marketing efforts to lead with smartphone/technology brands."

However, these consumer concerns haven't stopped some brands from boarding the digital wallet bandwagon. As noted in the e-book, *"Content, Context, Commerce: The Year of the Mobile Roadmap-12 Trends for 2012,"* part of the AMA's e-book series, Forrester Research projects that mobile commerce will hit $10 billion by the end of this year and $31 billion by 2016 with an annual compound growth rate of 39% for the next five years.

M-Payments: By the Numbers

- The Yankee Group reports the U.S. m-commerce market is expected to reach U.S. $119 billion by 2015.
- 1 in 8 mobile subscribers will use m-ticketing in 2015 for airline, rail and bus travel, entertainment and sports events.
- The number of people worldwide using mobile devices to make payments increased from 81.3 million in 2009 to a projected 490 million by 2014 (**Portio Research**). The volume of m-payments (face value of purchases and transactions) was U.S. $68.7 billion in 2009, rising to U.S. $633.4 billion by year-end 2014.
- **ComScore** (February 2011) research indicates that in December 2010 alone, 9.8 million or 10 percent of Japanese mobile subscribers used their mobile wallet to make a purchase.
- 91 percent of online retailers in the U.S. have a mobile strategy in place or in development, according to **Shop.org/Forrester Research** (May 2011). 48% of U.S. retailers surveyed had a mobile-optimized website; 35% had deployed an iPhone app; 15% deployed an Android app; 15%had deployed an iPad app.
- 4 out of 5 U.S. smartphone owners use their phone to help with shopping (**Google/Ipsos**, April 2011). 79% use the smartphone with shopping and 70% use the phone in store. 74% of smartphone shoppers have made purchases following phone research.
- On eBay, in 2011, customers purchased $5 billion of goods using their mobile, a number projected to increase to $8 billion in 2012. (**eBay**, January 2012)
- PayPal anticipates $7 billion in mobile payment volume in 2012. (**PayPal**, January 2012).

Brands like Jamba Juice and Starbucks are already implementing some of the technology needed for mobile payments. When paying for their favorite smoothie, customers need only tap their phone on a reader to process their payment. They can even redeem an electronic coupon stored in the phone.

A number of brands are adopting m-payments with the help of Google Wallet, a mobile app that securely stores credit cards in the Cloud and offers on mobile devices. When customers check out at brick-and-mortar stores that accept Google Wallet, they can pay by signing into their Google Wallet account and redeem offers quickly by tapping their phone at point of sale. Google estimates that 80% of credit card transactions will be replaced with this type of technology.

Merchants use a PayPass terminal in their stores to enable customers to make purchases through the tap of their smart phone. Currently, PayPass-enabled customers include The Coca-Cola Company, CVS/Pharmacy, Sports Authority, RadioShack, Peets Coffee & Tea, Jack in the Box, Walgreens, Sunoco and others. Retailers also have the ability to "Push Offers" to potential customers who are actively searching their products in the area.

Among those retailers that have or will soon be integrating the service are: American Eagle, Macy's, Jamba Juice, OfficeMax, Old Navy, Toys R Us, Pinkberry and others.

The Offers tab in Google Wallet now includes a "Featured Offers" section with discounts that are exclusive to Google Wallet. Consumers can save their favorites in Google Wallet so they're automatically applied at check out. Brands like Foot Locker, American Eagle Outfitters, OfficeMax and others are providing loyalty cards in Google Wallet so customers can earn reward points automatically.

According to the Aberdeen Group Survey, "*The Mobile Payment Opportunity: Get Paid Anytime Anywhere*", 24% of companies surveyed have currently deployed m-payments related technologies and business processes. Another 50% have launched initiatives. There's a strong awareness by these companies of m-commerce technologies such as direct mobile billing, mobile pre-paid and mobile gift cards.

Starbucks is one brand which has been rewarded by its investment in m-payment technologies. The coffee retailer racked up 26 million mobile payments in nearly a year. U.S. customers loaded $0.5 billion onto their Starbucks Cards in December 2011, a 23 percent increase over the previous December, bringing total membership to more than 3.7 million. Moreover, Starbucks Cards were used for 1 in 4 U.S. transactions.

Only time will tell whether more customers will be willing to convert to digital wallets for payments. In the meantime, marketers and brands would do well to investigate m-payment methodologies and ways to overcome consumers' security concerns.

Nancy Pekala is the AMA's Senior Director of Online Content and Editor of *Marketing Thought Leaders*. Continue the conversation about mobile payments in the Interactive Marketing group of AMAConnect, the AMA's online community exclusively for marketers. Follow us on Twitter @marketing_power.