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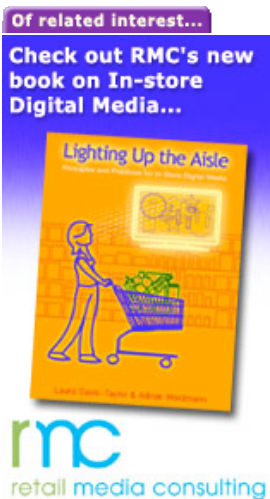
BrainTrust Query: What can we learn from Japan's mobile wallet challenges?

By [Laura Davis-Taylor](#), Founder & Principal, Retail Media Consulting

As mobile phone technologies ramp up in sophistication, an application enjoying increased interest from retailers and marketers alike is the "mobile wallet." Put simply, mobile wallets, also known as "wallet phones," enable users to make "contactless" purchases via their mobile phone. They work similarly to credit cards, but the financial information is stored within your mobile phone for anytime access.

Besides the obvious benefit of not having to lug around a bulky wallet, mobile wallets allow users access to information stored in their cell phone at any point in time, examples being cash balances or transaction records. Moreover, the online nature of mobile wallets enables cell phones to be used as membership cards for clubs and loyalty programs, employee ID access cards, and even as a substitute for physical tickets for events or transportation venues such trains, buses and airplanes - with no card issuing costs.

But the rollout of mobile wallets has been slow partly due to cost issues as well as security concerns, and there are lessons to be learned from its adoption in other countries. *Card Technology Magazine*, in its April issue, highlighted some of the existing hurdles to further adoption in Japan, a country seen as the



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earliest adopter of this technology.

As with many rollouts, a key problem is that there still aren't enough places for consumers to use this technology, even though it's been available for over two years. About 100,000 terminals and readers have been deployed with retail merchants, not counting multiple brands accepted at the same shop or restaurant. That's a small number considering Japan's vast retail market. Additionally, equipping a POS terminal properly to accept mobile payments is pricey, currently around US\$425. Finally, some consumers find the registration process too difficult.

Other problems have to do with the technology. Japan has struggled to solve difficulties personalizing phones over the air as well how to enable a better experience for downloading mobile wallet applications to the phone - a process that can take over an hour. Due to this, contactless mobile payment applications are now preloaded onto many of the handsets, a move that has increased the number of registered users significantly.

Another challenge is that contactless payment in Japan has no standard application, in part because contactless phones and cards use a nonstandard technology, FeliCa, from Sony. As a result, consumers may find a contactless POS terminal will not accept the brand of contactless credit or e-cash that they are carrying.

Regardless of the hurdles, many are confident that the industry will forge ahead steadily. One of Japan's largest retailers, The Aeon Group, has already installed iD terminals in about 90 stores with readers supporting more than one brand of contactless payment. Seven-Eleven Japan, McDonald's and many other brands are set to follow suit with multi-brand applications.

Phone penetration also appears hopeful, as leading Japanese mobile operator NTT DoCoMo and its competitors together have sold nearly 30 million phones since 2004, with 40 million projected by March 2008 - all having mobile payment pre-loaded and ready for instant registration. The goal? Capitalize on the estimated 60 trillion yen (US\$514 billion) Japanese consumers spend every year on low-value, primarily cash purchases.

With more participating outlets and an easier downloading and registration service, Japan's wallet-phone backers are intent to take on the slow task of changing the behavior of tens of millions of subscribers to their services.

Discussion Questions: Is the U.S prepared to launch contactless mobile payments and reach adoption more quickly than Japan? What Japanese lessons should we pay close attention to? Is this new technology even desirable in the US or is it yet another sexy tool that's more hype than reality?

[Author's commentary] Mobile wallets hold real promise and we're seeing more and more chatter about them in RetailWire discussions. PayPal Mobile is making strong inroads and the technology company SanDisk is also doing some interesting things via Flash memory cards that access credit card mobile payments via a system called ClickandBuy.

While most of the mobile payments in the U.S. are being used for traditional call-to-action activities via short codes to purchase ring tones or other digital products, there's talk of Text to Buy codes that can be punched in to buy any product, anywhere - even from a closed store window. More and more flavors of

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functionality will emerge and we need to be ready with a point of view on how to deploy them.

As exciting as the promise of mobile contact payment is, I wonder if we will be able to jump around the challenges seen in Japan as well as apparent security concerns. It seems reasonable that a concerted effort with key retailers, mobile carriers, phone manufacturers and banks would get us there sooner than later. Also, as with all media, the functionality and offering needs to be relevant to the context of the shopper and what makes sense for them to do - when, where and how.

What are your thoughts on this subject?

Take the Poll - Results delayed by 15 minutes.



What do you think of the potential of mobile wallets to replace credit cards?

- Very high potential
- Moderate potential
- Little to no potential
- Not sure/no opinion

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Cell phone payment systems will be quickly adopted in the U.S. if retailers can save money compared to credit cards. The Visa, MasterCard, Discover, American Express fees are huge compared to retailing's pretax profit margins, and the fees keep rising sharply. Shoppers would be happy to use cell phone payment systems if they got the miles, points, rewards, rebates, etc. and if they believed that security issues would be no worse than credit cards. Let's see how long it takes a cell phone company to start a credit card bank and issue "virtual credit cards" via its cell phones. Years ago, a company called AT&T started a successful credit card business (AT&T Universal), but they sold it off.

[BrainTrust Profile](#) **Mark Lilien, Consultant, Retail Technology Group**

Mobile wallets offer a lot of potential, but it seems that it is going to be awhile before they can truly take off here in the States.

I believe the very public TJX data breach may hinder new types of payment processing. Consumers are paying closer attention to who and how they are sharing their credit card information with

and are making adjustments to become more secure in their day-to-day purchasing. Ultimately, once the security concerns have been addressed (as well as the cost issues referred to in the article), digital mobile wallets will take off, but I don't see a fast process here by any means.

[BrainTrust Profile](#) **[Gregory M. Belkin, Product Marketing Manager, SeaTab Software Inc.](#)**

In my Food/CPG Issues & Strategies class at Western Michigan University we always have one class where we discuss emerging in-store technology with our students. One of the topics we discuss is mobile technology and there is not a lot of interest on the part of these young people...most of this is fueled by security risks they are not willing to take at this time. Based on the students' feedback, I'm guessing it will be a long time before there are enough consumers willing to participate in this technology to create a return on the retailers' hardware investments.

[BrainTrust Profile](#) **[Phillip Straniero, Executive-in-Residence, Western Michigan University](#)**

In time, the technology forum will find the means to accomplish the mobile wallet.

But, it is a mindset--and culture--of this country to do everything via the airwaves, even broadband internet!

The issue in the U.S. will be whether the two young generations will be as demanding and continue their escalation in use of handheld communications.

The seniors and Baby Boomers may be on the sidelines.
Hmmmmmmmmm!

[BrainTrust Profile](#) **[Stephan G. Kouzomis, Faculty and Staff Member, University of Louisville's College of Business](#)**

Look at what mobile phones have done to the watch--an item that is rapidly becoming obsolete. It's not a statement about consumers' willingness to use a mobile wallet, but the fact that, especially among younger people, they have stopped wearing watches because they can get the time off of their cell phones. This just goes to show exactly how much that cell phone is a part of our lives. I'm more likely to leave the house with my phone than with my wallet, some days.

I think it's only a matter of time before mobile wallet technology is widely available--though I don't see some of Japan's adoption problems going away in the U.S. market. Contactless payments are increasingly accepted at retailers, but each credit card company has a different standard. And as the article mentioned, there are new payment methods popping up every day. As with any technology that goes into stores, the technology is going to

have to mature, stabilize, and standardize before retailers will adopt--and without places to pay, consumers won't be too keen to sign up.

[BrainTrust Profile](#) **[Nikki Baird, Executive Director of Research, Retail Systems Alert Group](#)**

The payment issue is a complex one and what happens will depend a lot on the U.S. financial and banking system. But the major lesson here is that the technology is evolving very rapidly and is already having a major impact on the competitiveness of retailers. Those retailers who don't stay on top of it and use it for strategic advantage run the risk of being left behind.

This is a particularly hard lesson for retailers who have tended to be fast-followers rather than innovators in the use of technology because they may not be able to keep up in this environment.

[BrainTrust Profile](#) **[Bill Bishop, Chairman, Willard Bishop](#)**

I think it's a great idea, but I don't think it's ready for prime time. Just as fast as our technology ideas on payments advance, so do our criminals. Technologies that can tap into phone lines are becoming more and more sophisticated. I don't think that most consumers have faith in our phone lines enough to risk giving up all their financial information to "would be" technology thieves.

Also, right now, there is still little "convenience" advantage associated with these phones. It would be great if you really could leave your wallet at home, but the bottom line is that our wallets are becoming more and more a necessity as clerks, airports and others require photo identification. And for women, until phones can apply make up, provide baby wipes and dispense Tylenol, I'll continue carrying a purse (with my phone in it).

[BrainTrust Profile](#) **[Janet Dorenkott, VP & Co-owner, Relational Solutions, Inc.](#)**

One of the things that concerns me is that some of the basic infrastructure activities that we traditionally accepted as government responsibilities are being turned over to private enterprise. Theoretically, this should lead to competition and the most efficient means for providing for those activities. The facts seem to be inconsistent with the theory, as we see the companies who can create the most significant barriers to competition thrive not because they are efficient but because they have created the most legal protection for their position. Cable companies use local government franchises to keep out competitors. Technology companies use patents to prevent introduction of competing products. Even sports franchises use Congressional oversight to create barriers that allow them to form monopolies.

Traditionally, we have expected government to support our streets, the interstate highway system, sewers, drinking water,

etc. When we outsourced the support for services like cable connections we witnessed how difficult it became to get those services into rural areas and a whole bureaucracy grew up around motivating the "for profit" cable enterprises to provide service to areas that were not profitable to reach. Our first venture into outsourcing payment options has been with credit card companies. We have seen how successful that has been, with both borrowers and sellers fed up with outrageous transaction costs. I don't know how debit costs compare. Now we are talking about electronic payment systems.

When you think about the whole concept of "Cash," you really have to wonder why we still use it. Cash is so easily counterfeited, lost, and stolen that it really does not make sense for us to still use it. The government could save a lot of money and consumers could avoid a lot of losses by turning to electronic payment systems. I would be all for a government managed electronic payment system that uses technology vendors to implement it but keeps the fees and operating expenses as part of the U.S. Treasury.

Having said all that, there is one thing that will prevent electronic payment from ever becoming universal. It is the main reason that that people have not given up cash and the reason they are willing to put up with all of cash's weaknesses. In a word, it is ANONYMITY.

 [Bill Bittner, President, BWH Consulting](#)

The "Swiss army knife" concept holds more than a little appeal when it comes to mobile phones. We already use them as voice communicators, text communicators, music players, video players, web browsers, still and video cameras, timepieces, calendars, calculators, and status symbols. Why not add a digital payments gadget? While we are at it, how about a feature that lets me give my kids their digital allowances - phone to phone?

For this to work well, we'd need to establish a widespread infrastructure that at least limits the number of standards to a handful. You may bet that the miscreants will work hard to hack the system, so we must build in visible security methods that inspire confidence. And it must reach a critical mass before the benefits accrue to all.

Technical and security issues aside, we'll need to make the benefits compelling. Swiping a plastic card and keying in a PIN is already pretty convenient and secure. We all need to carry identification cards and therefore wallets, so I doubt this will lighten our pockets any time soon.

Finally, a rhetorical question: How much do we want our phone companies to know about our purchase habits? Mobile phone technology promises to tag every transaction with time, place, what and how much. I'd need a compelling reason to share that

information when cash works so well and so anonymously.

BrainTrust Profile [James Tenser, Principal, VSN Strategies](#)

Privacy concerns will prevent many consumers from trying this new technology and hinder the adoption of "wallet phones" to some degree. Privacy issues may be more important in the U.S. and Europe than in Japan, but there are too many examples of "assurances" that don't happen.

In addition, although the technology offers a multitude of marketing opportunities, I would hate to think that I would have to view an ad on my phone before I could have access to the the very applications I want to use.

BrainTrust Profile [Odonna Mathews, President, Odonna Mathews Consulting](#)

I see many challenges in the value chain that need to be solved before we will see a successful implementation of mobile payments.

- First of all, there is the fight for who will become the market standard: operators (who own the SIM card), credit card companies or banks? They all fight each other to have the biggest piece of the pie.
- Second: banks, retailers, etc. have to be connected to the standard on location and in the phone.
- Third: NFC looks like a technology push which still has a problem regarding the standard (Felica, Mifare, etc.).
- Four: only in Japan this works because the operators order phone manufacturers to make a phone to their specs, order banks and retailers to get connected and knows customers will use it. The rest of the world demands open systems to get connected easily, where Japan is a closed system.
- Five: did anybody ask customers if they are waiting for it? Will they accept it? Can they use it? I have not met a single customer who is able to set the phone's Internet settings. This means all phones have to be set up in advance before the customer starts using it.
- Six: Then I want to know who is paying for the NFC chip and the more advanced phone and all terminals at retailers?

When all these things in the value chain are straightened out, all phones are enabled for mobile payments and we can pay anywhere (meaning any country, any location). We talk about an open system. Just imagine for yourself how big the effort is to get there.

Ron Verweij, Chief Innovation Manager, Mbarc

Once the U.S. overcomes its security issues with contactless payments and assures the public of the safety of using them, this technology will explode. Consumers are ready to simplify the payment process and credit card companies are looking for new ways to attract customers to their payment systems. This is a

solution that is waiting to explode and consumers are ready to make that happen.

[BrainTrust Profile](#) [Barry Wise, President, Wise Retail Consultants](#)

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