

## The mobile phone as a wallet: Appealing to the new generation of consumers

Teens and young adults are the world's most influential consumers. Through their own shopping and their sway with family members, this global group of 75 million people born between 1977 and 1998 – the Millennial Generation – determines how billions of dollars are spent every year. This new generation of consumers also has a great deal of technical confidence. Electronic technology is an integral and important part of their lives. And they have strong views about how computers, Internet applications, mobile phones and other portable devices should perform.

To stay in touch with these young consumers' needs, preferences and fresh ideas, Alcatel-Lucent created the Youth Lab. For five years now, our Youth Lab has conducted primary research with teens and young adults around the world, engaging in a continuous conversation about the strengths and shortcomings of the latest technologies, services and ideas.

Using quantitative techniques, such as online panels, and qualitative techniques, such as in-depth interviews, blog journals and mini-market trials, the Youth Lab gives Alcatel-Lucent valuable insight into the young consumer market segment. With a better understanding of what young consumers want, what they don't want and what they will pay for, we can build products that support highly desirable, cutting-edge services. And we can help network providers remain competitive and profitable.

Recently, Alcatel-Lucent sought to better understand the appeal of mobile payment services to young consumers. Specifically, we wanted to find out young consumers' views on a service that allows a person's mobile phone to be used for financial transactions, effectively replacing the contents of a wallet and enhancing it with many features like real time balance check, budget control etc.. The survey, conducted with members of the Alcatel-Lucent Youth Lab Online Community in 10 different countries, revealed how this generation would use a mobile wallet service in their everyday life.

Before we explore our Youth Lab members' interest in using their mobile phone as a wallet, let's take a brief look at the trends and technology evolutions that brought us to this point.

### **The rise of m-commerce**

Today, there's no doubt that use of both e-commerce and the mobile Internet is accelerating. In 2009, an Advanced Payments Report from Edgar Dunn and Company (EDC) predicted that global e-commerce will grow from 0.8 billion United States dollars in 2010 to 1.6 billion United States dollars by 2015. That same year, an IDC report stated that the number of mobile Internet users is likely to grow from about 450 million to one billion by 2013. That means, just three years from now, close to 40 percent of total Internet access will be from a mobile device.

With these changes, the role of the mobile phone – a unique link between the virtual and physical worlds – in payment and marketing is becoming increasingly important. We're already using our mobile phones to access real-time information, network with our friends and even participate in live TV and fundraising events. We're also using our mobile phones to buy billions of apps and songs, adding a new dimension to the role of the mobile phone in e-commerce.

Now, with the emergence of ever-smarter mobile phones that combine communications and computing with technology advances in the area of Near Field Communications (NFC), the mobile phone has the potential to complement traditional Internet or SMS payment channels. Instead of

pulling out your wallet to access cash, credit cards, bank cards, loyalty cards, coupons or tickets, everything you need can be securely stored in, or retrieved through, your mobile phone. It becomes your anywhere, anytime mobile access point to payment and marketing services.

But do today's young consumers want to use their mobile phone as a wallet? It turns out they do. A vast majority of Alcatel-Lucent Youth Lab survey respondents indicated they are ready to cut down on the number of physical cards they carry and take advantage of the increased organization a single device offers. And they are willing to pay for a service that lets them do so.

### **Young consumers want convenience, portability and time savings**

In fact, 81 percent of the 226 Youth Lab Online Community survey respondents indicated they are "extremely interested" or "very interested" in the idea of using their mobile phone as a wallet. And 80 percent of respondents showed the same level of interest in replacing their wallet with a mobile wallet.

Using a mobile phone to make purchases is not a new concept to the majority of survey respondents. In the last year, approximately two-thirds of respondents had already used their mobile phone to purchase:

- Ring tones (48 percent)
- Bus or train tickets (31 percent)
- Parking services (29 percent)

In the Alcatel-Lucent Youth Lab survey, the mobile phone-as-a wallet concept was described as: No longer having to carry all of the cards you currently carry in your wallet for the services are provided via your mobile phone. You can securely pay your bills or make purchases at participating retail outlets using your mobile phone. Your mobile phone can be linked to your credit cards, bank accounts and/or your mobile phone bill. Loyalty cards, coupons, retail gift cards, all can be stored in your mobile phone. The mobile phone can even replace a key pass and membership card. You can also view your bank statements, checks or credit card slips, loyalty points, balance on gift cards, all on your mobile phone.

The popularity of ring tone purchases using a mobile phone is not surprising: A ring tone is essentially an accessory for the mobile phone itself. And most service providers make ring tone purchases extremely easy.

Convenience and portability were the biggest attractions to a mobile wallet service. The survey respondents liked the ability to consolidate multiple credit accounts into a single, portable device. They saw a single device as a good way to save space and keep important items organized. Here are a few examples of how they expressed the benefits:

- "It means less things to carry and keep track of. I really think I would like the convenience of it all."
- "You would no longer need to carry around ten thousand cards."
- "Cuts down on the amount of physical things that you could possibly lose, just keeps everything in one place and helps you stay organized."

Also notable was young consumers' high level of interest in specific applications of the mobile wallet technology — particularly applications that help them save time. For example, 89 percent ranked the ability to "buy a movie ticket without needing to wait in line" as the most appealing application. This was followed closely by the ability to perform a "bank account balance and transaction check in real

time” at 86 percent, and the ability to “pay for public transport with a mobile phone, receiving an electronic ticket” at 85 percent.

Consumers also expressed considerable interest in the additional capabilities a mobile wallet service would provide. The most attractive additional feature for 89 percent of respondents is the ability to use a mobile phone to scan products inside a store to make price comparisons. Also holding high appeal are:

- Location-based coupons (81 percent)
- Profile-based coupons (74 percent)

In their own words:

- “... you have the opportunity to store all your coupons... less clutter in a purse.”
- “More free space in your wallet, personalized coupons, and everything that involves profile.”
- “No need to carry loads of paper coupons around.”

### **Young consumers will pay to use their mobile phone as a wallet but security is crucial**

The vast majority – 89 percent – of those who participated in the Alcatel-Lucent Youth Lab survey indicated they are willing to pay a monthly fee to use their mobile phone as a wallet. Among those who are willing to pay, the acceptable median monthly fee is 7.77 United States dollars per month.

Regardless of what they are willing to pay, a secure service that protects private financial information at all times is vital to survey respondents. Security ranked as the top concern respondents had about replacing their wallet with a mobile phone.

### **The mobile payment opportunity for mobile network operators**

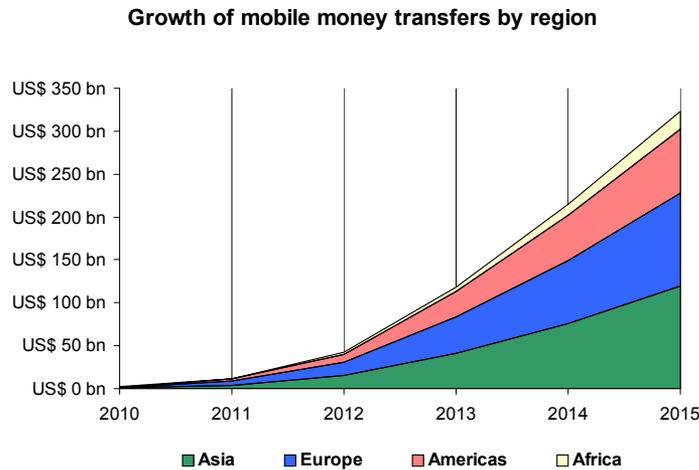
The ability to use a mobile phone as a wallet relies on mobile payment services. It is natural to think that payment services are primarily the domain of financial institutions. However, just one-third of survey respondents chose a bank as their most preferred provider of a mobile phone-as-a-wallet service. This could be an indicator that young consumers are not confident that a bank could provide and administer an advanced technology service, such as this one.

Young consumers’ openness to non-bank providers of mobile payment services comes at a time when the global banking industry is broadening regulations concerning who can offer payment services. For example:

- Australia, which is leading regulatory developments on payment, has introduced new payment system rules for non-bank players.
- The European Union (EU) has created the Payment Services Directive (PSD), which is developing an EU-wide, harmonized legal framework to open payment markets to new entrants. The PSD legislation specifically addresses mobile payments.
- Countries, including Thailand, the Philippines and South Africa have created, or are in the process of creating, similar regulatory frameworks.

As a result of these changes, today, many mobile network operators (MNOs) themselves in a strong position to offer value-added mobile payment services – a significant growth industry. Figure 1 illustrates the projected growth of mobile money transfers by region.

Figure 1. Global mobile money transfers are expected to increase dramatically between 2010 and 2015



Source: Edgar Dunn and Company (EDC) analysis, 2009

MNOs are well positioned to build on their technology strengths to differentiate themselves from other mobile payment players — particularly in highly competitive markets where payment services are already commoditized. Staking a position in this new arena will also help MNOs:

- **Create new revenue streams**  
 Mobile payment services generate revenue from consumers and from merchants who pay for the service as well as for access to valuable marketing intelligence on consumer behavior. A number of mobile wallet services also make use of SMS, mobile Internet and other data services that can generate additional revenue.
- **Reduce churn rates**  
 Mobile payment services can increase customer “stickiness” by extending and enhancing the MNO’s relationship with consumers — particularly the crucial youth market segment. With increased convenience, more flexible payment options and financial benefits for loyalty, consumers will be less likely to churn to another provider.
- **Tap new markets**  
 In many parts of the world, people have access to mobile services but are underserved from a banking perspective. MNOs can offer mobile payment and remittance services to “leapfrog” underdeveloped payment infrastructures and provide basic financial services to “unbanked” populations — in both developing and more mature economies.
- **Climb in the wireless value chain**  
 By playing a central role in developing and leading payment infrastructure ecosystems that ensure consumers enjoy across-the-board interoperability, MNOs can improve their position in the overall wireless value chain.