

MOBILE PAYMENTS

Should you jump on the pay-with-your-phone bandwagon?

GRANT BUCKLER

Special to The Globe and Mail

Published Wednesday, Dec. 19 2012, 5:00 AM EST

Last updated Wednesday, Dec. 19 2012, 9:30 AM EST

Simon Whitfield is known for athletic accomplishments most of us only dream of, but in November the Olympic medalist made news by doing what millions of Canadians do daily – buying coffee at Tim Hortons.

Mr. Whitfield's coffee was newsworthy because he paid for it with a BlackBerry smartphone. It was the first Canadian transaction using a phone equipped with near field communications (NFC), according to Canadian Imperial Bank of Commerce and mobile carrier Rogers Communications. NFC is a short-range radio technology that lets mobile devices and credit and debit cards communicate with store terminals.

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The NFC technology, which already enables contactless payments with some MasterCard and Visa cards, is moving onto smartphones.

Starbucks, meanwhile, has rolled out its own pay-by-phone system. The coffee chain doesn't use NFC, opting instead for a mobile application that displays QR codes – two-dimensional bar codes – on the screens of Apple iPhones and Android phones. Wave the screen in front of a scanner to pay for your latté.

With national chains exploring these payment methods, do smaller merchants need to wake up and smell the coffee? Can a smaller business even play in this game?

Smaller businesses can accept payments from mobile devices without much trouble, but for many there's no great urgency, experts say.

Consulting firm Deloitte estimates that about 10 per cent of mobile phones have NFC. The consulting firm projects that if Apple adds NFC to its iPhone that number would reach 70 per cent by 2015 – but Apple has said it has no plans to do so. About 10 per cent of point-of-sale devices in Canada today handle NFC, says

Douglas MacDonald, senior manager in Deloitte's payments practice, and Deloitte predicts that will reach 19 per cent by 2015.

If you already have the equipment to take NFC payments from a credit card, it's easy to do so from a phone, says Patricia Daley, partner and head of Deloitte's payments practice. A merchant may need to work with the company that provides its point-of-sale equipment to ensure the hardware and software is ready, but it shouldn't be a major problem.

The average life cycle of point-of-sale terminals is about three years, Mr. Macdonald adds, so if your current equipment can't handle NFC, the next time the gear needs replacing it might be wise to consider contactless payments.

Because of the low number of phones equipped with NFC, an app based on QR codes like Starbucks's is a better option, says Drew Sievers, chief executive and co-founder of Larkspur, Calif.-based mFoundry Inc., which helped develop the Starbucks app.

Today a business taking the QR code approach needs its own app. It would work only at that business, unless a group of businesses build a common one, says David Eason, chief executive of Berkeley Payment Solutions in Toronto. "I don't think customers are going to be willing to have 50 different apps for 50 different merchants," he says, so the idea may appeal only to merchants who handle lots of small transactions.

"I think we're still quite a ways off in Canada before we see widespread adoption of using mobile payments on a scale that requires small and medium businesses to make an investment," Mr. Eason says. Yet Ms. Daley and Mr. MacDonald recommend exploring smartphone payments now for a variety of reasons.

One is customer convenience, which matters most for transactions where time is important. But are mobile payments necessarily faster?

It depends on how they work, says Vincent Kadar, president of mobile payments technology vendor Telepin Inc. in Ottawa. If a customer must pull out a phone, open an app, enter an identification code, then communicate with a point-of-sale device, he says, "you'll have a longer queue than you did before."

Another reason to start taking payments from phones, Ms. Daley says, is to gain access to a customer's mobile device. "You can use it for some targeted marketing," like coupons, she says.

But if that's what smaller merchants really want, Mr. Sievers counters, they can stick to mobile coupons rather than accepting smartphone payments. One way to do that, he says, is PassBook, Apple's mobile app for storing coupons, gift cards, boarding passes and the like. There's also an Android version of PassBook called PassWallet.

Mr. Sievers suggests medium-sized merchants look at loyalty and coupon options first. Smaller businesses, he says, are "fine doing absolutely nothing right now."

Ms. Daley offers a third justification for mobile payments, though: “Generally, if people pay with electronic payments they tend to spend more at the merchant.”

Security is another justification, Mr. Kadar says. While merchants can be on the hook when a customer disputes a credit-card transaction, “online transactions are pretty hard to dispute,” he says – and the fact that nobody sees the customer’s card number affords the customer additional protection, too.

With payment standards still emerging, Mr. Kadar says, “I think our position would be actually wait and see.” But businesses that see value in the idea could conduct their own trials. “As long as you’re not losing money, you’ll open up different forms of flexibility for your customers.”

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