

Will That Be Cash, Credit or Phone?



Not long ago, paying for something by phone meant calling a retailer or catalog merchant to place an order with a credit card. Today, your smartphone is shopping mall and wallet in one -- no dialing or credit card number recitation required. But for all that high-tech convenience, consumers may be giving up some basic protections and risking greater financial damage.

If you haven't used your iPhone to buy a latte or a pair of sneakers yet, it may be just a matter of time. Consumers spent \$3.4 billion on non-travel purchases via their cell phone in 2010, a 143% increase from 2009, according to ABI Research. (Shoppers spent another \$1.5 billion on travel via handset. Starbucks (*SBUX*¹) just began accepting mobile payments; Amazon.com (*AMZN*²), Nike and Buy.com already do. Shoppers spent another \$1.5 billion on travel via handset purchases. And because the technology still isn't widely available, says Bob Egan, an independent technology analyst, the trend is only gathering steam. That \$3.4 billion in mobile payments in 2010? It's just 0.7% of the \$462 billion spent on holiday purchases in November and December.

Shop-by-phone -- called mobile commerce -- works in several ways. Smartphone apps and mobile web sites mimic the online shopping experience, downloadable barcodes can be scanned and used like a gift card, chips and stickers turn your handset itself into a credit card, and some retailers accept orders via text message. The underlying idea is the same, regardless: Your cellphone can be an alternative to the credit cards in your wallet. The stuff you buy via mobile commerce is typically charged to a credit or debit card -- usually kept on file with a merchant so you don't re-enter the account number each time -- or to your cellphone bill.

While consumers might eventually be able to leave their wallets at home, they might not want to, says Ross Rubin, the executive director of industry analysis for market research firm NPD Group. Some purchases you make will be routed to your cellphone bill rather than a credit card, which nixes federal protections that allow you to dispute inaccurate credit card charges. (Complaints are handled on a case-by-case basis, says Verizon spokeswoman Debra Lewis. The carrier may consider blocking companies that don't follow guidelines for fair mobile marketing, including a double-opt in when subscribing to a premium content service (like daily horoscopes). AT&T spokesman Mark Siegel says that when you buy something from a third party that appears on your AT&T bill, the carrier includes the toll-free number to reach that provider. "This makes it easy for the customer to contact the other company if there is a question about what they charge," he says. AT&T won't take a disputed charge off your wireless bill because it's not their charge, he says.)

Lose your phone and you could have more to worry about. Depending on the precautions set by you and the retailers, someone who happened across it could buy his fill of lattes on your dime, not to mention rack up credit card balances and transfer cash from your accounts.

Technologies are still too new, and users too few, for problems to be widespread, Egan says. (Amazon's app debuted in November, for example, and so did the Discover gift card app and its contactless payment sticker.) Someone stealing your iPhone still generally wants your phone, not what's on it. But Egan and Rubin said they both expect that to change as early as this year. "The thieves follow the money," Egan says, "and the money is starting to go to mobile commerce."

For shoppers, this adds another layer of decision-making. Does the convenience of each opportunity to buy-by-phone outweigh the potential risk if the phone is lost or stolen? A twice-daily Starbucks drinker, for example, might decide that the convenience of not toting his card is more valuable than the risk to his \$25 automatically reloaded balance. (A Starbucks spokeswoman says cardholders can call a toll-free number to freeze the balance on a lost card and transfer their rewards and balance to a new number.) But an occasional eBay shopper might decide to stick to bidding from home rather worry about password-protecting his PayPal app for mobile payments.

Here's a look at the main forms of mobile commerce—and what to watch out for:

Apps

Apps are the most likely way shoppers will pay by phone. Those already available from major retailers, like Amazon.com, are similar to shopping via web browser, and are likely to become more prevalent as phone screens get bigger and browsers improve, says Larry Joseloff, the vice president of content for Shop.org, the National Retail Federation's e-commerce arm. Other types of

apps, like that from Starbucks, generate scannable barcodes for gift cards in lieu of a physical card. In November, **Discover Financial Services** (DFS³) and Firethorn launched the free app, *Swagg*⁴, which does the same for more than 200 stores, including **J.C. Penney** (JCP⁵), and American Eagle.

Financial Pitfall: If you set your account to log-in automatically, anyone with your phone can make purchases. Amazon and PayPal say none of the information about your account is stored on the phone, and accounts are password protected. But Troy Bernard, the director of chip payment technology for Discover, acknowledged that a lost handset could result in unauthorized spending. When a theft is reported, balances are frozen.

Phones as Plastic

Around the same time Discover launched Swagg, the company also rolled out stickers that attach to a handset and can be tapped or swiped at participating stores--what the industry calls "contactless payment." Discover is also collaborating with the major wireless carriers to eliminate the need for such a sticker by embedding chips directly into handsets. "We believe mobile is the next logical step in payment technology," Bernard says. Right now, however, contactless payment in stores is itself in its infancy, says Rubin, and the high-tech chips are in just one handset -- Google's Nexus S (V⁶) recently launched In2Pay, a card that can be inserted into select handsets' memory slots; banks have yet to begin offering the technology to cardholders.

Financial Pitfall: The risks are the same as carrying a credit card. Losing either opens the door to unauthorized charges, of which you're liable for \$50, maximum, upon reporting it stolen. You'll get a new account number and a new card and contactless payment sticker.

Text-to-Buy

Non-smartphone owners can get into mobile commerce via text-to-buy, which links your phone number with an account--and credit or debit card--on file. AT&T and **Verizon** (VZ⁷) both have partnerships with BilltoMobile, which lets consumers charge electronic games purchases -- up to \$25 per month -- to their cellphone bill. Amazon offers TextBuyIt, a text-message based service that bills items to their Amazon account. And startup Supports links your credit card to your account for texted purchases of goods from its partner small businesses. But it's unclear whether text-to-buy will survive other more sophisticated mobile commerce options. "Text messaging from a payment standpoint is pretty archaic," says Egan. "It's almost stone-age."

Financial Pitfall: In addition to all those text message fees, billing accuracy could be a problem, if the charge goes to your cellphone rather than a credit card, Egan says. You're relying on the carrier and store policies, rather than the federal laws and bank regulations covering credit and debit card transactions. There's also fine print -- Amazon says its best "Deal of the Day" and "Gold Box Discounts" aren't available to texters.

UPDATE: This story was updated to include responses from Verizon and AT&T about consumer protections for purchases that appear on a wireless bill.

¹<http://www.smartmoney.com/quote/SBUX/>

²<http://www.smartmoney.com/quote/AMZN/>

³<http://www.smartmoney.com/quote/DFS/>

⁴<http://www.swagg.com>

⁵<http://www.smartmoney.com/quote/JCP/>

⁶<http://www.smartmoney.com/quote/V/>

⁷<http://www.smartmoney.com/quote/VZ/>

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