



>: ANOTHER BRICK IN THE WALL: Google vs. PayPal -- Is Two a Crowd?

Tuesday, February 7, 2006 / Wayne Mulligan

This has been an exciting weekend for tech news folks.

I read one of the most depressing articles ever regarding AOL and Yahoo contemplating the use of a form of electronic postage (I might cover the issue in detail next week after I look into it further).

But the article that really caught my eye was from The Wall Street Journal.

It was about how PayPal was reacting to the announcement from Google (Nasdaq Symbol: GOOG) that it was planning to launch its own online payment service. FYI: PayPal is a division of eBay (Nasdaq Symbol: EBAY). Google's CEO, Eric Schmidt, announced that Google will soon be launching GBuy, an online payment system.

However, he contends that this service will NOT directly compete with PayPal.

This threw PayPal's President, Jeff Jordan, into a bit of a frenzy. He outright says he doesn't believe Mr. Schmidt, and feels Google will definitely try to infiltrate PayPal's market. The difference between PayPal and most other online transaction processors is its ability to allow users to deposit money into a virtual bank account, then use this account to make purchases from other PayPal users.

The great thing about this system is the anonymity behind it -- especially on sites like eBay, where a typical user isn't exactly sure who he's buying from. This natural cohesiveness with eBay's model is what led eBay to eventually acquire PayPal outright. Now, PayPal accounts for roughly 23% of eBay's revenue. Furthermore, eBay-originated transactions account for the vast majority of PayPal's revenue.

Now Google enters the mix -- and, according to Jeff Jordan, Google is a "legitimate competitive threat." Well, let's take a look for ourselves at how this scenario could play out ...

On one side, we have PayPal, the market leader in online payment transactions -- currently holding 24% of the market. The company recently acquired VeriSign's online payment unit so it could begin to sign-up new online merchants. FYI: If you wanted to sell something on a web site, you would go to a company like VeriSign for a security certificate (makes sure the site can securely accept personal and credit information).

However, PayPal is in a vulnerable position: The vast majority of its revenue is still dependent on eBay. Any weakness in eBay's sales would directly affect PayPal's ability to compete. Also, because PayPal built its brand by catering to individual merchants and auctioneers on eBay, most serious online merchants wouldn't consider the company as a technologically advanced e-commerce solution. But, to its credit, PayPal has been making progress in lining up new merchants. The company is aggressively courting Dell and other large online retailers to begin accepting PayPal as a payment option on their sites. That would certainly give PayPal a bit more credibility with other e-retailers. But we'll have to wait and see how these deals pan out.

On the other side of the field we have Google. This is a company that has proven time and time again that it can penetrate established markets by introducing low-cost and higher quality solutions than the existing competitors. Can they do the same with GBuy? We obviously can't know for sure, but this is what we do know: Google handles online advertising for tens of thousands of merchants, large and small.

These are companies that already consider Google an integral part of their online marketing, brand building, and e-commerce