



>: Mobile Money

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Back in February I talked a bit about the "online payment war" that was brewing between Google and PayPal.

On one side, we have PayPal - an eBay (Nasdaq: EBAY) subsidiary and 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 (Nasdaq: GOOG).

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 it do the same with its new online payment service, Google Checkout?

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-commerce strategy.

Would it be that much of a leap for them to begin offering a Google payment option on their websites?

I don't think it will be much of a challenge for Google to roll over a good portion of its advertisers into its new service. The technology itself is simple enough, and for the thousands of small merchants out there who don't want to deal with several companies in order to run an online business, Google could definitely be the answer to their prayers.

Imagine an end-to-end marketing and transaction processing company: The company can send you traffic, provide you with reports on how well your traffic is converting into sales, and then handle the sales and sales reporting for you.

At some point, all you'd be doing is feeding money into one end of the machine, and watching more money come out of the other - and shipping a package or two in the process, of course.

I'm not saying Google is the likely winner here, but from a competitive perspective, I think the company is in a great position to quickly make some headway in this space.

Let's Talk Mobile

Now PayPal is beginning to up the ante by introducing a new technology that allows its users to transfer money via cellular phones: Picture this...

You and your buddy take a cab together, he doesn't have cash, you do. You pay, he owes you \$5.

So he punches up a special PIN code into his cell phone, inputs a dollar amount (in this case \$5) and then dials your number. PayPal will instantly transfer the money from his account to yours.

Now imagine if you could buy items off of eBay over your cell phone. Or better yet, buy something at the store by sending a text message to the cashier.

Carrying a credit card wouldn't even be necessary!

According to Celent, a leading strategy and consulting firm, the mobile transaction market could reach \$28 billion in sales by 2009.

PayPal hopes to grab a big piece of that pie - just as it has in the online payment market. I'm sure once Google catches on, it will try to go for this lucrative market too. PayPal's first mover advantage, however, has definitely put the company back in the lead and in an ideal position to compete more aggressively with Google.

But, Google isn't the only competitor PayPal will have to contend with.

There are a slew of start-ups entering the market: Billmycell, MobileLime, MyTango and TextPayMe are just a few services that are already in operation. Many of them have received funding from some of the biggest VC's in the valley.

Just as PayPal, a rough and scrappy start-up, came to dominate an area long thought to be impenetrable, these young upstarts may soon be "kings of the hill" as well.

But that's not all ...

Some of the major mobile phone providers such as Nokia and NTT DoCoMo have begun to aggressively push a new technology called Near Field Communication (NFC) in their phones.

NFC essentially acts the same way as your credit card does - but, instead of swiping it at a terminal you basically hold it in front of a scanner and it deducts the appropriate amount from the account you have linked to it.

Using the same technology, you could also transfer money from one phone to another. Think about the situation when you paid for the cab and your friend owes you \$5. Instead of typing in a PIN code and sending a text message, he'll just punch in the amount he owes you and point his phone at yours.

Not only are the mobile phone companies getting on board, but the credit card companies are backing this new technology as well. By 2007, American Express (NYSE: AXP), Mastercard (NYSE: MA) and Visa all expect to be rolling out NFC solutions with leading cell phone providers such as Motorola (NYSE: MOT), Nokia (NYSE: NOK) and Samsung.

Forget PayPal vs. Google. Can these two internet darlings stand up against some of the largest finance and technology outfits on the planet?