Google Sets Role in Mobile Payment

By Amir Efrati And Robin Sidel

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[Google](http://quotes.wsj.com/GOOG) Inc. [**GOOG**](http://quotes.wsj.com/GOOG) **in** Your Value Your Change Short position is teaming up with [MasterCard](http://quotes.wsj.com/MA) Inc. [MA +0.26%](http://quotes.wsj.com/MA) [**MA**](http://quotes.wsj.com/MA) **in** Your Value Your Change Short position and [Citigroup](http://quotes.wsj.com/C) Inc. [C +0.37%](http://quotes.wsj.com/C) [**C**](http://quotes.wsj.com/C) **in** Your Value Your Change Short position to embed technology in Android mobile devices that would allow consumers to make purchases by waving their smartphones in front of a small reader at the checkout counter, according to people familiar with the matter.

The Internet giant is aiming to make mobile payments easier in a bid to boost its advertising business. The planned payment system would allow Google to offer retailers more data about their customers and help them target ads and discount offers to mobile-device users near their stores, these people said. Google isn't expected to get a cut of the transaction fees.

The project, which is in its early stages, would allow holders of Citigroup-issued debit and credit cards to pay for purchases by activating a mobile-payment application developed for one current model and many coming models of Android phones. The idea is to turn the phones into a kind of electronic wallet.

These phone users also would be able to get targeted ads or discount offers, which Google hopes to sell to local merchants. They also could manage credit-card accounts and track spending through an application on their smartphone, the people said.

The venture also involves [VeriFone Systems](http://quotes.wsj.com/PAY) Inc., [PAY +3.47%](http://quotes.wsj.com/PAY) [**PAY**](http://quotes.wsj.com/PAY) **in** Your Value Your Change Short position which makes credit-card readers for cash registers. VeriFone would roll out more so-called contact-less devices, or readers that enable consumers to pay with a wave or tap of a credit or debit card. The readers also would allow people to pay by tapping their smartphones, said the people familiar with the matter.

The credit-card readers involved all use "near field communication" technology that is already in place at thousands of merchants nationwide. Today, customers who have credit cards embedded with that technology have the option of waving a card in front of a reader, instead of using a traditional swipe method.

Google's Android mobile-device software, which powers hundreds of different devices, supports this technology.

The planned payment system would be unlikely to put consumers at any greater financial risks. As with conventional credit-card transactions, the card companies would cover the cost of unauthorized purchases. Nor is the NFC technology itself particularly vulnerable.

"Because it's contact-less there's a perception people can grab it from thin air, but it's actually a more sophisticated technology than credit cards with a magnetic stripe, making it more difficult to steal a consumer's payment information," said Nick Holland, a mobile-transactions analyst at Yankee Group.

The Google-backed system, which is expected to be released this year, marks the latest effort to broaden the uses of smartphones for everyday activities—from chatting to emailing to shopping. The telecom, technology and financial-services industries all are looking for strategies to make them leaders in the evolving business of getting consumers to pay for products with their phones. Offering that option could allow device makers such as [Apple](http://quotes.wsj.com/AAPL) Inc. [**AAPL**](http://quotes.wsj.com/AAPL) **in** Your Value Your Change Short position to sell more of their phones.

Wireless carriers Verizon Wireless—a venture of [Vodafone Group](http://quotes.wsj.com/VOD) [vod +0.77%](http://quotes.wsj.com/VOD) [**vod**](http://quotes.wsj.com/VOD) **in** Your Value Your Change Short position PLC and Verizon Communications Inc.— [AT&T](http://quotes.wsj.com/T) Inc. [T -0.11%](http://quotes.wsj.com/T) [**T**](http://quotes.wsj.com/T) **in** Your Value Your Change Short position and T-Mobile USA said last fall that they would team up on a venture, dubbed Isis, to enable customers to pay for goods with their smartphones. [Discover Financial Services](http://quotes.wsj.com/DFS) Inc. [dfs +1.60%](http://quotes.wsj.com/DFS) [**dfs**](http://quotes.wsj.com/DFS) **in** Your Value Your Change Short position will process those payments, potentially eliminating the need to carry cash, credit and debit cards, reward cards and transit passes.

Google's move is part of its quest to sell ads and other services to local retailers, a growth frontier for Internet companies. Google executives, including outgoing Chief Executive [Eric Schmidt](http://topics.wsj.com/person/s/eric-schmidt/177), haven't been shy about saying that Android devices could serve as payment facilitators, thanks to NFC technology, though they haven't specified what Google's role will be.

"A phone is a lot smarter than a card," said Doug Bergeron, VeriFone's chief executive, in an interview. "It opens the door to a rich experience at the point of sale that retailers really covet."

He declined to comment on his company's relationship with Google.

Mr. Bergeron added that he also expects Apple to embed NFC technology in future iPhones. BlackBerry maker [Research in Motion](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=RIMM) Ltd. has said its future phones would support NFC.

A spokeswoman for Apple declined to comment.

The market for mobile payments is expected to grow significantly in the next several years, reaching $618 billion by 2016, according to a report by consulting firm Edgar, Dunn & Co. and sponsored by MasterCard.

A report issued this month by the Federal Reserve cited industry estimates that there were 70 million contact-less devices, including credit and debit cards, and 150,000 contact-less readers installed by merchants in the U.S.

While most of the financial activity that now takes place on smartphones involves people engaging in transactions with their bank, the credit-card industry has spent millions of dollars to issue new plastic with the contact-less chip that speeds the check-out process.

The technology has been slow to catch on, however, partly because many consumers remain unaware of it, and they still need to pull out their card to use it.

MasterCard and rival [Visa](http://quotes.wsj.com/V) Inc. [**V**](http://quotes.wsj.com/V) **in** Your Value Your Change Short position have been courting customers with contact-less programs and mobile-payment pilot tests. Visa and several large banks are testing mobile-payment programs that allow consumers to make contact-less payments with an existing smartphone equipped with a special chip card and antenna.

If Google's program with MasterCard and Citigroup is successful, it could potentially expand to other card issuers and networks. In addition to attracting new consumers through ads or offers and seeing instant results, the program would offer retailers access to data about customers so they would be able to market future offers to their devices, said people familiar with the matter.

That potential, however, could raise privacy concerns.

Unlike some other forms of local advertising, the system would allow Google to prove whether ads targeted at certain groups of people led directly to in-store sales, these people said.

Google, by helping to facilitate transactions and redemptions of coupons and discounts, may also be able to gain insight into consumer-spending behavior, said a person familiar with the matter.

A representative of [Wal-Mart Stores](http://quotes.wsj.com/WMT) Inc. [WMT +0.08%](http://quotes.wsj.com/WMT) [**WMT**](http://quotes.wsj.com/WMT) **in** Your Value Your Change Short position confirmed the company had a briefing with Google about the technology, but characterized it as very preliminary discussions and said it hasn't been asked to adopt it.

The local business ad market is a massive opportunity that has begun to be exploited by Internet companies such as Groupon Inc., social network Facebook Inc., and business-reviews site Yelp Inc.

Separate from ad spending by large retailers, small and medium-sized businesses with 100 or fewer employees collectively spent $35 billion to $40 billion in local advertising in the U.S. in 2009, estimates BIA/Kelsey, a local-media advisory firm.

—Miguel Bustillo contributed to this article.

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