

## Background

On May 26<sup>th</sup>, Google publically launched their new Wallet and Offers products. Wallet is a mobile payment system designed to make it simple and easy to purchase goods, earn awards, and get instant discounts via your smartphone. Wallet will be supported by Google Offers, which is a direct challenge to Groupon. Offers will enable customers to get a variety of coupons, deals, and other incentives from brands and retailers that are instantly applied when paid via Wallet. Google believes both programs will dramatically accelerate their mobile advertising revenues and ROI on the multiple investments they have already made in the mobile space.

## Details

Google Wallet is a mobile application that essentially replaces a physical credit and loyalty cards. Google has leveraged near-field communications (NFC) chip technology to enable consumers to simply “tap, pay, and save” via their smartphone against any of MasterCard’s 311,000 global “PayPass” terminals, which are installed across a variety of merchants ranging from Subway to Macys department stores. Google does not make any revenue from the actual credit card purchase. Their commercial model is focused on building mobile advertising revenue by linking together their various mobile products and services to support Wallet.

For example, imagine a customer using Google Goggles to take a photo of a Diesel jeans outdoor ad. Google Goggles then delivers a search result that includes a Google Offer to get a special Diesel deal of the day. Google uses its mobile geo-targeting technology to identify your location so the search results also include a local Macys’ store, complete with a Google Map showing its location. The customer simply needs to go to the nearby store and use their Google Wallet application to pay for their Diesel jeans and instantly get the Offers discount applied to the payment. Similar “lookalike” customers likely to buy Diesel jeans will get Google mobile display ads, all targeting to them based on their previous behavior and purchase data. Throughout this process Diesel and/or Macys will advertise with Google on a cost-per-action basis to take their target customers all the way from an outdoor and offline brand campaign to actual in-store purchase.

## Implications

Smartphone payment systems have been slow to take off in most markets due to a variety of reasons, including technology limitations and low adoption by merchants. Google has worked hard with Citibank and MasterCard to create a simple seamless system that could be a breakthrough. However, several things still need to happen. First, NFC chip enabled smartphones need to grow significantly from today’s relatively low installed base, although Google estimates over 50 million NFC phones by the end of the year. Second, the number of PayPass merchants will need to expand to make the system scalable and pervasive. Third, Google will need to deliver on their plans to enable other credit cards to participate in the program other than just Citibank’s MasterCard and their prepaid card.

## Summary

Ultimately the Wallet and to a lesser extent Offers’ success are dependent on solving the challenges listed above in order to make the program as ubiquitous and customer-friendly as possible. The key question is to what length Google will go to support the program, e.g., will they give away the technology for free, subsidize adoption, and/or make the platform as “open” as possible. In this case, Google’s relentless focus on mobile and a commercial model built on scale and advertising demand would suggest an unwavering strategic decision to use their hefty coffers to advance the entire mobile marketing ecosystem.