

Nonbanks in the Payments System: Innovation, Competition, and Risk

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Panelist remarks

Moderator: Lee Manfred, Partner, First Annapolis

Panelist: Benjamin Ling, Head of Google Checkout, Google

Mr. Ling: [remarks correspond with handout]

Thanks, Lee. My name is Benjamin Ling. Good morning, everybody.

How many people have used Google Checkout? A good smattering of hands. How many are familiar with Google Checkout? Good, maybe 80 percent. How many are familiar with Google? Great! So in order to understand why Google Checkout is important to Google, it is helpful to understand Google's business model. So, I will ask the question, How many people in the room know how Google makes money? Usually when I give this talk, most people do not understand how Google makes money.

So, as a quick refresher for everybody, Google is essentially a matchmaker. As a consumer, when you search on Google and you are looking for information, we present to you search results and advertisements. What we are is a matchmaker of the consumer and the advertiser. Every time you, as a searcher, search for and find an advertisement or you find a particular ad that you click on, Google

makes money on that click. Basically, how it works is searchers search, advertisers advertise, there is a click, and we make money with every click. When we think about that, the reason consumers come back to Google over and over is that it is fast, and you can find the information you are looking for.

So, when you look at e-commerce and look at Google's role in e-commerce, we are also a matchmaker of consumers and merchants selling their products. The main idea here is that if we can make consumers and merchants meet up more quickly and eliminate all the friction in the transaction, then consumers will search more on Google for products to buy. For all types of searches, advertisers will advertise on Google, their competitors will advertise on Google, and we will accelerate the velocity of the network. Does that make sense?

When we think about Google Checkout, we do not think of it as a payments system. So, the interesting thing here is we are similar to E-ZPass. With E-ZPass, the whole idea is that we can get more cars through the bridges and tunnels. Google Checkout's idea is to get more e-commerce transactions flowing from consumers to merchants. It is by eliminating all the friction that we make it very easy for consumers to search, find, and buy in a matter of two or three clicks, and have the item delivered to their door. That is the principle behind Google Checkout—to make the network go faster and faster and grow bigger.

With that backdrop, we can step through the slides, which should have been handed out.

For context, Google's role in e-commerce is that of a facilitator of searching, finding, and buying. Now, Google's role in search is what most people in the room are familiar with. More than 51 percent of Internet purchases are influenced by search, and Google is the leader in search worldwide. As a point of comparison, Google receives more than 475 million unique visitors per month. That is a substantive number of consumers that visit Google properties on a regular basis. It is Google's ability to match consumers with merchants that enables us to deliver a great checkout experience.

So, search, find, and buy, we have talked about this already. Flip to the next slide.

When we think about e-commerce, e-commerce is in an early phase. Only about 3 percent of retail happens online today, where as 97 percent happens offline. We see tremendous opportunities for online commerce to grow. It is in its infancy.

What are some of the factors that are preventing online commerce from growing even faster? It is mainly the friction in the purchase process. When you think about shopping online, typically you find the item you are looking for and then you go to the merchant site. Then the consumer faces a variety of different questions. The first is, Do I trust the merchant with my credit card information? This merchant is

Ben's T-shirt Shop. It has a great T-shirt, and I want to buy it, but do I want to enter my credit card information here? Even if I want to enter my credit card information, do I want to create an account and go through seven to eight pages of checkout process? Lastly, am I going to receive spam and junk mail? Is this going to be an inconvenient process for me? Maybe I will go to Amazon instead.

There is a lot of friction here. There is an opportunity for Google to eliminate that friction by building a seamless checkout process that enables consumers to have only one account, the same account as their Gmail or their iGoogle homepage and enables a one-click checkout process for merchants across the Web.

In terms of the value proposition, as mentioned by previous panelists, payments systems or even checkout systems are network systems. There is a network of consumers and a network of merchants.

On the consumer side, the value proposition of Google Checkout is speed and convenience. The basic idea is that, through searching on Google, Google shows the Google Checkout badge that indicates which merchants accept Google Checkout. When getting to the merchant site, there is a one-click checkout process: Google collects the funds from the consumer and pays the merchant without disclosing personal information. It makes it a very safe, fast process.

On the merchant side, Google Checkout generates more leads through the Google Checkout badge and, through Google Product Search, generates more conversions through a streamlined one-page checkout process, and then lowers costs. Google Checkout is structured in such a way that, if you are an advertiser, you get some amount of free payment processing; and, if you are not an advertiser, you pay a minimal cost. The basic idea here is that we want all of the world's merchants to be Google advertisers. We are not looking to make money from the checkout process or the payment process. We are looking to make money from the advertising.

Let us say you are a merchant that accepts Google Checkout and pay 2 percent plus 20 cents, our standard rate. Well, if you advertise with Google some amount of dollars, you would get 10 times that in sales processing for free. The idea is that we want all merchants to become advertisers. That way we drive the network to be bigger and faster. Until 2008, we are offering free transaction processing for all merchants' Google Checkout sales, regardless of how much they spend on AdWords.

Here is a quick demo, so people can see the user experience in front of them. On page 5, you see the standard Google homepage, where, let us say, we are doing a search on "iPod nano 2 gig." On the next page is what everyone is relatively familiar with, which are the Google search results. On the left-hand side are the search results. On

the right-hand side are the advertisements. Now, we have as a blowup of the right-hand side, where there is a Google Checkout badge. So, Buy.com accepts Google checkout, and this is the advertisement.

Now, suppose the user clicks through on the ad. The user is then directed to Buy.com's site. Buy.com's site stays exactly the same and the user enters the items into the cart. Upon placing items into the cart, the user can then select standard checkout or Google Checkout. Google Checkout is shown on the following page. If you look at the Buy.com screen that is below the top-level screen, you will see the one that says "Secure Checkout." That is a one-page sign-in or sign-up process.

So, if you are new, you would sign up on the left-hand side with about 10 fields. On average, we eliminate 17 steps from the checkout process. If you already have an account, which is a Google account, a Gmail account, or an iGoogle homepage, you would enter your username and password. Then you would be directed to this one-page checkout process, which you see in front of you. Everything is in line on a single page. It is a Web 2.0 interface that allows you to change your shipping and handling online. You can keep your e-mail address confidential. You can choose your payment information and your "Ship To" information. All of this information is stored in your account. For each subsequent purchase, you do not have to enter it again and again. All you have to do is click "Place Your Order Now."

What we have heard from consumers is that the first checkout is great and seamless, and the second checkout is just fantastic. It is a matter of two or three seconds. You can buy from a variety of stores across the Web, all very seamlessly and safely. That is the background on Google Checkout.

If there are any questions, I have two more minutes. I can answer one or two questions before we slip into the panel.

**Mr. Michael Schiffres, Senior Vice President and General Counsel,
CitiGroup, Inc.:**

I am wondering about the self-regulatory rules under Visa or MasterCard. Is Google Checkout licensed as a member service provider, and how do you handle the merchants where Visa and MasterCard rules require agreements with the merchants who are actually selling the goods? I am wondering if you can address how that is handled.

Mr. Ling:

Google Checkout is licensed as an Internet payment service provider and also as an ISO. We work with our partner, Chase Paymentech. They are the official acquirer for Google Checkout, and we have contracts. There are three-party contracts between the merchants, Google, and Paymentech.

Mr. Manfred:

Ben, can you talk a little bit about what you hear from consumers around their data security? There are high levels of concern around populating a bunch of different merchant sites. What have you heard from your consumers, and how are you communicating with them about protecting their personal and payments data?

Mr. Ling:

There are mainly two classes of consumers that we see. There are those who value speed more than those who value safety. So, there is always this convenience-versus-safety tradeoff. There is a set of consumers that is very concerned with sharing their personal information anywhere, on the Web in particular, typing in a 16-digit credit card number on a merchant site. They are unsure whether that merchant will keep it safe and whether it will be exposed on the Web. What we see from consumers is that they are concerned with their personal information. One of the value propositions of Google Checkout is that Google does not share the personal information and the billing information with the merchant. It is one of the key messages of Google Checkout—speed and confidence.