

# Google unveils smartphone pay service, PayPal sues

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Sprint Vice President of Product Development Fared Adib speaks during a news conference, Thursday, May 26, 2011 in New York. Google wants the smartphone to be the wallet of the future, a container for digital credit cards, coupons, receipts and loyalty cards that can be "tapped" to terminals in stores. (AP Photo/Mary Altaffer)

Google Inc. hopes to nudge consumers and merchants into a world where the smartphone has replaced the wallet as the container for credit cards, coupons and receipts.

While it tackles that challenge, [Google](#) also will have to spar with the biggest online payment service, eBay Inc.'s PayPal, in a legal battle that could be filled with corporate intrigue.

After Google unveiled its tap-to-pay technology in New York on a smartphone equipped with its Android software, PayPal struck back in a California court with a lawsuit alleging the service is the byproduct of intellectual theft and betrayal.

The central figure in the 28-page complaint is Osama Bedier, now Google's vice president of payments after spending nine years at PayPal. He was part of the team that showed off a new service called "Google Wallet."

The suit alleges Google hired Bedier four months ago primarily to pick his brain and steal PayPal's [trade secrets](#) for its new phone-as-a-wallet service.

PayPal alleges Bedier put the latest information about PayPal's [mobile payment](#) strategy on his own computer just before he started his new job at Google. The suit also names a former [eBay](#) executive, Stephanie Tilenius, who went to work for Google in 2009 and began to woo Bedier last year. Tilenius, Google's vice president of commerce, also appeared at the New York event to tout the benefits of Google Wallet.

"Sometimes the behaviors of people and competitors make legal action the only meaningful way for a company to protect one of its most valuable assets - its trade secrets," PayPal wrote on its blog Thursday.

Google spokesman Aaron Zamost said the company isn't commenting until it has had more time to review the suit.

Luring Bedier away from PayPal was so important, according to the lawsuit, that both [Eric Schmidt](#), then Google's CEO, and co-founder [Larry Page](#) met with him last fall. Page has since replaced Schmidt as CEO.

Google made its first formal job offer to Bedier on Nov. 12, according to the lawsuit, which was filed in Santa Clara County Superior Court. That was just three days before Schmidt appeared at a technology conference and talked about the possibility of Google creating a phone that could supplant wallets.

In Google's vision detailed Thursday, shoppers will touch their phone screen to select a card, then tap the phone to a credit-card reader in a store or restaurant. Google would make money by selling coupons and advertising that come along with the experience.

It's a goal shared by PayPal and others. The Internet search and advertising company also faces tough competition from cellphone companies and payment card issuer Visa Inc. All of them want to play the central role of tying together phones, retailers and banks into a new payment system.

This isn't Google's first attempt at electronic payments. The company introduced an online payment service called "Checkout" five years ago. It hasn't posed a serious threat to [PayPal](#).

Google views its digital wallet as a way to sell advertising at a pivotal moment: when shoppers are in stores, ready to spend money and even more receptive to coupons and other discount offers.

Nick Holland, an analyst at Yankee Group, said that although all parties stand to benefit from Google's system, Google itself has the most to gain. That's because the Google Wallet would allow the company to "own" the market for advertising that's tied to the user's location.

Google said it's launching a Google Wallet trial in San Francisco and New York in cooperation with Visa rival MasterCard and Citibank. It will open up the system to consumers later in the summer. It then plans

to expand across the country.

There has been talk of smart payment systems for years, and Google faces the same hurdles that have stifled previous trials.

One is that Google Wallet will initially work on only one smartphone, the Google Nexus S 4G carried by Sprint Nextel Corp. Several smartphone makers, including Research In Motion Ltd., maker of the BlackBerry, are ready to bring out more phones with chips for so-called Near-Field Communications, or NFC, but it's uncertain if they'll work with Google's system.

Another hurdle is getting retailers to invest in terminals that can talk to the phones. Google Wallet will connect only to MasterCard PayPass terminals. There are more than 135,000 of those in U.S. stores and restaurants, but that's only a small fraction of the total number.

Google's carrot is that retailers will be able to put loyalty cards and coupons in the Wallet, helping them track and engage with their customers. Partners in the trial include Macy's, RadioShack, Subway, Toys R Us, Duane Reade and Walgreens.

Yet another problem: Google needs to get cellphone companies on board. Its partner Sprint is the country's third-largest. AT&T Inc., Verizon Wireless and T-Mobile USA, the rest of the four biggest national carriers, have formed their own consortium to create a wallet that will compete with Google's.

The final obstacle is persuading consumers to take the leap. Phones might one day offer slightly faster checkouts, but the benefit would be small. Google calls Wallet a "single-tap solution," but in a demonstration Thursday at Google's New York office, a Google executive had to tap his phone twice to a terminal provided by retail partner American Eagle

Outfitters Inc., then sign on the screen to get a purchase of a pair of denim shorts through.

The Wallet will initially work with a MasterCard from Citigroup Inc. and with a prepaid debit card issued by Google, but the intent is to let the Wallet accept any card.

"This is about creating a compelling model and asking folks to join," Bedier said Thursday at the New York event.

Banks and payment processors such as MasterCard and Visa like the idea of mobile payments, but have their own designs on the space. Visa already has announced plans for its own wallet. MasterCard is collaborating with Google but is working on its own projects.

"Today's announcement is another early salvo in what will be a long and hard-fought battle to change consumers' payment behavior and, as a potential result, the makeup of the payments landscape," said Forrester Research analyst Charles Golvin.

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