Google's Punchd wants to replace loyalty cards with an app

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Over the years, Google has changed the way we search online and the way many businesses advertise online. With Android, the company has built the most popular smartphone operating system in the world. And now the tech giant is looking to change the way we use punch cards.

The "buy five subs, get the sixth free" card you have in your wallet; the "half off every five cups of coffee" ticket floating at the bottom of your purse - Google is hoping someday you'll ditch the paper punch cards in favor of an app called Punchd.

The app, as you might expect, stores digital versions of loyalty cards on your smartphone and enables you to search for nearby businesses that use Punchd to reward faithful patrons. To record punches, a scanner built into the app reads bar codes and QR codes from images printed on registers or in-store signs.

But although Google hopes that Android devices and even Apple iPhones everywhere will someday have Punchd downloaded, the idea behind Punchd didn't originate at Google. It began at a small start-up founded by four friends who dreamed of taking a class project and making it big.

The first iteration of the Punchd app - originally called Punch'd - was a senior year project in an Android development class at Cal Poly San Luis Obispo. Friends and classmates Reed Morse and Grantland Chew built the app as an answer to their own frustrations.

"There was a boba place that I'd always go to and I'd always forget my loyalty cards and it would really irritate me," said Morse, one of Punchd's co-founders. "So I thought about making something a little better, and we built an app because - unlike a loyalty card - I always have my smartphone."

Seeing potential for Punchd outside of the classroom, Morse asked his friend Xander Pollock to help improve the app. Shortly thereafter, friend Niket Desai decided to join in too. The four friends felt they had a solid idea, but fresh out of college, they also knew they needed guidance. That guidance came via 500 Startups, a boot camp for entrepreneurs led by entrepreneur Dave McClure that provides participants with mentorship and between $10,000 and $250,000 in investment funds to realize their ideas.

"500 Startups was crucial," Pollock said. "Niket had a little bit of startup experience but this kind of solidified us and confirmed to us that this was a good idea and that other ppl would be interested in this. And it gave us money to live and to eat while building Punchd too."

But Punchd's first big break almost didn't happen. The four friends pitched Punchd to McClure by phone and "they didn't really understand how the product worked and we did a bad job of explaining it really. So at the end of the phone call we just said, 'Well, we're going to come in and show it to you,'" Morse said.

"We weren't really invited," Pollock added. "We kind of invited ourselves, essentially."

McClure agreed to the in-person meeting.

"We thought Dave McClure would just tell us to get lost," Morse said. "So we thought, since he won't like our idea anyway, let's just do

something crazy so he'll tweet about it and maybe we'll get some attention that way. So we decided we would 'Ice' Dave McClure and maybe he would tweet about it."

For those who don't know, Icing is a drinking game in which one person hands another a bottle of Smirnoff Ice and the recipient has to chug the malt beverage while kneeling on one knee. If the recipient also is carrying a Smirnoff Ice, he or she can reverse the mandatory chug so that the initiator has to drink both bottles. (Yes, this is a real game, and it's mostly popular among college-age men.)

"So we walked into the meeting and Niket went up to Dave and said, 'Hey, Dave, you just got Iced,'" Pollock recalled. "And he thought it was hilarious."

Niket Desai said he wasn't sure the prank would work.

"It was a little bit scary because you weren't sure how he was going to react," Desai said. "But he started laughing, and once he did, everyone else in the room did."

In case you're wondering, no, McClure did not drink the Smirnoff Ice.

"He said, well, I'm not going to chug this right now, it's 10:30 a.m.," Morse said. "He laughed and he kept the Smirnoff Ice, and we tweeted a College Humor video about it later."

At 500 Startups, the team officially formed Punched as a startup and received mentorship on how to find investors, approach user interface design and even deal with legal matters.

"At a logistical level there's just starting the company," Desai said. "For a lot of people, the perception of startups is this crazy party, and there

are aspects of that. But it can also be somewhat lonely. You're on your own, building something you aren't even sure will work and the only people can truly empathize with you are people who are doing it with you, which is why being at 500 Startups was so important for us."

The development from class project in fall 2010 to 500 Startups in February 2011 blew by fast, Morse said, adding that the team was out of the start-up program by April 2011.

In July 2011, just three months later, Google bought Punchd for an undisclosed sum of money (TechCrunch has reported that the deal was worth as much as $10 million).

Thankfully, Punchd didn't have to Ice its way into Google, Morse said.

"I met Marissa Mayer at Cal Poly," Morse said of a Google vice president who oversees products that focus on local, map and location services. "I came down from the Bay Area to see her talk and I actually met her after her talk, introduced myself and said thank you because Google donated a bunch of Android phones and that's why we have an Android class.

"We're a direct result of that donation. Punchd would probably not exist without it. And she said she'd heard of us and said, 'Why don't you shoot me an email.'"

It turned out Google was aware of the company, as well as others that had originated in that same Cal Poly course, Morse said.

"We got an email from a guy at Google after a demo day where we met with maybe a good 60 investors," he said. "We thought he was an investor and just wanted to chat and instead he said, 'Hey, Marissa wanted me to bring you guys in.'"

Shortly thereafter, Punchd was officially no longer a start-up, but rather a Google team continuing the work it had started outside the company.

"When we talked about Punchd, our motto was 'get people free stuff,'" Desai said. "It's a simple idea really. But we're attacking this space that isn't know for being digital and one of the good things about Google is that they understood this is a new space that you have to learn and experiment in. They've allowed us to come in, continue to learn and try things out and find out what works right and they've giving us the time to learn how everything here works."

Google hired the entire Punchd team and has kept it together so far - though one of the four co-founders, Grantland Chew, did decide to leave the company before the Google purchase.

But just being at Google doesn't make Punchd a success story, Morse said, acknowledging that Punchd is a long way off from being as well-known as Android or Google's Chrome Web browser.

"Before we came to Google, success was measured in tens of thousands of users, and now it's going to be measure in the tens of millions of users," Morse said, declining to go into detail about how Punchd plans to grow. "This is something anyone can build, but Google is the competitive advantage that can allow us to reach millions of people and grow on a massive scale."

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