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Korea's Danal to buy controlling stake in its mobile payment spin-off

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Korea's Danal Corp. has decided to buy back a controlling stake in its U.S. mobile payments subsidiary, BilltoMobile, in a transaction that closes this week, VentureBeat has learned.

The deal values San Jose, Calif.-based BilltoMobile at a little less than \$100 million, according to a reliable source. Ownership of the subsidiary was roughly divided among founders-employees, the parent firm Danal Co., and Morgenthaler Ventures. So Danal, which has pioneered mobile payments in Korea, is likely spending tens of millions of dollars to buy back the subsidiary. The transaction is expected to be announced in early March.



If BilltoMobile succeeds with its ambitious plan of lowering the cost of mobile payments, then the market for mobile payments might finally take off in the U.S., where it has stalled for years because of the high fees of mobile carriers.

BilltoMobile was founded in 2006, and then entrepreneur Paul Kim spun out the company from Danal in May, 2007. At the time, Morgenthaler Ventures and Danal invested \$9.5 million in capital. The basic idea was to create a mobile payment service that sidestepped the big fees mobile carriers charge online merchants.

Typically, in the U.S. and Europe, mobile carriers charge as much as 50 percent of the amount of a transaction to complete a purchase that is billed to a user's mobile phone bill. In Korea and much of Asia, such fees are much lower, and that's why mobile payments have flourished there.

Other mobile payment companies such as Zong and Boku bill their transactions to short codes (such as the 90999 text message code that users can message to make a donation to Haiti survivors via the Red Cross). The problem is that there are high costs built into the premium SMS text message system. There are lots of text message aggregators and the system is unreliable with very little transparency. [update: Zong notes that it uses direct relationship where it can; about 80 percent of its deals are direct with carriers, but it acknowledges that every company's goal in the industry is to set up direct relationships with big U.S. carriers. Zong says it has the technical capability, but not the deals in place, to work directly with U.S. carriers].

Mobile payments are supposed to be an easy way to pay for things. If you buy a tractor in the FarmVille social game on Facebook, you can either enter a hard-to-remember 16-digit credit card number, or you can use a mobile payments service to simply pay via a mobile phone number. The service sends you a text message, and you verify you made the purchase. It is so easy to do, it takes friction out of the system and encourages people to spend even more money than they otherwise might.

But sometimes the user will make an error in the reply and send the wrong number. Those transactions are not processed, but the online merchant that has provided the service to the user never learns why, due to the lack of transparency.

BilltoMobile was targeting fees below 20 percent for online merchants. It does so by bypassing the short codes to connect directly with mobile carrier billing systems and their subscriber databases. It took a couple of years for BilltoMobile to create this system and to strike deals with U.S. carriers. But it can accurately measure whether a particular transaction has gone through and offer verification to all involved. Instead of just using a PIN number, BilltoMobile can require users to enter a ZIP code or other information that the carrier has and that BilltoMobile has access to. The system is more secure and reliable than other methods. BilltoMobile is expected to announce a deal with a big U.S. carrier soon, and the service will launch at that time.

In the meantime, Danal has seen its fortunes rise in Asia, where it introduced the service and signed up partners such as online game companies NCSOFT and Nexon and social network Cyworld. Today, over 50 percent of all digital content purchased in Korea is billed to a mobile phone account. Last year, Danal Co.'s stock price appreciated about 15-fold in Korea's stock market.

Part of the reason for the stock appreciation was BilltoMobile's announcement that it had signed an unnamed U.S. mobile carrier. Danal found that the fate of its stock price lay in the hands of the subsidiary in which it had only a minority interest. So it had to buy back the controlling interest in BilltoMobile.

Competitors are plentiful and include Obopay, PayPal, Zong, Boku among others. BilltoMobile has about 20 employees. Carriers might not like the fact that the service cuts the fees they get. But the theory is that the volume of transactions will grow, as they have in Korea, and will result in higher overall mobile payment revenues and more online commerce.

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