

June 21, 2007

Just Charge It -- to Your Cellphone

Korea's Danal Will Pitch New Way
To Pay to Young People in U.S.

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A Korean company little-known in the U.S. is gearing up to offer a new cellphone-based payment system there, joining a crowded field of companies trying to push Americans to pay for more goods and services through their phones.

But the new service, from Danal Co., has a twist: It is targeted at young people, some of whom don't have credit cards and need a quick, easy way to pay for cheap "digital goods" -- such as downloadable music, video or virtual swords and guns used in computer games -- online.

In South Korea, Danal's popular service lets people charge such items, as well as tangible goods like books or cosmetics, directly to their mobile-phone bills using an authentication code they punch into their personal computer. They receive the code as a text message on their phone when they are ready to buy something online. There is no need to install special software on the phones. In heavily wired Korea, 70% of all digital content -- valued at more than \$1 billion last year -- is charged directly to cellphone bills instead of traditional credit cards, the company says.

A U.S. investment firm, Morgenthaler Ventures, is expected to announce today that it is ponying up \$6 million to back Danal's new U.S. subsidiary, based in San Jose, California. The parent, which is investing \$3.5 million in the subsidiary, is a publicly traded company in Korea with about \$75 million a year in revenue. Ken Gullicksen, a Morgenthaler partner, calls Danal a "breakout leader" in mobile payments and says the same trends that fueled the Korea market -- including the increasing popularity of digital fare and new types of mobile services -- are now hitting the U.S.

The investment highlights how far afield early-stage, tech-oriented U.S. financial firms are going these days to try to snare profits, as the market for venture-backed companies in the U.S. continues to languish, despite a pickup in some venture-backed stock offerings this year. Last year, U.S. venture capitalists sank \$167.6 million into Korean firms, up from \$36.3 million in 2005 but down from investment levels earlier this decade, according to the National Venture Capital Association, an Arlington, Virginia, trade group.

Still, the Morgenthaler investment is unusual because venture investors in the U.S. don't typically back subsidiaries of foreign outfits. Morgenthaler's Mr. Gullicksen says his firm holds a minority stake in the subsidiary, Danal Inc., and thinks the U.S. company could go public on its own eventually. The deal also highlights the growing importance of smaller Korean companies, he says, as opposed to electronics behemoths like Samsung Electronics Co. and LG Electronics Inc. that already are household names in the U.S.

Danal's service works like this: A consumer finds an item to buy on a Web site that has a relationship with Danal. The consumer types in his cellphone number, plus another form of identification, to the site. Then the consumer receives a text message on his phone with a six-digit authentication code. He punches the code back into the Web site and buys the product. It shows up on his regular mobile-phone bill at the end of the month.

"There's nothing rocket science about it," says Paul Kim, chief executive of Danal's U.S. subsidiary.

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But not all advanced phone services pioneered in Asia have been hits in the U.S. Indeed, many U.S. investors have gotten burned lately investing in cellphone companies trying to deliver newfangled Internet services via the small screen -- services that are popular in countries like Korea and Japan, where many people use souped-up mobile phones in place of traditional computers. In the U.S., "we're very PC-centric," says Charles Golvin, a principal analyst at Forrester Research.

Heavily promoted Amp'd Mobile Inc., a service that delivered videos, games and other services to young people on cellphones, filed for bankruptcy protection earlier this month after sucking up \$360 million in funding from big media and technology firms, as well as venture-capital outfits. A similar service, Mobile ESPN, stopped operating late last year.

In addition, Danal's U.S. operation will have to enter partnerships with powerful U.S. cellphone carriers and big online merchants to get up and running, and possibly do battle with big payment companies like eBay Inc.'s PayPal. PayPal launched a new service called PayPal Mobile last year. Overall, global "mobile commerce" revenue is expected to soar to more than \$55 billion next year from \$24 billion in 2006, according to research firm Celent LLC.

Smaller companies could also be competitors. Start-up Obopay Inc., based in Redwood City, California, which this week announced a new partnership with Verizon Wireless, has primarily focused on helping people move money to each other via their mobile phones, such as to pay a babysitter or a maid. But Obopay also offers a debit card that can be used for e-commerce, says Ramy Mora, the company's vice president of marketing. Obopay could also eventually allow people to bill items to phone bills, a spokesman says. Now, consumers can download Obopay's software to their phones, or move money using text messaging or a mobile browser. Another privately held San Jose company, PaymentOne Corp., also has a service allowing people to bill online items to their mobile bills.

Another hurdle may be lining up enough online merchants to participate, says Aaron McPherson, a research director at Financial Insights, a Framingham, Massachusetts, research firm that is part of IDC. U.S. merchants will have to give up a small percentage of every online sale to let their customers use Danal's service. (That fee will be split between Danal and the cellphone carriers.) The fee for credit cards is about 3%, but the fee for Danal-brokered transactions will likely be higher, though less than 10%. So "cost-wise, it doesn't really work for the merchant," says Mr. McPherson. Danal's Mr. Kim points out that around 16,000 merchants are already working with Danal in Korea.

Mr. Kim adds that his company's service is easier to use than PayPal's and those of other start-ups, because it doesn't have to be tied to a particular bank account or downloaded to a phone. He adds many people use Danal for "impulse purchases" of less than \$20 and enjoy completing such transactions quickly, instead of having to punch in long credit-card numbers. The service is also secure, he says, because it doesn't require people to give credit-card information to little-known Web sites. Instead, "all of your information is held by the [phone] carrier," he says.

Mr. Kim, who previously worked for Samsung Electronics' venture-capital arm, says he is hiring staff for the U.S. business now and hopes to launch it next year.

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