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NEWS ANALYSIS

By Peter Burrows

## Big Plastic's Online Challenger

Gary Marino is giving e-shoppers an alternative to credit cards -- and his Bill Me Later service is catching on. Is it an idea too good to survive?

Gary Marino knows more than most people about how difficult it is to create a new way for consumers to pay for goods and services.

A self-described "credit card geek" who worked for decades at Citicorp ([C](#)) and then First USA, he watched various efforts fail over the years. "The last one that succeeded was the Discover Card in the mid-1980s, and they had to spend tens of billions to build their brand over the last 20 years." Indeed, other than Paypal, which is used mostly for transactions between individuals on eBay ([EBAY](#)), most consumers still make their purchases the old-fashioned way: With cash, checks, or plastic when shopping online.

**"SCARY" CARDS.** But Marino is making progress at creating another option. He runs a 150-person outfit called I4 Commerce, whose Bill Me Later payment system is catching on with online merchants and shoppers. Some million consumers have used his alternative, which permits them to shop online without providing credit card numbers or filling out lengthy applications, at 230 e-commerce sites including Wal-Mart ([WMT](#)), Priceline ([PCLN](#)), Overstock.com ([OSTK](#)), Expedia's ([EXPE](#)) Hotels.com and airlines such as American ([AMR](#)) and Continental ([CAJ](#)).

"The truth is that credit cards weren't designed to be used online," says Marino, who adds that I4's sales in the current quarter are up more than 400% over last year. "The [credit card] process is clunky and scary for a lot of people."

Here's how it works: When consumers click on the Bill Me Later icon, they're asked for only two bits of information: date of birth and the last four digits of the purchaser's Social Security number.

**NUTS, BOLTS -- AND ALARMS.** That's information consumers are bound to remember, even if they don't have their credit cards in hand -- if, say, a consumer happens to be in a car or cyber-shopping in a bathrobe late at night. And because merchants share data used when purchases are made, I4 already has extra info that lets it sniff out potential fraud. Flags would go up, for instance, if an online shopper in Russia tries to purchase electronics and have those goods shipped to Mexico.

I4's software also contacts credit bureaus and consults other sources of background information such as ZIP Code databases to access demographic information on the customer's neighborhood -- and it does it all within four seconds. Once the purchase is approved, the consumer gets an old-fashioned bill via either snail mail or e-mail. Payment can then be made by check, electronic funds transfer, or other means.

Whatever its potential appeal to consumers, I4 still has a long way to go. So far, Bill Me Later is only available at 6% of Web sites, says Forrester Research. But industry watchers believe it has the potential to become a powerful growth factor for e-commerce.

**MAKING CONVERTS.** That's because many consumers remain afraid to provide credit numbers online, and thus don't shop on the Web. Almost a third of Web surfers refuse to use plastic online, says Forrester Research. Another 80 million in the U.S. don't carry plastic at all, says David Robertson, publisher of the *Nilson Report*. Marino believes his service has the potential to lift annual overall online sales growth by 5 percentage points.

Forrester analyst Sucharita Mulpuru concurs: "It has the potential to open online retail to a whole new segment of customers that wouldn't have shopped otherwise."

Bill Me Later is gaining traction at the sites where it's available -- at some it becomes the payment option of choice for between 5% and 10% of customers within days of going live. At others it is more popular than Discover, and in a few instances, such as at eToys, its popularity has sometimes surpassed that of American Express ([AXP](#)). "Consumers are more confident using Bill Me Later than some of their credit cards," says Marino, who marvels that "no one knows who the hell we are."

**ENTICING PROMOTIONS.** A key question is how fast I4 can convince harried e-tailing outfits to put Bill Me Later on top of their to-do lists. But some merchants who have done so say it's a no-brainer. For starters, I4 charges a fee of 1.5% on transactions, vs. 2% or more for Visa, Mastercard and other leading credit cards -- a significant savings for low-margin retailers. "As a merchant, we've always been concerned by the fees the credit card companies charge," says Ken Penny, general manager of Continental.com, the airline's e-commerce site.

More important than cost savings, say these merchants, is the fact that Bill Me Later gives them no-risk access to a new infusion of customers. There are those shoppers, for example, who have looked online but never bought, and others who are attracted by the

financing promotions that I4's payment system makes possible.

For a slightly higher rate, I4 can use its technology to let merchants offer promotions such as interest-free deferred payment plans. "Our customers definitely think that's a great offer," says Mike Wagner, CEO of eToys. Since October, eToys patrons using Bill Me Later have been able to put off paying until February.

**SOLID CREDIT.** The benefits for merchants go beyond increased traffic. Those that offer the financing packages are finding it an effective way to increase the amount people buy. Wagner says the average Bill Me Later transaction was 35% larger than with other payment options this holiday shopping season.

Another advantage: I4 attracts the right kind of customers. While the name may suggest it is aimed at those with little access to credit, the opposite turns out to be true. Marino insists that if you can't get a credit card, you won't be approved by Bill Me Later. He says users' average FICO credit score is 720, vs. an overall average of around 660.

Plus, I4 accepts all the credit risk, so the merchant isn't on the hook for bad debt. That's possible because Marino convinced finance giant JP Morgan Chase ([JPM](#)) to underwrite the debt. One reason: I4 has 42 pending patents relating to its ability to do those lightning-fast credit checks.

**"AN EXTRA DOLLAR."** As a result, some of I4's customers say they actively promote Bill Me Later over other payment schemes. Take fast-growing electronics retailer NewEgg (See BW Online, 11/18/05, ["Where The Tech Buffs Shop"](#)). While Bill Me Later has grown to handle 7% of the retailer's revenue since it became a payment option in October, "My hope is to get it to 15% in the next year," says NewEgg marketing director Stuart Wallock. That figure would put Marino's outfit ahead of both American Express and Discover at the site. "It's beneficial to us, and to our customers," says Wallock. "So why not try to push it? Everybody wins."

Everyone except the credit card companies, that is -- but that's largely their own fault, say critics. For years they have frustrated merchants with high discount rates and consumers with onerous late-payment charges. Says Marino: "There's so much pressure to drive even more business that you have to do stupid things -- like screwing your best customers to get an extra dollar. That's one of the reasons I left the industry."

Marino says I4 is trying to take a more reasonable approach to customer relations. It imposes a flat late fee of 17.9%, unlike the escalating charges the credit card companies impose. "Our consumer terms are like credit card terms were in 1980 -- a flat interest rate, a relatively low fee if you pay late, and a promise that we won't telemarket you to death."

**GOOGLE'S SHADOW.** He should know. After long career at Citicorp, he helped FirstUSA, now a unit of JP Morgan Chase, vault from the 30th-largest issuer of Visa cards to No. 1 in three years. As chief credit officer, he helped devise more sophisticated direct marketing and a near-instant approval process. Now, he's using those talents and techniques to help build I4.

"Gary and his team are some of the best marketers in the industry. He's the real deal," says Mike Duffy, the president of payments processor Chase Paymentech Solutions. Soon after hearing of Marino's plan, Duffy invested in I4 and took a board seat -- and had the technology rolled into Paymentech's infrastructure so it could easily be deployed to merchants.

Huge obstacles remain, however. The biggest is expanding the network of merchants. Then comes the inevitable reaction from the credit card giants. (Representatives for VISA and Mastercard weren't available to comment.) Then there are new competitors. Paypal is aggressively trying to sign up merchants, and search giant Google ([GOOG](#)) has signaled that it has plans of its own on the payment front. Meanwhile many consumers are still happy whipping out their plastic in order to rack up air miles and rewards.

**BUY AND KILL?** Marino feels he's on the right track. He expects his outfit to achieve profitability in the third quarter of 2006, and his long-term goal is to grab a 10% share of the fast-growing \$300 billion market for "card-not-present" commerce.

One insider says sales are approaching \$10 million a quarter, suggesting a possible IPO in 2007. That is, unless a large credit card outfit doesn't buy it first, either to take control of the technology or squelch it before the concept catches on more broadly. Says another insider: "I think someone will buy them, because there's too much at risk."

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