

Google Checkout Seeks to Add Value to Search

Allen Weiner, Andrew Frank

Checkout is an e-commerce service that enables consumers to make secure purchases from registered merchants. It may go a long way toward extending the search experience from lead generation through sales and service.

Event

On 29 June 2006, Google unveiled Google Checkout, a new service that includes an online shopping platform which enables consumers to purchase from participating stores with a single Google login — thus avoiding the need to fill out multiple forms. In combination with Google's search advertising program, AdWords, Google Checkout also helps merchants acquire new customers and outsource processing of all or a portion of their sales transactions. Google Checkout accepts Visa, MasterCard, American Express and Discover.

Analysis

Google Checkout goes well beyond Google's stated mission of indexing all of the world's information. By offering a simple platform that turns searches into purchases, Google has positioned itself to expand its revenue base while defending its core advertising franchise by offering merchants the incentive of free transaction support. Moreover, by bundling transaction services with AdWords, Google has fundamentally redefined the category. By intermediating payments, however, the company has also taken on significant liability well outside of its demonstrated area of competency.

To justify these risks, Google's objectives must go beyond near-term profits to include such intangibles as:

- Deepening relationships with merchants and consumers
- Pre-empting competitive threats
- Laying the foundation for additional identity-based services

Checkout may go a long way toward extending the value of the search experience from lead generation through sales and service. If Google's strategy succeeds, it will impress the financial world by creating a major, predictable revenue stream beyond advertising. It could also create a strategic barrier to businesses that are advertising on Google's competitors, Yahoo, MSN and AOL. In addition to the economic risks posed by Checkout, however, Google also puts its brand at risk by accepting a customer-facing role in moderating disputes and dealing with fraud. Checkout will be a true test of Google's ability to grow beyond the keyword advertising business and pioneer a new category.

Recommendations

- **E-commerce merchants:** Google Checkout represents a viable path to create traction while saving costs through discounted transactions. But it's wise to proceed with caution, because such a platform could easily attract those looking to "game the system," which could force Google to institute more restrictive policies over time.
- **Software developers:** View Google Checkout as a platform ripe with opportunities for third-party development, such as added security tools and identity management. Google should embrace such added features with open arms.

Analytical Sources: Allen Weiner and Andrew Frank, Gartner

RECOMMENDED READING

- "The Web 2.0 Challenge for Media Companies" — Pursuing the Web 2.0 promise requires a step-by-step, building block approach and anticipation of many barriers. **By Allen Weiner and James Brancheau**
- "Google Announcement Sets the Stage for Video Marketplace in 2006" — Google's video marketplace leverages search to help consumers find and download content, and in some cases move that content to their iPods. **By Allen Weiner and James Brancheau**

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