



4 of 100 DOCUMENTS

Copyright 2000 Factiva, a Dow Jones and Reuters Company
All Rights Reserved

Dow Jones Factiva

(Copyright (c) 2000, Dow Jones & Company, Inc.)

THE WALL STREET JOURNAL

The Wall Street Journal

February 18, 2000 Friday

SECTION: Pg. B1

LENGTH: 1194 words

HEADLINE: Entrepreneur's Tough Sell: Pay Your Bills Online --- CheckFree Bought a Big Rival And Now Must Win Over Banks, Billers, Consumers

BYLINE: By Carrick Mollenkamp, Staff Reporter of The Wall Street Journal

BODY:

ATLANTA -- Almost 20 years ago, Pete Kight was managing three fitness centers when a light bulb went off in his head: If the government could zap Social Security checks right into people's bank accounts, couldn't someone figure out how to do the reverse, billing customers and collecting from their accounts automatically?

Today, Mr. Kight is chief executive of CheckFree Holdings Corp., the Atlanta online bill-payment service that agreed this week to buy a smaller rival, TransPoint LLC, for \$1 billion in stock. The deal makes the 43-year-old Mr. Kight a powerful force in online payments, one of the great unfulfilled hopes of the Internet economy.

One result of the pending transaction is that CheckFree will get three rich minority shareholders -- Microsoft Corp., First Data Corp. and Citigroup Inc. They will hold a combined 23% stake in CheckFree, giving Mr. Kight some powerful friends as he tries to sell the rest of the world on his bright idea.

So far, it hasn't been easy. Last year, CheckFree handled a total of 125 million payments and three million consumers. Combined with its competitors' smaller numbers, the transactions amounted to just 1% of all of the nation's bill payments. CheckFree recently said its goal of boosting subscribers to five million by June will be "more difficult than expected." By 2003, Mr. Kight hopes to have 30 million households.

CBM2013-00031

Metavante Corp. v. CheckFree Corp.
CheckFree -- Ex. 2007, p. 1

Entrepreneur's Tough Sell: Pay Your Bills Online --- CheckFree Bought a Big Rival And Now Must Win Over Banks, Billers, Consumers The Wall Street Journal February 18, 2000 Friday

To meet that goal, Mr. Kight will have to change a lot of minds at consumer banks, the linchpin to increased use. For banks, CheckFree's method of online billing is at best a breakeven prospect after they have invested in the systems and software to make it all work. They have been slow to sign up for his or any online billing services.

One reason is that electronic billing is splintered among so many small players using rival systems -- including dozens of dot-coms and a consortium of banks, besides CheckFree and TransPoint. After all, who wants to invest in a Betamax when VHS is going to be the standard?

Billers, too, have been reluctant to start billing customers electronically because of the lack of a common technology. Electronic bill delivery -- in which bills aren't just paid online, but also sent to consumers that way -- save billers money on mailings and payments to banks, for services including "lock boxes," the warehouses where customers send payments, which are then sorted and scanned before crediting to the biller.

Without the cooperation of many banks and billers, consumers, in turn, haven't flocked to the technology. The glacial pace of adoption was a major reason TransPoint decided to join up with CheckFree, says Ric Duques, chief executive of First Data, of Atlanta. First Data, in addition to its TransPoint stake, owns major credit-card processing operations and the Western Union money-wiring network.

In the three years since it was founded, TransPoint had signed up only 18 or 20 participating billers. "We're saying, 'Oh my God, we've got to get going here.'" Mr. Duques says. "You need to get a critical mass. You've got to have a seamless convenient experience for the consumers."

CheckFree's operations are largely invisible, operating much the way a private-label food company provides supermarkets with canned peas. CheckFree contracts with Internet companies and banks to provide bill-payment services on their Web sites; the banks and the portals provide the brand. A visitor to Yahoo! Inc.'s site, for example, might use the "Bill Pay" site without ever noticing the small CheckFree box at the bottom.

CheckFree powers bill payment on some 130 other sites, including Quicken.com and Excite.com. This summer, America Online Inc. is expected to roll out a bill-paying site with Intuit Inc. powered by CheckFree's system. That will be a step in the right direction toward Mr. Kight's goal of "ubiquitous distribution."

The majority of CheckFree's fees come from Web site operators, which pay the company about \$4 a month per user. (The sites, in turn, pass the fee along to users and mark it up, charging an average of \$6.50 a month.) Under pressure from customers, CheckFree is trying to figure out a lower fee schedule: It is considering reducing its monthly fees to \$1 or less per user but tacking on a fee for each transaction.

The sector is so young that it isn't clear how appealing electronic billing is to consumers. One indicator might be in electronic banking: At present, only six million consumers actually do banking online, representing a potentially limited pool of prospects.

For the moment, the process remains just too complicated and expensive for most people. A study by Gartner Group, a Stamford, Conn., consulting firm, indicates consumers don't want to pay more than \$5 a month for electronic billing. The firm figures paying bills by snail mail costs about \$4.50 a month in postage and envelopes.

To enroll in CheckFree, that Yahoo user must wait for the U.S. mail to get a security code. (CheckFree is working with Equifax Inc., of Atlanta, on a system that would allow the sign-up to be done completely online.) Only then can online bill paying begin. On the site, users must plow through a long list of billers -- including all the nation's utility providers, cable companies, etc. -- only to discover that at least a few of the companies that send them bills each month aren't participating. CheckFree sends payments to participating billers using snail mail.

Consumer banks have been slow to sign up with online bill-paying providers partly because they are trying to get a piece of the action for themselves. First Union Corp., Chase Manhattan Corp., and Wells Fargo & Co. last year formed

Entrepreneur's Tough Sell: Pay Your Bills Online --- CheckFree Bought a Big Rival And Now Must Win Over Banks, Billers, Consumers The Wall Street Journal February 18, 2000 Friday

a venture called Spectrum, which is in the early stages of offering a bill-payment product. Bank of America Corp. is currently evaluating whether to hire CheckFree or design its own system. So far only 110 banks and four brokerage firms are hooked into CheckFree.

As a result of the TransPoint purchase, CheckFree says participating billers will number 80, including AT&T Corp., MCI WorldCom Inc. and GTE Corp., along with a number of utility and cable-TV companies. After the deal's announcement Tuesday evening, CheckFree's stock price soared almost 50%. Yesterday the shares were trading at \$99.75 in 4 p.m. trading on the Nasdaq Stock Market, down 50 cents.

Among the more valuable aspects of the deal for CheckFree is the access it gets to its new minority partners' marketing capabilities. First Data's merchant relationships are likely to come in handy in Mr. Kight's quest for more billers. And with a place on Microsoft's msn.com Internet portal, CheckFree is counting on a major new marketing opportunity.

CheckFree, meanwhile, has been overhauling its systems, simplifying the system for users and building a sprawling complex outside Atlanta. Mr. Kight says he is aware of the perils of being out front early in the game: A bigfoot rival might step in and snatch his business up. "Being the early leader in a market that has only one percent penetration is good cause to be paranoid," he says.

Journal Link: Join an online discussion about bill paying on the Net in The Wall Street Journal Interactive Edition at <http://wsj.com>

NOTES:

PUBLISHER: Dow Jones & Company

LOAD-DATE: December 5, 2004