CHAPTER 1

Understanding Online Payment Options

After reading this chapter, you will be able to:

- Discuss the payment options merchants have to do business online through mail order and telephone order.
- Describe the primary factors a company should use to evaluate and select payment options for its business.
- Describe the role and importance of credit cards and alternative payments in the e-commerce channel.

How do you begin to understand consumer-not-present (CNP) payments and fraud, and the mechanics behind it? You start with the CNP payment process. This gives you a basic understanding of the touch points and the order, people, and organizations that facilitate those touch points. Starting with a good understanding of e-commerce payments will help you see how the fraudster can manipulate these people and business processes to their advantage.

Don't shortchange yourself on understanding this process. Too often I see that fraudsters understand the business processes around payment better than the merchant does—and you can't afford that. You don't have to be an expert in e-commerce payments, but you had better understand the basics, or you will struggle in developing an effective strategy. How will you know where the best points are to implement fraud-prevention techniques if you don't understand the payment processes? How will you know how to balance your fraud-prevention goals with the sales and administration goals if you don't understand the impact of your strategies on the payment processes?

You will also find the need to understand the payment process because you and your staff will naturally gravitate to what you know best. If you are like most merchants, you probably don't come from a law enforcement background. Depending on your background and the background of your team, you will find certain topics in developing your new fraud-prevention strategy more difficult than others.

Think about your background and others' on your team. If they came from the web site development or content teams, they will understand the buy page and shopping cart. If they came from the credit or finance side, they will understand the money flow, but not how the order is placed or filled. If they came from the call center, they will understand the order page, but not where it goes from there. You, as the fraud practitioner, are responsible for making sure everyone on the team understands how fraud touches all these points. You are also the one who has to create a seamless fraud-prevention business process that spans all these departments.

Remember, although your primary goal is fraud prevention and reduction, that is not every department's goal. Envision three major goals in a business:

1. Increase revenue.
2. Lower costs.
3. Reduce losses.

These goals can be in direct conflict, and your job is really to balance these goals to ensure maximum profitability to the company.

A good way to understand this is to look at it from a sales, finance, and operations perspective. Your finance department will focus on profitability, and profitability means looking at how much the business is losing, how much it is spending to manage the processes today, and how revenue is impacted. In working with your finance department, you have to be prepared to explain the impact of any changes in terms of profitability.

Your operations and customer service departments will focus on managing administration costs. In working with them, you can expect to get questions about associated head counts. Does your new strategy reduce the need for people? Does it increase the head count? Does it add any costs to completing sales, such as transaction costs?

Your sales department will be focused on sales conversion, making sure it can get every possible sale it can. Those fraudulent orders still represent sales to these employees, so they are very leery of anything that might kill a potential sale. You will have to show the sales force that your efforts are not barriers to sales and are not insulting good customers.

For all of these departments, fraud is not the primary goal, so you have to be the champion to get them to feel the pain and to help in finding the right solution to stop fraud.

In Chapter 1, we discuss the payments landscape to lay the groundwork, so to speak, for fraud management.

The Payments Landscape

When most people think of online payments, they immediately think of credit card payments. While it is true that credit cards represent the majority of online payments today, there are a number of other payment options available. In all, eight categories of payment solutions exist with hundreds of service providers offering their services globally:

1. Credit card payments
2. Automated Clearing House (ACH) and bank payments
3. Payment aggregators
4. Credit-term providers

5. Cash-alternative providers
6. Advertising/promotional providers
7. Mobile payment providers
8. Invoicing payment providers

Payment methods other than credit card payments are called *alternative payments*.

Alternative payment solutions offer merchants payment methods they can offer to their consumers that don't require the use of one of the major credit card associations. Merchants and consumers look into alternative payment types for a number of reasons. Fundamentally, the market drivers are cost, security/trust, and ease of use.

The best-known alternative payment type is PayPal, which has grown exponentially and is becoming very much a mainstream payment method. If you research the market, a lot of providers out there are competing for mind share and market share. The risk for any merchant is adopting a payment type that will eventually die on the vine due to lack of adoption.

Most merchants view the alternative payment market as a limited competitive field with few real differentiators between the players. More often than not, merchants investigating alternative payments are limiting their discussion to ACH, PayPal, Amazon, and Google Checkout. In fact, there are a number of payment options and a rapidly growing number of service providers offering them.

TIPS AND TECHNIQUES

Not all alternative payment options will produce the same results; determining the right alternative payment options for your company means evaluating payment options based on regional support, consumer preference, customer base, and return on investment (ROI).

Regional Support: No one payment option is equally effective in all regions worldwide. Credit cards are accepted worldwide, but while they have dominated the U.S. and Western European e-commerce markets, they have not shown the same dominance in emerging markets such as Africa, South America, Asia, and Eastern Europe. In these markets, merchants need to support other payment options; otherwise, they will be limiting their potential customer base to only a small fraction of the overall population.

Consumer Preference: It is not enough to simply find an alternative payment method supported in the region you are doing business in; the payment method needs to be one that consumers in the region recognize, trust, and want to use. In Germany, credit cards are present and used, but they are not the preferred payment method. The preferred payment method is direct debit, *Elektronisches Lastschriftverfahren*.

Customer Base: The best alternative payment option has little value if the supported customer base isn't large enough to warrant the effort to integrate and support it. Evaluating a customer base should be done on two levels, potential and current. Consider China: 93 percent of the population of 1.3 billion people have access to direct debit, while according to *China Daily*, there were just over 100 million credit cards in circulation in China as of June 2008. In contrast, there were more than 596 million mobile phone subscribers as of June 2008. In terms of potential use, the ranking would be direct debit, mobile phones, and then credit cards. In terms of current use, the ranking would be direct debit, credit cards, and then mobile phones. Mobile payments offer excellent potential in China, but it is not the current preferred choice for paying for services in China. Does this mean you should not be looking at mobile payments? Not at all; in some regions, mobile payments are the dominant payment method, and three out of the top five alternative payment providers are working on plans to support mobile payments.

Return on Investment (ROI): The reasons why a merchant may implement alternative payments vary, from access to markets to cost reduction or easier supportability to consumer preference.

Tips and Techniques (continued)

In a majority of cases, merchants are able to show a favorable ROI on integrating alternative payments in a time frame that is more tactical than strategic. This is primarily attributed to increased sales from new consumer populations, lower costs than traditional credit cards, and better fraud protection.

Online customers and merchants have begun to turn to alternative payment methods for a variety of reasons ranging from lower costs, improved technology, and increased availability to security reasons. The debate is ongoing as to whether alternative payments are taking away market share from credit cards or are adding to it, but the fact remains that online credit card sales have been rising right along with alternative payment types.

According to *E-Commerce Times*, by 2012 online payments will gross USD $355 billion in value with alternative payments holding a 30 percent market share.[1] Javelin Strategy and Research predicts that overall growth for online payments is expected to reach $268 billion by 2013. Alternative payments will likely grow at a faster pace than credit cards with certain brands experiencing significant growth. More established brands are best poised to increase market share in this time of growth.

In the Real World

Alternative payments represent only a fraction of e-commerce total sales today, but according to Javelin Strategy and Research, about one-third of all online retail transactions ($268 billion) are predicted to be alternative payments by 2013.[a]

The probability of alternative payments growing to one-third of all sales by 2013 may be questionable, but it demonstrates the prevailing opinion that there is huge growth potential for alternative payments. The explosive growth of alternative payments can be attributed to consumer and regional preferences. As every sale counts in these economic times, it is now more critical than ever that e-merchants understand and offer payment choices based on consumer and regional preferences.

[a] www.javelinstrategy.com/2008/11/10/new-javelin-study-forecasts-cash-based-alternative-payment-methods-growing-in-popularity-with-consumers-shopping-online/#more-1384.

Remember, not all alternative payment solutions work the same or produce the same results. To compare solutions against each other and to compare vendors, we need to group the solutions into categories of like services. In general, when you look at the competitive landscape, start by bundling alternative payment providers into a couple of categories, and then use those categories as methods to determine the payment positioning in general. From there, compare the detailed positioning of one vendor in relation to the other dominant players in each category.

Credit Card Payments

A credit card is part of a system of payments that enables the holder to buy goods and services based on the holder's promise to pay for these goods and services. The issuer of the card grants a line of credit to the consumer from which the user can borrow money for payment to a merchant. The major credit card brands—American Express, MasterCard, Visa, and Discover—have been the online payment option of choice since e-commerce was born. According to Entrepreneur.com, it's been repeatedly proven that if you don't accept credit cards on your site, you'll only capture about 15 percent of your potential sales.[2]

Credit cards are the alternative payment method to cash, and they are the dominant players in e-commerce transactions. Credit card associations charge *interchange fees* that range in value and differ from country to country. In the United States, the fee average is approximately 2 percent of the transaction value.

Customers and merchants have accepted credit cards as the dominant form of payment because they're ubiquitous and easy to use. Merchants are motivated to credit cards because they remain the dominant form of payment and are relatively secure from fraudulent chargebacks (given they have proof). Merchants have begun to include other forms of payment alternatives because they are cheaper and convenient, and can increase their customer base. Bill Me Later and others can competitively undercut the interchange fees charged by the credit cards and financial institutions.

Examples of Credit Card Associations

- American Express
- Discover
- Gratis Card
- Japan Credit Bureau (JCB)
- MasterCard
- Revolution Card
- Universal Air Travel Plan (UATP)
- Visa

Credit cards dominate the mind share in e-commerce business. They control the vast majority of transactions, and if you're not utilizing credit cards, then you're not capturing your true market potential. It is absolutely necessary to take these cards as forms of payment.

Credit card companies have poured billions of dollars, time, and lobbying efforts to establish themselves as the premiere payment alternative. The economic, business, and political clout of these companies is not to be underestimated and must be incorporated into every e-commerce payment system. However, they do not have as exclusive a hold on mind share as they once had. The card associates still dominate market share, but the nimbler and smaller firms with differentiated and multifaceted payment systems are expanding mind share.

Credit cards have very high market penetration and dominate the majority of e-commerce solutions. Visa, MasterCard, American Express, and other traditional credit and debit cards were still the only payment option at 76 percent of the web sites. According to Javelin Strategy and Research, credit card purchases will continue to grow and command the majority of e-commerce transactions, which amounted to $81 billion in 2008.[3] While credit card purchases may grow, the overall market share they hold today will start to decline as alternative payments become more widespread and adopted.

Direct Debit and Bank Services

Includes ACH, direct debit, electronic checks, Elektronisches Lastschriftverfahren, and bank transfer services.

Automated Clearing House (ACH) is an electronic network for financial transactions that processes large volumes of both credit and debit transactions, which are originated in batches. Businesses are increasingly using ACH to collect from customers online rather than accepting credit or debit card. ACH payments can take a plethora of different directions, from accepting direct deposits to processing debit card transactions; business-to-business payments; e-commerce payments; federal, state, and local tax payments; and direct debit payments.

ACH payment providers can use either a push or a pull method to allow consumers the ability to pay for their goods or services. With the push method, consumers "push" their funds to an online account at a payment provider. The payment provider then transmits these funds to the merchant through a secure channel. The benefit of this method is twofold in that the merchant never receives the consumer's bank account or credit card information, and the consumer doesn't have to provide it. The pull method is utilized by the majority of ACH payment providers. In essence, the payment provider stores the consumer's bank account information online; then, when the consumer makes a purchase, the funds are "pulled" from their bank account and transmitted to the merchant.

The major advantage to utilizing these services is decreased costs. If you sell anything online, whether physical goods or services, you're aware of the 2 to 3 percent (plus $0.30) spent on transaction fees every time someone makes a purchase with his or her credit card. These fees are incurred whether you use PayPal, Google Checkout, or Amazon Flexible Payments because those companies are just passing on the fees imposed on them by credit card companies. The ACH bank service providers incur a fraction of the cost but have chargeback limitations. As previously noted, ACH services have the ability to limit fraud and identity theft, which may persuade identity-theft–wary individuals to become customers. With the growth in ACH alternative payments expected to continue, there will be several new competitors entering the landscape. Success of these new entrants will be in their respective ability to differentiate themselves through value-added services.

Examples of ACH Providers

- Acculynk
- Billing Revolution
- BPay
- CashEdge
- Debit Asia
- Debit Card (via IPS)
- Discover's Current
- eBillme
- EFTPOS
- elayaway
- Elektronisches Lastschriftverfahren
- Faster Payments
- The Fraud Practice
- Giropay
- GoEmerchant
- GoPay
- GreenZap
- HomeATM
- iDeal
- ING Home Pay
- Inpay
- Mazooma
- Moneta
- NCMS
- Net Pay

- NOCA
- Pago
- Payfast
- Payment Asia
- Poli
- Safetypay
- Secure Vault Payments
- Sofort
- Stored Value Solutions
- Telecheck
- TreasureCom
- Todito.com
- White Hall
- WorldPay
- Yodlee

EXECUTIVE INSIGHT

Leveraging the Online Banking Payment Rails for ACH

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There are many benefits of leveraging the online banking payment rails for e-commerce transactions—foremost among them is that users are authenticated and authorized by the banks themselves. This practice eliminates the need for customers to provide bank and routing numbers to any merchant or third-party processor. Moreover, online bank payments further reduce the amount of people who have access to a client's personal information since the payment card industry (PCI) is not involved in the transaction. Although this may sound like the perfect payments network, it is not without risk.

The challenge with online bill payments is that it offers a mix of guaranteed and non-guaranteed transactions, resulting in inconsistent levels of security. While this may be sufficient for a network designed to handle recurring monthly bill payments, it's simply not good enough for e-commerce transactions when physical goods and perishable services are involved.

Executive Insight (continued)

eBillme found that a fraud safety net was required to provide merchants with 100 percent guaranteed payments and to ensure no new risk was introduced to banks. We employ an extensive list of tools and rules to score each order prior to accepting it for payment. Tracking velocity and deploying a negative database also allows eBillme to eliminate repeat fraud attempts and to reduce risk costs.

ACH and bank service providers have no clear mind-share domination over other payment types, but they are well identified and understood in the marketplace. Several alternative payment providers have developed systems that utilize the ACH network while delivering cost savings through lower fees.

However, the lower fees come at a cost of no guarantee for fraudulent chargebacks and potential bad debt to the merchant. Some players in this segment have been able to deliver customers a feeling of safety because they limit the amount of information needed to complete a transaction. For example, as privacy concerns continue to rise, more and more have developed push-based ACH services to restrict the amount of information a customer must provide (i.e., no credit card information, no credit check). This in turn allows security-concerned consumers to purchase online safely and merchants to gain sales and reduce cost.

Entrants have flooded this segment due to the low cost and convenient nature of the ACH network. The real benefits delivered to merchants and customers will be the ways the providers innovate and drive value in this growing payment method. In terms of differentiated services, the more interesting alternative ACH providers are eBillme, Yodlee, Moneta, Worldpay, Debit Asia, and Stored Value Solutions.

While the growth in alternative payments is expected to continue, several new competitors will enter the landscape. There is talk already on the blogosphere that many alternative payment methods are already looking too similar. For example, the explosion of ACH providers has meant several new entrants look and function exactly the same.

Alternative payment providers must remember how to differentiate themselves and their products and services to best serve the merchants and ultimately the consumers.

ACH payments (such as debit cards) are expected to grow and continue to capture market share away from credit cards. ACH payments add real value to the merchant through lower costs and customer security. According to the National Automated Clearing House Association (NACHA), the ACH network grew by 4.5 percent in the fourth quarter of 2008 compared to 2007. Many nonfinancial institutions are now utilizing the banking industry's ACH infrastructure to capture interchange-like revenues.

The summary report of the 2007 Federal Reserve payments study revealed that 2.6 billion consumer checks were converted and cleared as ACH payments rather than check payments in 2006, an eightfold increase over 2003. Financial institutions will watch market share and transactional revenue with a close eye.

Payment Aggregators

Merchant aggregators, a type of payment aggregator, or *master merchants*, are service providers through which other e-commerce merchants process their transactions. In some instances, master merchants may hold the merchant account with the processors and banks. The relationship is called master merchant if the service provider will be collecting monies on behalf of the others, the submerchants. The collections are for the receipt of payments made for items sold online. These are the most popular forms of alternative payment behind credit cards. These companies may hold credit card information to allow for faster purchases or hold money in an account to allow for future purchases.

This payment alternative is attractive to merchants who have difficulties in opening a merchant account with a bank. The merchant account belongs to the master merchant, who is responsible for upholding the agreement with the acquiring bank. The submerchant will sign a separate agreement with the master merchant to authorize the latter to collect on their behalf and to ensure that the master merchant will reimburse the submerchant in return. Among the alternative payment services, these are the leaders and most widely accepted alternative payment methods among e-commerce merchants.

Examples of Payment Aggregators

- AlertPay
- Amazon Payments
- Click and Buy
- eWay
- eWise
- Global Collect
- Google Checkout
- MercadoLibre
- Neteller
- PayDotCom
- Paymate
- PayPal
- Rupay
- Webfarm
- Wirecard
- Valista
- 2Checkout.com

Payment aggregators are the top competitors in the payment landscape and have seen the most widespread adoption. When merchants are talking about alternative payments, they are typically referring to PayPal, Amazon, Bill Me Later, and Google Checkout. Three out of four of these are payment aggregators. The mind share of these companies is also seen by the recent surge in acquisitions as well as the launching of new products.

The most popular alternative payment method among the 100 leading retailers surveyed was Bill Me Later, PayPal, and Google Checkout. Only 7 percent of all retailers surveyed offered all three alternative payment options. Collectively, these credit card alternative payment services are the dominant competitors.

Credit Terms Providers

Credit term alternatives are services that extend credit to individuals to make purchases online. These services are valuable to both merchants and customers. These services allow customers to purchase items online without giving their credit card information, and it provides the merchant with guarantees on chargebacks. This alternative has become popular with consumers because they can receive credit to purchase items without giving their sensitive credit card information. Merchants can also benefit through the conversion of sales where consumers are credit dry. Examples of credit terms providers include Bill Me Later, Cred-Ex, and PayPal's PayLater.

Bill Me Later is the dominant player controlling both mind share and market share. It can provide merchants with guarantees on chargebacks and lower interchange fees while creating a feeling of safety for security-wary shoppers. Bill Me Later can, in seconds, ask the credit bureaus if the person attempting to purchase has a good enough credit score to be trusted. Bill Me Later is aimed at the large pool of individuals with good credit who don't want to purchase online because of identity-theft concerns.

This company has seen tremendous growth during its short existence while pitted against giants like PayPal, Google, and Amazon. In November 2008, Bill Me Later was acquired by eBay and was number six on the 2007 Inc 500 List of fastest-growing private companies in America. Bill Me Later is the credit alternative payment solution provider of choice in the U.S. market and will likely capture more mind share as this industry matures.

PayPal has developed an alternative to Bill Me Later called PayLater in hope of capturing further market share. However, as the credit crisis further unfolds, this segment could be at risk for an increase in delinquent payments. It should be noted that CIT Bank, a Utah state bank, has backed Bill Me Later, and it is in relatively good financial standing with Better Business Bureau (BBB) debt ratings.

The market share of credit alternative payment providers is relatively small compared with other options but has been growing. The leader of the pack, Bill Me Later, has driven merchants, financial institutions, and customers to notice and recognize them as a viable alternative. Bill Me Later's payment solutions are available when shopping online, via phone, and in-store. At current growth trends, Bill Me Later is likely to be an even bigger player in the alternative payment landscape.

Cash Alternative Payments

Cash alternative payment methods are not a new concept. The basic forms of cash alternative payments (i.e. escrow, paper checks, stored value accounts, and money order) have been around for years but in the e-commerce world they have limited success. These payment options have relatively low adoption rates among the merchant community. However, in developing countries like China and elsewhere these payment options are typically the dominant and preferred payment method.

According to Forrester's Asia Pacific 2007 Consumer Survey, online financial security is a major concern for Chinese and Japanese consumers, while a lack of credit cards is the top barrier for many affluent Indian consumers. Merchants seeking to sell their goods and services in Asia Pacific need to address consumers' payment concerns and barriers.

Examples of Cash Alternative Payment Providers

- 3V
- Alipay
- American Express
- Easecard
- EFICash
- Escrow
- Ficha Rap
- Forex Express

- GreenDot
- Hyperwallet
- "icash"
- Ixaris
- Liberty Reserve
- MOLePoints
- MoneyBookers
- MyCitadel Wallet
- NoChex
- Paper Checks
- PayGNN
- PayByCash
- PayPal
- PayPoint
- ProPay
- PaySafecard
- Pecunix
- Snap
- th!s
- toditoCash
- UAH iMoney
- UDpay
- Ukash
- Wallie
- WebMoney
- Western Union
- Wirecard
- Yandex

The mind share of these traditional service providers are on a downward trend as compared to the other methods of alternative payment. The mind share of new entrants such as Ukash and other similar alternative cash payments has generated a lot of interest in the gaming industry and shows potential for future growth in that vertical market.

Asia's promise can be demonstrated through its adolescents, who have been shown to be fanatical gamers, technologically savvy, and mobile payment users. Cash alternatives can keep the gamers' credit card number and identity safe while the merchant receives a lower cost than accepting credit cards. None of these providers controls a dominant piece of mind share or market share. However, the vertical market of gaming is looking promising in Asia, and some of the preferred cash alternative payment methods for Asia are Alipay, PayByCash, UDcard, and Easecard.

The relative global market for these services is low compared to other groups. However, special niche markets such as gaming, adult, and gambling may benefit tremendously from this payment type. These high-risk segments provide the merchant with the motivation to implement safe and secure payment solutions. These forms of digital cash can keep consumers' identities safe while allowing them to participate in this market.

Advertising Alternative Payments

Advertising has always been a source of revenue for companies, but alternative payments are pushing this to a new level. Who said you can't get something for nothing? Two specific methods have caught the blogosphere and business community's attention. The first new method, called transactional advertising, has allowed TrialPay to emerge as a promising new form of alternative payment. TrialPay has since launched into the top five for alternative payment providers and doesn't plan on looking back.

The second payment provider, Offerpal Media, has created a managed offer network for social applications and online merchants. Offerpal Media is built on the science of delivering highly relevant consumer offers and precisely targets millions of social network users based on their user profiles and the social graph. With an increasing percentage of people utilizing social networking sites, this service could prove to be a major competitor in the future of alternative payments. The differentiating qualities that these two encompass will help propel them to becoming major contenders and stand-outs among the crowd.

Examples of Advertising Alternative Providers

- Appsavvy
- Jambool
- Offerpal Media
- Super Rewards
- TrialPay
- Webloyalty.com

TrialPay has created its entire mind share through its unique transactional advertising model. There is chatter on the blogosphere about unwanted services and quoting free services above their true value. Despite these opinions, TrialPay dominates the field in this new area and looks to satisfy three important entities' desires: (1) The customer is able to purchase the product and receive a free trial service; (2) the advertiser receives name recognition; and (3) the merchant completes the sale and gets a customer.

Unlike traditional advertising and affiliate networks, Offerpal Media provides a turnkey, full-service Managed Offer Platform, which presents engineered offers and customized offer displays on the merchant's social application or e-commerce site. Offerpal works through a system in which once the user tries or buys one of Offerpal's offers, the user gets the web site's virtual points and Offerpal pays the user. TrialPay and Offerpal have successfully differentiated themselves from the mainstream payment services and dominate this segment, but watch for fast-approaching newcomers.

The market share of this segment is rapidly growing. TrialPay currently has more than 4.5 million registered users and adds 15,000 new users every day. However, Offerpal Media currently has more than 2,000 advertisers in the system and adds as many as 100 new offers to the system every week. Webloyalty is another long-standing competitor embedded in the international payment landscape. Watch for entrants to try to copy their unique platforms. There have already begun to be entrants into this competitive landscape with SuperRewards, AppSavvy, and Jambool, and I'm sure there will likely be more in the not too distant future.

Mobile Payments

The opportunities in mobile commerce have already begun to transform the industry and competitors are racing to gain a foothold and market share. The sophistication of their methods varies dramatically, but the speed, efficiency, and convenience to the customer is substantial. Mobile phones have improved over the years to include user-friendly browsers, and updated broadband networks have also helped drive this technology.

EXECUTIVE INSIGHT

According to Juniper Research, mobile payments are expected to reach more than $600 billion globally by 2013, while mobile payment markets for goods and services, excluding contactless National Finance Center (NFC) transactions and money transfers, is expected to exceed $300 billion globally by 2013.[4] The top three regions for mobile payments (Far East and China, Western Europe, and North America) will represent more than 70 percent of the global mobile money transfer gross transaction value by 2013.

These growth rates are unprecedented and require the attention of merchants, financial institutions, and payment providers. Parts of the world that lack sufficient infrastructure to allow online computer commerce have the chance to purchase online through mobile phones.

In addition to online purchases, individuals can also send remittances or transfer money to another network member. BuddeComm estimates revenue from mobile content and services (excluding Short Message Service [SMS]), accounts for around 7 to 10 percent of total mobile revenues worldwide. SMS remains popular and accounts for a further 10 percent of total mobile data revenues.[5]

IN THE REAL WORLD

iPhone users can purchase and download TV shows and movies and play them right on their phones instantly. This would have been impossible if it had not been for deep 3G broadband network capability and improved mobile devices.

An article in *BusinessWeek* by Deborah Stead describes how there has been a push by businesses to go wireless only on the belief that wireless is the future. A study by Gartner suggests that by 2012 about 23 percent of North American businesses will be doing without desk phones—up from 4 percent in 2008. This data illustrates the fundamental movement toward increasing mobile phone use that has the potential to benefit mobile payments in the future.

Banks are also extending their reach into mobile payments and want to utilize their online banking capabilities to the fullest potential. Even Bill Gates has pledged $12.5 million to extend mobile phone payments to the "unbanked." Gates said, "Technology like mobile phones is making it possible to bring low-cost, high-quality financial services to millions of people in the developing world so they can manage life's risks and build financial security."[6]

Additionally, three of the top five alternative payment providers (PayPal, Amazon, and Google) have extended their payment services with a mobile payment option. Mobile phone providers are starting to integrate alternative payment options as well. Paymo recently signed a contract with three large mobile phone service providers (AT&T, T-Mobile, and Virgin Mobile) to allow the payment option to appear on the customer's invoice. The synergy of all these factors has placed mobile phone payments at the forefront of an industry poised for future growth and development.

Examples of Mobile Payment Providers

- Amazon TextBuyIt
- Banksys
- Bill2phone
- Billing Revolution
- Danal
- Dialogue
- EPay
- Fundamo
- Gemalto
- Google Checkout for Mobile
- Javien
- Luup

- Mblox
- Mobilians
- M-PESA
- Mx telecom
- Onebip
- Openmarket
- Paybox
- PayPal Mobile
- Paymate
- Paymo
- PayPay
- Sybase
- Self Bank Mobile
- UMPay
- Valista
- Zamano
- Zong

The mind share of any one mobile service varies dramatically. The simple and antiquated methods like billing your utilities to your mobile phone represent little presence. Historically, this kind of service lacks long-term success and massive adoption. However, the real value added benefits of mobile-commerce (m-commerce) will allow users a quick, safe, and convenient form of shopping.

There is no clear leader in the mobile payments industry, but PayPal Mobile seems to have the consumer's trust, a large customer base, seamless information, and brand recognition. The top five mobile payment providers are Sybase, PayPal Mobile, Paymo, Luup, and UMPay.

The market penetration of m-commerce payment providers is low, and they remain to be seen as contenders in the global alternative payment landscape. This can be attributed to the mobile payment providers having to forge strategic partnerships with mobile phone service providers. The mobile phone providers in different parts of the world (i.e., China) are majority controlled by the government. M-commerce is highly regional in nature, and many regions may prefer a homegrown m-commerce provider. Merchants should look toward m-commerce providers that have established strategic relationships with banks, governments, and financial institutions in that region. Other m-commerce services include financial applications such as m-banking. This service enables users to check their bank account details and pay bills. Such services have been especially popular in the Philippines, where the conventional banking system is arguably not as well developed as other regions of the world.

Invoice Services

The smallest group of the alternative payment methods is invoicing. This service is not new and has been around for a long time. This method may prove beneficial to merchants who want to accept payment but would rather a consumer send a check. Invoicing may also allow a merchant to access underbanked consumers who lack a credit card but possess a checking account. Instead of utilizing their own software to print and mail an invoice, they may want to contract a third party to send the bill through a secure channel. Overall, this method is not a real contender in options, and most payment providers already encompass this service into what they offer.

Examples of Invoice Service Providers

- AceFlex
- BillMyClients
- Citrus Online billing
- freshbooks
- Intuit Billing Manager
- Striata
- telepro
- Zuora
- 2ndSite

Everyone knows what invoicing is, but few would connect invoicing and e-commerce. Invoicing customers for goods and services has become incorporated into most complex payment systems. These sole invoicing agents will not dominate mind share as the alternative landscape changes. Invoicing is still very much a requirement for business-to-business e-commerce players.

The market share that corresponds to the invoicing service provider is minimal. Merchants could just as easily use QuickBooks or other software to produce invoices.

Internationalization: Cross-Border Transactions

Do alternative payments ease globalization and cross-border transactions? The vast majority of alternative payments are regional solutions. For example, if you wanted to create an e-commerce business in China but only wanted to use Visa or MasterCard, you would be unlikely to take your business very far. What works in the U.S. market does not work in all markets. One of the greatest value propositions for alternative payments is their ability to provide access to new international markets. In China, if you introduced Alipay along with credit cards (Alipay has higher brand awareness than credit cards in China), then you would have access to a far larger pool of consumers.

In today's market, credit cards still dominate the international e-commerce marketplace, and this is unlikely to change over the next three years. This being said, for merchants doing cross-border business, the decision to implement alternative payments is a must-do to stay competitive and grow.

There are also two important factors to consider when analyzing how globalization has affected alternative payment methods. The expansion of the Internet and mobile communication technology has greatly increased the capacity for global purchases and cross-border transactions.

Merchants, payment providers, gateways, and banks all will be affected by the introduction and adoption rates of alternative payment forms. The need for all players to evaluate and integrate key alternative payment methods has become a more immediate requirement to stay competitive. In the next five years, $1 trillion worldwide will be purchased online or influenced by information found about products and services online, according to Forrester Research.[7] Companies looking to take advantage of this opportunity in cross-border transactions need to focus on the specific needs of the regions, countries, and verticals in which they want to operate.

For example, in the United States, credit and debit cards are commonly utilized for online transactions, but bank transfers and cash on delivery are more common in parts of Europe and Asia.[8] Going for mass is not the only thing that matters. The infrastructure capabilities for the top three largest regions for Internet penetration—Asia, Europe, and North America—are vastly different, and payment options may be limited based on their capabilities.

Chapter Summary

Taking payments online isn't just about accepting credit cards. While credit cards are important, it is more important to understand the consumer and regional preferences in terms of potential market size and ROI.

Alternative payment options provide a means for merchants to gain new customers who may not have access to, or feel comfortable with, credit card payments. The decision to offer alternative payments is not an either/or decision; merchants must offer credit cards, but alternative payments must be considered for the value and opportunity they can bring. The solution is not about integrating the most possible payment options; it is about offering the right payment options.

Notes

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