

multichannel

INTEGRATE ■ SELL ■ DELIVER

\$10

merchant™

3/107

operations+fulfillment



RESOURCE GUIDE:

Alternate Payment Systems

By William Atkinson

Merchants operating businesses through the mid-1960s were in the habit of receiving two types of payments from customers: cash and checks. From the mid-1960s through the mid-1990s, more and more customers began replacing cash and checks with credit-card payments. Now, in the 2000s, merchants and customers have a plethora of payment options, conveniently termed alternative payment systems (APSS).

According to research conducted by Celent Communications, a financial services IT consulting firm in San Mateo, CA, credit- and debit-card payments, which accounted for 90% of online payments in 2000, will account for fewer than 50% by 2009. The reason: the increase in APSS.

While brick-and-mortar retailers are becoming involved with APSS to some degree, it is really direct marketers that are leading the charge—or rather, the move away from the charge. Partly it's to win over consumers who remain concerned about online security and thus are reluctant to pay for Web purchases via credit card. But there's also the fact that most APS transactions are less expensive for the merchant than credit-card transactions.

"There is quite a bit of allure for merchants and customers, and I don't see this trend tapering off," observes Jeffrey Burke, senior product manager for CyberSource Corp., a Mountain View, CA-based provider of electronic-payment and risk-management services. "In fact, I see the market bringing on more and more types of alternative payments as time goes on."

Marwan Forzley, president/CEO of Wayne, PA-based MODASolutions, which provides an APS called Secure-eBill, agrees. "If you go into a retail store, you can pay by cash, check, credit card, or debit card. However, if you go on that same retailer's Website, you can probably pay only by credit card." For direct marketers to set themselves apart from the online competition and to compete with

offline merchants, they need to offer more payment options.

CATEGORIES OF APSS Some examples of types of APSS are electronic check processing, debit cards, third-party deferred billing options (such as Bill Me Later), wire services (such as Western Union's Speedpay), installment plans, and stored-payment options (such as PayPal and the relatively new Google

enabling the merchant to pull funds from the customer's account via an electronic check. Banks, the traditional providers of credit and debit cards, are working hard to stay abreast of options in this category.

For example, U.S. banks are working on the NACHA Online Payments Pilot, where buyers would be able to send payments to retailers from their Internet banking facility, Burg says. NACHA is a nonprofit organization

payments, especially credit cards."

Secure-eBill is one such option. Consumers who pay via Secure-eBill receive an e-mail invoice confirming their purchase, then pay online through their bank, just as they might pay their utility bills. Once the merchant receives the payment, it ships the merchandise. Secure-eBill, which doesn't store any financial information from the consumers, minimizes the risk of hacking. "The only information customers need to disclose to merchants are their e-mail addresses," says MODASolution's Forzley.

Merchants that accept Secure-eBill payments pay MODASolutions 1%-1.5% of the value of each transaction, depending on their volume; there are no set-up fees. In comparison, credit-card processing fees generally range from 1.7% to 3.5% of the value of each transaction. Because the consumer moves funds from his bank to the merchant's bank, these are considered "good funds," and there are no chargebacks.

■ **Push payments.** These are fund transfers initiated by the buyer to the merchant. Wire services are an example. Say a customer wants to pay for an online purchase via Western Union. He'll complete his order and receive a reference number from the merchant. He then generally has up to 48 hours to go to a Western Union branch and pay cash; Western Union subsequently informs the merchant that payment has been made, and the merchant ships out the merchandise. This is a very low-cost—sometimes even free—transaction for the merchant, as the customer is the one who pays a fee to Western Union.

■ **New payment options.** This is pretty much a catch-all category for APSS that are neither true pull or push payment options and for new players that are unaffiliated with traditional providers. "There aren't many providers in this category," Burg says, "because it takes time to build a lot of awareness among merchants and customers."

continued on page 48

"How many payment methods are enough?"

According to research conducted by CyberSource Corp., a systems integrator that provides electronic-payment and risk-management services

- 59% of its clients support one or two alternative payment system options;
- 30% support three or four options; and
- 1% support five or more options.

What is the ideal number to have? There is no easy answer.

"If have too many options, it can become very costly," says Joel Van Arsdale, senior consultant/director of research for First Annapolis Consulting, a payment products consulting firm. "In addition, it can become confusing for the customer."

Pascal Burg, a director with Edgar, Dunn & Co., a financial services consulting firm, agrees. "You don't want to confuse customers at the checkout stage, so you don't want to offer too many. In addition to credit cards, you probably only want to accept two or three more services."

But CyberSource senior product manager Jeffrey Burke says that according to the company's research, merchant that offered at least three alternative payment methods had a 14% higher sales conversion rate than those that offered only one or two.—WA

Checkout). But categorizing the various options can be incredibly difficult. For one thing, numerous providers offer multiple services in a number of categories. For another, many providers offer services that seem to straddle two or more categories.

Pascal Burg, a director with Atlanta-based financial services consultancy Edgar, Dunn & Co., offered three categories of APSS:

■ **Pull payments.** An example is an automatic clearinghouse (ACH) electronic funds transfer that is initiated by the merchant,

representing financial institutions and others involved in electronic payment processing.

Joel Van Arsdale, senior consultant/director of research for First Annapolis Consulting, a Linthicum, MD-based payment products consultancy, also sees the growth of bank involvement. "Merchants are exploring ACH payments, which take the form of e-checks, and other ways to debit from bank accounts," he says. "Merchants like this because these transactions are quite a bit less expensive than some other forms of

continued from page 43

Three of the most popular methods in this category are PayPal, Google Checkout, and Bill Me Later.

PayPal has more than 100 million accounts worldwide and represents about 10% of U.S. online sales volume. Merchant fees start at \$0.30 per transaction plus 2.9% of the total payment.

The original PayPal model is akin to a pull-payment method. A consumer signs up online for a PayPal account, providing a credit-card number and/or his online banking data. PayPal keeps this information and does not share it with the merchants. When the consumer makes a purchase from a merchant and wants to use PayPal, he clicks on PayPal on the merchant's site, enters his user name and password, and authorizes PayPal to transfer the funds from the credit-card or bank account he linked to PayPal to the merchant's PayPal account. The merchant can then keep the money in its own PayPal account to pay its own vendors or transfer the funds to its own bank account, among other options.

PayPal also recently rolled out a virtual debit card, software that consumers can download that generates a one-time MasterCard debit account number for use at e-commerce sites that accept MasterCard but not PayPal. As part of its battle with Google Checkout for

"It is targeting small, Web-oriented businesses, and it is more of an acquiring option for micro-businesses." Consumers provide Google with their credit-card and shipping information, which Google stores. The system currently supports credit cards from Visa, MasterCard, American Express, and Discover but not bank-account transfers. Users then purchase goods and services at participating merchants without having to share credit-card information with those merchants. Google charges merchants \$0.20 per transaction plus 2% of the transaction value.

One advantage Google Checkout has is that it is a recognizable brand. "However, one advantage of other services such as PayPal is that they have a funding mix, allowing payments through credit cards, payments from other PayPal accounts, and ACH transfers to a bank account," Van Arsdale says.

Burg adds that, because it is so new, Google Checkout has limited traction so far, but it is already "top of mind." "It may take awhile before it gains traction," he notes.

Bill Me Later's pitch to merchants is similar to that of PayPal, in that it has the ability to drive down merchant costs and appeals to a community of shoppers who prefer not to use a credit card online. Its merchant fee is 1.5% of the transaction value.

For consumers, Bill Me Later is similar to applying for a line of credit. Once the customer

A sampling of APS providers



It is virtually impossible to decisively categorize APS providers, because some of them offer a wide range of services that cut across a number of categories. In addition, some of the services seem to straddle two or more categories.

It is also difficult to organize providers by size, because that changes monthly. Some of these providers may not even be in existence anymore in a month. Others may have merged with larger providers. Still others may increase market share quickly in the near future (as Google Checkout is expected to do).

As such, providers here are listed alphabetically.

| | | |
|--|--|---|
| ACIES www.aciesinc.com | MOBILE-LIME www.mobilelime.com | SPEEDPASS www.speedpass.com |
| AUTHORIZE.NET www.authorize.net/ echecknet | NATIONWIDE PAYMENT SOLUTIONS www.getnationwide.com | SPEEDPAY (Western Union) www.speedpay.com |
| BILL ME LATER www.bill-me-later.com | PAYPAL www.paypal.com | TELECHECK www.telecheck.com |
| CERTEGY www.certegy.com | PAYPASS (division of MasterCard) www.paypass.com | TEMPO PAYMENTS (formerly Debitman) www.tempopay.com |
| CHECKFREE www.checkfree.com | PEPPERCOIN www.peppercoin.com | TIO NETWORKS www.tionetworks.com |
| FASTLANE SECURE PAYMENTS www.fastlanecpn.com/us/ | QPASS www.qpass.com | TRIVNET www.trivnet.com |
| GOOGLE CHECKOUT checkout.google.com | RBA INTERNATIONAL www.rbaintl.com | VALISTA www.valista.com |
| IMPACT PAYSYSTEM www.impactpaysystem.com | SECURE-EBILL www.secure-ebill.com | VIVOTECH www.vivotech.com |

"Customers want to pay in a number of ways. If you don't offer these permutations, they won't do business with you"



market dominance, PayPal isn't charging merchants to handle these transactions.

"PayPal has a two-pronged pitch to the merchant community," explains First Annapolis's Van Arsdale. "On the one hand, there is the potential for cost savings, since PayPal has the ability to drive down its cost in the future by emphasizing other forms of payment beyond credit cards." And because it already has so many consumer account holders, it can make a strong case to merchants that it is on the way to becoming a standard online payment method.

One potential concern for merchants and consumers alike, though, according to CyberSource's Burke, is that PayPal is both the issuer and the acquirer. "As such, there have been some concerns about their objectivity as they mediate disputes between buyers and sellers," he cautions.

"Google Checkout is similar to what the early stages of PayPal was," says Van Arsdale.

decides what he wants to buy, he provides his name, the last four digits of his Social Security number, and his date of birth. Bill Me Later then does an instant credit review and decides whether it wants to loan that amount of money to the customer. If it approves the credit, the customer gets a statement from Bill Me Later. The customer can pay the amount off all at once or pay over a period of time. If he pays over time, he also pays interest.

MAKING YOUR SELECTION(S) The good news about APSs is that the technology is well ahead of merchant demand at this time. Another bright spot is that there are dozens of providers from which to select.

This, however, can also be a downside, as it makes the narrowing-down process that much more difficult. In addition, there have been a lot of false starts, and a number of providers have already folded or merged with other providers. And not just small, "upstart" providers: Some large companies that entered this market have already abandoned the field. For example, Microsoft scratched plans to turn Passport into a payment service, and Yahoo! gave up on PayDirect Network in 2004.

As such, when considering providers, look for a healthy track record, a strong share of market, and general popularity among consumers. Here are some other tips for selecting an APS provider:

- Anytime you add a new payment system, you will have to make some investment of money and time, such as technical upgrades and reprogramming of your Website. "I don't recommend jumping into each and every alternative payment system that comes along simply because it exists, because there is some track record of failure for this type of product," notes First Annapolis's Van Arsdale. "Look for the ones that have attained a certain level of attraction, then experiment with them. Offer them, and see how your customers react." He also suggests collecting data and feedback from customers to determine the impact.

- "Find out what your three or four major direct competitors offer," says Burg. At a minimum, you should offer as much as your competitors. Then consider adding one or two forms of payment that your competitors don't offer in order to differentiate yourself.

- But start out slowly. To assess cost-effectiveness, introduce one alternative payment

system and see if it leads to incremental business. "If so, consider adding another," Burg suggests.

- Besides going to each APS provider's Website for information, it may be worthwhile searching online for the provider's name to see how many hits show up. While not a scientific study of popularity, it can help you narrow down the list.

- "Find out what your customers are asking for," advises Joan Broughton, vice president, content and education for the Shop.org division of the National Retail Federation. "Then ask the providers who else is using their technology. Contact those merchants to see what their experience has been with it."

- Focus on providers that either have a lot of positive and extensive press already or are actively working to promote their services to consumers. It is not your responsibility as a merchant to publicize an APS or how it operates; it's the provider's responsibility, says CyberSource spokesperson Bruce Frymire.

"Merchants have a certain amount of real estate available to them on their Websites and a certain amount of time in front of the consumer," Frymire says. "If it were their

“Why we added two APSs”

Computer and electronics merchant TigerDirect.com accepts payment via Secure-eBill as well as by PayPal. “We introduced two alternative payment systems for a number of reasons,” says vice president of sales Patrick Fiorentino.

“First, customers are looking for alternative ways to make payments. There is a big trend toward people wanting to remain third-party to their payment information. They don’t want to give credit-card information or do direct transfers to vendors. They want to go through a third-party that they believe will hold that information secure.

“Second, customers want to pay in a number of ways. If you don’t offer these permutations, they won’t do business with you.

“Third, we prefer customers to go this direction because of the financial benefit we receive by using these services, compared to credit-card charges.

“Fourth, our risk-analysis department consists of 40 people who spend their time reviewing and analyzing credit-card payments to determine whether to accept them or not. However, credit cards represent only 14% of our total transactions.

responsibility to educate customers on the various payment methods, it would direct attention away from where it should be, which is on making the sale.”

■ If you have a lot of international customers, it may make sense to accept wire transfers, as well as PayPal, which is worldwide.

■ “One claim many of these services make is that your cost will be lower than that of credit-card transactions,” notes CyberSource’s Burke. “Read the fine print to make sure this is the case. Also, make sure you will get your money as quickly as you would with a credit-card payment.”

Having your own merchant account, as with a credit card set-up, increases the flow of funds to your bank. While the account provider will hold your funds to prevent chargebacks, it’s usually only for about 48 hours. With an APS provider, however, you may need to wait for a week before you receive your funds. ■



“When we introduced PayPal two years ago, we wondered how many people would actually use it. We were surprised to find that that business doubled year over year. And since introducing Secure-eBill, we have seen the numbers go up every month.” ■