

From Adweek Magazines' TECHNOLOGY MARKETING magazine

INSIDER PASS E-LETTER

A daily boost of marketing intelligence

15 Minutes with Joe Lynam of PaymentOne

by Jonathan Angel

Many consumers dislike paying online with their credit cards – especially for small purchases of content. That was the finding in a recent poll, conducted at the behest of PaymentOne. The San Jose, Calif. company describes itself as “the Internet’s leading payment services provider.”

The survey, conducted in conjunction with Javelin Strategy & Research and eContent Magazine, surveyed more than 10,000 consumers. Among other findings, those who have not made online purchases were asked what would persuade them to buy online content, 53 percent cited more secure payment options.

That’s pretty much what PaymentOne expected – and no doubt hoped – to hear more. It specializes in helping online marketers offer their customers a wide variety of payment options. America Online and Bluelight.com are among those who use its services.

To find out more, we spoke to Joe Lynam, the company’s president and CEO

TM: Some readers might wonder what a payment service provider does. What kinds of services do you provide to your customers?

JL: The original iteration of the business was supporting merchants with certain billing and collection functions for online transactions. That included registering the customer, maintaining that billing relationship on an ongoing basis, and managing complex pricing and promotion. We enabled customers by hosting that on their behalf. We would also host the payments processing as well.

As part of that, we offered – and continue to offer – alternatives to credit cards, giving customers other ways to settle with the merchant. We surround that with another key function, the customer care component, both online and with live operators, in case a customer has a question about any charges.

Now we’ve rounded that out to include virtually everything an online merchant needs. As part of this, there are now multiple payment methods.

TM: Credit card payments are the most commonly used form of payment on the Internet. What are some of the other options you enable?

JL: We enable five different payment methods, and of course credit card is one. Another is called ACH (Automated Clearing House), which enables payment via direct debit from a customer’s checking account. The third method is the phone bill. Fourth, there’s a bill-by-mail service we call DirectPay. Fifth enables the customer to pay in advance.

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We offer our customers the ability to dynamically manage the payment process, to optimize their revenue opportunities. A customer can accept credit cards only, then monitor the level of sales, abandoned shopping cards and so on; they can offer credit card and ACH and witness some level of incremental sales; they can offer credit card, ACH and phone bill, and see a fairly significant uptick.

If you are a consumer who says "I won't give you my credit card, I don't want to give you any information to use an automated check debit" – and you can't bill that customer by phone, then how about bill-by-mail?

The psychology you're getting at is that many consumers, while they like the online experience, don't like the online financial transaction. Traditional methods are hard to kill, and some do like to get their bills in the mail.

TM: Before we talk about the poll you folks did of consumers, tell me about your competition. I assume that merchants can deal with many different suppliers if, for example, they only need to enable credit card billing. But some of the other billing options sound more complex. Are there any areas where you have more "secret sauce" to offer?

JL: First I should say that we target our offerings most particularly toward Internet services and content, with customers such as AOL and Bluelight. This is not just the usual sale of computer peripherals or furniture online, where fulfillment options are limited to shipping choices. In the digital content services space, the fulfillment element may be a music download delivered real-time, an archived article, paid online games. You have to be able to manage things in real time.

This poses very different challenges than the hard good words. There's a lot of intellectual property and secret sauce around managing that. There's secret sauce in the fraud analytics. There's secret sauce in the relationships with more than 1,400 phone companies that allows us to drive charges onto their bills.

TM: So what's the problem with just having credit cards be the universal payment method?

JL: Some people have concern around that information, where it's stored, where it might go, how it might be utilized to get at broader information. There are a number of examples that don't assuage that concern. Online fraud is ten times greater than offline fraud. So the element of public concern about credit cards is issue number one.

Issue number two is the convenience factor. It's inconvenient to always have to pull out your wallet and use the card. This is significant. Where using a credit card is not convenient for us offline – especially with small purchases – we just don't. You don't walk into 7-11 to buy a newspaper and plop down a credit card. People generally don't do it for purchases of ten dollars. And of course the merchants are happy about that because of the cost to them.

Another issue – less significant in the US but pretty significant nonetheless – is that many people still do get by without a credit card. Nearly a third of households. When you take teens, you take certain other socio-economic demographics, you find low credit card penetration.

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TM: *I gather there's a significant level of consumer discontent with current payment options.*

JL: Yes, and that's inline with our previous empirical data. What we know to be taking place is that the merchants who are addressing this problem are enjoying a strategic advantage. In no way, shape or form do I think that plastic will be displaced – but I think that increasingly it will be complemented.

TM: *Do you foresee much of a future for micropayments?*

JL: The issue there is partly definitional. Real micropayments mean micro-profits, if any, so that's hindering their progress. When you talk about charging people a penny per Web page or that sort of thing, there's just not much real effort being applied.

There are some companies that focus on it. We don't; our focus, instead, is on supporting transactions that, when aggregated together, can be made profitable for all parties involved.

The incremental cost on adding line items to a phone bill is negligible. For a credit card, every line item is x percent, plus 35 cents, that the merchant has to pay. For the bills that we provide, it might be just the cost of the ink. Therefore, micropayments could be viable for us to support – but I just don't envision a lot of business models supporting them.

On the other hand, I envision a lot supporting the 50 cents and above mark. Online music services, for example, are an area where we might not have micropayments, but we will have minipayments.