

A Study of Emerging Third-Party Payment and the Profit Model in China

—Take Lakala for Example

Wenyue ZHANG, Shuning WU, Bin GU

School of Economics And Commerce, South China University Of Technology, Guangzhou, China

Email: wyue.zh@163.com

Abstract: Third-party payment tools use more and more widely today. But as a commercial enterprise, third-party payment companies rarely profit because the existing third-party payment is immature as well as the third-party payment company. The facts tell that a third-party payment company which is desirous to possess some proportions in this industry needs to avoid the competition of homogenization and actively seeks for new ways to profit.

Keywords: third-party payment; profit model; Lakala

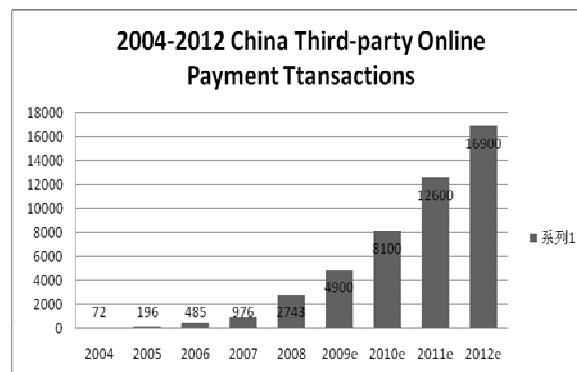
1 Introduction

People who are familiar with the e-commerce know that e-commerce built up by information flow, capital flow and logistics. While e-commerce becomes more and more developed today, the development of cash flow, one of three components of e-commerce takes on a pivotal position. People found that "payment" becomes a bottleneck in the evolution of e-commerce. In order to solve the problem, third-party payment came into being. Developed until present, online payment of domestic business can be divided into three categories. First, dominated by the five major commercial banks, payment gateway services, such as UnionPay, have the biggest advantages of the platform in the financial backgrounds and familiarity about this type of business; The second one, the non-independent payment instruments, such as Alipay, are based on large-scale B2C, C2C website; The third one is an independent third-party payment platform and terminal with online payment, phone payment, mobile payments and other means of payment^[1]. The platform likes 99bill and the latter likes Kyifu and Lakala,. As a convenient and financial service, Lakara is growing. We attempts to study the profit model of third-party payment, taking Lakala for an example in this issue.

2 Chapter 1: the Status Quo of Domestic Third-Party Payment Development

When the financial crisis brings a vast impact on a lot of industries, the "electronic payment" Industry is still at high speed. IResearch report shows that China's trading volume of online payment amounted to 274.3 billion yuan in 2008, 1.8 times more than in 2007. Moreover, the turnover of PayPal, a United States company, reached 2.4 billion dollars in 2008^[2].

The following is profit and operation model of third-party payment platforms:



Source: 《iResearch 2008-2009 China Online Payment Research Report》

Figure 1. 2004-2012 China Third-party Online Payment Transactions

Alipay: Charge fees to all cooperative businesses including TaoBao internet. Alipay is an online payment tool, achieving its function through cooperation with businesses.

PayPal: After landing in China, it is free of charge first time, but charge the seller of the handling fees. PayPal is an online payment instrument, too.

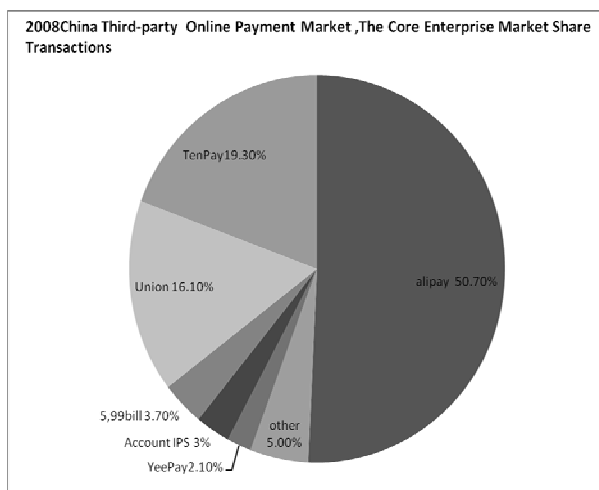
99bill: Charged a low rate to corporation, it is free of charge for personal users now. It will consider charging value-added service in the future. 99bill supports different terminals such as the Internet, cell phone, telephone and POS.

Tenpay: The value of user is so large that it will naturally have a profit model. As an online payment tool, you can use it not only for shopping on Paipainet and more than 200 thousand shopping websites, but also for some convenience services such as recharging mobile phone, Games, credit card repayment and passenger ticket. It has a multi-service platform for enterprises rather than individuals.

Lakala: It will benefit a little in each transaction on the

terminals by consumers; it breaks down the sink between Internet and convenience stores, conducts e-commerce services and provides other value-added services business. It also provides consumers with a variety of convenient financial services and e-commerce payment services.

Through the analysis of third-party payment above, we conclude that third-party payment function is homogenizing. Because of the homogeneity of the provision of services, it results that a third-party payment company has to operate below cost to survive and that the current third-party payment companies almost do not profit, including Lakala. The following is our analysis about profit model of third-party payment, in allusion to Lakala.



Source: «iResearch 2008-2009 China Online Payment Research Report»

Figure 2. 2008 China Third-party Online Payment Market, The Core Enterprise Market Share Transactions

3 Chapter2: the Notion of the Present and Future Profit Models of Third-Party Payment

Founded in 2005, Lakala is a financial services company to provide facilitates, constructing and operating China's largest network of the convenient payment. It has covered stores, supermarkets, convenience drugstore surrounding nationwide offices and residential area in major cities. Until February in 2009, Lakala has already opened up in 23 cities, with an amount of more than 20,000 outlets of convenient payment. Lakala's operation including the following:

A. Lakala cooperates with the telecom operators, for telecommunications operators to facilitate payment to pay the charges, service charges recharge.

B. Lakala co-operation in the CRM call center, that is

to say, after users buy merchandise, users will receive a message of the Lakala bill number and pay the bill on any outlet of Lakala convenient payment.

C. Lakala cooperate with online account operators, that is to say, users enter the amount of recharge and mobile phone number and pay by credit card in any network of the UnionPay smart card terminal,. Users receive recharge password by Lakala, then land their own account, press the password and complete the recharge.

D. la co-operation with the Internet business, that is, users buy merchandise, click UnionPay standard card convenience site or "Lakala facilitation payments" on the website, and Lakala send bills number to its users on mobile phone. Users can do the "Lakala facilitation payments". In all kinds of these services, it's out of fee for users except that users recharge to Alipay or Tenpay through Lakala. Besides, Lakala charge upstream business which cooperates with Lakala, like UnionPay.

We can claim that the most important feature of Lakara is convenient for users. Lakala original network of facilitated the payment and service platform of e-bill created so far, a "monopoly" enterprise at the national level. That is why domestic competitors have not been found yet even Lakala has possessed 95% of market share. Lakala is still in the duration of constructing the network, but according to the plan of Lakala, It will profit by the current pace of development in two or three years. The most important question is what Lakala could profit by?

"Lakara's characteristics of the business determine that only getting a large-scale and bigger volume can get profit." The founder of Lakara, Sun Taoran said that only in a large enough market share, the company will probably get profit by the effect of scale, especially for third-party payment enterprises which are small profits but quick turnover as. Moreover, after predominate the big scale in the market, companies can also increase bargaining chips with the banks and other upper reaches of business.

However, if you want to gain a firm foothold in the third-party payment industry, do the enclosure on the line is enough? Obviously not, as far as I know, not only Lakala, but also AliPay, Tenpay, 99bill are doing the "enclosure movement". I concede that, in addition to get profit by increasing market coverage, profits making through the value-added services is an inevitable choice for Lakala and other third-party payment enterprises. To explore the underlying reasons, the mainly is the following.

A. The market is limited. With the increase in third-party payment instruments, the cake of payment is divided by more and more enterprises. Therefore, whether online or offline payment, consumers can choose one from a growing number of tools .The result of the homogenization of competition is various non-profitable enterprises.

B. The source of profits is limited. The third-party payment enterprise maintains the operation mainly through

charging a fee of the upstream and downstream business customers. Among this, charging fees of the downstream businesses is limited. For example, lakala provides some terminal operations service for banks. When customers deal with repayment and interbank repayment through lakala convenient point, they do not need to pay any cost, but the payee bank will pay a certain service fees to the company. "This is one of important sources of our profit." one official said. Like payment to public utilities, public institutions will normally give service charge of 0.3% to banks, third-party payment enterprises and Unionpay to distribute by the role they play in the service lines ^[3]. China's third-party payment enterprises survive in the less than 0.3% crack.

C. The right to use funds is limited. As we can see from the process of the third-party payment operations, the buyer does not pay to the seller directly but pays into the designated account which is supplied by a third-party payment as a platform, only after by the buyer does the good inspection, a third party payment platform transfers the money to the seller account when the buyer agrees. Because time difference is exist, the buyer's funds will have a short period of detention in a third-party platform. In general, the funds will be remaining in the third party at least 2-7 days. As long as a large number of transactions arise every day, third-party will accumulate a large number of stable funding precipitations ^[4]. Although the current laws and regulations have not yet clearly restrict the use of this part of funds, it will not be long before the promulgation of relevant laws from consumer's point of view of safety requirements of their money. So in the long run, the use of the stranded funds in a third-party payment platform will be restricted. Now, AliPay has opened an interest-free account in Industrial and Commercial Bank of China to store the funds.

Above, we can assert that the space which such enterprises want to realize development through a single model is very limited. Value-added service is the key to develop enterprise. I think if the third-party payment enterprises want to make a breakthrough in the value-added field, the key is to try.

First, expand areas of cooperation. For example, Lakala has been in cooperation with UnionPay, Alipay and Tenpay now, and it also can work together with securities firms, investment banks to exploit its shares in securities fund business and let consumers will be able to do stocks and funds trade in convenient stores. But at the same time, it should pay attention to avoid overlap with its mobile phone software business in this area. To distinguish the function of mobile phone, Lakala should provide larger volume of information than the mobile phone can provide and renovate information in times. Otherwise, Lakala

provide necessary online function to facilitate the consumers, and the relevant fees should charge in other ways such as through charging the mobile fee.

Second, third-party payment company can also do something in logistics. As a third-party payment tool, Lakala must be connected with the e-logistics. The consumers who buy the commodity through the e-business can choose address of consignee by one's need. Lakala can cooperate with the convenient store to solve the problem about storage of the mailing commodity to avoid that large number of mailing commodity accumulate in convenient store.

Third, the third-party payment company can participate in a variety of service and coordination after merchandise sale. The characteristic of the trade platform is virtual. It brings uncertainty to consumers and increases the risk. While e-business would like to play a more important role in economical life, it should minish the risk. It will be a good way if the insurance companies join in. But trading objects in e-business are numerous and jumbled, the insurance company will feel its ability not equal to one's ambition. However, the third-party payment company should cooperate with insurance company to avoid risk.

Forth, as mentioned above, when using the third-party payment tools such as lakala, a certain amount of deposit will form in platform of lakala as the customer becoming more and more ^[5]. The third-party payment company can use these funds to do some short-term stable investment in premise of ensuring the payment activities. So far, there are no restricts about how to use the funds in the country. It's a risk to government when it brings profits to the third-party payment company.

In short, the third-party payment market is greatly broad, and it is clear that the road of "payment" has become more and more narrow. To achieve growth through value-added is the problem which each of third-party payment of enterprises should taken into consideration. The market need some innovative and talent person who have courage to explore the uncharted territories.

References

- [1] Payment of The Theory Of Evolution. Nanfang Daily-Southern Metropolitan Daily 2009-3-16.
- [2] Zhu Xiangting, Electronic Payment Of Evolution:It Was Some-one In The Enclosure[N]. Southern Metropolitan Daily 2009, 3-16 (C09).
- [3] Yu Tao, Zhu Xiangting, Lakala:Convenience Store Market[N]. Southern Metropolitan Daily 2009, 3-16 (C10).
- [4] Zhou Lin, Third-party Payment: Both Opportunities And Challenges[J]. Southwest Finance, 2009, (02).
- [5] Liu Hongjun, Xie Yongji, Third-party payment service provider funding and regulatory model of sedimentation[J]. Science & Technology Economy Market, 2009 (10).