

Ka-ching, Ka-ching

Examining payment options to find more ways into consumers' wallets

By Paul Demery

Mike Hackley, CEO and co-founder of ShoppersChoice.com LLC, has yet to meet an online payment method he doesn't like. "We have tons of payments systems because I think a retailer ought to have as many alternative payments as it can get," he says.

The more payment options a shopper sees on ShoppersChoice.com or on its growing number of sister sites, he figures, the more likely the shopper is to buy one of the mass marketer's barbecue grills, wristwatches or pool tables instead of jumping to a competitor. "We're gaining market share, but if we didn't offer Google Checkout, the likelihood is greater that a shopper will buy from a competitor who does offer it," Hackley says.

Like other retailers offering a growing number of payment methods beyond traditional credit cards, ShoppersChoice is realizing other benefits as well. Many consumers are motivated to use alternative payment methods like third-party payment service PayPal, billing services Bill Me Later and eLayaway, cash and check substitutes like eBillMe and MyECheck, and other alternatives to credit cards because of the convenience and security consumers believe they offer, according to a study by Javelin Strategy & Research. Javelin found that more than 60% of consumers who use either PayPal or a billing service like Bill Me Later cited convenience as a reason for paying with them, and 40% or more said they believe these methods were more secure than credit cards.

But there is also general interest among retailers in alternative payments as a whole as a way of giving consumers more choice and service, says Nikki Baird, managing director of retail industry research and consulting firm Retail Systems Research LLC. "When I talk to retailers about their interest in alternative payments, no one thing comes up, except for the customer service aspect, the ability to make a payment any way a customer wants," she says.

In addition, alternative payments offer merchants lower costs of processing payments. Compared to credit card transactions, which typically cost merchants 1.5% to 3% or more of the value of transactions, fees for alternative payments in many cases are lower.

"Customers are responding to these alternative payment methods—and combined with the lower transaction costs for merchants—that's where our industry is heading," says Sumit Bhanote, co-founder and director of business development for LuggagePoint.com.

Combined with introductory promotions some alternative payment providers have been offering to consumers and merchants, the overall value offered by alternative payments has resulted in a sharp increase in the number of merchants offering them, says Sandeep Walia, president of Ignify, provider of e-commerce software that supports multiple payment methods. "Among merchants signing up today, about 40% are asking for alternative payment methods as opposed to 10-15% a few years ago," he says.

Payments processed as direct debits from bank accounts through the automated clearinghouse system vary in costs based on individual clearinghouses, but such transactions can be as low as half the cost of credit card transactions, Walia says. Even with the cost of the software required to accept ACH transactions—on average about \$2,000 as part of the Ignify platform—it doesn't take long for merchants to produce a net savings over credit card fees, he adds. The cost of the entire Ignify platform ranges from \$30,000 to \$50,000, covering multiple payment methods including credit and debit cards, electronic checks, PayPal and bank wire transfers.

More options

The online payments industry, meanwhile, is offering more options than ever. If consumers' appetites are whetted for alternative forms of online payments, they might want to hold onto their wallets—because there are more to come as the market evolves beyond just concerns about security and convenience to innovation based on new ways consumers are shopping.

“Over the last two or three years, alternative payments have really taken off in terms of innovation and options to answer the concerns of people who were nervous about paying online,” Baird says. But now, she adds, the payments industry is stepping into areas no one would have expected a year or two ago, bringing new payment options into areas like gift cards and social networks as well as retail e-commerce sites.

“Now payment companies are coming up with wild and zany new ways to pay,” she says. “They may not have the traditional Visa and MasterCard seal of approval, but they point to new levels of technology and consumer comfort with online shopping.”

The expanding payment options fall into several categories, including:

- billing services that e-mail an invoice following purchase and let shoppers pay through credit cards, direct account debits or mailed checks;
- services that let consumers pay cash for a temporary debit card;
- mobile payments charged to credit cards or debited from bank accounts;
- mobile payments for digital content charged to telephone bills.

For all the payment options available, however, merchants must still figure which ones bring value to their strategies, such as increasing average order values or acquiring new customers.

Online lingerie retailer Bare Necessities has experienced an increase of about 3% in average order value for orders placed through the shopping section of the Bill Me Later web site, says Keira Lim, director of customer acquisition for BareWeb Inc., which conducts business as Bare Necessities. Promotions have included free shipping and special sales on certain brands, she adds.

Bill Me Later contends that average order values for many of its retailer clients have increased 75% or more, depending on the types of offers. The highest increases are usually tied to 3-month or 6-month same-as-cash offers that provide incentives for shoppers to buy high-ticket items or bundle multiple products together, says vice president of marketing Vince Talbert.

The bill's in the e-mail

Bare Necessities also processes orders for customers who choose the Bill Me Later option in the checkout section of BareNecessities.com, but hasn't determined how that affects order value, Lim says. Because shoppers are already in the checkout phase when they choose Bill Me Later on its own site, it's difficult to determine whether shoppers would complete a sale without the Bill Me Later option, she adds.

Bill Me Later is a billing service from Bill Me Later Inc. A shopper who chooses this option clicks the Bill Me Later icon during the checkout process, enters date of birth and last four digits of a Social Security number, then receives an e-mailed invoice within five to 10 days. At that point, the shopper can pay through BillMeLater.com in an automated clearinghouse direct debit transaction, through a bank bill-pay system or by mailing a check.

Bare Necessities offers its customers Bill Me Later as the only payment alternative to major credit cards, though it is considering eBay Inc.'s PayPal third-party payment service and Google Inc.'s Google Checkout, which can be tied to Google search marketing programs.

Good ROI

To participate as a merchant listed on BillMeLater.com, Bare Necessities also works with the comparison search engine Become.com, which powers Bill Me Later's comparison shopping feature. Shoppers on BillMeLater.com can search for a product to produce a list of merchants that accept Bill Me Later payments.

Bare Necessities uses its internal technology and marketing personnel to manage bids through Become.com for placement in search results on BillMeLater.com. Although it pays search fees to Become.com in addition to commissions on the value of purchase transactions to Bill Me Later, Bare Necessities has realized a strong return on investment, Lim says.

"We're getting good ROI and have been pleased with our customer acquisition opportunities," she says.

At Etronics Inc.'s Etronics.com, a retailer of consumer electronics, customers' interest in paying without credit cards led it to develop its own web form a few years ago for accepting check payments. Customers chose check payment as an option in the checkout process, then received an order number and an address to which to mail their check. Etronics would ship orders after checks were received and cleared, but the system became more trouble than it was worth because of paper-handling chores and the tendency of shoppers to call asking about their order before the check had cleared, says Mayer Balsler, co-founder and chief operation officer.

Etronics recently dropped its check-payment form in favor of eBillme, a service from ModaSolutions that offers shoppers the checking payment option without having to deal with paper or long settlement periods, Balsler says. EBillme, which guarantees payment to the retailer, e-mails purchasers a bill with a note to pay through their personal bank bill-pay system, where shoppers can view and manage their bills. "EBillme lets me get more of that consumer market," he says.

Etronics also offers Google Checkout and PayPal as payment alternatives. As other retailers have learned, promotions tied to these services as well as consumer interest in non-card payments have helped to drive business. Promotions such as free shipping, \$25 rebates and free boxes of chocolates from 1-800-Flowers.com have won over customers to the alternative payments, Balsler says.

Growing customer base

At LuggagePoint.com, Bahnote says promotions such as the \$10 coupon Google Checkout offered on a \$50 purchase led to a sharp increase in his number of customers. "With promotions year-round, we've seen a huge increase in our customer base," he says. "30% of our customers used Google Checkout during early promotional period, and many of them still do."

But other retailers say the temporary surge they get from any one payment method is all the more reason to offer additional methods and offer customers what they want. ShoppersChoice.com offers PayPal, eLayaway, eBillme and Western Union in addition to Google Checkout, and it plans to offer Bill Me Later now that it has met the vendor's minimum of \$10 million in annual sales. (Bill Me Later says it plans to serve smaller retailers beginning later this year.)

"Google Checkout went like wildfire when people first signed up, when Google was offering a kickback of \$5 to \$10, but since then it has slowed down," Hackley of ShoppersChoice.com says. "Google Checkout is cheaper, but not everyone wants to sign up for it. That's why we have tons of payment options."

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Ways to pay: Some alternative payment methods			
	Merchant fees	Checkout method	Special features
E-mailed billing services			
Bill Me Later/ Bill Me Later Inc.	15 cents/transaction plus 1.5-3% of value based on volume; no set-up fees	Choose Bill Me Later on retail site or choose merchant on BillMeLater.com. Enter Soc. Sec. last 4 digits and date of birth, get e-mailed bill, pay through ACH on BillMeLater.com, through bank bill-pay, or mailed paper check.	Promotional offers funded by Bill Me Later; Merchant listings on BillMeLater.com appear in comparison shopping engine powered by Become.com; Payments as long as 12 months
eBillme/ ModaSolutions	1-2% of transaction value based on volume; no set-up fees	Choose eBillme on retail site, receive e-mailed bill, pay through bank bill-pay	Promotional offers funded by eBillme; consumers can use eBillme as single payment point for multiple retailers
eLayaway	Merchants pay \$349 annual maintenance, no transaction fees; consumers pay 1.9% transaction fee deducted from bank account in ACH debit	Choose eLayaway on retail site or choose merchant on eLayaway.com	Payment calculator shows monthly payments for different installment lengths
Other services			
Google Checkout/ Google Inc.	20 cents per transaction plus 2% of value; no merchant set-up fees	Choose Google Checkout, complete purchase with registered credit or debit card	Some transaction fees waived for merchants who use Google AdWords search marketing program, which makes Google Checkout icon appear with search ad
MyECheck/ MyECheck Inc.	Less than 2% of transaction value; no merchant set-up fees	Choose MyECheck, enter name, address, bank routing and checking account numbers	Risk management service guarantees payment to merchant, who receives payment confirmation within a few seconds of customer checkout
PaidByCash/ Retail Expansion Network	NA	Choose PaidByCash, enter ZIP code, get list of participating stores where can purchase temporary MasterCard debit card for \$10-\$350, with a monthly maximum of \$500	60,000 retail stores offer PaidByCash debit cards
PayPal Inc.	30 cents per transaction plus 1.99-2.9% of value, based on volume; no set-up fees	Choose PayPal on retail site, enter e-mail address; PayPal pays merchant through account pre-funded by consumer through credit card or ACH	For an additional \$30 per month, PayPal Website Payments Pro can be integrated with a retailer's own checkout system to let shoppers pay directly by credit card or PayPal
Mobile payments			
Bill2Phone/ BSG	20 cents per transaction plus about 4% of value; fee of "few hundred dollars" for software code	Enter Soc. Sec. last 4 digits, name and address; pay within 30 days on next phone bill	Service being integrated as built-in feature in shopping cart technology from OSCommerce, ZenCommerce, others
MPay/ MPay Inc.	20 cents per transaction plus about 2% of value depending on volume; no set-up fees	Choose MPay in mobile commerce site, enter phone number or account name to have purchase amount debited from checking account	Merchants can access mobile sales reports and manage refunds online

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