

In Viewpoints, prepaid and stored value card professionals share their thoughts and perspectives on the industry. These are not necessarily the viewpoints of Paybefore.

## Prepaid Card Processing: What Would Google Do?

During the past decade, Google, eBay, Facebook, Amazon and others have introduced us to new ways of doing business and new ways to think about the companies with which we do business.

Earlier this year, I read *What Would Google Do?* (New York: HarperBusiness, 2009)<sup>1</sup> in which author Jeff Jarvis explores the principles under which Google and similar companies operate and applies them to new sectors—from utilities to airlines to manufacturing. In doing so, he simply asks: What would Google do (WWGD)?

As I read Jarvis' book, I asked myself the question: When it comes to prepaid card processing, WWGD?

### WWGD Principles

While there are many ways to characterize the principles by which companies like Google function, I've distilled them as follows:

1. The market is no longer defined only by the mass market but also by the market of niches.
2. Collaborate to manage complexity and co-create value.
3. Think distributed to be a "platform" not a "product."



By Jonathan A. Weiner, Executive Vice President, TxVia

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### Applying WWGD Principles

Here's how I apply the above WWGD principles to prepaid card processing:

#### 1. The market is no longer defined only by the mass market but also by the market of niches.

To help put the idea of mass markets and markets of niches into perspective, Jarvis gives the example of eBay. In 2007, eBay sold \$59.4 billion in merchandise from 547,000 online stores. While that was smaller than Walmart's sales of \$345 billion, eBay outperformed America's largest department store chain, Federated (Macy's), which had revenues of \$26.3 billion.

Increasingly, consumers want personalized solutions and the market of niches represents a trend toward customization on an individual basis. One-size-fits-all solutions no longer make the cut. Consider that companies such as Netflix and Amazon generate between 25 to 50 percent of their revenues from products their brick-and-mortar competitors don't even carry. And, that percentage is growing.

If there was ever a market of niches, it's prepaid.

Over the past 10 years or so, prepaid has been called the third leg of the card payment stool; credit and debit being the others. The point is well-taken, but it's an understatement. Prepaid didn't take the card-based payments industry from two to three types of cards—it took it from two to dozens.

### FOOTNOTE:

<sup>1</sup> Jarvis' book is the latest in a string of books that addresses similar topics. Others include the 2006 *New York Times* bestseller *The Long Tail: Why the Future of Business Is Selling Less of More* by Chris Anderson, the 2007 *New York Times* bestseller *Wikinomics: How Mass Collaboration Changes Everything* by Don Tapscott and Anthony D. Williams and the 2008 book *The New Age of Innovation: Driving Co-created Value Through Global Networks* by C.K. Prahalad and M.S. Krishnan.

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Prepaid is a highly fragmented marketplace with many variables differentiating the range of products—from capabilities to distribution to end users. While some distinctions may be obvious, others are subtle. For example, a gift card sold online is very different from one sold on a j-hook, and a general purpose card portfolio with a high rate of direct deposit load presents a very different business case compared to one with a low rate of direct deposit load.

To maximize prepaid profitability, issuers and program managers are focusing on distinct product needs that help them acquire, monetize and retain cardholders—from portfolio segmentation, to fee structures, to distribution hierarchies, to targeted offers and communications.

Prepaid also has forever changed card-based payments by opening up the industry far more to non-financial institutions (non-FIs) than before. By some accounts, more than two-thirds of prepaid products in the United States are now commercialized by a variety of non-FIs. Many of these non-FIs, which occupy different positions on the value chain, have

unique requirements and need custom integrations to incorporate prepaid into their businesses.

Global expansion has added diversity to the prepaid card product line in every possible way, with vertical applications deployed, payment schemes utilized and new features and functionality required.

The bottom line is this: Although there are many commonalities across prepaid products, the industry is characterized by its differences as much as its similarities. The fragmentation of prepaid coupled with the increasing need to meet individualized requirements make prepaid an incredibly complex industry. If you agree with this worldview of prepaid, then you realize the magnitude of the undertaking for prepaid card processors—to develop a system to organize and manage this vast complexity.

Assuming success is achieved only with standard products brought to market by blockbusters represents a big gamble. Instead, it's critical to focus on delivering compelling prepaid card processing solutions to the full spectrum of issuers and

program managers, and to create a plan to best meet the demands of the blockbusters that must be consistent with a scalable strategy for aggregating the niches. Only then can prepaid be a broadly viable payment alternative and evolve to its full potential.

### 2. Collaborate to manage complexity and co-create value.

Jarvis credits Mark Zuckerberg, the founder of Facebook, for the principle of “elegant organization,” which he describes as helping communities do better what they already do. The key to elegant organization isn't to organize communities but to help them organize themselves. No one understands better what communities need than the communities themselves.

The growth of the network branded prepaid card industry—estimated by Mercator Advisory Group to have increased from about \$5 billion in load volume in 2003 to more than \$60.4 billion in 2008—has been made possible by the tremendous efforts of a community of thousands of people across thousands of organizations around the world. As an industry,

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we've invested billions of dollars and innovated in every direction.

So, in this community, what's the role of the prepaid card processor?

While the role of a prepaid card processor is to provide turnkey products where possible, it's also clear that there's no such thing as an off-the-shelf processing platform that can manage prepaid's inherent complexity. The processor, therefore, also must help the prepaid industry organize itself. To meet the diverse requirements of prepaid, there's a tremendous need for participants throughout the value chain to work together—to collaborate and co-create value in a transparent and secure environment.

Today, the majority of processors provide control to issuers and program managers by offering complicated data-driven options—management systems represented by drop-down menus and check boxes—the more there are, the more flexible a system is considered to be. Alternatively, processors enable issuers and program managers to connect to their systems via APIs so they can build functionality that the processors are unable to deliver.

This current definition of control and flexibility is inadequate to achieve the necessary collaboration.

For prepaid to flourish, the processor must bring elegant organization to prepaid—work with issuers and program managers in an iterative and collaborative process that allows them to continue doing what they are doing, but in a way that's quicker, cheaper, more secure and scalable. In this respect, processors must remove the “black box” approach with which they currently operate and provide issuers and program managers with more transparency and control to facilitate the co-creation of value.

So how do we get there?

### 3. Think distributed to be a “platform” not a “product.”

Jarvis contrasts a new paradigm where companies offer communities platforms on which members can work collaboratively and transparently to build value to the pre-Internet world where companies offered one-size-fits-all products. He cites Facebook and Google as examples, and encourages adoption of a distributed platform approach in lieu of a centralized product strategy.


In applying his thinking to the auto industry, Jarvis describes the car company of the future as a platform for other companies to make the automobiles drivers want—not the ones they settle for. The analogy for prepaid card processing would not be today's model of a single shared prepaid card processing platform—what Jarvis calls a “product”—but the ability to quickly and efficiently construct and manage segregated, customized processing platforms based on the specific needs of

issuers and program managers—what Jarvis refers to as a “platform.”

The key being decentralized development and platform operations and distribution of appropriate control to third parties, enabling them to incorporate business requirements for processing platforms securely and with scalability. The processor is able to contribute value through best practices and a broad off-the-shelf product line, and issuers, program managers and even certified third parties can build upon them, creating products that best meet their specific needs. Thinking along the lines of an app store, these third parties could even offer their solutions to other users of the platform through switching services.

The approach of being a “platform” not a “product” harnesses the wisdom of crowds and allows processors to work together with issuers and program managers on the front line of prepaid to collectively bring more innovation to processing than any processor could possibly do alone.

### Conclusion

The foundation of the prepaid card market is the promise of products that improve the lives of millions of people worldwide. It's my view that with application of the above principles, prepaid will be far more able to achieve that worthy goal. 

*Jonathan A. Weiner's view of the prepaid card industry has been shaped by almost a decade of bringing new technologies, products and services to this market, most recently as a member of the management team at TxVia, Inc.*