Adyen and the New Age of Global Payments Processing: Part II

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Adyen touts its omnichannel approach. It has integrated e-commerce with in-store sales, for example, at hip men's clothier Bonobos. The Dutch processor's growth locomotive, however, is, and for the foreseeable future will remain, e-commerce.

While not enjoying Mastercard's network power, Adyen has built platform economics by credentialing and securely integrating with more than 250 payment schemes worldwide.

Its developers customize, increasing merchant value and switching costs and updating the platform monthly. The more tightly integrated and indispensable Adyen makes itself, the more sustainable its economics.

Adyen uses homegrown risk management and adaptive transaction routing and rerouting to increase approvals and optimize fraud. Contrary to the spirit of the European Commission's Payment Services Directive 2, the objective isn't to minimize fraud. It's to intelligently balance approvals and declines to help merchants maximize profits.

Different kinds of merchants have very different kinds of appetites for fraud. E-merchants use risk-management specialists like Feedzai, Fraugster, Sift Science, and Threatmetrix directly, along with white-label and proprietary risk-management tools provided by their acquirers.

The environment is propitious for processor transaction growth, if somewhat less so for sustaining transaction yields.

The International Monetary Fund forecasts 2018 world GDP growth of 3.9%. And the primary retail-payment system in most countries remains cash.

Electronic payments continue to grow at a healthy clip. U.S. general-purpose credit and debit card payments volume and transactions in 2017 year-over-year increased 7.9% and 6.2% respectively. The United States, however, is a mature payments market. Worldwide, general-purpose credit and debit card payments volume and transactions in 2017 increased at 14.3% and 18% respectively. And, e-commerce is growing faster than payments at the traditional physical point of sale, displacing them and enabling new commerce. In the fourth quarter, U.S. e-commerce grew 16.9% year over year. Planetwide, e-commerce grew a sizzling 24.8% in 2017 year over year.

Not all markets, however, are opportunities for Adyen. Notwithstanding China's 2001 commitment to the World Trade Organization to open its enormous domestic market, the world's largest e-commerce-payments market remains inaccessible.

Unlike China UnionPay, Adyen doesn't enjoy government protection. Merchant processing worldwide is competitive, and competition is intensifying. Mindful of the lofty valuation the market has put on Adyen's revenue versus their own, competitors will emulate it, trying to take the wind from its sails.

The unicorn Stripe is often mentioned in the same breath as Adyen. While both provide online payment acceptance, richly-priced Stripe today primarily serves developers and small, early-stage online businesses. But its Bookings.com win suggests it's at least selectively moving upmarket.

Chase is still the biggest e-commerce acquirer in North America and Europe. With its WePay acquisition, perhaps it will up its game in competing for demanding e-commerce marketplaces.

Larger and longstanding e-commerce leader Worldpay offers some 300 payment methods. While it has very different DNA from Adyen, Worldpay will remain in the mix.

Mammoth First Data has far greater distribution, scale, and product breadth, and boasts more merchants and financial institutions. At its June investor day, it started couching its offer in Adyen-like terms. Nonetheless, today, in its sweet spot, Adyen’s likely to best the processing giant more often than not.

By contrast, there’s no overlap between the target markets of high-flying Square and Adyen.

Adyen pried away PayPal’s largest client, eBay, testifying to the attractiveness of the Dutch processor’s multinational platform, in-app wallets, simplification, and cost savings. That took PayPal the issuer, wallet, network, and processor out of the process. But, rest assured, PayPal’s not going away.

The world’s leading POS-terminal supplier, Ingenico, continues to bulk up payment processing, having acquired EasyCash, Ogone, GlobalCollect, and Bambora. It needs to consolidate platforms and has interesting potential to exploit its global POS-terminal franchise.

Multinational payment gateways and hubs like software gorilla ACI Worldwide’s Pay.on, PayU, dLocal, and Zooz offer considerable payment-scheme and local-acquirer reach. Pay.com has 80 payment schemes and 300 acquirers across six continents.

What risks, besides traditional competitors improving their offers, does the high-flying Dutch payment processor face?

A catastrophic data breach could tank the company.

Tech colossi are using payments to boost engagement and enhance their platforms. In India, Google launched its own payment scheme, Tez. While well-served by existing payment networks, processors, and issuers, tech titans could decide to do payments themselves.

There’s always regulatory risk. Before the Durbin Amendment, Sen. Richard Durbin and Rep. John Conyers proposed price controls on merchant discount rates. In India, debit merchant discount rates are capped. In Argentina, acquirers aren’t permitted different MDRs for small and large merchants.

In Europe, central planners view payments as a public utility. With PSD2, they’re bent on undercutting dominant card networks and diminishing the value of banks' hold on consumers' anchor liquidity instrument, the current account. The mandarins in Brussels can be counted on to impose more prescriptive regulations on payment fees and delivery.

Markets work, making sustainable growth and economics difficult. Capital markets want to believe in Adyen. Time will tell if the Dutch processor can keep the faith.

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