

# Afterthoughts

## >> Missing the Mark

BY ERIC GROVER  
INTREPID VENTURES

**C**redit and debit payment networks provide services to consumers and merchants, often through financial institutions. They compete through network reach, brand, rules, processing, bundled enhancements and price.

Most, however, are at risk of becoming commodity utilities for banks and merchants. To avoid this fate, networks need greater consumer visibility and to deliver compelling differentiable value.

The payments industry has consolidated. At its peak a patchwork quilt of 150 regional and national networks blanketed the U.S. Today a handful of global and national networks dominate.

Over the last several years Discover, eBay, First Data, MasterCard and Metavante each acquired a network. eBay's PayPal acquisition was strategic. PayPal accelerated eBay's transaction velocity more successfully than its own payment service, Billpoint.

MasterCard's acquisition of the 87.8% of Europay it did not already own also was eminently strategic, unifying

brands between continental Europe and the rest of the world. Additionally, the purchase enables MasterCard to consolidate processing globally, while Visa bifurcates its systems between Europe and the rest of the world.

The networks need differentiation and brand awareness with the right constituencies. PayPal has both in spades. The merged MasterCard/EuroPay has a stronger brand with merchants, banks and consumers, and differentiation versus all competitors except Visa.

Neither First Data nor Metavante has a culture or history developing consumer brands, with the exception of First Data's Western Union. In the throes of a struggle over the firm's direction, Morgan Stanley plans to spin off Discover and will not stay the course toe-to-toe with American Express, MasterCard and Visa. Discover's network and brands may have the greatest value to First Data. Its clients could issue Discover, and a GE could acquire the receivables.

Other payment sectors such as card manufacturing have been utterly commoditized. Card suppliers such as Axalto, Gemplus and Oberthur are valued at little more than 1x revenue. In revenue multiples, Discover paid 5.6x for Pulse, First Data 3x for Concord and Metavante 4.3x for NYCE. If they acquired payment networks destined to be utilities, they overpaid.

The U.S. offers more network choice than most markets. With MasterCard- and-Visa-member

banks now free to also offer AmEx and Discover cards, credit-network competition has intensified.

Issuers choose from a range of interchangeable networks, competing with upfront fees, higher interchange and enhancements. How many consumers are vexed, or even notice, when their banks switch network affiliations? That should be cause for concern for payment-network shareholders.

There is a payment bug patchwork at the point of sale, on ATMs and on the card. However with the exception of Visa, MasterCard, AmEx and Discover, most branding is lost on the consumer. Consumers see a terminal slot and try their card to see if it works.

Developing brand awareness is expensive. In 2003 Visa and MasterCard both spent \$291 million on media; AmEx, \$274 million; and Discover, \$88 million. It would stretch most networks financially to develop their consumer brands.

The card is a key to a web of payment and service networks. Sharing it with complementary services creates value and relationship stickiness.

Large banks with powerful brands want to diminish Visa's and MasterCard's visibility, while leveraging their global acceptance. No bank's acceptance enables dropping global network bugs. Other network bugs, though, seem dispensable.

Networks must bring tangible value and make an affirmative case to consumers. Building consumer awareness and delivering meaningful consumer value are high-stakes competition. If payment networks don't compete in this arena, they will be commoditized. **CP**

**Eric Grover is a partner at Intrepid Ventures, a Silicon Valley-based consultancy providing corporate development in the financial technology, processing and services space. He can be reached at [Eric.Grover@IntrepidVentures.com](mailto:Eric.Grover@IntrepidVentures.com).**

