

A Financial Supermarket – An Overview

Introduction

This proposal overviews the formation of a financial supermarket, to facilitate the transfer of funds between on-line vendors and purchasers for goods and services purchased over the Internet.

This overview outlines the market conditions for on-line payments, an alternative solution to meet market demand, the business strategy for introducing this service, and the resources required to realise the business plan.

Market

The current on-line business to consumer (B2C) market is currently poorly serviced. The international nature of Internet trade prevents the use of EFT-POS systems, which are tied to a single currency and often to a single bank, and cheques and cash are both impractical. Therefore, it is not surprising that credit cards, with their foreign exchange capability, facilitate the majority of Internet trade.

However, current credit card technology based upon card numbers and expiry dates provides a low level of security, and the concern of fraud is a barrier for many potential customers to participate in the on-line market. The insecurity of the credit card medium is acting as a barrier to the growth on the on-line markets and the emerging new economy.

In addition, recent regulatory changes in the United States have encouraged the credit card companies to transfer the risk for card fraud to franchising banks. As a result, banks around the world are reviewing their electronic payment customers and reducing their customer portfolio to remove higher risk accounts. This action will create a large number of merchants seeking alternative methods to facilitate their on-line businesses.

The traditional credit card business has significant barriers to entry, with both VISA and MasterCard using contractual mechanisms to restrict merchants from supporting competitive products. This restrictive practice has been alleged to be anti-competitive by some regulatory bodies, but there is unlikely to be any significant change in the market in the short-term.

The number of customers interested in an alternative payments mechanism is difficult to quantify, in particular as Internet usage and on-line trading is currently growing at an exponential rate. In addition, Internet trading has been dominated by a limited number of markets, such as books, flowers and computer products, which can all be categorised as discretionary purchases. However, anecdotal evidence suggests that Internet trading is rapidly becoming more generalised and widespread around the world and many commentators expect that on-line trading will soon comprise over one percent of economic activity in many advanced economies.

Therefore, the on-line payments market is a large and global market that is poorly serviced by its incumbent suppliers, providing an excellent opportunity for a new entrant.

Alternative Solution

One technological answer to the market demand for on-line payment services is the use of digital cash. There have been numerous proposals over the past five years for introducing such a trading currency. However, there is currently insufficient consumer demand for a new trading currency. In addition, in most countries the Government retains a monopoly over currency. Indeed, money supply is often considered an essential component of sovereignty.

Therefore, an alternative solution is required to meet the current market demand.

The proposed solution to this market demand is to create an intermediary between the consumer and purchaser, to allow the consumer to use traditional payment systems such as cheque, cash or EFT-POS for payments for online purchases. This service is a financial supermarket, providing financial and logistical services.

A sales and marketing team will promote the service directly to Merchants. The nature of the on-line market allows this marketing to be predominately through electronic means, such as targeted e-mail, press releases and electronic newsletters. The increasing public awareness of the new service will drive demand, enabling a market niche to be rapidly created.

An Internet service will be established to sit behind the web-pages on merchant sites. Physical Internet services will be established around the world, as required to meet consumer demand and to ensure acceptable service to merchants and their customers. This Internet service will provide a global image to the service, providing identical service to the entire global market. The service is designed to be accessible by all Internet appliances, including WOP cellular phones, Web-TVs and other systems – thereby avoiding the current limitation of many Internet services that focus on personal computer users. Additional languages will be progressively added, to ensure that non-English speaking people can participate in the service.

In addition, at least one financial service centre will be required in each national currency region to receipt payments from customers. It is anticipated that these services centres will be outsourced to third parties with cash handling competencies, such as local banks.

The Merchant's Internet system will pass the customer and transaction information over to the Transaction server, which will verify the transaction and log all relevant information. The transaction exchange rate between the merchant's and consumer's currency will be fixed at this time, with the Merchant bearing any exchange risk between the time of transaction and the time of receipt of funds.

The consumer will then send the payment in their local currency to a local financial services centre. Upon receipt, the payment will be held until the funds have cleared. At this stage, the Merchant will be advised the status of the transaction, to allow them to ship the product or deliver the service, as appropriate. The payments will then be transferred by electronic transfer directly into the Merchant's bank.

This solution will be built to meet international financial standards, such as ICC and UNIDROIT. The adherence to these standards will ensure inter-operability with international financial systems.

Business Strategy

The corporate strategy is use strategic surprise to capture an initial ten percent market share. Once this initial target is achieved, then the incumbent service providers will be unlikely to be able to use competitive pressure to force the company from the market.

Secondly, the existing core competencies will be progressively enhanced through active recruitment of valuable skills, training and capturing experience from early trading. This strengthening asset will improve the company's ability to compete and to define the future online market.

Thirdly, by capturing substantial marketshare a strong brand will be established. This brand will act as a barrier to entry to other organisations attempting to copy the service, and at the same time, stimulate growth in the business.

This strategy can be delivered through a flat organisational structure, with a core group providing strategic direction and motivation. In this manner, retention of key people will be maximised – thereby maximising corporate growth potential.

Finally, this growth strategy requires a competitive advantage over the competition. The structure and delivery mechanism of the business ensures a competitive advantage, with charges planned at one percent of transaction value, deducted from the payment to the Merchants. This charging strategy provides a substantial advantage over credit cards, and will encourage Merchants to adopt the new service rapidly.

Resources

The success of the financial supermarket business case depends upon the availability of two key resources.

Firstly, a moderate amount of capital is required to launch this service. It is proposed to raise this capital through an equity issue, to fund the development of the initial Internet servers and to establish the sales and marketing group. The level of capital required to launch an online service is modest, thereby providing only a low barrier to entry for the service.

Secondly, there is a world-wide shortage of experienced and skilful people capable of creating a financial supermarket service. The required skill sets encompass the strategic, marketing, technological and financial disciplines. This lack of available suitable people is the greatest barrier to potential competition.

Development Industries Limited has an experienced team available for launching such a service. It is seeking a suitable partner who can provide capital resources and act as the first financial services centre to launch this new service.

Summary

In summary, there is an increasing market demand for an alternative on-line transaction service, to avoid credit card fraud and to reduce the transaction costs. It is planned to introduce an online service company to act as an intermediary between the consumer and the Merchant, charging a transaction fee for each service. This company will use strategic surprise, superior economics and skilful people to gain marketshare.

To realise this vision, Development Industries is seeking a partner to provide a modest level of capital and to become the first financial service centre business partner.