

This article is authored by an executive advisor of Alberta Advisory and is sponsored by Madfoatcom.

## Background

For over 5 years now, there has been a war raging in the “Payment Industry” to be the first solution a customer touches to affect a digital payment (i.e. First Touch Acquirer). A first touch acquirer is the closest to a customer, and hence, holds a clear advantage of capturing and influencing demand.

The examples are replete ...

Ponder how Apple Pay and Google Pay jumped the fence of classical card processors (Visa, Master, AMEX) to be the first touch NFC payment method.

Ponder how eWallet offerings such as- AliPay and WeChat easily bypassed Apple Pay, Google Pay and card processors in certain geographies such as- China, Indonesia and Singapore to be the first touch payment method.

Ponder how NEO Banks are positioning their Mobile Apps (typically backed by a debit card) to be the first touch payment method for the unbankable or young population.

The Middle East is no stranger to this war. The signs are surely everywhere, few startling examples are-

- (i) Saudi Arabia Monetary Authority (SAMA) authorizing +20 FinTech companies within the digital money, payment processing and value-added services domains.
- (ii) Brookfield Asset Management buying “Network International” for circa USD 2.7 B.
- (iii) “Al Monitor” surmising that 24% of all middle east venture investments placed in the first half of 2024 were FinTech’s.
- (iv) +15 NEO banks popped up across the region over the past 3 years promising a youth-oriented differentiated experience and a faster financial inclusion.

(v) A double digit growth for the first 9 months of 2024 in net fee income of major banks. Consider- Saudi Awwal Bank (24%), Emirates NBD (46%) and QNB (20%).

We at Alberta Advisory analyzed a handful of international and regional Payment Processors to answer the fundamental question of- *"How industry players fight this raging war?"*

Among many other observations, our analysis highlighted a ...

### A Spike In Features ...

A payment processor is constantly wrangling with an expansive portfolio of solution features. Payment processors are studiously innovating, deploying, and then, translating a plethora of value-added services into tangible business returns (i.e. market share capture, relationship stickiness, additional fees).

These solution features or often called "Value-added Services" are summarized in the attached diagram.

As you visually skim through these features, you cannot help but to battle three (3) thoughts:

### It's No Longer A Service. It's An Ecosystem ...

Most processors are forging alliances with third parties to provide a unique experience with a value proposition extending far beyond a quick, real time, safe payment.

Should you consider growth in share prices as a measure of market success and perception of the future, the ecosystem-driven payment processors are outperforming the NASDAQ 100 2024 YTD growth of 22.6%. To name a few, AMEX (47%), PayPal (29%) and ANT Financial Group (29%).

*"Modest Scale"* and/or *"Single Service"* payment processors are exhibiting fatigue with their 2024 YTD share price growth rates. Consider- Block Inc (0.22%), Western Union (-7%), Master Card (18%) and Visa (12%).

### The Margins Are Squeaking Under Pressure ...

Tough competition and extended partners ecosystem weigh heavily on margins. While payment processing has always been tagged as "*Hunt For Volumes*" business, it's now more so than ever! Consider being a secondary eco-system operator then, you have to share your margin with a network scheme (e.g. Visa, Master), a principal acquirer (e.g. a Bank), a merchant (e.g. a market place) and a value-added service provider (e.g. white labeled order management software).

### No Magic Spell ...

Since the dawn of 20 century banking, digital payments are triggered through an expansive network of customers, channels, currencies, business services and geographies. To attract and maintain the right volumes, and hopefully protect your margins, a payment processor must focus its investments and sales efforts on a specific market segment. Focus – in corollary – implies withdrawal from other segments which in turn undermines the "*Hunt For Volumes*" conventional wisdom.

The punch line is that in the "First Touch Payment Acceptance" war, there is no blue ocean where you can swim freely with hefty growth and margins!

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