

PAYMENTS VIEWS



Aggregation and Aggravation – Micropayments 2013

by RUSS JONES on AUGUST 16, 2013
in MICROPAYMENTS, RUSS JONES

Micropayments is a problem that has never been solved in the payments industry. While there are various merchant-specific solutions for selling low-cost goods, the broader opportunity — to pervasively enable micropayments — continues to intrigue the payments industry.



Why do micropayments endure as such a challenge in payments? The problem has been the same for many years – the challenge of absorbing fixed payments costs on a small value item. In interchange terms (1.9% plus \$0.10), it's not the 1.9% that's the problem, its the \$0.10.

What's Different in 2013?

For starters, the scope of the problem is larger today than it was 15 years ago. What was viewed as an online problem for those selling low-cost digital goods, has today spread to merchants selling low-cost items in the everyday “cash replacement” market. Micropayments used to only be about apps and avatars; today it's also about Coke machines and coffee shops.

The landscape is also more problematic because of the changes brought on by the Regulation II “Durbin” rate caps. Unlike large ticket retailers, merchants selling low-cost goods in the United States saw a significant interchange increase in late 2011 when the card companies eliminated small-ticket interchange on “regulated” debit cards – effectively raising the debit interchange fees on small ticket purchases up to the Durbin rate caps.

Against this backdrop, merchants have also become more sophisticated in their use of aggregation to minimize the number of actual transactions when consumers are purchasing multiple small-ticket items. Starbucks, for example, does one real-world funding transaction (on the front end) to load a prepaid Starbucks card and then plays down the available balance as the consumer makes \$2.00 and \$3.00 purchases over time. Apple, on the other hand, does one real-world funding transaction (on the back end) to bill for two or three days worth of iTunes purchases. Both approaches reduce their costs for what would otherwise be several small transactions (each having a fixed cost plus an *ad valorem* cost) to a single transaction (with the same *ad valorem* cost, but just one fixed cost component).

The Apple back-end aggregation approach is enabled by card company “aggregation” rules that permit merchants to aggregate small purchases over a number of days up to fixed amount. These same rules are now available to some physical world merchants, but not all. They allow a transit operator, for example, to aggregate small ticket purchases over the course of the week.

We also see a whole segment of the online market (digital goods and services) shifting to the use of virtual currencies. The rationale for this, from the seller's perspective, is



CATEGORIES

Select Category

SEARCH GLENBROOK WEBSITES

FOLLOW US ON TWITTER

Payments Views: @paymentsviews

Payments News: @paymentsnews

RECENT COMMENTS

Ben Roberts on [EMV, Data Breaches, HCE and the Pace of Change in Payments](#)

Ian Hermon on [Dispatch from the Smart Card Alliance Payments Conference](#)

Dale Smith on [How to Get Along and Do Good](#)

Francisco Jimenez on [So You Want to Start a Payments Company?](#)

Ben Katz on [Is the Target Breach the Chernobyl of Payments?](#)

HEADLINES FROM PAYMENTS NEWS

[Headline News from PaymentsNews.com](#) -

multifaceted. It's the ability to control the branded-usage of payments inside an app or a platform — but it is also the micropayments rationale for reducing payments acceptance costs. These sellers are very aware that they are lowering their payments acceptance cost by replacing a number of smaller fixed cost transactions with a larger funding transaction (with just one fixed cost component) when the virtual currency is purchased. It's hard to assess the true trends in virtual currencies, however, as Facebook is now exiting the market (moving away from Facebook Credits) just as Amazon is entering the market (via the introduction of Amazon Coins).

From the perspective of a payment provider, there are also now transaction pricing alternatives that are optimized for micropayments. PayPal, for example, lets sellers decide whether they want to shift from its standard pricing model (2.9% plus \$0.30) to a micropayments pricing model (5.0% plus \$0.05). Sellers dealing in low-cost goods are happy to pay a higher variable component in exchange for a lower fixed component. PayPal positions this as part of their strategy for the digital goods market, but we note that it's available to any PayPal merchant and should be the preferred model on any given purchase under \$8.00.

Google, on the other hand, provides a seller solution called “Google Wallet for Digital Goods” that gives merchants a simple one-click way to sell low-cost digital goods and services. Google will automatically optimize the fees to the lower of 5% or 1.9% plus \$0.30 on each transaction. Google also appears to be experimenting with major publishers with a Google Paywall product that combines one-click purchases, micropayment pricing, and limited free access to sample the digital goods.

Twenty years into the Internet revolution, the micropayment challenge remains very real for sellers that are dealing in low-cost goods and services. The challenge (or perhaps the opportunity?) will likely increase as more and more of the economy shifts from physical goods to digital goods.

Give us a call if you are interesting in developing a prepaid or postpaid aggregation scheme for your business. There are many payment service providers that are active in the space and it might be possible to bring some of these micropayment techniques to your business.

UPDATE: This post was corrected to reflect that card company rules do not allow transaction aggregation in the card present retail category.

Tagged as: [apple](#), [Google](#), [paypal](#)

{ 3 comments... read them below or [add one](#) }

Ketharaman Swaminathan (GTM360 Marketing Solutions)

August 19, 2013 at 8:32 am



By bypassing the banking rails altogether and levying no interchange fees on the merchant, isn't Bitcoin just “what the doctor ordered” for micropayments?

REPLY

Russ Jones August 19, 2013 at 11:17 am



March 21, 2014

[What Comes After Bitcoin?](#)

[Headline News from PaymentsNews.com - March 20, 2014](#)

[Headline News from PaymentsNews.com - March 19, 2014](#)

[NACHA Reports Taking Steps Toward Ubiquitous, Same-Day ACH Settlement](#)

[Headline News from PaymentsNews.com - March 18, 2014](#)

[Visa, Fiserv Partner for Debit EMV on Accel Network](#)

ABOUT PAYMENTSVIEWS.COM

[About Payments Views](#)

[Creating PaymentsViews.com Using WordPress and Thesis](#)

CONTACT

Editor: [Erin McCune](#)

[Feedback](#)

Yes, the economics in the Bitcoin model are well suited for micropayments. I should have mentioned Bitcoin as a potential long-term solution.

Thanks,

- Russ

REPLY

Richard G Brown August 23, 2013 at 5:07 am



Bitcoin is certainly of relevance to the micropayment debate but we need to be careful. The transaction fees are non-trivial and it's not obvious that passing true micropayments across the blockchain is a particularly clever idea.

So any discussion of Bitcoin in the context of micropayments should probably discuss approaches such as the Mike Hearn / bitcoinj micropayment channel idea: e.g. <http://www.coindesk.com/bitcoin-client-bitcoinj-implements-bitcoin-micropayments/>

Richard

REPLY

Leave a Comment

Name *

E-mail *

Website



PREVIOUS POST: [Bitcoin's Growth Not Without Pains](#)

NEXT POST: [Brazil's New Payments Law: Boldly Going Where Few Have Dared to Go Before?](#)