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Separating Payment Innovation Wheat from Chaff

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Working for a payments research firm has distinct perks if you are, like me, a self-confessed payments nerd. You get to be privy to some of the most innovative and brilliant concepts way before they are brought to market and have the opportunity to pick the brains of some of the smartest minds in the industry. Every once in a while you get to see a new product or service that is truly the next generation of payments. And then there are the also rans. A lot of them.

This blog post is designed as a reality check for anyone deciding to develop or invest in a new payment initiative, whether that be financially, intellectually or emotionally. Using this methodology, you will save a lot of money, time and gnashing and wailing when your next-big-thing unceremoniously implodes along with the deflating sound of broken dreams, egos and bank accounts. Run through this simple test to determine whether your science project has any chance of survival…

1. Does is solve any problem ? Now this one is fundamental. Does your device (it probably is a device – payment geeks love making devices) do anything measurably better than other devices that already exist and have done for some time? And by device, I don't mean a barcode or dongle or widget or sticker, I mean magnetic stripe cards, paper checks and cash. Ask yourself honestly – is it faster, more convenient, more secure, cheaper or providing some value addition MEASURABLY better than the payment methods that are currently ubiquitous, accepted and trusted? If yes, please move on to #2.
2. Does it rely on technology that is already commonplace and entrenched in the everyday lives of both merchants and consumers? If yes, good job – you have something that will have a far easier learning curve, probably leveraging existing card payment architecture or something prolific on the consumer side such as smartphones. Go to # 4. If no, then you are not necessarily dead in the water yet, but it depends very much on #3…
3. Does the consumer or merchant have to pay for your device? If no or if yes, the merchant does, move on to #4. If yes, the consumer does, go back to the drawing board entirely. Consumers never pay for payment technology UNLESS there is a value-add that they see as solid recompense for buying your gadget. Ask yourself honestly – is the return that the consumer gets genuinely worth the money they will pay to use your device? In my experience, probably not. Revise the business model entirely.
4. Is the ROI model solid enough for the merchant to buy your device? Can it provide either new revenue streams in addition to the direct revenues from sales of goods / services, or can it reduce cost of acceptance of transactions more than existing solutions (cards, cash, etc.) This is critical – merchants will not make a leap of faith without solid quantifiable evidence that your device will ultimately make them more money or save them more money than choosing not to buy it. Obvious, yes. Ignored often? You'd be amazed. Presuming a robust ROI model, move on to #5.
5. Have you done your due diligence on similar devices and historically how these have fared? If not, do some very thorough investigation of what else has been brought to market in the last decade or two (yes, two) and why that never caught on. If your idea is so unique that no one has ever thought of it before, you are in a state of delusion. Look again – you will find similar initiatives. Once you have done this and decided that your device solves the problems that caused the predecessor to fail, move to #6.
6. Have you looked at the regulatory and technological landscape to determine if A. your device is going to be legal and B. if it is likely to be killed by technological changes or regulatory reform? EMV is (probably) coming to the US – will this make your device obsolete? If using existing payment infrastructure, does your device comply, or will the powers that control the networks disallow it since it's likely to be competing with their payment technology? If you're sure you can pass these tests and are future proof, move on to #7.
7. Congratulations, you have something resembling a business model that could work. Now all you need to do is convince issuing banks, card networks, payment processors, acquirers, retailers, regulators and, last but not least, consumers, to buy into it. Move to #8.
8. Are you still sure you want to get into this business? If so, best of luck – I look forward to hearing from you.

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