MiniCase for Quiz-No1 – Multimedia Information Strategic Planning

Subject: eBay/VeriSign Deal Could Remake the Online Payment Market

12 October 2005, By Avivah Litan, Gartner Research.

The acquisition of VeriSign's payment gateway will enable eBay's PayPal subsidiary to offer more non-eBay retailers a low-cost alternative to credit and debit cards for online payments.

On 10 October 2005, eBay and VeriSign announced an agreement to collaborate on payment services and e-commerce security. Under the terms of the agreement:

- PayPal (an eBay subsidiary) will acquire VeriSign's payment gateway business and combine it with PayPal's merchant services platform.
- VeriSign will provide eBay/PayPal with a suite of security services to protect against online identity theft, including two-factor authentication, which it expects to roll out to as many as 1 million eBay/PayPal customers beginning in 2006.

eBay's acquisition of VeriSign's payment gateway and the 100,000 merchants it services will strengthen PayPal's market presence. PayPal's innovative uses of payment funding systems will likely be welcomed by small and midsize businesses (SMBs) that want less-expensive alternatives to credit card payments, and eventually by even the largest online merchants. The recent PayPal offering that allows merchants to accept both credit cards and lower-cost PayPal payments will likely prove attractive to SMBs, and will clearly benefit merchants already using VeriSign services.

The eBay market, which is PayPal's main source of business, currently, represents only 20 percent of e-commerce payments: credit and signature debit cards remain the pervasive electronic-payment mechanisms on the Internet, and the VeriSign relationship could enable PayPal to gain a major presence in the remainder of the payment market. PayPal could eventually replace credit/debit cards as the dominant online payment mechanism, if it can maintain low merchant rates while increasing customer service, responsiveness and chargeback ease so that its policies and practices are as consumer-friendly as are the card companies. The card companies will need to fight back with rate decreases to hold their e-commerce market share.

The sale of VeriSign's high-volume but low-margin payment gateway which it has never successfully integrated with its security and authentication technology also makes sense for VeriSign. The security provider will benefit from eBay's contractual commitment to VeriSign's two-factor authentication system, which eBay will likely begin offering to help sellers guard against the increasing problem of accounts being taken over fraudulently.
Recommendations

• **Enterprises using VeriSign Payment services**: Begin also accepting PayPal payments once the technology platforms are merged (likely by the end of 2006).

• **SMBs that accept Internet payments**: Consider the PayPal/VeriSign offering, which should offer proven and scalable service at lower rates than for card payments alone.

• **Large enterprises that accept Internet payments**: Do not commit to this service until PayPal/VeriSign details its ability to serve the greater customization needs of large enterprises.

End of article.

Instructions.

Read the Minicase article above and answer the following questions.

Q1. Based on your SWOT analyses of e-Bay and VeriSign, what were the strategies (not actions) used by both companies to get into the collaboration? What actually happened in the collaboration (the actions)?

   [5 points]

Q2. What business objectives (not strategies, not actions) do you think will be achieved through the three recommendations described in the article?

   [5 points]

Wishing you all the best. WRY.
SWOT ANALYSIS

**Competition:** PayPal/eBay versus Credit and Debit cards for online payments. [12]

**STRENGTHS**
- PayPal/eBay has lower-cost payments through PayPal’s merchant services compared to online credit and debit cards. [30]
- PayPal/eBay also accepts both credit cards (credit and debit) [30]
- eBay (the parent of PayPal) has big market share (20% of current online e-commerce payments). [35]
- VeriSign is a high-volume payment gateway. [45]
- VeriSign has very good security and authentication technology [45].

**WEAKNESSES**
- PayPal/eBay is weak in security and authentication technology. – i.e. guard against the increasing problem of accounts being taken over fraudulently [49]
- VeriSign is a low-margin payment gateway. [45]
- VeriSign is not successful in integrating its own payment gateway with security & authentication technology [45].

**OPPORTUNITIES**
- PayPal/eBay could eventually replace credit/debit cards as the dominant online payment mechanism. [39]
- PayPal/eBay will become attractive to SMB because of lower cost payments compared to credit/debit cards [32]

**THREATS**
- The card companies will need to fight back with rate decreases to hold their e-commerce market share. [42]

**IMPORTANT NOTE:**
The above analysis is not a full and complete SWOT analysis attempt at the MiniCase here. It is just an indication of what we must actually do in real life when we do analyses.
ANSWERS TO MISP2-QUIZ-NO. 1

Q1. Based on your SWOT analyses of e-Bay and VeriSign, what were the strategies (not actions) used by both companies to get into the collaboration? What actually happened in the collaboration (the actions)?

[5 points]

ANSWER

STRATEGIES

1. PayPal/eBay must overcome its weaknesses in security and authentication for its merchant services payment gateway.
2. PayPal/eBay must capitalize on its strength of high margin merchant services payment gateway.
3. PayPal/eBay must overcome its weakness of low volume merchant services payment gateway.
4. Verisign must capitalize on its strengths in security and authentication.
5. Verisign must capitalize on its strength of high volume payment gateway.
6. Verisign must overcome its weakness of low margin payment gateway.

The collaboration between e-Bay/PayPal and VeriSign is essentially a cooperative strategy (symbiotic) relationship benefiting both companies:

- PayPal/eBay’s weakness in Item (1) above is covered by Verisign’s strength in Item (4).
- Verisign’s weakness in Item (6) above is covered by PayPal/eBay’s strength in Item (2).
- PayPal/eBay’s weakness in Item (3) above is covered by Verisign’s strength in Item (5).

ACTIONS

The actions ensuing from the collaboration strategy are precisely what happened on the 10th October 2005 where eBay and VeriSign announced an agreement that:

- PayPal (an eBay subsidiary) will acquire VeriSign’s payment gateway business and combine it with PayPal’s merchant services platform. [18]
- VeriSign will provide eBay/PayPal with a suite of security services to protect against online identity theft, including two-factor authentication, which it expects to roll out to as many as 1 million eBay/PayPal customers beginning in 2006. [21]

IMPORTANT REMINDER

Identifying strategies is a different exercise from identifying the actions. For one strategy, we may have many different possible actions to implement the strategy. So the actions taken by eBay and VeriSign above are just some of the possible actions taken to implement their collaborative strategy. The agreement could have been different.
Q2. What business objectives (not strategies, not actions) do you think will be achieved through the three recommendations described in the article? [5 points]

ANSWER

Recommendation (1)
Enterprises using VeriSign Payment services: Begin also accepting PayPal payments once the technology platforms are merged (likely by the end of 2006).

Will achieve objective:
Enterprises currently using VeriSign Payment services will migrate (when technology platforms merged) to the new and secured PayPal’s Merchant Services at a lower cost. This will take away customers from Credit and Debit cards for online payments (competitive threat ha ha ha.)

Recommendation (2)
SMBs that accept Internet payments: Consider the PayPal/VeriSign offering, which should offer proven and scalable service at lower rates than for card payments alone.

Will achieve objective:
SMBs currently accepting credit and debit cards will migrate to the new and secured PayPal’s Merchant Services at a lower cost. This will take away customers from Credit and Debit cards for online payments (competitive threat ha ha ha.)

Recommendation (3)
Large enterprises that accept Internet payments: Do not commit to this service until PayPal/VeriSign details its ability to serve the greater customization needs of large enterprises.

Will achieve objective:
Large enterprises currently using both credit/debit cards payments and VeriSign Payment services will eventually migrate (after customization) to the new and secured PayPal’s Merchant Services at a lower cost. This will take away customers from Credit and Debit cards for online payments (competitive threat ha ha ha.)