



# The race to dominate the mobile payments platform: Entry and expansion strategies



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## ABSTRACT

The payment market has been stable for a number of decades with well-defined roles (acquirers and issuers), profitable business models (the card schemes) and a dominant design in which the merchants absorb the costs associated with payments. However, numerous digital payment solutions, which rely on new disruptive technologies, are emerging on the payment market, transforming the payment area from being established into a state of flux. In this article, we investigate the various factors that determine the success of a given solution. To this end, we build a framework to analyze the entry and expansion strategies of the digital payment solutions. We claim that the timing of entry of the first-mover speeds up the timing of entry of the early follower, thus determining the order of entry. We also argue that the timing of expansion is of equal importance as the timing of entry. If the expansion is not executed within the optimal time, the previously gained competitive advantage can be annulled.

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## 1. Introduction

Disruptive innovation has been relative rare in the area of financial services with very few innovations remaining unique for long time (Gardner 2009). Only a small portion of financial services innovations have generated competitive advantage and been sustainable, as most of them were easily replicated by other banks.

To illustrate the rapid imitation, consider the following examples. When the first credit card, Charg-IT, was introduced in 1946, it revolutionized the payment industry. It was soon replicated by Diners Club though, which offered its own Diners Club Credit Card in 1949. When Barclays Bank in the U.K. successfully introduced automated teller machines (ATMs) in 1967, the ATM was considered to be a potential source of competitive advantage for individual banks (Batiz-Lazo 2007). Soon, however, other banks also introduced ATM machines, annulling any competitive advantage for Barclays. History repeated itself when Security First Network Bank introduced for the first time Internet-based banking services (Cronin 1998). Although this was a breakthrough that significantly transformed the banking sector, the bank failed to obtain

sustainable competitive advantage, as other banks entered the same market just a few months after.

The next revolution in the financial services was heralded by the rapid spread and adoption of smartphones, which absorbed music players, navigation devices, and cameras, and now are set to incorporate payments. Mobile payments function as a digital platform (Kazan and Damsgaard 2013) and thus possess characteristics quite different from previous innovations in the finance area. The digitalization of services lowers significantly the barriers of entry, as digital solutions have significant economies of scale and are very easy to replicate and less costly. The digital platform's scalability intensifies the competition between the different payment providers and makes the task of obtaining and maintaining competitive advantage in the digital payment area challenging.

If innovative solutions can be replicated easily by competitors, the key determinant of success will be managing innovation with regard to the competitive dynamic environment and the ability to find additional sources of competitive advantage. Thus, in order to gain maximum value from the innovation, a platform owner should take into account some strategic implications with regards to entry and expansion strategies. The decision to enter the market either as a first-mover, or a late-follower is a strategic one and it influences the future ability to attract customers. Thus, we formulate the following research question: *How do market entry and*

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*growth strategies determine the success of digital multi-sided payment platforms?*

To this end, we investigate the entry and growth strategies of three alternative digital payment platforms that were launched in the Danish market in a time span of just eight months. (See the [Appendix](#) for a general overview of the Danish payment market.) The three similar solutions have managed to achieve an adoption rate of approximately 40% of the adult population with one solution much bigger than the other two combined. Since the three players offer almost identical functionality and compete for the same customers (both consumers and merchants), their initial success or failure was determined by how and when they entered the market and how fast they managed to achieve a critical mass of adopters.

Next, we outline the theoretical foundations of this research. Then we present briefly the three investigated solutions and apply to them our theoretical framework. In the final sections, we discuss our findings, offer some conclusions, and suggest promising areas for further research.

## 2. Theoretical foundations

### 2.1. Digital payments as multi-sided platforms

A *mobile payment* involves the transfer of money from one party to another using some digital means via a mobile phone. Mobile payment apps typically are downloaded to a smartphone, and once they are set up with a bank account or attached to a credit card or a debit card, the solutions work seamlessly using a phone number as identifier and a PIN code to authorize the payment. For the purposes of this research, we make a distinction between a *person-to-person payment* (P2P) and a *retail payment* (C2B).

Digital payment solutions function as digital platforms that facilitate the direct interaction between multiple customer types affiliated with them ([Hagiu and Wright 2011](#), [Kazan and Damsgaard 2013](#), [Staykova and Damsgaard 2014](#)). Multi-sided platforms (MSPs) reduce search costs, create audiences, and save on shared costs by providing an infrastructure that can be used for many transactions between the different sides of the platform ([Hagiu 2006](#)). An important feature of platforms is that they exhibit *network effects*. With network effects, the value that users gain from a platform depends on the number of other users of the same type who join the same platform. This is known as *same-side network effects*. In addition, the number of users of a different type that join the platform create *cross-side network effects* ([Hagiu and Halaburda 2013](#), [Shapiro and Varian 1999](#)).

Platforms are also characterized by *homing costs* related to the adoption, operation, and other costs incurred due to platform affiliation ([Armstrong 2006](#)). Low homing costs presuppose that the offered systems are easy to use and adopt. Low homing costs imply that users will often multi-home. A good example of this is the payment card. Most people hold several credit and debit cards. Using the card (swiping, entering the PIN) is the same for the different card products, but each one of them brings with them different value in terms of charges, loyalty points, etc. High homing costs imply that users are more likely to stick to only one or a limited number of platforms. Thus, homing costs are tightly related to the concept of *switching costs*, which is anchored around *lock-in effects*. When users face high costs of switching from one technology to another, users are locked in ([Shapiro and Varian 1999](#)). Payment markets are usually characterized as markets with low switching costs. As lock-in is a dynamic concept, the switching costs can grow and shrink with time: they are not static.

Although platforms have been around for hundreds of years, such as farmers markets ([Evans 2009](#)), the rapid spread of digital technologies and their integration in the everyday life has led to

the development of digital platforms. *Digital platforms* are different from non-digital *analog platforms*, as they have unique characteristics ([Tilson et al. 2013](#)), such as *platform generativity* ([Zittrain 2008](#)) and *evolvability* ([Sandberg et al. 2013](#)). Digital payment platforms are scalable with high development costs and low marginal costs. Costs are almost fixed and operating margins increase with the platform adoption ([Eisenmann 2002](#)). This means that once the payment platform is developed, it costs very little to add and service additional users. Thus, payment platforms exhibit lower acquisition costs and economies of scale, as the fixed development costs can be spread over a growing revenue user base. Once a payment service has entered the market, the challenge is to attract as many users as possible and as fast as possible. The achievement of critical mass is important to ignite the growth of the platform as it provides a “thick enough” market ([Evans 2009](#)).

### 2.2. Entry strategy

The existing literature on platform entry strategies is rather scarce. [Kim et al. \(2013\)](#) investigate the platform entry strategies between an incumbent and a new entrant. [Zhu and Iansiti \(2012\)](#) examine the relative importance of platform quality, indirect network effects, and consumer expectations on the success of entrants in platform-based markets, whereas [Seamans and Zhu \(2013\)](#) analyze the responses to entry in multi-sided markets by studying the impact of Craigslist on local newspapers. Our study complements these studies by investigating the competitive entry of several digital payment platforms which are engaged in race to launch and win in a single market. Thus, we seek to explain the factors which determine the timing of entry of the first-mover as well as the impact of the first-mover's entry on the timings of entry of its rivals. We also analyze how the timing of entry influences the mode of entry of a digital payment solution.

#### 2.2.1. Timing of entry

Timing is considered to be the key for successful market entry ([Thomas 1985](#)). Estimating the most opportune time to enter a market is of vital importance, as it can bring significant competitive advantage. A firm's ability to launch a product faster, before its competitors, is regarded as a source of competitive advantage as companies can use entry timing as an additional dimension to differentiate themselves from their rivals ([Bhaskaran and Ramachandran 2006](#)). A firm's decision to enter a market can be attributed to different factors such as changes in the general economy, changes in customer preferences and evolution of the industry's life cycle ([Lilien and Yoon 1990](#)).

Entry decisions also depend on beliefs about how many rivals will enter the market ([Linder 2013](#)). For the purposes of this article, we try to define the strategic factors that drive entry-timing decisions under competition. We assume there are several solutions which are being developed simultaneously and are competing to enter the market. As timing decisions tend to be highly situation-specific ([Thomas 1985](#)), the timing of entry in a market with several rivals will reflect the competitive dynamics of the market. *Competitive dynamics* are conceptualized as the exchange of actions and responses between defender and attacker and are related to the likelihood and speed of a response ([Chen et al. 2009](#), [Young et al. 1996](#)).

The competitive market dynamics is shaped by the market signals sent by the various competitors. A *new product preannouncement*, an announcement that precedes an actual new product introduction, can be used as a tool to signal different intentions to the market ([Robertson et al. 1995](#), [Su and Rao 2010](#)). A new product preannouncement provides information about a new product to competitors, who will then know the strategic direction of future competition ([Rao and Su 2010](#)). A study conducted by [Heil](#)

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