Fintech HW7: Stripe

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(a.) When Patrick and John Collision began developing an online payments solution in 2010, many people believed that PayPal had already solved the problem. Why was there such a large opportunity, and what allowed Stripe to succeed?

Through merchant to bank/issuer, there have been pain points within the payment ecosystem landscape. With the development of e-commerce, Internet adoption as well as mobile applications, digital payment solutions have developed to lower the cost, much cheaper than the traditional expensive digital payment processors. PayPal, as one of these solvers, has been successfully provided services ranging from payment processing, peer-to-peer money transfers, single touch transactions, consumer and merchant credit, risk analysis, fraud prevention, to regulatory compliance. To conclude, Paypal is more of a mobile wallet solution while Stripe has been designed to serve as solution platform for merchant services, gateway provides, better PoS in-person buying experience except for mobile wallet.

However, because of challenges from accepting payments for complex transactions, such as multi-sided marketplaces or in-application purchases, integrating payment functionality into websites and mobile applications were still pain points for growing their businesses to many smaller companies. This was exactly when Stripe came into the playground and was designed to solve problems that were not in the scope of PayPal.

Within the company, from the strategic standpoint, Stripe has been greatly positioned itself in the competition landscape and always focused on eliminating the core hurdles in the digital payment industry. Attitudes towards potential competitors, most of which are financial incumbents, have set to aviod zero sum game, potentially protecting Stripe from internecine conflicts. Besides, Patrick and John Collision have well taken advantages of trends and opportunities to grow Stripe. Proliferation of smartphones, improved mobile applications and a rise in social media usage have created quite a few opportunities for Stripe to grow businesses. Global and digital economy growth and sufficient funds by investors have enabled it to develop nearly without woes. Financial partners have made it possible for Stripe to focus on building top-notch products for its customers while customers of Stripe assisted to revolutionize products through new requests for functionalities.

(b.) As Stripe Connect grew, many companies (e.g., Lyft, Kickstarter, Postmates) approached Stripe with request for new product features and functionality. How should Stripe assess these opportunities, and how should it determine which product features to build?

From company strategic level, the issue mentioned here is about trade-off between fulfilling needs with profits potentials and costs as well as difficulties when tailoring for each businesses. Essentially, real concerns involved here may be the case when chasing profits and opportunities but also getting distracted by customers without sufficient growth potential, which is about growth efficiency and long-term profits. As a result, faced with request for new products, evaluating and classifying is essential.

As targets and measures have been elaborated above, and successful solutions tackling similar cases (with Shopify's requests, Stripe Connect has been produced), Stripe is suggested to take several steps to make the final decision.

Businesses
Measurement of whether the customer has a full potential to growth enables Stripe to take the long-term profits into accounts. In another word, whether the long-term reward would be worth the investments and efforts. Historically speaking, especially the successful case with Shopify, the ones that are technology-focused companies have been mostly defined by Stripe to possess growth potentials.

Availability and accessibility
From a technical standpoint, if Stripe is confident enough to implement a successful plan. Whether there is sufficient resources available in the company or accessible through simple partnership.

Applicability
Once the requests are fulfilled and new products/ functionalities are produced, whether the solution could be also applicable to other customers. In other word, whether the problem related to the request itself is commonly shared by a large amount of customers. If it is, like the case when Stripe Connect is invented to solve problems beyond Shopify itself, Stripe could potentially achieve a revolutionalized success both financially and technically in the industry.

(c.) Initially, Stripe's customers were primarily small business and start-ups. Should Stripe continue focusing its efforts on start-ups, or should it try to attract larger companies as customers? Why?

Stripe itself as a DPP solution, is applicable to different size of businesses. It is mostly determined by how the business applies Stripe to their own business. Product feature itself, however, is more appropriate for established businesses looking to tap into foreign markets by expanding their e-commerce platform, which often times are larger companies. Stripe accepts more than 100 currencies, features integrated mobile payments for iOS and Android, and is the best global payment option since it accepts over 100 currencies including Alipay, and Bitcoin. Its features and total integrations also win when stacked up against Square that is more simple and straightforward.

With product features applicability being said, there is still concern about whether Stripe ***should*** try to attract larger companies as customers. There are several issues to consider in this case besides the choice between enhancing the relationship with current customers and developing new customers.

Pros

Larger companies possess features potentially benefit Stripe in the long run. Business size and large base of end customers may enable Stripe to test through different cases, updating its own product features and making it more developed and established. International businesses, new area and enlarged scope of businesses all provide opportunities for Stripe to grow more. In addition, in-depth conversations involved possibly offer more enlightenment to Stripe both in technology aspect and business aspect, taking it to next level.

Cons

Similar competitors, like Adyen, have had some prominent customers including AirBnB, Netflix and spotify, which means it is difficult to substitute their existing business relationship. Large inputs may be wasted if blindly pursuing larger companies. Additionally, errors may happen if some companies without full potential to growth are focused by Stripe even though in large size.

(d.) With the launch of Stripe Relay, Stripe began to address the many opportunities outside of traditional e-commerce. How should Stripe prioritize these myriad customers and opportunities?

Massive opportunities ahead involved here are from both customers and trends.

Customers

Businesses from new backgrounds or categories may emerge with new payment challenges for Stripe to rise to. Requests for new products and functionalities possibly lead to next revolutionalized payment solution like Stripe Connect. International business and companies around the globe help to expand Stripe's business.

Trends

Social media, smartphones, artificial intelligence, machine learning, and the proliferation of data all have created possibilities for Stripe to power more types of digital transactions. Additionally, there are lots of chances within analytics, accounting and business intelligence, let alone the continued opportunities to expand digital payments.

Choose and Prioritize

While sufficiently funded, strongly partnered, well technically equipped, faced with massive opportunities, there are still quite a issues to consider for Stripe to prioritize myriad chances and better take advantages of them. First and foremost, differentiating real trends and temporary upsurge is of vital importance. Making sure to realize and assess every possible difficulties within, like exploring global markets while solving the problems of market barriers or localization (regulator aspects of different countries) is the basis for smooth operation. Such methods could help Stripe to eliminating to a valuable set of chances instead a dazzling one.

Moreover, assessing the required sources both from the short-term standpoint and long-term standpoint is also beneficial for prioritizing opportunities. Whether the chances are for short-term profits or for long-term growth and lead positioning in the industry, whether the opportunities requires complex arrangements of labor, finance, technologies or just leveraging resources from current businesses are all metrics for prioritizing. Dynamic prioritizing is suggested to build according to the changing industry and its own business.

(e.) With the launch of Stripe Atlas, Stripe made a concerted effort to target internationally based companies. In what geographies should they focus their efforts? What types of companies should they target?

In general, the company's strategy is to avoid competing with too many of the big players and to make sure this doesn't become a zero-sum game. So in terms of considering the target geographies and type of target companies, our recommendation is as follows:

1. They should focus on some underestimated markets that other competitors didn't enter in advance. Instead of companies in North America, they should focus on more area, especially developing countries.
2. Their key advantage is that with the Stripe Atlas, small companies can expand their business globally (currently just America), simplify the procedure of registered and law process. This is extremely helpful for the companies in developing countries where the internet infrastructure is not good enough and the local market is rather small such as Latin America, Middle East, and Africa.
3. For some Asian countries like China and India, the local market is large but the demand for the companies are even larger. There are a large number of small start-up companies seeking global opportunities. This should also be a major part of the target. With Atlas, they can have the same starting line as companies in the Silicon Valley.

(f.) Who do you consider to be Stripe's biggest competition? How should Stripe respond to this competitive threat?

Stripe was not alone in its mission to increase digital commerce. Much like Stripe, Braintree offered a platform of white-labeled tools for mobile application developers to easily and securely accept payments within their mobile applications.34 Founded in 2007, Braintree was purchased by PayPal for $800 million in 2013.35 In 2015, the company processed more than $50 billion in authorized payments and had 154 million payment cards on file across 46 markets. As of September 2016, Braintree's major customers included Uber, Hotel Tonight, and TaskRabbit. Another competitor was Amsterdam-based Adyen. Founded in 2006, Adyen enabled merchants to accept payments online, in applications, and offline. Adyen's prominent customers included AirBnb, Netflix, and Spotify. As of September 2016, Adyen had raised more than $250 million to continue its growth.

However, Braintree and Adyen functioned primarily as payment gateways for most of their users; this meant that their customers sometimes needed to work with other providers for payment processing and merchant accounts if they wanted to provide additional services (e.g., selling within applications) or expand to new countries. Gateways did not solve some of the more complicated pain points of building an online business, such as setting up subscription billing, managing the pay-ins and pay-outs of marketplaces, or even incorporating a company— all challenges that Stripe's products addressed.

(g.) Stripe's strategy is to make sure "this does not become a zero sum game". Do you agree with this strategy? Who stands to lose if Stripe succeeds?

Yes, I agree with this strategy. As Stripe continued to grow, Patrick and John were adamant that Stripe work with these massive companies rather than displace them. It's possible for things to be positive sum, and the existence of winners doesn't necessarily mean that there will be losers. Their goal is to take the few percent of transactions that are currently happening online and turn that number into 40 or 50 percent. There aren't a whole lot of companies who are directly threatened or imperiled by this goal. They're also conscious of not trying to think that they can ignore everything that was built over the past 50 years in the financial world. Their strategy has been to avoid competing with too many of the big players, and to make sure this doesn't become a zero sum game.

They parterened with Alipay, Apple, Amex, Visa and etc. Aligning with two of the largest players in the financial industry brought significant credibility to a start-up like Stripe, which profited in terms of recruiting, press, and customer acquisition. In addition, American Express and Visa served as potential collaborators for new product development. Shortly after the investment, American Express partnered with Stripe to build Amex Express Checkout, a feature that allowed cardholders to pay for goods and services across the Internet, mobile, and in applications with a single password. Similarly, Visa announced a strategic partnership with Stripe to support new technologies for merchants, developers, and consumers around the globe. A year later, Stripe and Mastercard announced a partnership related to Mastercard's latest innovation, Mastercard Send, which enabled people and businesses to send and receive funds securely and nearly instantaneously.

However, if Stripe succeeds, there will be some losers. Online and mobile commerce no doubt would continue to grow rapidly, and the competition would be fierce. Global spending on commerce via mobile devices was expected to reach $720 billion in 2017, up from $300 billion in 2014.44 In this attractive market, Stripe would need to compete with companies such as Braintree, PayPal, and Adyen. So if Stripe succeeds, they will stand to lose. But beyond that, they would need to ensure that their financial partners continued to benefit from the value they created, lest they develop payments solutions of their own.