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INSIGHTS

Cash management solutions for the platform-based economy

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A business revolution is well underway and traditional businesses are being disrupted by "platform businesses", which are businesses that use technology to connect corporates, individuals and resources for the exchange of physical goods, services or information. Businesses are generally organised as "pipes", whereby goods or services are transformed along a linear supply chain process beginning from raw materials and culminating as an end product to the customer.

Platform business – the business model of the future

Along this pipe, the roles of producers and consumers are generally clearly defined with a consumer of one segment being the producer of the next step of the chain. However, following rapid growth of network connectivity technologies, platform businesses have seen a surge in popularity.

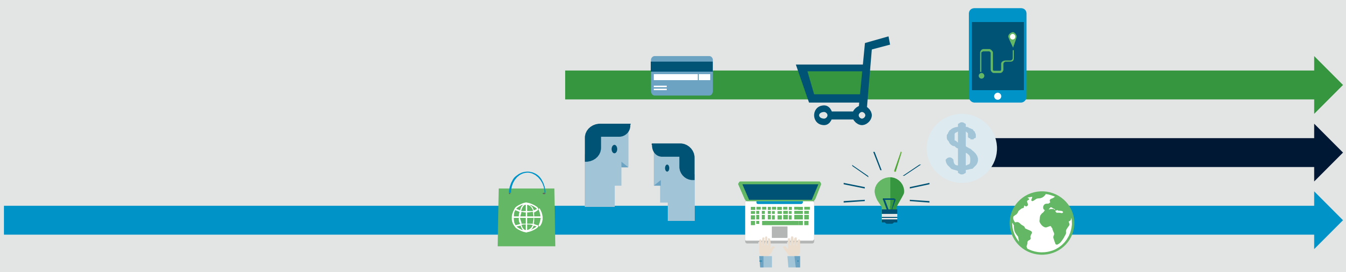
Platform businesses are businesses which use technology to connect corporates, individuals and resources for the exchange of physical goods, services or information. Roles between producers and consumers which were previously clearly delineated are now blurred. An individual can be simultaneously a producer or consumer depending on the transaction with a platform facilitating two-way interactions between participants. Facebook is a prime example – individuals create posts while simultaneously consuming news, photos or videos from others. Airbnb itself does not hold any physical inventory, yet has the ability to match accommodation availability with market demand for millions. Its participants may both rent out or rent an accommodation. The list goes on: Amazon, eBay, Uber, TaskRabbit, Lyft etc. In all of these, success is built on economies of scale, in which the larger the platform's network, the more value it provides to its participants.

Evolution and classification of platform businesses

While most initial forms of platform businesses were eCommerce companies, where physical goods were offered via a portal (e.g. Amazon), this eventually evolved into e-marketplaces allowing for exchange of goods and services between individuals (e.g eBay). The sharing/rent economy also blossomed in parallel, whereby platforms for sharing or renting of assets (e.g. Airbnb) grew in number and size exponentially in the past decade. Today, we regularly hear or read about the rise of the Gig Economy, and platforms such as TaskRabbit matches individual short term labour supply with tasks.

Figure 1: Emergence and growth of selected platform businesses

	2006	2008	2009
Emergence and growth of sharing economy	Lending Club founded, originates total of USD22.6 billions in loans as of Sep 2016	Airbnb founded, in 34,000+ cities as of Oct 2016	Getaround founded, ties up with Toyota on car sharing model in 2016

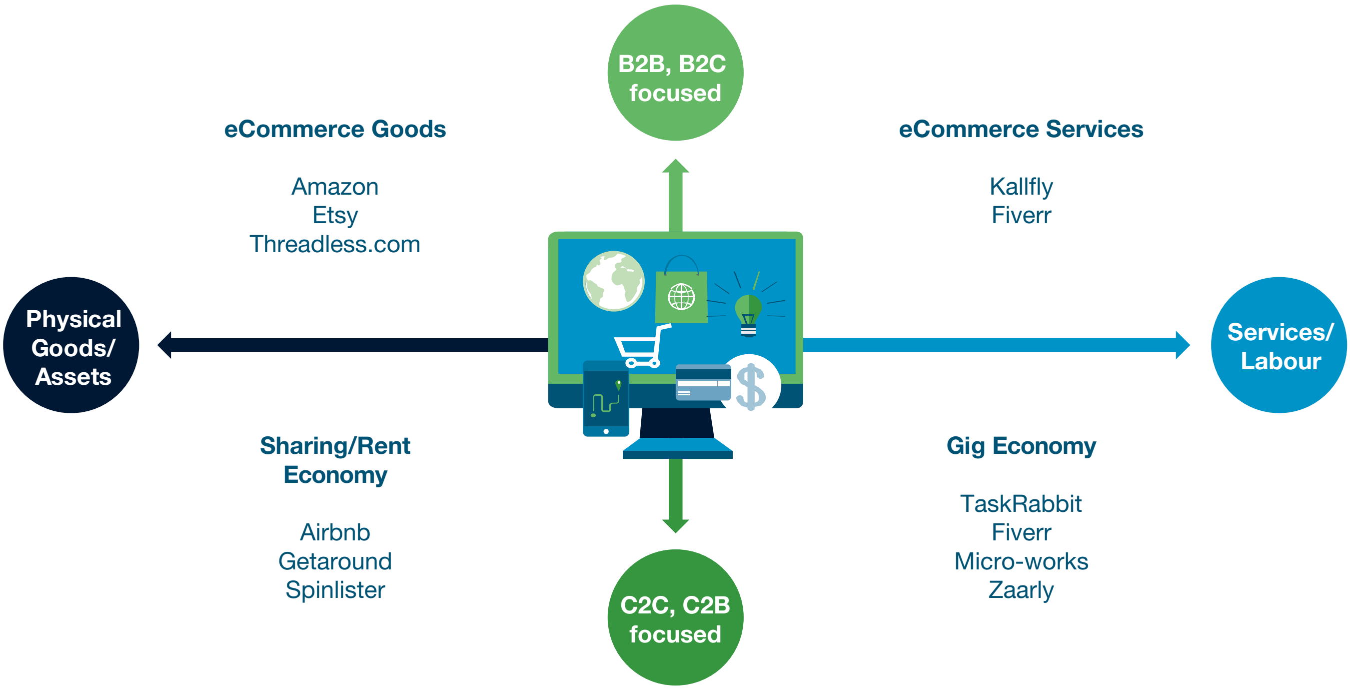


	1994	1995	1999	2004	2005
eCommerce goods and eventual growth into services and digital assets	Amazon founded as online bookstore, continuously expands product and service lines	eBay.com online auction launched, expands to multi-product and services eCommerce site	Alibaba launches, files for record IPO in 2014	Facebook founded, reaches 1 billion active users in 2012	Etsy – eCommerce site for handmade and vintage items launched

	2009	2010	2013
Rapid growth in gig economy	Uber founded (as UberCab), in over 500 cities as of Aug 2016	Fiverr website launched, facilitates total of 4.2 million gigs by end 2015	Managed by Q launched, Series C funding in Dec 2016

Platform businesses may also straddle multiple customer and product segments. For example, qoo10.com acts as marketplace for both goods and services. Fiverr provides services from both business and individuals for a wide range of tasks. A simplified segmentation breakdown of the different platform economies is shown in figure 2.

Figure 2: High level classification of platform businesses with selected examples



Changes in buying behaviour and payment characteristics

As businesses move to a platform-based model, the buying behaviour of each participant and corresponding payments characteristic has also evolved. While in a pipe model, payments tend to be aggregated for execution in fixed time periods and generally are preceded by a legal contractual arrangement, the payments for a platform-based model are generally fragmented and "just-in-time".

For example, where salaries are traditionally paid on a fixed schedule and constant in value, compensation in the gig economy is ad-hoc with varying value for each gig.

	Traditional	Platform-based
Value	• Typically high value	• Typically low value in nature on a per transaction basis
Volume	• Typically lower	• High volume as initiated on a per transaction basis
Frequency	• Majority are fixed frequency, e.g. monthly, weekly with occasional ad-hoc payments	• No fixed frequency and ad-hoc in nature
Invoicing and initiation	• Mix of both paper and electronic invoicing and payment initiation	• Invoicing and payment generally electronic with occasional cash settlement for tasks

Table 1: Comparison of payment characteristics between traditional and platform-based businesses

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As platform businesses proliferate, non-bank e-payment service providers have likewise grown to meet the demands of such businesses. For example, Alipay, the payments arm of Chinese eCommerce giant Alibaba has grown to become the preferred payment method for most Chinese consumers, much more than either cash or cards.

Banks therefore need to innovate and leverage the latest technologies to remain competitive. This requires in-depth understanding of corporates' and consumers' requirements. For a large multinational corporate conducting eCommerce business in multiple regions, this may mean requiring a portal which allows customers to pay in any payment method, without having to deal with the complexity of managing multiple merchant acquirers or payment service providers. This is especially pertinent for corporates seeking to grow their eCommerce business in regions with highly fragmented regulatory landscapes, such as ASEAN.

Such conditions are ripe for API Banking, leading to standardised, seamless machine-to-machine payments, which execute "on-demand". Banks have to rise to the challenge of API Banking which would be crucial in delivering for open-model platform businesses.

For an individual in the gig economy or a leasor in the rent economy, this may translate into the need for a low-cost seamless "pull" payment capability, allowing them to request for a payment via mobile or other channels in a seamless authentication process without compromising on security. There is also a demand on national clearing infrastructures to rise to these challenges. It is therefore crucial for banks to track developments in Immediate Payments implementations such as FAST in Singapore or UPI in India.

At the risk of overhyping the benefits of blockchain and smart contracts, these technologies will also play an important role in creating trust and efficiency in the decentralised platform economy. In the true sense of a platform-based economy, banks should also explore the ways to leverage resources in the gig economy for selected labour-based banking activities such as cash collections, so as to improve and achieve service levels in line with the new economy.

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