



By Shirish Wadivkar, Managing Director, Global Head — Correspondent Banking Products, Transaction Banking, Standard Chartered

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

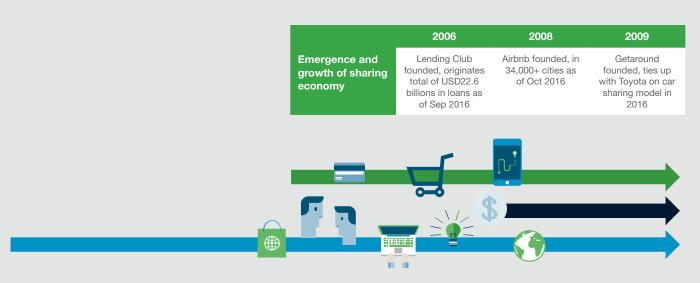
Along this pipe, the roles of producers and consumers are generally clearly defined with a consumer of one segment being the producer of the next step of the chain. However, following rapid growth of network connectivity technologies, platform businesses have seen a surge in popularity.

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



	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	<ul> <li>High volume as initiated on a per transaction basis</li> </ul>
Frequency	<ul> <li>Majority are fixed frequency, e.g. monthly, weekly with occasional ad-hoc payments</li> </ul>	No fixed frequency and ad-hoc in nature
Invoicing and initiation	Mix of both paper and electronic invoicing and payment initiation	<ul> <li>Invoicing and payment generally electronic with occasional cash settlement for tasks</li> </ul>



## Cash management solutions for the platform-based economy

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.

This material has been prepared by Standard Chartered Bank (SCB), a firm authorised by the United Kingdom's Prudential Regulation Authority and regulated by the United Kingdom's Financial Conduct Authority and Prudential Regulation Authority. It is not independent research material. This material has been produced for information and discussion purposes only and does not constitute advice or an invitation or recommendation to enter into any transaction.

Some of the information appearing herein may have been obtained from public sources and while SCB believes such information to be reliable, it has not been independently verified by SCB. Information contained herein is subject to change without notice. Any opinions or views of third parties expressed in this material are those of the third parties identified, and not of SCB or its affiliates.

SCB does not provide accounting, legal, regulatory or tax advice. This material does not provide any investment advice. While all reasonable care has been taken in preparing this material, SCB and its affiliates make no representation or warranty as to its accuracy or completeness, and no responsibility or liability is accepted for any errors of fact, omission or for any opinion expressed herein. You are advised to exercise your own independent judgment (with the advice of your professional advisers as necessary) with respect to the risks and consequences of any matter contained herein. SCB and its affiliates expressly disclaim any liability and responsibility for any damage or losses you may suffer from your use of or reliance on this material.

SCB or its affiliates may not have the necessary licenses to provide services or offer products in all countries or such provision of services or offering of products may be subject to the regulatory requirements of each jurisdiction. This material is not for distribution to any person to which, or any jurisdiction in which, its distribution would be prohibited.

You may wish to refer to the incorporation details of Standard Chartered PLC, Standard Chartered Bank and their subsidiaries at http://www.sc.com/en/incorporation-details.html.

© Copyright 2017 Standard Chartered Bank. All rights reserved. All copyrights subsisting and arising out of these materials belong to Standard Chartered Bank and may not be reproduced, distributed, amended, modified, adapted, transmitted in any form, or translated in any way without the prior written consent of Standard Chartered Bank.