PayMe Case Analysis

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Executive Summary

Key Question

How can PayMe **expand its services** to become **indispensable** for the **Gen Z** population in Hong Kong?

Issues

High Competition	High Uniformity	Low Adoption
saturated market full of established players	limited differentiation and easily replicable	prevalence of other payment methods

Strategy

Exclusive Sponsorships
Increase user adoption rates through exclusive sponsorships of large-scale events

Strengthen Gamification
Broaden network effect through enhancing current PayMe gamification features

Impact

~HKD 25 Million
Cumulative Profit in the next 5 years

10% Increase
in P2M Sales Volume

Case Summary & Contents of the Reading

PayMe | From HSBC

HSBC PayMe is a 4-step payment app and digital wallet. Only 5 years after launching in Hong Kong, the app managed to:

Gain
>2.6M
Users

Partner
>25,000
Merchants

Capture
~75%
Market Share

Strengths

SVF License: Allows **non-bank financial institutions** to act as **e-wallets** and provide mobile payments

HSBC: Widely known brand with **substantial capital** to invest

User Network: Peers and **merchants** use the app recurringly to create a **network**

Exponential Growth: Users **referring friends** to use the app in order to transfer money and **reward systems** create an **exponentially growing user base**

Situational Analysis   Industry Overview   Recommendation   Implementation

Case Summary & Contents of the Reading

Main Challenges

Fierce Competition: Brands such as Alipay, Pay Pal, WeChat Pay and Octopus Card dominate the Hong Kong e-payment market

Limited Differentiation: As one of many payment apps, the PayMe service is **easily replicable** and **hard to differentiate**

Lack of Interest: In the **P2M** market, **merchants lack interest** for the app as most already accept credit/debit cards, Octopus cards etc

Moving Forward:
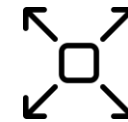
Expand Product Offering:
To attract more users and merchants into the platform

Differentiate:
Create competitive advantages that other payment apps don't have

Profitability:
By expanding the P2M market, attracting more merchants who pay 1.2-1.5% fees on transaction

Key Terms/Concepts

PayMe HSBC is to provide a **fast, convenient, and secure** way for people in Hong Kong to make **P2P payments** using their mobile devices, with a focus on **simplicity, social features, and security**.

SVF (stored value facility) licenses

In Hong Kong, e-wallet payment services can also be broadly classified into two types, namely **stored value** and non-stored value. For SVF, consumers have to **deposit money into their accounts in advance for subsequent deduction of money** in any transaction using SVF. A SVF license permits the usage of this type of e-wallet payment service.

E-wallets

Also known as **digital wallets**, are electronic devices or online services that allow individuals to **store and manage their payment information**, such as credit card or bank account details, in a secure digital format.

Peer to Peer (P2P)

P2P payments are transactions between people through a website or mobile app where users can **send or receive money** to and from another user's bank account **without an intermediator**.

Peer to Merchant (P2M)

P2M payments allow businesses of any size to **receive instant, real-time payments** through a mobile phone number.

Situational Analysis Industry Overview Recommendation Implementation

Timeline of PayMe

Official Launch of PayMe
Top Up Limit: $10,000HKD/month

Feb 8th 2017

Users able to link to a local bank account
First foray into online payments (HKTVMall)

June 2018

Early Stages of PayMe

(2018 - 2020)

Aug 25th 2016

The first 5 SVF licenses are issued by HKMA

Apr 2018

PayMe wins the FinTech Grand Award in the official Hong Kong ICT Awards

July 2019

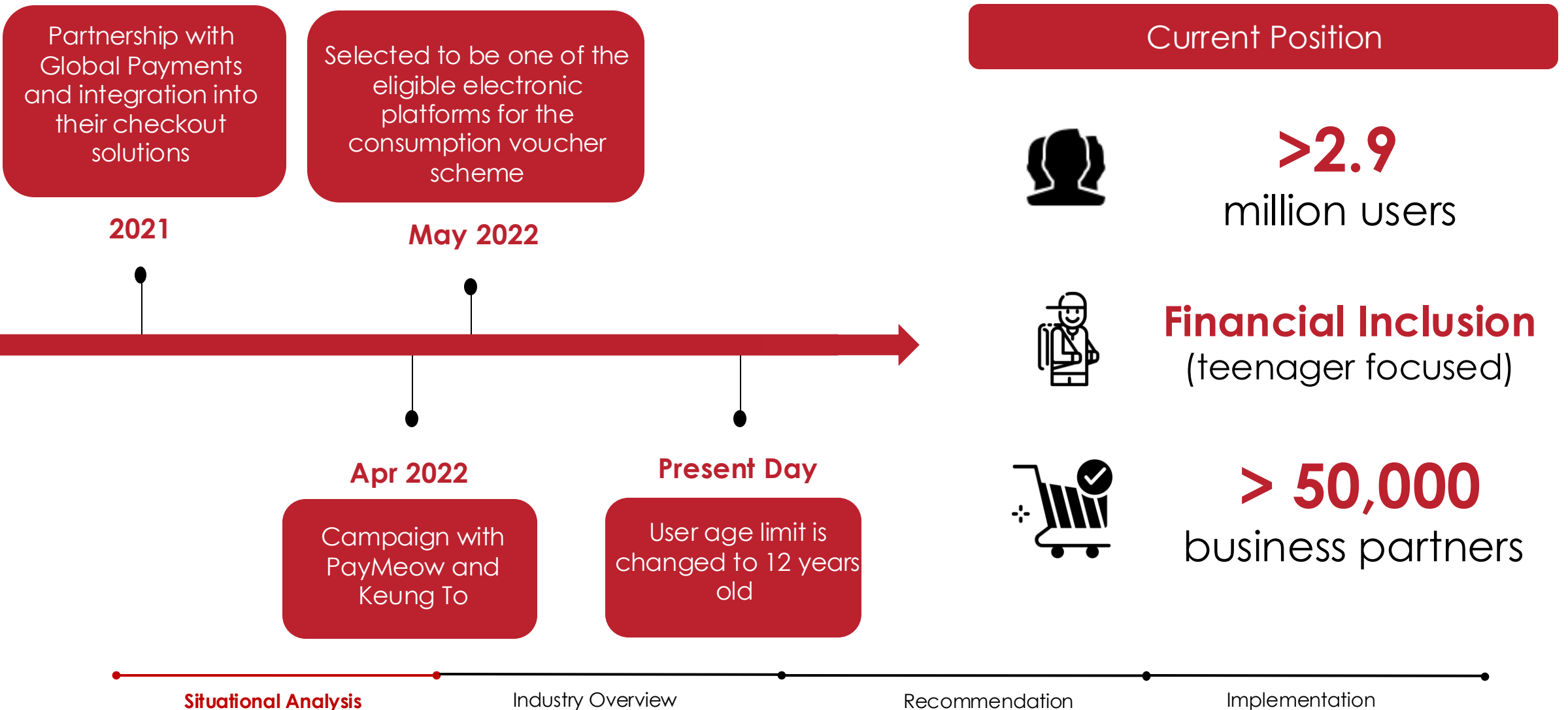PayMe introduces FPS for transfer and top-up

Situational Analysis   Industry Overview   Recommendation   Implementation

Timeline of PayMe

Partnership with Global Payments and integration into their checkout solutions

2021

Selected to be one of the eligible electronic platforms for the consumption voucher scheme

May 2022

Apr 2022

Campaign with PayMeow and Keung To

Present Day

User age limit is changed to 12 years old

Current Position

>2.9 million users

Financial Inclusion (teenager focused)

> 50,000 business partners

Competitor Analysis

Key Players	P	ALIPAY 支付宝	WeChat Pay 微信支付	Octopus 八達通
Global Reach	✗ Only in Hong Kong	✓ >200 countries	✓ 49 countries	✗ Only in Hong Kong
Diverse Functionalities	✗ Payments only	✓ Super-app	✓ Super-app	✗ Payments only
Exclusive Partnerships	✗ No exclusive partnerships	✓ 8-year contract with UEFA national football team	✓ German payment service Wirecard	✓ Boutir's Exclusive "Buy Here Buy Now" Video Shopping Scheme
Rewards	✓ Merchant rewards	✓ Merchant rewards	✓ Merchant rewards	✓ Merchant rewards
Gamification	✓ Group Lai-see	✓ Group Lai-see	✓ Group Lai-see	✗ App only has top-up function

Situational Analysis   Industry Overview   Recommendation   Implementation

Key Takeaway:

Pay Me must **expand** and **differentiate** its services to **increase transaction volume** and become **profitable** in the HK market

The Fintech Industry in Hong Kong

InvestHK

FintechHK

HONG KONG MONETARY AUTHORITY
香 港 金 融 管 理 局

800+ fintech companies

67% consumer fintech **adoption rate**

86% of incumbent banks integrate FinTech

HKSAR government department increases **foreign direct investment** for early-to-developed fintech companies

Revealed a strategy called "Fintech 2025" with goals like **all banks use fintech**, create **data infrastructure**, and **fintech ecosystem**

Situational Analysis · **Industry Overview** · Recommendation · Implementation

The Digital Payment Industry in Hong Kong

HKSAR Government Support

HKMA began issuing stored value facilities (SVF) licenses in 2016 and virtual banking licenses in March 2019

High Demand

9 in 10 consumers have digital wallets **2nd most popular** payment option US $1 billion transactions annually

Future Outlook

Digital wallets will **overtake credit cards** and account for **40%** of the city's online transaction value by 2025

Hong Kong FinTech Week 2022: Fintech and Digital Payment Intersection

Attendees List Sample

Hong Kong FinTech Week 2022

Our members (Chen, Tse, and Luo) attended and spoke with Hong Kong HSBC's CEO Luanne Lim

Hong Kong FinTech Week 2022

- 30,000+ visitors and 5 million online viewers

- 500 fintech speakers and 600 exhibitors

- 30 international delegations

HSBC's Pay Me: Fintech Week Participant

- 2018 Grand FinTech Award

- 2018 Gold Award for Emerging Solutions

- Showcased Pay Me for HSBC exhibition
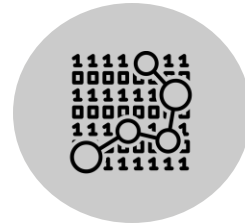
Situational Analysis   **Industry Overview**   Recommendation   Implementation

Unique Features of the Industry

Application Programming Interface (API)

- A set of functions that can be shared with whoever has a key to access it.
- **Critical to the business's operations.**
- Can be monetized by companies.

HSBC

- Offers PayMe API for **free** to all developers with a business account

Data Collection & Sharing

- Merchants provide data insights into PayMe User consumer base (amount of transactions, locations, items purchased…, etc)
- Information provides PayMe with competitive advantage

*"The **information that they share**, is nothing but **pure gold for companies** who are planning to introduce new products and services into the market; whether they are financial products or services, or consumer goods."*

– Lend Foundry

Impact

Increase innovation & number of developers

Targeted advertisements increase user base

Better understanding of user base for growth assessment

Situational Analysis   **Industry Overview**   Recommendation   Implementation

Unique Features of the Industry
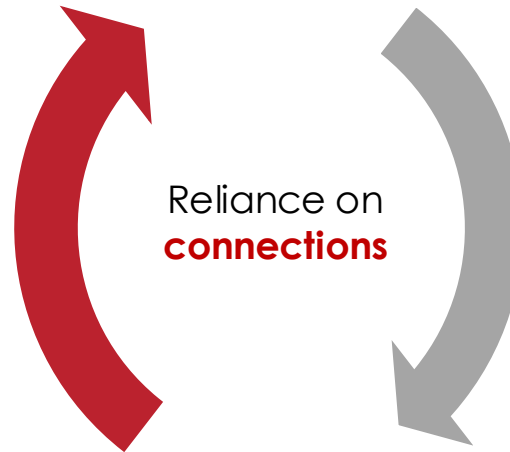
2. Network Effect & Positive Feedback Loop

Users

P2P:
The more friends use the application, the more likely one is willing to adopt it.

P2M:
The more merchants offer PayMe as a payment method, the more likely one will want to adopt it.

Reliance on **connections**

Merchants

P2P:
The more consumers use it, the more likely they will want to offer it as a payment method

P2M:
The more merchants adopt it, the more likely they will adopt it to stay competitive and capture more revenue

Network effects are key to creating **economies of scale** as **marginal costs decrease** as user base grows

Unique Features of the Industry

3. Real Time Convenience

Process Interval

- The **shorter the processing time** for a payment to go through, the **more appealing** it is for users
- Can be procure a **competitive advantage** for the company
- Long processing time can lead to consumer dissatisfaction --> risk of losing users

International Payments

- Accurate and instantaneous calculation with exchange rates
- Blockchain solutions lead to **improved speed** and **transparency**

Challenges of the Digital Payment Industry

| Data Security | → | Fintech companies hold incredible amounts of **sensitive customer information**. Breaches in this data can cause **serious issues** in terms of financial loss, loss in customer trust, and additional legal ramifications. |

Cybersecurity

Threat examples: Cyberattacks include "hacking, phishing, and malware."

Solution Examples:
- Multi-factor authentication
- Firewalls
- Intrusion detection system
- Machine learning for threat detection

Fraud

Takeover Fraud: Personal information is leaked, and scammers take over an account that isn't theirs

Identity Theft: Scammers take identity data and act like they are someone else, also leading to payment fraud

Phishing Scams: Users are fooled by scammers into revealing information

Porter's 5 Forces

Industry Rivalry

- High industry competition (Alipay, WeChat Pay, Octopus)
- High brand identity
- Rapid technological advancements
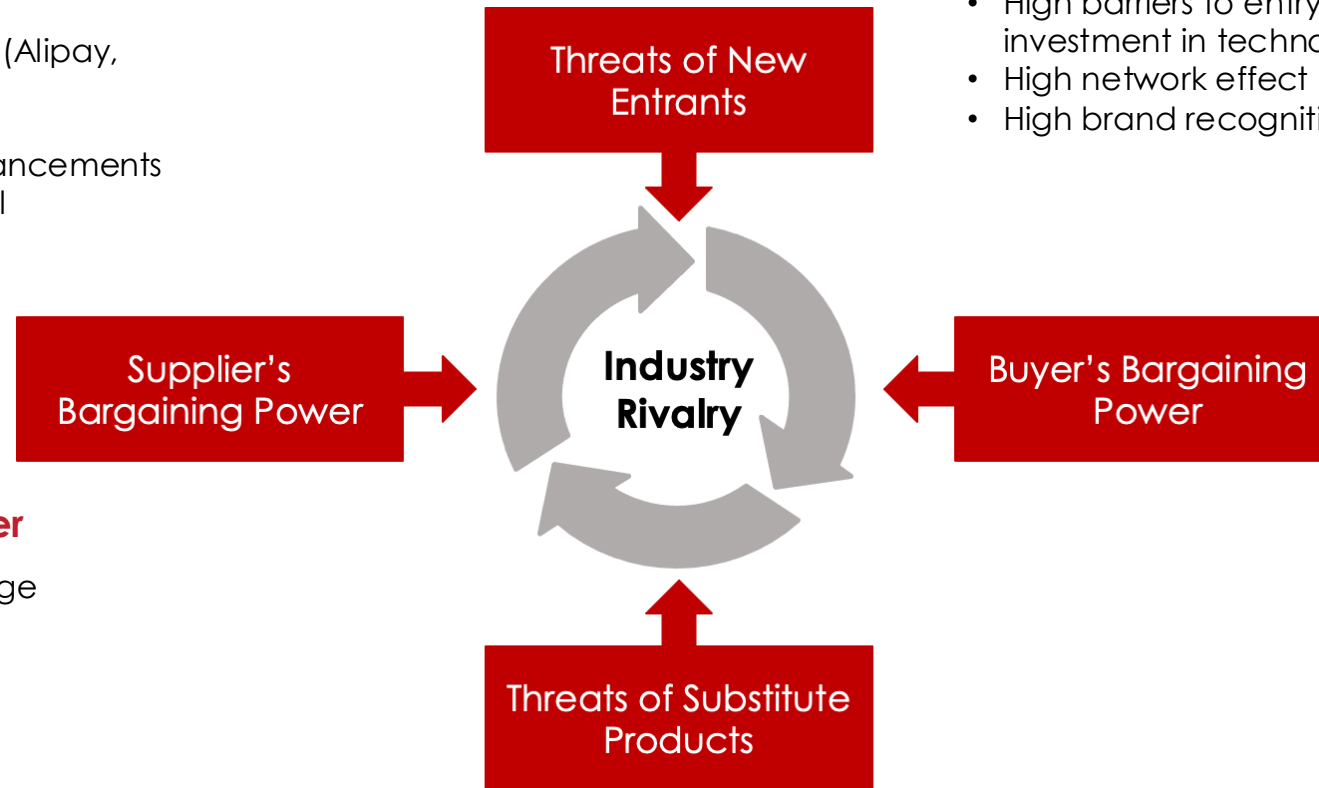- National and international competitors

Threat of New Entrants

- Vary in switching costs (integration, contracts, customer data, trust) depending on buyer size
- High barriers to entry (compliance with regulations, investment in technology infrastructure)
- High network effect
- High brand recognition

Buyer's Bargaining Power

- High bargaining power for large volume of customers to negotiate lower fees
- High degree of competition to switch providers
- High substitutes availability
- High price sensitivity
- Low product differentiation

Supplier's Bargaining Power

- High bargaining power for large and reputable merchants to influence contract terms
- Low switching costs
- Low impact of inputs on costs and differentiation

Threat of Substitute Products

- High threat of substitutes (cash/ credit cards/ debit cards/ cheques)
- High inclination to switch (convenience, satisfaction, cost savings)
- Vary in switching costs depending on buyer size

Threats of New Entrants

Supplier's Bargaining Power

Industry Rivalry

Buyer's Bargaining Power

Threats of Substitute Products

Situational Analysis · **Industry Overview** · Recommendation · Implementation

How can Pay Me **expand its services** to become **indispensable** for the **Gen Z** population in Hong Kong?

Why target Gen Z?

Demographic	Knowledge	Adoption

As of Q2 2019, Gen Z comprised more than **1.6 million** (22%) of Hong Kong

99% of online shoppers in Hong Kong **aged 15 - 24** years were aware of mobile wallet services

91% of Hong Kong's Gen Z have a credit card and Pay Me lowered age requirement to **12 years old**

PayMe should capture the growing Gen Z market to expand its market share.

Situational Analysis   Industry Overview   **Recommendation**   Implementation

Addressing 3 key factors can help payment systems gain a competitive advantage in capturing new customers.

Compatibility

①

The gap between innovation and potential user's values, needs and lifestyle

- To what extent does the innovation satisfy user's daily needs?
- To what extent is the innovation disrupting user's current habits?

Ubiquity

②

The power of networks for users to make payments anytime anywhere

- How many merchants/partnerships does the payment system have?
- How many currencies does the payment system support?

Social Influence

③

Number of users in the system

- How many users does the payment system have?
- How many users are willing to adopt it in the future?
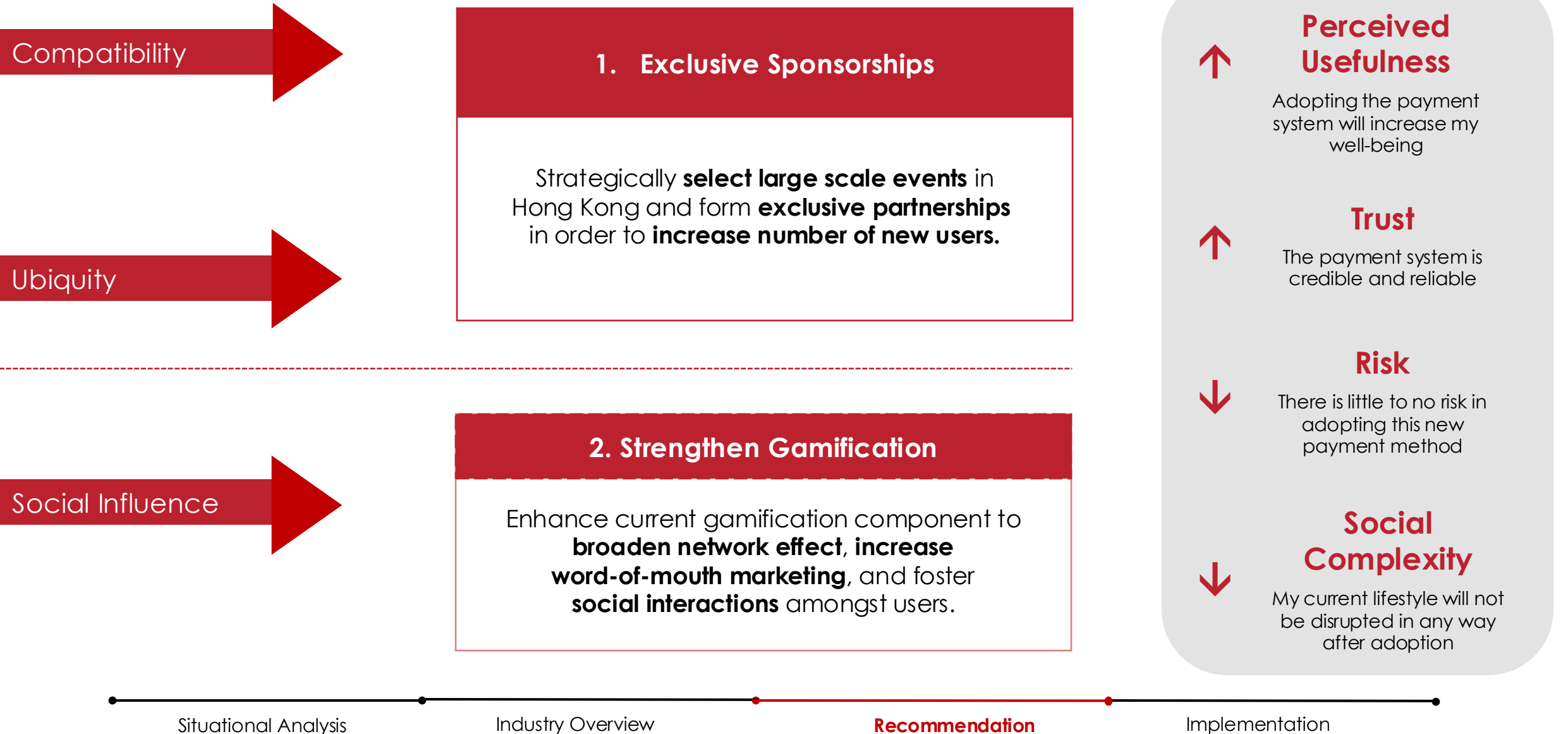
Situational Analysis   Industry Overview   **Recommendation**   Implementation

Overview of Recommendation

Compatibility →

Ubiquity →

Social Influence →

1. Exclusive Sponsorships

Strategically **select large scale events** in Hong Kong and form **exclusive partnerships** in order to **increase number of new users.**

2. Strengthen Gamification

Enhance current gamification component to **broaden network effect**, **increase word-of-mouth marketing**, and foster **social interactions** amongst users.

↑ **Perceived Usefulness**
Adopting the payment system will increase my well-being

↑ **Trust**
The payment system is credible and reliable

↓ **Risk**
There is little to no risk in adopting this new payment method

↓ **Social Complexity**
My current lifestyle will not be disrupted in any way after adoption

Situational Analysis   Industry Overview   **Recommendation**   Implementation

Sponsorship of Exclusive Events to Foster Word of Mouth Advertising and Increase User Base

Current Popular PayMe Businesses:

McDonald's, 7-Eleven, KFC, Klook, Mannings, MUJI, Sasa, Starbucks and UNIQLO

… what about EVENTS?

Concerts/ Rugby Sevens

- HK's **strategic positioning** in the center of Asia
- **Go-to performance spot** for touring artists
- Music festivals, foreign artists, etc.
- **Ticketflap** & **Live Nation** partnership

AIA Carnival

- Annual festive **family** attraction
- 2019: 1,000 youths from sponsored foundation
- Attracts > 1 million visitors
- Exposure to the **HK foreign population**

CLOCKENFLAP (Ticketflap)

>35,000 Attendance /year

- Western and Asia acts
- 3-day festival
- Family-friendly activities & markets

Limit payment options of ticketing, rides & food booths to PayMe to **increase user base**

Situational Analysis — Industry Overview — **Recommendation** — Implementation
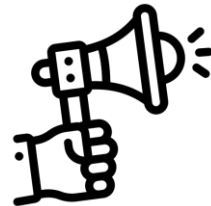
Case Study: POPpay

What is it?

PopPay allows individuals to make **contactless payments** at restaurants and retail stores using **facial recognition**.

Pain Point: **Fraud & Inconvenience** of digging for your wallet

Strategic Entry Point : College Campuses

Hyper-Localized City-by-City Expansion/Marketing Strategy

Extreme discounts to **subsidize adoption**

Target businesses around university campuses

Sponsorship of on-campus concerts/carnivals/events (limited payment options)

Situational Analysis   Industry Overview   **Recommendation**   Implementation

Strengthen Gamification To Acquire and Retain Users

1. Embed value into PayStreaks by creating a reward system

How?

1 purchase at merchant A = 1 PayStreak at merchant A

X PayStreaks at merchant A = X reward from merchant A

Users

- ✓ **Convenient access** to information on rewards
- ✓ **More perks** for spending
- ✓ **Positive reinforcement** feed back loop

Merchants

- ✓ **Merchant autonomy** in selecting rewards and structure
- ✓ Increased pool of loyal customers
- ✓ **Increased profits**
- ✓ Free advertisement

PayMe

- ✓ Strengthened **Network Effect**
- ✓ **Increased volume of users** and partner merchants
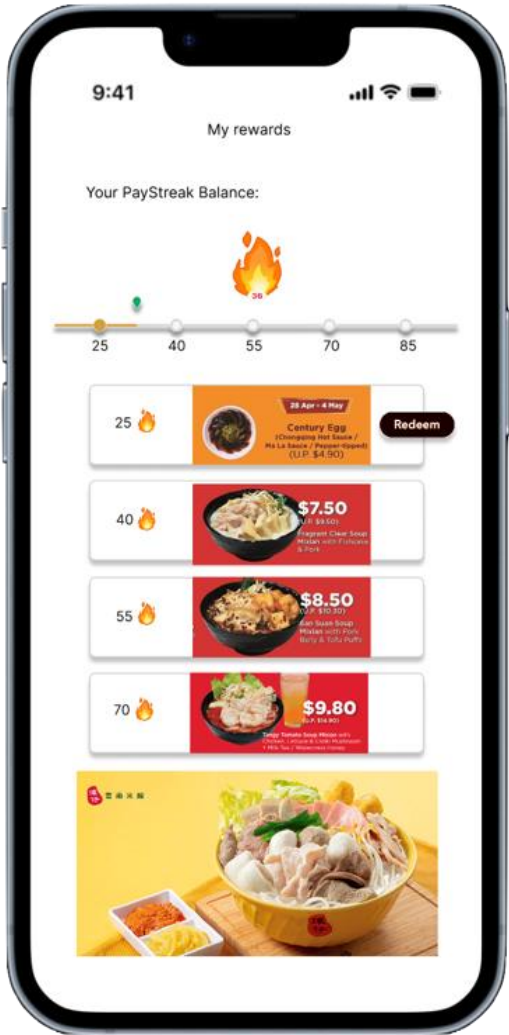- ✓ Creating a **social ecosystem**

Illustration of user A's reward page at TamJai and the corresponding rewards he can redeem with his PayStreaks

Strengthen Gamification To Acquire and Retain Users

2. Improve Limited Flash Voucher System

How?

A push notification of **limited** number of vouchers will be sent out to **all PayMe users** at **random times** of the day. Voucher claims follow a **first come first serve** mechanism.

Why?

✓ Increase competitiveness & excitement through added randomness

✓ Create a **sense of unity** through a community wide shared experience

Illustration of HFT's flash vouchers to be claimed by users

3. Implement Leadership Board

Case study: Duolingo's Leadership Board

How?

A **user's contact list** will be registered into their leadership board. Rankings are determined by the **sum of user's PayStreaks.**
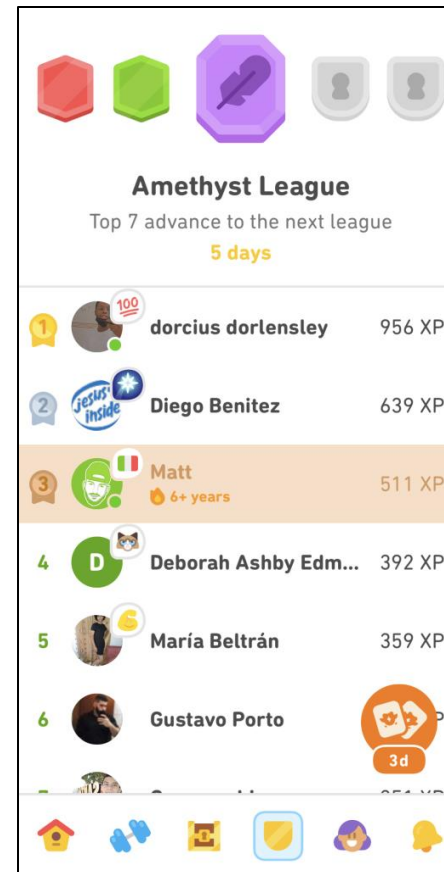
Why?

✓ Create conversation among small circle of friends, acting as **word-of-mouth** marketing

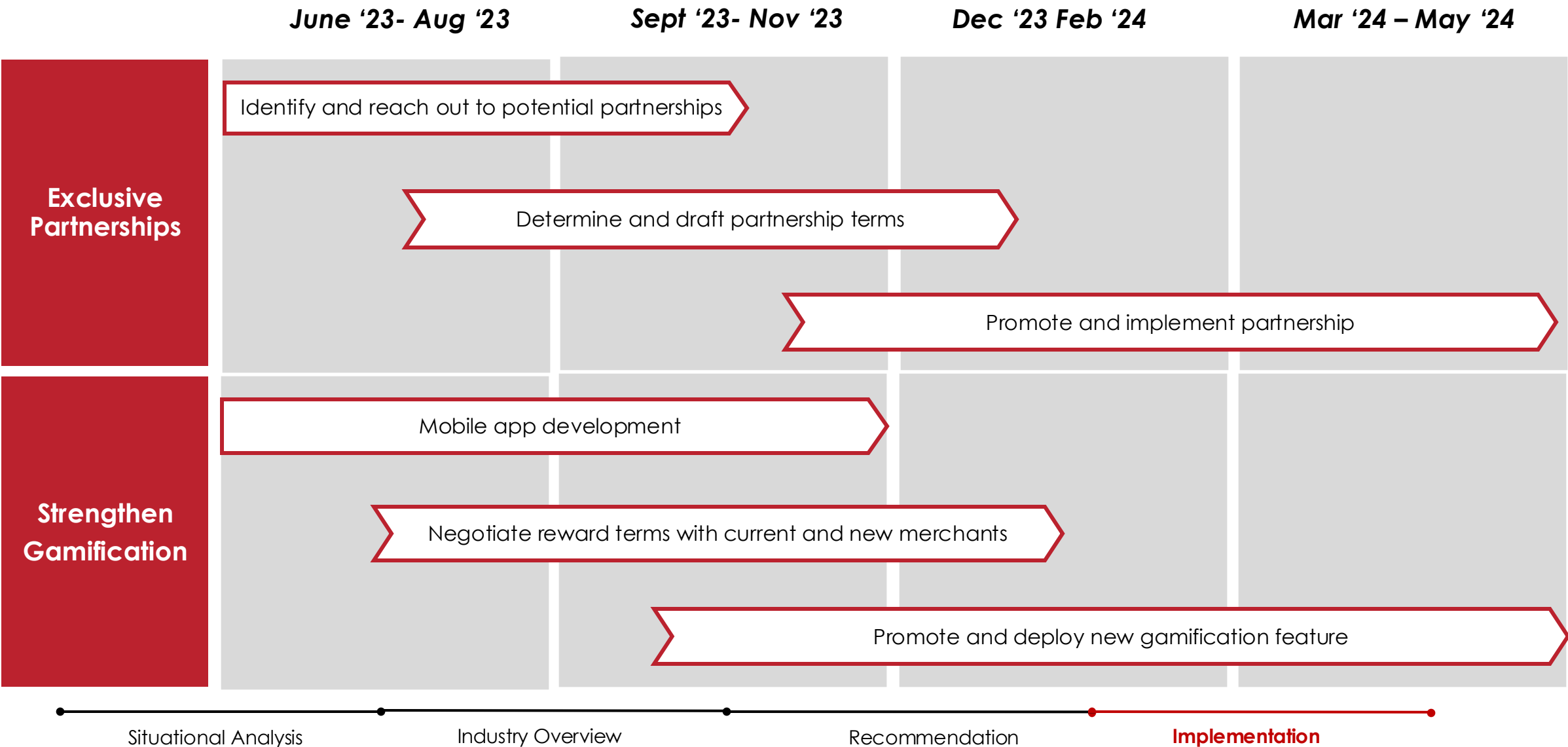✓ **Increase user engagement** through sense of competition

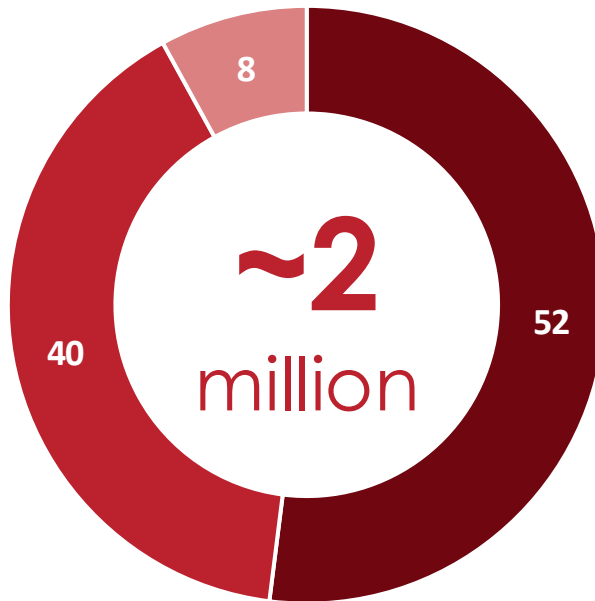✓ Added element of **social interaction** among users

Implementation Timeline

	June '23- Aug '23	Sept '23- Nov '23	Dec '23 Feb '24	Mar '24 – May '24

Exclusive Partnerships

Identify and reach out to potential partnerships

Determine and draft partnership terms

Promote and implement partnership

Strengthen Gamification

Mobile app development

Negotiate reward terms with current and new merchants

Promote and deploy new gamification feature

Situational Analysis   Industry Overview   Recommendation   **Implementation**

Cost Breakdown

Cost breakdown in HKD..

~2 million

R&D	$1 million
Sales Team	$768,000/y
Other Costs	$150,000/y

To rework app and implement gamification system

To partner with 8 festivals/year and maintain those relationships
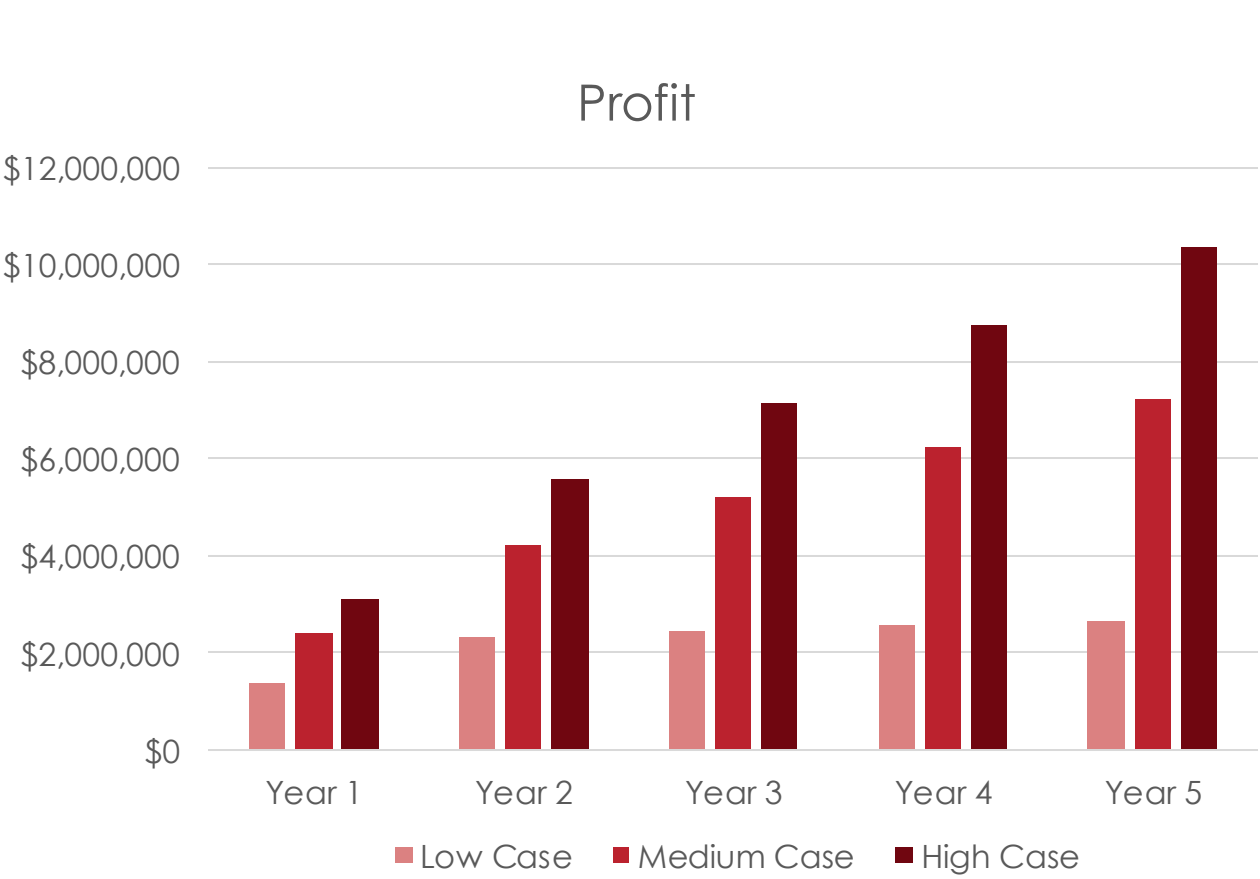
Customer service and operation cost

Source: Appendix A

Situational Analysis — Industry Overview — Recommendation — **Implementation**

Profit Forecast

Source: Appendix A & B
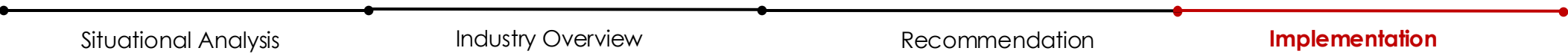
Risks and Mitigation
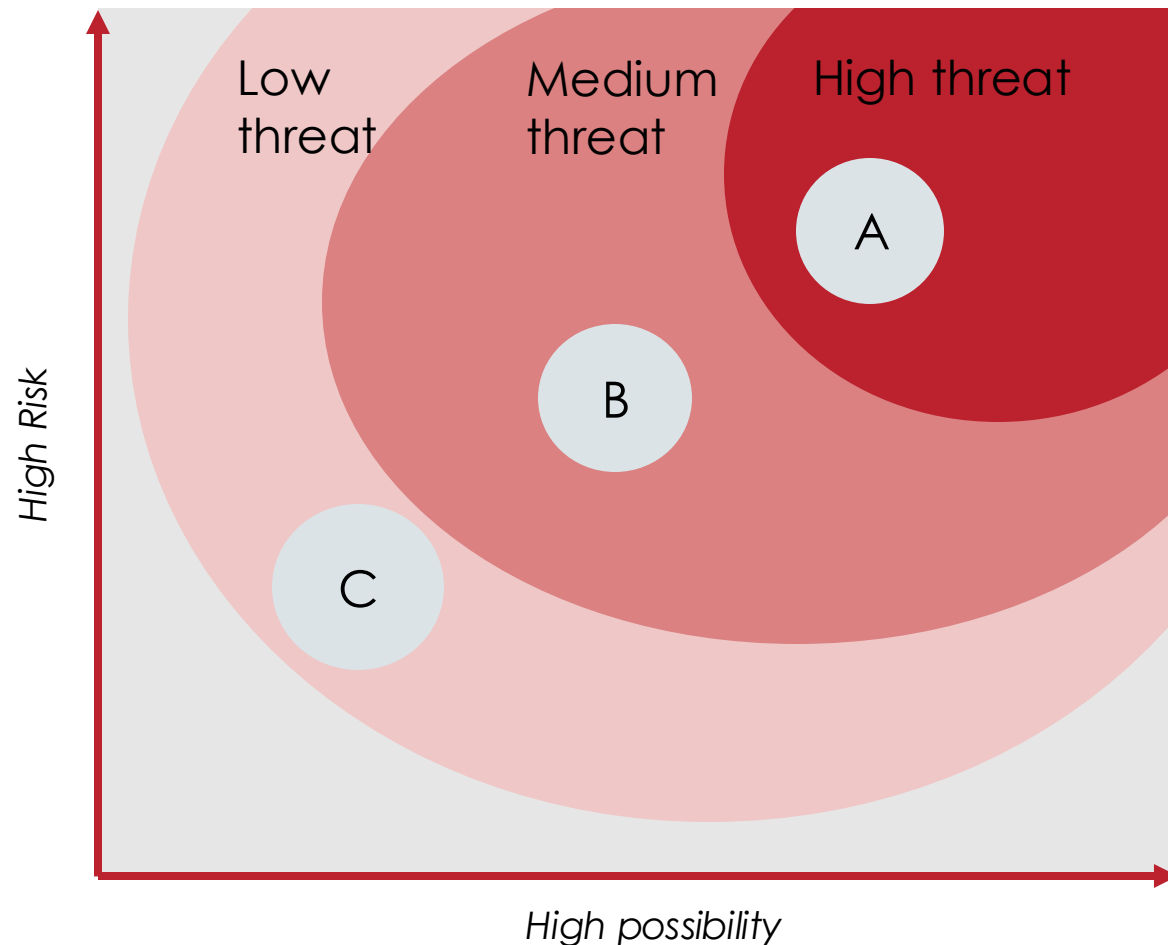
Risks & Mitigation Strategies

A — **Rejection from Large Events**
- Conduct proper due diligence
- Hire HSBC Sales Associate team to onboard and build relationship with event organizers

B — **Merchants' Lack of Incentives**
- Offer in-house expertise/support in onboarding and transition
- Provide follow-up services

C — **Lack of Awareness of New Initiatives**
- Develop marketing plans specifically for Gen-Z.

Situational Analysis   Industry Overview   Recommendation   **Implementation**

Appendix A. Financials

Key Assumptions

Low Case

% users that pay with PayMe at events	20%
Spending/person with merchants at events:	$100
Transaction fee to merchant	1.2%
Average # atendees per festival	352,154
# Festivals onboard per year	4
Average HSBC Sales Associate Wage	$384,000
Sales Team Size	2
Average HK employee transportation cost/year	$2,600
Other Costs/Festival	$50,000
Gamification R&D cost	$1,000,000
Gamification Merchant sales increase	5%
Number of PayMe HK Users	2,600,000
Average Transaction to merchant /User/year	$100
Taxes	16%

Medium Case

% users that pay with PayMe at events	30%
Spending/person with merchants at events:	$150
Transaction fee to merchant	1.2%
Average # atendees per festival	352,154
# Festivals onboard per year	8
Average HSBC Sales Associate Wage	$384,000
Sales Team Size	2
Average HK employee transportation cost/year	$2,600
Other Costs/Festival	$40,000
Gamification R&D Cost	$1,000,000
Gamification Merchant sales increase	10%
Number of PayMe HK Users	2,600,000
Average Transaction to merchant /User/year	$100
Taxes	16%

High Case

% users that pay with PayMe at events	30%
Spending/person with merchants at events:	$150
Transaction fee to merchant	1.2%
Average # atendees per festival	352,154
# Festivals onboard per year	12
Average HSBC Sales Associate Wage	$384,000
Sales Team Size	2
Average HK employee transportation cost/year	$2,600
Other Costs/Festival	$30,000
Gamification R&D cost	$1,000,000
Gamification Merchant sales increase	15%
Number of PayMe HK Users	2,600,000
Average Transaction to merchant /User/year	$100
Taxes	16%

Profit Forecast

Year	1	2	3	4	5
Festival Revenue	$338,068	$676,135	$1,014,203	$1,352,271	$1,690,338
Gamification Aditional Revenue	$3,276,000	$3,276,000	$3,276,000	$3,276,000	$3,276,000
Revenue	$3,614,068	$3,952,135	$4,290,203	$4,628,271	$4,966,338
Sales Team Wage	$768,000	$768,000	$768,000	$768,000	$768,000
Transportation Cost	$2,600	$2,600	$2,600	$2,600	$2,600
Other Costs	$200,000	$400,000	$600,000	$800,000	$1,000,000
App Development	$1,000,000	$0	$0	$0	$0
Cost	$1,970,600	$1,170,600	$1,370,600	$1,570,600	$1,770,600
Pre-Tax Profit	$1,643,468	$2,781,535	$2,919,603	$3,057,671	$3,195,738
Profit	$1,372,296	$2,322,582	$2,437,869	$2,553,155	$2,668,442

Year	1	2	3	4	5
Festival Revenue	$1,521,305	$3,042,609	$4,563,914	$6,085,218	$7,606,523
Gamification Aditional Revenue	$3,432,000	$3,432,000	$3,432,000	$3,432,000	$3,432,000
Revenue	$4,953,305	$6,474,609	$7,995,914	$9,517,218	$11,038,523
Sales Team Wage	$768,000	$768,000	$768,000	$768,000	$768,000
Transportation Cost	$2,600	$2,600	$2,600	$2,600	$2,600
Other Costs	$320,000	$640,000	$960,000	$1,280,000	$1,600,000
App Development	$1,000,000	$0	$0	$0	$0
Cost	$1,090,600	$1,410,600	$1,730,600	$2,050,600	$2,370,600
Pre-Tax Profit	$3,862,705	$5,064,009	$6,265,314	$7,466,618	$8,667,923
Profit	$3,225,358	$4,228,448	$5,231,537	$6,234,626	$7,237,716

Year	1	2	3	4	5
Festival Revenue	$2,281,957	$4,563,914	$6,845,871	$9,127,828	$11,409,785
Gamification Aditional Revenue	$3,588,000	$3,588,000	$3,588,000	$3,588,000	$3,588,000
Revenue	$5,869,957	$8,151,914	$10,433,871	$12,715,828	$14,997,785
Sales Team Wage	$768,000	$768,000	$768,000	$768,000	$768,000
Transportation Cost	$2,600	$2,600	$2,600	$2,600	$2,600
Other Costs	$360,000	$720,000	$1,080,000	$1,440,000	$1,800,000
App Development	$1,000,000	$0	$0	$0	$0
Cost	$2,130,600	$1,490,600	$1,850,600	$2,210,600	$2,570,600
Pre-Tax Profit	$3,739,357	$6,661,314	$8,583,271	$10,505,228	$12,427,185
Profit	$3,122,363	$5,562,197	$7,167,031	$8,771,865	$10,376,699

Cumulative Profit over 5 years

$11,354,343 HKD

$25,322,685 HKD

$35,000,155 HKD

Source: HSBC, Pay Me, *HKU Business School, PAYME: Hong KONG'S E-WALLET, Statista, App Development Cost SpdLoad, Appendix B*

Appendix B. Events Market Sample

Event	Aproximate #Attendees
HK Arts Festival	150,000
HK International Film Festival	60,000
HK Sevens	120,000
La French May Arts Festival	1,000,000
HK Dragon Boat Carnival	200,000
HK Book Fail	1,000,000
Ani-Com & Games Hong Kong	700,000
HK Wine & Dine Festival	100,000
Cockenflap Music and Arts Festival	60,000
AIA Carnival	1,000,000
HK International Races	80,000
HK Marathon	70,000
HK International Lighting Fair	38,000

Random sample within top 50 HK festivals.

With an average number of attendees of 352,154

Source: Top Events Hong Kong (Got approximate number of attendees from each event's website)

Situational Analysis   Industry Overview   Recommendation   **Implementation**