

## eBay/VeriSign Deal Could Remake the Online Payment Market

Avivah Litan

The acquisition of VeriSign's payment gateway will enable eBay's PayPal subsidiary to offer more non-eBay retailers a low-cost alternative to credit and debit cards for online payments.

## NEWS ANALYSIS

---

### Event

On 10 October 2005, eBay and VeriSign announced an agreement to collaborate on payment services and e-commerce security. Under the terms of the agreement:

- PayPal (an eBay subsidiary) will acquire VeriSign's payment gateway business and combine it with PayPal's merchant services platform.
- VeriSign will provide eBay/PayPal with a suite of security services to protect against online identity theft, including two-factor authentication, which it expects to roll out to as many as 1 million eBay/PayPal customers beginning in 2006.

### Analysis

eBay's acquisition of VeriSign's payment gateway — and the 100,000 merchants it services — will strengthen PayPal's market presence. PayPal's innovative uses of payment funding systems will likely be welcomed by small and midsize businesses (SMBs) that want less-expensive alternatives to credit card payments, and eventually by even the largest online merchants. The recent PayPal offering that allows merchants to accept both credit cards and lower-cost PayPal payments will likely prove attractive to SMBs, and will clearly benefit merchants already using VeriSign services.

The eBay market, which is PayPal's main source of business, currently represents only 20 percent of e-commerce payments — credit and signature debit cards remain the pervasive electronic-payment mechanisms on the Internet — and the VeriSign relationship could enable PayPal to gain a major presence in the remainder of the payment market. PayPal could eventually replace credit/debit cards as the dominant online payment mechanism, if it can maintain low merchant rates while increasing customer service, responsiveness and chargeback ease so that its policies and practices are as consumer-friendly as are the card companies'. The card companies will need to fight back with rate decreases to hold their e-commerce market share.

The sale of VeriSign's high-volume but low-margin payment gateway — which it has never successfully integrated with its security and authentication technology — also makes sense for VeriSign. The security provider will benefit from eBay's contractual commitment to VeriSign's two-factor authentication system, which eBay will likely begin offering to help sellers guard against the increasing problem of accounts being taken over fraudulently.

### Recommendations

- **Enterprises using VeriSign Payment services:** Begin also accepting PayPal payments once the technology platforms are merged (likely by the end of 2006).
- **SMBs that accept Internet payments:** Consider the PayPal/VeriSign offering, which should offer proven and scalable service at lower rates than for card payments alone.
- **Large enterprises that accept Internet payments:** Do not commit to this service until PayPal/VeriSign details its ability to serve the greater customization needs of large enterprises.

**Analytical Source:** Avivah Litan, Gartner Research

### Recommended Reading and Related Research

- "Debate on U.S. Credit Payment Fees Swirls at Fed Conference" — U.S retailers continue to complain about high per-transaction interchange fees imposed by credit and debit card networks. **By Avivah Litan**
- "Online Person-to-Person Payments Move Into the Mainstream" — A Gartner survey showed growing consumer acceptance of online person-to-person payment systems — with PayPal holding a strong market lead. **By Avivah Litan**

(You may need to sign in or be a Gartner client to access the documents referenced in this First Take.)

## REGIONAL HEADQUARTERS

---

### Corporate Headquarters

56 Top Gallant Road  
Stamford, CT 06902-7700  
U.S.A.  
+1 203 964 0096

### European Headquarters

Tamesis  
The Glanty  
Egham  
Surrey, TW20 9AW  
UNITED KINGDOM  
+44 1784 431611

### Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.  
Level 9, 141 Walker Street  
North Sydney  
New South Wales 2060  
AUSTRALIA  
+61 2 9459 4600

### Japan Headquarters

Gartner Japan Ltd.  
Aobadai Hills, 6F  
7-7, Aobadai, 4-chome  
Meguro-ku, Tokyo 153-0042  
JAPAN  
+81 3 3481 3670

### Latin America Headquarters

Gartner do Brazil  
Av. das Nações Unidas, 12551  
9º andar—World Trade Center  
04578-903—São Paulo SP  
BRAZIL  
+55 11 3443 1509