Will micropayments thrive in social networks? (Part 2 of 2)

September 8, 2009

This is the second of a two-part series on micropayments and social networks. Last week’s blog posting discussed how some social network sites are exploring the opportunities to offer payment services or are permitting outside payment providers to operate on their social network platforms. Twitpay and Twollars, two third-party platforms used on the Twitter platform, were discussed in Part 1. This week, we examine other players in this emerging market.

Facebook

Facebook is likewise evolving as an ecosystem for emerging micropayment service providers. Users are increasingly spending real money buying virtual goods on the applications that run on Facebook’s platform as well as Facebook credits. Facebook credits are funded using major credit cards and available in U.S. dollars as well as foreign currency denominations. The social network has realized tremendous success since its inception. Recently the research firm Nielsen revealed that Americans spent more time on Facebook sites than other top Internet sites in its June 2009 report.

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Source: Nielsen NetView

In addition to providing the platform for other payment application developers, Facebook recently launched its own virtual currency payment service for applications on its network called "Pay with Facebook." The new service is currently live with its application GroupCard, which allows users to purchase items from $3 to $25 and pay for them with a credit card or Facebook credits.

Choose your Payment Method 📤 Secure Transaction

- Pay with Facebook
- Visa
- Mastercard
- American Express
- Discover
- Apple Pay
- Google Pay
- PayPal

It will be interesting to see if the growth of the Facebook network drives adoption of the newly
introduced payment service.

**Spare Change**

*Spare Change* is a payment application currently on social networks Facebook, MySpace, and Bebo that lets users make purchases from social network applications and games and then make payment via PayPal. Users can open a Spare Change account and fund it with a credit card, PayPal, bank account, or mobile phone. According to the Web site, consumers can use Spare Change balances to purchase hundreds of applications easily—an "iTunes-style business model for social networks." Spare Change markets itself as the largest micropayments system for social networks, claiming acceptance by more than 700 different games and applications.

**Zong**

*Zong* is a payment provider that allows consumers to purchase virtual currency, gifts, and other applications on social networks via the mobile phone in lieu of traditional payment methods. Zong uses the mobile carriers with whom it partners to bill customers for their transactions. Once the consumer has paid his or her mobile phone bill, Zong in turn pays the merchant. The distinguishing feature for Zong’s business model for micropayments is its nine-year relationship with mobile carriers globally. However, at this time Zong is currently available for digital goods and services only.

**BOKU**

*BOKU* functions similarly to Zong in that it enables micropayments for games and applications and doesn’t require users to pay via a credit card or traditional bank account. Instead the transaction charges are itemized on the user's monthly cell phone bill. BOKU’s partnership with social network *hi5* affords it an international presence where users in 24 countries can purchase virtual currency with their mobile phones. BOKU recently expanded into the United States through agreements with mobile carriers AT&T and T-Mobile.

This certainly isn’t an exhaustive list (and is not an endorsement), but it is enough to give you a general idea of some emerging trends. And while the market audience for the goods and services available on social networks is focused on games and applications, it could change as social networks become increasingly ubiquitous. As social networks evolve, the risk environment for virtual and electronic micropayments will be on our radar.

*By Cindy Merritt, assistant director of the Retail Payments Risk Forum at the Atlanta Fed*

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