

# Payclip: A Mobile Point of Sale for the Spanish-Speaking World

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# Case Study: PayClip



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## **PayClip**

PayClip is a San Francisco and Mexico-based payments startup founded in May 2012 by two PayPal former employers. One could easily label PayClip as a new mobile POS provider for the Spanish-speaking world.

Adolfo Babatz, one of the co-founder and CEO, is a Mexican professional that holds a MBA degree from MIT's Sloan School of Management. During his work with PayPal he was responsible for developing a new money transfer services for clients in Latin America. However, before focusing in products for the Latin America region he was given the task of launching PayPal Mexico.

The other co-founder, Vilash Poovala has 12 years of experience at the mobile payment sector. At PayPal he was Head of Mobile Emerging Markets and Proximity Payments. Two of the companies he has worked for have been acquired by Visa. PlaySpan was a payments company founded in 2006 that provided a monetization platform for digital media, mobile apps, social networks, and online games. It was acquired by Visa in March 2011 for \$190 million in cash.

The idea was inspired by the Square reader (founded by twitter creator Jack Dorsey) and the lack of these types of service offerings for the Hispanic markets like Mexico. Known as PayBlitz at that time, PayClip then established in July 2012 a formal presence in Mexico City.

PayClip, similar to its American counterpart Square, will allow individuals and merchants in Mexico to accept debit and credit cards on their iOS or Android smartphone or tablet computer. The reader is a small device that needs to be plugged into the audio jack of supported devices in order to read the magnetic stripe or chip - many cards in Mexico have incorporated an extra security layer, the chip, in order to prevent cloning.

The founders' deep knowledge in the payment realm has helped to adapt "Clip" - as the reader is known today - to the needs of the Hispanic market. They are very conscious that security is one of the main issues faced by people using credit cards as a payment method. In markets like Mexico banks do not have the same customer services regarding unrecognized payments as their American counterparts do, so people tend to be more cautious of where they use their credit cards.

For this reason PayClip has been working very closely with an Israeli security company expert in risk management in order to build the proper technology to make sure frauds are detected and that Clip users do not bear this type of liability.

In September of 2012 PayClip was able to fundraise enough money to start working on a prototype. They got support by early-stage funding companies like 500startups but also from Accion's new seed fund Venture Lab.

[Accion's](#) Venture Lab is a \$10m seed capital initiative, which invests in start-up companies that help expand global financial inclusion. Led by Managing Director Paul Breloff, Venture Lab provides seed-stage enterprises with capital in the range of US \$100k-\$500k - as either convertible debt or equity -

and support from its team, in-house technical experts (technology, risk management, etc.), and access to Accion's global network.

PayClip was able to raise funds from Venture Lab because they believe this new product has the potential to broaden financial inclusion in Mexico by allowing new merchants and individuals offer more POS for clients to use their credit cards. Overall, PayClip was able to raise \$1.5 million on their seed round.

## How it works

1. Potential clients (either merchants or individuals) will first need to fill up a questionnaire regarding personal information that takes less than 5 minutes. The process is similar to opening a PayPal account.
2. Merchants will request a Clip reader, the dongle, for free.
3. After receiving the dongle, the merchant will need to download the Clip app to their Android phone or Iphone.



Clip will charge the same rate for credit or debit transactions, as well as for processing American Express cards, and although the price levels have not yet been disclosed, simplified pricing will empower business in Mexico. Clip will not only give merchants more flexibility to accept any type of payment method but will give businesses certainty on the cost side as well, by having a fixed rate per transaction.

On the other hand consumers will be encouraged to the use of cards. Today, one of the main reasons why people in Mexico still prefer to use cash is because many businesses do not accept credit/debit cards. To help to put this into perspective let's consider that there are approximately 25 million credit cards in Mexico and 98 million debit cards. However, only 400,000 of the 5.1 million of the economic agents that exist in Mexico (INEGI 2009)- which represents only the 7.8% - have a POS device that accepts card payments.

PayClip's projection is to get a market share of around 25% of the 5.1 million of economic agents, who today lack a card acceptance service. Many of them due to an absence of options are forced to give a sort of credit "fiado" to their clients when the total bill surpasses the quantity carried in cash by the client at a certain point of time. Some of these clients never return to pay back and others pay in small lump sums compromising the liquidity of the businesses.

The lost of cash is also a common problem that could easily be limited by offering more POS for consumers that could then opt to use other payment methods rather than cash.

**Banks: the main POS providers in Mexico**

Today in Mexico, card processors make a clear distinction between credit and debit transactions. Usually credit card transactions are charged the greatest rate. Commercial banks are the main providers of POS service to clients. However this service is given only to client that have a bank account at their institution.

If clients do not have a prior account with the specific bank from which clients want to acquire the services they are forced to open one. Some banks also lock clients by signing contracts for specific periods of time, usually 1 year. It is very hard for clients to choose the best provider.

As it can be seen from the following table banks charge different rates and different types of fees. Some banks require minimum monthly transactions and others charge a membership fee. The best option will depend on the type of business and the number of monthly sales each merchant has.

**Table 1. Credit and Debit Payment Processing Fees in Mexico**

	Santander	Bancomer	Banamex	Banorte/Ixe	Banregio	HSBC	Inbursa	BanBajío	Scotiabank
<b>Membership fee</b>	NA	NA	NA	\$ 300	\$ 300	NA	\$ 250	NA	NA
<b>Transaction fees</b>									
for credit cards (%)	2.29	2.38	2.90	2.28	2.83	2.25	2.47	3.00	3.00
for debit cards (%)	1.70	1.88	2.15	2.05	2.35	1.35	1.80	3.00	2.20
<b>Monthly fee (pesos)</b>	300	NA	NA	65	250 <sup>2</sup>	350	260	350	110
<b>Minimum transaction fee<sup>1</sup></b>	400	350	350	250	150	350	NA	NA	500
<b>POS mobile fee</b>	150	NA	NA	NA	200	NA	NA	350 <sup>3</sup>	NA

Note: all quantities are in MXN (Mexican pesos). 1 USD = 12 MXN.

<sup>1</sup> All banks ask for \$14,000 MXN of minimum monthly transactions. For Inbursa it is \$20,000 MXN.

<sup>2</sup> Fee is waived if at least \$15,000 MXN of minimum monthly transactions.

<sup>3</sup> Fee is waived if monthly transactions are more than \$40,000 MXN.

Banks also require a lot of documentation from merchants in order to start providing the service. Some of the most common are the business charter, a proof of address, the last bank statement, as well as personal IDs. As mentioned already, clients need to have an account with that bank as well as to commit to a minimum balance, otherwise fees are charged. This process takes from 2 to 3 days to complete and several visits to the bank branch.

PayClip value offer is in the ease of the process. An account could be opened in minutes without going through paperwork, plus the rate is flat (same for credit or debit cards, American Express or any

other type) and no fees will ever be charged. Bonus, you do not necessarily need to be a merchant to start accepting card payments, and individual could also easily apply and get a dongle.

When compared to Square, PayClip will offer an extra innovation to their clients by adding a two-factor authentication. In order to soothe any wariness clients could express regarding security and potential cloning, commonly seen in the Mexican market, PayClip has added a security layer to each transaction. Clients will receive a SMS with a 4-digit code to their cellphone. If clients agree on the transactions they will pass that code to the merchant that will be able to process the transaction using the given code.

The founders' vision is to give a choice to consumers, to allow them to pick which is the payment method that better fits their needs. On the other hand, they are also looking to empower businesses by allowing them to not only have a better control of their processes but also will give them certainty regarding the costs of processing payments.

The low penetration of part to red tape, prohibitive merchants to open multiple accept different payment PayClip is able to serve that new economic agents that will



electronic payments in Mexico is due in large costs and a fragmented market that requires merchant accounts with different acquirers to methods. Clip's mission is to change this. If 25% of the market, it will represent 1.28 million of be able to offer more points of sale for cardholders.

In 2012 more than 561 million of transactions were made using credit cards. The total economic value of those transactions was around \$37 billion USD. PayClip 25% share of the market will represent \$45 billion USD a year, assuming that each economic unit has sales of around \$35,000 USD per year, which signifies a growth in overall transactions of 120%.

PayClip then has a big potential to penetrate not only the Mexican market but also the Spanish speaking market in general. The Clip however is only the first product in their pipeline of electronic payment service offerings. We should expect great products from this company in the future that address the pain points of both the consumers and the merchants of Hispanic markets.

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