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# Paying With Plastic: The Digital Revolution In Buying And Borrowing (MIT Press)



## Synopsis

The payment card business has evolved from its inception in the 1950s as a way to handle payment for expense-account lunches (the Diners Club card) into today's complex, sprawling industry that drives trillions of dollars in transaction volume each year. *Paying with Plastic* is the definitive source on an industry that has revolutionized the way we borrow and spend. More than a history book, *Paying with Plastic* delivers an entertaining discussion of the impact of an industry that epitomizes the notion of two-sided markets: those in which two or more customer groups receive value only if all sides are actively engaged. New to this second edition, the two-sided market discussion provides useful insight into the implications of these market dynamics for cardholder rewards, merchant interchange fees, and card acceptance. The authors, both of whom have researched the industry for more than 25 years, also examine the implications of the recent antitrust cases on the industry as well as other business and technological changes -- including the massive consolidation brought about by bank mergers, the rise of the debit card, and the emergence of e-commerce -- that could alter the payment card industry dramatically in the years to come.

## Book Information

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## Customer Reviews

The authors bring disciplined methodology to the study of "industrial development," using credit cards as a case study. The book is useful not just for its anecdotal review of how credit cards got started & how they are used; and not just for the wealth of statistics it provides on how card & other payment usage has changed over the years; but most importantly, by putting some structure around all that material so that we can understand it coherently. So many books on banking & on industrial development (like things by guru Tom Peters) are just so many anecdotes strung together for 100s of pages, with no "system" for understanding what's being talked about. This book's strength is that it provides the reader with a way of interpreting not only what's in the book but with a way of understanding the incessant new developments in the industry that we read about in the trade press every day. I recommend this book highly to anyone in banking or interested in what's going on in the payments system.

The authors both are long-time consultants for Visa and it is very apparent in this book. The discussion of MasterCard, Discover, and American Express is limited. The treatment of various legal actions (Nabanco, US DOJ, WalMart, duality) is one sided. There is minimal study of the economics of the business from vantage points (consumer, merchant, acquirer, Issuer, co-branding partner, etc.) other than the card association. It's clear from some of the statistical material presented that Visa participated in the book. Ever see JAG? It's about a real portrayal of the Navy & Marine Corp as this is of the card industry.

In this history of payment cards, David S. Evans and Richard Schmalensee provide an amazingly lucid account of a couple of unusual business models: the "two-sided platform," which in the use of payment cards means walking a tightrope between the interests of merchants and consumers; and the "co-opetitive," in which the bank members of MasterCard and Visa cooperate in developing industry practices while competing for business. The authors, who are both former Visa consultants, sound like your favorite college professors - up to date and extremely sophisticated, yet friendly and anecdotal (at one point, they describe a Shell gas station near MIT to make a point about competition among cards). They typically begin chapters with easily understood notions from which they methodically build complex structures of ideas and information. Another virtue of the book is its concreteness - although that occasionally devolves into repetitiveness - starting with an explanation involving electronic signals and following the paper path of what happens when you hand your credit, debit or charge card to a cashier. The authors even consider the design and manufacture of

the cards themselves. We recommend this book as essential reading for those in the banking or payment card industries; and it's not a bad idea for card users to read it - which these days means you...and just about everyone else.

This is the most accurate analysis of the the payment card industry, and I highly recommend it for any professional in the industry. A bit dry - a more exciting beach read can be found in *The PayPal Wars*. But this is a detailed exploration. I will note that this is the second edition, and there have been promises (and even published chapters) from the third edition. I look forward to the third edition and it may be worth checking out the MIT Press website to see if the third edition is out.

*Paying with Plastic* first edition has been revamped, rewritten and repositioned here with edition number two. Most important, *Paying with Plastic "2.0"* addresses new developments of online payment processing. The authors correctly begin to question the requirement of a merchant set top box for reading "antiquated magnetic stripes". "Old is new" item #1. Frank McNamara's Diners Club platform would cost about \$50,000 to set up today. What's the next mutiny of merchants? Old is new item #2. Sears starting up Discover and getting to more merchants than American Express - all within 2 years. Moore's law (doubling within time) would suggest the next Discover would ramp up in less time. Old is new #3. Industries in decline, lobby best. The payment industry's recently raised interchange rates. Does technology cost more?! No, but growth is stagnant. Old is new #4. Whoops, John Reed (ex-ceo of Citibank) pulled their Visa membership (p14) and moved the Mastercard logo to the back. Why?! Pull the entire Citi into a closed loop - Citi wanted to be like Amex and Discover. There will be more banks doing this like Chase (Octagon) or MBNA (PayPass). Old is new #5. Wal-mart as a bank. See Sears above in #2. Wal-marts pays fees to V/MC/D/Amex but they'd rather charge fees and lend money. Why just make \$2.00 on the VCR when you can make \$10 on the financing. By the way, I like the payment system name, "Wallycard"... just kidding.

I picked up this book because I have always been interested in the history of money and the power of gold as currency. If you are fascinated by the concept of money and how it makes the world go round, *Paying With Plastic* will whet your appetite. To many a layperson, paper money has intrinsic value ostensibly because it is backed by gold. That, is furthest from the centre of gravity. Since Bretton Woods, paper money has not been backed by gold and has absolutely no value. The "value" of paper money is perceived and has "value" only because governments say so and because we believe in it. In fact, paper money forms only a very small portion of the money that is in

circulation. These days, money is in the form of digits, bits and bytes - expressed as numbers in some computer harddisk. *Paying With Plastic* explores a new form of money and how credit cards are the latest form of money - evolving from metal coins, bills of exchange, and paper money. The book traces the early and painful development of what was initially a clumsy mode of payment to what is today one of the most efficient, organised and widespread form of payment. *Paying With Plastic* is the leading book of its kind - thorough, yet readable. If you are interested in the concept of money and how the credit card system works, then this book is for you.

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