The Era of Industrial Payment
2020 China’s Third-party Payment Industry Report
Definition and Differences Between Industrial Payment and Personal Payment

Industrial payment is a payment business model that payment institutions provide enterprises of different sizes and industries with industrial solutions integrating payment, financial management, capital management, and marketing services.

Industrial payment and personal payment are different in many aspects such as service targets, service content, payment products, and key capabilities required for business development. The specific differences are shown in the table below. The essential differences of the businesses result in different competitive landscapes in the industrial payment and personal payment markets. While the personal payment market is oligarchic and reaching saturation, the industrial payment market still has room for development.

<table>
<thead>
<tr>
<th></th>
<th>Industrial Payment</th>
<th>Personal Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service targets</strong></td>
<td>Company</td>
<td>Person</td>
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<tr>
<td><strong>Service content</strong></td>
<td>Provide companies of different sizes and in different industries with:</td>
<td>Provide personal users with:</td>
</tr>
<tr>
<td></td>
<td>- Products and services such as payment and acquiring</td>
<td>- Consumption payment services</td>
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<td></td>
<td>- Industrial solution integrating payment, financial management, capital</td>
<td>- Derivative services such as lifestyle services and financial services</td>
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<td></td>
<td>- management, marketing and other services</td>
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<td><strong>Payment products</strong></td>
<td>- Online banking payment, payment gateway, fast payment, verified payment,</td>
<td>- Personal APP</td>
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<td></td>
<td>- agreement payment, integrated payment, etc.</td>
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<td></td>
<td>- POS, scanner, cash register and other acquire terminals</td>
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<tr>
<td><strong>Key capabilities</strong></td>
<td>- Business and channel capability</td>
<td>- Number and stickiness of users</td>
</tr>
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<td></td>
<td>- Customization ability</td>
<td>- Breadth and depth covered by the scenario</td>
</tr>
<tr>
<td></td>
<td>- System and technology abilities</td>
<td>- Diverse functions</td>
</tr>
<tr>
<td></td>
<td>- Brand influence on specific area or industry</td>
<td>- Subsidy capacity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Extensive brand influence</td>
</tr>
<tr>
<td><strong>Market competition</strong></td>
<td>- Incremental market still exists. The competition in stock market is fierce.</td>
<td>- The market is reaching saturation. Oligopolistic competition is represented</td>
</tr>
<tr>
<td></td>
<td>- Third-party payment institutions, banks and other players are competing for</td>
<td>by Alipay and Tenpay.</td>
</tr>
<tr>
<td></td>
<td>- market shares.</td>
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</table>

Source: iResearch Consulting Group.
Enter the Era of Industrial Payment

Industrial payment will be an important driver of the third-party mobile payment.

According to the main growth points, the development process of China's third-party mobile payment market can be divided into three periods. The first period was from 2013 to 2017 and was driven by online scenarios. The successive explosive growth of e-commerce, Internet finance, and transfer promoted the rapid growth of mobile payment. From 2017 to 2019 was the second period and it was driven by offline scenarios. The explosive growth of the offline QR code payment started in 2017. The growth rate of payment in offline scenarios was much higher than that in online scenarios, changing online-driven mobile payment to offline-driven. The third period started in 2019 and it is driven by industrial payment. Online and offline payment driven by individual users started to grow steadily since the traffic was reaching the peak. With the rapid rise of the industrial Internet, industrial payment has gradually become a new driver of mobile payment in China.

Source: The data are based on interviews with experts and enterprises. The calculation is based on iResearch statistical model.
Payment Institutions Turn to Industries for Growth Points

Alipay and Tenpay have absolute advantages. For other payment institutions, turning to the industries for new incremental markets is the key to make breakthroughs.

Alipay and Tenpay have now monopolized the third-party payment market. In 2019, the two giants accounted for 93.8% of the mobile third-party payment market in China. In To C payment market, Alipay and Tenpay have absolute advantages. For other payment institutions, turning to the industries for new incremental markets is the key to make breakthroughs.

2019 Market Shares of Chinese Payment Institutions by the Scale of Third-party Mobile Payment Transactions

Source: The data are based on interviews with experts and enterprises. The calculation is based on iResearch statistical model.

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Industrial Payment Ecology

Linkage and empowerment are the core functions of payment companies in the industrial payment ecology.

User (To C)
- Personal users’ payment methods:
  - QR code payment
  - Facial recognition
  - NFC payment
  - Other

Merchant (To C)
- Merchant digital upgrade:
  - Operation management service
  - Operation data statistics
  - Supplier management
  - Stock management
  - Marketing management services
  - Member management
  - User profile
  - Users’ comments
  - Intelligent tool
  - Facial recognition
  - Intelligent hardware
  - Front-end order entry
  - Financial services
  - Small and micro loans
  - Acquiring services
  - Account balance wealth management

Product or service

Industrial service providers (To B)
- Industrial services:
  - Logistics and Supply Chain Services

Marketing and Customer Acquisition Services
- Marketing and Customer Acquisition Services

Financial and Loan Services
- Financial and Loan Services

Finance and Tax Control services
- Finance and Tax Control services

Big Data Services
- Big Data Services

AI Services
- AI Services

Digital Middle-platform Services
- Digital Middle-platform Services

… …

Source: iResearch Consulting Group.
Scale of Third-party Payment Market

The third-party payment market with a scale of over 100 trillion yuan will be reshuffled.

The exploration boom of e-commerce business began around 2000 in China. The start of the e-commerce business leads to merchants’ online collection need, providing third-party payment institutions with enterprise service opportunities. After that, promoted by the internet boom, internet transformation of aviation, tourism, education, insurance, retail, finance, logistics, people’s livelihood, and many other industries started. The online development of logistics flow, capital flow and information flow has promoted online development of various industries’ payment methods. The complexity of industries results in urgent demand for customized industrial solutions, which provides huge room for the third-party payment institutions to develop industrial payment and brings huge challenges to practitioners of industrial payment. The transformation from single payment service to digital upgrade services covering the whole industry chain has become an inevitable development trend. The third-party industrial market with a scale of over 100 trillion yuan will be reshuffled.

![2013-2022 Transaction Scale of Third-party Industrial Payment in China](image)

Source: The data are based on public information and interviews with enterprises. The calculation is based on iResearch statistical model.
Service upgrade and refinement for merchants using QR code payment

Relying on the traffic advantages of their Apps, the To C payment giants gradually cultivated the personal users' habit of QR code payment through subsidies in the early stage. The popularity of QR code payment helped the giants to reach a large number of merchants using QR code. Centered on these merchants, the industrial payment path of To C payment giants take payment services as a starting point for service upgrade and refinement, creates open platforms to provide merchants in different industries with customized "payment +" solutions, thus to realize the transformation from payment service providers to digital upgrade service providers.

Transformation and Upgrade of the To C Payment Giants in the Merchant Service Market

- **To C payment giants**
  - Cultivate the personal users' habit of QR code payment
- **Merchant payment service providers**
  - Connect tens of millions of merchants via QR codes
  - Starting from the payment business, providing digital upgrade services covering the entire industry chain centered on the needs of merchants such as customer acquisition, logistics, membership management, loans, and insurance.
- **Merchant digital upgrade service providers**
  - Service upgrade
  - Service refinement
    - From providing standard solutions for all kinds of industries to providing customized solutions targeting the pain points of subdivided industries.

Source: iResearch Consulting Group.
Industrial Payment Path of the To C Payment Giants

The To C payment giants will intensify competition in the merchant digital upgrade service market

With traffic and ecological advantages, the To C payment giants will quickly increase their shares in the market of digital upgrade service for merchants. However, the objective complexity of the To B service market makes it difficult for them to monopolize as quickly as they did in the To C payment service market. Therefore, the competition in the merchant service market will become fiercer. An industrial payment competition landscape with “two great players and many strong players” formed by Alipay, Tenpay and other head payment companies, such as 1Qianbao, Bestpay, Suning Payment, Suixingfu, 99bill, Baofu, Hebao Payment, and Lakala, will last for a long time.

Source: iResearch Consulting Group.

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The integration progress of third-party payment and industries depends on the time and difficulty of the Internet transformation of a certain industry. Currently, the main industries that To B third-party payment institutions are involved in include e-commerce, retail, cross-border trade, logistics, tourism, aviation, education, internet finance, insurance, digital entertainment, and public utilities. For the industries mentioned above, the coverage process of industrial payment mainly depends on the time and difficulty of the Internet transformation of a certain industry. For example, the industrial scenarios that are reached by third-party payment in the early stage include the e-commerce industry with Internet genes and the aviation and tourism industries that embraced the Internet in the early period. In recent years, industrial payment in cross-border, logistics and retail scenarios has been booming. The third-party payment's value and impact on these industries will be discussed in detail later.

Source: iResearch Consulting Group.
Scenario One: Cross-border Retail E-commerce Payment

The payment scale grows with the development of cross-border retail e-commerce, and its growth rate tend so be stable.

In the past few years, promoted by the “Belt and Road Initiative”, RMB internationalization and consumption upgrading, the healthy and rapid development of cross-border e-commerce have received strong policy support. The continuously growing market scale of cross-border import and export retail e-commerce provides a huge market potential for cross-border payment business, and further drives the demand for cross-border payment in upstream and downstream industries (such as warehousing and logistics). The demand side is booming but the supply side is facing fierce competition. With the advantages of convenient cross-border collection and payment procedures, high speed, and flexible response to the diverse dynamic needs of sellers and platforms, the third-party payment institutions have surpassed banks and remittance companies and become the major player in the field of cross-border retail e-commerce payment.

Source: The data are based on public information and interviews with enterprises. The research and charts are done by iResearch independently.
Scenario Two: Logistics Payment

The online development of information flow result in a logistics payment market with a scale of over 100 billion yuan.

The operation method of the logistics industry is relatively traditional. Payment and settlement are mostly in cash in the early period. With the integration by fourth-party logistics, the information flow is gradually developing online, resulting in the development of online payment methods. Therefore, the combination of the logistics industry and third-party payment is later than other industrial payment scenarios such as e-commerce. Before 2017, only a few head acquirers were involved in logistics payment. In 2017, many third-party payment institutions entered the track of logistics payment. Companies in the logistics industry get involved in logistics payment through acquiring payment licenses. The transaction scale of logistics payment surged. In 2018, the transaction size of To B third-party payment institutions’ logistics payment reached 217.29 billion yuan.

2016-2021 The Transaction Scale of To B Third-party Payment Institutions’ Logistics Payment

Note: Excluding the express services handled by large e-commerce platforms such as Taobao and JD, and the scale of personal transactions processed by third-party payment institutions.
Source: The data are from interviews with enterprises and experts. The calculation is based on iResearch statistical model. The research and chart are done by iResearch independently.
Scenario Three: Retail Payment

Retail payment is leading the de-media payment

With the promotion of facial recognition devices such as Dragonfly Payment, Frog Payment, and Lanjing Payment, face scan payment began in 2019. As an upgrade of payment experience after QR code payment, the new intelligent hardware used for face scan payment gradually appear on the cashier desk in various offline retail stores, changing the operation and consumption forms of the retail industry. The popularity of face scan payment started “experience economy” of the retail industry. The intelligent hardware that integrates payment, membership management, advertising, marketing and SaaS services connects the retail stores with the strong ecology behind payment institutions, bringing more imagine space for the intelligent operation of retail merchants through scenario transformation and service innovation.

Payment Evolution and Assumptions

Source: iResearch Consulting Group.

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The Pandemic Will Accelerate the Process of Industrial Payment

The offline customer acquisition channels are blocked by the COVID-19 pandemic. Merchant digital upgrade is based on industrial payment service providers.

Because of the pandemic, the consumers need to stay at home for a long time. They make consumption through online channels. Many merchants’ offline customer acquisition channels are blocked. Only a small number of merchants have finished online + offline layout. Therefore, during the pandemic, a large number of merchants carry out digital upgrading based on industrial payment service providers and demand for building online stores. iResearch believes that the pandemic objectively accelerates merchant digital upgrade process. Industrial payment service providers with “payment+” layout will have an opportunity for fast development.

Source: iResearch Consulting Group.
Table of Contents of the Full Report

Definition and Differences Between Industrial Payment and Personal Payment

Abstract

1 Development Background of China’s Third-party Industrial Payment Market
1.1 Enter the Era of Industrial Payment
1.2 Third-party Payment is a Barometer of Internet Transformation
1.3 To C Traffic Has Peaked and Industrial Internet Concept is Proposed
1.4 Payment Institutions Turn to the Industries for Growth Points
1.5 Industrial Payment Ecology
1.6 Types of Players Involved in Third-party Payment

2 Status Quo of China’s Third-party Industrial Payment Market
2.1 Third-party Industrial Payment Market Size
2.2 Development of Industrial Payment of To C Players
2.2.1 Development of Industrial Payment of To C Payment Giant
2.3 Development of Industrial Payment of To B Players
2.3.1 Industrial Payment Scenarios that To B Players Mainly Involved in
2.3.2 Scenario One: Cross-border Retail E-commerce Payment
2.3.3 Scenario Two: Logistics Payment
2.3.4 Scenario Three: Retail Payment
Table of Contents of the Full Report

3 Case Study of Third-party Payment Market in China
3.1 Alipay
3.2 1Qianbao
3.3 99Bill
3.4 Baofu
3.5 Suixingfu
3.6 BESTPAY
3.7 Suning Payment
3.8 Hebao Payment
3.9 Lakala

4 Development Trends of China’s Third-party Payment Market
4.1 The Pandemic Will Accelerate the Process of Industrial Payment
4.2 Science and Technology Promote Payment
4.3 Trend of Investment in Technology
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