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Stripe's Role in the $720 Billion Mobile Commerce Market

By Lida Ramsey, J.D. Candidate 2017 | September 23, 2014

In 2010 two brothers from Dromineer, Ireland followed the Zuckerberg dream, dropping out of MIT and Harvard to move to the San Francisco Bay Area and build a start-up, Stripe Inc. Four years later, having raised $140 million in funding from a line of investors including the co-founders of PayPal, the payment processing company is now valued at $1.75 billion.

The beauty of Stripe's mobile payment application programming interface (API) is that its compact code allows for software programmers to easily incorporate its payment feature into their transaction platform. Used as a tool for other businesses, Stripe processes payments in 139 different currencies, bank transfers, bitcoin and Alipay. As co-founder Patrick Collison puts it, he's "building a platform that others can build a meaningful business on top of, we are talking about a multi-decade horizon."

For companies like Lyft, Stripe is particularly instrumental because it streamlines the payment process between the driver and customer. According to Lyft CEO Logan Green, Lyft "would need a team of 20 people just stamping envelopes" to prove the validity of charges not recognized by customers - a feature that Stripe now automates. In addition, Stripe allows bank transfers to anyone with a U.S. bank account, so a Lyft user can transfer funds via the new API directly to the driver, where the driver's bank account details are securely collected by Stripe's API and never accessed by the marketplace. Stripe essentially removes Lyft as a middleman in financial transactions between drivers and Lyft users, an act that could have significant implications when accidents occur.

With ongoing instances of ridesharing companies being sued for injuries caused by their drivers, Stripe could conceivably help shield companies like Lyft from tort liability for claims that exceed their insurance coverage. Lyft and its competitors like Uber assert that they are tech companies that simply connect drivers to passengers, where drivers act as independent contractors rather than employees. However, regardless of how drivers are labeled, courts look to the actual employment relationship to determine if the driver is really an employee, thus establishing the employer's liability. In an accident-prone world with creative means of transportation, a court's answer to this question could have a tremendous impact on ridesharing companies. By connecting a Lyft customer directly to the driver, Stripe further removes Lyft from the transaction, potentially bolstering Lyft's argument that the driver is merely an independent contractor.

Stripe's rise from a $100 million valuation in less than two years is largely due to its recent partnerships with Apple and Twitter, which have boosted its presence in the competitive mobile payment market in the face of challengers such as Google, EBay, PayPal, and Square Inc. Stripe's success in this race seems to depend mostly on the success of Apple and Twitter's commerce efforts. "Twitter has to first break the code on how to sell things, and Stripe is instrumental to that," said Richard Crone, CEO of Crone Consulting LLC. Apple, on the other

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hand, hopes to use Stripe for Apple Pay, a new program that will allow customers to buy items in the physical store setting by tapping phones to cash registers. Though Stripe co-founder Patrick Collison declined to comment on the possibility of an IPO, with payments via hand-held devices set to rise from $300 billion this year to $720 billion in 2017, Stripe certainly appears to have a bright future ahead of it.