Marketing-Mix of Online Social Lending Websites

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ABSTRACT

With the rise of microfinance in developing countries and its evolution to a business model in developed nations, microfinance has fully transitioned to the internet, taking the distinctive form of social lending. However, the marketing trends of emerging peer-to-peer micro-lending websites have been largely unexplored during its rise to recognition due to most studies focusing on financial, economic, political and humanitarian issues in context to microfinance. However, based on a sample of eight popular social lending websites, this paper uses cases to analyze the marketing elements of these sites to better understand how they function and to predict the future.

Keywords: Developing Countries, Marketing Mix, Microfinance, Micro-lending, Networking, Peer-to-Peer Micro-lending, Social Lending

INTRODUCTION

The sector of microfinance has been widely analyzed since its inception as an entrepreneurial approach to combat poorness. However, studies have been mainly related to the financial, economic, political and even humanitarian aspects of the microfinance, and much less to marketing. This is a considerable shortcoming because with the growth of competition in microfinance marketing becomes inevitable. The above failing has been even more alarming in the expanding field of peer-to-peer lending.

This paper aims to proceed with a marketing analysis of the peer-to-peer lending on the Internet. The research method will be based on an observational exploratory method to discover the peculiarities of the juvenile and fast-changing sector of peer-to-peer (P2P) lending, with regard to marketing mix elements. If citations are not specified, the information originates in the organization’s website.

History of Microfinance: From Jobra to the Internet

Microfinance began in underdeveloped countries; then it evolved into a business model in developed nations, and finally emigrated to the Internet to take the specific form of social (P2P) lending. Our focus in this paper is the websites which promote social lending on the Internet (Table 1).

Since the emergence of the Web 2.0 technologies, the options for getting loans have
expanded enormously to the online P2P social lending, especially for people with less appealing credit scoring. A total volume of up to ten billion USD is expected before 2017 for the P2P lending market in the US (Bruene, 2007). Social banking platforms are expected to obtain a market share of ten percent of the worldwide retail lending market (Gartner Inc., 2008).

As per March 2008, Ashta and Assadi (2008) had identified six specialized websites in peer-to-peer lending: Circle Lending (now Virgin Money), Kiva, Lending Club, Microplace, Prosper, and Zopa. More websites such as GlobeFunder, Fynanz and MyC4 have come on the scene since then. Globefunder shies away from being considered a “peer-to-peer” marketplace, because it rather relies on a “Direct-to-Consumer Lending (D2C)” approach to provide businesses with affordable financing solutions for their customers. “ModestNeeds.org” was also initially considered in this study, but was finally excluded. The reason is the nature of the grants on this platform which are given away with no expectation of repayment. Consequently nine websites constituted our sample: Fynanz, Kiva, Lending Club, MicroPlace, MyC4, Prosper, VirginMoney, and Zopa.

Kiva.org is a non-profit organization that was incorporated in November of 2005, founded by Matt and Jessica Flannery. The word “Kiva” is actually Swahili for “unity” or “agreement”.

Lending Club’s CEO, Renaud LaPlanche, stated that his company has “been growing at a rate of 100 percent month-to-month” in 2008 (Bruce, 2008).

MicroPlace, a wholly-owned subsidiary of eBay, defines its mission as helping to alleviate global poverty by enabling everyday people to make investments in the world’s working poor. Microplace began as an idea by Tracey Pettengill Turner after first having heard of microfinance and visiting Dhaka, Bangladesh to work for Grameen Bank. Upon her return, she envisioned MicroPlace. In the summer of 2006 MicroPlace became part of the eBay.

Prosper began operation in February of 2006 and is currently America’s largest online lending firm, according to its website. In November 2008 Prosper received a Cease and Desist order from the Security Exchange Commission (SEC) in the United States because of mainly two supposed faults: 1) Prosper does very minimal vetting of borrower’s personal information that lenders rely on to make an investment decision, 2) Prosper sells its platform as an investment while it is marketed as a social lending website. On July 2009, Prosper.com was on its way back.

Virgin Money USA differs from other online microfinance organizations, because it focuses on loans between people who are familiar with one another, such as family and friends.

Zopa has launched sites all over the world, beginning in Great Britain and expanding to the USA (closed in October 2008), Italy and Japan. Zopa’s mission, as described in its website, is

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Table 1. Presentation of the peer-to-peer lending websites

<table>
<thead>
<tr>
<th>Created in…</th>
<th>Founder(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fynanz 2007</td>
<td>Veterans of student loans</td>
</tr>
<tr>
<td>Kiva 2005</td>
<td>Matt and Jessica Flannery</td>
</tr>
<tr>
<td>LendingClub 2006</td>
<td>Renaud Laplanche</td>
</tr>
<tr>
<td>Microplace 2006</td>
<td>Tracey Pettengill Turner and eBay</td>
</tr>
<tr>
<td>MyC4 2006</td>
<td>Mads Kjaer, Tim Vang</td>
</tr>
<tr>
<td>Prosper 2006</td>
<td>Chris Larsen</td>
</tr>
<tr>
<td>VirginMoney 2000</td>
<td>Asheesh Advani</td>
</tr>
<tr>
<td>Zopa 2005</td>
<td>Richard Duvall</td>
</tr>
</tbody>
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