

# Payment Strategies for eCommerce Growth

As eCommerce has grown to represent a significant percentage of retail sales and profits, merchants should consider payment strategies that can enhance their online services, open new markets and protect the bottom line.

By:  
**Phil Levy, Vice President, eCommerce Solutions - First Data**

## Introduction

The trend is clear: Consumers are continuing to spend more money shopping online.

eCommerce sales climbed 11 percent in 2009,<sup>1</sup> even as total retail sales fell 6 percent,<sup>2</sup> and analysts are forecasting continued strong growth in eCommerce sales over the next five years. Today, 63 percent of U.S. adults shop online, and Javelin Strategy and Research expects this number to grow to 78 percent by 2014.<sup>3</sup> Online transactions now account for about 6 percent of total retail sales in the United States, up from just 1 percent a decade ago.

As the economy gradually recovers from the recent recession (and consumers continue to migrate to online shopping), Web retailers are poised to experience brisk sales growth. However, competition continues to intensify as greater numbers of merchants move online and existing online merchants enhance their Web operations. For Internet retailers to participate successfully in this highly competitive marketplace, they know they must implement programs that drive site traffic, provide a pleasing shopping experience, offer desirable merchandise at competitive prices, and accurately fulfill customer orders.

As even the smallest online retailers become more sophisticated at promoting and operating their Web sites, merchants must search for other opportunities to differentiate their businesses and improve profitability. Many successful online retailers have focused renewed attention on the payment process, a frequently overlooked component of eCommerce. This paper explores four payment-related strategies that can enhance a merchant's online services, open new markets and increase profits:

1. **Expand Into International Markets.** A global payment processor can help you to start tapping the vast potential markets for your products beyond U.S. borders.
2. **Offer Consumers More Ways to Pay.** Greater choice in payment types increases sales and reduces incidence of abandoned shopping carts.
3. **Protect Your eCommerce Bottom Line.** Fraud prevention is a prime opportunity for improving profitability and building customer loyalty.
4. **Leverage Your Business Intelligence.** The payment process generates valuable data you can use to make smart business decisions.

## Strategy #1: Expand Into International Markets

Over the past decade, the world has increasingly become a global marketplace. With the proliferation of inexpensive computers and Internet connectivity, consumers around the globe have access to products that in the past would have been available only locally or regionally. It is now taken for granted that a teenager in St. Louis can effortlessly find and buy a T-shirt from a designer in Tokyo, and a music lover in Kiev can order 12-inch vinyl records from an independent record label in Seattle.

According to a 2010 survey of U.S. online merchants by *Internet Retailer*, three-fourths of respondents sell merchandise internationally.<sup>4</sup> However, this same survey shows that U.S. online merchants are doing little to actively encourage orders from consumers outside the domestic market. Most have no marketing efforts aimed at international shoppers, and few provide features such as currency converters and local currency pricing to cater to consumers outside their local market. Yet without even doing anything special to attract foreign orders, 40 percent of merchants with international sales are obtaining at least 10 percent of their revenues from outside the United States.<sup>5</sup>

The passive approach to international sales points to sizable revenue potential for those that do actively seek to attract international business and enhance international customers' online shopping experience. "Retailers understand what they are offering is not up to par," states *Internet Retailer's* survey report. The article quotes Jim Okamura, senior partner at J.C. Williams Group Ltd., a global consulting firm: "We will see a significant increase in international sales in the next two years, much of it tied to the effort retailers put into creating a good experience."

What specifically can retailers do to enhance the shopping experience they offer to international customers? The *Internet Retailer* survey provides some insights. Respondents were asked to select the major challenges of selling online overseas. Their top six responses:

1. Customer service and returns	41%
2. Fraud management	38%
3. Legal and regulatory concerns	32%
4. Ability of the customer to see the final cost in local currency	30%
5. Language translation	24%
6. Payment type preferences	22%

Interestingly, four of these top six issues (fraud management, regulatory compliance, local currency and payment preferences) are all payment related. Merchants often focus on Web site usability and order fulfillment logistics when they evaluate ways to improve their online business and optimize it for global success. However, payment acceptance is clearly a critical factor in building a more favorable consumer experience, especially when selling to international consumers.

## Keys to Successful International eCommerce

In order to successfully attract and retain international customers, online retailers must address the following concerns:

- **Fraud Detection and Handling:** Electronic payment fraud can be costly, and it can damage your reputation with customers. Studies show that eCommerce payment fraud is more prevalent in international transactions than those that originate in the United States.

The best way to protect your business against payment fraud is to work with a payment processor that offers robust fraud management capabilities, including the ability to conduct risk scoring on foreign transactions. Fraud solutions are discussed in greater detail later in this paper.

- **Legal and Regulatory Issues:** Merchants must comply with local regulations in the countries in which they do business, including laws relating to transaction reporting, processing payments, handling returns and collecting value-added taxes (VAT). These regulations vary widely from country to country.

It is not practical for a merchant to become an expert in the commercial regulations for every country in which it might conduct business. As a result, most international merchants rely on global payment processors that are capable of processing payments from all over the world.

Without a single-source payment processor experienced in each country's regulations and idiosyncrasies, the merchant's primary alternative is to establish individual relationships with local processors in each country where it accepts orders. This latter approach significantly expands the complexity of international payment acceptance and processing.

- **Currency Concerns:** One of the best ways to encourage international customers to shop at your site is to offer them pricing and payment choices in their local currencies. There are a couple of ways to do this:
  - Currency conversion displays the exchange rate at checkout and gives international shoppers the option to "lock in" the sale amount in a home currency. By accepting this option, conversion-rate guesswork is eliminated: The shopper knows the

### Which Countries Are Best for eCommerce Expansion?

The complete answer, of course, largely depends on what you're selling, local spending habits, cultural factors and the competitive environment you'll be facing in a country. However, there are some guidelines that often apply.

To simplify your launch into international markets, you may want to start in regions with the highest Internet penetration rates: Oceania/Australia, 61 percent; Europe, 53 percent.

The easiest opportunity for international expansion is often found in Canada, the United Kingdom and/or Australia. *Internet Retailer's* survey cited Canada, United Kingdom and Australia as American merchants' top three markets outside the United States. By making these countries "phase one" of your international expansion plan, you avoid Web site translation issues—and the need for multilingual customer service representatives.

Canada's proximity is another factor that makes it a logical choice for your first non-U.S. market. Also, Canada is part of the North American Free Trade Agreement (NAFTA), so Canadians generally do not have to pay duty on most American-made products. However, if you're selling a product made overseas to a Canadian, duties may apply even if you ship the product from the United States.

conversion rate immediately instead of when the card statement arrives weeks later. Complete transaction details are shown on the electronic receipt in both U.S. dollars and the local currency.

- Global pricing catalogs present items in the shopper's local currency throughout the site. From the shopper's perspective, it's as though he or she is shopping at a site in the home country. The selected currency is presented through the entire shopping experience, not just the checkout process.

This approach gives merchants increased control over the customer's Web site experience. The merchant can choose which countries and currencies to support, set prices according to local market demand, and run targeted sales and promotions. The result can often be lower shopping-cart abandonment rates, improved customer satisfaction and increased sales.

- Global Acquiring: Accepting payments in a particular country usually means that a merchant must deal with several different acquirers or banks, resulting in multiple integrations, contracts, prices and points of failure that can add complexity and distractions to international expansion efforts. Through strong bank-acquiring networks that establish the necessary local bank sponsorships, some payment processors can make it relatively simple for merchants to consolidate their card processing to a single provider and minimize the effort required to establish a payment presence in the local country. Utilizing global acquiring services enables merchants to take advantage of the Internet to open new markets while freeing them from the specialized and complex burdens of international payment processing.

## Strategy # 2: Offer More Consumers More Ways to Pay

Payment options can be a key factor in where a consumer decides to shop online. How do online shoppers pay at checkout? What changes are occurring in their payment preferences? Answers to these questions offer new opportunities for expanded services that improve the consumer's shopping experience, prompt more frequent visits, increase average order value and boost sales. By offering more payment options at checkout, online merchants can expect to see fewer cart abandonments and more sales.

Traditional credit cards and debit cards are the two primary ways online shoppers pay for their purchases. According to Javelin, 77 percent of online payments made in 2009 were made using credit and debit cards, but that share declined from 85 percent the prior year and is expected to fall to 70 percent by 2014.<sup>6</sup>

As online merchants expand their checkout payment options beyond debit and credit cards, other payment types, including general purpose prepaid cards, gift cards and alternative payments (e.g., PayPal™, Bill Me Later®), are gaining an increasing share of online purchases.

Some online merchants also offer another payment alternative—electronic checks, or e-checks. With an e-check option, a consumer can pay through his or her checking account. The consumer submits the checking account number and the bank routing number. Funds are then transferred by routing the transaction through the Automated Clearing House (ACH) network.

With online payments other than debit or credit cards expected to grow to 30 percent of purchase volume by 2014, eCommerce merchants should consider enhancing their payment options to take advantage of this consumer trend.

## Are You Getting Sales From These Two Groups?

For two groups of consumers, the Internet shopping experience may end negatively if they don't find an easy, alternative way to pay at checkout.

→ The "credit dieters." The vast majority of online consumers have credit cards, but some don't want to use them online. There are a variety of reasons why a consumer may forego use of credit and debit cards.

Some of their reasons are based on current constraints:

- The consumer is ready to check out, but the credit or debit card isn't handy.
- The consumer has a credit card, but not sufficient credit available to complete the purchase.

Other reasons are grounded in habits or preferences:

- The consumer has a credit card but is trying to avoid more debt and therefore prefers "pay now" instruments.
  - The consumer is distrustful of providing his or her credit /debit card information.
- The unbanked and underbanked. About 60 million American adults have no checking or savings accounts ("unbanked") or have a bank account but rely extensively on alternative financial services, such as check-cashing services and money orders ("underbanked"). Households with an annual income between \$30,000 and \$50,000 are almost as likely as lower-income households to be underbanked.

Gift cards, reloadable prepaid cards and other alternative payment types give these populations the ability to shop online without hesitation. For example, a survey of underbanked adults who use reloadable prepaid cards found that 64 percent of them use the cards to shop online.

## More Payment Options Mean More Sales

Research indicates that a significant portion of these "other" payments represent incremental sales. In other words, the transactions probably would not have occurred if the payment type used had not been available.

By understanding why many shoppers prefer not to pay with traditional debit and credit cards, online merchants are better positioned to select and offer new payment options that can satisfy their customers' needs and contribute to revenue growth.

Why are online shoppers gravitating to other payment types? As discussed in the sidebar above, a significant portion of consumers do not have credit or debit cards, while others don't want to increase credit card balances or expose their card information online. In addition, many consumers have security concerns about using the credit or debit card online.

In every shopping environment, consumers place a high value on choice, convenience and security. The Internet is no exception. Online shoppers want the flexibility to decide how to pay at checkout, just as they do in their off-line transactions. If a shopper's credit card is near its limit, she might choose a non-credit option. But if she is also faced with a low checking account balance, she could choose to initiate a new credit line through a service like Bill Me Later.

According to industry surveys, providing consumers with more payment choices can significantly reduce shopping-cart abandonment rates. One recent study found that merchants offering shoppers three or more payment alternatives experienced a significant increase in sales conversion. In addition, PayPal's Checkout Abandonment Study found that 45 percent of online shoppers said they had abandoned their carts in the previous three weeks. One of the major reasons cited for abandonment was the absence of a preferred pay option.<sup>7</sup>

Providing alternative payment options has also been shown to increase average order value, as they can offer customers access to additional sources of credit. Moreover, in addition to improving sales and customer satisfaction, offering extra payment options may provide new opportunities for merchants to reduce their total cost of payments. Some payment options incur lower transaction fees than debit and credit, and many merchants seek to optimize their payment mix by encouraging shoppers to use lower cost payment mechanisms.

It is important to note that each new payment option a merchant decides to offer comes with its own fees, settlement and funding time frames, authorization requirements, risk management features and chargeback handling processes. Be sure to work with a payment processor that offers the expertise and services to help you manage these considerations and reduce your total cost of payment.

## Strategy # 3: Protect Your eCommerce Bottom Line

Online fraud collectively costs merchants billions of dollars each year. Fortunately, fraud losses declined in 2009 for the first time in six years, indicating that improved fraud detection and prevention efforts are having a measurable effect. However, the back-office and personnel costs associated with managing online fraud continue to grow. High fraud rates on international online transactions have not declined, either. And the face-off between fraud perpetrators and merchants continues to escalate in intensity and complexity. When merchants bolster protection in one area, criminals soon find new weak spots, triggering another round of costly fraud detection and prevention measures.

An often-overlooked aspect of fraud is that it adversely affects both costs and revenues for merchants. While experts and insiders tend to focus on the immense costs of preventing, detecting and resolving fraud, the impact on revenue is rarely mentioned. First Data and Javelin Research sponsored a December 2008 study that examined the lost revenue side of fraud. The study found that when consumers are victims of fraud, they place most of the blame on the merchant. As a result, victims become much more timid in their online shopping habits and may also avoid merchants that have experienced data breaches or have any perceived security weakness.

Consequently, nearly 9 percent of online sales are lost annually due to consumers' security concerns. Industry wide, that amounts to \$21 billion in lost revenue.<sup>8</sup> Foregone sales can also be the result of "false positives," or suspicious-looking transactions that are denied but are actually legitimate. Online customers whose legitimate transactions are declined on one Web site often eventually complete their purchase on a competing site—and may never return to the original online merchant.

What can you do to cut fraud losses? How can you employ fraud prevention measures strong enough to protect you yet flexible enough to minimize costs, provide a smooth shopping experience and avoid rejecting legitimate transactions?

Your goal should be to have an integrated, holistic approach to fraud management that takes into account all major types and avenues of fraud. Start by discussing your online order processes with trusted partners, such as your payment processor, your order management system provider and your security management expert. Ask them to look for vulnerabilities and suggest corrective actions. There are also advantages to consolidating

all of the data points into a single view to understand more clearly where the vulnerabilities exist and what trends are being seen. Fraud management tools are available to help score and trend transaction data over time to help build a stronger defense against fraud.

## Fraud Detection at Checkout

High-level fraud processing means more than just obtaining an authorization from a card association. Shoppers' overall purchase habits and shopping patterns—not just transaction data—can and should be regularly examined for abnormalities. That's why some of the leading payment processors are offering comprehensive solutions that detect fraud even before cardholders report their cards have been lost, stolen or compromised.

For most Internet retailers, in-house development of fraud management solutions is not practical. Even the largest online merchants that employ sizeable security and technical staffs to fight fraud, use outside expertise in developing and implementing fraud detection and prevention programs.

Your payment processor should be able to offer you robust fraud detection capabilities that include an array of anti-fraud tools such as:

- Automated, out-of-wallet challenge/response questions that can authenticate a shopper's identity.
- Tools that monitor Web site behavior and detect usage patterns that are abnormal.
- Customizable filters that automatically screen for transactions that fail certain defined parameters and flag them for special attention.
- Geolocation tracking that uses a shopper's IP address to identify from which country an online order originated.
- Device "fingerprinting" tools that identify the PC or mobile device interacting with your site and placing orders.
- Tools that enable you to set parameters and monitor velocity of critical transaction data, including card number, bill to/ship to address, email, phone number, IP address, device ID and even product SKUs.

## Lowering the Cost of Security Compliance

In order to help ensure the security of consumer payment information, merchants who accept payment cards are required to comply with the Payment Card Industry Data Security Standard (PCI DSS). This is a set of rules and practices designed to keep cardholders' data safe. If determined to be out of compliance with PCI rules, merchants and their card processors can, among other things, be charged higher processing fees, fined or even have their transaction processing rights suspended.

PCI compliance practices vary in stringency according to a merchant's total dollar volume of card transactions. By eliminating on-site cardholder data storage, a merchant avoids the need to meet many of the more stringent compliance requirements. Lowering compliance thresholds, in turn, reduces the cost of compliance.

Sophisticated technology is now available to help merchants securely keep payment card data isolated while allowing access when needed. Some of the newer technologies, such as tokenization, eliminate the need for merchants to store card data at all—and as a result, can dramatically reduce the cost and complexity of PCI compliance.



"The increasing need for data protection and the growing complexity of PCI DSS compliance are driving merchants to evolve their business strategies for securing customers' sensitive information," states Robert Vamosi, security/risk and fraud analyst for Javelin Strategy and Research. "Organizations that can employ a layered approach to data security, one that capitalizes on the inherent advantages of encryption, tokenization and other technologies, will be well positioned to protect card data and reduce the scope of PCI compliance."<sup>9</sup>

A comprehensive approach to risk management can reduce your costs of fraud and compliance while at the same time strengthening customer confidence and loyalty. Leading payment processors use a variety of best practices to aid in both fraud detection and PCI compliance. Your payment processor should be able to deliver fully integrated solutions that don't burden your IT resources and that work seamlessly with your transaction processing system.

## Strategy # 4: Leverage Your Business Intelligence

One important advantage that online businesses have over traditional brick-and-mortar stores is the ability to collect detailed information about what customers do when they visit the Web site. Online merchants can not only see which products individual customers purchase, but they can also gain visibility into the pages they visit, how long they spend on the Web site, how often they abandon shopping carts, and many other types of information.

If you add features or change the design of your Web site, you can almost immediately measure how these changes impact customer behavior. You can also analyze shopping patterns and payment data, and use that information to personalize your marketing strategy to individual consumers.

There is a great deal of valuable information contained within each purchase transaction, including:

- Preferred payment types--by geography, by demographic, by order size
- Average ticket size--by payment method, by geography, by demographic
- Customer spending patterns--by payment method, by geography, by demographic
- Customer purchasing frequency--by payment method, by geography, by demographic
- Promotional effectiveness--by payment method, by geography, by demographic
- Fraud data--chargebacks by payment method, by geography, by demographic, by products purchased
- Return data--by payment method, by geography, by demographic

With such large volumes of purchase data running through eCommerce sites every day, the challenge is how to cost effectively access and analyze the data to extract useful insights.

In this pursuit, payment processors offer a range of reporting and business analytic tools. Merchants may leverage powerful capabilities including:

- Dashboard reporting
- Key Performance Indicator (KPI) reporting
- Transaction query
- Chargeback analysis

- Return analysis
- Interchange analysis
- Payment method analysis

In addition, the merchant's order management, fulfillment and CRM systems capture and store critical consumer and purchase data. This data can be combined with payment data to conduct sophisticated analysis provide powerful answers to important business questions.

Use your payments partner as a strategic resource to tap into this data and gain insights and intelligence into ways you can further develop your business.

## Conclusion

As the eCommerce channel continues to grow across geographies and vertical markets, it will soon represent more than 10 percent of total retail sales. It is no longer a novelty, and merchants are finding innovative new ways to make their online business an important driver of future growth.

Although traditional business-building strategies can be effective in improving online revenues, the Internet marketplace also offers its own unique challenges and opportunities for attracting customers and building customer loyalty. In particular, the online payment process plays a significant—and sometimes overlooked—role in achieving the growth and profitability goals you set for your eCommerce channel.

Implementing the payment-related strategies reviewed in this paper may offer new opportunities for merchants to substantially enhance their online businesses:

1. **Expand Into International Markets:** Differentiate your online store from competitors by introducing features that enhance the international customer's online experience. Use a payment processor that excels in fraud management, has a global presence and provides a comprehensive suite of payment options.
2. **Offer Consumers More Ways to Pay:** Consumers want more payment choices than just credit and debit cards. By offering additional payment options, such as e-checks, Paypal, Bill Me Later and Google Checkout, you can turn otherwise abandoned carts into incremental revenue.
3. **Protect Your eCommerce Bottom Line:** Evaluate your fraud management program regularly and look for new tools that can be used to stay ahead of fraudsters. Your payment processor can be a key resource in your fight against fraud and in cost-effectively managing your PCI DSS compliance program.
4. **Leverage Your Business Intelligence:** Systems across your business capture and store critical consumer and purchase data every day. Among these, the payment process generates an abundance of valuable data that can be harnessed to better inform your business growth strategy and service your customers.

For further information about eCommerce strategies and how payment related technologies can work for you to build your online business, contact your sales representative or visit [firstdata.com](http://firstdata.com).

## Sources

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## About the Author

**Phil Levy** is vice president, Product Management in the eCommerce Solutions group at First Data. In this role, Phil is responsible for product strategy and commercialization of First Data's suite of Card-not-Present payment processing solutions.

Prior to joining First Data in 2009, Phil was Sr. Vice President, eCommerce at Fidelity National Information Services (FIS). In this role, Phil was responsible for product development, sales and customer support for the Company's eCommerce payment processing and risk management business. Prior to FIS, Phil was Vice President, Retail & Government Solutions at eFunds Corporation. In this position, he was responsible for delivery of payment and risk management solutions to the Retail and Government markets.

Phil has more than 20 years experience in product management, sales, business development and marketing with companies including i2 Technologies, Savvis Communications and Hewlett-Packard. Phil is a graduate of Lafayette College and the University of Rochester, Simon School of Business.

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your First Data Representative  
or visit [firstdata.com](http://firstdata.com).