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MERCATOR ADVISORY GROUP

EXECUTING A CROSS-BORDER E-COMMERCE PAYMENT STRATEGY

A Mercator Advisory Group Research Brief Sponsored by Vantiv

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Introduction

With Apple's September 2014 announcement of Apple Pay, the mobile wallet market is poised to enter a new stage of growth. However, merchants remain skeptical about the need to address these changes at the point of sale. Although e-commerce and certainly mobile payments are still just a small fraction of the overall number of electronic payments, merchants must recognize that the market is undergoing a fundamental shift in payment types and forms. The result will necessitate that retailers of all sizes commit investments to develop a robust and consumer-friendly digital channel that can serve as the foundation for sales growth moving forward.

For U.S.-based merchants, the move away from selling through traditional in-store channels to selling through the digital channel has an unexpected advantage. By developing a comprehensive cross-border online presence that enables them to reach the fast-growing number of consumers around the world who seek to purchase U.S. goods and services, many retailers have been able to expand their sales potential.

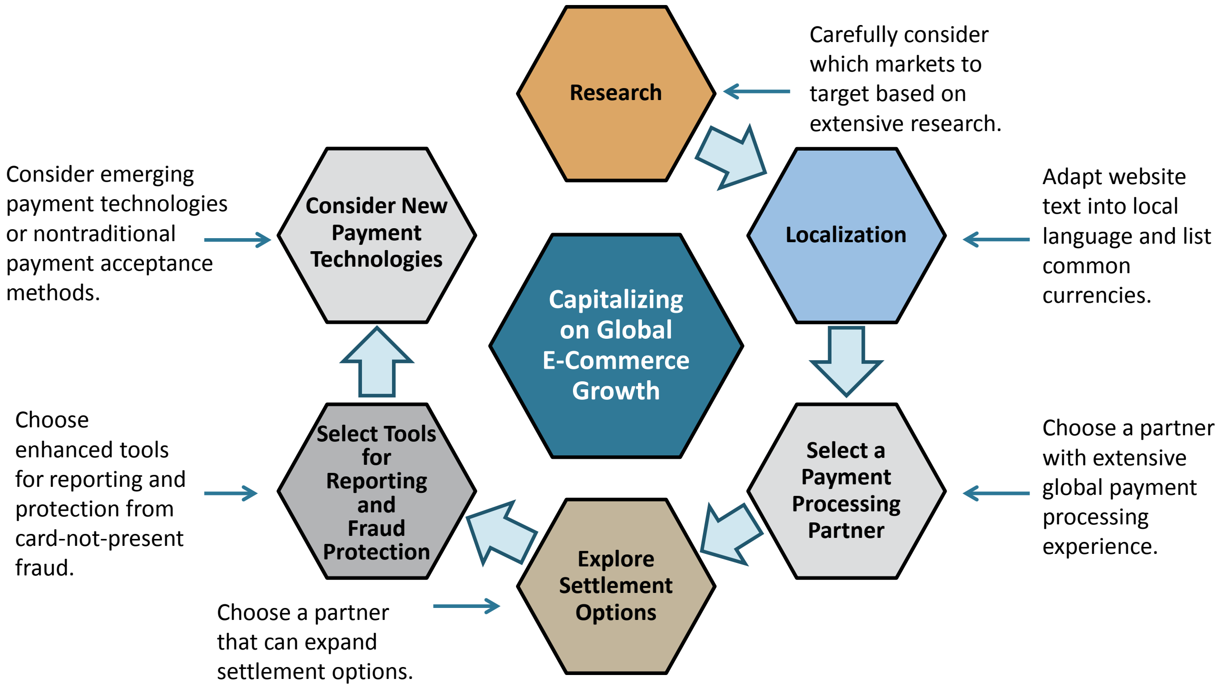
This Mercator Advisory Group Research Brief provides information for small and medium-sized retailers that have made the strategic decision to expand internationally and are currently formulating plans to do so. This Brief complements the previously published Mercator Advisory Group Research Brief titled *Navigating the Global E-Commerce Payment Acceptance Landscape.*

Completing the E-Commerce Cycle

A merchant needs to take several key steps to be successful selling internationally via the online channel. The first is to design the look and feel of the company's website and its usability and relevance to the consumer. For an online retailer, translating text into local languages and enabling visitors to the website to see and conduct transactions in their own currencies has proven to increase the likelihood that transactions will be completed. Merchants should assess payment processors from a global perspective and not presume their current processors are internationally capable or compliant with different countries' regulations.

Once a retailer has made the initial strategic decision to enter global e-commerce and has identified a potential international payment processing partner, the retailer must consider more sophisticated back-end functions that will enable expansion of operations with minimal risk and according to best practices for operational efficiency. Figure 1 on the following page illustrates the global e-commerce selling cycle.

Figure 1: Global E-Commerce Selling Cycle



Source: Mercator Advisory Group

Working with a proficient international payment processor requires the retailer to make complex back-end decisions. For example, the U.S. retailer needs to explore different settlement options and decide whether it is preferable to receive funds in U.S. dollars or in other currencies as well. Various fraud management and reporting mechanisms must be explored to find one that ensures a retailer receives adequate protection from card-not-present (CNP) fraud and also has the systems necessary to easily digest new and valuable information gathered from transactions originating around the world. These back-end decisions are paramount to the sustainability of a robust international e-commerce selling strategy.

Retailers should always remain open to accepting new payment technologies as they become popular among consumers. Although this component is not the most pressing decision in the global e-commerce selling cycle for the immediate future, the most capable processing partners will be prepared to support those new technologies that gain sustainable market share as part of the normal evolutionary cycle of development activity.

Multicurrency Settlement

Accepting payments in a variety of currencies necessitates partnering with a global payment processor that can offer flexible options for handling settlement functions. Leading international payment processors will be able to service payment settlement in a number of different ways, which may change over time as the merchant's cross-border channel grows and the merchant expands transactions to new global markets. For example, an international payment processor that is equipped for multicurrency settlement can settle funds from a popular foreign currency like the euro into U.S. dollars, or settle funds from different foreign currencies into other foreign currencies, depending on the preference of the retailer.

For small U.S.-based retailers, settlement into U.S. dollars is likely the most attractive option. However, for medium and large-sized retailers looking to expand internationally, both digitally and physically, the possibility of receiving funds in Canadian dollars or other common currencies like the euro or British pound requires a more sophisticated approach—one that that aligns well with establishing an in-country presence, working with in-country supply chain participants, and meeting legal or tax requirements. Outsourcing the currency conversion process helps to mitigate risk for the online retailer, and using a common platform for acceptance, processing, and currency conversion improves reporting and increases operational efficiencies.

Fraud Protection Tools

By actively selling internationally, U.S. retailers are elevating their exposure to cybercriminals seeking to take advantage of the growing transaction volume in the e-commerce space. Unfortunately for retailers, card-not-present transactions bypass the higher security standards of EMV technology. Thus, a transaction conducted by a consumer in Europe with an EMV card (also known as a chip card) is just as risky to accept as a transaction initiated by a U.S. consumer with a card using traditional magnetic stripe technology since the secure EMV card is not present.

As a result, implementing proven fraud protection tools is essential for U.S. retailers who want to protect themselves from global-based e-commerce fraud. Merchants should determine whether their existing payment processor has the necessary fraud protection platform and sufficient experience to establish an effective safety perimeter around the merchant's e-commerce site. When partnering with an international payment processor, discussing different fraud concerns and what tools may be appropriate should be top-of-mind, given that the need and level of protection can vary by retailer, countries to which a retailer is targeting its products and services, and, more fundamentally, the products and services the retailer is attempting to sell internationally.

Reporting Tools

In the new age of "big data," the value of information has never been more important. As they increase their presence online and actively sell internationally, retailers will be confronted with new and intriguing data generated by global transactions. Deriving actionable insights from this data requires intelligent reporting capabilities that can extract the information necessary to improve sales and mitigate risk. To unlock insights that will boost momentum and sales, a retailer must be able to understand the data being collected. Therefore, the level and quality of reporting is critical to unravelling incoming international data.

With the right reports, retailers can more efficiently manage their inventories to ensure that products popular among international consumers are adequately stocked. The reports can also help them more efficiently target marketing and promotional materials to specific consumer groups or select demographic segments. Consumers in different markets have very specific tastes in products and services. Even within world regions where consumers share some cultural similarities, e-commerce preferences may differ significantly by country. This means that being able to effectively target certain consumers with certain products and services is an important competitive edge that small and medium-sized U.S.-based retailers can enjoy if they receive the right kind of reporting from their processing partner.

Consider New Payment Technologies or Acceptance Methods

When selling online in the United States, retailers largely have to be concerned only with the main card networks (Visa, MasterCard, American Express, and Discover) and perhaps work also with a third-party online payment service provider like PayPal. When selling internationally, however, the selection of card networks and third-party online payment service providers may not be the same. For this reason, merchants entering global e-commerce need to carefully consider additional payment mechanisms as a means of improving the likelihood that a customer will complete his or her transaction via their site.

For example, in the 20 most attractive e-commerce markets as ranked by A.T. Kearney in the 2013 Global Retail E-Commerce Attractiveness Index, leading markets like China, Japan, Germany, and Brazil all have popular payment acceptance methods that consumers there prefer more than entering credit card details or using PayPal. To be successful in these markets, retailers should consider alternative or new payment technologies and payment acceptance methods as part of their international payment processing. Of course, implementing or adding new payment technologies or acceptance methods should not be undertaken until carefully researched in order to avoid any potential risks—either regulatory or other. Furthermore, it should not be done until transaction volume and revenue are sufficient to warrant such a move.

Executing the Strategy

Defining an international e-commerce strategy through careful research and using commonsense tactics to improve the conversion rates are two important aspects of becoming a player in the fast-growing and borderless e-commerce environment. Executing the strategy is another. To be truly successful in moving beyond the U.S. domestic e-commerce space, retailers need to reflect on the entire e-commerce value chain and developmental cycle, which includes complex back-end decisions such as:

- Selecting a settlement process that best serves the merchant’s existing practices—or for merchants just entering e-commerce, a process that is grounded in best practices

- Establishing fraud protection mechanisms that are proven to address cross-border transactions and flexible enough to manage and grow with market expansion

- Gaining a line of sight into the reporting requirements necessary for cross-border selling, including audit and compliance as well as loyalty, inventory, and cost of acceptance

It’s important to note that this strategy cannot remain static. Retailers entering global e-commerce should not rest once all of these components have been implemented. Consumers’ changing payment preferences and the emergence of new payment technologies will always demand that retailers refresh their e-commerce offerings. Ensuring ongoing success in international sales means that merchants’ partners and vendors should be continually investing in new capabilities and technologies to enable and support strategic growth plans. Merchants who are assessing processing partners should look to organizations with proven results and wide experience in e-commerce markets around the world.

About Mercator Advisory Group

Mercator Advisory Group is the leading independent research and advisory services firm exclusively focused on the payments and banking industries. We deliver pragmatic and timely research and advice designed to help our clients uncover the most lucrative opportunities to maximize revenue growth and contain costs. Our clients range from the world's largest payment issuers, acquirers, processors, merchants and associations to leading technology providers and investors. Services include *Banking Channels, Credit, Commercial and Enterprise Payments, Debit, Emerging Technologies, International, and Prepaid practices*, which provide research documents and advice; *CustomerMonitor Survey Series*, which report and analyze primary data collected in our biannual consumer surveys; and *Consulting Services*, which enable clients to gain actionable insights, implement more effective strategies, and accelerate go-to-market plans; offerings include tailored project-based expertise, customized primary research, go-to-market collateral, market sizing, competitive intelligence, and payments industry training. Mercator Advisory Group is also the publisher of the online payments and banking news and information portal PaymentsJournal.com. Visit www.mercatoradvisorygroup.com.

About Vantiv, Inc.

Vantiv, Inc. (NYSE: VNTV) is a leading, integrated payment processor differentiated by a single, proprietary technology platform. Vantiv offers a comprehensive suite of traditional and innovative payment processing and technology solutions to merchants and financial institutions of all sizes in the U.S., enabling them to address their payment processing needs through a single provider. We build strong relationships with our customers, helping them become more efficient, more secure, and more successful. Vantiv is the third-largest merchant acquirer and the largest PIN debit acquirer based on number of transactions in the U.S. The company's growth strategy includes expanding further into high-growth payment segments, such as integrated payments, payment facilitation (PayFac™), mobile, prepaid, and information solutions, and attractive industry verticals, such as business-to-business, e-commerce, healthcare, gaming, government, and education. For more information, visit www.vantiv.com.