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Mercator Advisory Group

Navigating the Global E-Commerce Payment Acceptance Landscape

A Mercator Advisory Group Research Brief Sponsored by Vantiv

October 2014

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Introduction

In the past decade, the traditional view of what constitutes “local” retailing has been overturned by the rise of the Internet and, with it, consumers’ ability to purchase goods and services from all corners of the globe. For retailers in the United States, the emergence of a global e-commerce market has opened channels into new markets and created the opportunity to sell to consumers once considered unreachable.

The process of selling online internationally is not as straightforward as maintaining an e-commerce presence domestically, however. And for small and medium-sized merchants, the prospect of venturing into the global market presents a different set of risks. Yet, given the potential of increased sales that selling abroad can bring to an online retailer, U.S.-based merchants of all types and sizes can take advantage of the still fast-growing opportunities that the global e-commerce space can provide.

This Mercator Advisory Group Research Brief is designed to provide an overview of the global e-commerce market and information on some primary considerations for merchants who have yet to expand beyond the domestic market.

The Borderless E-Commerce Landscape

Since 2000, the number of Internet users around the world has grown by nearly 700 percent. By the start of 2014, potential e-commerce customers totaled approximately 2.8 billion, about 40 percent of the global population, according to Internet World Stats. With the rapid growth of Internet accessibility around the world, e-commerce sales globally is expected to grow by an additional 20 percent in 2014. Figure 1 shows the value of global business-to-consumer (B2C) e-commerce sales between 2012 and 2017 in trillions of dollars (USD) and indicates the proportion that was cross-border.

Historically, small and medium-sized U.S.-based retailers have focused on the domestic e-commerce market because of the larger size of the market and lower entry costs compared to selling abroad. However, as global e-commerce has grown and expert services have become readily available, the obstacles to selling internationally have fallen considerably, allowing for U.S. online retailers to sell their products to consumers in a wide range of international markets.

Despite the opportunity, to date cross-border e-commerce represents a small share of the overall e-commerce volume, in large part because consumers are still apprehensive about purchasing goods and services from retailers based in countries outside their own. These concerns arise from a number of issues such as consumers’ cultural preferences and retailers’ failure to localize their websites for markets outside their domestic markets and to signal to potential foreign buyers that their websites provide a safe and secure payment experience.

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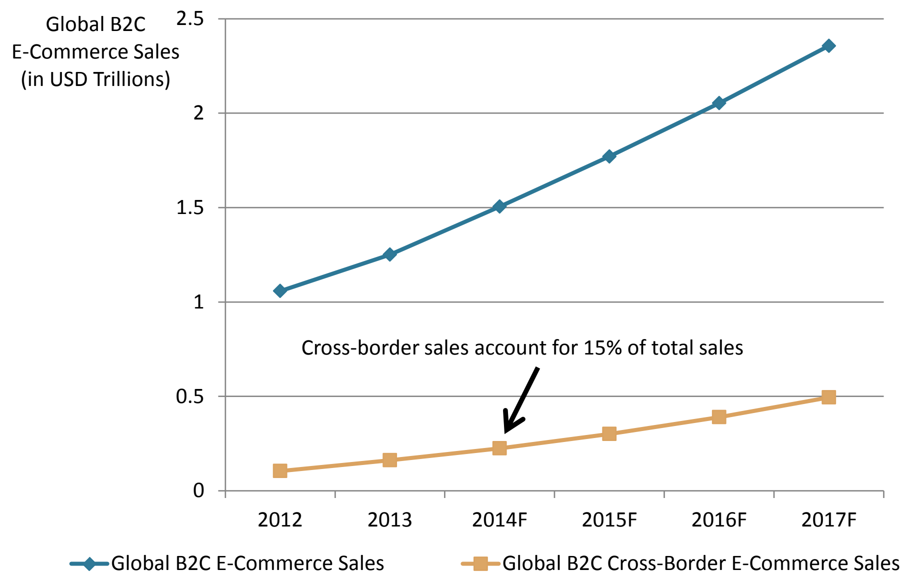
Figure 1: Global B2C eCommerce Volume and Share of Cross-Border Sales



Overall E-Commerce Growth %	
2012	22.3%
2013	18.3%
2014F	20.2%
2015F	17.7%
2016F	15.9%
2017F	14.8%

Sources: eMarketer, Mercator Advisory Group estimates

Although growth in the volume and value of global e-commerce transactions will naturally slow over time, the share of cross-border transactions contributing to the overall volume is expected to increase, albeit at significantly slower rates than overall e-commerce transaction growth. Now is the time for U.S.-based retailers to consider how best to develop strategies for successfully selling abroad as the global e-commerce market expands and consumers look for new goods and services online. By following some of the best practices included in this Research Brief, small and medium-sized U.S. merchants looking to sell internationally for the first time will be well positioned to compete in the evolving borderless environment of e-commerce.

Meeting Customer Expectations

Any merchant selling online is always looking for ways to increase conversion and reduce abandonment of the online shopping cart. Consumers considering purchasing a product online from a foreign retailer, particularly a new retailer to them, perceive the risk to be higher and therefore are more likely to abandon a cart. We know that cart abandonment for cross-border transactions is higher than the levels for domestic transactions, which are often cited as being over 70 percent.

There are ways that a retailer can mitigate online shoppers' apprehension and ensure that customers from outside the retailer's domestic market feel comfortable and secure about entering sensitive personal and financial data. One method is to localize the website by displaying text in a local language as well as indicating prices in currencies familiar to foreign customers and offering methods of payment that are familiar to them.

Localizing Your Website

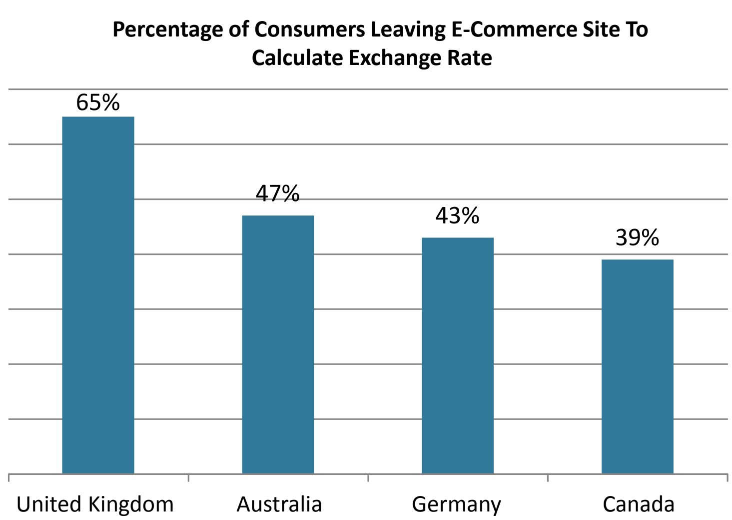
Even though English is widely considered to be the language of the Internet, there are clear benefits to localizing a website to support a user's language of choice. For example, online retailers who translate text into local languages are less likely to experience returns and customer service complaints because doing so significantly reduces the potential for consumers' misunderstanding terms and conditions or policies. For a small or medium-sized retailer with limited customer service capabilities, reducing this expense is important.

A more fundamental benefit, however, is that consumers are more likely to complete a transaction when the products are listed and described in their native language. In the 2013 Eurobarometer survey, sponsored by the European Commission, only 41 percent of respondents indicated a willingness to make purchases using another European language, including English.

The Currency Question

According to the United Nations, there are 180 official or de facto currencies in circulation. For the majority of merchants, the cost of accepting that many currencies is not justifiable. Nonetheless, merchants looking to sell across several countries or regions should consider accepting payments in more currencies than just the U.S. dollar. Similar to localizing a website through translating product listings and overall text into a local language, by offering a choice of payment currencies familiar to online shoppers, retailers are likely to attain increased transaction volume and fewer abandoned carts. For example, according to a 2013 survey, when an item is offered in U.S. dollars only, a large number of consumers will leave the site to calculate the exchange rate, as evidenced in Figure 2. Once a consumer leaves the website, the risk rises that the person won't return to complete the transaction.

Figure 2: Consumers Leaving an E-Commerce Site to Calculate Exchange Rate



Source: Cambridge Mercantile Group, 2013

Furthermore, one-third of respondents polled in the survey said they were likely to abandon a purchase completely were they to find a website that only listed a price in U.S. dollars. Providing shoppers prices in a range of major currencies (as well as local currencies in a market that a retailer is specifically targeting), will make the currency conversion transparent, which will significantly improve the likelihood that a consumer completes his or her transaction.

For small and medium-sized merchants, the prospect of displaying prices and settling transactions in a range of other currencies can be a barrier to adopting an international market strategy. This function is critical, however, to successfully building this new market. Therefore, such merchants should look for third-party processing capabilities that support all the major world currencies and support different payment forms for purchase and settlement.

Managing Risk

Besides tailoring a website to resemble a local online retailer, retailers seeking customers internationally should also ensure that their fraud management tools are calibrated for cross-border sales. One often overlooked factor in consumers' apprehension about purchasing from online retailers is their concerns over online payment security. In the wake of several high-profile incidents of theft of sensitive consumer payment information, ensuring consumer confidence in shopping online is critical and protecting one's investment in an overseas market requires gaining expertise in fraud and risk management specific to these markets.

For merchants who may be unable to increase in-house subject matter expertise in cross-border fraud management, engaging managed fraud services can be highly effective in minimizing risk and as a result, create an environment where consumers feel safe and secure to shop and pay. In addition, managed services alleviate the need for the merchant to invest in the know-how required to address new fraud trends and compliance requirements.

The Importance of Partner Selection

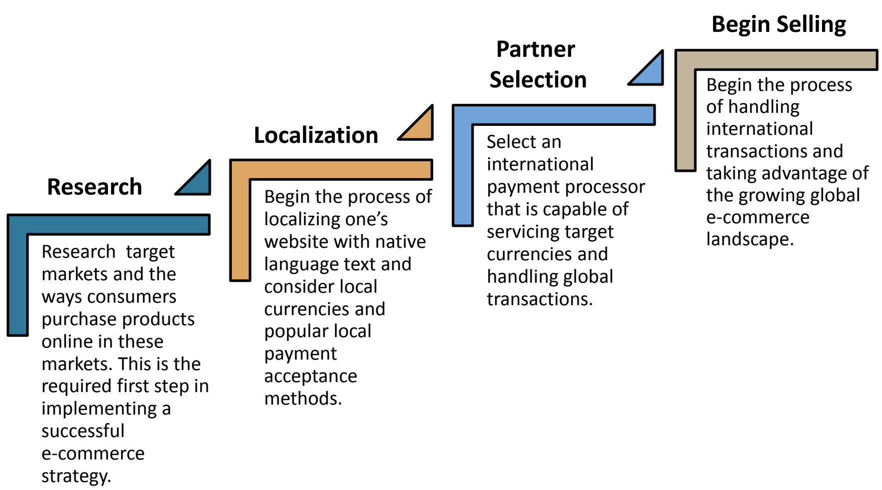
Merchants that need to select a cross-border processing partner should consider the following criteria:

- In which regions of the world do I want to build my e-commerce market?
- How do international processing requirements fit into my existing operation?
- What kind of settlement and reporting do I need?
- How do I comply with regulatory requirements?
- What are the risk and fraud tools I need to protect my business and my customers?

Defining an International Payment Strategy

Opening one's e-commerce site to international customers may at first seem a straightforward process, but before attempting to expand across the borderless e-commerce landscape, retailers should carefully consider the differences between the domestic and the cross-border markets, understand how best to build out this channel with the new markets' requirements, and determine what kinds of operational and risk management services they'll need in order to gain share. Mercator Advisory Group offers the framework shown in Figure 3 for use by merchants as a starting point to define their international payment strategy.

Figure 3: A Framework for Defining an International E-Commerce Strategy



Source: Mercator Advisory Group

E-commerce markets are growing worldwide. According to Mercator Advisory Group estimates, in Europe alone, the e-commerce market will reach approximately $558 billion in 2014. U.S.-based merchants can reach into this region and others around the world to enjoy a slice of this rich and growing market. With careful planning and the right partner, merchants can expect competitive conversion rates and minimized risk as they grow new and profitable channels.

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, eCommerce, healthcare, gaming, government, and education. For more information, visit www.vantiv.com.

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