FAST-TRACK MERCHANT GROWTH PATHS IN eCOMMERCE

WHITEPAPER
Dear Reader,

Payments have long been overlooked by merchants. Traditionally not considered as core to their business as merchandising, marketing or sales, payments have often been considered a foregone conclusion: once shoppers reach the payment step their mind is already made up and the purchase as good as complete.

That paradigm changed with the arrival of eCommerce. Online shopping is extremely convenient, yet so is abandoning a full shopping cart before or during payment. After all, another store is only a click away and there are many things vying for our attention while we shop online. Payments, and the role they play converting shoppers into buyers, became more integral to merchants’ bottom lines and growth trajectories.

We developed this paper, in cooperation with First Annapolis, because the payments paradigm is shifting once again. Payments now represent more than the final step in the sales process and are about more than converting shoppers to buyers, rather, payments enable merchants to offer consumers a full shopping experience. Shoppers can view products firsthand in a store, check product specs online, compare prices via their mobile phones, and pay during any of these steps. Savvy merchants know that payments are integral to a great shopping experience and understand that if their product or service is similar to what the competition offers, then the payment can be the differentiator.

In this paper we describe five potential paths for merchants’ growth today, illustrate the payments challenges they will face, and describe the solutions for success. Payments are only one part of a sound business strategy, but one that continues to grow in importance and capability. We hope this paper enlightens readers regarding payments’ potential role in significant merchant growth within a shifting environment of expanding opportunities.

Mike Braatz
Chief Product Officer
Merchant, Biller and Risk Solutions
Dear Reader,

Digital commerce is a growth imperative for virtually all retailers and merchants as new technologies disrupt traditional commerce use cases and ways of working. There are a variety of alternative growth paths available in digital commerce ranging from cross-border expansion to mastering mobile commerce. Payments sit at the heart of digital commerce and delivering the right customer experience is critical to success. This whitepaper covers these various growth paths and discusses the related payments challenges and solutions.

Digital commerce creates many unique challenges relative to in-store commerce and it is imperative that merchants expanding into or within digital commerce have the right payments platforms and partners to solve these challenges. Merchants and their partners must also evolve over time from prioritizing speed to market to optimizing the trade-offs between conversion and fraud. Leveraging open technologies and building global capabilities are keys to success.

Within the paper, we present case studies and best practices, plus inspiration for growth and evolution within digital commerce and payments. We hope that you enjoy the paper and find it to be a useful reference as you embrace digital disruption.

Joel Van Arsdale
Partner
First Annapolis
EXECUTIVE SUMMARY

Consumer-merchant engagement is fundamentally changing, becoming more digital and more open. Shoppers from all age groups increasingly purchase goods and services at home, at work, or on the go, in lieu of buying from physical shops. Before purchase shoppers learn about products through online review sites and afterwards use social media to praise or disparage them. And to complete purchases simply and securely, shoppers have a variety of payment methods and mobile wallets to choose from. This, in a nutshell, is digital commerce, the primary driver of retail sales growth in many markets around the world.

Digital commerce has been a growth opportunity for retailers and brands for more than 20 years. But today’s demographic shifts and unparalleled advances in smartphone technology have created unique opportunities. Millennials, the generation of digital natives who do not remember a world without the internet, are now the largest segment of the U.S. population and comprise 24% of the European Union’s citizens. Other important changes include the facts that more people now live in cities, automobile ownership in developed markets is decreasing, high-speed internet connections are more prevalent, and smartphone ownership has exploded.

The net result of these shifts is that digital commerce is consistently growing 10% to 20% annually, while in-store sales are flat or declining in some markets by as much as 5% per year. As a consequence, retailers are focused more intensely on growth through digital. However, not every merchant has the same starting point or the same motivation, so growth strategies vary. This paper presents five growth paths, with the aim to inspire readers to exploit the opportunities that come from digital channels. Although winning strategies are highly specific and no two merchants should expect the same success with the exact same approach, this paper describes common growth scenarios and illustrates how successful merchants mastered the accompanying payments challenges.

1. Brick-and-mortar retailers going online for the first time
2. Successful domestic online merchants that optimize eCommerce by diversifying channels and distribution models
3. Multi-channel retailers investing in mobile
4. Domestic merchants expanding internationally
5. Digital merchants delivering omni-channel experiences and expanding into point of sale

Payment acceptance sits at the heart of digital commerce. Payments are vital to the shopping experience, to checkout conversion rates, and to the broader operational and financial infrastructure of an enterprise.
Each of the five growth paths features its own unique challenges.

1. **Merchants expanding into digital channels encounter new requirements** and options ranging from customer experience and logistics to cash management. These merchants must balance the trade-offs between time to market and ease of enablement with control and cost.

2. **Optimization is a seemingly endless journey for online merchants** given that the customer experience can always be better, the conversion rate can always be higher, and fraud can always be lower. These operational complexities are magnified when merchants expand into non-direct distribution channels and business models in which enablers, intermediaries, and aggregators alter the operational requirements.

3. **Mobile is currently the priority for many businesses** because nothing is driving more commerce growth today. Principles gleaned from traditional eCommerce extend to mobile commerce but merchants must adapt the customer experience and operating model in order to thrive.

4. **Although cross-border expansion is comparatively easier in digital commerce** than traditional physical commerce, it is still challenging. Competing for foreign consumers requires marketing and operational adaptation catered to local shoppers. The benefits of cross-border expansion are undeniable, however, as only China, the U.S., and the U.K. eCommerce markets represent more than 10% of the global total.

5. **Ultimately, the lines between channels are blurring** as brick-and-mortar merchants continue to venture online while eCommerce merchants increasingly open storefronts. In mature European markets, two-thirds of merchants that run an online shop also operate physical stores and nearly one-third of traditional offline merchants now also sell online. It is challenging for these omni-channel merchants to offer shoppers a consistent and seamless experience because payment services are still too often divided between online and POS.

Payment acceptance sits at the heart of digital commerce. Payments are vital to the shopping experience, to checkout conversion rates, and to the broader operational and financial infrastructure of an enterprise. Online payments are significantly more complex than offline payments and without a strategic payments plan merchants’ growth could leave them with unwieldy and ineffective payments infrastructure down the road.

A merchant’s payments strategy needs to support ongoing growth through an operating foundation that is reliable and adaptable to new geographies, payment types, user journeys, and business objectives. The cornerstone of such strategies and operational infrastructures are the partnerships that provide these services.

Payments are too often a hindrance to digital commerce success, which will lessen as payments become more open and payment service providers (PSPs) more adaptable and global. While traditional POS payments remain highly fragmented and local, the eCommerce payments community is facilitating commerce that transcends borders and channels. It is important that merchants and PSPs drive the simple and convenient customer journey that is the foundation of conversion and sales, made possible by adopting the principles of openness that have made digital commerce one of the single most important trends in the global economy.
This paper explores the various strategies merchants are pursuing to drive digital expansion and their accompanying payments challenges. The paper also describes the most effective solutions for these digital payment challenges as well as practices implemented by global market leaders. Readers will understand the operational and technological challenges that expansion creates, the options to solve payments complexity, and best practices for handling payments while pursuing digital growth.

Digital channels now drive most—and in some cases, all—retail sales growth around the world. All shoppers, regardless of age, enjoy the convenience, personalization, and selection available online. In developed markets such as the United States and Western Europe, store-based retail sales are shrinking while eCommerce and mCommerce doubled in size each year for the past five years and continue to grow 10% to 20% annually. The rise of advanced smartphones is also reshaping the in-store experience, with digital interactions, including everything from product research to price comparisons, influencing 64 cents of every dollar spent in-store.

Consequently, retailers are increasingly focused on seizing the growth opportunities presented by online and mobile. Foci include merchants selling online for the first time, scaling a local business, expanding internationally, or tying different channels together. Each growth strategy presents unique challenges across the commerce value chain, not least of which is handling payment acceptance. The need for fast, safe, and easy ways to pay and be paid across channels and geographies has resulted in a variety of successful strategies.

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MARKET CONTEXT: SOCIETAL AND TECHNOLOGICAL SHIFTS SIGNAL NEW GROWTH OPPORTUNITIES

Interactions between people and businesses are increasingly digital. Time spent online is double that five years ago. Email is now far more common than phone calls; 188 billion emails versus 12.4 billion calls per day. Studies have shown that most people make less effort to remember facts because search engines like Google are at our fingertips.
People of all age groups are increasingly shopping digitally at home, work, or on the road rather than visiting a physical shop. Before a purchase, consumers turn to online review sites to research products. Afterwards they use public forums such as Twitter or Facebook to praise or disparage them. And consumers have an increasingly complex set of online payment tools at their disposal for purchases.

These macro changes are being driven in part by substantial demographic shifts. Millennials (18-35 year olds in 2016) are now the largest segment of the U.S. population, make up 24% of the European Union’s population, and are a substantial part of the workforce in both regions. Most millennials do not remember a world before the internet and these “digital natives” are very comfortable with online services and eCommerce. But millennials are just one piece of the puzzle. All age groups are changing how they live and work. More people now live in cities, automobile ownership in developed markets is decreasing, and broadband internet connections are now commonplace.

The unprecedented and simultaneous spread of mobile devices and enhancements to their capabilities is another meaningful catalyst. There are now 8.6 billion mobile devices worldwide, which is 1.2 devices per person. And they are increasingly powerful devices: 2016’s iPhone is more powerful than 2006’s iMac, has similar screen resolution, and a much faster internet connection. Nearly 80% of mobile users in developed markets use a smartphone and analysts expect 70% of the world’s population to have a smartphone by 2020.

A key implication of these macro changes is a shift towards digital commerce: the buying and selling of goods and services via a personal computer or mobile device. While digital channels have grown rapidly since first appearing in the mid-1990s, digital’s scale now provides the tailwind for overall retail growth: over one billion digitally-active consumers spend nearly $2 trillion a year online (see Figure 1). Digital market growth shows no sign of abating as shoppers shift more towards eCommerce and mobile brings the next billion consumers online. Retail fundamentals certainly vary between markets but in developed countries, such as the U.S. and Western Europe, digital is the primary source of retail growth with store-based sales flat or even declining.

Figure 1

e/mCommerce turnover
($ billion, growth = 2012-2016 CAGR)

Source: eMarketer
MOBILE OUTGROWS TRADITIONAL eCOMMERCE

Mobile commerce has exploded over the past five years. Notching only a single digit contribution to overall eCommerce in 2010, mobile now accounts for more than 50% of eCommerce in the U.K. and China, 33% in the U.S., and 20% in many other European markets. Mobile is likely to continue outgrowing desktop-based eCommerce into the future.

This paper uses the terms “mobile commerce” and “mobile payments” to refer to three activities relevant to digital retailers:

- Commerce conducted on a mobile device, whether in-app or via a mobile website
- Using a mobile device as a “wallet” to initiate, authenticate, or manage online or proximity payments
- Retail apps in which shopping or loyalty programs are available via mobile and integrated with payments

Each of these activities can occur in a remote or proximate context, which is one of mobile’s unique qualities: many features and experiences previously limited to eCommerce can now be brought into the physical world.

Commerce conducted on a mobile device, especially when done through a mobile web browser, can be technically identical to traditional eCommerce. However, mobile’s unique form factor enables many other possibilities, as discussed in the next section. Mobile wallets can enhance payment security by authenticating all transactions with a PIN or by leveraging biometric and other sensors. Mobile payments can also be more convenient by enabling contactless in-store payments or one-click online payments. Loyalty programs can be layered into transactions, receipts can be digitized, and mobile wallets will one day automatically select the most appropriate card for a given transaction.

Mobile apps for retailers can enhance the shopping experience and improve conversion rates. And while these apps are usually not strictly payments tools, their viability often relies on embedded payments. Examples include mobile self-checkout so shoppers can avoid lines or product review and price check services that act as advertising tools.

Source: Local e-Commerce Associations, eCommerce Europe, Internet Retailer, Mobile Marketer, First Annapolis market observations and estimates
eCOMMERCE ENABLES SHOPPERS TO CROSS BORDERS CONVENIENTLY

Digital businesses are easier to expand internationally than physical ones, thus, eCommerce merchants seeking growth often look to new markets. International expansion can take two forms: merchants sell cross-border from their home market base or set up subsidiaries and physical back office operations abroad. The right strategy depends on the situation though the former often evolves into the latter for successful global merchants.

Market data shows that cross-border eCommerce is increasingly common. The share of online cross-border sales is growing twice as fast as the overall market and the percentage of shoppers making cross-border digital purchases is expected to rise to 45% by 2020, as shown in Figure 3.

Figure 3
Global B2C eCommerce

Source: Accenture, Aliresearch
Cross-border eCommerce is not evenly distributed. It typically occurs in corridors tied together by geographic proximity, language and culture, or simply market scale (e.g., the U.S. and China draw cross-border shoppers).

Figure 4 shows two such corridors. For Spanish merchants, Latin America offers an attractive opportunity due to a common language, despite the inherent logistical challenges. And German online stores are likely to expand into Austria and Switzerland before targeting the rest of Europe.
CHANNELS ARE CONVERGING: MORE AND MORE BRANDS ARE OMNI-CHANNEL

Merchants of all sizes are increasingly multi-channel; even the vast majority of European online merchants also sell through a physical shop. In most cases these are not online merchants that have expanded offline but rather small local businesses who occasionally utilize online marketplaces such as eBay or Sellers at Tesco.

Large retailers approach multi-channel selling in a different way. These brands, some of which are shown in Figure 5, seek to combine their online and in-store channels to create a cohesive omni-channel experience.

This combination ranges from simple in-store payment and pick-up of online purchases (which Walmart has offered since 2007) to futuristic experiences like Neiman Marcus’s “smart mirrors” that lets shoppers compare different outfits and even make recommendations.

Such actions transform the traditional retail store into a place where consumers engage with and learn about products and interact with the wider brand.

Figure 5
Merchant strategies distributed by scope and channel

Source: First Annapolis primary research
DIFFERENT MERCHANTS FOLLOW DIFFERENT PATHS TO GROWTH
Pursuing digital opportunities is an evolving, never-ending journey. The first step is to simply enable eCommerce, a step millions of businesses and entrepreneurs around the world have yet to take. Once active digitally, successful businesses experience strain as millions of customers are suddenly within reach. Over time, merchants must focus on new avenues for growth such as international markets or emerging channels like mobile. And finally, some pure play digital leaders come full circle to focus on the in-store experience as part of a broader omni-channel strategy. These five common digital growth scenarios are illustrated in Figure 6.
SELLING ONLINE FOR THE FIRST TIME

eCommerce participation rates vary widely by market and sector. In markets such as Italy, Russia, and Brazil, most large retailers focus on physical stores as the primary sales channel, although that is beginning to change. In markets such as the U.S., Japan, and the U.K., most large retailers have been actively selling online for years but convenience stores, restaurants, and supermarkets are only enabling the channel now. Yet no matter the level of development, every market in the world has many large brick-and-mortar merchants still in the early stages of eCommerce enablement.

Merchants not yet selling online view the physical store as the heart of their business. They are experts at selecting store locations, managing front-line staff, and merchandising products. Brick-and-mortar retailers, many of whom are late adopters of eCommerce, often believe that the in-store experience is crucial to their customer relationship, discounting online selling’s relevance to customers. These brick-and-mortar strategies have thrived for decades but are increasingly under pressure. Now, it befits nearly every merchant to embrace eCommerce. The Decathlon example demonstrates the experience of a high street champion that successfully expanded online.

There are several ways to begin selling online varying by complexity, degree of control, and learning curve. As shown in Figure 7, merchants often evolve across operating models, starting with simple (but higher cost) solutions and gaining more control as eCommerce sales grow.

EXAMPLE

DECATHOLON
High street champion conquering the online space

GROWTH PATH
Optimizing eCommerce operations

EXPERIENCE
For a decade Decathlon has been a familiar brand for active consumers looking for all their sporting goods under one roof.

Initially separating eCommerce from its core retail operations, Decathlon integrated the two in 2012 for seamless customer service with no distinction between eCommerce and physical shops.

Decathlon’s vision was that eCommerce become more than an additional vertical, but rather one of two mutually reinforcing channels. Customers can initiate a purchase online, see and touch the product in-store, and then complete the transaction. In-store eCommerce is a solution for items too large to carry home and small kiosks enable this type of purchase.

Decathlon is currently focused on optimizing their eCommerce offering and integrating it with their in-store operations. Decathlon sees mobile as an extension of their online shop and not as a key enabler for in-store shopping.

For Decathlon, a full omni-channel customer experience goes beyond payments, but the payment platform plays a role.

Decathlon is convinced that eCommerce facilitates more payment options than traditional POS. Retailers can leverage their eCommerce platform to offer customers more payment options in-store.

LESSONS FOR OTHER MERCHANTS

• Put the customer first – Introduce eCommerce as a way to improve the shopping experience.
• Be willing to experiment and accept early missteps – Innovation and differentiation will provide significant benefits.
• Test constantly – Begin small, test the system, adjust, and repeat before scaling.
Figure 7
Operation options for merchants selling online

**ONLINE MARKETPLACES**
- One of the simplest ways to sell online
- Marketplaces handle demand generation, the online shop, payments, and in some cases fulfillment

**OUTSOURCED ECOMMERCE OPERATIONS**
- A solution for major retailers that want a standalone online shop without operational complexity
- Vendors provide an end-to-end solution that includes online shop management, order management, fulfillment, and customer service

**HOSTED ECOMMERCE PLATFORMS**
- eCommerce technology is provided on a SaaS basis and managed in-house
- Retailers manage the platform and other functions, such as fulfillment
- Typically separate from store systems

**CUSTOMIZED IN-HOUSE SYSTEMS**
- eCommerce technology provided on a licensed basis, customized for each implementation
- Retailers operate the platform and other functions, such as fulfillment
- Increasingly integrated with store systems
The first move online introduces a range of business challenges. Merchants must design and host their online shop, set up order management and fulfillment systems, establish warehousing and shipping relationships, provide remote customer service, and solve complex fraud challenges.

Whereas EMV point of sale card transactions are highly secure and feature static operating requirements, online payments bring many new challenges which require constant learning and improvement to overcome. These challenges, along with accompanying solutions, are discussed below. What is most clear, however, is that the quality of payment provider is critical to success for merchants first venturing online.

Table 1
Managing the first online move

<table>
<thead>
<tr>
<th>CHALLENGES</th>
<th>PAYMENTS SOLUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Balancing simplicity</td>
<td>• Utilize a comprehensive service that packages eCommerce platform and payment</td>
</tr>
<tr>
<td>with effectiveness</td>
<td>services together, such as those offered by eBay Enterprises, IBM, and others</td>
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<tr>
<td></td>
<td>• Expand partnerships with existing POS vendors that have the necessary</td>
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<tr>
<td></td>
<td>eCommerce capabilities</td>
</tr>
<tr>
<td>2. Integrating new vendors</td>
<td>• Focus on payments vendors able to integrate with the eCommerce platform provider</td>
</tr>
<tr>
<td>3. Preventing new types of fraud</td>
<td>• Develop fraud mitigation solutions with dynamic and smart decision-making</td>
</tr>
<tr>
<td></td>
<td>capabilities</td>
</tr>
<tr>
<td>4. Understanding options</td>
<td>• Identify a payments vendor that explains the basics of online</td>
</tr>
<tr>
<td>and risks</td>
<td>authentication decision-making and the trade-offs between fraud</td>
</tr>
<tr>
<td></td>
<td>mitigation and checkout conversion</td>
</tr>
<tr>
<td>5. Mitigating unknown risks and</td>
<td>• Start domestically before expanding cross-border</td>
</tr>
<tr>
<td>complexities</td>
<td>• Begin with basic fraud controls and then optimize further as experience grows</td>
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<tr>
<td></td>
<td>• Activate easy payment methods, such as those already used for POS, before adding</td>
</tr>
<tr>
<td></td>
<td>additional options</td>
</tr>
<tr>
<td>6. Reconciling payment and</td>
<td>• Utilize payment vendors that possess end-to-end services, from the eCommerce</td>
</tr>
<tr>
<td>settlement with new channels</td>
<td>platform to the settlement of funds</td>
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<td></td>
<td>• Employ payment vendors offering end-to-end data in a usable format</td>
</tr>
<tr>
<td>7. Managing new customer</td>
<td>• Ensure the payments vendor has customer service tools—those that can initiate</td>
</tr>
<tr>
<td>service needs</td>
<td>refunds or investigate disputes—to enable efficient customer service</td>
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OPTIMIZING A DOMESTIC eCOMMERCE BUSINESS

Launching an online shop is only the first step in a merchant’s digital journey. Realizing the full potential of eCommerce requires constant testing and tweaking of online marketing strategies, shopping and checkout setups, and payment handling tactics. Success hinges upon an online shop’s ability to give shoppers a simple and convenient experience.

Savvy online merchants regularly invest in improving the shopping experience, focusing on increasing repeat sales and improving checkout conversion. Payments, as the critical final step in the shopping journey, deserve ample attention when optimizing the overall shopping experience. Eliminating the friction from the payment is key to success and can be done by enabling customers to register payment details, adding alternative payment methods, and optimizing fraud prevention rules to maximize margins. Deploying responsive payment pages and card vaults can reduce abandonment and encourage repeat shoppers.

Merchants who gain traction in the digital channel face the challenge of scaling and optimizing back office operations. High-growth merchants often desire more control and flexibility than is possible from some outsourced solutions. As these merchants scale, enhancements such as personalized offers, alternative payment methods, and daily fraud prevention rule optimization become enticing, which only certain outsourced platforms can offer. Easily implemented systems also sometimes begin to crumble under the pressure of millions of transactions. These merchants will likely shift from hosted shopping carts to in-house systems, from turnkey payment gateways and hosted fraud prevention tools to enterprise-class solutions, and from manual back office processes to automated systems.

Merchants optimizing an online business must examine their payments infrastructure and vendors and move towards open and advanced solutions. Early on, merchants can often rely on POS vendors and simple all-in-one solutions for quick and efficient online moves, but as these merchants grow they will increasingly utilize best-in-class technology and capabilities. The most powerful solutions are those that offer the best of both worlds, providing merchants with support throughout the entire growth cycle.

Optimizing eCommerce also involves embracing new channels and business models, often achieved by tweaking a merchant’s online shop or developing partnerships to “meet the customer” in other channels.

Two examples are common today:

- **Online marketplaces** – An increasing number of merchants host or participate in online marketplaces. First Annapolis estimates that about one-third of U.S. B2C eCommerce sales go through a marketplace and a 2015 survey, conducted by the Ecommerce Foundation and Nyenrode Business University, found that major retailers worldwide expect 40% of global e-retail to occur over a marketplace by 2020.

- **On-demand service** – Major U.S. retailers increasingly partner with “on demand” services to enable same-day delivery. Examples of these partnerships in the U.S. include the Whole Foods–Instacart partnership, Chipotle’s cooperation with Postmates, and 7-Eleven’s cooperation with DoorDash.
These forms of channel marketing drive growth but increase payment acceptance complexity.

Simple one-for-one commerce is giving way to more complex business models. As shown in Figure 8, online merchants increasingly embrace different marketing, distribution, and operational models involving various partnerships with enablers, intermediaries, and aggregators.

Marketing enablers, such as Affinion, help market a merchant’s underlying products into new channels. Intermediaries, such as ModusLink, help to drive cross-border marketing, engagement, and fulfillment.

And aggregators, such as Facebook, provide new networks for commerce engagement (e.g., the buy button).

Enablers, intermediaries, and aggregators increase the complexity and challenges of payment acceptance because these partners act as a payments agent, often even the merchant of record. These partnership models complicate payment operations and create legal and regulatory uncertainties, all of which must be managed. For example, a shopper may become confused when the receipt names the intermediary rather than the merchant.

**Figure 8**
**eCommerce altered the supply chain**
Or it may be unclear who is liable for a chargeback among the many partners involved in a purchase. The resulting confusion can cause problems. Scaling and optimizing eCommerce operations requires highly capable payment solutions. Table 2 introduces common challenges and poses potential solutions.

Table 2  
Optimizing a domestic eCommerce strategy

<table>
<thead>
<tr>
<th>CHALLENGES</th>
<th>PAYMENTS SOLUTIONS</th>
</tr>
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<tbody>
<tr>
<td>1. High shopping cart abandonment</td>
<td>• Frictionless checkout – Create a simple and seamless payment experience</td>
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<tr>
<td></td>
<td>• Card vaults – Registering payment credentials enables one-click checkout</td>
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<tr>
<td></td>
<td>• Advanced payment methods – Many payment methods now deliver an entire checkout experience</td>
</tr>
<tr>
<td>2. Balancing fraud prevention with conversion</td>
<td>• Enable robust data and smart decision-making engines</td>
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<td></td>
<td>• Utilize vigorous fraud management tools, either integrated directly or provided via a third party</td>
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<td></td>
<td>• Solicit guidance from expert analysts and peer benchmarking</td>
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<td></td>
<td>• Continually test and use control groups for constant improvement</td>
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<tr>
<td>3. Meeting PCI requirements while knowing your customers</td>
<td>• Store the payment credentials of loyalty shoppers to improve the checkout experience</td>
</tr>
<tr>
<td></td>
<td>• Link ID and payment credentials through tokenization to avoid storing payment data</td>
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<tr>
<td>4. Offering the appropriate payment mix</td>
<td>• Offer three to five payment options with continuous testing to identify the most appropriate</td>
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<tr>
<td></td>
<td>• Identify one vendor with access to a multitude of payment methods</td>
</tr>
<tr>
<td>5. Speed and uptime problems</td>
<td>• Utilize high quality vendors with resilient infrastructure and at least 99.99% performance</td>
</tr>
<tr>
<td>6. Getting the best out of payment service providers</td>
<td>• Employ best-in-class vendors, track costs and performance, and periodically evaluate alternatives to keep vendors sharp</td>
</tr>
<tr>
<td>7. The loss of 1-to-1 merchant-shopper transparency</td>
<td>• Understand the customer experience completely</td>
</tr>
<tr>
<td></td>
<td>• Recognize the legal and regulatory obligations and liabilities associated with these operating models</td>
</tr>
<tr>
<td></td>
<td>• Ensure the merchant brand is being used properly with the end consumer</td>
</tr>
<tr>
<td>8. Handling refunds and disputes properly</td>
<td>• Enable data structure for complex hierarchies</td>
</tr>
<tr>
<td></td>
<td>• Ensure vendors provide excellent data</td>
</tr>
<tr>
<td></td>
<td>• Employ consultative vendors</td>
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<tr>
<td></td>
<td>• Document responsibilities between partners clearly</td>
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</table>
EXPANDING CROSS-BORDER

International expansion offers great promise in eCommerce. Regardless of a merchant’s home market, the cross-border opportunity is larger. Going global is often viewed as a fundamental requirement for digital services merchants. For retailers experiencing diminishing returns in their home market, cross-border expansion offers a path to renewed growth. Early-stage tech companies, meanwhile, see its potential for rapid growth.

Digital merchants often believe their brand, customer experience, and backoffice operations can easily be extended into a new market. Many understand that international preferences vary but in the early stages typically focus on achieving a bump in growth by enabling new markets quickly. Optimizing backoffice operations is seen as a problem that can be resolved later.

Figure 9
Operation models for cross-border expansion

**MANAGED CROSS-BORDER eCOMMERCE**
- Providers like Borderfree offer end-to-end solutions that include online shops, multi-currency order management, international shipping, and multi-lingual customer service

**CROSS-BORDER eCOMMERCE**
- A global URL with local pricing
- Backoffice operations from centralized home market or regional offices
- Fully localized online shops
- Local backoffice operations and customer service
- Enables parity with local merchants but is operationally complex

**LOCALIZED eCOMMERCE OPERATIONS**
- Local backoffice operations and customer service
- Enables parity with local merchants but is operationally complex

**MULTI-NATIONAL OPTIMIZATION**
- Large, mature merchants eventually invest in complex operations for regional operating centers and regional payment solutions

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2. DIFFERENT MERCHANTS FOLLOW DIFFERENT PATHS TO GROWTH

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There are a variety of models for cross-border expansion contingent upon how merchants handle brand marketing, site localization, corporate structure, and payment methods. These models are similar to those described in the section “selling online for the first time” because retailers will often start by outsourcing their international operations to a full-service partner and later transition to in-house.

Expanding internationally creates a range of unique payments challenges. For example, when selling cross-border merchants should present prices in the local currency, tailor their fraud prevention systems for local patterns, and calculate local sales tax and VAT. If trying to appear as a local business a merchant must translate its online shop into the local language, offer local shipping methods, and accept locally-preferred payment methods.

**EXAMPLE**
**MODUSLINK**
Enabling global eCommerce operations

**GROWTH PATH**
Using the online channel to sell globally

**EXPERIENCE**
ModusLink provides a suite of services ranging from online shop development, customer care, financial services, warehousing, and fulfillment. ModusLink enables merchants that want to sell internationally but prefer to outsource some of the accompanying complexity.

ModusLink’s component-based service allows clients to choose what to outsource and what to develop in-house. The company bestows clients with global scale on day one without global-level investment. Depending on the market, ModusLink can function as the Merchant of Record, an agent, or VAT liability-handler. As a collecting PSP, the company facilitates payments locally and settles with the ultimate merchant in its home market.

ModusLink exemplifies a company using white labeling to deliver a local service on a global scale without being a major consumer brand itself. Partnering with ModusLink presents a way for product manufacturers to benefit from the value of their brand and create a direct channel to consumers without becoming a retailer.

**LESSONS FOR OTHER MERCHANTS**
- **Strong brands translate well** – Retailers with well-known brands can take advantage of a large cross-border opportunity.
- **Go global but stay local** – Merchants can sell globally without global operations, even when certain jurisdictions require a local entity.
- **Find the right business model** – eCommerce has caused business model variety to increase and often there is a complex value chain of service providers between the consumer and the merchant.
2. DIFFERENT MERCHANTS FOLLOW DIFFERENT PATHS TO GROWTH

Often the payment gateways and acquirers that a merchant uses in their home market may not operate in the target market, which can be both costly and result in low conversion rates. These challenges and solutions are discussed in depth in Table 3.

Table 3
Expanding cross-border effectively

<table>
<thead>
<tr>
<th>CHALLENGES</th>
<th>PAYMENTS SOLUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Accepting local payment methods</td>
<td>• Employ vendors with extensive payment options, ideally comprising end-to-end services that include technical routing, collecting, settlement, and servicing</td>
</tr>
<tr>
<td>2. Adapting business processes for local payment methods</td>
<td>• Enable payout capabilities by pushing payments to shoppers via cards or bank transfer • Solicit and follow guidance from experienced vendors</td>
</tr>
<tr>
<td>3. Processing transactions in local currencies</td>
<td>• Price in the local currency • Partner with a vendor that offers multi-currency pricing and processing capabilities</td>
</tr>
<tr>
<td>4. Managing foreign exchange operations and costs on the backend</td>
<td>• Research and understand the FX service options before choosing to bundle (simpler) or separate (cheaper) with the payment service provider • Track costs through access to robust data</td>
</tr>
<tr>
<td>5. Maintaining high conversion rates when card issuers tend to decline more cross-border transactions</td>
<td>• Identify the most appropriate acquirer, local or cross-border • Track declines and reason codes, analyze for root causes, and adjust tactics accordingly • BIN track and work with acquirers and issuers to resolve problems unearthed</td>
</tr>
<tr>
<td>6. Preventing fraud</td>
<td>• Utilize the many tools available such as geo location, URL, customer recognition, and transaction size and type screening</td>
</tr>
<tr>
<td>7. Higher interchange and scheme fees</td>
<td>• Employ smart routing and acquiring to offset some of the higher costs</td>
</tr>
</tbody>
</table>
Table 3’s first challenge is about the difficulty merchants face accepting local payment methods. Although such acceptance can be challenging, it is very important because payment methods vary widely by country, as Figure 10 clearly illustrates, and only by providing the most common payment methods in each country can a merchant hope to achieve high conversion rates and the resultant high revenues.
THRIVING IN MOBILE

Mobile commerce has grown three to four times faster than PC-based eCommerce over the past several years, catapulting mobile from approximately 5% of U.S. and U.K. retail eCommerce in 2011 to 30-40% in 2016. Most merchants now recognize this trend, with sophisticated online and multi-channel merchants leading the way.

The importance of mobile eCommerce to a specific merchant is driven by a number of factors:

• **Sector** – Certain sectors—gaming, digital goods, travel, etc.—are mobile by nature and tend to lead mCommerce adoption. Mainstream verticals like electronics, apparel, and general retail now also have high acceptance driven by omni-channel initiatives at multi-channel merchants.

• **Purchase behavior** – Merchants experiencing high frequency and low average transaction values tend to lead mobile payment. Classic examples include Starbucks and European and Asian public transit systems.

• **Customer demographics** – Merchants with young, urban, and tech-savvy customers have higher mobile service demand, as those individuals tend to be early adopters and find mobile shopping more convenient than desktop or laptop-based eCommerce.

• **Smartphone penetration** – Modern smartphones are dramatically more capable and user-friendly than their predecessors, fully enabling mobile commerce. In most European markets smartphone ownership is well over 50% and is 80% in the U.S. and 88% in South Korea. Mobile commerce still occurs in markets dominated by feature phones but is an SMS-centric experience enabled by closed-loop carrier-based mobile payment systems.

Currently, innovative merchants, no matter the sector, are heavily investing in mobile. Mobile is also important for multi-channel merchants boosting the importance of their stores via omni-channel experiences.

Source: PayPal
Merchants must consider the unique challenges selling via mobile brings to the customer experience. Not only is the screen smaller, but hover-over design elements, pop-up windows, fixed-size iFrames, and other elements may not work well on mobile and can undermine checkout conversion. Shoppers are also more likely to be on the go or multi-tasking which means they are more distracted during the shopping and checkout process. All of this results in checkout completion rates that are about 40% lower on mobile than desktop, as shown in Figure 12.

Mobile apps are one solution to combat the low conversion challenge. Apps allow merchants to design “pixel perfect” branded experiences and unlock unique capabilities such as device functions (e.g., camera or biometric scanner) and leverage mobile wallets like Apple Pay. However, apps have their own challenges, namely, how do you incentivize consumers to download and habitually use it?
Whether a mobile-optimized online shop or an app, strong design and a smooth checkout process are key to effective commerce. This importance is illustrated by the fact merchants often focus on payment methods that do not require external validation factors such as 3-D Secure. For example, many retailers enable PayPal for their mobile sites but exclude it on bigger screens for cost reasons.

Mobile creates unique payments challenges simply because what works on a 15-inch computer monitor and keyboard rarely works well on a four-inch touchscreen. Pages displayed incorrectly on mobile, complicated payment forms, 3-D Secure redirects, and pop-ups all increase checkout abandonment. Mobile requires responsive payment pages and one-tap payment capabilities via saved payment profiles or digital wallets.

eCommerce transactions are increasingly conducted on mobile devices, which presents unique challenges and calls for unique payment solutions. Best-in-class merchants not only create solutions for mobile but enable the seamless combination of different channels.

Example: Walmart

Mobile complements stores for an omni-channel future

Growth Path
Multi-channel retailer investing in mobile

Experience
Walmart is the world’s largest brick-and-mortar retailer and a major eCommerce merchant, ranking behind only Amazon and Apple in the U.S. Walmart sees mobile as the way to bring traditional commerce and eCommerce together for a consistent, omni-channel customer experience.

Walmart declared eCommerce a focus in 1999 but its mobile strategy became clearer in 2011 when the company acquired Kosmix and created @WalmartLabs, a digital innovation division. Since then, Walmart has experimented with mobile self-checkout, voice-enabled shopping lists, barcode scanning, store maps with product location details, and more. A recent creation is Walmart Pay, a mobile wallet within its retail app, which lets customers pay in-store with payment methods saved on Walmart.com.

Today, Walmart’s mobile app, with its 22 million-plus active monthly users, is one of the most popular retail apps in the U.S. More than 70% of the company’s digital traffic and half of its online sales during the 2015 holiday season came from a mobile device.

Lessons for Other Merchants
• Do not underestimate mobile’s value – Mobile is not just driving more digital sales, desktop volume is shifting to mobile, which means the channel is important for up-to-date digital strategies.
• Use mobile to connect the offline and online worlds – Mobile enables consistent, integrated experiences between brick-and-mortar stores and eCommerce sites.
• Make mobile a weapon against competitors – Mobile can help brick-and-mortar or multi-channel retailers battle aggressive pure play digital competitors.
2. DIFFERENT MERCHANTS FOLLOW DIFFERENT PATHS TO GROWTH

Table 4
Utilizing mobile for smart and sustainable growth

<table>
<thead>
<tr>
<th>CHALLENGES</th>
<th>PAYMENTS SOLUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Optimizing the customer experience and driving checkout conversion</td>
<td>• Design responsive payment pages, optimized for mobile devices</td>
</tr>
<tr>
<td></td>
<td>• Extend smart checkout tools, such as card vaults, from the online environment onto mobile devices</td>
</tr>
<tr>
<td></td>
<td>• Track conversion and employ vendors that provide the data necessary to make improvements</td>
</tr>
<tr>
<td>2. Offering new mobile payment methods</td>
<td>• Expand the base of payment methods to include wallets and checkout services</td>
</tr>
<tr>
<td>3. Managing fraud</td>
<td>• Enable device fingerprinting, geo locating, social data, and other fraud mitigation tools tailored for mobile environments</td>
</tr>
<tr>
<td>4. Enabling in-app commerce and payments</td>
<td>• Work with vendors offering mobile-friendly technical integrations and tools</td>
</tr>
<tr>
<td></td>
<td>• Leverage the data natural to mobile apps to better know the customer</td>
</tr>
</tbody>
</table>

Figure 13
Fraud rate by channel

<table>
<thead>
<tr>
<th>Year</th>
<th>Traditional eCommerce</th>
<th>Mobile commerce</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>0.3%</td>
<td>0.2%</td>
</tr>
<tr>
<td>2015</td>
<td>0.4%</td>
<td>0.3%</td>
</tr>
<tr>
<td>2016</td>
<td>0.6%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>
Sooner or later, everything old becomes new again. And payments are no different. While most retail and payments players pursue digital growth, a select group of large eCommerce merchants and well-known lifestyle brands are opening physical stores for the first time.

These companies are using physical stores to unlock broad mass market distribution or create “show rooms” where customers can personally experience products before the purchase. In some cases all products are still shipped to the customer while in others stores have inventory that customers can take home.

Apple is perhaps the most notable example of this trend. Apple now has 479 retail stores in 18 countries and the stores have played a role in the company’s dramatic success throughout the 2000s. Today, with over $20 billion in global store-based sales, Apple stores have some of the highest sales per unit area in the world.

Amazon has recently entered the physical world as well. The global online mega merchant opened its first physical score, a pick-up and drop-off location at Purdue University in the U.S., in early 2015. In late 2015 it opened a full-scale bookstore in Seattle, Washington, the same city as the company’s headquarters, and may open hundreds of book stores and technology boutiques around the world.

Coolblue is one of the most successful online retailers in the Benelux Union, operating over 300 websites selling a variety of electronic equipment. The retailer has had a small offline presence for over ten years, currently operating seven stores in the Netherlands and Belgium. Recently, Coolblue announced that they would expand their network of stores.

Coolblue achieved 54% growth in 2015 and reported that physical shops outpaced online shops. Yet offline sales are not Coolblue’s primary objective. The company, by closely monitoring customer satisfaction, noted increased online sales in areas less than an hour away from recently opened physical shops.

Coolblue beliefs customers value a physical shop where they can experience products and receive advice and service. The shops also play fulfillment, repair, and return logistic roles. The shop layouts reflect this focus, featuring spacious demo areas, dedicated advisors, and prominent return counters.

The physical shops’ main objectives are not sales but customer satisfaction and service and to reinforce the online business.

**LESSONS FOR OTHER MERCHANTS**

- **Utilize customer research** – Shop design based on customer needs results in a unique physical presence designed for specific objectives.
- **Boost regional eCommerce sales** – Opening physical shops leads to measurable increases in online sales in the area.
Entering the brick-and-mortar world for the first time creates a number of new challenges. The most obvious include the retailing issues of store location and design, retail staff management, and distributed physical inventory handling. But coming “out of the cloud” requires dealing with many payment issues as well. Merchants must manage payment terminals, point-of-sale systems, and card-present transaction data. In-store fraud patterns are different from those in eCommerce.

Tokenization solutions may not work consistently across channels, creating barriers to the omni-channel experiences that are a priority for merchants that originate in eCommerce.

Merchants pursuing this fifth growth path should evaluate the payment solutions in place to ensure a seamless and robust customer experience across channels.

Table 5
**Taking an online shop into the physical world**

<table>
<thead>
<tr>
<th>CHALLENGES</th>
<th>PAYMENTS SOLUTIONS</th>
</tr>
</thead>
</table>
| 1. Recognizing customers and delivering a common experience across channels | • Enable multi-channel tokenization  
• Integrate front and back-ends across channels, enabling hands-off transactions  
• Identify the relevant data inputs for ePOS and eCommerce platforms  
• Limit the number of payment providers to minimize integration effort |
| 2. Delivering on new, innovative multi-channel capabilities                | • Leverage beacon and similar engagement technologies  
• Utilize payment form factors to identify customers                                                                                  |
| 3. Reconciling payments                                                   | • Ensure data accuracy and always include the right transaction and channel identifiers  
• Limit the number of payment providers to minimize data manipulation and confusion                                                  |
| 4. Minimizing multi-channel payment complexity                            | • Consolidate services with multi-channel capable vendors  
• Utilize a common infrastructure  
• Implement a flexible setup                                                                                                         |
Given the diversity of challenges merchants face, it is no surprise that one-size-fits-all payment strategies cannot be applied to most merchants. However, there are a number of strategies that are universally applicable.
EMBRACE DISRUPTION AND OPEN PAYMENTS

Digital commerce often requires merchants to reassess payment strategies, reconsider solutions and vendors, and reconfigure operations. Payment services designed decades ago for POS are defined by legacy mainframe technologies and are not optimal for eCommerce payments. Digital commerce requires payment solutions and vendors that embrace open technologies designed to adapt quickly and expand globally. Merchants reinventing themselves in digital channels must consider overhauling their payments strategies and vendors.

OPTIMIZE PAYMENTS TO IMPROVE THE CUSTOMER EXPERIENCE

Over time, the limitations of a simplified payments approach become obvious. Although the convenience of such a simplified approach is undeniable, as customer complaints become louder, manual back-office processes too inefficient, and it becomes clear that a bespoke solution will boost the bottom line, most merchants invest in payment optimization, which adds complexity. A common first step in payment optimization is to look closely at fraud prevention rules, accepted payment methods, and the shopper’s checkout experience. Actively managing these elements and regularly testing refinements can drive meaningful improvements. For example, one-third of shoppers declined due to a false positive fraud flag abandon their purchase, responsive payment pages drive a 20% increase in mobile checkout conversion, and 50% of regular online shoppers abandon their purchase if their preferred payment method is not offered.

MULTIPLE CHANNELS CREATE DIFFERENT PAYMENT REQUIREMENTS

In-store, online, and mobile channels each have unique requirements. Multi-channel merchants must manage the requirements of every channel in which they operate. In-store shoppers expect to check out quickly and easily using cash or cards in most markets. This translates into multiple points of sale for large stores, secure cash management, fast chip-and-PIN validation, and possibly contactless acceptance. Online shoppers have heightened concerns about security but still expect convenience which translates into secure payment forms, the ability to store payment information for faster future checkout, locally-preferred payment method acceptance, and more. While mobile is a form of eCommerce, it presents unique challenges that require designs aimed at simplicity for conversion optimization.
3. GENERAL PRINCIPLES AND BEST PRACTICES

BALANCE SPEED TO MARKET WITH CONTROL AND COMPLEXITY

In eCommerce revenue trumps costs and growth supersedes operational optimization, which is sensible for a market experiencing double digit growth and long-term market expansion.

The pattern of exchanging control for simplicity and speed is best illustrated by two common occurrences in eCommerce:

- Using the existing acquirer for multi-channel: growing merchants frequently use their existing acquirer for all new channels even if its capabilities are less than ideal for such setups.
- Using the existing acquirer for cross-border: growing merchants often use their existing acquirer for cross-border acquiring, which means they only accept international cards and pay higher costs.

This straightforward approach has clear benefits: no time spent choosing new vendors, no juggling of several vendors, and fewer settlement sources to reconcile. Merchants can move faster. However, these benefits are accompanied by higher costs, poorer performance, and the inability to reach the many shoppers unwilling to use cards.

BUILD A FOUNDATION THAT IS ROBUST, FLEXIBLE, AND OMNI-CHANNEL ENABLED

Merchants need to build commerce and payments systems on top of solid, scalable foundations. Employing local vendors for each market and directly integrating them with the core retail system results in complex and difficult to maintain integrations. The solution is a global payment gateway that provides a unified interface for multiple retailing systems and payment vendors. Digital commerce merchants also need scalable operational practices so they are ready when hyper growth hits. Processes that are manageable early on can become overwhelmed at scale, swamping backoffice staff, exposing weaknesses to fraud, and damaging customer satisfaction.

A vendor network or technical platform needs to be agile because new payment methods, new means of authentication, and new commerce channels arise constantly.

As the focus on omni-channel commerce increases, merchants must accept the natural challenges that result. For example, payment terminals and hosted payment pages often utilize different programming languages and data often ends up at separate processors or acquirers. Because retrofitting payments infrastructure is challenging, it is important to identify payment providers that are omni-channel capable.
CENTRALIZE PAYMENTS INFRASTRUCTURE, PROCESSING, AND VENDORS

Enabling local acquiring for a multi-channel strategy is complex, and as a result multi-national merchants have generally implemented at least one of two approaches. The first approach focuses on merchants’ front-ends. Rather than connecting to hundreds of local acquirers one by one, merchants utilize standardized applications or payment service providers to provide access through a single technical endpoint.

The second approach entails reducing the number of acquiring vendors to increase a merchant’s leverage and simplify backoffice operations. This approach has been gaining traction due to recent European regulation and by card networks exploring additional global licensing programs. Acquiring, however, remains fragmented globally.

There are tens of thousands of merchant acquirers and registered ISOs worldwide yet fewer than 100 possess the capability to provide effective central acquiring. Fortunately, eCommerce acquiring is significantly more global and centralized than at the POS.

The largest and most sophisticated digital merchants should carefully consider which payments infrastructure elements to control in-house. Payment pages, gateway and payments switching, card vaults, encryption, tokenization, fraud detection, data analytics, and other aspects can be managed via licensed in-house applications, or similar cloud-based services. The value of such control should be carefully balanced against complexity and resourcing requirements.

BE PRACTICAL ABOUT FINDING A SINGLE PANACEA FOR PAYMENT ACCEPTANCE

Global brands make retail appear as a seamless global business that transcends borders, channels, cultures, and languages. However, this appearance is the result of diligent effort combining many different vendors. Today’s payments reality is that no single provider can offer the full payment acceptance value-chain across payment types, channels, and the globe. Payment services typically remain channel specific and delivering omni-channel payments is not a turnkey infrastructure.

Successful eCommerce requires many alternative payment methods which in turn require separate PSPs and direct relationships with the underlying payment schemes. Different geographies still normally require different providers. For merchants with special needs, such as in-app or recurring transactions, the need for multiple vendors is even greater.

Thus, while the aim to simplify payment vendors and infrastructure is sensible, merchants operating globally and across channels will typically need to work with more than one payment vendor. However, a new breed of payment vendor that can deliver on any payment need has arisen. Those vendors that understand the entire payment value chain and possess the technology to enable merchants at every step can provide a bespoke yet simplified solution. However, those merchants that cannot utilize a single provider should leverage a technical partner that makes multiple integrations simple.
Digital commerce is now driving growth and turnover in key sectors such as retail, travel, and media. eCommerce and mCommerce growth arises from a number of different sources including new distribution models, adding the mobile channel, or cross-border expansion.
CONCLUSION AND KEY TAKEAWAYS

Today’s world, shaped by demographic shifts, more powerful and widespread internet capabilities, and the ubiquity of advanced smartphones, has created the environment for digital commerce’s rise to prominence.

Payments are the heart of digital commerce. The payment experience is vital to customer satisfaction and purchase abandonment in the digital context is often caused by payment failure. Whereas in traditional commerce the payment strategy was practically an afterthought, today’s digital merchants need mutually reinforcing growth and payments strategies. As merchants transition along their growth path the following five rules of thumb are generally applicable.

• **Speed is the priority** – Merchants need to quickly engage with new digital channels, especially when starting out with a broad turnkey package that includes payments. Quick and agile technology enables merchants to sell online rapidly while adapting to a shifting market.

• **Best-in-class practices are worthwhile investments** – Domestic eCommerce merchants consolidating their business can drive conversion, mitigate fraud, and streamline complex operations through a solid foundation of proven solutions. The higher costs associated with such solutions are offset by the long-term gains.

• **Expanding cross-border is simpler with partners** – Payment methods are numerous, differ according to region or country, and new ones are frequently created. Cross-border online shops need to take different languages, a multitude of currencies, and cultural differences into account. Expanding cross-border is never easy, but it can be done quickly and effectively with the right partners.

• **Mobile must be frictionless** – mCommerce holds the greatest promise in commerce over the next five years. Yet today’s shoppers have higher expectations than in the early days of eCommerce. The mobile experience needs to be as seamless and convenient as shopping from a desktop computer. Those merchants who can enable such a mobile experience stand to reap significant benefits.

• **Continually assess and evolve** – The market moves too fast to automatically assume that what worked yesterday will work today or tomorrow. Merchants need to reassess payment vendors, solutions, and operations to ensure the technology is genuinely optimized, agile, open, and global. Solutions must meet every one of a merchant’s present needs and be adaptable so as to enable future strategies quickly.

Payments have too often hindered digital commerce success by complicating the customer experience, much to the frustration of digital merchants. Yet change is afoot as payments are more open and payment service providers more global and adaptable. This paper has illustrated five paths merchants can follow for digital growth, from brick-and-mortar merchants moving online to merchants creating an omni-channel environment whose total is greater than the sum of its parts. Digital commerce is one of the single most important trends in the global economy, and each step merchants take along their growth path enables them to achieve greater success.

As an underlying aspect of this trend, payments play an outsized role. Payments should be an integral part of any digital strategy, not only something to solve after a strategic plan is devised. By adopting the principles of openness, the willingness to work with the right partners, and advanced and adaptable technology, merchants can ensure payments enable their business strategies to achieve their full digital commerce potential.
ACRONYMS & GLOSSARY

3-D Secure – An additional layer of security for credit and debits cards created specifically for card not present transactions.

Alternative payment method – Any non-card online payment.

Benelux Union – Belgium, the Netherlands, and Luxembourg.

Brick-and-mortar merchant – A merchant that sells through physical shops as opposed to online.

Digital wallet – An electronic wallet within which shoppers can store payment information.

eCommerce – Electronic commerce, selling and buying goods and services online.

EMV – A chip-based technical standard for payment cards, payment terminals, and automated teller machines.

mCommerce – eCommerce conducted via a mobile device such as a smartphone or tablet.

Millennials – Individuals from the Millennial Generation (also known as Gen Y), born between the early 1980s and approximately 2000.

Multi-channel – Many channels, specifically, selling through more than one channel.

Omni-channel – All channels, specifically, selling through all possible channels.

Payment service provider – A company that specializes in enabling merchants to accept online payments.

Pure play merchant – A merchant that focuses on one particular good or service.

Tokenization – The practice of storing payment details as a secure “token” that even if lost or stolen does not give away payment data.
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ACI Worldwide, the Universal Payments (UP) company, powers electronic payments for more than 5,100 organizations around the world. More than 1,000 of the largest financial institutions and intermediaries as well as thousands of global merchants rely on ACI to execute $14 trillion each day in payments. In addition, myriad organizations utilize our electronic bill presentment and payment services. Through our comprehensive suite of software and SaaS-based solutions, we deliver real-time, any-to-any payments capabilities and enable the industry’s most complete omni-channel payments experience.

**CONTACT US**

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**About First Annapolis**

Founded in 1991, First Annapolis is a specialized advisory firm focused on the electronic payments industry. It offers a suite of consulting and M&A advisory services to stakeholders across the electronic payments value-chain. It draws on over 25 years of industry experience and has one of the largest and strongest advisory teams focused exclusively on electronic payments.