



Arvato Payments Review

Essential insights for e-commerce success in new markets

Cross-border e-commerce is opening up a world of opportunities for retailers. You can reach out to dozens of new markets, and find millions of new customers. E-commerce also puts a world of choice in the hands of consumers, who think nothing of going abroad to find what they want. They might be looking for a better price, a better selection or better service. Give them what they want, and the world is yours.

But you need to know what you are getting into. The consumers in your new markets can behave completely differently to the ones you know from home. You can't rely on experience from your home market when you are trying to win over and keep customers in another country. That's why we have produced the Arvato Payments Review, to provide you with the knowledge and insights you need when you are expanding into new markets.

How to succeed in cross-border e-commerce

The Arvato Payments Review brings together extensive quantitative research with insights from our experts to provide the big picture when it comes to Payment Methods, Risk and Fraud, and Consumer Behaviour in 14 of the most vibrant e-commerce markets in the world.

We examined more than 200 primary sources and compiled the most essential information into a convenient guide to each country. By combining the figures from a wide variety of research, we could provide a holistic view – rather than relying on a single source.

Each country guide looks at key demographics and financials, the top online retailers, legal requirements, and consumer behaviour and expectations when it comes to things like delivery and returns. We also look in detail at how consumers prefer to pay in each market, identifying local payment heroes and the optimal mix of payment methods.

As well as success factors, it is also important to understand the downsides. We take a close look at risks in each country in terms of the types of fraud that can emerge and what you can do to minimise your exposure.

In addition to the country guides, you can also compare markets in terms of key parameters to see how they stack up against each other.

Your customers are comparing you with your competitors

Comparison is at the heart of cross-border e-commerce. Smart consumers shop around, and with online shopping they know of a better deal with the click of a mouse or tap of their phones. The research in our Arvato Payments Review confirms our observation that some markets are more open to shopping across national borders, while others are more content with their local retailers. Why some and not others? For some markets, consumers are simply happy with what they can get locally: the selection, service and prices match their demands, so there is no need. But there are often other factors that play into this.

Trust is one of the big ones. Consumers who are reluctant to shop internationally are often concerned about how warranties and returns will work if they buy cross-border. There might even be an inherent bias towards local retailers, who consumers perceive to be more reliable, or faster, when it comes to delivery. Another important factor here is accessibility: markets such as France and Germany express a clear preference for sites in their own languages.

But even in more conservative markets, cross-border shopping is becoming more popular – when it is done well. It comes down to providing consumers with what they are looking for: better prices, more choice, a richer all-round experience. With the most successful cross-border retailers, consumers don't care if they are domestic or international: they get what they want, quickly, cheaply and efficiently.

The key is to remove as much friction as possible, knowing and anticipating consumer demands and wishes. That boils down to knowledge and insight into the market. What are the legal requirements? Do consumers want a site in their own language? Do they expect next-day delivery? How do they want to pay?

Finding the optimal payment mix

Payments are at the heart of this review. Our research confirms that local payment heroes are essential for successful business. If you don't use Carte Bancaire in France, or iDEAL in the Netherlands, or offer open invoice in Germany, you are not in the game. The insights we are offering go beyond which payment methods to provide: in some markets, you would be well advised to work with a local card acquirer so you don't miss out on conversions.

A local partner can help in other ways. This is especially important to retailers entering a new market and not only with payments but also logistics and deliveries, returns and customer service. Many retailers choose to work with a partner who can help in one or more of these areas, especially during launch, to assist with local insights and information, payments, logistics, and even service centres. It's a sure-fire way to hit the ground running and establish a good reputation among your new customers.

All this information is vital for you when entering new markets. And you will find it here. Once you know what to expect, your business will have a real competitive edge – regardless of where your customers are.

Contact

If you have questions or want to know more about what Arvato can do for you, you are welcome to contact Emma Solman, Marketing Manager:

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About the Arvato Payments Review

The Arvato Payments Review provides retailers with country-specific information on payments and fraud-related topics in 14 of the most vibrant e-commerce markets in the world – 13 in Europe plus the USA – so they can make the right decisions in their e-commerce payment strategy.

The e-commerce payments landscape is becoming more and more fragmented. Not only do payment methods vary from market to market but consumers are becoming more sophisticated.

Alongside advances in technology, changes in banking regulation are clearing the way for new players to enter with solutions that are designed around convenience, safety and simplicity – all heavily supported by strong mobile adoption and advances in authentication technology such as biometric identification.

In this rapidly evolving world, retailers looking to expand their business internationally often lack objective insight into local market conditions as well as relevant advice on payments and risk management. The Arvato Payments Review provides that insight and advice.

Methodology

The Arvato Payments Review has been compiled by Arvato Financial Solutions, a division of Arvato Bertelsmann, and business consultancy mm1. The findings are based on secondary research and analysis by consulting firms such as McKinsey, BCG, and AT Kearney, as well as

reports from payments and e-commerce associations such as the Merchant Risk Council, facts and figures on e-wallets and other payment schemes and providers, and news articles. The Arvato Payments Review also features recommendations and advice from Arvato experts in the areas of payment methods, fraud and risk, and consumer behaviour.

Arvato Financial Solutions

Arvato Financial Solutions delivers a complete suite of financial services that improve business processes while delivering a better overall customer experience. Cutting-edge solutions covering everything from risk assessment, payments and invoicing to debt collection and management ensure convenience in every transaction. Part of Arvato Bertelsmann, Arvato Financial Solutions is Europe's third-largest integrated financial service provider specialising in the retail/e-commerce, telecommunications, insurance, banking and healthcare industries.

finance.arvato.com

MM1

mm1 supports large companies in digital transformation and designing products and processes for an increasingly digital world. Some 50 consultants provide services ranging from developing connected business strategies and business models to ensuring efficient operational implementation. mm1's customers include companies in the telecommunications, media, consumer electronics, financial services and automotive industries.

mm1.com

How to read this report

Important definitions

Cross border sales: the percentage of domestic and cross-border e-commerce in a country.

Ease of Doing Business Index: The higher a country's ranking in the World Bank Group's Ease of Doing Business Index, the more business-friendly local regulations are when establishing a presence there.

E-commerce turnover is defined by the Global Online Measurement Standard for B2C E-Commerce. Accordingly, business-to-consumer e-commerce turnover includes all online transactions between businesses and consumers on desktop computers, laptops, tablets, smartphones, and other devices both offline and online. B2C e-commerce turnover includes value-added tax or other sales taxes, delivery costs and apps, but excludes returns.

eGDP: the proportion of goods and services bought online in comparison to GDP. The rankings stated come from e-commerce association Ecommerce Europe.

Fraud rate: the percentage of total sales lost because of fraud each year.

Logistics Performance Index: The World Bank's benchmarking tool *Logistics Performance Index* is a measure of a country's logistical friendliness with around 160 countries ranked on their trade logistics performance.

Mobile adoption: smartphone use as a percentage of the total population.

Mobile commerce: the ability to conduct commerce using a mobile device, for example mobile phone, smartphone, tablet or other mobile equipment.

Manual order review rate: the percentage of e-commerce transactions manually reviewed by retailers.

Explanatory notes




Issuer landscape: the percentage of traditional 3D Secure and risk-based authentication programs by market.

Market demographics: the local population over 15 years of age and the corresponding percentage of internet users and online shoppers.

Relevant payment methods

The term 'cards' includes both credit and debit cards. The number of consumers using a payment method is indicated by blue dots (one blue dot is equal to 10%).

'Trend' points to the future popularity of a payment method, whereas 'risk' indicates the level of threat associated with a payment method. Arvato uses the following symbols to give its assessment:

-  strong increase expected
-  no change expected
-  strong decrease expected

-  high risk
-  moderate risk
-  no risk

United States

Executive Summary

The largest market in the Western world in terms of population, the US is still dominated by card payments and is yet to fully exploit the benefits of APMs





The American e-commerce market is robust and relatively safe. A strong logistics partner is recommended to help expedite deliveries across the large nation.

Market development

1

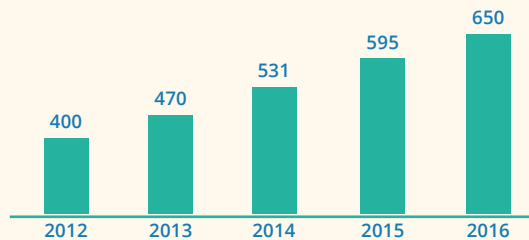
Yearly B2C-turnover in € bn

Distribution (2015)

CAGR: 12.8%

Physical: 55%

Digital: 45%



Market demographics

2

Population > 15 years	260.3m
Internet users	88%
Online shoppers	67%
GDP per capita	50,800 €
Spending per shopper & anno:	3,428 €

Top 10 retailers

3

1. Amazon	6. Home Depot
2. Walmart	7. Best buy
3. Apple Store	8. OVC
4. Staples	9. CostCo
5. Macy's	10. Nordstrom

Assessment/Recommendations

Opportunity

Population: The US offers the West's largest e-commerce market by both sales volume and number of consumers.

Threats

Political Stability: Risk of foreign trade restrictions and increased tariffs.

Recommendations

- Provide delivery through UPS or FedEx, reliable services which already have advanced tracking options.
- Fixed logistic contracts are recommended due to the large area that domestic deliveries have to cover.

Market characteristics

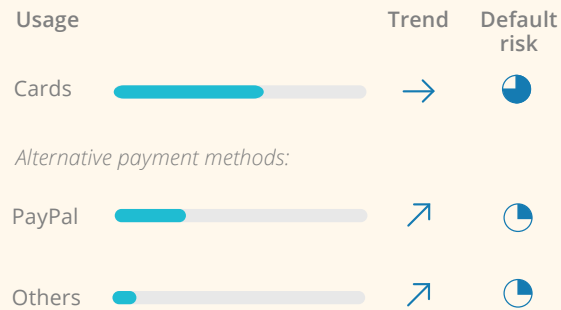
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Logistics performance index	9th
Ease of doing business index	7th
eGDP ranking	6th
Unemployment rate	5.3%
Inflation rate	0.1%



Credit and debit cards are the most common payment methods for online purchases but the digital wallet landscape is rapidly evolving.

Payment methods



Arvato's take on this market

- Credit and debit cards are still the most common payment methods used for online purchases.
- PayPal is still the most popular e-wallet, but is threatened by new digital wallets, such as Apple Pay, Google Wallet and Android Pay, and the proliferation of e-wallets with bank frontrunners, such as Visa Checkout, MasterPass and ChasePay.
- Discover Card has become popular for both consumers and for retailers, so acceptance is important along with Visa and MasterCard.
- TCH, a real-time payments service, is set to come into use during 2017, which might evolve the online payment market.

Specific card information

Card schemes:



Local acquiring recommended?

No.

Further information

2.9 credit cards per capita is the average.
Average 83% authorisation rates in US e-commerce.

Specific information on APMs

N/A

Required payment methods



Credit Cards



PayPal

Watchlist

AndroidPay

ApplePay

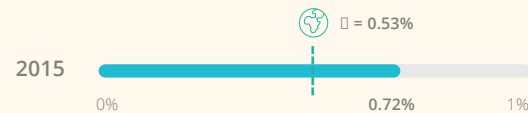
Google Wallet



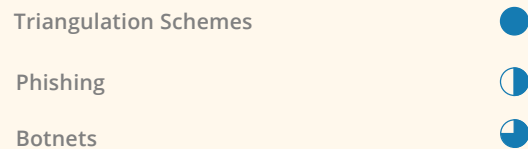
American retailers are less likely to have consumer authentication than their European counterparts.
The majority of fraud on US purchases are committed from abroad.

Expert tip
Apple Pay & Google Wallet are taking market share from PayPal.

Card related fraud



Relevance of typical fraud scams



Risk management tools

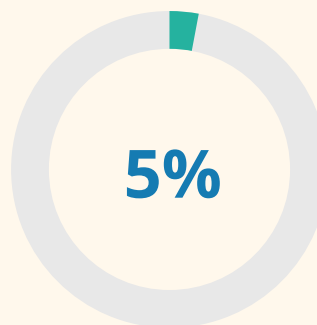


Arvato's take on this market

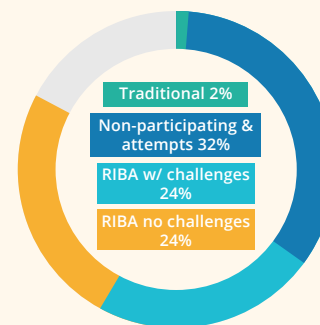
- Most fraud on US purchases is committed from abroad.
- North America is the region where merchants are least likely to use consumer authentication.
- 81% of merchants perform a manual order review, and while on average 2.3% of all orders are rejected, around 10% are false positives.

Card authentication

3D secure adoption rate

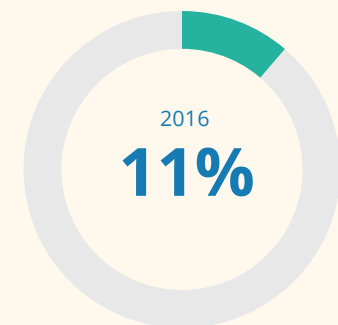


Issuer landscape 2016



Manual order review rates

In percent of total transactions





American e-commerce shoppers value security, reliability and a good price. The large, wealthy population makes it easier for niche players to find an audience.

Consumer behaviour

1



The US is a very mature e-commerce market.



High value is placed on security of payment; consumers are highly open to buying foreign products.



12.9% of the population speak Spanish and wish to have options in this language.

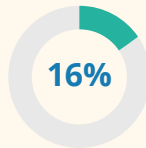
Market peculiarities

2

Mobile adoption



% of m-commerce



Gender distribution

Even split between females and males



Share of online retail of goods

11%



Fastest growing segments

Apparel & Footwear



Currency

US Dollar



Preferred segments

Media & Entertainment, Clothes, Household Electronics and IT



Reasons for buying in own country

US sites meet needs; assumption that returns abroad are difficult



Reasons for buying abroad

Better offers in regard to price

Cross border

3



Cross-border only 2%

Both 20%

Domestic only 78%

Logistics

5



On-demand delivery is becoming popular, especially for small to medium businesses.

UPS and FedEx are the most commonly used courier services.

US consumers expect low delivery costs, if not free delivery. Tracking is also important to consumers.

Law and regulations

4

Despite low tariffs (3%), non-tariff barriers exist, such as complex custom procedures and border regulatory restrictions. Every state in the US has its own additional privacy rules.

The data contained in this report comes from a wide variety of sources, including financial reports, industry publications, blogs and news stories. During the course of our research we have consulted more than 200 national and international studies. You will find them here under the headings E-Commerce and Payment & Fraud. While every effort has been made to make sure the information presented in the report is reliable, we cannot be held responsible for its veracity. We do, however, stand by the opinions expressed in the report unreservedly.

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