



Arvato Payments Review

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

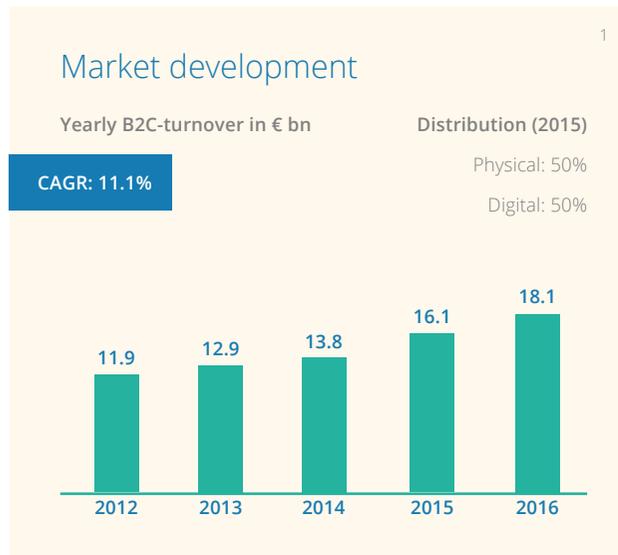
The Netherlands

Executive Summary

The highly developed Dutch e-commerce market has the advantage of widespread, affordable and easy-to-handle payment methods for retailers



A high percentage of transactions are carried out on mobile devices. Peer-to-peer payments are growing – interesting new players in this field are Bunq & Tikki



Market demographics

Population > 15 years	13.9m
Internet users	98%
Online shoppers	93%
GDP per capita	40,000 €
Spending per shopper & anno:	1,242 €

Top 10 retailers

1. Bol	6. H&M
2. RFS Holland Holding	7. KPN
3. Zalando	8. Ticketmaster
4. Coolblue	9. Hema
5. Thuisbezorgd	10. Otto

Assessment/Recommendations

Opportunities

Logistics: The Dutch logistic network is excellent and offers promising cross-border opportunities.

Introduction of new brands: Consumer appetite for foreign brands and retailers is driving demand.

Threats

Internet users: 98% of the relevant population already uses the internet, so expect modest future growth in the online shopper base.

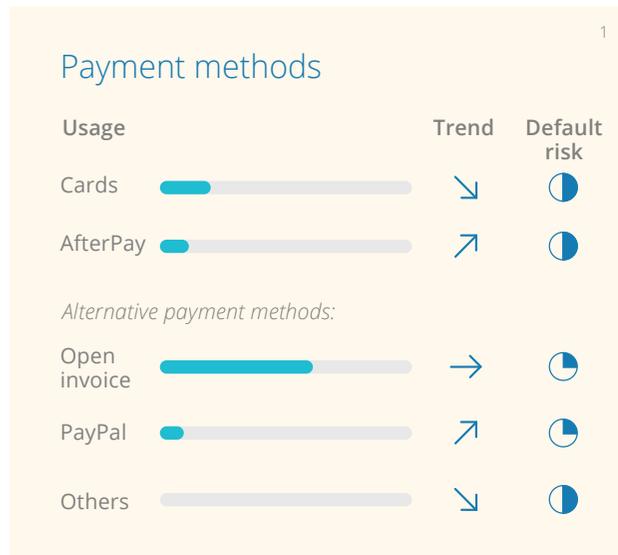
Recommendations

- Apply for the "Thuiswinkel Waarborg" trustmark. This is recognised by 90% of Dutch consumers as a sign of trustworthiness.
- Offer home delivery, parcel lockers, pick-up-locations.

Market characteristics

Logistics performance index	2nd
Ease of doing business index	28th
eGDP ranking	7th
Unemployment rate	6.9%
Inflation rate	0.6%

iDEAL is the local payment hero. This secure platform boasts no chargeback risk, and refunds can be easily initiated by the retailer.



Arvato's take on this market

- For local and international merchants aiming at Dutch consumers, iDEAL is crucial for success and a must-have to ensure maximum conversion.
- 23% of all iDEAL payments are carried out on mobile devices.
- Under the Single European Payments Area (SEPA) direct debit payments are increasingly used for recurring and cross-border payments.
- Peer-to-peer payments are growing – interesting new players in this field are Bunq & Tikki (social P2P payments)
- National banks are slowly preparing for the adoption of PSD2 regulations, opening up their infrastructure with open-APIs for third party providers.
- **Keep in mind:** New bank challengers, like Bunq, are entering the market slowly and gaining a foothold. Challengers are adopting the newest standards of (mobile) payments and customer authentication.



Specific information on APMs

- After selecting iDEAL and the respective bank, consumers authorise the payment in their online banking portal or their mobile banking app with a 5-digit pin. The funds are irrevocably routed via a SEPA credit transfer.
- No chargeback risk. Refunds can be easily initiated by the merchant.

Local payment hero:



Required payment methods



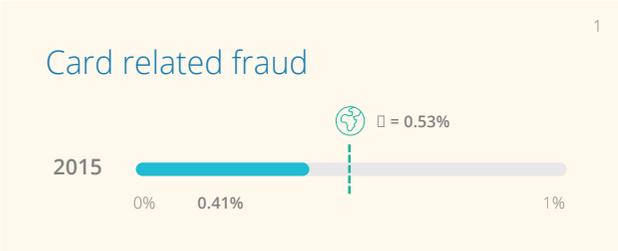
Watchlist





Consumers view iDEAL as more secure than card payments, but Dutch banks are reducing card risk and fraud with new identity tools like iDIN and DigiD.

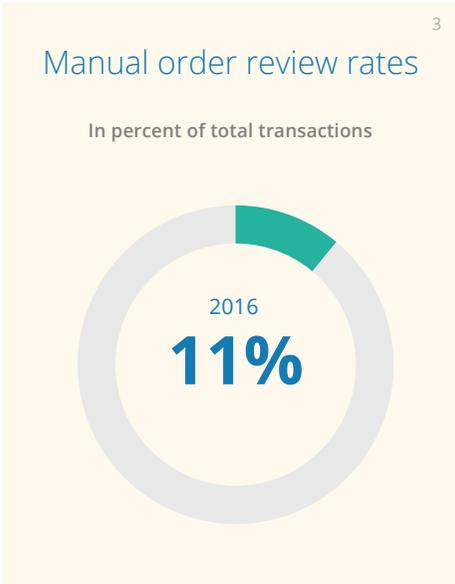
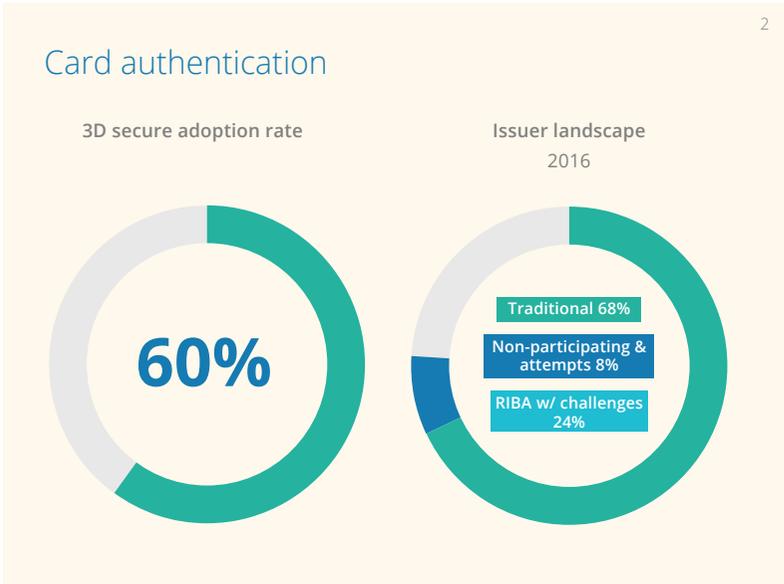
Expert tip
90% of the Dutch population can use iDEAL in a mobile environment.



- ### Typical fraud scams
- Phishing ●
 - Identity theft ●

- ### Risk management tools
- Country-specific tools**
iDIN & DigiD
 - Advanced tools**
Device fingerprinting
3D secure
 - Classical tools**
CVN
Negative lists

- ### Arvato's take on this market
- 15% of Dutch consumers are very concerned about online banking fraud according to data compiled by Statista.com in 2014. A further 39% are "fairly concerned", partially explaining the success of iDEAL, which is perceived to be more secure than cards online.
 - The figure also might explain the relatively high 3D Secure adoption rate of approximately 60%.
 - With new identity tools, like iDIN and DigiD, Dutch banks are trying to remove some of the risk and fraud friction consumers and retailers experience in the e-commerce market.
 - We observe that fraud strongholds are situated in large cities such as Amsterdam and Rotterdam.





Consumers in this mature e-commerce market are very price-sensitive: small price differences may lead them to buy elsewhere.

Consumer behaviour

1



The Netherlands is a mature e-commerce market.



Dutch consumers prefer websites in Dutch.



Consumers are very price-sensitive. Keep in mind that small price differences may lead them to buy elsewhere.

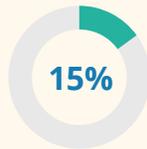
Market peculiarities

2

Mobile adoption



% of m-commerce



Gender distribution

Slightly more female shoppers



Share of online retail of goods

7.6%



Fastest growing segments

Food & Toys



Currency

Euro



Preferred segments

Clothing, Telecom & Information Technology



Reasons for buying in own country

Dutch sites meet needs. Returns abroad assumed to be difficult/costly. Lack of trust in foreign sites.



Reasons for buying abroad

Better conditions and appealing offer.

Cross border

3



Cross-border only 5%

Both 32%

Domestic only 63%

- Most popular foreign destinations to buy from: China, Germany, UK, USA

Logistics

5



The Dutch market is very **attractive** for international companies looking to set up a **European e-commerce hub**. It is wellconnected thanks to its logistic infrastructure. This is helpful because consumers expect and demand greater choice when it comes to shipping and delivery options.

Make sure you are well organised and **honest about delivery options and times**. Dutch online shops are among the leaders internationally when it comes to cut-off times.

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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