WHITE PAPER

MANY WAYS TO PAY: WHY EXPANDING INTERNATIONALLY IS TOUGHER THAN IT LOOKS

EXECUTIVE SUMMARY

Readers of this paper will gain a clearer understanding of the challenges of international online payments. This document outlines the three stages that most companies will move through as they progress from simply accepting credit card payments in USD from international customers to fully implementing localized and preferred payment offerings on a market-by-market basis.

CONTENTS

SECTION 1

DUPLICATING DOMESTIC SUCCESS

Congratulations—your company is growing, and you're in charge of expanding into international markets. You launched your U.S. e-commerce site without a hitch, and sales have been excellent. Payments work smoothly. Your site accepts all major credit cards, and the decline rate of about 10 percent beats the average.

SECTION 2

RECOGNIZING THE COMPLEXITY OF GLOBAL PAYMENTS

Successful e-commerce depends on many factors, but at the end of the transaction, your customer must be able to pay. Desirable products, attractive site design and flawless functionality are wasted when shoppers abandon their carts because:

- they can't pay in ways they prefer,
- they are concerned about large currency conversion fees, or
- they simply don't have access to the payment methods your site accepts.

As it turns out, the rest of the world does not pay and get paid the way you do. Differences in payment methods are deeply rooted in culture, economics and politics. Failure to accommodate variations in payment methods can derail efforts to acquire customers in new markets.

Companies that recognize this and tailor payment methods to markets are likely to have happier customers, higher conversion rates and greater revenue.

In Japan, 7-Eleven is not a place to buy Slurpees. Instead, convenience stores *(konbini)* are one-stop shops for withdrawing cash, copying, faxing, reserving event and travel tickets, printing digital photos, paying monthly bills, and picking up and delivering packages.

In Brazil, installment credits are available on almost every purchase. More than 50 percent of all online card transactions in Brazil utilize them.[1] This is true across industries, regardless of price or type of goods.

In Russia, it's all about e-money. Yandex.Money, the most well known provider, found that 27 percent of 18-to-45-year-olds in Russian metropolitan areas use e-money for at least one payment per year.[2] Roughly one-third of these users are in the highly valuable "professional" consumer group.

SECTION 3

BUILDING A PAYMENTS STRATEGY

Presumably, your company has already developed a comprehensive strategy around expansion into international markets. But have the specific issues around cross-border and localized payments been fully considered?

Even executives at companies already operating outside their home countries are often confused about critical details. For example, in a recent survey by Dutch PSP Payvision and CardNotPresent.com, 44.2 percent of merchants indicated that they did not know whether the ISO handling their card payments was connected to acquiring banks in the foreign regions where the merchants were operating.[3] A large majority of these respondents were located in the U.S. or Canada.

AS COMPANIES EMBARK ON INTERNATIONAL EXPANSION, THEY TYPICALLY MOVE THROUGH THREE KEY STAGES IN THEIR APPROACH TO ONLINE PAYMENTS

STAGE 1	STAGE 2	STAGE 3
CROSS-BORDER USD CREDIT CARD PAYMENTS	CROSS-BORDER LOCAL CURRENCY CREDIT CARD PAYMENTS	FULLY LOCALIZED PAYMENT OFFERINGS

While most companies will progress through all three stages, a few companies will make the strategic decision to jump straight to Stage 3. If the potential gain in revenue is substantial, and if branding concerns dictate a strongly local approach, this strategic decision can secure a strong position in the given market for the long term.

SECTION 4

THE THREE STAGES OF INTERNATIONAL ONLINE PAYMENTS

Stage 1: Accepting Credit Card Payments in USD

Your company is ready to explore international markets. It's an exciting opportunity. Research indicates high demand for your product in Brazil, Russia and Germany, so you set up an online store in each country.

Because your company has limited resources to launch in these markets, you have no local legal entities. At launch, you accept only USD credit card payments. While consumers in many countries, including Russia, are comfortable with seeing prices in USD, the limitations of USD credit card payments mean that international customers are likely to experience high decline rates and high currency conversion fees. Only 35 percent of metropolitan Russians ages 18–35 use bank cards,[4] limiting your potential in the market.

In Brazil and Germany, customs and culture are also barriers. Your Brazilian customers cannot enjoy the installment payments they are accustomed to using, limiting your potential in that market. According to data published by the European Central Bank, only 17 percent of transactions in Germany were settled by credit card in 2011. This compares with 56 percent in the U.K. and 45 percent in France.[5]

Understandably, your company wants demonstrated revenue potential before funding localization. However, the Brazilian, Russian and German stores require investment in localization to achieve their potential.

Some companies falter at this tricky point in their international experiment and withdraw. Others grow slowly and trust that the potential is there.

As a general rule, it's time to make additional investments in localization when authorization rates drop to the 70 percent range, or 5–10 percent below your expectations. This rule varies depending on sales volume, and, of course, revenue must support the investment required to move to the second stage.

Stage 2: Accepting Credit Card Payments in Local Currency

In the second stage, your company decides to accept payments in Brazilian reals (BRL), Russian rubles (RUB) and Euros (EUR). While the currency is local, you are still processing the payments cross-border, taking a hit on your margin by converting payments into USD through your domestic bank and subjecting your customers to cross-border charges from their bank.

In Brazil, credit card decline rates remain stubbornly high, and installment payments are still not available. In Russia, you have begun accepting e-wallet payments, including Yandex.Money, WebMoney and WMZ. In Germany, you have begun accepting Girocard electronic cash payments.

A year into the foreign adventure, it's a struggle to generate repeat customer purchases. Brazilians still prefer installment credits, and Russians still like to pay cash, but you have not made these options available. The Girocard option is boosting sales in Germany, but PayPal would help even more.

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Again, you know that great potential exists, but the company might not be ready to support the investment necessary to move to the third stage. Some companies might withdraw, while others maintain the status quo. When 5–10 percent of global sales come from a specific country, it is time to look seriously at creating a local entity.

Stage 3: Assimilating and Offering Localized Payment Options

To be competitive with local businesses, a transnational company must localize its legal, political, cultural, financial and human processes. The potential rewards of being "local everywhere" are great. However, at this stage of expansion, complexity skyrockets.

In Stage 3, you are fully committing to an unfamiliar business climate. For one thing, starting a business in the United States is far easier than in most countries. Each year, the IFC and World Bank release an *Ease of Doing Business Index*. The United States is ranked fourth, Germany is 21st, Russia is 112th, and Brazil is 130th out of 185 countries. Not only does the business climate vary, but general customs and culture impact business. In Germany, for example, a cultural aversion to debt effectively limits credit card use; in fact, the word for "debt"—*Schuld*—is the same as the word for "guilt."

Furthermore, corruption is pervasive in many countries. Transparency International's annual *Corruption Perceptions Index 2012* ranked the United States 20th, Brazil 69th and Russia 133rd out of 174 countries. Foreign companies should not assume that they are immune from public sector abuses. Indeed, they may be even more vulnerable to it if they lack an in-country network and experience dealing with such behavior. In Russia, for example, you can accept cash payments via ATM cards and accept local currency wallets, but 3-to-5 percent of revenue might disappear because of fraud in the banking industry or other forms of corruption.

Getting to this stage requires an investment of about two years and $2 million. The solution that minimizes risk is an onshore partner that provides payment methods both your company and consumers can trust. In Brazil, for example, Digital River, a leading provider of global e-commerce solutions, has seen conversions increase by 30 percent by processing locally onshore. If you had a local entity in Brazil, you could offer installment payments, card declines would plunge, invoicing would be local, and currency conversion would no longer be an issue. Your legal and financial representation would be local, and you could choose to get funding in BRL.

If your company can navigate these challenges successfully, the potential upside is substantial.

To be competitive with local businesses, a transnational company must localize its legal, political, cultural, financial and human processes.

SECTION 5

CONCLUSION

Payment methods are deeply ingrained in culture. For the foreseeable future, the Japanese will continue to redeem vouchers at 7-Eleven, Brazilians will use installment plans to pay for low-ticket items, and Germans will rarely use credit cards.

International customers will not adapt to your country's preferred payment method without going through a lot of aggravation. Most will not adapt at all. As a merchant, it's your job to adapt to localized means of exchange. The speed and success of this adaptation will depend on the risk your company is willing to assume and the partners with whom it aligns.

One way a partner can help is by taking on the role of merchant of record (MOR), so that your company does not need to create its own local entity. This allows you to completely offload complexity and risk, and take advantage of experts who know the culture, laws and regulations. The partner serving as MOR ensures that country-specific tax compliance rules are followed. Each market has a unique set of requirements around how shoppers are presented with buying options, consumer protection disclosures and available payment options. Purchases must be validated against known exportation restrictions, and customers must be charged the correct taxes and applicable regulatory fees, as well as delivered confirmation of their purchases.

If your company prefers to maintain a direct relationship with the customer and remain merchant of record, a partner can help by providing a single connection to all the necessary local payments providers. A full-service acquiring partner simplifies payments management by maintaining relationships with local institutions and managing multiple local contracts. This type of partner underwrites the merchant relationship and steps into the funding process to simplify payments back to merchants.

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ABOUT DIGITAL RIVER

Digital River World Payments (DRWP) offers you the flexibility to choose the partnership model that works best for your business. As a merchant serving merchants, DRWP understands the challenges and risks associated with entering new markets.

In addition to enabling transaction processing and merchant solutions, DRWP rounds out the offering with an entirely complimentary suite of services to support the transaction and help eliminate complexity and risk.

Fraud

We continuously evaluate transactions and revise rule sets to stay in front of fraud trends, employing technology that we apply to more than 100,000 web stores in more than 190 countries. Our ability to monitor transactions across the globe and across all types of merchants provides a unique view into trends and activities, allowing us to apply new rules to merchant solutions before fraud attempts hit their sites.

Compliance

We ensure country-by-country tax and compliance rules are followed.

Local Entities

In-country personnel facilitate banking and merchant relationships. We have on-the-ground knowledge of payment methods and transaction trends.

Tax Service

DRWP can be responsible for tax calculations, withholdings and filings, taking the burden off the merchant.

RMS (Reconciliation Management)

We operate as the merchant's "back office," facilitating settlement, charge backs, transfers and reporting. Local institutions and partners all report differently, making settlement and reconciliation a nightmare for merchants. We standardize and simplify reports for you.

Payout Services

As a back office function for merchants, we handle payouts to their partners.

Foreign Exchange

We enable settlement in local currencies, as well as in-line foreign exchange calculations to ensure consumers can transact in desired currencies at appropriate exchange rates.

Digital River, a leading provider of global e-commerce solutions, helps companies of all sizes build and manage their online businesses, maximize online revenue, reduce costs and minimize risk. Founded in 1994, the company is headquartered in Minneapolis with offices across the United States, Asia, Europe and South America.

Find out today how Digital River can help your e-commerce business go local everywhere.

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Sources

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