



lessons from the leaders

international growth

IN 2010, the news was full of stories about fashion empires expanding their online shops into new overseas territories. In 2007, the news was about the retailers compensating for negative growth in the high street with online expansion. History seemed to be repeating itself in 2010 but there with two essential differences. It's no longer just market leaders such as Next going online: the idea has reached the mainstream, most major brands are now trading online. And online sales are now international - rather than making up for weak high street returns, major brands are seeking to continue growth despite weak domestic returns by taking the brands cross-border to Europe, America and other parts of the world. Zara's announcement in Q3 2010 was hot on the heels of a similar move from Gap earlier in the summer and a number of prominent retailers like Next and ASOS also growing and expanding overseas.

LESSONS FROM THE LEADERS?

Later entries to international online expansion race can learn many useful lessons from the leaders. Just considering the way in which they accept payments the following points stand out.

MORE SALES, MORE SALES, MORE SALES

The uplift in sales available by trading overseas is huge - especially when you consider that only 24 per cent of the world has internet access today but there has been 360 per cent consistent growth annually since 2002. We estimate that £100 billion will be spent across borders by 2011.

The growth rates for online sales in many first and second world countries are still higher than 60 per cent - in Eastern Europe, for example. The leaders were the first to take advantage of this situation and are reaping the rewards.

"The new year has started very positively, retail sales are up 56 per cent in April (UK +25 per cent and International +148 per cent) the top six international markets being US, Denmark, France, Australia, Ireland and Germany respectively." The Times

But with 76 per cent of the world population yet to go online, it's by no means too late to enter the market.

NEW MARKETS CAN MEAN NEW SYSTEMS

The leaders had to develop new systems to support the new channels. As we all know the cost of IT services and the cost of changing core systems can be enormous, and the required investment can get in the way of business expansion and growth. There are plenty of other logistical challenges involved in trading in another country so a payment processing service that is extensible to offer both



Case History: Rags To Riches

The journey from domestic high street to international online sales is still being completed by many very big brands. RBS WorldPay provide payment management services for a number of the leaders and provide this summary of the progress of Rags to Riches, a fictional leader in the online fashion pack based on real experience with the real thing.

WorldPay

the payment methods shoppers in those countries prefer and to aid with the complex task of reconciling a volume of payments received for thousands of orders in multiple currencies with multiple settlement routes, can remove one significant barrier to your plans.

Preferred payment methods? In Holland more than 60 per cent of online payments are made using a payment method called iDeal – it's a one-off direct debit made from the shopper's bank account online (no card). In Czechoslovakia, more than 50 per cent of payments are made using Cash on Delivery – payment is taken 'on the doorstep' by the delivery service provider – TNT, for example – either in cash or by card. While credit and debit cards are still the dominant payment method online across the world, usage has decreased to as low as 15 per cent in some countries. This trend is set to continue as the newer payment methods offer ease-of-use and security for the shopper – PayPal and iDeal, for example – and in many cases they reduce processing and banking costs for the merchant.

The good news about alternative payment methods has another side too. A UK company looking to trade in Germany would lose too many sales if it failed to offer ELV as one of the most popular payment method for Germans. Accepting ELV requires a payment page in German that the shopper can use to select ELV, technical connections to the German banks and probably a bank account in Germany which may only be possible with a registered address in Germany. That's a lot of work. More so if you multiply that by all the preferred payment methods in all the countries into which you might want to expand. A payments specialist such as RBS WorldPay can simplify this significantly by providing both the technical connections and the acquiring relationships required to accept a wide range of local

payments methods through one secure platform.

Many of the leaders in the international fashion pack built their first website themselves, the website and the payment systems that captured shoppers payment details, payments methods through one secure platform. Many of the leaders in the international fashion pack built their first website themselves, the website and the payment systems that captured shoppers payment details, communicated with the banks and card schemes to get authorisation. Some of them brought in a payments specialist after they introduced mail and telephone order catalogs in the 1970s – or in the 1980s when the web became more significant – only to find that they had chosen a domestic specialist with little capability overseas or only technical processing capability leaving the merchant to establish the banking relationships (merchant acquiring services) required to accept each payment type.

Changing payment systems several times is costly and has an impact on many aspects of an operation: sales, fulfillment and accounting being the obvious ones. But security and fraud management are others. Integration with the Customer Relationship Management for that important MI about your customer's behavior is another. Assimilating and calibrating new systems to optimise business performance in all of these areas takes significant time and money.

The leaders in this space did not have the benefit of hindsight and have had to change their payments services a numbers of time to deal with the different stages in their journey: first to take cards not just cash; then to take payments over the phone or by mail order; then to take payments online; then to accept all of the exotic payments types and currencies in Europe and around the world, including new types of payments such as PayPal, GiroPay, ELV, iDeal and many more today, as well as those on the horizon such as G-Pay, AliPay and more.

If the leaders had the benefit of hindsight they might have been more careful in their selection of a payments strategy and associated services in the first place: choosing a service that would grow with their needs and reduce the number of times they had to change horses in mid-stream.

REGULATION IS REQUIRED

The leaders have also learned that complying with increasing regulation is too much for in-house development resources and requires the economies of scale that an outsourced solution can provide.

The payments industry is now subject to much greater regulation in response to a number of factors including shoppers' concerns over security that European studies have reported as a significant barrier to online purchase.

To help ensure consumers' funds are secure, mandatory card scheme programmes such as PCI DSS have demanded major changes for most merchants – but they also require ongoing maintenance and inspection. The costs have been enormous. Some of the leaders who were running their own payment acceptance systems in-house took on the task of changing their systems to meet the new standards. But with the dawning realisation of the final costs (IT projects tend to grow as the projects develop) and the ongoing requirements, including annual inspections, most are now calling in outsourced specialists.

The capture and storage of consumers' payment details is the biggest issue for PCI DSS. Retailers prefer to remain in control of this for a number of reasons including continuity of the brand experience at point of sale and data capture to feed order management, accounting, CRM and marketing

“Europe’s largest clothing retailer, Spain’s Inditex, is taking its flagship Zara brand online, but it can expect stiff competition from other giants of high-street fashion already well-established in cyberspace.” Madrid (AFP), 2 September 2010

systems ('know your customer').

RBS WorldPay and the better payment service providers have responded to these needs with services that enable merchants to present web pages that look the same as their website so that the shopper is not aware that they have, technically, been redirected to another site where the details are captured on secure PCI-compliant systems and the necessary data is passed between the provider and the merchants in encrypted and secure form. Often referred to as 'tokenisation' or 'payment data management', the removal of this process from the merchant systems removes a major part of their liability to PCI DSS making compliance faster and, according to some industry sources, up to two thirds less costly.

Luckily for those retailers who adopted an outsourced payment service provider, for some of the reasons discussed above, PCI compliance came as a silver lining, quickly and relatively easily. For the others who continued with in-house development, the costs and effort have been great. The lesson other retailers can learn from this is think very carefully today about emerging regulatory requirements and how to respond to them.

FRAUD IS A COMPLEX ISSUE

EU reports signal the lack of reliable cross-border payment instruments and consumer worries over safety and security of payments as issues.

But many companies initially resist the suggestion that they need to pay third parties to screen transactions or invest in tools that enable them to automate the task but keep it inhouse. In the majority of cases they do come to the realisation that it is necessary – often after suffering considerable rates of fraud and associated losses. There are a range of high-quality solutions to fight online fraud and to ensure bad sales are minimised without the need to spend a fortune on the manual inspection of all transactions.

Ensuring acceptable rates of fraud and shopper charge-backs on all of the payment methods you decide to offer is a complex business. Especially when you want to maximise acceptance of payments and you want to keep the costs of review processes to a limit that does not adversely affect your bottom line. Of course this adds to the complexity and cost of localising.

MULTIPLE NON-CORE PROCESSES

The new channels, new systems and new regulatory requirements have meant that the leader's payment processing requirements and systems have been almost as busy as their changing rooms!

Typically, new systems have been implemented as addons rather than being fully integrated into merchants' core systems, with the ecommerce section set up and operating mainly independently from the main business. Also typical card acceptance would be through a bank and/or network service provider while the ecommerce payments would be done by in-house IT. In some cases this would mean three or four payment processing services – in store, online, mail order and suppliers – all using different routes: costly for the

business and demanding on the treasury. Typically one for the system would be linked to the Customer Relationship Management system but the newer ones would not be – inhibiting the development of a single view of the customers shopping habits and more sophisticated targeted marketing techniques. For these reasons the leaders have already started the journey toward creation of core shared systems, but it's going to cost and it's going to take time.

CONCLUSIONS?

All of the demands described above mean that it's not worth building and maintaining payment processing systems and the secure storage for customers' payment details facilities in-house – even the biggest enterprises have moved towards outsourcing these issues to specialists.

As the online viewing experience becomes better and better and as the huge percentage of the world not currently online gets access online, online sales will continue to boom over the coming decades. Accepting payments internationally is only one of the elements retailers must get right but it's pretty clear that international cross-border and multichannel payment capture is a complex and increasingly regulated business. It's just not economical for companies to manage their own payment processing in-house.

A sophisticated set of services are required to ensure you can accept the way your customers want to pay all over the world, keep up-to-date with the revolution in payments and keep your customers payment details safe and secure.

It's also worth considering that changing systems on a global scale is very expensive and could affect competitive edge, so acquiring a payment service that can grow with your business, and that has all of the capabilities you need now but is also committed and capable of sustaining development with the industry over the coming decades, could save you much time and effort later on.

Having said that, it's still a component market – no single service provides payment acceptance of every single payment method, reconciliation, fulfilment and delivery in every country on the planet – so selecting a partner with the right attitude to development as well as the widest coverage now would be wise. And perhaps what's most important is to ensure you consult with experts who've been managing payment capture in the UK and across the world for many years, so you can learn from the leaders and avoid some of the mistakes they made. The benefits of hindsight!

RBS WorldPay is working with a number of international retailers supporting their expansion into overseas markets with integrated payment processing, acquiring and fraud management services. ■

WorldPay