ZOOZ
The Smart Payment Engine

SMOOTHING THE PATH TO CROSS-BORDER RETAIL

Overcoming the cross-border retail challenges that are impacting your customers and your bottom line

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TABLE OF CONTENTS

A ROUGH CROSS-BORDER RIDE

Movement across borders is as simple as getting in a car or on a plane. It's a seamless, simple experience about which most people devote little thought.

For both merchants and consumers, however, the path to online and offline purchasing across borders is still a bumpy one.

For online and offline consumers, cross-border retail holds the promise of easy access to a wide selection of attractively-priced merchandise not available in their locality. For example, the largest IPO in US history, by Chinese retail portal Alibaba, was part of the company's cross-border strategy to reach the estimated 50 million people of Chinese descent living outside the country[1]. And cross-border retail is taking place, with 23% of German e-shoppers having bought from other EU countries, 25% from North America, and 15% of French Internet users having made a cross-border purchase[2].

However, cross-border purchases can take buyers out of their comfort zone – forcing them to pay in a foreign currency at unclear exchange rates, unable to use their preferred payment methods and unclear on questions of duties, taxes, customs, shipping, and other hidden costs. Many simply abandon the process, and look for locally-sold options.

The impact of these cross-border challenges on consumers are significant. A recent EU study found that 59% of consumers feel confident about online purchasing in their own country, but only 36% feel confident about purchasing from a vendor located in another EU country. At the same time, the survey found that 26% were interested in making a cross-border purchase within the EU during the next 12 months[3].

But overall, for retailers, cross-border transactions can mean back-office administrative headaches, regulatory and compliance woes, steep processing fees, currency conversion overhead, and markedly increased risk of consumer fraud. In a recent survey, costs of compliance with different consumer protection rules and contract law (41%), and potentially higher costs of fraud and non-payment (41%) are the most-mentioned obstacles to cross-border trade[4].

For merchants considering cross-border retail, these hurdles can be daunting barriers to entry. As of 2013, only one quarter of EU retailers (25%) have sold cross-border to consumers, and this number has dropped since 2011[5].

Over the past decade, enterprise retailers have worked hard to create synergy between a strong online presence and broadly-dispersed physical Points of Sale (POS). Today, forward thinking retailers are taking the next step towards true enterprise globalization: adopting technological solutions that smooth cross-border retail.
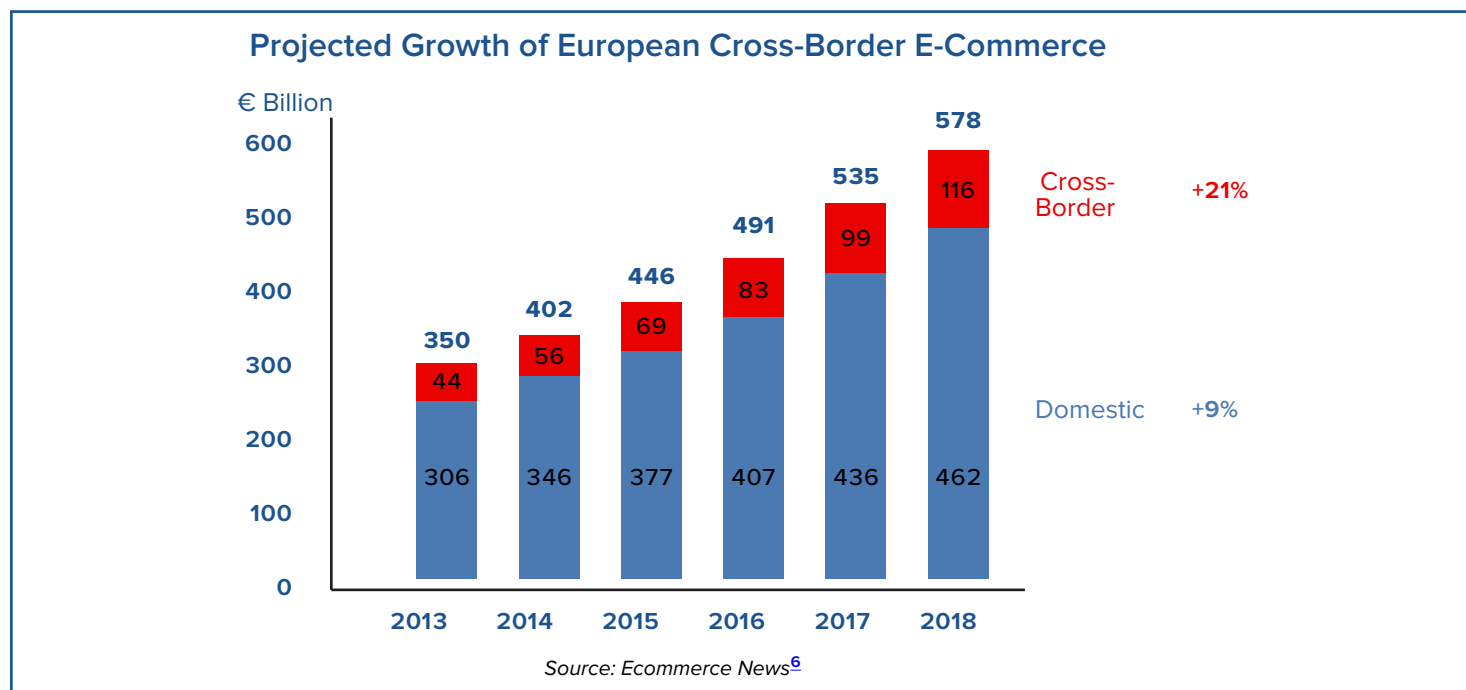
CROSS-BORDER MERCHANT CHALLENGES

In a global economy, facilitating seamless and cost-effective cross-border sales is of clear strategic importance to enterprise retailers. Cross-border retail is expected to grow twice as fast as domestic sales, according to eCommerce News.

Retailers that have overcome the bumps in the road to cross-border retail are already enjoying serious competitive advantages.

Projected Growth of European Cross-Border E-Commerce

€ Billion

Year	Domestic	Cross-Border	Total
2013	306	44	350
2014	346	56	402
2015	377	69	446
2016	407	83	491
2017	436	99	535
2018	462	116	578

Cross-Border +**21**%

Domestic +**9**%

Source: Ecommerce News[6]

SOME "SMALL" BUMPS

There are numerous "small" bumps on the path to cross-border retail, and many are neither intuitive nor at all trivial, for example:

Fraud Risk

According to a recent report by CyberSource, 60% of CXOs view orders originating for overseas as having a higher risk of fraud[7]. Instances of consumer fraud on cross-border transactions are typically 2.5 times higher than domestic transactions. When it comes to fraud detection online and at points of sale, it's difficult for cross-border merchants to adapt their screening rules to different consumer behavior, payment methods, regulations, and fraud patterns in different countries.

Regulations

In addition to global regulatory issues like PCI DSS, and regional compliance challenges like SEPA, cross-border retailers need to ensure compliance with local regulations for the various countries in which they do business. Consumer rights laws governing returns, complaints and refunds differ from country to country. Similarly, countries differ in their privacy and data protection laws for account, address and payment information that merchants can retain.

Tweet This: 59% of EU consumers would buy online from local e-retailers, only 36% would buy online from an international vendor http://bit.ly/1tb31ZH

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ONE "BIG" BUMP – THE BOTTOM LINE

The highest hurdle for cross-border retailers, however, has to do with the bottom line. The cost and complexity of cross-border pricing and payment processing remain the most significant barriers to entry – and are currently preventing many merchants from entering global markets.

The complexity of managing multiple acquirer relationships and optimizing processing fees on a per-transaction basis - while still maintaining competitive pricing and service - has led many retailers to simply abandon efforts for strong cross-border penetration, concentrating instead on local sales. Some of the challenges cross-border retailers are struggling with include:

Local Payment Preferences

To appeal to customers and maximize sales in a new country, merchants need a deep understanding of local payment preferences. For example, credit cards in common use in some localities may not be international, and may necessitate a relationship with a local acquirer to accept and process. Moreover, alternative payment methods like e-wallets and mobile payment methods must be taken into account.

Merchants face the challenge and overhead of managing and reporting across a wide range of preferred payment methods, which can differ vastly within regions. Additionally, the cost of new acquirer relationships in local currencies directly affects the bottom line, while at the same time impacting fulfillment and reconciliation.

Effects on IT

Every electronic form of payment offered requires connectivity to the relevant payment processing organizations and/or banks, and needs to be implemented on checkout pages or points of sale. Every form of payment, electronic or not, ultimately needs to be integrated with financial, logistical, customer service and other applications. The IT burden and cost can quickly rise as the number of countries and methods of payment increase.

Managing Duties and Taxes

Each country requires different duties and taxes, which need to be clearly presented to consumers on the checkout page or at the POS, and accurately reported to the relevant regulatory and tax authorities.

Hidden Consumer Costs

Even if cross-border transactions are presented in the customer's currency, they may still be charged a foreign exchange fee by their issuer, which appears as a separate line item on their credit card statement. Helping customers avoid these charges is key to repeat sales and loyalty.

CUSTOMER EXPERIENCE: TRUST IS CRUCIAL

Until merchants are able to smooth the rough cross-border retail road, both offline and online consumers continue to pay the price – or avoid paying the price by purchasing only locally.

Large retailers actively nurture trust in their local markets, and understand the importance of customer experience in driving sales and facilitating conversions. But how is it possible to strengthen consumer confidence and create trust with an unfamiliar audience, in a new territory? Much of cross-border consumer trust, according to the recent EU surveys cited above[8], has to do with familiarity and comfort zones. For example:

Currency

Online or offline, cross-border customers should have the option see prices in their own currencies. Online, this is quite feasible throughout the path to purchase. Offline, it's at least feasible after card swipe at the POS. Currency conversion should be seamless, immediate, and reflect optimum and up-to-date conversion rates.

Acceptance

Card declines are an annoyance to online shoppers, and can prove awkward at the POS. Merchants need to ensure that their acquirers accept all locally-common forms of payment – without deterring cross-border consumers by passing on steep processing costs.

Statement Surprises

A consumer that is surprised by hidden costs from cross-border transactions on his or her monthly card statement will not be a return customer. Merchants need to act to eliminate these charges by intelligently routing payment processing, and at least notify customers up front of the surcharges they may encounter.

Rights

Given the vast national differences in return policies and retail dispute resolution, merchants who make cross-border consumers aware of their rights regarding a specific purchase can proactively grow trust.

PROMISING TECHNOLOGICAL SOLUTIONS

The good news is that recently-introduced technology is smoothing the road to cross-border retail. Today, retailers have the option of connecting to multiple acquirers, offering localized payment methods, outsourcing logistics management, and intelligently routing transactions between selected acquirers to optimize processing fees and reduce decline rates. This simplifies integration, increases flexibility, and enables retailers to provide a seamless payment experience across all channels, in any currency, with any payment method.

Some Things to Look For

When choosing a solution to facilitate cross-border retail, merchants should make sure they choose a product that can:

Manage Cross-Border Logistics

To remove retailer cross-border hassles, solutions need make payment more comfortable for the consumer by automatically converting prices into local currencies, calculating taxes and duties and factoring them into the price, and reducing cross-border fraud. Additionally, an effective cross-border retail solution should minimize the hurdles surrounding international shipments and customs clearance, global order tracking, inventory transparency (enabling customers to see up-to-date information about what's in stock and what's sold out in real-time), and international returns.

Integrate Local Payment Methods

Cross-border retail solutions need to integrate regionally preferred payment methods to make consumers more comfortable paying on their websites. Support for PayPal is a good start, considering it is used for cross-border transactions used by consumers and retailers in 57 different countries. However, a truly international solution will include support for the numerous region-specific e-wallets in daily use by millions of potential customers - for example: Alipay for Chinese consumers, Klarna for the Scandinavian region, iDeal for consumers in the Netherlands and Germany, Qiwi and Yandex for Russia, and many more.

Optimize International Marketing Efforts

Catering to consumer preferences is only half the battle – many cross-border solutions enable merchants to optimize these efforts by educating them about local holidays, sales seasons, and more. An effective and forward-thinking cross-border retail solution will offer international marketing messaging services for retailers to optimize their international sites, and help them stay up to date about local trends to improve localized marketing campaigns.

SMOOTHING THE PATH TO CROSS-BORDER RETAIL

Decrease Transaction Costs

Merchants need to be able to dynamically route transactions between acquirers and e-wallets, calculating the optimal route for every transaction. The flexibility to strategically route payments between selected acquirers transforms international payments into local transactions, eliminating cross-border and currency-conversion fees and optimizing costs and acceptance rates.

Enhance Processing Flexibility

To facilitate cross-border retailer, retailers need to be able to effortlessly connect to a network of financial institutions, including additional acquirers and e-wallets. Today, many are deterred because switching between acquirers and payment service providers is considered complex and involves significant infrastructural challenges. Thus, an effective cross-border retail solution should enable retailers to effortlessly connect to multiple acquirers and e-wallets, while minimizing the infrastructural efforts associated with doing so.

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ABOUT ZOOZ

Zooz is a level 1 PCI compliant payment engine that connects enterprise retailers and growing companies to a global network of acquirers and payment methods, to ensure that both users and retailers enjoy full flexibility and the broadest of payment options. For more information, please visit www.zooz.com.