Increasing customer conversion

The role of payments in optimising conversion and order acceptance

An IMRG report looking at things to consider when optimising payment acceptance processes for higher conversion

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Payment acceptance and conversion

There is no doubt that retail overall is facing many challenges in 2019 and online retail is no exception. ONS[1] reported that retail sales in 2018 grew 3.69% to £423bn; IMRG's[2] figures showed the online component grew by 11.8%, with growth forecast to slow in 2019 to around 9% overall. The reasons for the slowing in growth are for debate elsewhere. However, they set the background for this report. Retailers are under increasing pressure to find growth and, while their customer proposition is key, performance management has never been more important.

Online retail is a blend of technology, psychology, product and proposition. The last two elements are often driven by the wider business, but the former are the bread and butter of the ecommerce teams. The industry invests a lot of resource in customer acquisition, user experience, customer journey, content and the 'customer funnel'. SEO, merchandising, site search, page structure and a multitude of other elements of the website will get a lot of attention with the primary objective of converting site visitors into customers.

It is the last element of this process that this report will review. Any payment process is about making it as easy as possible for the brand to receive payment from the customer; or in online retail parlance, maximising acceptance rates. We are now talking about the point at which the customer has said 'yes' and is putting in their payment details for the transaction to be approved. A few considerations:

- *Does the business offer the customer's payment method of choice?*
- *Does the customer have the funds to make the purchase?*
- *Is the 'customer' the legitimate owner of the payment details?*
- *Does a typo mean that the card issuer won't accept the details presented to it?*

Often, the responsibility for the answers to these questions are held in different areas of the business. One objective of this report to bring these to the attention of those with responsibility for overall website performance. Order acceptance is a key KPI, requiring as much attention and focus as any other website performance metric. This is beyond some measures of conversion; this is about cashflow into the business.

Just to complicate matters, we also need to take a moment to reflect that not all 'online' is created equal. Mobile devices now make a significant contribution to overall online retail sales. IMRG's Quarterly Benchmark [3] reports online sales by mobile device at just over 61% of total sales. This doesn't mean to say that we don't need to think about desktop, rather that the behaviours and expectations of our customers has changed, and brands need to reflect this in the way they optimise their businesses and prioritise investment.

IMRG report that checkout abandonment on smartphones is around 38% while on desktop it is 29%. If we then look at the final conversion element of this process – checkout page to making a payment – smartphones convert at 55%, tablets at 63% and desktop at 65%. While this isn't a pure reflection on acceptance rates, it does give us a benchmark to work with. With overall conversion rates at 5.6% and smartphone at 2.6% in April 2019, it is obvious that any

[1] https://www.ons.gov.uk/businessindustryandtrade/retailindustry/datasets/poundsdatatotalretailsales
[2] https://www.imrg.org/data-and-reports/imrg-capgemini-sales-indexes/sales-index-january-2019/
[3] https://www.imrg.org/data-and-reports/imrg-capgemini-quarterly-benchmarking-reports/quarterly-benchmarking-q1-2019/

improvement in acceptance levels can have a disproportionate but important impact of the overall financial performance of the retailer.

Andrew McClelland, Consultant, IMRG

Additional Insight – J.P. Morgan

We're delighted to have additional insight provided for this report by Colm O'Monacháin, VP Product Solutions, J.P. Morgan, which will serve to complement and amplify key elements of the text.

Colm is responsible for chargeback and fraud strategy and mitigation for J.P. Morgan Merchant Services. As part of the Product Solutions team, he is also a key member of PSD II implementation group. With over 12 years' experience working in the payments industry, in both issuing and acquiring, Colm's wide range of knowledge helps merchants reduce their chargeback and fraud exposure through a consultative and analytical approach.

Acceptance Optimisation

Fraud losses:

UK Finance reported in 2019 that ecommerce fraud totalled £393.4m[4] which is up 27% on the previous year. While this figure will include detected fraud across a range of online services, not just retail, IMRG reports online retail fraud rates of 2.5%. Compared to the 10.5 pence per £100 of fraud reported by UK Finance, online retail has a major part to play in reducing this overall number.

Card Not Present (CNP) fraud impacts brand as much as the bottom line so it is worth investing resource in reducing its levels. UK Finance also report that the rise in distance selling fraud is increasingly due to data breaches enabling fraudsters to access card and user details which facilitate the frauds.

Mobile device usage contributes an important proportion to the overall picture. A review of 2018 fraud data by Kount[5] showed that over 58% of merchants surveyed saw an increase in mobile-related payment fraud. While this is probably a reflection on the increase in volumes of transactions going through mobile devices, it does highlight the need to look at this area more closely.

Things to consider:

1) Ensure third-party tools are engaged to reduce fraud. In-house teams can provide a level of protection by reviewing orders for clear indicators of fraud. However, they aren't scalable and require significant investment to ensure they keep up to date with the latest fraud patterns
2) CVV and AVS alone aren't enough for effective fraud management
3) Ensure 3D Secure (3DS) rules are changed on a regular basis to maximise the impact of the technology. For example, vary the basket value that requires authentication. Appreciate that

[4] UK Finance, Fraud The Facts 2019 https://www.ukfinance.org.uk/system/files/Fraud%20The%20Facts%202019%20-%20FINAL%20ONLINE.pdf

[5] Kount MOBILE PAYMENTS AND FRAUD 2018 Report

the 3DS experience on mobile devices doesn't always encourage conversion. 3DS clearance can take place as 'dynamic authorisation'. The card issuer will take into account a number of behavioural indicators, in addition to transaction history and static data points to authorise or decline a transaction. This process will reduce the instances where a customer will see the 3DS screen

4) 3DS will be supplemented by Strong Customer Authentication (SCA) as mandated by the Payment Services Directive 2 (PSD2). Understand how this might impact your order acceptance levels
5) As with other pages, optimise the layout of the data entry page for the payment's information. Utilising customisable pages enable merchants to match the requirements of the issuer with their own brand messaging / layout. Often, Payment Service Providers (PSPs) only provide static templates, usually as 'iframes' they have produced. This provides for PCIDSS compliance but if you are a volume retailer, you may be able to source modified / flexible templates to suit your business purposes and proposition
6) PSD2 is discussed elsewhere but for the purposes of this paper, it is important to understand that payments may require authentication via a second factor. For example, a code sent to the user by SMS to confirm legitimate transactions. Review how this process might impact your customer journey and order acceptance rates. Some providers are seeking permission to utilise automated tools to determine where SCA is presented to a customer. For example, loss risk transactions
7) Ensure mobile and desktop transactions can be differentiated and consider enhancing tools to optimise for mobile fraud capture and order acceptance

Merchant Category Codes (MCC)

Categorisation of a particular transaction or merchant type can have a big impact on acceptance levels. For example, some product categories are more attractive to fraudsters due to the ease of converting a purchase into cash. Whilst these categories can be quite broad, acceptance rates can be improved if the categories can be refined to better reflect the transactions taking place; giving issuers more confidence in the information being sent through.

J.P. Morgan Comments: J.P. Morgan's acquiring experience reveals many merchants use codes that tend to be general and vague. Imprecise codes have higher decline rates because issuers associate them with higher rates of fraud. Also, some codes are treated more favourably by issuers, so analysing and understanding the right MCC for specific products can have a beneficial impact. However, before they do this it pays to do some research and have a discussion with your acquirer, to avoid changing to a new MCC which will probably mislead issuers about the riskiness of the transaction which has the opposite effect of reducing approval rates.

Things to consider:

1) For multi-category retailers it is worth reviewing, with their acquirer, the MCC codes associated with the transactions and looking to change these to better reflect the trading activities of the business
2) Older merchants or even dynamic business models could review their historical agreements and ensure that the MCC(s) originally used still reflects current business activities

Availability of payment methods

Increasingly, customers are expecting a wider range of payment options. While referring to a form factor, 'card' payments (debit, credit and pre-paid) are still by-far the most popular payment options representing 53% [6]of total online transactions. Wallets, providing customers with a mechanism to facilitate card payments with a few clicks, rather than entering the full card details every time, are now well established with over 25% of the transaction volumes.

Often, wallets involve higher transaction fees, but merchants can see improved conversion rates. Point-of-sale (POS) credit and deferred payment options are also gaining traction.

J.P. Morgan Comments: Competition within the wallet

In many cases, an unreliable card is dispensable: in developed markets, the majority of householders have more than one card with which they can make payments. In the UK, for example, 60% of adults have a credit card and 96% also have a debit card, according to creditcards.com.

Read more about card penetration and the UK e-commerce market in the JP Morgan UK Payment Trend Report[6]

Bank-to-bank transfers have yet to gain much momentum but for certain categories a 'push payment' is very attractive.

Most merchants will already have a good understanding of the payments market. However, optimising this mix is often overlooked.

Things to consider:

1) Review and test payment pages. Are all payment options offered obvious and easy to select?
2) Understand the wider market. Does your target demographic use the options you have made available?
3) There is a temptation to give higher profile to the cheaper payment options, but does this maximise conversion?
4) Where a transaction is declined, can your systems offer an alternative payment method that will help maximise the chances of acceptance. For example, allowing for different card details to be entered. Think about the customer journey and user experience. Does a decline end with a 'road block'? Not all declines are due to malevolent behaviour.

Multiple acquirers

For some merchants, particularly those with a high volume of transactions, there is the option of having multiple acquirers in their portfolio. Often the original conversation starts around price. However, rules could be set to choose which acquirer is used on a transaction-by-transaction basis. This might be due to the composition of the order, order value, card type, volume discounts or network availability.

Declines can be caused by a loss of network availability. Peak periods often strain the payments infrastructure. Having another acquirer available for dynamic switching can maximise the opportunity for a successful transaction acceptance.

[6] https://www.jpmorgan.com/merchant-services/insights/reports/united-kingdom

Things to consider:

1) Review acquirer roster. Does the existing partner offer the most suitable options for the merchant categories being traded?
2) Assess trading volumes and determine if they would warrant adding additional partners to this roster?
3) Where a transaction is declined, re-presenting to another acquirer may result in a successful outcome. Introduce technical solutions to provide this option to the trading platform
4) Collect data points highlighting decline rates and match with peak periods (industry wide). Strong correlations may suggest network availability issues, especially where known customers are involved

Data quality

PSD2 will require additional information being shared between the merchant and issuer. Transactions below €30 won't require additional authentication unless this exception is utilised more than five times in a given period. This exemption is based on card usage, not number of transactions with one merchant. Ensure your systems / PSP supports the data transfer required for maximum acceptance. Where cards are kept on file to make repeat purchases easier, seek further details from the issuer on failure reasons. It might be that the card in question has expired, resulting in a poor customer experience.

Things to consider:

1) If cards are kept in this way, run a regular routine that looks to highlight customers with expiring cards
2) Provide customers with the opportunity to store multiple cards to make switching between cards easy for them
3) Review data quality and richness with your acquirer and PSP. Can more improvements be made which will increase acceptance levels?

Other areas of consideration

Changing consumer behaviours and the increasing use of technology for their interactions with brands are blurring the lines between offline and online retail. While 'cards' were designed for the physical retail environment, they have been adapted successfully for the multichannel world. However, the 'old' world of face-to-face or CNP transactions and different processing fees are being challenged. Where shoppers are using their own device to make a payment at the POS, or POS may even be disappearing, the risk models and engines being used to manage this risk will have to change.

This change might be longer term but click-and collect may be one area that can take advantage of this change.

Industry representation

Merchants and issuers have one piece of key criteria in common. Both businesses require volumes and value going through their systems to be viable. Increasing acceptance levels and having satisfied customers benefits both businesses. Just as declined orders can see customers shopping with different merchants, those same customers could also decide to use a different payment card, or method; the issuer loses out in this scenario.

Through a lack of understanding, time and resource there is a temptation for both parties to ignore the requirements of the other. However, finding a suitable vehicle to communicate allows both parties to optimise the processes and relationship. Large merchants may well do this direct. Smaller business would find benefit by encouraging intermediaries to act or share information on their behalf.

Conclusion

That final part of the customer funnel, the payment page, can have a measurable impact on overall website performance. Some of this is around the layout of the page but much of the performance enhancements come from structural review and change (IMRG have a wealth of insight and research in this area).

Ensuring the risk engines are up to date, providing the appropriate payment options and presenting them in the most effective place, and selecting the right acquirers to service the business are all core factors. Many of these changes fall outside of the traditional purview of the ecommerce teams. However, the point of contact with the customer is the most important. The job of the retailer is to support that purchasing decision and ensure that the opportunities for a successful conclusion are maximised.

Payments don't belong in the back office!

J.P. Morgan Comments:

Merchants can reduce their decline rates, but it stands to reason that they cannot do this in a vacuum because it is the issuers who can ultimately make the decision to decline a payment. They must therefore work in co-operation with issuers, especially to solve challenges around data visibility and risk analysis. This takes a concerted programme of negotiation and outreach. To get this right, merchants need to think from the perspective of issuers and to highlight the benefits that closer collaboration will have for their own businesses.

One strategy is for the merchant to work closely with their acquirer in this area, as larger acquirers will have the knowledge to help merchants understand their problems and find solutions; they also have insight and expertise beneficial to working closely with issuers. They know, too, what changes are feasible in the short term for specific clients, while continuing to press in the long term for more ambitious reforms to the whole system of practices and procedures that is followed by the issuers and policed by the card services companies.

Read more about improving authorisation performance for card-not-present payments

About IMRG

For over 20 years, IMRG (Interactive Media in Retail Group) has been the voice of e-retail in the UK. We are a membership community comprising businesses of all sizes – multichannel and pureplay, SME and multinational, and solution providers to industry.

We support our members through a range of activities – including market tracking and insight, benchmarking and best practice sharing. Our indexes provide in-depth intelligence on online sales, mobile sales, delivery trends and over 60 additional KPIs.

Our goal is to ensure our members have the information and resources they need to succeed in rapidly-evolving markets – both domestically and internationally.

www.imrg.org

About J.P. Morgan

Merchant Services is the payment acceptance and merchant acquiring business of JPMorgan Chase & Co. – a global financial services firm with assets of $2.5 trillion and operations worldwide. It is a leading provider of payment, fraud management and data security solutions, capable of authorising payment transactions in more than 130 currencies. J.P. Morgan, through its Merchant Services business, has uniquely combined proven payment technology with a long legacy of merchant advocacy that creates quantifiable value for ecommerce companies. Its processing platforms provide integrated solutions for all major credit and debit card payments as well as mobile payments and processed more than $1 trillion in payment transaction volume worldwide in 2017. According to The Nilson Report, it is also the top merchant acquirer of ecommerce transactions in Europe [1].

Source:

[1]*The Nilson Report, #1110, May 2017.*

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