

Additional Payment Methods in E-Commerce

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Merchants who support payment types beyond credit cards (gift certificates, e-checks, etc.) typically see significant increases in online sales. Offering potential customers additional payment methods increases order conversion and in some cases order amounts.

Keywords: e-commerce, PayPal, gift certificates, Bill Me Later.

Introduction

It's no real surprise that adding multiple ways for customers to pay for their purchase can make it easier to close a sale. Now, it's becoming clear that multiple payment methods can have a significant value, thanks to a new study by Quality Research Associates, commissioned by CyberSource.

A Gallup Research survey indicates that 20% of households do not have credit cards. Certain demographic segments like teenagers do not have easy access to credit cards and 26% of potential online holiday shoppers are concerned about their credit card information being stolen (so consequently do not supply that data online). All of these people still represent a viable online customer base.

Payment Methods Landscape

Recent research indicates that merchants who offer more payment types have lower shopping cart abandonment rates and up to 20% higher order conversion on average.

The study polled 147 of the *leading online retailers* and found that sellers who accept four types of payments, such as *credit cards, online checks, PayPal* and similar services, or *gift certificates*, have more visitors convert into customers than do merchants who offer a single payment method.

For *e-tailers* who offer multiple payment options, their conversion rate grew 20 percent, to 72 percent of overall site visitors, compared to single-option merchants, who convert an average of 60 percent of their shoppers.

Despite the *benefits*, *online retailers* aren't necessarily availing themselves to the benefits of adding additional payment methods.

About 45 percent of all North American e-commerce sites offer two or more payment methods. Only 20 percent offer four or more payment alternatives, while about 18 percent of North American online merchants offer one payment type.

That 38 percent of merchants polled plan to consider adding new payment methods within the next 12 months. 31 percent say they anticipate first adding electronic check support to their current offerings. PayPal and similar services will be implemented first by 26 percent of the merchants contacted by Quality Research, followed by private-label credit cards, gift certificates, instant credit, and subscription billing.

CyberSource provides a number of payment options including credit cards, electronic checking, certificates, recurring billing, and PayPal support. But it's also important considering that there are a slew of competitors offering their own payment methods, including PayPal.

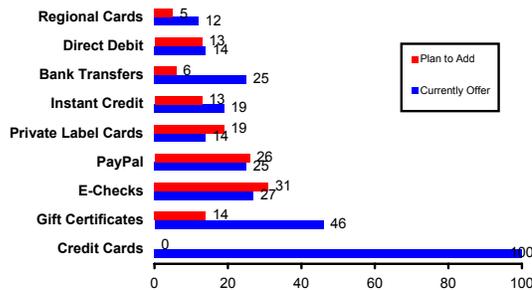
Some of the most popular additional payment types supported by successful online merchants include: Gift Certificates, Electronic Checks, Recurring or Installment billing, non-card payment types such as PayPal, and instant credit invoicing systems such as "Bill Me Later" by i4 Commerce. The options most merchants consider adding are e-checks and PayPal.

Next chart shows the percent of merchants currently offering/planning to offer various payment options.

Gift certificates

Gift cards and online gift certificates are the second most commonly accepted payment

method (next to general purpose credit cards). There are currently used by less than half (46%) of companies selling online, though among online retailers that number expands to 78%.



Source: CyberSource Corporation, 2004

In December 2003, 69% of online shoppers purchased gift cards or certificates online. Offering and accepting gift certificates can increase online sales by 8% or more.

Electronic checks

Accepting checks online can expand sales by reaching out to households and shoppers who do not have credit cards or do not want to provide credit card information online. Electronic checks can include a guaranteed payment option where payment risk is passed to a third party authorizer. Also, unlike credit cards, merchants can wait for payment settlement with electronic checks before shipping goods to customers.

In 2003, online electronic check volume grew by 210%, reaching 6.6% of total Automated Clearing House (ACH) volume. Offering electronic checks can increase sales by 3 – 8%. Depending on processing options selected, fees charged to merchants can be less than fees charged for credit cards.

PayPal® and other non-card payment methods

Email-based and alternative payment systems such as PayPal are an increasingly popular payment choice among customers. Some potential buyers are averse to using credit card numbers online or simply find an account with PayPal more convenient. PayPal alone has 40 million subscribers.

In 2003, PayPal accounted for approximately 8% of online eCommerce payments and may reach 13% by 2005. 26% of medium and large Web merchants say they would offer PayPal or similar payment method as their next new payment offering, second in priority after electronic checks. Offering PayPal could increase online sales up to 8%.

Instant credit invoicing (example: Bill Me Later)

This payment method involves granting the customer instant credit just for the value of that purchase (via real-time credit evaluation) and invoicing them. Major online retailers have implemented this option. Instant credit invoicing services such as Bill Me Later work like a credit card (except that there is no plastic card involved), allowing the shopper to pay in full or by installments over time.

Bill Me Later enables merchants to let customers defer payment for products by essentially using an alternative form of payment besides credit cards, the predominant method of payment online. Like PayPal, the Web's leading alternative payment method, transactions completed using "Bill Me Later" are handled by I4 Commerce, which authorizes purchases nearly immediately. The company settles with the seller within days, then bills the customer. Typically, consumers can pay in full within 30 days, or choose to make a minimum payment and finance the rest of the transaction.

It can address potential customers who do not have credit cards, are afraid to use credit cards online, or who do not have a credit card at hand when making a last minute or impulse buy online.

Increase in sales conversion (up to 30%), and new customers (up to 70% of initial Bill Me Later purchases are by customers who have never before made a purchase at that merchant site). Also, this method may offer lower interchange fees than credit cards.

Enhance international sales by supporting locally preferred payment methods

The major card associations such as Visa and MasterCard have become worldwide brands.

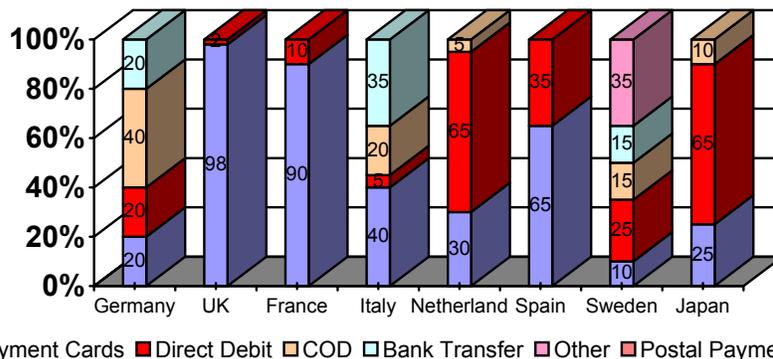
Still, many people prefer payment methods that are more local in origin. Within Western Europe, only the U.K. and France use general purpose payment cards for more than 50% of their online purchases. In fact over 60% of EU customers overall prefer alternatives.

Only about 41% of global sellers support bank transfers, 23% support local country direct debit payments and 20% supported country specific credit cards. There is a real opportunity awaiting many companies here.

One CyberSource customer estimates that by

being able to accept direct debits in Germany, sales of an enterprise software product will expand 40%. Another estimates a 20% EU sales increase due to acceptance of local payment types.

Next cart shows the consumer payment preferences in Europe and Japan. Other forms of payment such as direct debit bank transfers (e.g. Giros), COD or invoicing the customer directly are more popular than general-purpose credit cards in some major online markets.



Many organizations avoid global e-commerce due to concerns in different countries and supporting multiple local payment achieve this local payment capability almost instantly to establish presence and technical connections in each country.

Enhance international sales by presenting prices in local currency

Offering potential customers prices in their own, local currency can have a significant impact on sales. Dynamic currency conversion services are available now that allow merchants to present local currency prices on their site while guaranteeing the price merchants will receive in U.S. dollars or other currencies. CyberSource research indicates that of the 60% of medium and large Web merchants who accept international orders, only 30% offer prices in local currencies.

Conclusion

The benefits of e-commerce using different payment methods are increasing the sales and the number of customer, allowing capturing and keeping more revenue, reduce the cost

and complexity of payment operations, and grow without disruption.

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