EBOOK

Payments

A strategic driver of revenue and brand loyalty for multinational merchants

globalpayments

Payments: a strategic driver of revenue and brand loyalty for multinational merchants

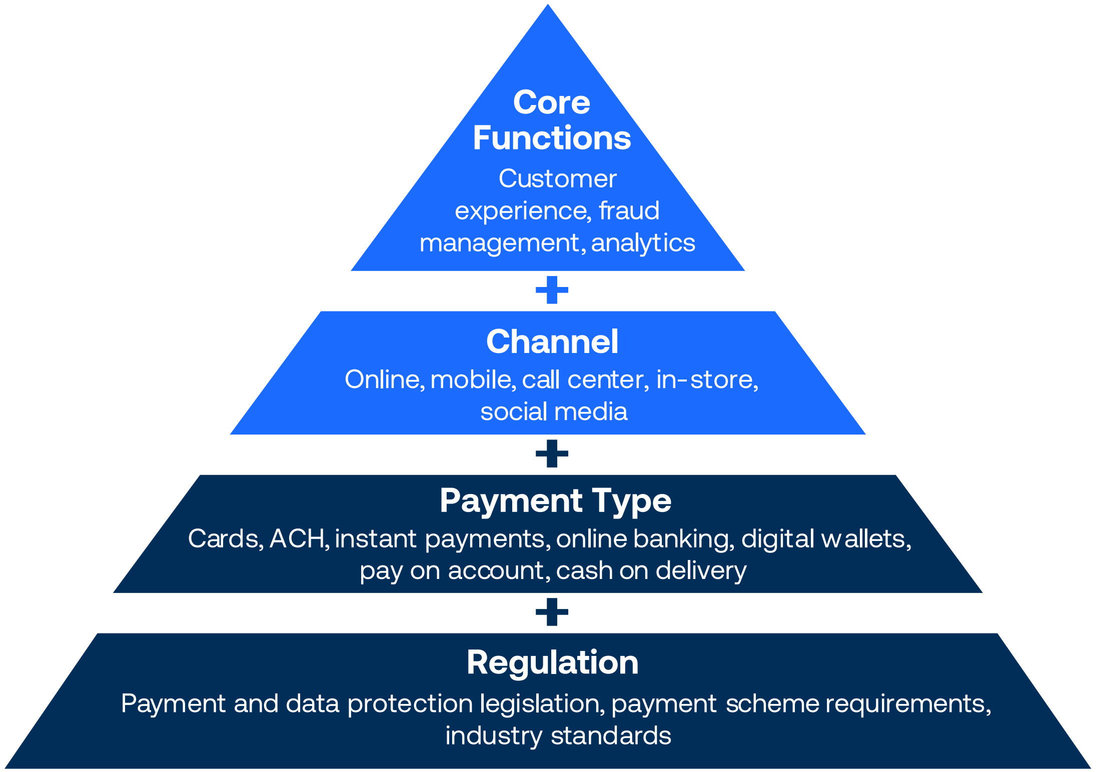
This report is an abridged version of a study Global Payments commissioned with Aite-Novarica Group (now Datos Insights) in April 2023—Mitigating the Payments Mayhem. It has been modified slightly for clarity and style.

As global commerce grows, payments management has become a crucial tool for merchants. Companies are striving to optimize customer satisfaction and increase authorization rates to drive sales and provide the best payment experience to customers while managing fraud and controlling payment costs. At the same time, multinational merchants must grapple with diverse customer channels, payment methods, and regulatory requirements across all of the markets in which they operate (Figure 1).

In the payments acceptance space, acquirers and payment service providers (PSPs) are essential partners for merchants to help them achieve the best results and manage the increasing complexity of the payments ecosystem. Merchants want to restructure and optimize their relationships with their payments acceptance partners to fit their organizational needs better.

This report provides a global view into the maturity of payments processing at multinational corporations (MNC), and delivers an analysis of the payment landscape and challenges that MNCs experience to improve their payments operating model.

FIGURE 1: COMPLEXITY OF MERCHANT PAYMENTS MANAGEMENT



Market trends in merchant payment acceptance

As the demand for ecommerce and mobile payments increase, consumers expect more convenience and flexibility in their payment options. To keep up with these expectations, merchants must stay informed about the latest payment technologies, such as real-time payments, digital wallets and other innovative methods, and strive to provide a seamless payment experience to their customers. Additionally, they must comply with evolving regulations to ensure efficient and effective payments management (Table A).

TABLE A: MARKET TRENDS

Market Trends	Market Implications
Focus on converting customer visits into sales	Online merchants operating in highly competitive markets need to offer their customers seamless checkout journeys or risk losing the sale and damaging the brand's value to the customer. Merchants are focusing on optimizing authorization rates to improve conversion and reduce false declines.
Omnichannel commerce is becoming the norm	Companies seek to integrate payments fully into the omnichannel experience. Merchants want to offer the same payment options over every channel if possible.
Increasing complexity of the payments ecosystem	Global merchants must support increasing digital channels and local payment methods to allow customers to pay how they wan. They also must deal with changing regulations for the countries in which they operate.

Strategic value of merchant payments management

As a result of these global trends, payments management has become more strategic to many enterprises. The focus is shifting to seeing payments as a revenue driver rather than just a business cost. As one respondent from a global computer and electronic firm said: “Payments were perceived as a cost center, so our approach used to be volume-based, locking in lower rates through negotiation and pushing volume to a single acquirer. But the paradigm has changed. Payments is viewed more as a revenue center.”

Based on the analysis from the current study, merchants can be categorized into three types, depending on how strategic payments management is for them (Figure 2).

> “Payments were perceived as a cost center, so our approach used to be volume-based, locking in lower rates through negotiation and pushing volume to a single acquirer. But the paradigm has changed. Payments is viewed more as a revenue center.”

Type I: Payments as a cost center

In this category, merchants view payments management as mainly operational and not strategic to the business. The primary driver (key performance indicator [KPI]) is to reduce cost. The enterprise may aim to concentrate its digital payments volume with a single acquirer to get the best volume-based deals and reduce the complexity of its operation.

Examples of Type I companies are supermarkets and other physical retail stores with low-margin, high-volume businesses (mainly card-present volume). Companies such as Walmart and Carrefour work with thin operating margins (around 3%), so each basis point reduction in payment cost is important.

Type II: Payment as a revenue center

Merchants in this category view payments as important to the business but not at a strategic level. The primary goal is to increase conversion at checkout by improving the customer experience and optimizing authorization rates, especially for online payments volume. Like all large enterprises, Type II companies are cost-sensitive—but their most important KPI for payment management is to offer a seamless checkout experience for the customer. This includes accepting a wide range of payment methods to reduce friction at the checkout.

Examples of Type II companies are luxury retail brands or department stores with relatively high-ticket value products sold over multiple channels. These companies are not (yet) looking to optimize payment processing and incur any additional costs but rather reduce complexity and work with acquiring partners that can offer omnichannel solutions.

FIGURE 2: MERCHANT CATEGORIZATION DEPENDING ON STRATEGIC RELEVANCE OF PAYMENTS

	Type I: "Payments as a cost center"	**Type II: "Payments as a revenue center"**	**Type III: "Payments as a strategy"**
Perceived payments strategy	Payments management is operational and not strategic to the business.	Payments is considered an important tool to improve the customer experience and drive conversion.	Payments is considered a competitive differentiator, to increase customer loyalty and win new customers.
Positioning of payments management	• Payments management is centrally coordinated but considered an operational function mainly to reduce cost. • The acquiring strategy is volume-based, locking in lower rates through negotiation and pushing volume to a single acquirer.	• Payments management is organized as a separate function and "has a seat at the table." • The company is using analytics to track payment KPIs, which are revenue driven and not only based on cost. • Acquiring strategy is optimized to improve the customer experience and drive conversion.	• Payments management is centralized and comes with P&L responsibility. • Payments management contributes to a personalized brand experience. • Advanced acquiring strategy is used for working with multiple partners to optimize resilience, revenue, and cost across markets.

Type III: Payments as a strategy

Payments management is considered strategic to the business in this category—a core revenue driver, essential to increasing customer loyalty and winning new customers. These merchants see payments as a true enabler for the business and a competitive differentiator.

Examples of MNCs in this category are primarily enterprises with large online sales volumes. They tend to work with multiple acquirers and PSPs to optimize performance by region or payment method and add redundancy to ensure resilience and avoid vendor lock-in.

Best-in-class payments management

Type III companies can be considered "best in class" in payments management. Here are some examples of payment strategies that these companies use:

Strategic focus

Payments management is typically centralized as a key role, with business responsibility within the line of business. As a result of the stronger focus and business discipline related to payments management, Type III companies report a significant increase in conversion rates while simultaneously reducing fraud rates.

Proactive approach

Payment-related issues are not accepted as given but are followed up proactively even outside the organization. For example, merchants said they sat down with card issuers with relatively high decline rates to suggest changes to those banks' authorization rules to reduce false declines.

Personalized client offerings

Type III companies strive to offer the customer a personalized payment experience, e.g., the customer should see the payment options prioritized in a way that takes account of their preferences, history and credit status.

Vendor management

Leading companies work with their vendors in partnership. They challenge them and introduce new technologies together. However, they remain in the lead and don't rely solely on third parties to run their payments business.

Innovation

Leading merchants continually seek opportunities to innovate and challenge the status quo. They are ready to develop solutions in-house if provider offerings cannot meet their stringent requirements.

Realize the power of payments management

For many merchants, the full potential of payments management is yet to be realized. They have recognized the value of payments to increase conversion. But they have not taken payment conversion to a strategic level. Some companies may be satisfied with a cost center (Type I) or revenue center (Type II) approach, depending on the importance of payments to their core business. However, the trend is clearly toward a more strategic role for payments management, especially in online merchant business.

If you're ready to make payments a strategic focus for your business, contact us today.

Contact **mnc.sales@globalpay.com.** For more information, visit **globalpayments.com/solutions/multinationals.**

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