Opinion Paper - Merchant Perspective

Accelerating the shift to ecommerce

How Visa Consulting & Analytics can help merchants develop a best-in-class customer payment experience

VISA

We can help you deliver a best-in-class customers payment experience

Customer experience is defined as the interactions that occur between a customer and an organization throughout their relationship. These interactions occur at all stages of the customer lifecycle – including at payment.

You can give a customer an enjoyable in-store experience by making your store simple to navigate, having staff offer help when needed, making the checkout process as frictionless as possible and personalizing the services you offer. If you get this right, it is likely that you'll have set yourself up for repeat custom and even have your customers recommending you to their network.

The same basic rules apply to the online environment. Customers are increasingly turning to online shopping and, in many cases, this could result in your digital store being the first impression a customer has of you – and this is why it is important, now more than ever, to create a frictionless, user-friendly environment.

Most digital stores don't have any problems attracting visitors, but many struggle to convert site hits into sales and find themselves wondering, why?

The answer is simple – online customers still expect to be able to find what they want and get their hands on it as quickly as possibly – but most importantly they expect the purchasing experience to be seamless and stress-free, if they experience too much friction it is likely that they will abandon their basket and take their business elsewhere. So, if you aren't seeing high conversion rates, it is likely that you aren't making it straight forward enough for your customer to purchase the goods they want.

Your customers' payment experience is a key determinate as to whether they will shop with you now and in the future, if you can deliver a best-in-class purchasing experience:

- **Your visitors are more likely to become satisfied customers** which helps to create loyalty meaning that new customers become repeat customer and not just one shop wonders.

- **The impact of a bad payments interaction can be devastating.** When a shopper abandons an online shopping cart due to checkout friction, our data shows that 67% end up leaving for a competitor or never completing the purchase anywhere, and 59% say they are less likely to shop with that same retailer again[1].

- **81% of customers say they are willing to pay more for a good customer experience[2]** – so if you can provide easy access to information and assistance, frictionless payments, a simple returns policy and personalized shopping options you are likely to have an instant advantage in the marketplace.

1. 451 research Three key payments observations from National Retail Federation 2020.

2. https://preferredpayments.com/importance-providing-great-easy-online-customer-experience/

Optimization is the action of making the best or most effective use of a situation or resource

Payments are often the most frequent touchpoint between you and your customers, the payment process is not just a simple transaction. To think of a payment purely as a transaction downplays the power that a seamless payments process provides in capturing new customers and its ability to make or break essential customer relationships.

In fact, your customers' payment experience is not just a touchpoint, it is a critical touchpoint – a part of the customer journey which requires special attention. Each time a potential customer reaches the checkout page – if they get that far – they have a moment to reflect on whether the effort required to make the payment is equal to the value they get from the company or the product or service that they are purchasing. If they feel that the process is too difficult, the customer may abandon their basket or if they do persist with completing their purchase, they may have found the process so frustrating that it overshadows other positive aspects of their experience with you.

So, what do customers expect?
Overall, they want a seamless experience which means you need to provide:

- **Different ways to pay**, convenience and a variety of payment options are essential to modern consumers, they expect to be able to personalize their shopping experience and this includes having the freedom to decide how to pay every time they do business with a brand.

- **Fast payments**, once consumers have decided what they want to purchase they want to be able to do it quickly. Any errors or declines at the point of payment, especially if they are repeated, can almost guarantee an abandoned shopping cart – it is rare that you find a customer who has the time or patience to deal with a complex system or multiple declines. The faster you can complete their transaction with the fewest clicks the better.

- **Integrate your payment gateway** with your brand, if you are going to direct your customers to a payment gateway make sure they feel secure by providing a seamless, reassuring redirection experience.

Creating this seamless customer payments experience requires you to optimize your payment offering. Visa Consulting & Analytics can help you do just that – we help merchants maximize their sales volume by offering frictionless payment and allowing you to optimize your customer purchasing journey, from focusing solely on improving your authorization processes to completing a full assessment of your customer journey. We can help you to identify performance gaps that could adversely impact your customer's journey and help you to address them. Resulting in a better customer experience, increased payment volumes and reduced friction.
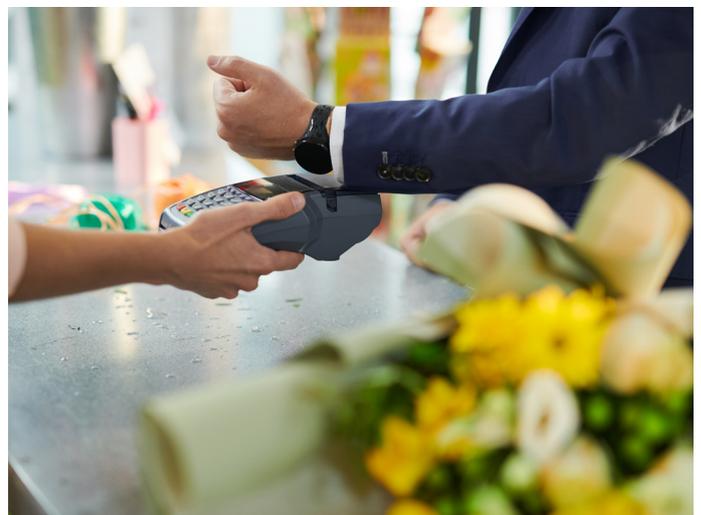
The four pillars of payment optimization

New technology means that shoppers are growing accustomed to making contactless payments which have an overall payment time, including authentication, authorization, fraud checks and receipt handover, of less than six seconds[3]. Cardholders don't see the work that goes on behind the scenes and many don't grasp the multi-step process that has to work perfectly for this ease of spending. They just expect their payments to work, and for the process to be stress-free.

This means the processes that happen behind the scenes to produce a seamless customer payment experience need to be optimized to deliver a best-in-class customer experience.

The steps that underpin the payments process can be broadly split into four key pillars all of which should be optimized:

1. Authentication

Payment authentication is the process of confirming a customer's identity through at least one of the following authentication factors: knowledge, inherence, ownership, and user location – knowledge is the most common category used for transaction authentication, in the traditional face-to-face environment an example would be getting a customer to enter their PIN at the Point of Sale (POS), where as a good example online is a One Time PIN (OTP) at point of purchase or account setup, however there are many more ways to authenticate in both environments.

2. Authorization

Payment authorization is the confirmation of a cashless payment a customer is attempting to make. Merchants use payment authorization to obtain a promise of payment from a cardholders issuing Bank. This promise is sought during a payment transaction, after authentication has occurred, and ultimately results in the decision as to whether a payment has been approved and the customer purchase has been successful or declined and the customer purchase has been unsuccessful.

3. Fraud

Fraud is wrongful or criminal deception intended to result in financial or personal gain, in payments it is always for financial gain. It is a risk that needs to be protected against – solid fraud and chargeback monitoring practices and systems not only protect your business but also your customers themselves. Risk management needs to be set at the right level, so that you are protected but at the same time you are not losing 'good' business.

4. Customer Experience

The customer payment experience depends on all aspects of the payments process working seamlessly – if authentication doesn't occur, the transaction is less likely to get passed on to be authorized so there is no possibility of an approval and if fraud checks aren't balanced at the right level a transaction may be unnecessarily and overcautiously declined. In order to create a positive experience, you need to optimize your purchasing processes so that customers don't end up frustrated.

3. VCA Opinion Paper: How contactless is reinventing the way people pay, 2020.

The Customer Payment Journey
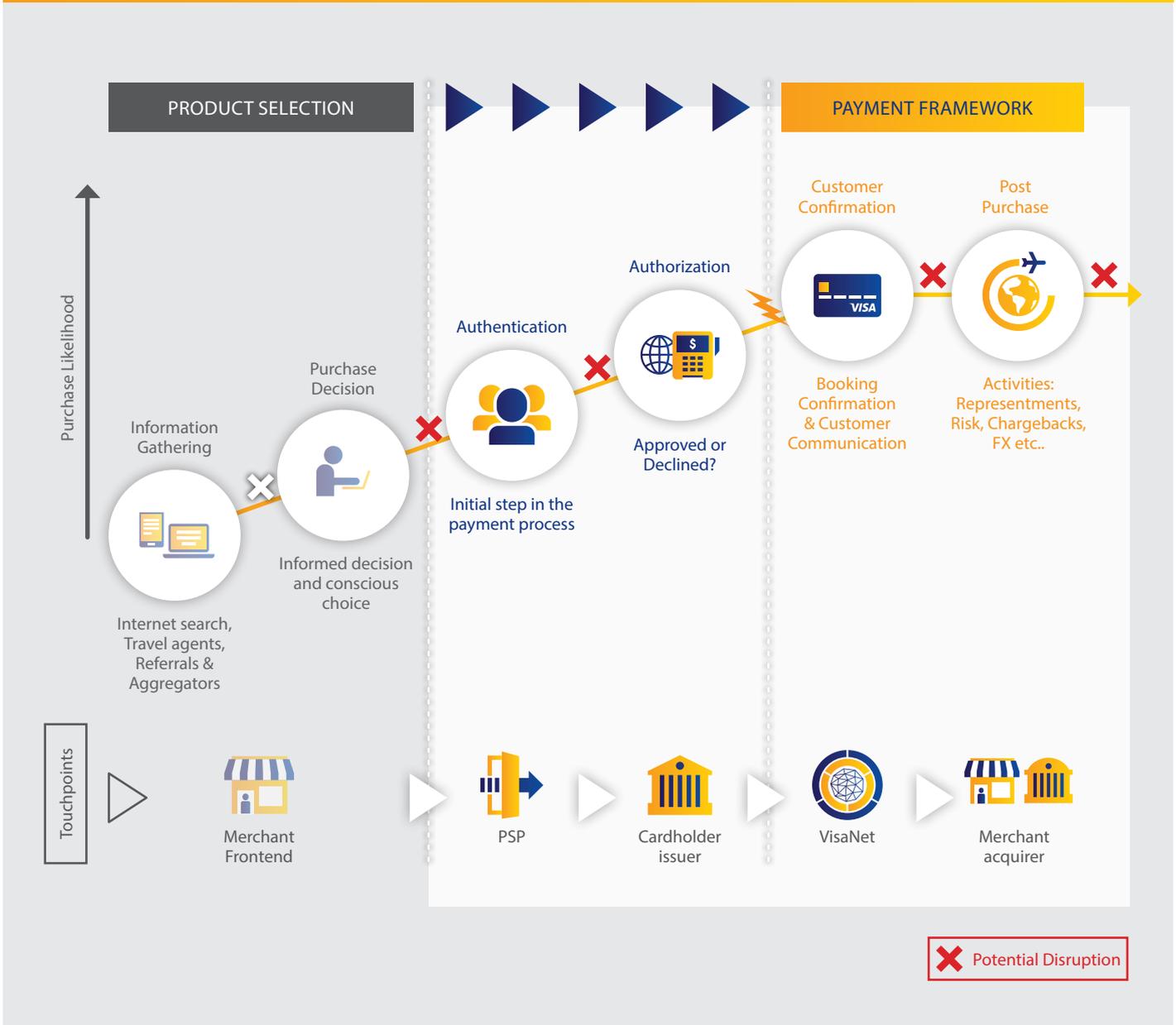
The relationship between the four pillars of payment optimization are highlighted when we look at the customer payment journey. Authentication needs to be optimized so that customer's payment attempts reach the authorization decision stage, which needs to be optimized so that the customer's payment is, ideally, as long as all issuer checks are passed, approved and passed on to the fraud monitoring system which needs to be optimized so that approved transitions are not incorrectly blocked as fraud. The optimization journey needs to follow the customer's transaction payment journey before we can turn to optimizing the customer experience itself. As without having every aspect of the payments journey optimized you cannot provide an exceptional customer experience. A customer who has had their transaction declined is just a click that failed to convert into a customer.

The foundations underpinning the four pillars of payment optimization

In order to ensure the four pillars of payment are optimized effectively, we need to ensure that they are built on solid foundations. Data integrity and removing friction from transactions are the two aspects which underpin every element of optimization. They are foundations as opposed to pillars, because they impact each one of the optimization pillars. If you wish to achieve a best-in-class customer payments experience it is essential that you have high data integrity and remove friction wherever possible.

As we have already established, a customer payment is likely to be the most common and critical touchpoint in your customer relationship, and you need to make sure that it is seamless by minimizing any interrupts to the transaction flow – in short, this means that you need to remove as much friction as possible from your processes.

Firstly, by optimizing the four pillars of payment, and secondly by taking advantage of available tools which enable you to reduce the number of clicks (and as a result friction) that your customer needs to make in order to complete their payment. There are many tools but a good example is Stored Credentials, where information (including but not limited to, an account number or payment token) can be stored by a merchant or its agent, a payment facilitator, or a staged digital wallet operator to process future transactions and prevent cardholders from repeatedly having to enter their details. These types of tools allow you to provide your customers with a smoother checkout process and the smoother the process, the better their opinion of your online environment and the more likely they will complete their purchase and leave satisfied.

However, completely removing friction from your processes isn't possible unless you have first validated the integrity of your transaction. In fact, data integrity underlies every aspect of optimization. If you don't get the right transaction data from your customers by asking the right questions in the first place, then transpose this data correctly into the right transaction message fields in the right format, then your transaction has limited chances of approval – if the message you send across to secure approval is not correctly populated then the cardholders' issuer will struggle to match the information you send them with the data they have.

For instance, when collecting a customer's billing address, you need to be clear that it is the billing address you require, if a customer misunderstands and provides their delivery address instead the chances are it won't match the address the issuer has for them. You also need to be validating that the payment data is correct at the time of entry by utilizing algorithms such as MOD10 checks (valid card number check), CVV2 checks (valid CVV number) and so on. Once you are sure you are requesting the correct data, you then need to transpose it correctly, for example, your processes need to ensure that when a customer enters 123 Visa Street it doesn't somehow end up as 321 Visa Crescent in your transaction message.

The importance of data integrity extends across all pillars of payment optimization, without the right data being sent you are undermining the efficiency of the transaction flow, the customer experience itself and any effort you have made to remove friction.

Take implementing stored credentials to reduce friction per se. In a case where a Visa debit issuer had not made the necessary system changes to accommodate the new stored credential payment indicator (POS entry mode code 10 in Field 22 of the authorization message) their systems were unable to process these transactions, resulting in them being responded to by Visa. With parameters not in place with Visa to enable them to validate these transactions for the issuer, transactions were declined. With Visa's help the issuer was able to amend their processes which resulted in a 44% approval rate increase for stored credential transactions and an 5849% growth in stored credential transactions[4]. This was not a complex issue to solve, but it adversely impacted cardholder spend, and hence customer experience. However, these problems don't just occur on the issuer side. If a merchant hasn't set up their stored credentials processes correctly, and the right transaction message fields are not populated in the correct way, when the issuer receives the authorization request, they are likely to view these transactions as higher risk than they are and as a result, will either decline them or add an extra layer of security for your customer to overcome. This will undermine both your investment in stored credentials and your customers investment in setting them up. The result is increased friction rather than reduced friction.

So, why does transaction data integrity and removing friction matter? They matter because they can impact all aspects of the transaction flow and without ensuring these are optimized, there isn't much point in trying to optimize other elements that impact your customer experience.

4. Visa Case Study: Enabling stored credential transactions, Authorization focus, 2018

Seeing the effects of payment optimization in action

Now that you are familiar with the four pillars and two foundations view of payment optimization, namely: authentication, authorization, fraud, customer experience, transaction data integrity and removing payment friction. Let's take a look at how working to improve these areas can really make a difference.

Authentication Optimization

Authentication is a necessary part of the payments process, but regularly a stumbling block in the online environment due to risk concerns. So, how do you improve your online authentication experience without increasing risk or friction?

By reviewing your authentication practices, VCA can help you to identify appropriate opportunities. Whether this be helping you to make the most of Secure Remote Commerce, ensuring you are complying with the European Union's Second Payment Services Directive (PSD2) while minimizing its impact, understanding how Credential on File services could enable you to offer improved authentication services or how Token services could enable you to offer improved authentication services.

For instance, implementing Trusted Listing is a great way to adhere to the requirements of PSD2 without introducing additional friction while still increasing the strength of your authentication practices. By encouraging your regular customers to whitelist your online environment Stronger Customer Authentication doesn't need to be applied, thereby allowing you to deliver a more seamless experience.

Optimizing your authentication practices and utilizing remote commerce solutions to help you secure your payments while understanding how changing payment regulations impact your business means that you can confidently reach regulatory standards in a way that doesn't undermine your business goals, improves your service offering and results in fewer declines.

Authorization Optimization

Authorization is the key to securing approval of your customer's purchase request, without this approval they are going to have to try again or look elsewhere. As a result, you need to identify where opportunities exist to optimize your online authorizations and reduce declines.

By performing an in-depth review of your transaction data, VCA can pinpoint areas for improvement including if there are specific issuers and acquirers which contribute to your greatest loss of volumes and any resulting suboptimal customer experience. We can then work with those issuers or help you to work with the acquirers to not only address the reasons for your declines but also to help you understand where you have opportunities to improve, and help you to address identified issues, this includes improving your transactional data integrity, which comes with the added benefit of enabling you to reduce your exposure risk and potential chargeback liability.

We can also help you to make the most of the tools available to you to get the best possible results. Take Visa 3D-Secure (3-DS), if you want to maximize your authorizations you need to have a market-based strategy rather than a global approach to the tool. In some markets issuers will require a fully 3DS authenticated transaction before they will authorize a transaction, while in others a partially authenticated transaction is acceptable. Your system needs to be set up to know how to respond to the nuances of the markets that you are operating in to have

the best chance of securing approval for your customers transactions, so they can purchase your goods.

Optimizing authorization processes doesn't stop there, we can also determine future opportunities to improve your authorization rates by benchmarking your performance against your market and sector peer groups so that you can ensure your offering is at the very least matching the sector performance, if not exceeding it. Allowing you to benefit from improved sales volumes and minimize the future risk of declines helping you to provide a better customer experience.

Fraud Optimization

Fraud management is essential to protect your customers and your business, but you need to make sure that your fraud and chargeback management are working effectively and efficiently by ensuring that you are not passing along transactions which could make you vulnerable to high chargebacks while balancing this with being overcautious and turning away 'good business'.

By evaluating your fraud monitoring practices and systems we can pinpoint key development opportunities. This allows you to identify segments (products, geographies, sales challenges etc.) where you are performing below your peers. To help you to optimize your approach to both fraud and chargebacks, our insights and expertise can support you to improve your fraud management systems.

Proven tools such as CyberSource's Decision Manager[5] enable you to manage your fraud more effectively through processes such as negative customer profiling, channel specific customer profiling and velocity checks in your fraud management systems.

Optimizing fraud practices not only allows you to be confident that you are guarding against fraud in the best possible way but also creating an improved customer experience through optimized operations, reduced fraud rates and improved sales volumes – as a result of lower unjustified declines.
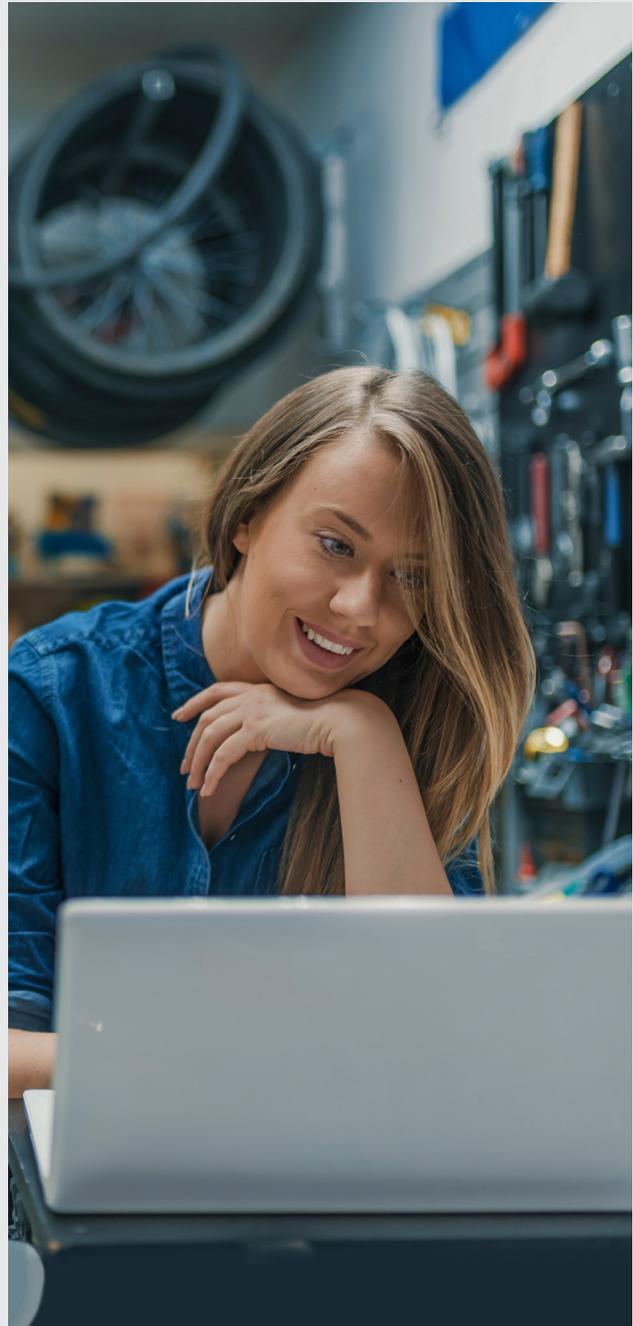
Customer Experience Optimization

All areas of optimization support your overall goal to provide a best-in-class customer experience that will enable you to stand out from the crowd. The best experiences minimize friction and maximize successful transaction rates.

By assessing your current customer journey (in conjunction with the findings from the other pillars of optimization) we can assist you to design an optimal omni-channel customer experience to enhance your customers' shopping experience.

For example, if you have an existing loyalty scheme, is this integrated seamlessly into your online environment? If you can integrate your scheme into the customer purchasing journey you not only benefit from further de-risking your transactions by having an additional layer of authentication via loyalty log in, but you also have increased information about the customer making the purchase so you can streamline payment for your loyal customers by using the information you have stored about them to pre-populate any online forms.

Optimizing your customer payment experience doesn't have to stop there, we can work with you on a design only basis or through a full co-creation to help you conceptualize, prototype and take new product design innovations to market. We can help you to solve some of your most important business challenges so that your customers can benefit from a best-in-class experience.

Optimizing payments to unlock your hidden potential

For your customer payment experience to be truly best-in-class you need to bring together not just the four pillars of payment optimization but also the two foundations that underpin them. Without improving your transaction data integrity so that your systems can effectively assess the payment information they receive and removing friction so that this can be done quickly and easily, your pillars of optimization will be unstable. The foundations and pillars of payment optimization combine to illuminate the six keys to a successful customer experience optimization.

1. Authentication Optimization

Authentication usually occurs before a payment is even sent for authorization, so if your authentication processes are not optimized then you could well be 'dropping' or missing out on a payment because you don't have the tools in place to authenticate and pass a transaction on for authorization.

2. Authorization Optimization

You want to maximize your authorizations so that you are not declining 'good business'. Customer purchases are undermined by suboptimal authorization processes and practices. By getting this right you will be able to support a customer's desire and ability to purchase your goods or services.

3. Fraud Optimization

It is important to have solid fraud prevention practices in place, to protect not only your business, but your customers as well. However, you need to ensure that these practices are pitched at the right level. Revenues need to be safeguarded but at the same time 'good business' can be lost due to overly cautious procedures.

4. Customer Experience Optimization

Customer experience depends on all aspects of the payment process coming together to provide a stress-free and seamless purchasing process. If a customer trying to make a purchase finds the payments process too difficult or stressful, as a result of inefficient practices, it is unlikely that they will proceed with their purchase. Once you have removed this hurdle, you need to ensure that your purchasing platform is just as customer friendly as their instore experience.

5. Customer Data Integrity

When a customer is completing a transaction in the online environment you need to make sure you ask for the correct data, transpose this data correctly in your transaction messages and follow appropriate payment scheme rules in these messages so that you are providing the issuer with the data they need, in the format they require so that they can make a correctly informed decision. Any decision made is only as good as that data that you provide to underpin it, so you have to make sure it accurately portrays the information your customer has provided you with for the best possible outcome every time.

6. Removing Friction

Payments are often the most critical and frequent touchpoint you have with your customers, so you have to make sure to get it right. The fewer clicks required and the less hassle a customer has when making a purchase, the less time they have to rethink whether the goods or services they would be getting from you are worth the effort they have to expend to complete the transaction. The more friction you can remove from the equation, by implementing tools such as Stored Credentials, the better their checkout process, likelihood to purchase, and opinion of your brand is likely to be.

Visa is here to help you reach new heights with your customer payment experience

VCA is perfectly positioned to help you understand the areas where you have room to optimize and to understand how your merchant organization performs in comparison with your peers.

Once you are aware of your performance versus peers and any potential for improvements in your own payment processes, we can help you to identify the changes you need to make, and how to make them, to optimize your payments performance and as a result, your overall customer payment experience.

VCA allows you to tailor a multi-faceted consulting package from our range of assessment and opportunity modules to meet your specific needs, including:

• Better payment processes,

• Best-in-class customer experiences, and

• New and exciting opportunities that enhance your customer offering and interactions.

By undertaking a project with VCA that combines the modules most relevant to your needs, you will benefit from our thorough, practical, proven, expert advice on how you can best optimize your customer payment experience, and in turn optimize your own performance. You will gain insights, tools and knowledge that will provide you with the ability to improve your customer payment experience. This enables you to benefit from improved approval rates, better risk management and increased revenue opportunities. We can support you to optimize the return from your investment.

About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics and machine learning with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

For more information, please contact your Visa Account Executive or email Visa Consulting & Analytics at **VCA@Visa.com**.

You can visit us at **Visa.com** or on **YouTube**. You also might want to take a look at:
- VCA Opinion Paper: How contactless is reinventing the way people pay

Our expertise

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Visa Consulting & Analytics is a global team of industry experts in strategy, marketing, operations, risk and economics consulting, with decades of experience in the payments industry. Using analytics from the payment network with the most purchase transactions worldwide, our team of subject matter experts can provide you with proven strategies and data-driven insights that support your business objectives.

VISA everywhere
you want to be