

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 Consulting & Analytics can help you deliver a best-in-class customer 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 will have set yourself up for repeat customers 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. In many cases, this could mean that the first impression a customer has of you is through your digital store. 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 expect to find what they want and get their hands on it as quickly as possible. But they also expect the online 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 are not seeing high conversion rates, it is likely that you are not making it easy enough for your customer to purchase the goods they want.

**The payment experience is a key determinant as to whether your customers 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.** This helps to create loyalty meaning that new customers become repeat customer and not just 'one shop wonders'.
- **81% of customers say they are willing to pay more for a good customer experience<sup>1</sup>.** 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 immediate advantage in the marketplace.

**In addition, the impact of a bad payment experience 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 complete the purchase anywhere, and 59% say they are less likely to shop with that same retailer again<sup>2</sup>.

1. <https://preferredpayments.com/importance-providing-great-easy-online-customer-experience/>  
2. 451 research Three key payments observations from National Retail Federation 2020.

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

Payment can be the most frequent touchpoint between you and your customers. It is not just a simple transaction. Indeed, a seamless payment process has the potential to capture new customers and strengthen customer relationships.

In fact, the 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, they have a moment to reflect on whether the effort required to make the payment is equal to the value they get from their purchase. If they feel the process is too difficult, they may abandon their basket. Or, if they persist with the purchase, they may find the process so frustrating that it overshadows the positive aspects of their experience with you.

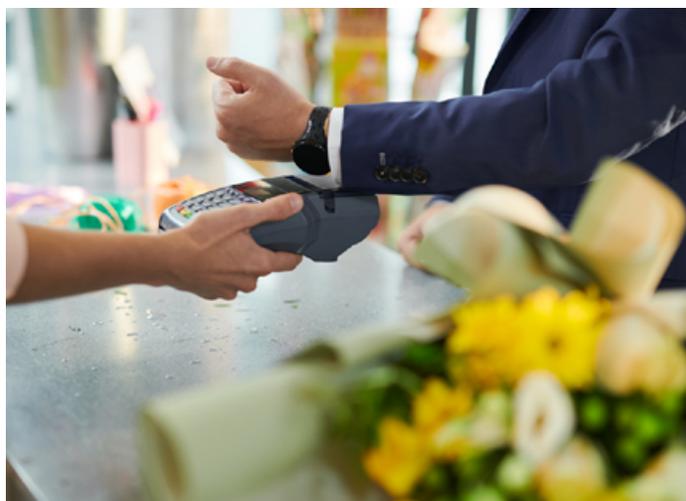
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## So, what do customers expect? Overall, they want a seamless experience. This means you need to provide:

- **Different ways to pay.** Convenience and a variety of payment options are essential to today's consumers. They expect to be able to personalize their shopping experience. And this includes having the freedom to decide how to pay each time they do business with you.
- **Fast payments.** Once a consumer has decided to make a purchase, they want to complete 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 to find a customer who has the time or patience to deal with a complex system or multiple declines. The faster a transaction can be completed, with the fewest clicks, the better.
- **Integrated payments.** If you direct your customers to a payment gateway, make sure they feel secure by providing a seamless, reassuring redirection experience.

Creating this seamless payment experience requires you to optimize your payment facility. At Visa Consulting & Analytics (VCA), we can help you do just that. We can:

- Help you maximize your revenues by offering frictionless payment and optimizing the customer journey – by recommending improvements to the authorization processes, for example, or completing a full assessment of the entire customer journey.
- Help you identify and address any performance gaps that could adversely impact the customer journey – resulting in, reduced friction, a better customer experience, and increased revenues.



# The four pillars of payment optimization

With new technology, today's shoppers have come to expect fast, frictionless payment.

Consider, for example, contactless payments which have an overall payment time, including authentication, authorization, fraud checks and receipt handover, of less than six seconds<sup>3</sup>. 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.

Consequently, all the processes that happen behind the scenes to produce a seamless payment experience need to be optimized.



## 1. Authentication

This is the process of confirming a customer's identity through an authentication factor such as knowledge, inherence, ownership, and user location. Of these factors, knowledge is still the most commonly used for transaction authentication (such as the use of a PIN in traditional face-to-face transactions, or a One Time PIN (OTP) for online purchases or account setups). However, there are many more authentication methods that could be used in either environment.



## 3. Fraud management

Fraud is defined as wrongful or criminal deception, which is intended to result in financial or personal gain. With any payment, it is a risk that needs to be guarded against, and solid fraud and chargeback monitoring practices and systems have been established to protect both your business and your customers. However, risk management needs to be set at the right level, so that you are protected but you don't lose 'good' business.



## 2. Authorization

This is the confirmation of a cashless payment. Merchants use payment authorization to obtain a promise of payment from a cardholder's issuing bank. This promise is sought during a transaction and typically takes place after authentication has occurred. It ultimately results in the decision from the issuer to approve the transaction (in which case the purchase is successful), or to decline it (in which case the purchase is unsuccessful).

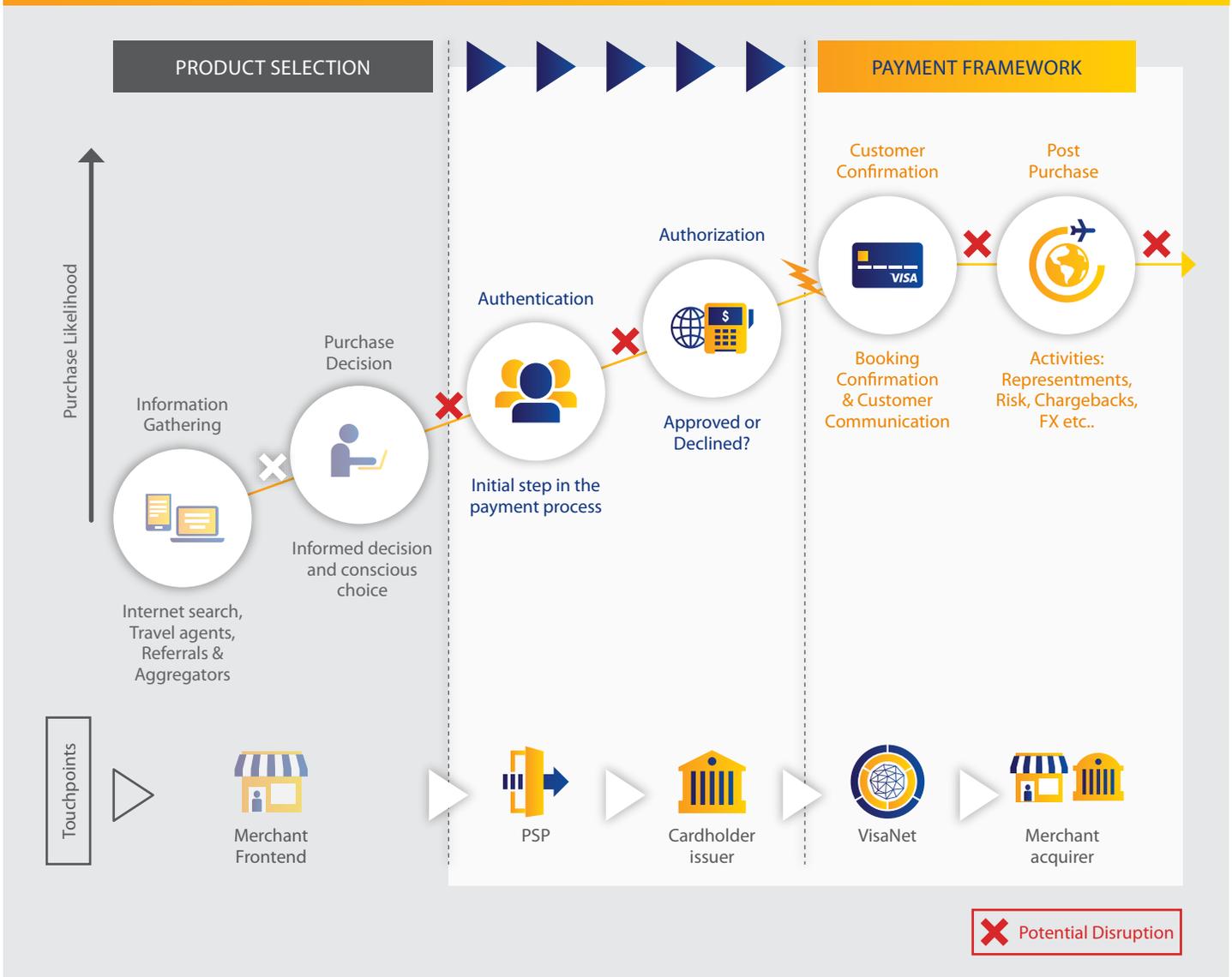


## 4. Customer experience

The customer experience depends on all aspects of the payment process working seamlessly. For example, if authentication doesn't occur, the transaction is less likely to be passed on to be authorized so there is no chance of an approval. Also, if fraud checks aren't balanced at the right level, a legitimate transaction may be unnecessarily and overcautiously declined. In order to create a positive experience, you need to optimize your processes to ensure 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 illustrated when we look at the customer payment journey:

- The authentication needs to be optimized so the payment can reach the authorization decision stage
- The authorization needs to be optimized so the payment can be approved (assuming all of the issuer's checks are successful), and passed on to the fraud monitoring system
- The fraud monitoring system needs to be optimized to ensure that approved transactions 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. 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 two foundations which underpin 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.

Removing friction and data integrity are the two core aspects which underpin every element of optimization. We think of them as foundations because they impact each of the four optimization pillars. And, in order to achieve a best-in-class payment experience, it is essential that you maintain high levels of data integrity and you remove friction wherever possible.

## Removing Friction

As discussed, the payment process is often the most common and critical touchpoint in the entire customer relationship. And you need to make sure that the payment experience is seamless by minimizing any interruptions to the transaction flow – in short, this means that you need to remove as much friction as possible from your processes. Several tools are available to enable you to reduce the number of clicks (and, therefore, friction) that your customer needs to make in order to complete their payment. A good example is stored credentials. With this tool, a cardholder's information (such as an account number or a payment token) is stored by a merchant (or its agent/payment facilitator, or a staged digital wallet operator). This allows future transactions to be processed without the need for the cardholder to repeatedly enter their details. Tools of this type allow you to provide your customers with a smoother checkout process. The smoother the process, the better their opinion of your online store is likely to be, and the more likely they will be to complete their purchase and leave your site as a satisfied customer.

## Data Integrity

It is not possible to completely remove friction from the payment journey unless you have first validated the integrity of your transactions. In fact, data integrity underlies every aspect of optimization.

If you don't get the correct transaction data from your customers, and if this data is not transposed into the correct transaction message fields, or in the correct format, then your transaction has limited chances of approval. In other words, if the authorization message that is sent to the cardholder's issuer is not correctly populated or formatted, the issuer will struggle to match the data with the data they have on file – and they are likely to decline the transaction.

For example, when collecting a customer's billing address, you need to be clear that it is their billing address you require (which may be different from their delivery address). If this is not clear, and the cardholder provides their delivery address instead, it may not match the address the issuer has on file. You also need to validate that the payment data is correct at the time of entry by making use of algorithms such as MOD10 checks (valid card number check), CVV2 checks (valid CVV number) and so on. Then, once you are sure you have requested the correct data, it needs to be transposed 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. If the right data is not collected and transmitted, you will undermine the efficiency of the transaction flow, the customer experience itself, and any effort you have made to remove friction.

# The data integrity imperative – a case study example

The use of stored credentials is a tool that can help to reduce friction. But its effective implementation always relies on good data integrity.

The use of stored credentials is a tool that can help to reduce friction. But its effective implementation always relies on good data integrity. In a recent example on the issuing side of the business, a Visa Debit issuer had not updated its systems to accommodate the new stored credential payment indicator (POS entry mode code 10 in Field 22 of the authorization message). As a result, the issuer's systems were unable to process these transactions, and they were routed to Visa's stand-in processing service. But, because no parameters were in place for Visa to validate the transactions, they were all declined. With Visa's help the issuer was able to amend its processes, resulting in a 44% increase in approval rates for stored credential transactions, and a 5,849% increase in the number of stored credential transactions<sup>4</sup>. This was not a complex issue to solve, but it adversely impacted cardholder spend and, hence, the customer experience.

The impact can be of a similar magnitude for ecommerce merchants.

If a merchant has not set up its stored credentials processes correctly, and the right transaction message fields are not populated in the correct way, the issuer is likely to regard them as high risk. And either the transactions will be declined, or an extra layer of security will be imposed, which a cardholder will need to overcome. This will undermine both your investment in stored credentials and your customers' effort in setting them up. The result is increased friction rather than reduced friction.

## So, why does the removing friction and data integrity matter?

They matter because they can impact all aspects of the transaction flow. And, without ensuring these foundations are optimized, there isn't much point in trying to optimize the four pillars (authentication, authorization, fraud management, and customer experience).



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

# Seeing the effects of payment optimization in action

Now you are familiar with the four pillars and two foundations of payment optimization, let's look at how improvements in these areas can make a real difference.



## Authentication optimization

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

By reviewing your authentication practices, VCA can help identify opportunities for improvement. For example, we could help you to make the most of Secure Remote Commerce (SRC) and, if you are located in the European Union, ensuring that you comply with the European Union's Second Payment Services Directive (PSD2) while minimizing its impact. We could also look at how stored credential services and/or token services could create a friction-free authentication experience.

For example, implementing Visa's Trusted Listing solution is a great way to adhere to the requirements of PSD2 and increase the strength of your authentication practices, without introducing additional friction. If you encourage regular customers to whitelist your online environment, there is no need to apply Strong Customer Authentication, enabling you to deliver a more seamless experience.

In this way, you can confidently reach new regulatory standards and requirements in a way that doesn't undermine your business goals. On the contrary, it can improve your service offering and result in fewer declines.





## Authorization optimization

Authorization is the key to getting a transaction approved. Without this approval from their issuer, your customers have to try again or look elsewhere. So, it makes sense for you to identify opportunities to optimize your online authorizations and reduce declines.

By performing an in-depth review of your transaction data, VCA can pinpoint areas for improvement. For example, we could identify any issuers or acquirers that generate a disproportionate number of declined transactions, and therefore contribute to suboptimal customer experience. We can support you and work with them to understand why so many transactions are being declined, and how the issues can be addressed. Solutions could include data integrity improvements which, as well as increasing sales volumes, could also help to reduce your exposure risk and potential chargeback liability.

We can also help you get maximum benefit from the various tools available, such as Visa 3-D Secure (3-DS). In order to optimize authorizations, it's necessary to have a marketbased strategy rather than a global approach to this tool. That is because, in some markets, issuers will require a fully authenticated transaction before they will authorize a transaction while, in others, a partially authenticated transaction is acceptable. Consequently, your systems need to be set-up to respond to the nuances of the markets in which you are operating. That way, you will have the best chance of obtaining approval for your customers' transactions.

Authorization optimization doesn't stop there. By benchmarking your performance against your market and sector peer groups, VCA can also find future opportunities to improve your authorization rates. With this type of analysis, you can ensure your business is at least matching the norms for your sector. And, of course, as well as benefitting from improved sales volumes and minimized declines, you also provide a better customer experience.





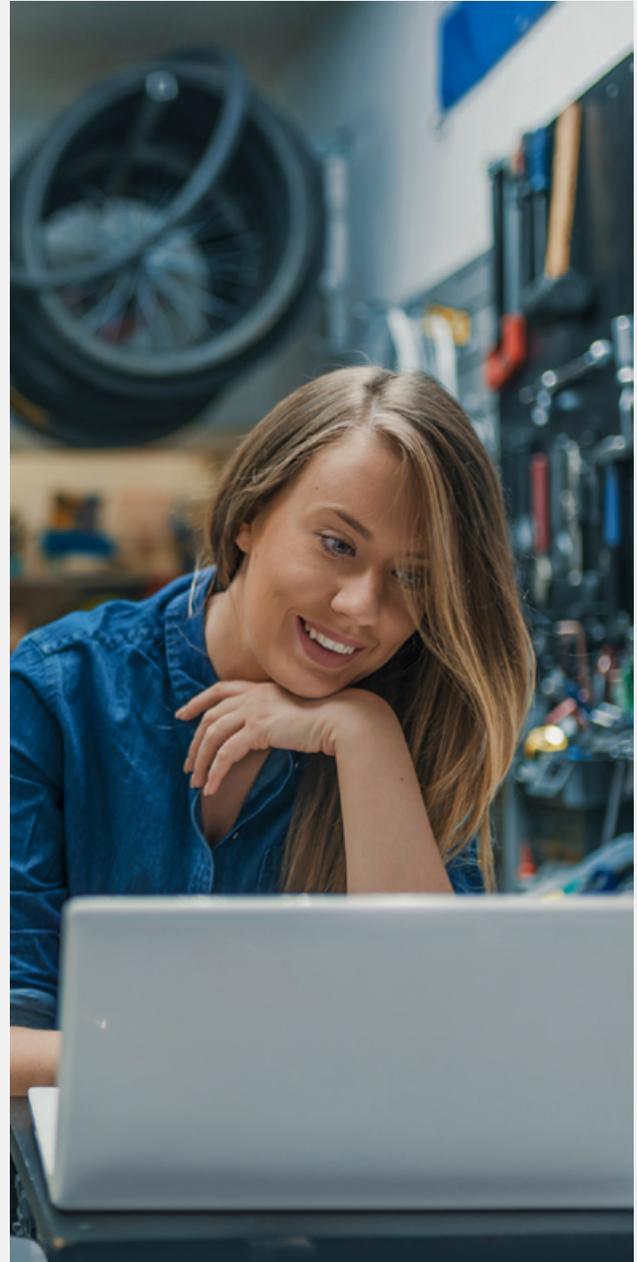
## Fraud management optimization

Fraud management is essential to protect your customers and your business. But you need to be sure that your fraud and chargeback management are working effectively and efficiently. You should also ensure that you are not passing along transactions which could make you vulnerable to high chargebacks. And, at the same time, you should avoid being overcautious and needlessly turning away 'good' business.

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

In addition, proven tools such as CyberSource's Decision Manager<sup>5</sup> enable you to manage your fraud more effectively through processes such as negative customer profiling, channel-specific customer profiling and velocity checks.

As well as protecting you from financial losses, the optimization of fraud management enables you to provide a better customer experience through optimized operations, reduced fraud rates and improved sales volumes.



5. Visa Security Solutions for merchants. Frictionless, secure payment experiences. We help you make it happen.



## Customer experience optimization

All areas of optimization support your overall goal to provide a best-in-class customer experience that will help to differentiate you from your peers. 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) VCA can help you to design an optimal omni-channel customer experience to enhance your customers' overall 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 can often benefit from a further de-risking of your transactions (due to the additional layer of authentication that you get from the loyalty log-in). You can also benefit from increased customer information which, in turn, enables you to streamline payment for your loyal customers (for example, by using the information you have on file to pre-populate any online forms).

Optimizing your customer payment experience doesn't have to stop there. VCA 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. In this way, we can help you to solve some of your most important business challenges and enable your customers to benefit from a best-in-class experience.

# 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 have insight about your performance versus your peers and the potential for any improvements in your payment processes, we can help you to identify the changes you need to make, and how to make them. And, by optimizing your payments performance, your overall customer payment experience also improves.

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

- 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 help addressing any of the ideas or imperatives above, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to [VCA@Visa.com](mailto:VCA@Visa.com). You can also visit us at [Visa.com/VCA](https://www.Visa.com/VCA).

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