Why PAYMENTS Matter

modo

How Payments Can Help Merchants Realize Their Goals

Let's talk about payments. Yeah yeah, you might not want to because it's not the sexy side of online checkouts. But payments are so incredibly important to increasing your bottom line. Want to know a fast way to decrease costs? Optimize your payments.

And don't worry – you don't have to take our word that payments are vital to your online business. Listen to Lyft. They saw that payments and transaction fees were significant enough to specifically call it out in their S-1 filing.

> "*In 2018, we added an additional payment processor for credit and debit card transactions. We expect the fees paid to this additional payment processor will be lower than our other primary provider. In addition, we are revising our payment processing workflows to reduce the number of transactions processed to avoid incurring incremental fixed transaction fees. For example, we are updating our payment processing to capture a ride fare and tip as a single transaction rather than two separate transactions with two separate processing fees. Finally, over time we intend to lower costs of significant portions of our portfolio by negotiating private interchange rates with larger financial institutions and by possibly creating our own payment products.*" - Lyft

As you grow your online business, whether that be focused in one region of the globe or all around the world, there are three big underlying goals merchants want to accomplish: Increasing spend and lifetime value of existing customers, attracting and retaining new customers, and lowering payments acceptance and overall operational costs. And, surprise surprise, optimizing your payments can help achieve each one of those goals.

As you think about your payments stack, how many different payment service providers (PSPs) do you have? How many alternate payment methods (APMs) do you offer customers? Whether you're making connections in order to have redundancies in acquirers or to expand internationally, you know the pain of integrating payment solutions. As more APMs are added into your stack, you're forced to deal with the complexities and costs of supporting new payment types. Each new payment system offered creates additional integrations to be built and supported, along with portals, tools, and training that will be needed on an ongoing basis. Oftentimes, the benefits gained on lower transaction fees and higher acceptance are eroded by higher operational costs.

The Internet is Where Retail Wars are Won and Lost

Before we rush into the goals, are you ready for a flurry of stats about the importance of your online presence? Internet Retailer reports that, in 2017, online sales comprised 13 percent of all sales and accounted for 49 percent of retail sales growth, citing data from the U.S. Department of Commerce. That's leaving out categories that lack an eCommerce counterpart; for instance, gas and cars are rarely purchased online.

Across the board, surveys and studies show that merchants have gotten the message.

49% count eCommerce platform improvements among their investment priorities (Internet Retailer).

48% have already implemented changes within the past year (Internet Retailer).

70% feel that offering easy and diverse payment types is the most important factor related to cart conversion, ahead of free shipping and having a mobile-friendly interface (Forrester Research).

32% of merchants who planned to increase their payments infrastructure budgets in 2018 did so for the purpose of enhancing payment acceptance capabilities – more than any other category (2018 Ovum Global Payments Insight Survey).

You know great online checkout experiences are a must have. In case you still don't believe us, here is yet another stat: If customers encounter a checkout experience that's too long or complicated, 87 percent say they would abandon their cart, according to a 2018 Splitit survey - and 55 percent would never come back. But great online checkout experiences don't end after the customer hits "pay". There is a lot more going on after that affects your online business.

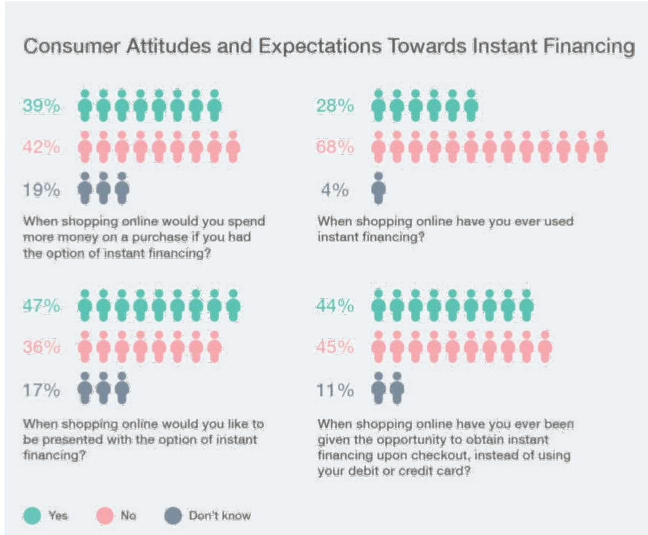
Now it's finally time to dig into those "Big Three" goals.

Goal 1: Increase spend and LTV of existing customers

There are two sides to the coin when it comes to increasing a customer's lifetime value (LTV): Increase spend per shopping experience, or increase the frequency of the customer's purchase activity. Offering a great, responsive checkout experience supports both of these strategies, especially in markets like North America, where consumers are extremely impatient about Internet speeds.

What does this look like in practice? There are three key components:

- **Payment Methods:** Merchants must offer payment methods that align with what the merchant sells. A merchant selling furniture or other big-ticket items will find it very important to offer financing options - likely more than one. Fashion merchants
  should consider newcomers like AfterPay (installment payments) along with long-time staples like PayPal. [A 2017 survey by Klarna] showed that 75 percent of shoppers would choose an online merchant that offered instant financing over one that did not. And



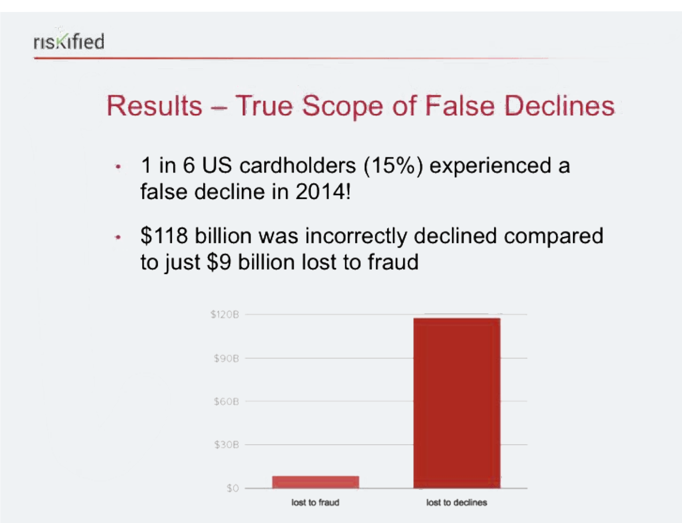
Courtesy: Klarna North America

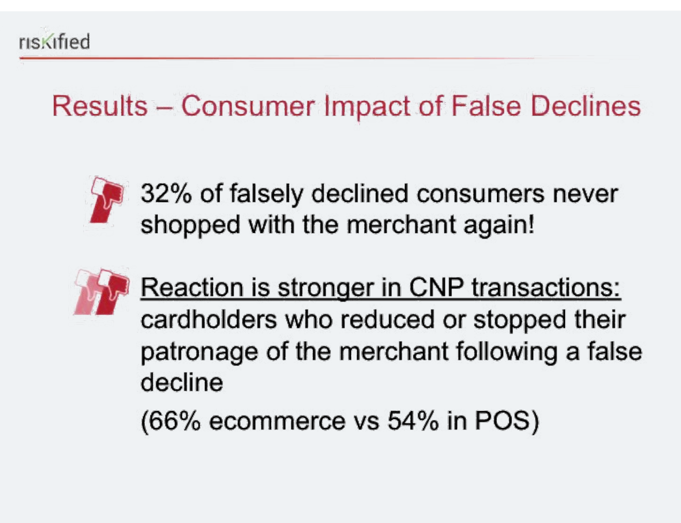
28 percent would consider switching to merchants that offered instant financing. 39 percent said they would spend more if instant financing was offered.

- **Acceptance Rates:** False declines can be a deal-breaker. [Aite estimated] that US card issuers would falsely decline as much as $331 billion in 2018 - several times the cost of actual fraud (USD $9 billion at the time of the study). But even if Javelin's more modest prediction of $118 billion is true, the initial number is not as important as what happens after. [Riskified showed] that 32 percent of falsely declined customers will abandon not only the cart, but the merchant as a whole. That number is even higher in card-not-present settings and among younger demographics. In many cases, it's not just losing a transaction, it's losing a customer. And if you're a large merchant doing thousands of transactions a minute, you cannot have any downtime with your payment service providers. Do you have a backup acquirer, or have you thought about getting one (or multiple)?

- **Data/Credential Management:** Nothing slows down a checkout workflow like having the incorrect or expired card or payment credentials on file. Merchants must have tools in place to keep payment info up-to-date – and, of course, to control tokens and data surrounding this sensitive information. This is especially key for subscription businesses. For example, say that a customer is unable to get an Uber because their card on file is out-of-date. So, they use Lyft instead and Lyft gains a potential customer for life. This can lead to more than one lost ride/transaction; it can result in a permanent allegiance switch to your competitors. Instead of losing a $20 fare, Uber potentially loses thousands of dollars in revenue over the lifetime of a single customer.

In short: Good checkout experiences that enable more payment methods help retailers capture all of a customer's spend, not just some of it – whereas false declines and other bad checkout experiences can lose a customer for life.





Goal 2: Attract and retain new customers

International expansion is one of the key ways to support "Big Three" goal number two of attracting and retaining new customers.

For example, retailers expanding into Europe often find that their conversion rate suffers and that credit card acceptance rates are much lower. It's true that those merchants would benefit from working with a European acquirer to increase acceptance and optimize for better rates. When doing business cross-border, there are often fees and taxes associated with payment providers that aren't local to the region. This necessitates connecting to multiple payment providers when expanding internationally.

But on top of that, these merchants also need to add new payment methods that previously were not relevant. A new US merchant might be thinking all that really matters is card acceptance because most North American customers would never think to make an online purchase using invoice. However, for consumers in Northern Europe, paying by invoice is a top payment method. Want to grow your business by setting up shop in Romania, Slovenia, or Slovakia? Better find a way to offer cash-on-delivery as a payment option. The Netherlands? Got to have iDeal - or Sofort for Germany, or PayU for Poland, and so on.

A 2017 study by DPDGroup showed that merchants hoping to succeed in European markets must not rely on credit and debit cards, which trail PayPal and Alipay as the most-used payment methods in online shops in this region.

Are you thinking 'okay okay, but I'm not looking to go international'? It's worth noting that even in markets you already serve, growth can be achieved by making it easier for customers to pay – for example, by supporting split tender transactions, so that shoppers can pay for part of a purchase with a gift card and the rest with their credit card. Credit and financing options are also attractive for merchants selling high dollar-value goods. Do we even need to get started on millennials (because we can)?

Goal 3: Reduce operating costs

The "Why" behind this goal goes without saying: Lowering operational costs means widening profit margins or freeing up funds for further growth investment.

However, the strategy to achieve this goal is challenging. The more payment methods you offer, the more entangled your digital spaghetti becomes. You have to hire staff to manage all of your PSP and APM connections, and being locked into an existing system can keep you from optimizing for growth in certain new regions. But connecting to multiple PSPs and APMs will become necessary when adding in redundancies or growing internationally.

On the upside, there is a HUGE opportunity to lower operational costs because of all the complexity that is involved in the payment process. (Remember that stat from Aite that US card issuers would falsely decline as much as $331 billion in 2018?) You need to rethink how your payment operations ("PayOps") are working.

GROWTH CAN BE ACHIEVED BY MAKING IT EASIER FOR CUSTOMERS TO PAY – FOR EXAMPLE, BY SUPPORTING SPLIT TENDER TRANSACTIONS

Why Payments Matter

Bottom line: payments help your bottom line. Period. Throughout this report, we've learned that payments have a huge impact on increasing customer spend, attracting new customers, and reducing operational cost. How you handle your payment stack is an integral decision for the strategy and future growth of the company. And luckily, there is so much freedom to build your payment stack by using the best-of-the-best in payments.

Do you want to learn more about payments plumbing, and how you can optimize your Payment Operations ("PayOps")? The #paymentsgeeks at Modo are here to help. Reach out to us at info@modopayments.com

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ABOUT MODO

Modo is a payment switch + streamlined back-office operations platform that connects merchants to the market of payment services providers. A single connection to Modo's API allows merchants to manage and optimize their various payment services - from alternate payment methods and eWallets to card processors and acquirers. As a technology solution, Modo reduces the friction that occurs in connections between payment systems, without entering the money flow. Merchants can accept more payment types from more providers with lower decline rates at a lower cost, while maintaining control of both their customer data and their checkout experience without all the usual payments complexity. Modo's current market participants include 14 West, Klarna, FIS, Etihad Airways, Bank of America Merrill Lynch, and Deutsche Bank among others. Head to https://modopayments.com to learn more!