REPORT REPRINT

Successful payment strategies optimize for cost, growth and CX priorities

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Introduction

When left unoptimized, payments can have a detrimental impact on both the customer experience (CX) and the bottom line, while jeopardizing current and long-term topline growth. These impacts are being amplified by the current business environment brought on by COVID-19. With every dollar and relationship now more essential than ever, merchants can simply not afford to let payments interfere with their performance.

451 TAKE

Top-performing merchants know that payment orchestration and optimization strategies drive growth, reduce costs and elevate their CX. They view payments as a fundamental customer touchpoint and a critical infrastructure layer underpinning their broader commerce investments. Ultimately, they recognize that without an effective framework in place to collect customer payments, investments made further up the funnel (e.g., advertising, marketing, merchandizing) decrease in effectiveness and value.

Merchants must tie payments to key business outcomes

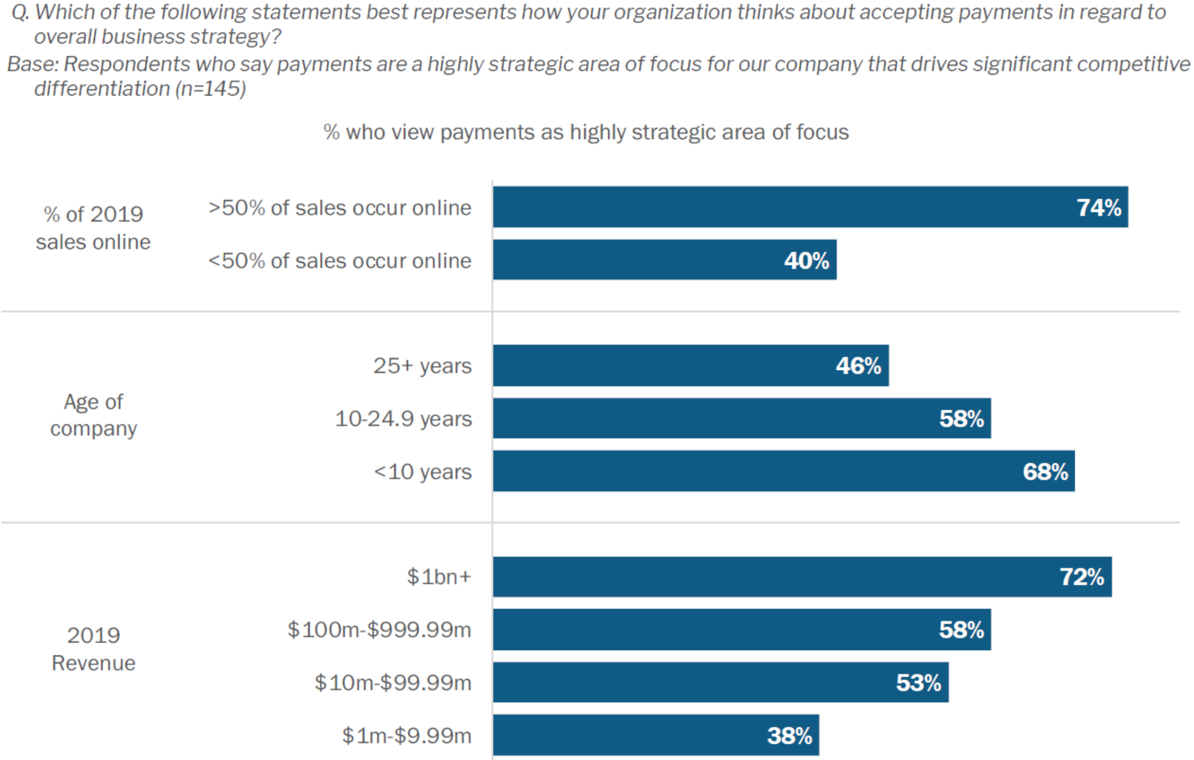
Commerce teams must get down to brass tacks and concentrate on the key outcomes they are looking to achieve with payments. We advise tying payments back to three strategic business priorities: driving growth, elevating the customer experience and decreasing costs.

- **Drive growth.** The market is quickly waking up to the fact that payments can be a driver of topline revenue growth. This can be realized across multiple fronts. Aligning with geographically relevant payment partners and onboarding local payment methods can provide a shot in the arm for the success of any cross-border commerce initiative. Similarly, integrating alternative payment methods (e.g., digital wallets, installment payment options), implementing low-friction fraud-prevention tools and turning on account updater services can have a dramatic effect on conversion and transaction approval rates. We've also seen payments play a central role in underpinning new business models (e.g., subscriptions) and commerce experiences (e.g., ridesharing, omni-channel shopping) that are flourishing in the market.
- **Elevate the customer experience.** With the customer experience fast becoming the top battleground in commerce, payments have emerged as an essential input. Payments arise at the most pivotal moment of the shopping journey – when a shopper is about to transition to a buyer – meaning the consequences for friction are high. We find that more than two-thirds of consumers who abandon an online shopping cart due to checkout friction end up buying from a different merchant or not at all. What's even more concerning is that over half of shoppers who have had a negative experience say they are less likely to return to that merchant in the future. The sources of checkout friction in need of elimination include processor downtime, limited payment options, laborious checkout forms and false-positive transaction declines, among many others.
- **Decrease costs.** While cost reduction has always been top of mind for payment teams, the opportunity today goes far beyond negotiating for lower processing rates. There are many levers available for merchants, such as least-cost routing and payments orchestration, to optimize the direct and indirect costs associated with payments acceptance. Further, unified fraud-prevention platforms along with chargeback automation and chargeback guarantee offerings can decrease losses while mitigating costs associated with operational overhead.

These three priorities can be at times both interrelated and conflicting, demanding significant focus. We believe merchants that have made payments a strategic area of focus for their business are best situated to apply the constant rebalancing and tuning that execution requires. As shown in the figure below, merchants that are online-centric, newer entrants and those that generate substantial revenue are most likely to be in a position to deliver. However, merchants that are not defined by these attributes are in a compelling position to differentiate from their peers via payments, should they make it a strategic area of focus.

Merchants' Emphasis on Payments Varies Widely

Source: 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2020



Optimization converts payments into a strategic advantage

The goal of payments optimization is to maximize revenue growth by mitigating – or eliminating – the impact of the multiple points of failure that can occur in the payments flow. Effective payment optimization strategies accomplish this by harnessing a combination of front- and back-end approaches that serve to elevate the CX, enhance decision-making and drive efficiency. Delivering these approaches in conjunction with each other can help maximize results. Many large merchants we have spoken with have experienced double-digit increases in approval and conversion rates by implementing various optimization approaches concurrently.

Front-end approaches to payments optimization primarily focus on improving the customer's checkout experience with the goal of decreasing cart abandonment, while back-end approaches chiefly focus on applying technologies that mitigate the occurrence of false and avoidable declines. False declines are a relatively frequent event for cardholders, and a persistent driver of losses for merchants. According to 451 Research's Q2 2020 VoCUL Connected Customer Survey, 28% of cardholders have abandoned a purchase due to a false decline in the past six months, with one in five doing this two or more times. Most concerning, 30% of consumers tell us that a false decline significantly influences their likelihood to stop shopping with a brand or retailer.

There are many different front- and back-end approaches to payments optimization that can help mitigate the occurrence failures before, during and after the transaction. To learn more about these approaches, along with top payment processors/gateways and payment orchestration providers that can help with execution, please read our new TBI, Moving Payments From Commodity to Commerce Catalyst Through Optimization and Orchestration.