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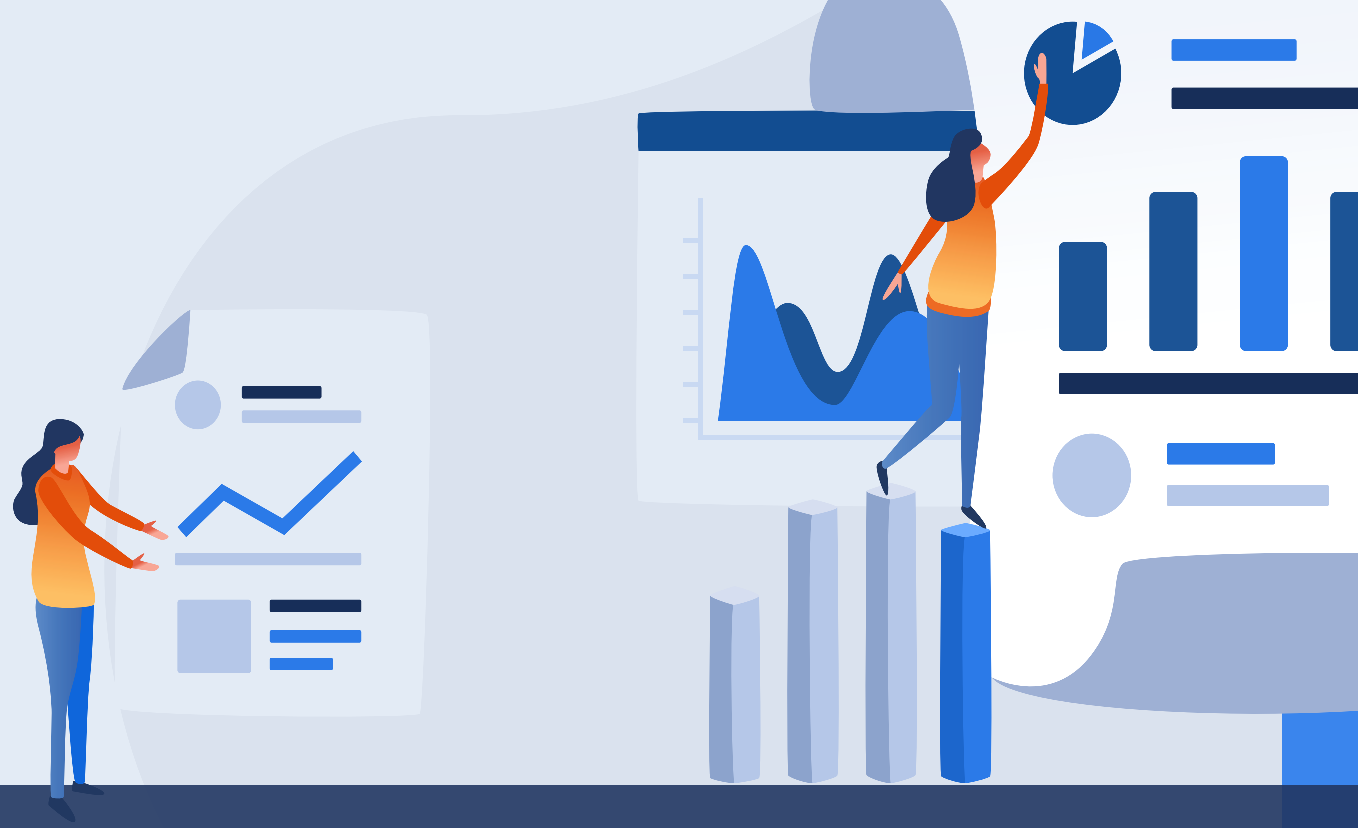
Integrate Once,
Solve Payments Forever

Connecting to multiple payment services is the new standard. This eBook will show you how to make this process more efficient.



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Accelerating Revenue eBook

A Data-Driven eBook

Using multiple payment gateways drives more flexibility – and more revenue for e-commerce services.

A Strategic Challenge to Growth

Everyone wants to grow their revenue. But to drive ever faster growth requires constant business and technical innovation.

Innovative companies constantly push the boundaries of their infrastructure to expand into new geographies, markets, and business lines.

Yet, the demands they place on their business are often constrained by technical limitations – in particular, their payments infrastructure.

Spreedly
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eBook

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01.

Innovative, fast-growing companies rely on multiple payment gateways.

One area of constraint for merchants is around the solutions they use to accept payments. Innovators require flexibility in these payments and e-commerce infrastructures.

The Need for Flexibility

Siloed payments solutions may not suit or adapt well to the specific needs of merchants and marketplaces. As a result, an e-commerce company will either have their ambitions to grow into new markets limited or delayed.

This often leads to innovators running into limits on their ability to adapt siloed solutions to suit their specific business and technical needs. This paper explores how innovative, fast-growing companies are relying on multiple payment gateways to support their unique and changing payments requirements.

Payments Support Great Customer Experiences

At the same time, fast-growth companies succeed by delivering a great customer experience. Repeat customers that recommend a service demand more than just an average value.

A vital part of that customer experience is the process of accepting payments. Declined transactions and long latency times for approvals can damage goodwill and reduce customers' lifetime value.

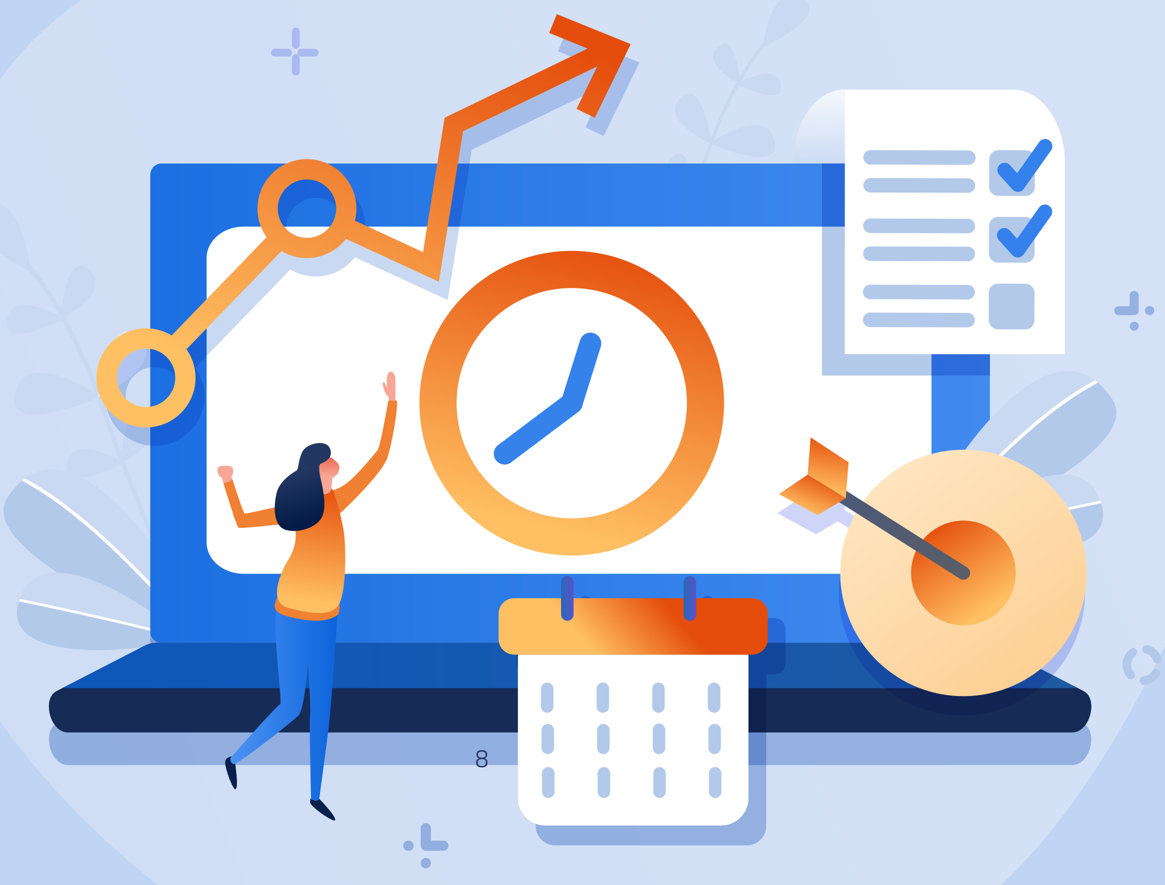
Plus, the inability to accept payments in the way customers demand — or in the markets that customers are in — can lead to long latency times for approvals. Or even the inability to accept payments in the way customers demand. That damages the customer experience.

To deliver a great customer experience requires reducing these false declines, cutting latency, and ensuring that customers can pay as they prefer.

As we'll see in this eBook, that isn't always simple with a single gateway. Yet, by connecting to multiple payment gateways, merchants regain the ability to deliver a great experience — and maximize the lifetime value of their customers.

02.

Primary Business Advantages of Using Multiple Payment Gateways



As a result of these challenges, fast-growth companies connect their applications to multiple gateways to facilitate both business and technical innovation. Let's take a look at several of the key reasons for using multiple payment gateways in more detail.

1. Multiple Gateways Support Business Innovation

e-Commerce continues to grow at a staggering pace. Analysts predict that by 2020 double-digit growth will bring online sales to $4 trillion per year. As this growth rises, more and more businesses will grow into new markets and build new business models.

For instance, SeatGeek has evolved its model over time from directing purchasers of event tickets to ticket brokers' sites for purchase to delivering a complete customer experience within their own solution.

> "Like other companies with VC money, we had to find other ways to grow, to drive more volume, to get more customers."
>
> — SeatGeek

With support for more than one gateway, e-commerce services are able to introduce new and dynamic business models. For example, a delivery company aims to bring on thousands of restaurants and corner stores. But each of these merchants has its own payment provider.

The delivery company not only can't integrate with each provider, it would rather provide differentiation by being able to make it easy for new merchantsh to onboard by offering easy connections to whatever gateway the merchant uses.

2. Multiple Gateways Increase Geographic Coverage

The need for more than one gateway is clear when your business expands — particularly abroad. As you sell across countries, you'll notice varying levels of support.

Some gateways may cite support for a particular country, but in fact their support may cover only certain payment methods and currencies. Or their ability to process transactions successfully and quickly is less compelling. This can be especially true for domestic versus international payments.

By adding support for multiple gateways, an e-commerce service can route transactions to the gateway that provides the best support for a particular region. The result is more successful transactions across multiple markets.

3. Multiple Gateways Support Flexibility

Using multiple gateways makes great business sense when you consider the flexibility it gives your team. As you work with a gateway in a particular region, you may discover that fees, contract requirements, and other business issues degrade the value you get from your relationship. By working with multiple gateways, you can readily shift your transactions to another partner as needed.

There are many gateways available for merchants to use. And the unfortunate reality is that some of them won't be around in the long term. Storing card data outside of the gateway — or with a duplicate backup vault that is outside of the gateway — provides tremendous security and flexibility for your team to shift gateways if needed.

More commonly, there might be a situation where the gateway simply goes down or is unresponsive. When that happens you can lose a tremendous amount of customer goodwill, not to mention revenue.

With multiple gateways on hand, you can efficiently re-route transactions through an alternative gateway with limited disruption.

Another common scenario is when a merchant may have an exceptionally high volume of transactions. For instance, Spreedly customer Elevate Tickets manages ticketing for many of the world's largest festivals.

Alternative Gateways Help With High Demand

When there are bursts of transactions, like purchasing tickets when they go on sale, it's important to have alternative gateways available if a single gateway can't handle the volume of sales.

4. Use Multiple Gateways to Support Merchant Flexibility

As the payments industry evolved, there were two kinds of providers. One that offered a combined gateway and merchant account. And others that were gateway-only.

Merchants that wanted simplicity often chose the combined approach, despite what were generally higher transaction costs.

While higher volume merchants that were comfortable with managing the process often would use their own merchant account and opt for the more cost-effective transaction fees. While both are valid options, there's a middle ground where both options are used by the merchant.

For example, your business might have negotiated great processing rates from a provider, but you want the flexibility to work with the gateways that meet your specific needs. Or, you may simply want the option to move from one gateway to another without the hindrance of adding a merchant account when you switch.

Spreedly customer Elevate Tickets manages ticketing for many of the world's largest festivals.

When tickets go on sale, there is a massive influx of demand. Companies that have similar bursts of transactions want alternatives if a gateway can't handle the volume so that their 'on-sale' can proceed smoothly.

“

PedidosYa, an on demand delivery app, changes gateways on the fly to prevent the possibility of lost ordershh

03.

What Does the Data Tell Us About the Advantages of Multiple Gateways?

At Spreedly, we collect rich data on the success of transactions, payment methods, and gateways. We use the insight generated from that data to help our customers provide an even better customer experience.

Our data science team analyzed tens of millions of transactions processed in conjunction with the Spreedly platform over the past six months. This analysis helps us understand how well the reality of multiple gateways compares with the business value we outlined above.

First, let's look at general attributes of the data collected. 30% of the analyzed transactions were authorizations and 70% were purchases. The transactions were 90% domestic purchases and authorizations combined and 10% international across all currencies.

To be clear, a cardholder in Argentina transacting in Argentinehhh Pesos would be classified as a domestic transaction for our analysis.

Included in the assessment were a total of 114 gateways and 106 currencies, so a strong cross-section of global transactions.

Across all of these transactions, we wanted to assess how well multiple gateways help to drive lower decline rates and latency. To do so, our team compared the metrics for decline rates and latency across:

- Different currencies
- International versus domestic transactions
- Authorization and Purchase transaction types
- Different gateways in various geographies

A key recognition as we look at the data is that the gateway is only one part of the payment infrastructure. In the case of declines, for example, 44% occur due to the customer having insufficient funds, according to a study by Ethoca. However, if we attempt to control for this, the data reveal important insights for merchants evaluating their gateway strategy.

As part of the analysis, we assessed the results to determine confidence levels. Statistically speaking, we are reporting these results in a 1% significance level. These confidence levels are for our comparison of popular gateways with those with the lowest declines. Now, let's look at the key conclusions drawn from this analysis.

Gateway Results Vary by Transaction Type

In addition to variability across currencies served by the gateways, there is also a significant difference in gateway performance based on transaction type.

Decline rates when compared across gateways vary significantly when categorized by authorization versus purchase and domestic versus international transaction types are correlated with decline rates.

The same holds true for latency levels. Our analysis highlights variability of transaction latency by gateways depending on the type of transaction.

Need for Geographic Coverage

International coverage is not a guarantee when you pick your gateway. We found that the average gateways processes transactions successfully in six currencies. 50% of gateways analyzed transact in two currencies or less — in fact 48 gateways processed just a single currency.

So, if your business is planning to expand internationally, you should evaluate your options.

50% of gateways analyzed transact in two currencies or less.

Many businesses will have a significant market in their domestic currency and will have negotiated favorable arrangements with their gateway. They might then be concerned about giving that up in exchange for moving to a gateway that has broader international coverage.

But that doesn't have to be a choice if you connect your application into multiple gateways. You can continue to transact in your preferred domestic provider and rely on another gateway — or suite of gateways — for international transactions.

Variation in Decline Rates

If we narrow our analysis to focus on one currency, we can see more clearly how decline rates across different gateways compare. Focusing on USD as that currency makes the most sense, as we have 85 gateways in our sample set that transact in US Dollars.

This also helps eliminate the variability that might come from a gateway concentrating on currencies that may have a higher average decline rate.

We found by assessing these 85 gateways that the variance of decline rates was very high. This validates the importance of not simply assessing your gateway vendor and its performance, but to have flexibility in your approach.

That might mean flexibility in different markets to take advantage of relative success rates. And it might also mean flexibility to work with a different gateway provider if your existing provider is not successfully transacting at the level you expect.

We also found that if a gateway performs well in, say Malaysia, that does not necessarily suggest that it will be a top performer in Chile. This variability of which is the top performing gateway in a particular market is a compelling reason to work with multiple gateways in order to maximize the volume of successful transactions across markets.

Variation in Latency Rates

A similar challenge faces merchants around latency rates. This is the time required for a transaction to be completed. You can easily imagine the frustration that a consumer feels when there is a long latency to complete a transaction.

They may assume something has gone wrong and abandon their cart. They may get frustrated and leave. Or they might remember the frustration the next time they select a vendor and simply go elsewhere.

The reasons for latencies can have many sources, and just like declined transactions, many of these reasons are external to the gateway. However, there are many lessons that jump out from a comparison that mitigate this concern.

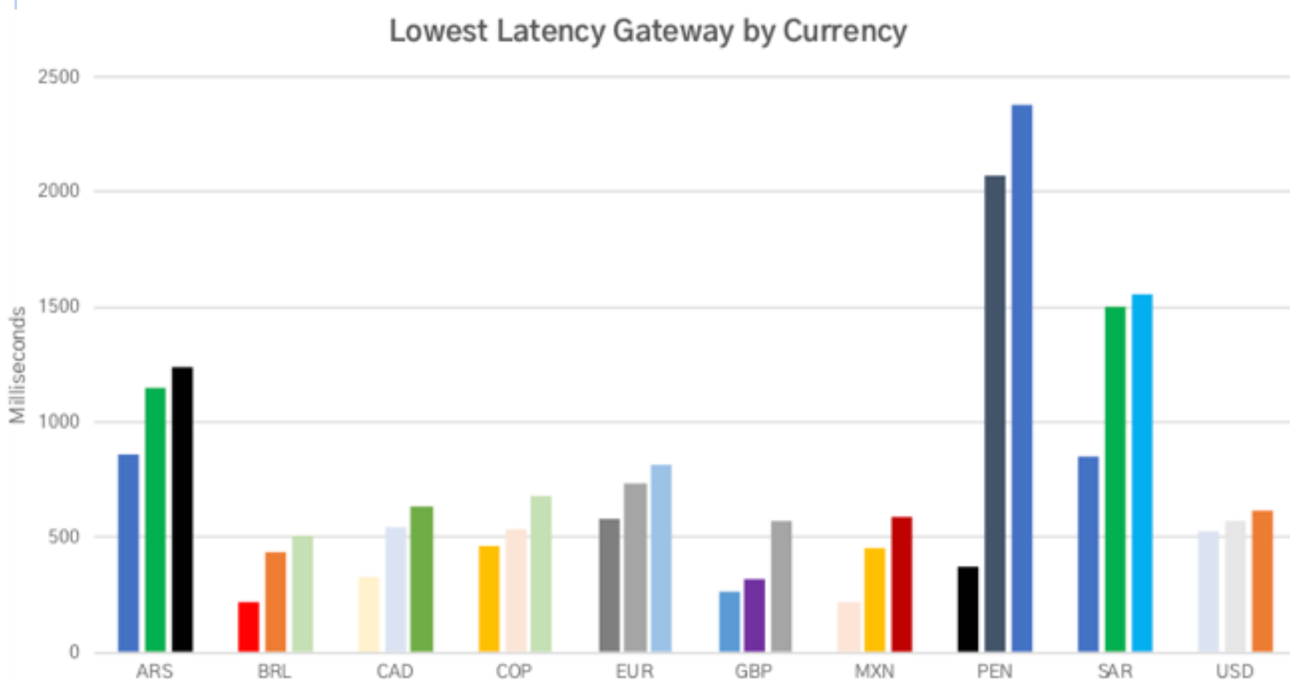
Looking at the data, we can compare the performance of gateways across currencies. Here, much like for declines, we can see that gateways that have very low latency rates in one currency are seldom top performers in other currencies.

That means that for a merchant to select a single gateway to service all the currencies they sell in means frustrating a large proportion of their customer base.

This becomes particularly challenging when you consider that your business is trying to expand into new markets. And if you move into the new market and provide a poor purchase experience for your customers, you're less likely to gain traction in that geography.

The chart here illustrates that point. We've selected a basket of high-volume currencies, and identified the gateways with the lowest latency rates by currency in a sample of transactions. Then we marked each with its own color.

You can see the diversity of gateways across the top 3 across currencies. There is very little consistency, as a top performer in one currency is often not in the top 3 for another



The chart here illustrates that point. We've selected a basket of high-volume currencies, and identified the gateways with the lowest latency rates by currency. Then we marked each with its own color.

Currency Coverage by Gateways

As your business grows internationally, you need to have the ability to accept payments in the regions where your customers are and where you want to sell. Without coverage, you set the bar very high for a customer to make a purchase.

This challenge becomes even more apparent when you recognize that in our analysis we found thirty currencies that had a single gateway covering them.

When looking at breadth of coverage across geographies, we found that the the average currency was supported by just three gateways.

That suggests that a global strategy with one gateway can be difficult to manage because you may find that the currencies that you want to support are only covered by a basket of gateways versus a single provider.

By working with multiple gateways and selecting which to use for a particular currency gives you the flexibility to expand into the markets you want to target.

04.

Should I Choose One Gateway that Supports Multiple Currencies?

As merchants expand internationally, their need to process payments in multiple currencies becomes essential. A valid approach for a merchant then is to select a payment gateway that supports the currencies needed.

This may have some advantages, depending on the priorities of the merchant. But there are significant downsides that can have short-term and long-term impacts on revenue.

As we discussed above, gateways differ in terms of their success rates and latency levels. This problem holds true even when looking at a single gateway's performance across a basket of currencies.

A gateway might perform well in terms of transaction success and latency times in one currency, but underperform in another.

We see that in looking at the data above. Here we see a top performing gateway for Currency A radically underperforming for Currency B. This performance fluctuation will drag down revenue in the Currency B's region for the merchant, as customers take their immediate purchase — and long-term business — elsewhere.

This challenge can be addressed by implementing a basket of gateways. While latency and transaction success aren't the only determinants for which gateway a merchant should choose, they are important.

By connecting with multiple gateways, a merchant can select and, when needed, rebalance a portfolio of gateways. Merchants can select which gateway makes the most sense for them for each currency. And then, if needed, move to another if performance erodes over time.

> "Cabify is a global business, working with different gateways. At one glance we can visually understand trends and dive deeper ... to focus on evaluating and solving a range of potential issues."
>
> Armando Rivas, Senior Manager at Cabify

> We no longer need to commit development resources to integrate to various card processors… (we can focus) on improving our platform.
>
> — Equiant

Gateway Popularity and Decline Rates Don't Always Match

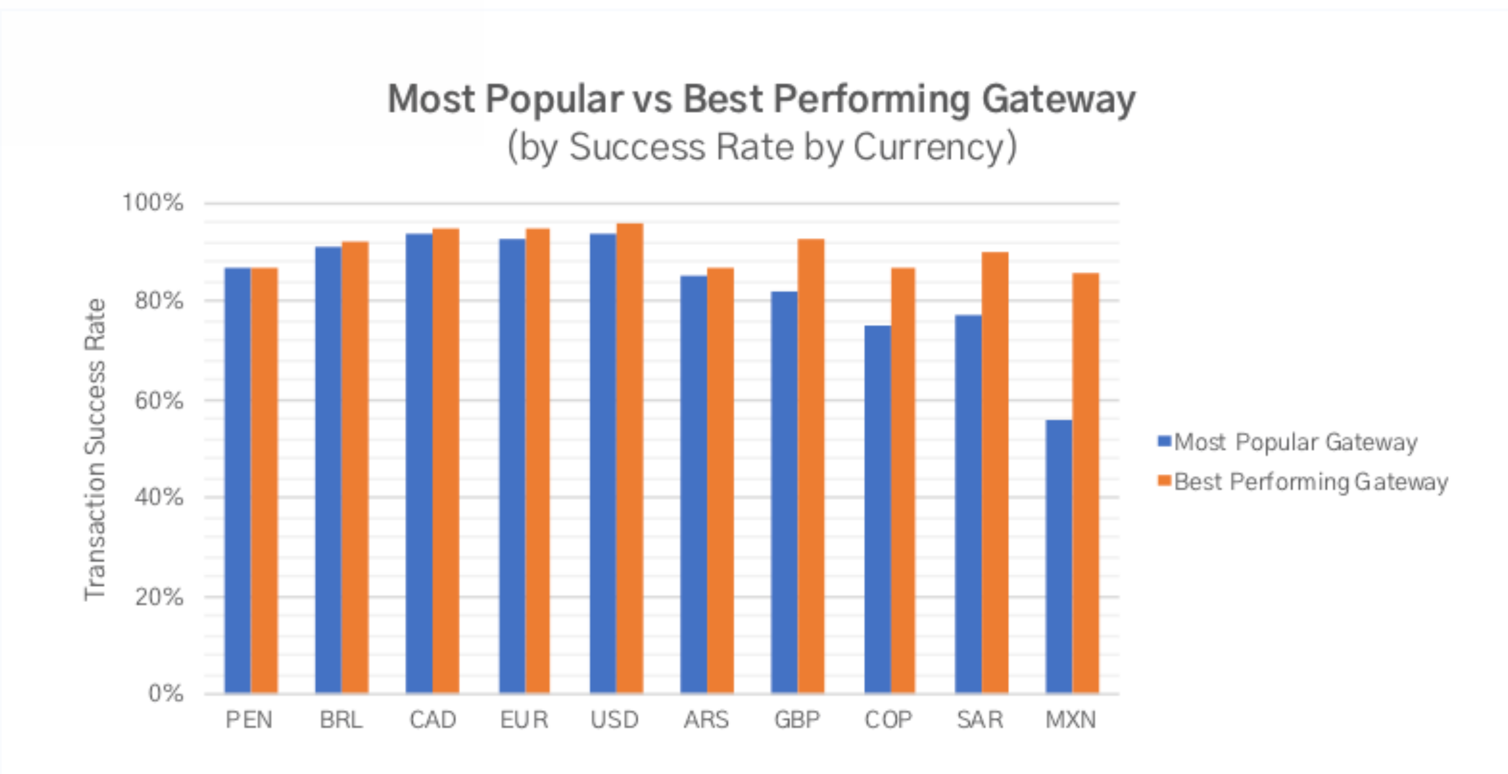
While it is not the only consideration when evaluating which gateways to select, decline rates are an important factor. In our analysis, we compared the volumes of transactions for a given currency versus the decline rates experienced in that currency.

We found that there often was a mismatch between the two. That is, the gateway with the lowest decline rate was infrequently the most popular.

The analysis we ran compared the transaction success rate of the top performing gateway in our dataset for a particular currency versus the most popular payment gateway for that currency based on number of transactions in that currency.

The results are striking. For some currencies, the gap is massive: up to 30%. But even in cases where the difference is small, imagine what that difference means to your business. What would 1% more successful transactions mean for your revenue and long-term relationship with your customers?

This again highlights the fact that companies choose their gateways for many reasons, not just decline rates. But higher than average declines can materially affect your revenue, and must be part of your calculus.



After all, decline rates have a short term impact by reducing the amount of revenue generated for a given set of transactions.

Plus, it affects the lifetime value of a customer because of their likelihood to not rely on your business in the future if they experience a decline.

By connecting to multiple gateways, you don't have to sacrifice one to the other. You can select the vendor you are most comfortable with from a business perspective and leverage better performing gateways where you benefit.

The data is clear. Instead of reflexively relying on a single gateway, merchants should understand their business needs. Fast-growth companies in particular should evaluate whether the importance of business flexibility — and addressing latency, and transaction success matter to them.

If so, a balanced portfolio of gateways can give you the opportunity to maximize successful transactions across different transaction types.

Evaluating The Data

Fast-growth companies in particular should evaluate whether the importance of business flexibility and addressing latency, and transaction success matter to them.

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