DIGITAL COMMERCE 360

From the editors of **Internet Retailer**

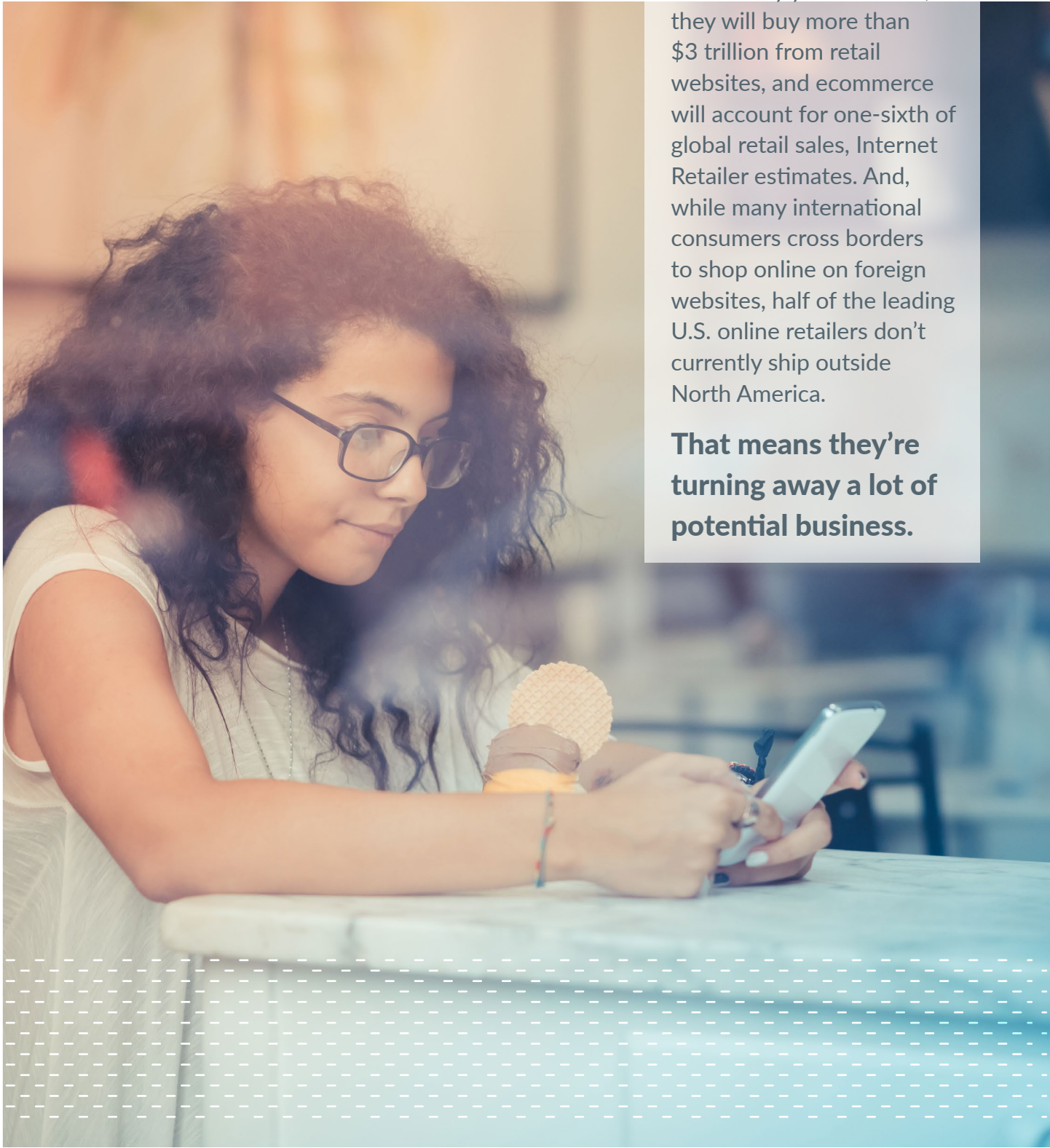# GLOBAL ECOMMERCE EXPANSION

Payments and Fraud Prevention Trends Report

Brought to you by **BlueSnap®** and **Kount®**

Consumers around the world are shopping online more every year. In 2019, they will buy more than $3 trillion from retail websites, and ecommerce will account for one-sixth of global retail sales, Internet Retailer estimates. And, while many international consumers cross borders to shop online on foreign websites, half of the leading U.S. online retailers don't currently ship outside North America.

That means they're turning away a lot of potential business.

What's holding them back?

Principally, concerns about fraud and payment processing, according to a 2019 survey of retailers by Internet Retailer for global payments company BlueSnap and fraud prevention firm Kount.

This white paper describes the adoption of global ecommerce across top U.S. retailers and evaluates the opportunities and obstacles these retailers may find as they expand into global ecommerce markets. It presents the concerns retailers have with managing global payments and protecting themselves against new types of fraud. It also provides recommendations about how retailers can expand their sales to online shoppers around the world.

CONTENTS

Opportunity and challenges in international ecommerce

The global ecommerce market

Online retail sales are projected to grow at compound annual growth rate of 20% from 2016-2019, ecommerce publication Internet Retailer projects, reaching nearly $3.5 trillion in 2019.

Global ecommerce will top $3 trillion in 2019

Worldwide online retail sales

2016
$2.00 trillion

2017
$2.43 trillion

2018
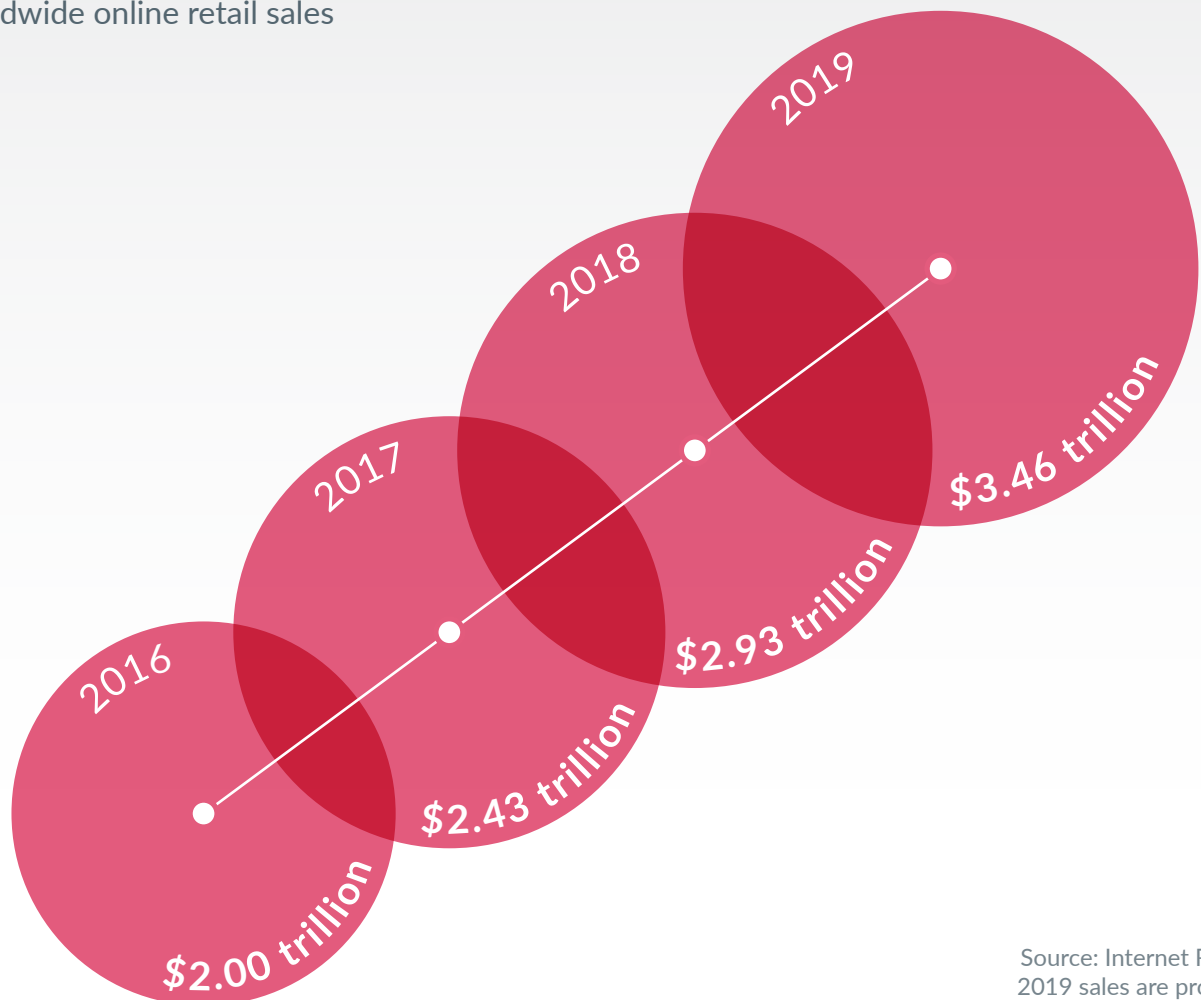$2.93 trillion

2019
$3.46 trillion

Source: Internet Retailer
2019 sales are projected

However, global retail sales are only growing at around 3.5% annually, Internet Retailer says. As a result, ecommerce accounts for a growing portion of retail sales every year. In fact, the online share of the world's retail sales will have grown from 10.5% in 2016 to 16.4% in 2019, Internet Retailer estimates. Should current trends continue, global ecommerce will exceed brick-and-mortar retail sales by 2036.

The web accounts for one-sixth of global retail sales

Ecommerce as a portion of global retail sales

Source: Internet Retailer
2019 sales are projected

Year	Ecommerce share
2016	10.5%
2017	12.3%
2018	14.4%
2019	16.4%
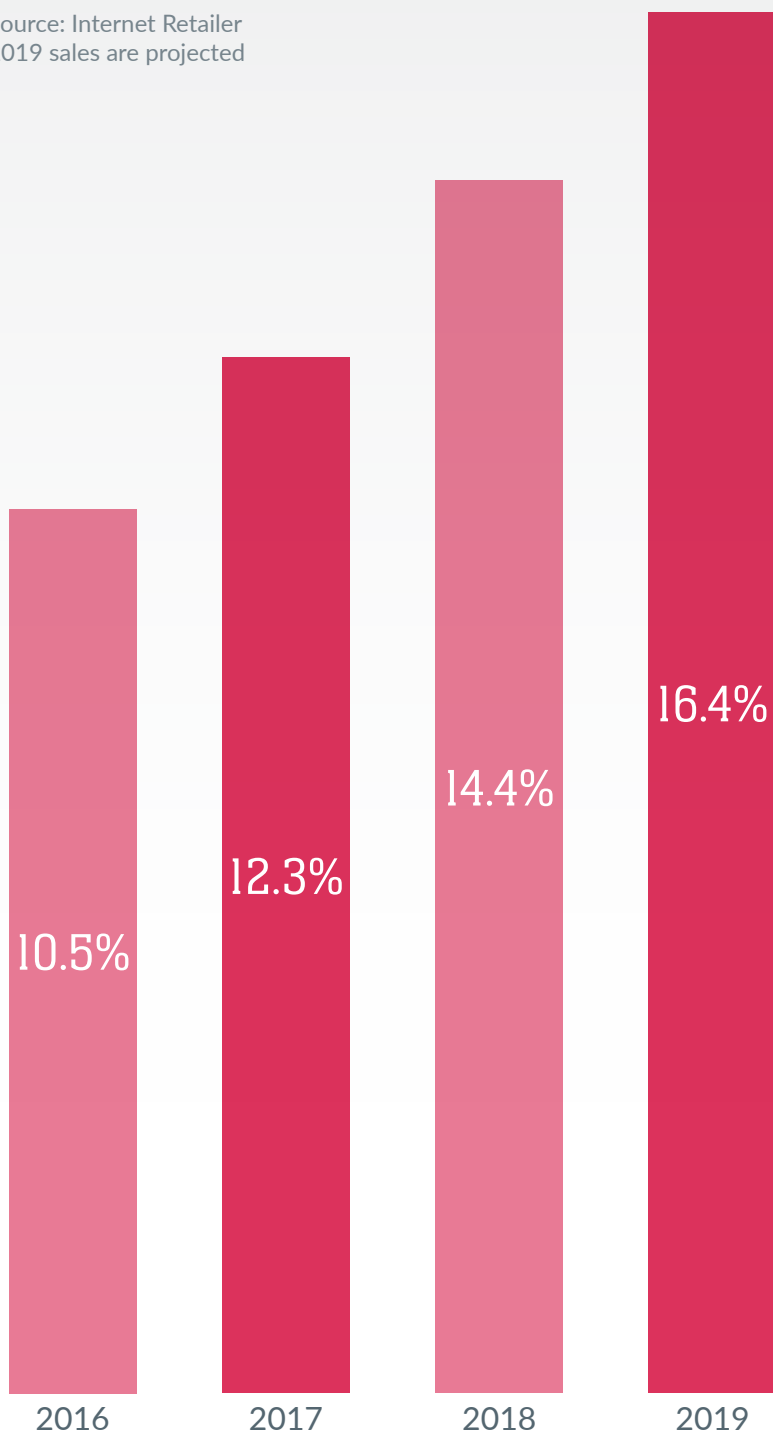
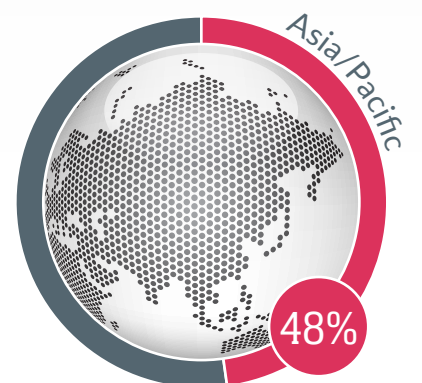As they gain confidence in online shopping, the world's consumers are looking beyond their own borders for better-quality goods, lower prices, and a broader selection, according to a 2018 survey by online payments firm PayPal of 34,000 consumers in 31 markets. Already, more than half of online shoppers in the Middle East, Africa, Europe, and Latin America have shopped on websites based outside of their home countries, as have 48% of consumers in the Asia-Pacific region, the PayPal survey shows.

CONSUMER SURVEY

Many consumers purchase from foreign websites

Portion of consumers shopping on retail websites outside of their country

Source: PayPal, 2018 survey of 34,000 online consumers in 31 markets
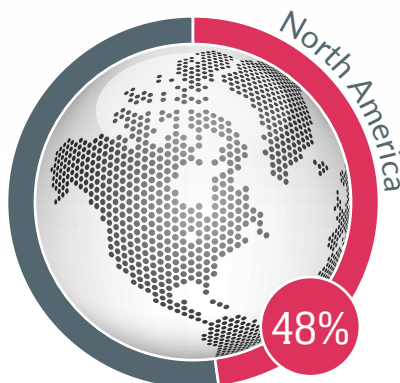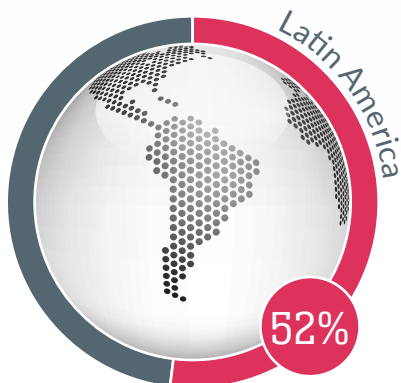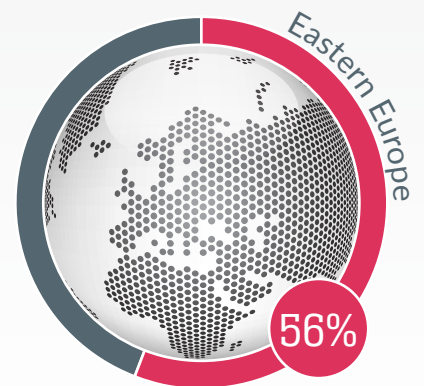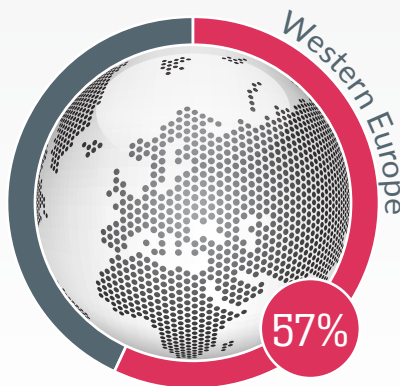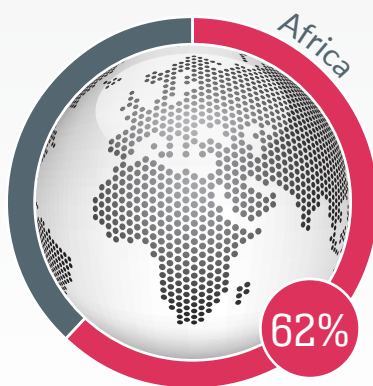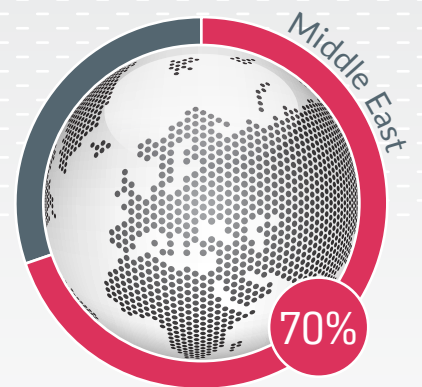
Middle East 70%

Africa 62%

Western Europe 57%

Eastern Europe 56%

Latin America 52%

North America 48%

Asia/Pacific 48%

The leading U.S. online retailers and brands do a lot of business with these international consumers—but they could be doing a lot more. And, smaller retailers, in particular are missing out.

In 2018, U.S.-based retailers in Internet Retailer's rankings of North America's Top 1000 retailers by web sales sold $147.3 billion to consumers in other countries. While Amazon.com Inc. alone accounted for 44% of those sales, the remaining U.S. retailers sold $82.5 billion worth of goods to international web shoppers.

Missing out Portion of U.S. Top 1000 retailers that ship to each region

Region	Percentage
Europe	**48.2%**
Asia/Pacific	**47.2%**
Middle East/Africa	**42.4%**
Latin America	**41.6%**
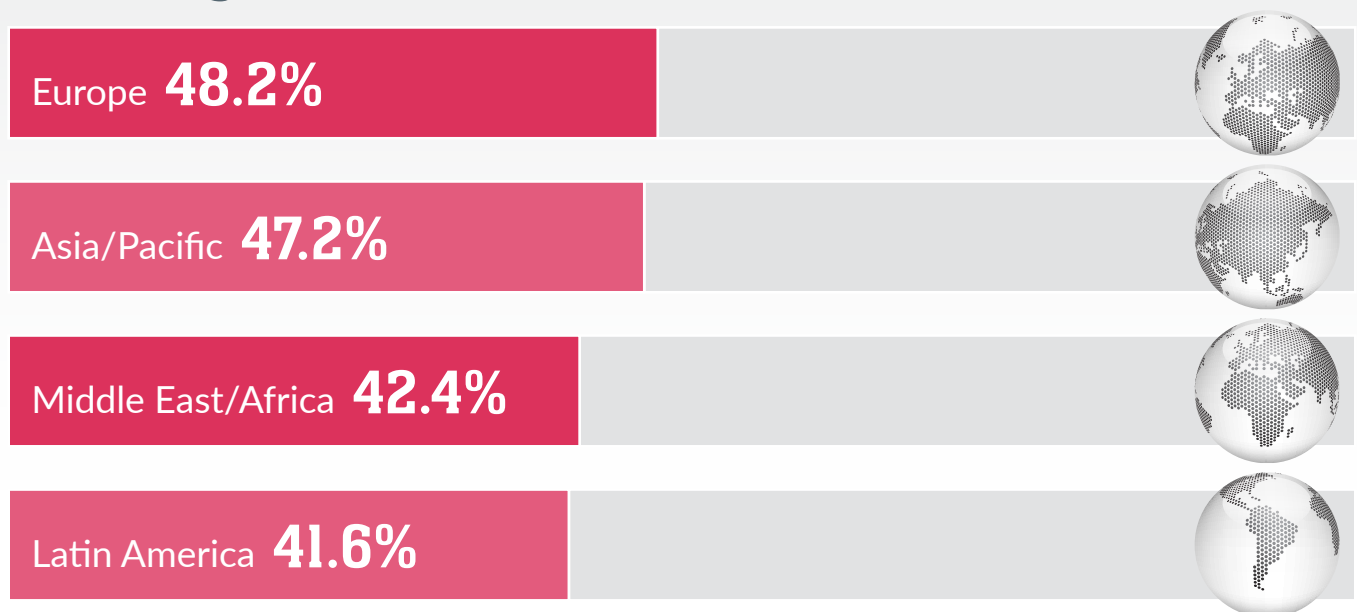
Source: PayPal, 2018 survey of 34,000 online consumers in 31 markets

Many retailers are ceding international ecommerce business to Amazon by not accepting orders from foreign consumers. Fewer than half of the U.S. retailers in the Top 1000 ship to consumers in Europe, Asia-Pacific, the Middle East/Africa, and Latin America, effectively turning away business from these foreign shoppers. To gain back market share and profit, retailers need to expand internationally as there is still much opportunity to sell to shoppers around the world.

Two obstacles to global ecommerce

One big challenge for online retailers seeking to sell to shoppers from other countries is that those consumers are used to paying in currencies other than the U.S. dollar. Many online retailers are wary of the complexity and expense of handling payments in foreign currencies, and the added burden of accepting payment methods not common in North America. For example, consumers in Germany frequently pay for online orders upon delivery, while Chinese consumers often pay for web purchases with a payment method called Alipay and many Brazilians favor Boleto Bancário.

In a survey conducted with digital commerce merchants about their experience with international ecommerce, 60% of these retailers cited "currency and payment processing" as among the top two obstacles to international ecommerce, and an identical 60% pointed to "fraud prevention." Those two topped the list of obstacles to international ecommerce expansion.

RETAILER SURVEY

Barriers to international ecommerce

What do you see as the primary obstacles to selling to online shoppers in other countries? (Multiple responses allowed)

Fraud prevention	**60%**
Currency and payment processing	**60%**
Customs duties	52%
Local regulations and laws	50%
Fulfillment	43%
Language	36%
Customer service	27%
Path to profitability or the risk related to achieve profitability	21%
Generating demand	18%
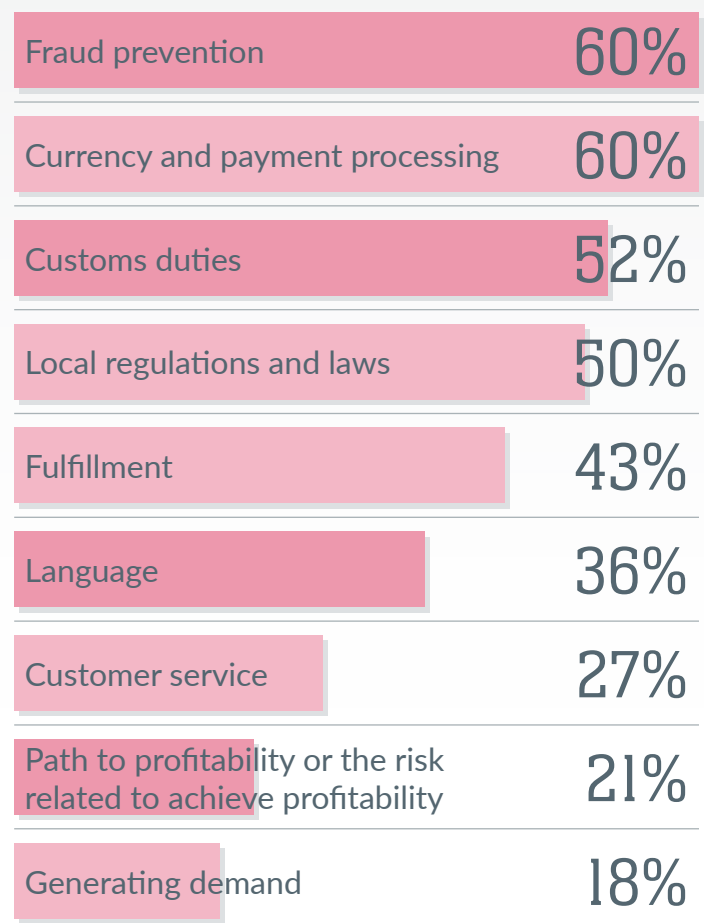
Source: Internet Retailer survey of 129 retailers, May 2019

At the same time, retailers see the opportunity in international ecommerce: 67% somewhat or strongly agreed with the statement that selling online across borders "is a critical source of our ecommerce growth in the future".
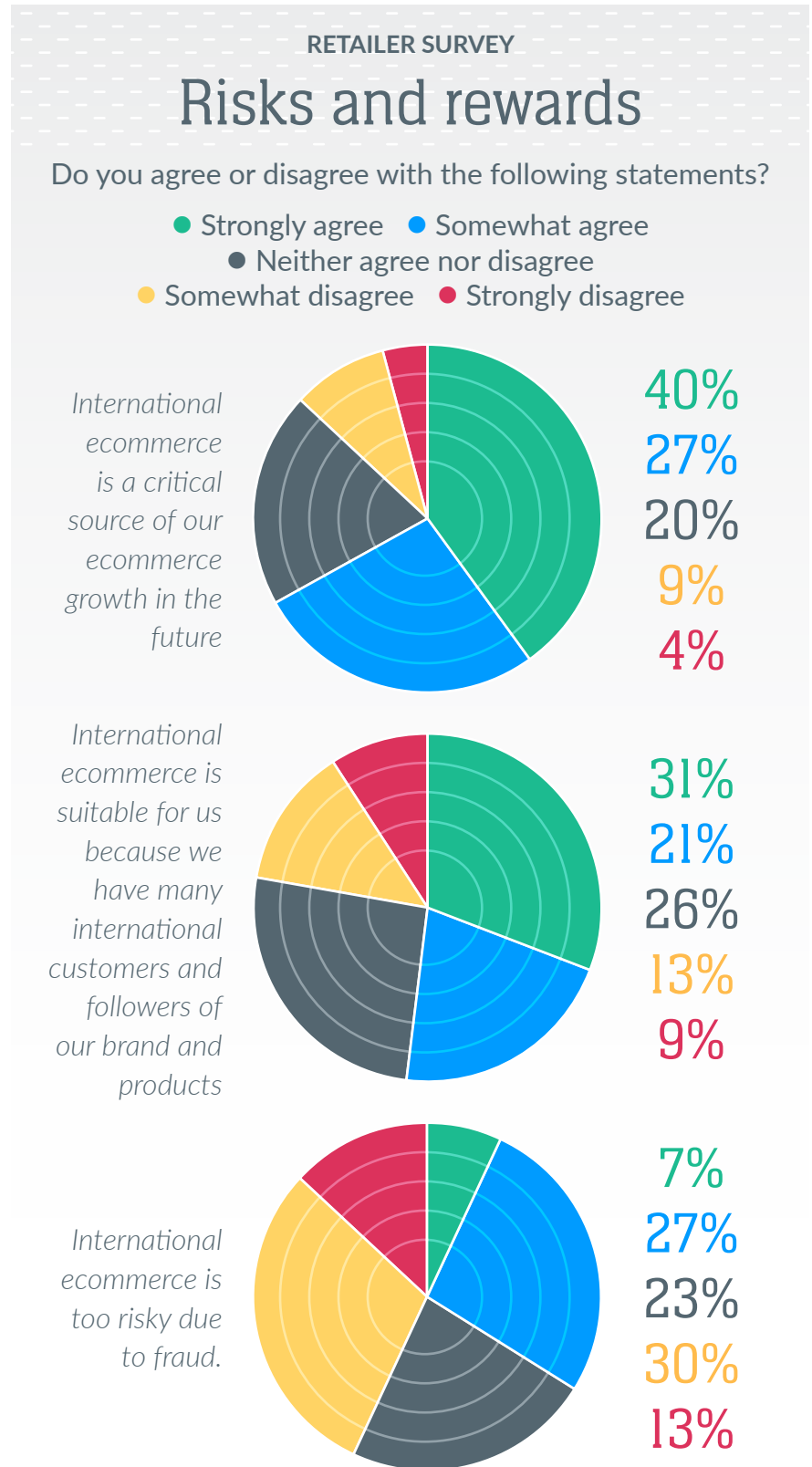
One reason for that positive outlook: Retailers know that consumers around the world are familiar with U.S. brands and want to buy them. That's clear from the 52% of survey respondents who somewhat or strongly agreed that international ecommerce "is suitable for us because we have many international customers and followers of our brand and products."

While two-thirds of the surveyed retailers are taking Amazon's lead and expanding internationally. 33% of them think that international expansion is too risky because of fraud. However, if the 33% were educated on fighting fraud, they too could expand internationally without concern.

RETAILER SURVEY

Risks and rewards

Do you agree or disagree with the following statements?

● Strongly agree   ● Somewhat agree
● Neither agree nor disagree
● Somewhat disagree   ● Strongly disagree

International ecommerce is a critical source of our ecommerce growth in the future

40%
27%
20%
9%
4%

International ecommerce is suitable for us because we have many international customers and followers of our brand and products

31%
21%
26%
13%
9%

International ecommerce is too risky due to fraud.

7%
27%
23%
30%
13%

Source: Internet Retailer survey of 129 retailers, May 2019

Global fraud and payment concerns

Retailers have legitimate concerns about fraud when accepting foreign orders, because the systems they use to detect fradulent orders in the U.S. don't always work well when evaluating orders from abroad. Greater sophistication is required to evaluate cross-border orders than domestic orders because of policy considerations and a variety of risk factors related to international transactions.

Common techniques such as address and Card Verification Value (CVV) checks are not very effective when applied to international orders, and these are exactly the techniques many U.S. retailers rely on. For example, address verification is less effective in areas of the world where every resident receives mail at a single address—the local post office—making it hard to determine whether that address is an indicator of fraud. In addition, the way a postal addresses are written in some countries can make a legitimate address look incomplete to a retailer used to U.S. or Canadian postal formats.

These attempts to apply domestic fraud prevention systems to international orders can to lead an eretailer to decline good customers, which often costs a retailer more in sales than losses from actual fraud.

However, every geography will be different, with its own nuanced complexities and characteristics. Additionally, companies need to think about how they want to do business and map out their fraud strategy, business policies, and other factors needed to be successful internationally. Technology attuned to the nuances of global ecommerce can minimize fraud risks, as we'll discuss later in this paper.

Payment localization increases vendor count

To succeed in foreign markets, retailers need to offer the currencies and payment methods used in local markets. Often times they need to seek an additional payment vendor to fulfill that need.

One insight that emerged from the survey was that many retailers use several payment processors in order to handle purchases from consumers around the world. Less than 39% of responding retailers engaged in international ecommerce work with only a single payment processor, and more than a third are connected to at least three. While it's sometimes necessary to have multiple payment processors, having too many becomes cumbersome to manage. It's noteworthy that managing the technology integrations with multiple vendors also showed up as a significant concern in the retailer survey.

RETAILER SURVEY

Top global tasks

Top 10 challenges companies say they face in global payments and fraud management, in order

1 Fraud management

2 Offering the payment methods needed in the countries we do business in

3 Fighting chargebacks

4 Finding the right payments and/or fraud solutions providers

5 Offering the currencies used in the countries we do business in

6 Reporting and reconciliation

7 Cross-border fees

8 Conversion rates

9 Availability of settlement currencies we want to be paid in

10 Maintaining multiple integrations

Retailers managing multiple payment processors also may find themselves getting different types of data from each processor, making it difficult to compare their results in one market versus another. Best practice would be to go with a fraud provider that works across multiple payment providers and provides data in a consistent way, while having a single comprehensive processing platform can address many of the payment-related concerns associated with international eCommerce.

It's also noteworthy that managing the technology integrations with multiple vendors showed up as a significant concern in the retailer survey, cited by 61% of retailers as at least a somewhat important issue.

RETAILER SURVEY

Multiple payment processors is the norm

How many international payment processors do you work with?

Four **7.7%**

One **38.5%** Two **27.9%** Three **21.2%**

Source: Internet Retailer survey of 129 retailers, May 2019

Five+ **4.8%**

Given the concerns about fraud and payment processing, and about managing multiple vendor relationships, it's little surprise that most retailers agree that having fraud protection integrated with payment processing would be critical to their business. In fact, 77% said integrating those two functions would be "critical" or "extremely critical."

The ideal situation would be to choose leaders in fraud prevention and in global payment processing to provide best-in-class technology and services to address the two major obstacles to global ecommerce expansion. And it would mean retailers could handle those challenges by managing just a single vendor relationship. That option is now available to retailers, as the next section of this report explains. ✴

77%
of retailers say integrating fraud prevention and payment processing is "critical" or "extremely critical"

PART TWO

Merchant solutions: Integrated global fraud protection and payment processing

An ideal combination of international payment processing and fraud prevention now exists as a result of the partnership between BlueSnap and Kount. Any retailer using BlueSnap's payment-processing services can turn on Kount's AI-Driven fraud-prevention system without doing a bit of integration. That means your IT team doesn't have to get involved when you add Kount's proven fraud-prevention system to BlueSnap's global payment service, a huge benefit when developer time is such a scarce resource.

Even more important, both BlueSnap and Kount have deep expertise in international ecommerce. As a result, retailers taking advantage of their integrated offering are able to accept more orders from international shoppers—without incurring undue risk—while processing payments in the most cost-effective way.

A truly global payment service

BlueSnap enables online retailers to offer shoppers in 180 countries convenient payment options. And its connections to local banks ensures e-retailers can maximize the number of transactions they accept while minimizing foreign exchange costs.

BlueSnap facilitates purchases in more than 100 local currencies and with 110 payment types. That means a retailer can rely on a single processor to handle virtually every transaction it receives from global shoppers.

As our survey showed, only a minority of online retailers selling internationally enjoy the luxury of dealing with only one payment processor.

Relying on several payment processors means multiple vendor connections to manage and numerous reports to analyze to gain a complete picture of international transactions, returns, fees and chargebacks. BlueSnap clients only have to integrate with a single provider and can view all their data in a single report and via a single dashboard.

Know the territory

And, while some payment companies process transactions with a U.S. bank, BlueSnap works with 30 banks around the world to handle purchases. That's a an important advantage for retailer clients.

Because local banks process the transactions, BlueSnap finds that its ecommerce clients can accept 6% more transactions than when those clients were sending transactions to a single U.S. bank. That may be because banks typically assign a higher risk score to foreign transactions, making them more likely to be declined.

There also is a significant cost savings: a 1% reduction on average in currency-conversion costs. That's because a transaction in Italy, for example, doesn't have to be routed back to a U.S. bank for processing in dollars, and then the proceeds converted back into euros. Instead, for example, a U.S. company with an Italian subsidiary can accept the purchase in euros

and have its local business unit paid in euros, avoiding any currency-conversion fees.

BlueSnap pays out in 17 currencies, including dollars, euros, British pounds and Japanese yen. That means U.S. companies and their foreign subsidiaries can typically receive funds from international online transactions in the currencies they use every day.

With BlueSnap, retailers can accept more transactions and reduce costs—benefits that any e-retailer will appreciate.

1%

Average reduction in currency-conversion costs for retailers using BlueSnap

A dynamic view of fraud

Kount has extensive expertise in helping online merchants in many countries minimize fraud losses while maximizing the number of orders they accept.

Kount serves 6,500 customers around the world and has seen billions of transactions throughout its 12 years in business. Of those transactions, 40% are from outside the United States. That means Kount has a deep pool of data about international consumers and the devices they use to buy online.

Kount is a pioneer in using Artificial Intelligence in transactional fraud prevention, with supervised and unsupervised solutions dating back to the company's inception over a decade ago. Kount's breadth and depth of data from its Universal Data Network allows machine learning models to analyze shopping patterns and compare them with authentic shipping addresses, email

addresses, and age of email in order to score transactions as risky or authentic.

Kount's systems also track purchases by IP address and employ a patented device fingerprinting technology to monitor activity on individual computers, mobile phones, and tablets. Thus, when Kount sees a transaction, it can recognize key details about both the consumer and the device they are using. This data is indispensable for quickly assessing the risk of each online purchase.

40%

Portion of transactions Kount handles that come from outside the U.S.
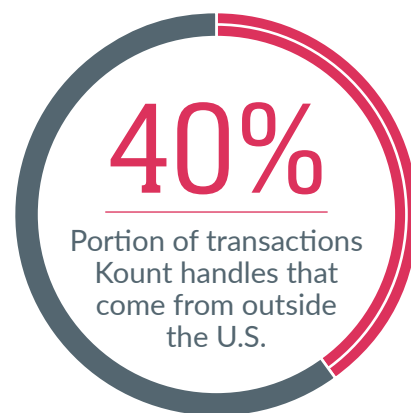
Kount's next generation AI solution simulates the decision process and instinct of an experienced fraud analyst by weighing the risk of fraud against the value of the customer but on a faster, more accurate, and more scalable basis than human judgement alone. Combining patented technology with supervised and unsupervised machine learning, Kount's AI recognizes patterns, anomalies, linked associations, as well as historical outcomes, to detect complex and common fraud in milliseconds.

The unsupervised machine learning uses advanced algorithms and models to detect transaction anomalies. It catches new and emerging fraud attacks based on the capability to continually learn and detect anomalies before they result in chargebacks. For example, if a device that's never been associated with fraud suddenly starts attempting to make online purchases using a variety of credit card numbers or payment methods, that could indicate that someone has purchased a new phone and is using it for the first time to attempt to cheat online retailers. Kount's unsupervised machine learning system would spot that pattern quickly, even though that device had not previously been linked to fraudulent behavior.

The supervised machine learning analyzes billions of historical transactions from its Universal Data Network and looks for signals that have predicted fraud in the past. The technology mirrors the process of an analyst who draws on their experience and history to identify a trusted transaction or flag a risky one. For example, if one Kount customer has experienced fraud from a particular credit card or computer, the next transaction from that card or PC will be flagged—anywhere in the world and for any retailer.

> If one Kount customer has experienced fraud, the next transaction from that card or PC will be flagged—anywhere in the world and for any retailer.

Using both supervised and unsupervised machine learning in parallel, along with additional calculations, Kount's AI weighs the risk and safety of the transaction to make a decision based on each retailer's risk tolerance. The result is Omniscore,™ an actionable transaction safety rating that allows Kount customers to reduce their reliance on manual reviews and reactive fraud rules while catching more fraudulent transactions. This is especially important for mobile purchases or for transactions involving digital gift cards as both cases typically involve instantaneous or quick decisions which either eliminate or greatly reduce manual reviews. It is also important for cases of friendly fraud, which are tough to detect and address with most fraud systems. Retailers can decide what fraud confidence thresholds they're comfortable with, and then align Omniscore with desired business outcomes.

Within Kount's platform is a robust control center that helps its customers control fraud prevention decisions, conduct investigations,

and monitor performance. Customers can easily create policies and customize risk thresholds based on desired business outcomes.

Kount's AI-driven fraud prevention solution allows retailers to create operational efficiencies, significantly reduce manual reviews, and free

fraud analysts to focus on business objectives such as growth and strategy. In addition, the accuracy of Kount's AI combined with their control center lets retailers proactively manage fraud, chargebacks, and decline rates.

> Kount's AI-driven fraud prevention system frees fraud analysts to focus on business objectives such as growth and strategy.

Spotting the good as well as the bad

What's important to note, however, is that Kount doesn't just help online retailers spot bad transactions—it can also help them spot good ones. Its vast global experience enables Kount to understand the different ways consumers shop online in various markets, and that helps it distinguish transactions that are probably legitimate from those likely to be fraudulent.

Take the example of a single new device making purchases with a variety of cards or payment methods in a short period of time. In the U.S., that would likely mean a new device has been purchased to test stolen card numbers with the intent of committing fraud.

But in many less-developed economies, consumers frequently shop online from internet cafes. If one of those locations had added a new computer and it was being used by a variety of shoppers to make online purchases, it would look like a new device being used with a variety of cards or payment methods. While that would raise flags in the U.S., in other countries this might be a common pattern of legitimate transactions. Kount, with its vast international experience, would score those transactions differently than it would in the U.S.

> Transactions from internet cafes and VPNs that would look risky to a U.S.-centric fraud prevention system are common in many markets.
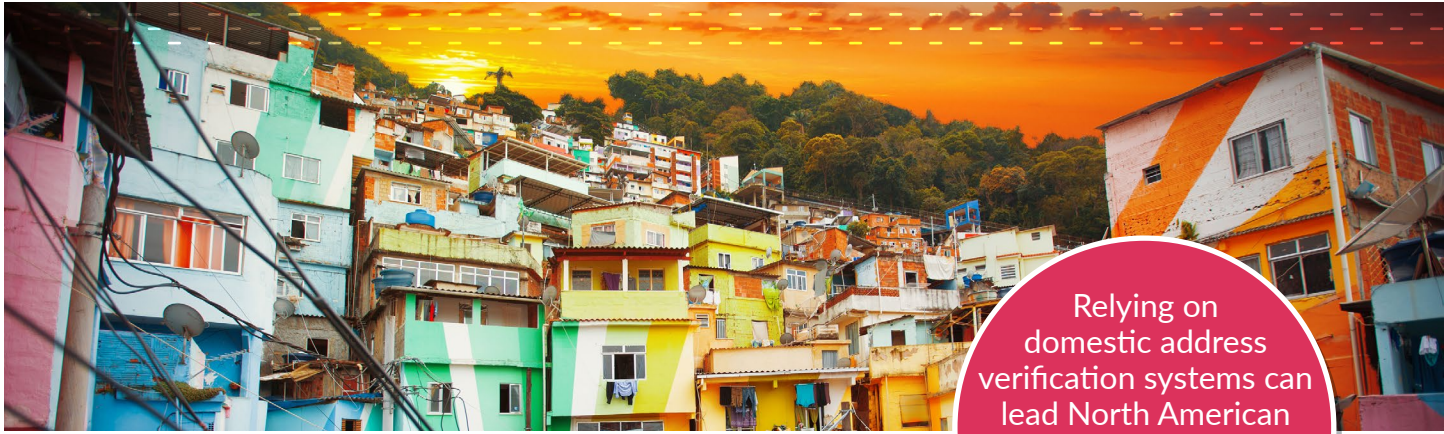
Relying on domestic address verification systems can lead North American retailers to reject many legitimate transactions from abroad.

Another example is the use of virtual private networks (VPNs). In the U.S. and Europe, a transaction via a VPN often is a sign that someone is seeking to hide their location. For example, a bad actor seeking to pose as a legitimate consumer from Seattle, Washington, might use a VPN to hide the fact that he is really located in Eastern Europe.

But VPN use is not necessarily an indicator of fraud elsewhere. In markets like China and the Middle East, consumers often use VPNs to get around government restrictions on the content they can view online. A consumer in China might sign up with a VPN that operates servers in Singapore, Japan or Hong Kong in order to view websites she might not

be able to reach if she went through a Chinese internet service provider.

Kount understands that the use of a VPN is more of a risk signal in some regions than others, and scores transactions accordingly. That can help web merchants accept transactions that otherwise appear legitimate, even though they arrive via a VPN.

Kount also is familiar with the world's postal addressing systems, and recognizes when address verification rules that apply in the U.S. are not useful elsewhere. That ensures Kount does not give a high risk score to a transaction that fits the pattern of a good transaction in a foreign market, reducing the likelihood that a retailer will turn down a legitimate customer.

A real-world example

Kount customers have seen how its AI-driven fraud prevention solution makes it possible for them to expand successfully into international ecommerce, in large part by allowing them to accept more transactions.

One example is a U.S.-based home goods retailer that ran into trouble after it expanded online sales beyond the United States and Canada. Because it was using fraud-prevention rules designed for North America, many foreign transactions looked risky. It was declining around 25% of transactions, which resulted in a poor customer experience that translated into negative word of mouth and slow growth.

Once it turned to Kount to handle fraud prevention, the retailer moved away from U.S.- and Canada-centric rules to a system that more intelligently assesses each transaction based on local market patterns. It now declines around 4% of inter-national transactions, far less than the 25% it was rejecting

25%
Portion of international transactions declined before a U.S. retailer started using Kount

4%
Decline rate after Kount implementation

0.5%
Chargeback rate after going with Kount

before. And its chargeback rate on those purchases is under 0.5%. That's well in line with most retailers' goals for disputed transactions when shipping internationally.

The road forward to global success

The BlueSnap/Kount partnership enables retailers engaged in international ecommerce to address their two primary concerns—fraud prevention and payments processing—with a single vendor relationship. The two companies together offer clients the following benefits:

➤ The ability to accept 110 international payment methods and 100 currencies

➤ Transaction processed by 30 banks around the world, minimizing costs and increasing order-acceptance rates

➤ Payout in 17 major currencies, minimizing currency-conversion expenses

➤ A fraud-prevention system that draws on data from 6,500 customers around the world

➤ AI-driven fraud prevention technology that not only flags suspicious orders based on characteristics of past fraud but also spots unusual patterns that could indicate new forms of fraud

➤ Experience with international transactions that results in retail customers rejecting fewer legitimate orders from foreign shoppers

Importantly, Kount and BlueSnap have completely integrated their services so that a retailer need only interface with a single system. Most retailers surveyed consider it critically important that fraud prevention and payment processing work together seamlessly. With that kind of integrated system managing two of the big challenges of global ecommerce, retailers are free to focus on the rapidly growing opportunity to sell online to consumers around the world. ✸

Internet Retailer Top 1000 data

Internet Retailer, North America's leading online retailing publication, has been ranking the leading online retailers for 15 years. It collects data on online retailer sales through retailer surveys, reporting by Internet Retailer journalists and data provided by a range of partner firms.

Internet Retailer analyzes that information to compile its annual Top 1000 report and database that summarizes the ecommerce activity of North America's 1,000 leading retailers by web sales. The data presented in this report is based on an analysis of the 889 U.S.-based retailers in the 2019 edition of the Internet Retailer Top 1000.

Estimates of global ecommerce sales and growth are produced by the Internet Retailer research team, based on its database of more than 6,000 online retailers around the world and the reporting on international ecommerce by Internet Retailer's team of journalists.

About BlueSnap

BlueSnap provides an All-in-One Payment Platform designed to increase sales and reduce costs for B2B and B2C businesses. TheirPlatform supports online and mobile sales, marketplaces, subscriptions, invoice payments and manual orders through a virtual terminal. With a single-integration to the Platform, businesses can accept any payment with ease. The Platform includes access to 110 payment types, including popular eWallets, built-in world-class fraud prevention to protect sales and detailed analytics to help businesses grow. Learn more at https://home.bluesnap.com/.

About Kount

Kount's award-winning AI-driven digital fraud prevention solution is used by 6,500 brands globally, helping them to reach their digital innovation goals. Kount's patented technology combines device fingerprinting, supervised and unsupervised machine learning, a robust policy and rules engine, self-service analytics, and a web-based case-management and investigation system. Kount's solutions stop fraud and increase revenue for digital businesses, acquiring banks, and payment service providers. www.kount.com

The only payment platform with everything you need.

BlueSnap and Kount have partnered to deliver a better way to accept payments.

👍 Accept more online payments

🌐 Sell more globally with the payment types, currencies and languages your shoppers expect

🛡 Built-in fraud prevention from Kount to protect your business and grow your sales

BlueSnap®

featuring

Kount®

Start simplifying your payments life today:

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