The Payments Landscape 2014

Welcome

Welcome to this year's report: The Payments Landscape 2014. We've sifted through data from thousands of businesses to bring you a report that we believe represents the most accurate overview of the payments industry in the UK.

What's become clear in the research is that reducing friction should really be the focus for every business. Whether that's looking at moving away from cash towards newer payment types, using 'single-click' checkout or moving to omnichannel, this report looks at payments in the context of the consumers and businesses that use them.

To give more value to the report, we've split the data to show behaviours of both successful and less successful businesses and also cut it by company size, in addition to consumer feedback.

If you'd like to comment on the report or simply have some questions or suggestions, I'd love to hear from you. You can contact me at simon@sagepay.com.

Simon Black
CEO, Sage Pay
@SagePay_CEO

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Digging Deeper

In our fourth annual report into the payments landscape, we aim to provide an insightful picture of the industry in 2014, both online and offline. The report reveals emerging trends, attitudes to the latest payment technologies and how different sized companies are approaching innovation. We also offer insight into what successful businesses are doing to increase their conversion rates and boost revenue.

From Little to Large
To ensure a broad view of the payments industry, we surveyed large, medium-sized and small companies. This is how we categorised them:

SSB (start up and small-sized business) - a company with between 1 and 20 employees

SMB (small to medium-sized business) - a company with between 21 and 100 employees

MM (mid-market) - a company with 100 or more employees

The Secret of Success
For the purposes of this report we have defined a successful business as one with an increase in revenue of more than 21% over the last 12 months.

" We also offer insight into what successful businesses are doing to boost revenue. "

This years study surveyed:

1,124
UK Businesses

1,042
Consumers

In some instances stats don't add up to 100% where multiple answers could be given. In some graphics, where appropriate, we have chosen not to feature respondents who selected 'I don't know" as their answer.

What Really Matters in 2014

This year there are five areas that we've identified as a key focus for businesses. Getting them right can be the difference between high and low growth. The overarching theme is finding where there is friction and removing it.

Moving Away from Cash
Cash is expensive for businesses to both store and process and offering it as the only method of payment is causing retailers to lose customers. Businesses and consumers are increasingly moving away from cash, in favour of more convenient payment methods with lower overheads. Learn more on this in Chapter 1.

New Payment Technologies
The more payment choices you offer your customers, the higher the likelihood that they will purchase your product or service. With new mechanisms such as contactless payment and mobile apps making considerable noise in the market, it can be easy to dismiss these as the latest PR fodder. However, our research finds links between these new technologies and successful businesses with steadily increasing turnover. Just don't rush into bitcoin investment yet… For more on this go to Chapter 1.

Going Omnichannel
We're seeing a marked difference between high performing businesses and those that are doing less well. Consumers are not only comfortable using a variety of channels but are happy to jump between channels during the course of a single transaction. The race is now on to integrate all your channels so these cross-channel jumps can be made seamlessly. Read more on this in Chapter 2.

International Trade
As we found last year, with minimal investment businesses can exponentially increase their potential customer base by selling to overseas markets. Regardless of the size of your business, you could be trading internationally sooner than you think. Discover how in Chapter 4.

Fraud
Fraud remains as big a problem as ever. We investigate walking the fine line between making fraud protection so rigorous that you turn away genuine customers and so lax that your business suffers considerable losses. Getting it right is key to your success and knowing what to look out for will help reduce the risks. Read more in Chapter 3.

" We believe the result is the most insightful picture of payments in the UK today. "

Chapter 1
Cashless Society

Although cash undoubtedly remains a well-used payment channel, the hidden costs associated with it might come as a shock to businesses.

The Real Cost of Cash

Cash is costing UK SMEs an average of £3,638.57 per year. That's a cost to the UK of nearly £18bn annually.

Not only is handling cash expensive, but there's also a cost to making, storing, transferring and accounting for it. Not to mention security risks and the danger of accepting counterfeit currency.

Is Cash Costing you Money?

Over half of the businesses we surveyed (52%) agreed that cash carries the most accounting inaccuracies of all the payment methods they use and 14% of our MM respondents say that the cost of handling it comes to over £10,000 a year.

But the real pain point comes when businesses offer cash as their only payment option. Small and medium-sized retailers are missing out on £12bn each year because they don't accept card payments.

Our research finds that one in three consumers (31%) will put an item back on the shelf and go elsewhere if they don't have enough cash on them, while 17% will reduce the number of items they purchase.

Cashless Society on the Horizon

A third of businesses (33%) think that in the near future we will become a cashless society. Interestingly, almost as many consumers agreed (28%).

With new mechanisms emerging, knowing what your customers want and what's most cost-effective for your business can help you decide on the right payment options for you.

For many businesses, newer payments methods with low overheads and pay-as-you-go transaction fees offer real business benefits.

Likewise for larger organisations, there is significant opportunity from streamlining non-cash payment types across physical stores, websites, social media and mobile apps.

17%
of consumers will put items bacj if they don't have enough cash on them

31%
of consumers will shop elsewhere if they can't pay by card

The real cost of cash

£12 bn
is lost by retailers not accepting cards

£3638.57
The cost of accepting cash per business

£18bn
The total cost of accepting cash to UK businesses
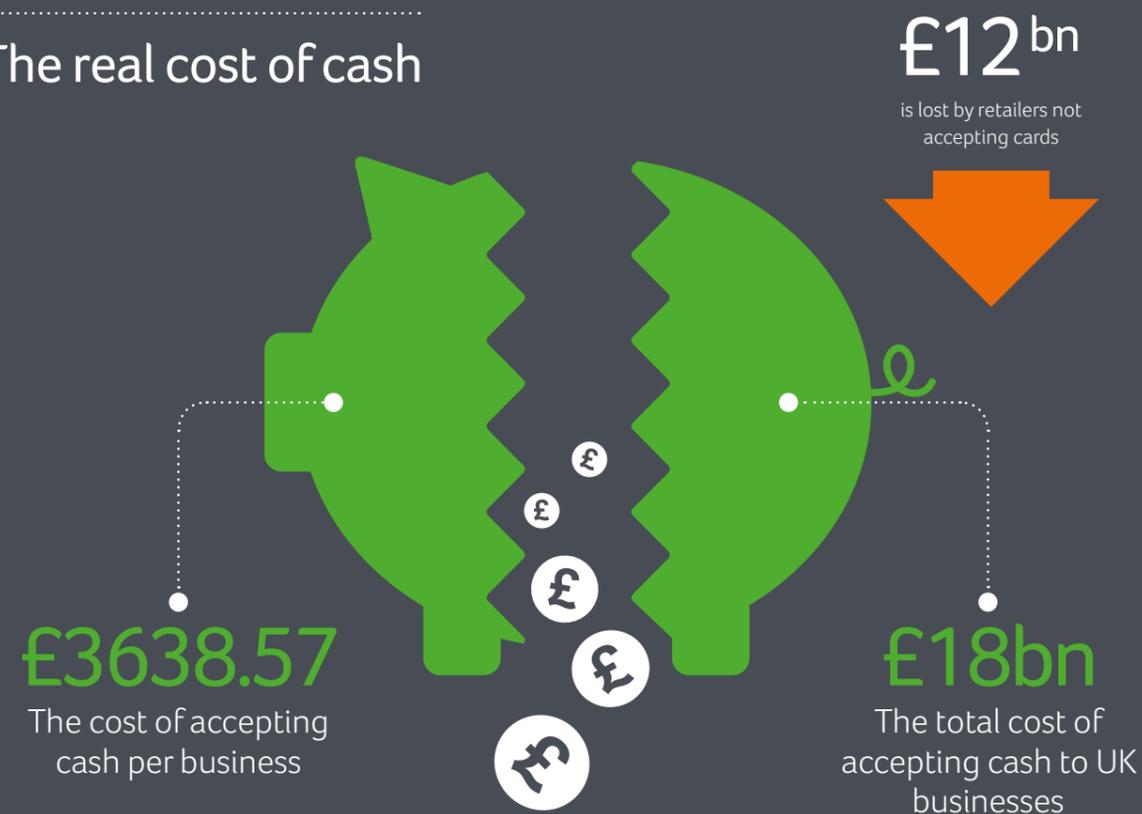
Source: Sage Pay and YouGov survey 2013

Which payment method carries the most inaccuracies?

Cash	52%
Cheques	19%
Debit & credit cards	14%
PayPal	7%
Bitcoins	5%
Gift vouchers	3%
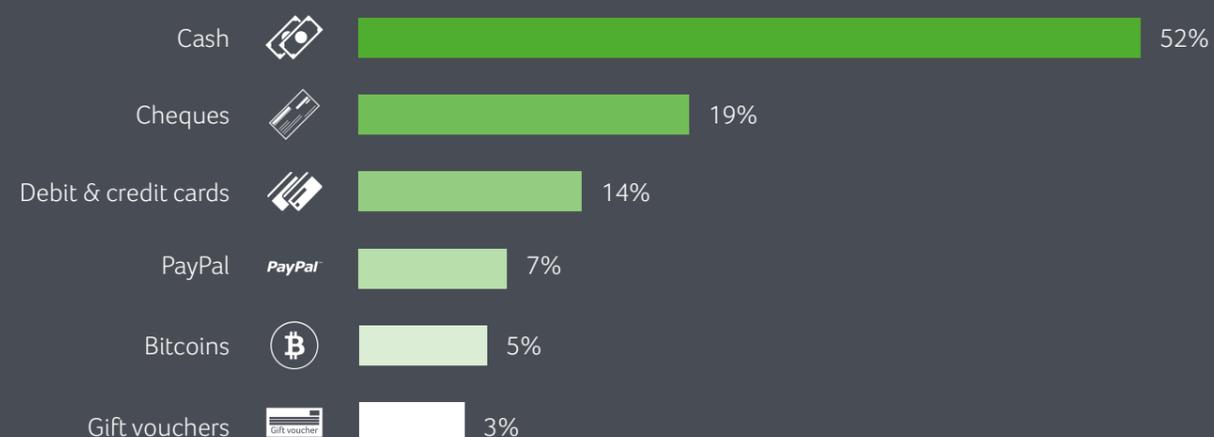
New Payment Methods

Chicken and Egg

When it comes to adopting new payment methods, 53% of businesses agree that a range of payment methods drive loyalty.

Whether you're operating on- or offline, over a third of consumers (36%) say they're more likely to shop at places that offer a greater range of payment types, or innovative payment methods.

In the online space, payment pages are the number one dropout point for shoppers (which we'll look at in more detail later), suggesting that not offering a full range of payment options can be a conversion killer.

80% of businesses say they are holding off on new payment methods until customers ask for them.

Leading by Example

Businesses should be leading by example here. Shoppers won't stick around to tell you how you could have won their business. They'll simply click away from your website; or next time, remember your clunky payment options and choose the competition.

Getting Ahead of the Competition

Not only will keeping up with payment types and methods help businesses to convert more and attract a new customer base, but it will give them the edge over the competition.

PayPal

Interestingly 60% of successful businesses reported a higher use of PayPal as a method of payment. This makes sense given that consumers reported PayPal as their second favourite payment type after credit and debit cards, well ahead of cash, cheques and gift vouchers.

80%

36%
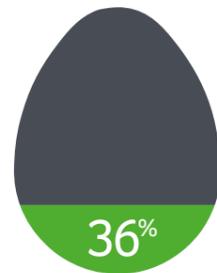
36% of consumers are more likely to shop where there is a range of payment types

80% of businesses will only embrace new payment methods if their customers request it

> " Businesses should be leading by example here. Shoppers won't stick around to tell you how you could have won their business. "

What would encourage businesses to consider different payment mechanisms?

8%
Peers

17%
Competitors

22%
Legislation

80%
Customer Demand
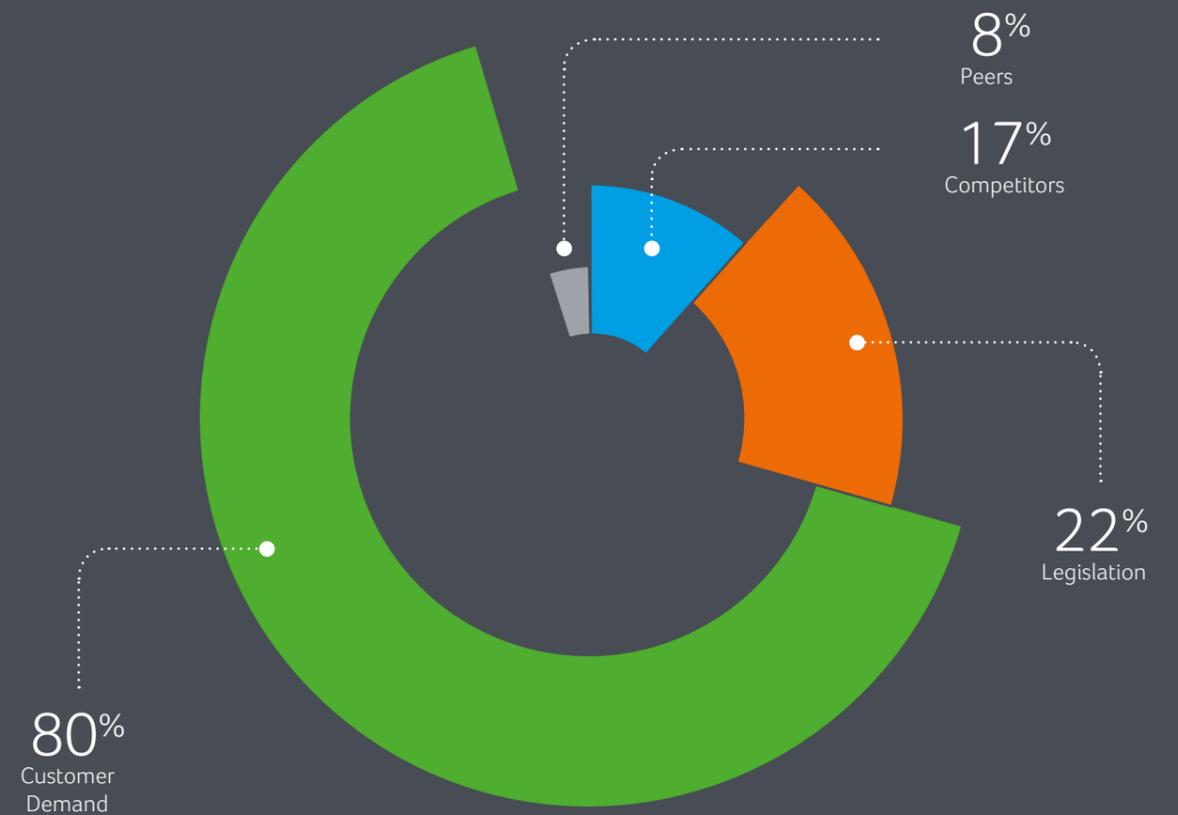
Contactless Payments

Despite a slow start in the market, contactless payments are now seen as a safe and efficient way for consumers to make low value purchases-fast.

Contactless Converts

While the majority of our respondents (65%) are not currently accepting contactless payments, we're seeing a positive effect on conversion rates from those that do. Businesses with an increase in revenue of more than 21% over the last 12 months are the majority users.

On the Increase

So it's little surprise that this payment type is set to become increasingly popular, with more than one in three businesses (36%) looking to adopt contactless payment within the next five years.

1 in 3 businesses will adopt contactless payments in the next 5 years

Does your business currently accept contactless payments?

26%
of successful businesses accept contactless payments

72%
of businesses accepting contactless payments have seen an increase in revenue

Chapter 2
Multichannel and Omnichannel

Multichannel shopping habits have swept across the payments industry, with customers demanding the convenience and choice to shop anytime, anywhere and using any device. Consumers now seek out a shopping experience that's entirely personal to their own tastes and lifestyle and want the same experience across all channels.
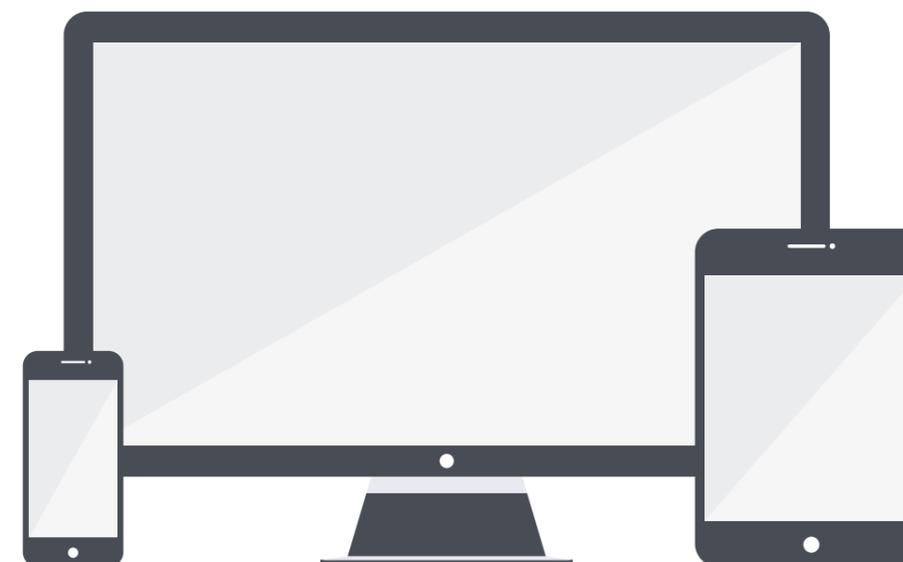
Joining the Dots

Over half of consumers (53%) say they prefer to jump between channels and, taking multichannel one step further, 37% of consumers either occasionally or regularly use their mobile device to look at a retailer's website while in-store.

It's this seamless shopping experience that is becoming key to business success. The market has moved on from multichannel to omnichannel. The multichannel approach of operating separate channels in isolation is no longer enough and is a missed opportunity for businesses. By adopting an omnichannel

approach, tying back office systems together, businesses will benefit from more customers with a higher average spend. Yet, missing out are the 63% of businesses we surveyed whose online and offline channels aren't yet integrated via an omnichannel solution.

What is Multichannel?
Multichannel retailing offers customers a choice of ways to buy products. They could buy, for example, from a shop, a website, via mobile, or by mail order. The aim of a multichannel approach is to maximise consumer touch points and increase loyalty by offering customers choice and convenience.

What is Omnichannel?
Omnichannel goes a step further than multichannel. It means not only that consumers can buy through a range of channels, but that each of those channels is joined up with the other at the backend - same stock, same systems, same processes. It allows for a seamless consumer experience where a customer can, for example, buy a product online, but return it in-store.

Approaching Omnichannel

Businesses looking to adopt an omnichannel approach need to keep a tight focus on the back-office process of managing their different channels.

→ To make the experience frictionless for the customer, any software used must be integrated, so that goods can easily be returned to a bricks and mortar store, for example, even if the initial purchase was made over the phone.

→ Having the ability to process refunds is important, as is the ability to report on all these elements for accounting purposes.

→ If orders are coming in through multiple channels, a good stock control system is needed to avoid running out of stock and disappointing customers.

→ Monitoring shopper trends and the implementation of customer experience improvements will also help to streamline the multichannel process.

53%
of consumers prefer to either browse online and then buy in store or vice versa

However...

63%
of businesses haven't integrated their online and offline channels

GuitarGuitar

GuitarGuitar Head of e-Business Mark McKenzie explains the benefits of tokenisation and why being an omnichannel business is important for the UK's largest guitar store.

As this year's report shows, a significant proportion of consumers now use more than one channel to purchase and tokenisation leads to an increase in conversion rates.

> "Tokenisation makes it easier for people to purchase using their saved information."

Mark McKenzie
Head of e-Business,
GuitarGuitar

Why did you decide to implement tokenisation?
It's part of a bigger picture. For us, it's about making it easier to buy into the GuitarGuitar ecosystem. Tokenisation makes it easier for people to purchase using their saved information. It helps to facilitate the customer having an account and a loyal relationship with the business, but you still have to do a lot more to actually get them to use it.

We never see or touch a customer's card details - that allows me to sleep a little bit easier at night. Tokenisation is a big thing for customer experience. You don't have to re-key in your data, which makes it more secure. You just have to log in to your account. No one can compromise what you're doing, even when you're on the move.

Are there any downsides?
There isn't a pre-prescribed book of how consumers interact with things. That's probably the hardest challenge - discovering what's right for our customer base. When you've got customers using your system, it's harder to get under the skin of what's working and make sure that things aren't broken - that you aren't stopping people from making a purchase.

What new payment methods do you think are the most important for merchants to take note of?
Whatever is most convenient for your customers. Contactless payment is great, for example, if you are running a coffee shop - you've got the volume, you're increasing efficiencies and your throughput. However, for specialist retailers with higher end goods, it's not a valid form of payment, considering the average order value - you can't use contactless payments for anything costing more than £20. It's beneficial, but it has its place in different markets.

Similarly, there is a trend to accept mobile app payments for in-store goods but in our market the demand for such technology is not there...Yet.

We accept PayPal, and as a business we struggle with deciding if that is good or bad. It comes down to the risk of fraud and people shifting payment methods. Because we deal with higher end goods, we don't want to introduce the risk of accepting orders from people that we can't verify and protect against. What's great about Visa and MasterCard is that there's pre-prescribed rules in place to protect yourself as a business.

Do more payment choices equal more customers?
From an international point of view, accepting other forms of payment is very important. In Germany, for example, a bank transfer is a normal method of payment. They don't all have debit or credit cards, so PayPal helps with that.

Is GuitarGuitar an omnichannel business?
We are an omnichannel business - bricks and clicks. You visit the store, experience it and explore. We sell products that people want to touch. People do still want to come into the stores but at the same time, from a convenience point of view, if they can't get there, then there's mobile or online.

How have you achieved this?
We're constantly redeveloping and realigning our own internal systems so that what is online is in store as well. Everything that we do in store is tied directly to online and vice versa. It has more to do with the backend, so reconciliation, everything becomes centralised. Before they weren't one system. Now, they've become one ecosystem. The minute you buy something in store you get an automated email. You can then log in to your online account and get all of your activity in the store as well.

Is it worth putting that infrastructure in place?
It's about managing the business. We very much believe in having a fantastic high street presence and a fantastic online presence. It depends what you're trying to do in different markets. You can have one or the other, but the bottom line is it's about managing the risk in the business as well. You might have a lull online but then it can pick up in store and vice versa.

guitarguitar.co.uk
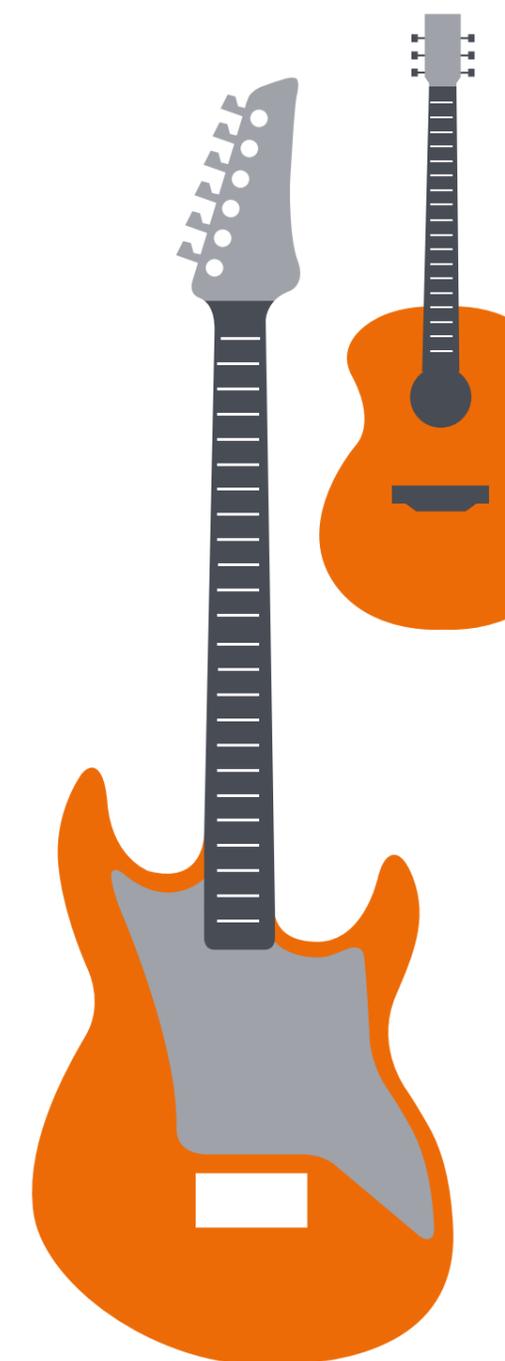
A Slick Checkout

A major contributor to success is, of course, making it easy for customers to buy.

A 'Single-Click' Checkout - with Token

With one of the key benefits of tokenised payments being the ability to offer a 'single-click' checkout, it comes as no surprise that there's a strong correlation between high growth companies and this payment mechanism. 41% of successful businesses are offering tokenised payments and have seen a related boost in conversions.

A Click Equals a Conversion

Friction is the enemy of conversion and each hurdle you can remove for your customers will drive conversions. Using tokenised payments to obtain a 'single click' checkout means that the process is slick and seamless for your customers and is particularly beneficial when it comes to the steadily increasing numbers of shoppers browsing and buying through mobile and tablet channels.

41%
of successful businesses are offering tokenised payments

What is Token?

Tokenisation takes away the need for merchants to store their customer's sensitive payment card data. Purchases are paid for using a consumer's card in the normal way, but the credit and debit card data is then encrypted and substituted for a unique, random sequence of digits - the token.

On payment from the customer, this token is sent to the merchant's payment processor where the token is matched to the original card number and the transaction is authorised.

As well as enabling businesses to easily recall payment data, using token has benefits when it comes to PCI Compliance. Read more in Chapter 3: PCI - What You Need To Know.

Are you Ready for Mobile?

Mobile growth is continuing apace, with huge numbers of consumers now browsing, sharing and buying through their mobile devices.

Are you Ready for Mobile?

The Centre for Economic and Business Research predicts that by 2020, 20m adults will use their mobiles to pay for goods and services and that the total value of mobile payments will reach £18.1bn by 2018 (combined value of all mobile payments and bank-to-bank transfers).

Getting on the Right Track

This signals that companies that don't embrace mobile as a channel risk being left behind. However, most businesses are now on the right track with 40% of those we surveyed having optimised their websites for mobile, helping them to form deeper relationships with their customers.

Almost a quarter (23%) of all businesses currently have a mobile app and the same number plan to catch up by investing in mobile over the next year.

44%
of successful businesses have a mobile app

40%
of all businesses currently have optimised their site
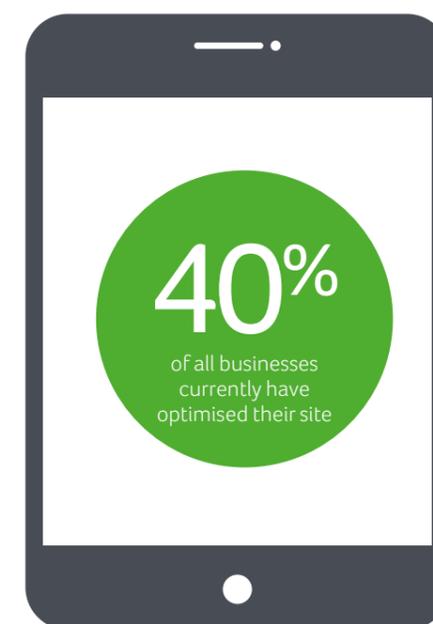
GirlMeetsDress.com

GirlMeetsDress.com co-founder Xavier de Lecaros-Aquise explains the importance of a mobile strategy and why it's a key priority for the online luxury fashion rental website.

As this year's report shows, increasing numbers of businesses are optimising their websites for mobile and a significant proportion are expecting mobile apps to have the biggest impact on their business over the next five years.

Xavier de Lecaros-Aquise, Co-Founder, GirlMeetsDress.com

Which new payment methods do you think are the most important for e-commerce platforms to take note of?
Payment apps for sure. Our mobile commerce is really picking up steam, having grown 50% since this time last year and having a bespoke mobile payments app is a key priority.

Mobile commerce is incredibly important. It's not just about increasing touch points with our customers or increasing sales, it is also a strategic imperative for the business. It's about anticipating the user's requirements and building a customer-focused brand they will develop further loyalty and affinity for.

With the screen size limitations of most phones today, we are continuing to optimise our mobile site to enable users to get access to the whole experience from their mobile.

We make a strict distinction between a tablet screen (over 7 inches) and a mobile screen (under 7 inches) because in our experience the analytics and user behaviour for tablets mirror that seen on desktops and laptops.

What have been the benefits of adopting a mobile strategy?
The key proposition on mobile for us is, first and foremost, about being able to have more customer touch points throughout the day, namely to enable full website access and functionality to customers while on the move.

With peaks of traffic and orders in the morning, at lunchtime and after work, our numbers have now been supplemented by 'commuting' and 'passing the time' traffic throughout the day.

> Our mobile commerce is really picking up steam, having grown 50% since this time last year and having a bespoke mobile payments app is a key priority.

Another key benefit of optimising our mobile site has been the ability to convert customers from our on-going platform-agnostic marketing efforts, be that Facebook, mobile marketing or newsletters.

Mobile has also given us new channels to reach customers, through mobile advertising and a variety of in-game rewards platforms. The metrics are proving to be quite interesting, even if it's still early days.

What are your metrics like?
Our traffic on mobile has grown from 20% to 40%, while our mobile bounce rate is down from 66% at launch to under 45%. We achieved this by optimising our site to be more mobile friendly, drowning out any noise-like tabs, and focusing more on providing information and giving more prominence to images.

What is the most important trend in e-commerce right now?
Mobile data analytics is a key priority just now. Leveraging analytics, particularly mobile analytics, to ensure that with every new feature or site development, the data

of how well it is working is accessible to the team internally and that actionable conclusions are extractable from that data.

How will you develop your mobile strategy?
Having a mobile app is key for us for the variety of functions and features that only a mobile app can provide. Ours will be launching in the run-up to summer.

While adoption is growing, there is still low uptake of retail apps, as users will either type the URL directly or search engine their way to you. Developing an app is not enough, you also need to promote it and keep improving it regularly.

girlmeetsdress.com
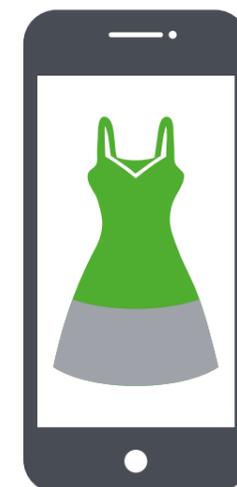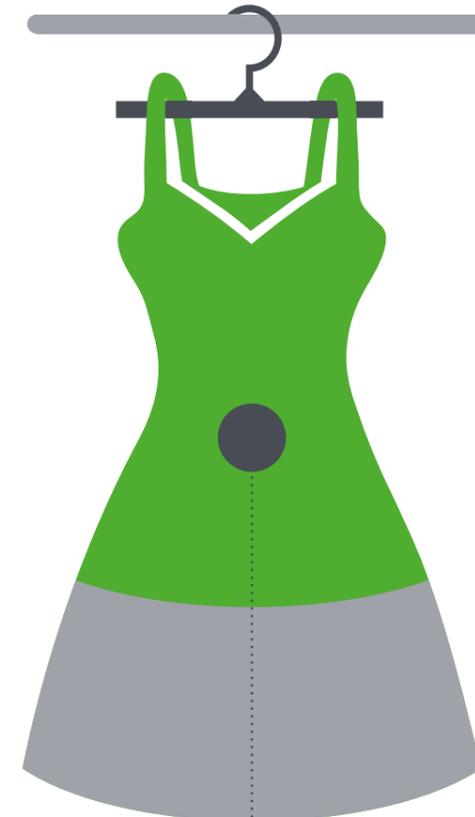
Measure, Measure and Measure Again

Companies that track every step in the sales process are more successful.

Measure and Manage
By tracking sales, businesses can increase their understanding of customers and improve conversion rates and profit margins.

Tracking Trends
Tracking dropouts is an equally important piece of the puzzle. Over half (53%) of all successful businesses are tracking their dropouts.

The most common dropout point for businesses are the payment pages with over a quarter (26%) of shoppers exiting the payment process here.

Delivery Cost Dropouts
A key change from last year's survey is that dropouts are becoming more prevalent at the stage when consumers find out the cost of delivery.

This shows that all the hard work you may have done in getting your customer to this point could be undone by a poorly laid out or misleading purchase process.

Successful companies track their sales

Based on revenue generated over the last 12 months

- 21%+ increase
- Decrease
- No increase

35%
30%
25%
20%
15%
10%
5%
0%

We have a CRM solution that measures customer purchasing across multiple channels

53% of successful businesses track dropouts
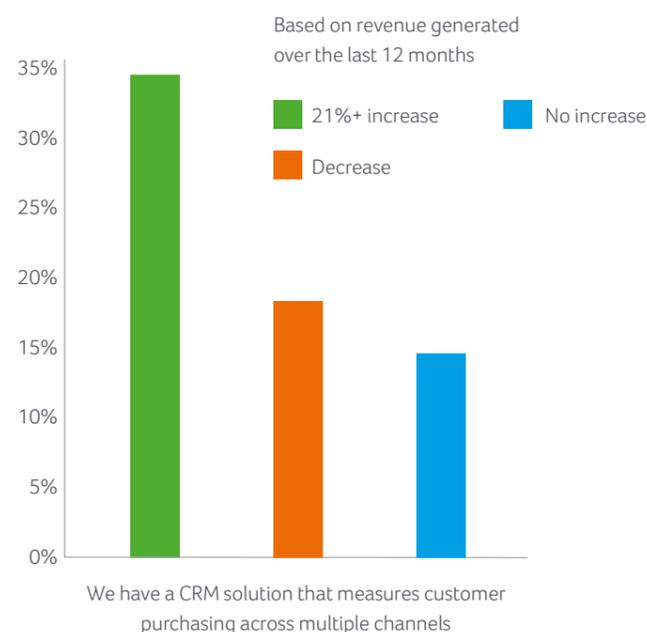
Where is the most common place for shoppers to drop out of the payment process?

11% Basket page

26% Payment pages

21% Delivery cost

17% 3D secure

BT Expedite

Head of Payments and PCI at BT Expedite Kevin Burns explains the challenges that omnichannel presents for retailers.

As this year's report shows, it's becoming increasingly important for businesses to embrace new payment options, integrate channels and deliver a seamless experience whether online or offline.
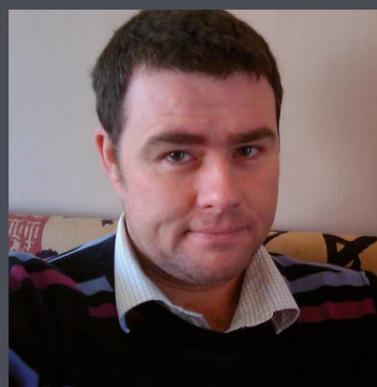
Kevin Burns, Head of Payments and PCI, BT Expedite

Which new payment methods are most important for businesses to take note of?
It's almost de facto now that you'd expect to see PayPal as a payment option online, as well as Visa and MasterCard. Some of our customers, like Aurora Fashions brands, are taking PayPal in store. We've also seen some customers express an interest in Zapp [the payment app for smartphones and tablets].

There is a move towards managed or outsourced payment services and to consolidate channels. Traditionally, most of our customers would have had a different payment solution working on their website to the one working in their stores. Now they're looking to bring those together. Retailers now expect that there should be no real differentiation for their customer.

What are the biggest challenges for businesses when it comes to omnichannel?
Trying to deliver a consistent experience. If you are a retailer with that 'traditional' model of using different payment gateways for each channel, you can't deliver a seamless experience. You have to ask the customer to confirm their card details all over again. Consolidation or using an omnichannel platform is the key enabler to move away from having those pain points.

How should retailers tackle these challenges?
Implement a single gateway with tokenisation. Tokenisation means retailers don't have to handle card details but instead, can hold on to a token and use that to make a transaction.

> "Traditionally, most of our customers would have had a different payment solution working on their website to the one working in their stores. Now they're looking to bring those together."

It's also important that a specific token is associated with a specific order - whatever channel the purchase is made by. That way, if the consumer wants to return an order, you don't need to go back to the customer.

For the bigger retailers they'll be able to perform better Customer Relationship Management (CRM) with a tokenised system; because each token will help them track spend and channel use.

What other customer preferences are driving this trend?
Businesses are under pressure to maximise engagement with every customer - by definition that means being as flexible as possible and open to accepting alternative payment types. For example, international consumers may wish to pay by bank transfer, or cash on delivery.

The biggest challenge for our customers is that enabling different payment types is not without cost. If you want to accept a new method of payment, you've got to do some form of development and integration - including on the front and back-end interfaces. You end up erring on the side of caution because there are myriad options and you've got to try to second guess which one is the right one to go with.

How do you see trends in omnichannel developing over the next year?
I envisage there being more noise about wallets. The challenge there will be that there'll be lots of wallets and no one will know which one is going to succeed.

We'll therefore see more activity in stores with Near Field Communication (NFC) and engagement through mobile phones for transaction processing, either directly linked to a wallet or with the phone itself. Samsung has topped Apple in terms of number of smartphones in the world and all their recent handsets are NFC-enabled.

We'll also see a greater awareness of that technology among consumers.

btexpedite.com
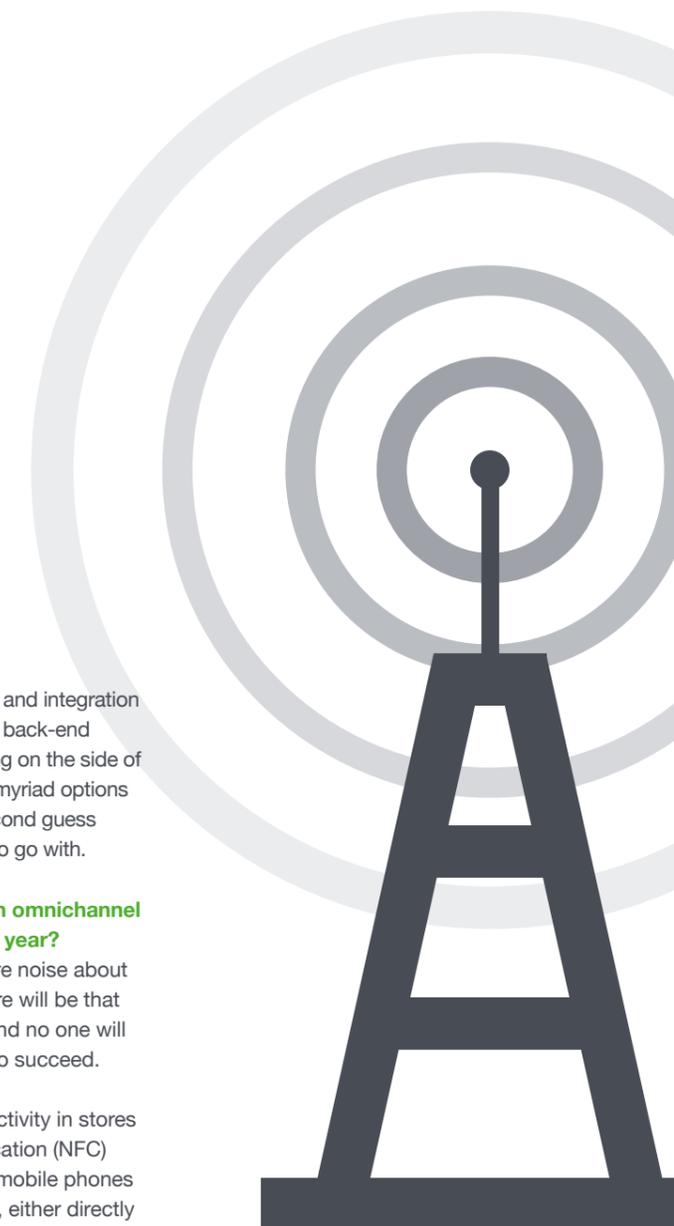
All Change
Kate Bevan

Cash replacement options are multiplying. Consumers and businesses can choose from credit cards, debit cards, chip and PIN, NFC, digital wallets, PayPal, Google Wallet, tokenised payments, payment apps, HCE – the range is bewildering.

Payments and technology journalist, Kate Bevan, says UK businesses and consumers require digital payments systems fit for the 21st Century.

Kate Bevan - Journalist

The holy grail of a payments system is one that is secure, transparent, mobile, easy to set up and frictionless. New technologies emerge all the time, often with turf wars and vested interests driving them: as for providers, the data generated by consumers' spending habits is immensely valuable.

Perhaps the most innovative - and most colourful - technology to emerge in recent years is cryptocurrencies, of which bitcoin is the best known. Rather than being a proprietary technology developed by a provider, cryptocurrencies are online only "coins".

Introduced in 2009, bitcoin was quickly adopted as a means of payment in marketplaces such as Silk Road on the "darkweb", accessible only via a special browser. With fame came a bubble, and the value of bitcoin soared from around a couple of dollars per coin to a high of around $1,200, before falling back to its current level (March 2014) of about $500.

During that time a number of businesses have added bitcoin to their accepted methods of payments, ranging from a café in Glasgow to Richard Branson's Virgin Galactic space-tourism service.

Are cryptocurrencies the future for payments? Probably not, at least, not for now - although that could change. At present they are too complex for most ordinary people to get their heads around and for businesses to implement, while high-profile cyber-attacks have shown that the security implications are too complex to make cryptocurrencies attractive to businesses or their customers.

> Perhaps the most innovative – and most colourful – technology to emerge in recent years is cryptocurrencies.

However, other cryptocurrencies are being developed, and it may well be that a variation of bitcoin could one day fulfil enough conditions to become a serious player on the payments stage.

In the meantime, a number of other technologies are already being implemented. Many new credit and debit cards come with NFC chips, which allow users to make purchases of up to £20 simply by waving their card over a payment terminal. There are more than 36 million contactless cards in the UK, although just 164,000 terminals are equipped to accept contactless payment.[1] Clearly the will to use mobile contactless payment is there - but it's not straightforward.

Most modern mobile phones are equipped with an NFC chip and the ability to make contactless payments too, but for now in the UK, contactless payments are largely made by card.

On top of that, there are any number of apps for mobile phones that allow payments to coffee shops and other small businesses, enabling them to collect valuable data for marketing purposes.

For small and medium-sized businesses, trying to decide which - if any - system to implement is confusing. It's a case of deciding on priorities: is it to streamline business processes, to meet customer demand, or to encourage customer loyalty and gather data that can help marketing efforts? Then there's the cost of investing in POS equipment - and any additional charges that arise from processing alternative methods of payment.

Businesses will be relieved to hear that there are moves towards harmonising systems and making things easier. The UK Payments Council is working with a number of banks to implement its Paym system, which will allow users to make payments to small businesses, friends and merchants via a mobile phone number, while other banks are joining forces to create a smartphone app, Zapp, that will allow (reasonably) frictionless payments for purchases via a code sent to the user's phone.

Such schemes are a welcome step in the right direction. With cash an increasingly archaic and expensive payment option for companies to hold, process and transport, UK businesses and consumers require digital payments systems fit for the 21st Century.

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[1] UK Cards Association,
November 18 2013

Chapter 3
Fraud - The Fine Line

With margins tight and competition fierce, the prospect of losing money to fraud haunts many businesses.

The Fight Against Fraud

This year saw 40% of businesses lose money as a result of fraud. And with the average loss over £4,500, it's no laughing matter.

And yet, despite these worrying figures, 39% of businesses don't spend anything on fraud prevention and instead rely on the free tools provided by their payment gateway.

Last year we found that 40% of large businesses would simply void the transaction immediately if they suspected fraud, rather than undertake further checks.

In doing so, these businesses are likely to be turning away genuine customers who have simply entered their details incorrectly, as well as any fraudsters.

A Balancing Act

Although it can be tempting to tighten security controls in the face of fraud, it's worth keeping in mind that for every extra action a consumer is asked to make, you are prolonging the customer journey and therefore increasing the risk that the customer will drop out of the buying process. It is up to each individual merchant to find the right level of fraud protection.

Experiencing no fraud may mean your controls are too tight and legitimate transactions are being rejected. However, too much fraud suggests controls are not tough enough. The key is finding the right balance.

One Size Doesn't Fit All

While one size most definitely does not fit all when it comes to structuring your fraud prevention, trialing protection tools to ensure you have the right systems in place will help you to avoid hefty fraud losses or the rejection of genuine purchases.

£4,500

the average amount lost to fraud in the last 12 months

Five Ways to Help Reduce Fraud

1 Beware of orders that are placed late night or early morning, and orders of high quantity or value.

2 Always check that the delivery address is valid. Fraudsters will often try to get businesses to deliver to bogus addresses. PO boxes, for example, should always be avoided.

3 Invest in geo-location technology to find the shopper's exact location, to identify whether the order is coming from a 'high risk' country.

4 Cyber criminals are increasingly targeting the cardholder data you hold on your customers. Use tokenisation to avoid storing payment data that can be compromised.

5 Analyse customer information and purchasing behaviour to build profiles that will help recognise genuine orders and alert you to fraudulent ones.

Approximately how much money have you lost to fraud in the last 12 months?

17%	10%	4%	3%
£1 to £1,000	£1,001 to £5,000	£5,001 to £10,000	£10,001+

Are you PCI Compliant?

Stolen cards and identity theft are recognised ways for a business to become a victim of online fraud, but fraud can also occur as a direct result of poor security.

A website without proper security measures could lead to a data breach, resulting in customer card numbers being compromised.

The Payment Card Industry Data Security Standard (PCI DSS) is a set of best practice standards designed to help

protect businesses and shoppers from data theft and fraud.

Yet, 42% of the businesses we surveyed didn't know if they were PCI DSS compliant and only 27% said they fully understood how to be compliant.

Please indicate if you agree with the following statements regarding PCI DSS compliance

| 10%	12%	13%	19%	27%
PCI costs are too high for my business	PCI DSS is front of mind for me and my employees	PCI DSS compliance is an additional regulation that is unnecessary	I understand the penalties for non-compliance	I fully understand PCI regulations and what I need to do to become compliant

Is your business PCI compliant?

38%
Yes

21%
No

42%
Don't Know
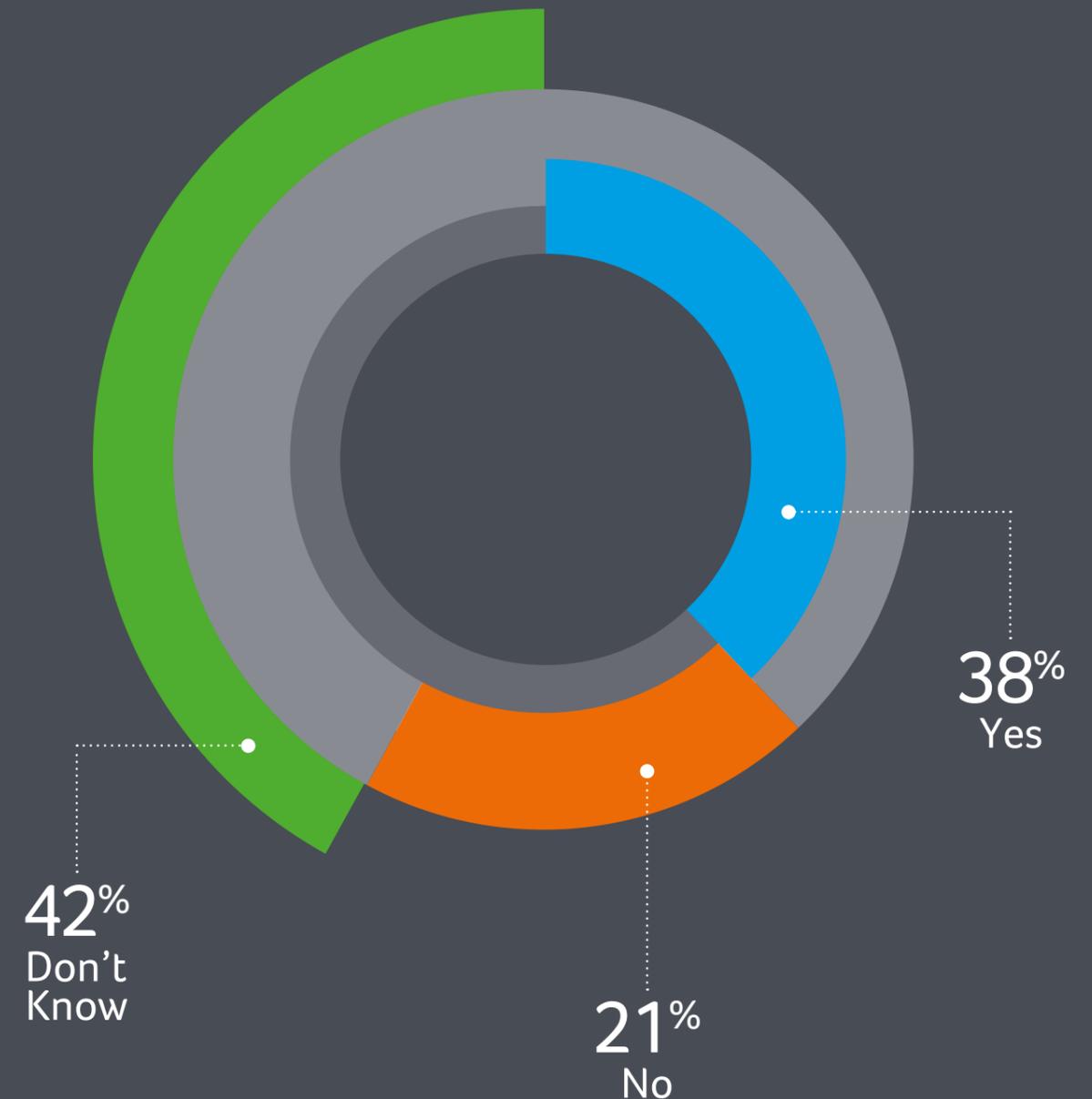
What you Need to Know

There are four levels of PCI DSS compliance and the size of your business will determine the specific level of requirement you need to reach. These are based on the number of transactions processed by your business each year and the way they are processed.

Adhering to PCI DSS Means you Need to:

Assess
Identify cardholder data, take an inventory of your IT assets and systems for payment card processing and examine them for any weaknesses that could expose your customer's data.

Remediate
Fix any vulnerabilities and do not store cardholder data unless you need it.

Report
Submit amended records and compliance reports to the bank and payment brands you do business with.

Tokenisation

Tokenised payments really come into their own when it comes to PCI. The token itself is worthless to cyber criminals if there is a security breach because there is no way for them to trace the original card data without the decryption key and the tokens themselves can't be used elsewhere.

Our survey reports tokenised payments have saved businesses an average of £6,010.43 off their PCI regulation costs.

Large businesses are seeing the biggest impact, with overall savings of upwards of £8,000.

27%

Only 27% of businesses said they fully understand how to be PCI compliant.

Tokenised payments have saved businesses an average of

£6,010.43

off their PCI regulation costs.

i-KOS

Managing Director of e-Commerce agency i-KOS Myles Davidson says it's the little things that can make a big difference when it comes to usability.

Of the businesses we surveyed that track dropout rates, more than a quarter say the most common place to lose shoppers is at the payment pages, so making the process as easy and efficient as possible for consumers is essential.

Myles Davidson
Managing Director, i-KOS

Why is website usability important for businesses?
Customer expectations are at an all-time high because the places where customers are buying most are the major e-commerce platforms like Amazon. The majority of these large companies have got the benefit of budget and can offer a very personalised experience. Personalisation is a key part of usability.

The challenge for smaller businesses is managing customers' expectations. Getting people to your website is a really expensive thing to do and if they come to the store and get a pretty ropey experience they'll leave.

Are dropout rates a key indicator when it comes to usability?
It should be the aim of merchants large and small to reduce their shopping cart abandonments. However, businesses must also realise that lots of customers use a shopping cart as a sort of wishlist. Businesses get fixated on shopping cart abandonment and using that as a key metric, and whilst it's important, you also need to understand user behaviour.

" Businesses get fixated on shopping cart abandonment and using that as a key metric, and whilst it's important, you also need to understand user behaviour. "

" With the number of people not just researching but now buying through mobile and tablet ever increasing, this puts even greater emphasis on optimising the buying journey for mobiles. "

If people are using shopping carts as a wishlist, it's not necessarily a strong intent to buy at that stage. If you understand your audience then you can follow up on those abandonments by emailing people with appropriate follow up messages.

What are the biggest trends when it comes to usability in 2014?
Optimising the buying journey for mobile. We think that within the next 12 months more than half of all purchases for several of our clients will be completed through a mobile or a tablet.

With the number of people not just researching but now buying through mobile and tablet ever increasing, this puts even greater emphasis on optimising the buying journey for mobiles.

Businesses should really be thinking mobile first when it comes to the buying process. How painful is it to buy using a mobile today? That should be a key priority.

Testing is a key part of usability - making sure that your site really does look great regardless of the device that you're using. We often think about designing websites mobile first. How is it going to look, behave, perform on a mobile? We can then add extra content features for larger screens and more powerful computers.

i-kos.com

i-KOS' Usability Checklist

1 Reduce friction when asking customers to fill out forms by removing superfluous steps. Why ask your customer to state which card they are going to buy with when you can detect that in real time?

2 When it comes to shipping, people generally only care about two things - they either want it really fast or really cheap. Offer both but don't over complicate it.

3 If customers make a mistake on a form, don't make them re-enter all their information again - they'll feel stupid and annoyed. Use real-time feedback instead that provides help and guidance, not a big red error sign.

4 If you know customers ship orders to themselves, use a default so their shipping address is the same as their billing address. Installing a postcode look up will also save your customers time.

5 Don't force customers to register in order to make a purchase. It erodes trust and people will expect to be spammed.

6 If you are installing a search function on your website, either invest in it and do it properly, or don't do it at all.

Chapter 4
Spreading your Wings

The rise of e-commerce has put selling to foreign markets within the reach of businesses large and small, but targeting the right markets and localising your website are essential for success.

Going Overseas

Despite Britain's 228,000 online retailers exporting more than the rest of Europe's e-retailers put together, according to the UK Trade & Investment government department (UKTI), we found that almost half (47%) of the UK's businesses do not currently operate overseas.

While 21% of those we surveyed say they plan to set their sights on overseas markets in the future, nearly the same number (19%) say they already have their hands full with the UK market.

For those that do trade overseas, the most popular foreign countries for UK businesses to target are France, the US, Germany and Spain - the fastest maturing e-commerce markets.

The Tipping Point

The tipping point for overseas expansion for almost a quarter of businesses (24%) was customer demand. Other push factors quoted by respondents included natural expansion of the UK business and slowing growth in the UK market.

With local nuances and differing regulations, selling internationally is never going to be as straightforward as selling in the UK, but it may be easier than you think.

Before you make the decision to explore new markets, assess your product or service to ensure that it's a good fit for foreign customers. Is there sufficient demand in global markets for what you sell?

1 in 4
businesses expand overseas due to customer demand

Top Tips for Expanding into New Markets in 2014

1 Look at where your orders currently come from to identify markets where your brand or product has traction. British-made products are especially popular in South Korea for example.

2 Be sure to get to grips with local laws and taxation to avoid any unwelcome surprises. The UKTI can provide useful information: ukti.gov.uk

3 The norm when it comes to delivery options, pricing, and customer service will vary depending on the country. Look to native competitors for a steer on the status quo.

Changing Regulations

SEPA

The Single Euro Payments Area (SEPA), which comes into play this year, is streamlining the process of making electronic payments in Euros across EU member states, making it easier for consumers to shop across these markets. However, retailers must ensure they comply with the new rules.

This year, all Eurozone countries must have replaced their national Euro credit transfer and direct debit schemes with SEPA Credit Transfer (SCT) and SEPA

Direct Debit (SDD). For EU countries like the UK that do not use the Euro as their national currency, the deadline is 31 October 2016. Businesses operating in both Euro and Non-Euro countries can phase their implementation in line with these dates.

UK businesses that do not have European operations but do have Eurozone customers might lose out if they cannot process SEPA payments and making the move can save time and open up new markets.

What are the biggest barriers to trading overseas?

43%
Overcoming laws and legislation

42%
Operating in a different language

37%
Processing payments in different currencies

20%
Understanding and accommodating payment methods

What markets do you currently operate in?
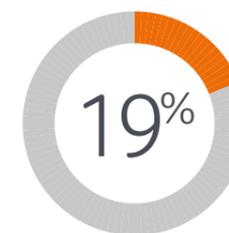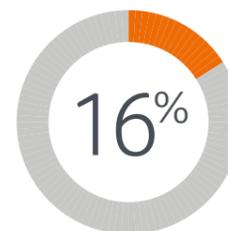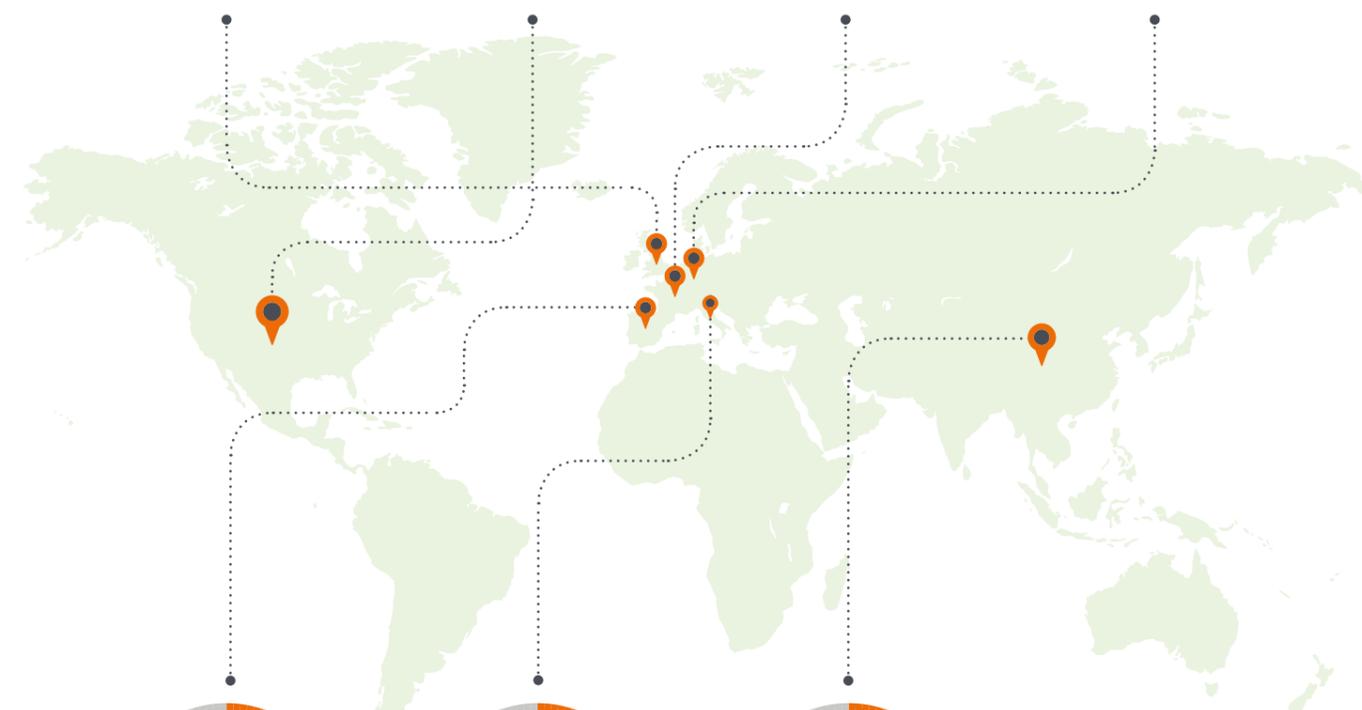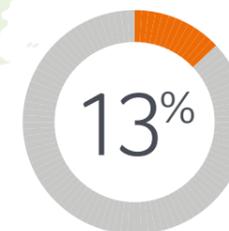
98% UK
19% USA
19% France
18% Germany
16% Spain
13% Italy
9% China

DrEd

David Meinertz, co-founder of online doctor service DrEd, explains the company's approach to expanding into foreign countries, the benefits of tailoring your offering to different markets and providing a range of payment methods.

As this year's report shows, expanding overseas can really boost revenue for small businesses, but key to successful expansion is knowing your audience and taking your time.

David Meinertz
co-founder, DrEd

What services does DrEd provide?
Our aim is to provide people with more flexible access to medical care. We make it easy for patients to talk to a doctor when they want to and using the method they find most convenient. You can access our services using your mobile phone, your tablet, or your normal desktop computer. You can also do that from wherever you are, whether that's at home, while travelling on the bus, or from your desk at the office. It's really about making healthcare more accessible to patients.

Which markets did you target for overseas expansion?
The company first launched in the UK in September 2011. Then we went on to launch in Germany in December 2011, in Austria in April 2012 and in Switzerland in July 2012. We will also be launching our services in France and Italy and in other European markets in due course.

Why did you decide on those markets?
We decided to expand into these countries first because there are no online doctor services available in these markets and we think that presents a big opportunity. Healthcare is a big issue in these countries too.

We looked at sizeable EU markets where internet and mobile penetration are significant and growing, and where there isn't this type of service currently available.

How have you navigated foreign laws or legislation?
Our practice is based in the UK and we operate out of London. We are registered with the Care Quality Commission and our doctors are registered with the General Medical Council. The company, the doctors, the practice and our activities are all registered and regulated in the UK. However, European law enables us to provide these services to patients anywhere in Europe.

"Our aim is to provide people with more flexible access to medical care."

How have you approached payment options for overseas customers?
We looked at various payment options - they can vary quite a bit from market to market. Some are more popular with patients in certain countries than others. From our experience, for example, credit cards are common in the UK, but are not very popular in Germany, Austria and Switzerland. Direct debit or direct transfer options are more popular in Germany than anything else.

Credibility is crucial to our conversion rates, so providing a secure and familiar payment method to our patients is vital. In a sector where there are a lot of fake prescription medicines on offer, the credibility of a serious and well-known payment provider is extremely important.

We also customise what people pay for depending on the market. For example, in the UK, you pay one price for the medication, the prescription and delivery. In Germany, however, you only pay for your prescription and then you can walk into any pharmacy to get your medication. The patient journey has been customised to fit the local market requirements. Each of our websites is also language specific.

What advice would you give to other companies thinking of expanding overseas?
Take your time. Tackle new markets one by one, rather than expanding into three markets in six months, like we did. Every market presents its own challenges and requirements, so I would really recommend a slower approach.

In regulated markets, like healthcare, having a range of payment options is a big boost to the company's credibility.

DrEd.com

Chapter 5
The Rise of the Cryptocurrency

61%
of businesses
think bitcoin
is a fad

Cryptocurrencies are virtual currencies free from government regulation. They are not issued by a central authority, which, in theory, makes them immune to state interference.

The most high-profile cryptocurrency is bitcoin, which was launched in 2009. Bitcoin uses peer-to-peer technology to operate with no central authority or banks.

Managing transactions and the issuing of bitcoins is carried out collectively by the network and their value fluctuates according to demand.

It is not yet clear whether this virtual currency is just a passing fad, or whether it may evolve into a valuable tool for businesses. Bitcoin is currently accepted by a small number of retailers, but for many, it's done largely for the publicity it earns them.

Consumers using bitcoin have until recently been categorised as early adopters, with an interest in technology. The overriding reason why businesses are wary of bitcoin is its volatility. The secure, unregulated nature of cryptocurrencies also makes them attractive to illegal activity.

Bitcoin – Fad or Future?
Bitcoin has enjoyed a high, if controversial, profile this year. Despite this, it has yet to be taken seriously by UK businesses with 61% describing it as nothing more than a passing fad.

Only 4% of businesses say they use it, with adoption more likely among those with 50+ employees.
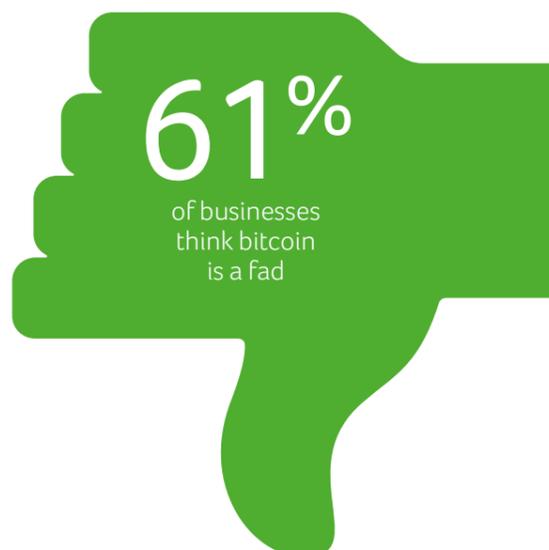
Consumers are even less convinced by this new payment method. 63% of those surveyed awarded it 1 out of 10 for payment preference and only 1% had used bitcoin in the last month.

Despite marking something of a revolution in alternative payments, bitcoin lacks a key driver to make it a success - consumer demand. With demand so low, it's no surprise that just 4% of businesses said they planned to invest in it over the next year.

While bitcoin may have a long way to go before it hits the mainstream, there are indications that businesses think it may become more influential in future. 29% of businesses thought it was an important part of the future payments choice for consumers.

Benefits of Bitcoin

Low fees
Payments are currently processed with either little or no fee.

Protection against fraud
Bitcoin payments are irreversible and secure, meaning the seller can safely ship products with no risk of a chargeback.

Fast international payments
Bitcoins can be transferred anywhere, with no limits or delays.

Less compliance responsibility
Bitcoin still requires you to be PCI compliant. However, you're not responsible for sensitive information like credit card numbers.

Hacking
Mt. Gox, once the world's biggest bitcoin exchange, had to file for bankruptcy protection amid fears that hackers gained access to its systems.

Criminal activity
The untraceable nature of bitcoin makes it attractive to criminals who can buy and sell illegal items with less risk of being caught.

Volatility
The value of bitcoin has fluctuated wildly which means, among other things, that online shops have to continually adjust their prices.

Risks of Bitcoin

Chapter 6
Looking to the Future

What will the landscape look like in a decade? Taking note of consumer preferences and closely monitoring emerging technologies will give businesses the best possible chance of future proofing their brand.

The top consumer payment predictions for 2025

47%
of consumers think fingerprint recognition will be in use.

76%
of consumers still expect to be carrying a wallet. 86% still expect to be carrying credit/debit cards.

16%
think bank notes will have died out.

A Recipe for Success

So what divides the successful companies from the not so successful companies? Well, there is no magic bullet. However, by separating out those companies with an increase in revenue of more than 21% over the last year, we discovered some defining factors.

1 **Give Customers Choice**
Successful businesses are more likely to offer a range of payment methods. They reported higher usage of PayPal, gift vouchers and even bitcoin. They recognised the potential merits of contactless payment and mobile apps.

2 **Integrate and Measure Channels**
Successful businesses integrate their online and offline channels. They also measure which channels their sales come from and where potential customers drop out in the path to purchase.

3 **Make it Easy for People to Buy**
Successful businesses are more likely to be using tokenisation. They recognise the need for data protection and the importance of providing a safe, efficient payment system for their customers.

4 **Explore Other Markets**
Successful businesses are clued up on the issues when it comes to selling overseas.

They are aware of the challenges associated with processing different currencies, laws and legislation.

5 **Don't Get Complacent Over Fraud**
Successful businesses are weighing up fraud and ensuring they get a good balance of protecting their business whilst keeping genuine customers.

About Sage Pay

Sage Pay is a division of FTSE 100 business software company Sage. It is Europe's leading independent payment service provider (PSP) and is one of the most trusted e-commerce brands.

Sage Pay processes millions of secure payments for its 50,000+ customers each year and makes the process of accepting payments simpler, faster, safer and more profitable for businesses of all sizes.

Thank You

This report is our largest, most in-depth report yet. As such, it is the result of the efforts of a large team of dedicated people.

We'd like to take this opportunity to thank them for their hard work.

Original research was conducted by independent research specialists, Redshift Research, who ensured that the data was robust and delivered meaningful insights into how businesses of all sizes are performing today.

The report itself was written by Bite Global who took on the job of turning the raw data into an insightful and accessible guide, allowing businesses to gain a clear picture of what's working and what's not in the payments industry today. The report was designed by Sage Pay's Joe Steele and Marta Malheiro, with support from the Bite team.

The entire project was managed by our own Amy Monro who kept all the plates spinning and who can now finally get a good night's sleep.

We'd also like to thank our featured businesses for their invaluable insight.

Finally, we'd like to say a massive thank you to the 1124 companies and 1042 consumers that took the time and effort to answer this year's survey – we couldn't have done it without you.

This report is for information only. The guidance it contains is offered in goodfaith but does not constitute professional advice. Sage Pay cannot be held liable.

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