# The State of Commerce In Europe 2023

How to overcome economic headwinds
in the post-COVID world

Signifyd

# Introduction:
# Don’t look now, but retail isn’t getting any easier

Retail in Europe is coming off two of the toughest years in the industry’s history. 2021 saw COVID shutdowns, the scramble for new ways to get products to the consumers who wanted them and safety precautions to make sure customers and associates alike could stay healthy when stores could be open. You’d be forgiven for thinking 2022 and 2023 would be a time to relax, recover and re-energise. Nope.

Along with the end of COVID as a crisis, 2022 brought a ground war in Europe, sky-high inflation, rocketing fuel prices, rapidly rising operations costs, labour shortages and supply chain disruptions. Online merchants also came face-to-face with the enforcement of strong customer authentication (SCA), a payment reform that reduced conversions and shifted fraud away from checkout and toward other parts of the shopping journey.

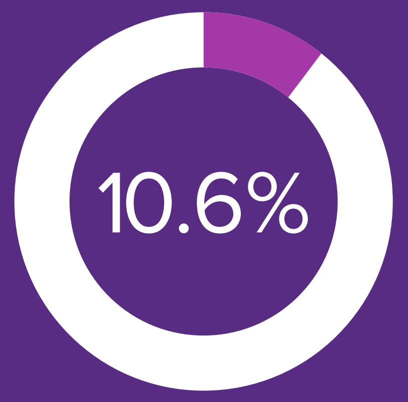
> “I can’t remember a time with as much disruption as the last two-and-a-half years,” Helen Dickenson, the chief executive of the British Retail Consortium wrote in The Retailer, citing the pandemic, the war in Ukraine and a shortage of truck drivers to move goods. “And now a cost-of-living crisis — with inflation at a 40-year high and little end in sight.”

**Helen Dickenson**
Chief executive of the British Royal Consortium

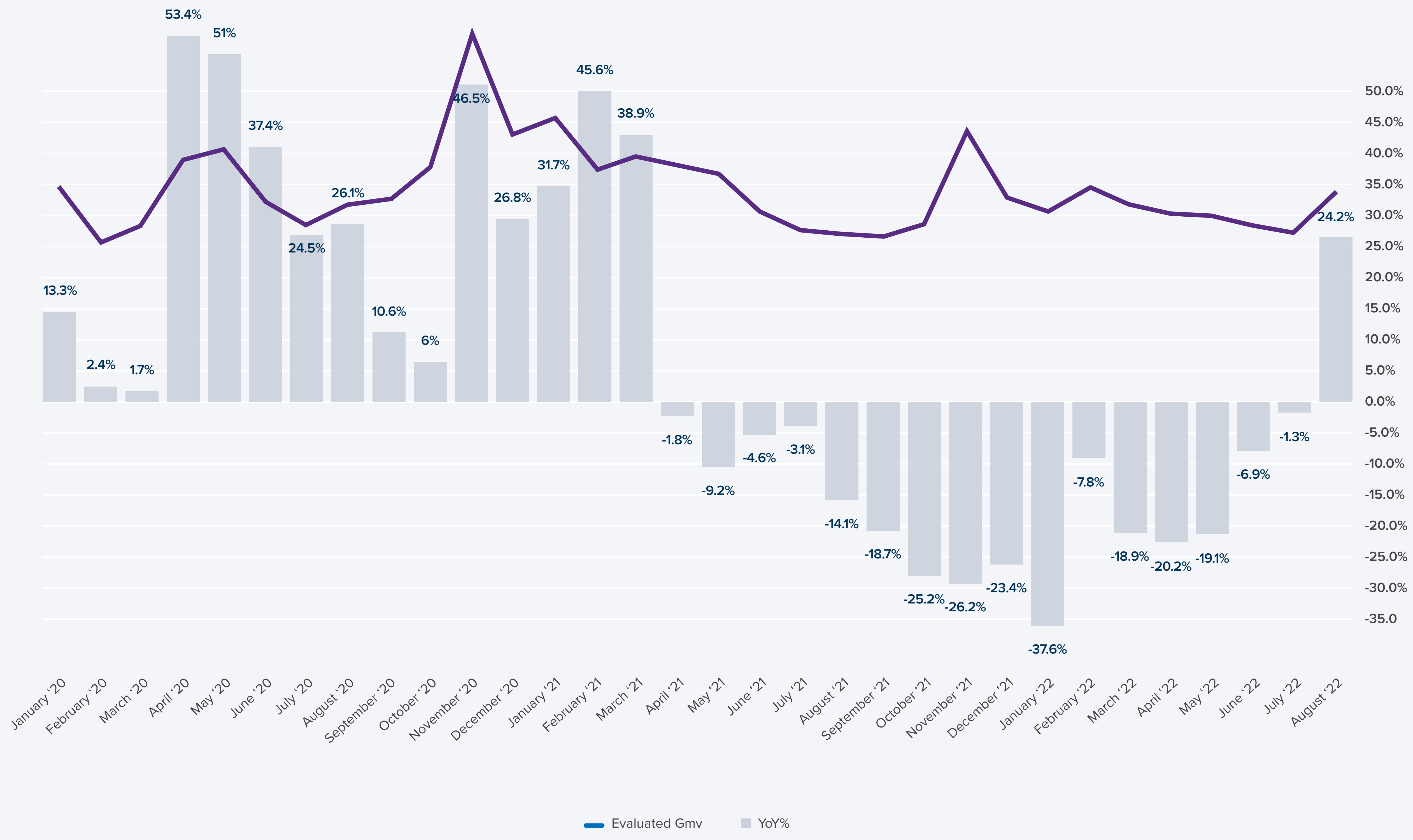
The list of woes is not without its consequences. Consumers in Europe have returned to stores, but not in pre-pandemic numbers. Online sales generally remain above pre-pandemic levels, but sales have fallen year over year in key markets since the second quarter of last year, according to Signifyd data. Month-to-month comparisons showed some precipitous drops in Europe overall, but the downward pressure has eased in recent months, with July coming in just 2% below July 2021 and August showing a rebound, up 24% year-over-year.

INTRODUCTION

Overall, retail sales were down 16.6% at mid-year in the EU, according to Signifyd data, after seeing 10.6% growth during the same period in 2021.




## Europe sales growth





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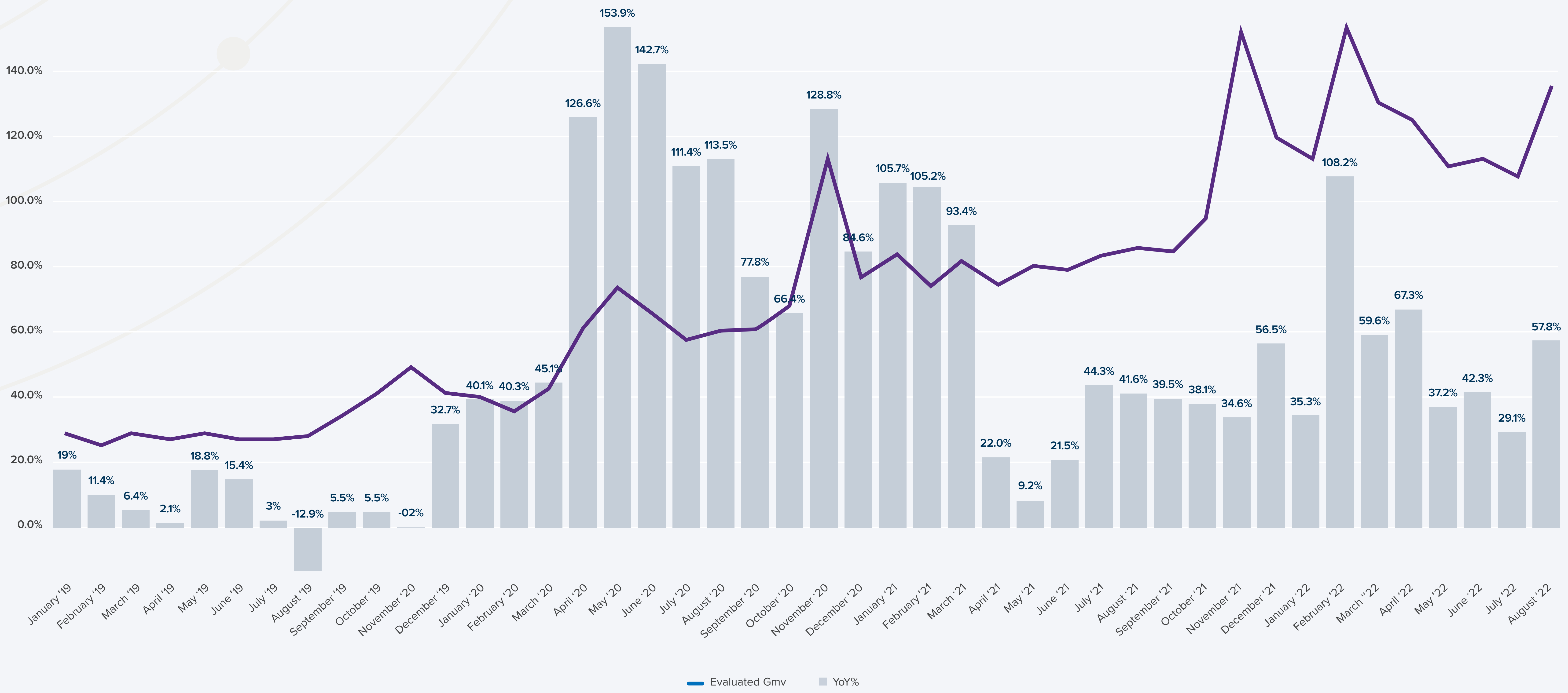
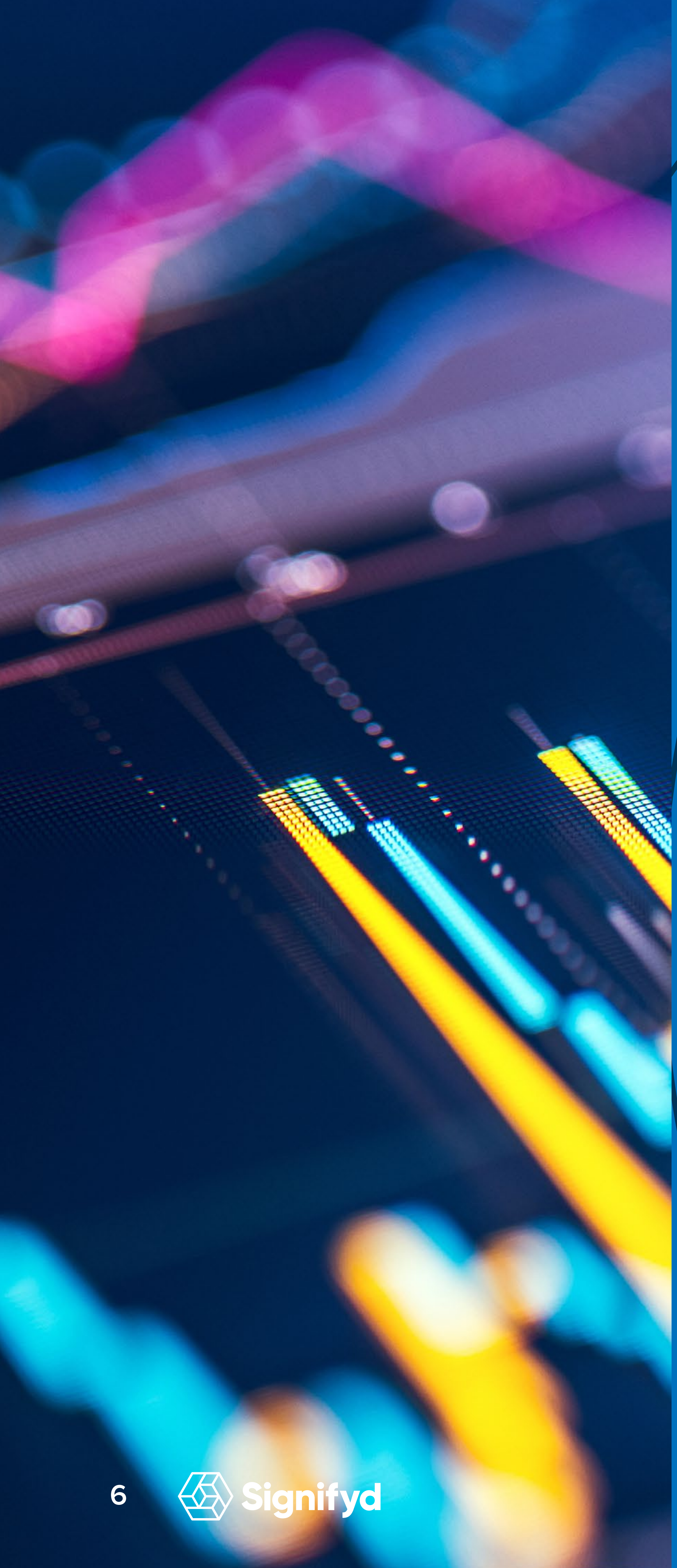
## UK ecommerce sales




Interestingly, UK sales cushioned the blow for online sales in Europe overall, growing throughout 2022, including finishing up August nearly 58% above the same month in 2021.

If nothing else, the last two and half years have proven the resilience of UK and EU merchants. The coming year will be a time for brands to lean on that resiliency and tackle the areas within their control to ensure that they optimise every site visit and every conversion. This is no time to leave potential revenue unrealised.



SIGNIFYD SURVEYED
**2,000**
EACH IN THE UK,
FRANCE AND ITALY

# Methodology

**The State of Commerce In Europe 2023: How to overcome economic headwinds in the post-COVID world** draws its conclusions based on Signifyd's UK and European Union transaction data, two sets of consumer survey data and interviews with retailers and retail experts.

Signifyd data was derived from its proprietary Commerce Network of thousands of merchants worldwide conducting online commerce. The consumer data is the result of one set of surveys focused on Strong Customer Authentication involving 2,000 respondents each in the UK, France and Italy. A second survey focused on the economy and ecommerce in general also polled 2,000 respondents each in the UK, France and Italy. The surveys were conducted on Signifyd's behalf by OnePoll, in accordance with the Market Research Society's code of conduct.

The consumer surveys were conducted between June and September 2022.

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# What's the plan for getting through retail's latest test?

Four key challenges have the potential to spell the difference between success and failure in 2023 for UK and European Union retailers as they confront the latest headwinds. The pandemic accelerated changes that were already underway in ecommerce. Consumers shop differently now. They are less brand loyal. They expect more and if they're not initially satisfied, they will go elsewhere to find the products and experiences they want.

Continued change in ecommerce is inevitable and key drivers have established themselves as transformations to be reckoned with.

A year or two from now, when we look at the winners and losers, those who navigated their way through the macroeconomic mire will be the online brands that successfully tackled the payments transformation, the returns reckoning, the promise of international expansion and the new world of SCA.

## 1

**Payments have entered a new era of transformation.** European retailers that optimise their payment stack to take advantage of SCA exemptions and provide a holistic view of authorisation and approval performance stand to increase sales by 5% to 9%.

## 2

**There is a returns reckoning underway.** Consumers' penchant for returns has increased substantially since 2019. Requiring fees to discourage returns is not the answer. Consumers are likely to go elsewhere, where they feel more welcome.

## 3

**International expansion opens new markets for retailers** and provides growth beyond saturated home markets. Consumers have demonstrated that they are comfortable shopping across borders to get the items and prices they want.

## 4

**The new SCA landscape has piled disruption on top of disruption for UK and European Union merchants.** Getting SCA right by turning to intelligent solutions for maximum efficiency and protection from malicious actors transforms SCA into a competitive advantage.

# The state of consumers in the UK and the EU: Inflation takes a toll

European consumers are cutting back on spending — shifting to bargain brands, trying lower-priced stores and worrying about high prices, according to a recent McKinsey & Company report. As of the summer, in fact, inflation was the region's No. 1 worry for those living in Europe's largest economies, considerably outpacing the war in Ukraine. Nearly 60% of Europeans say their country's economy is in bad shape and more Europeans (36%) expressed doubts in June about a successful economic recovery than did at the height of the pandemic, McKinsey said.

INFLATION WAS THE REGION'S

**No.1**

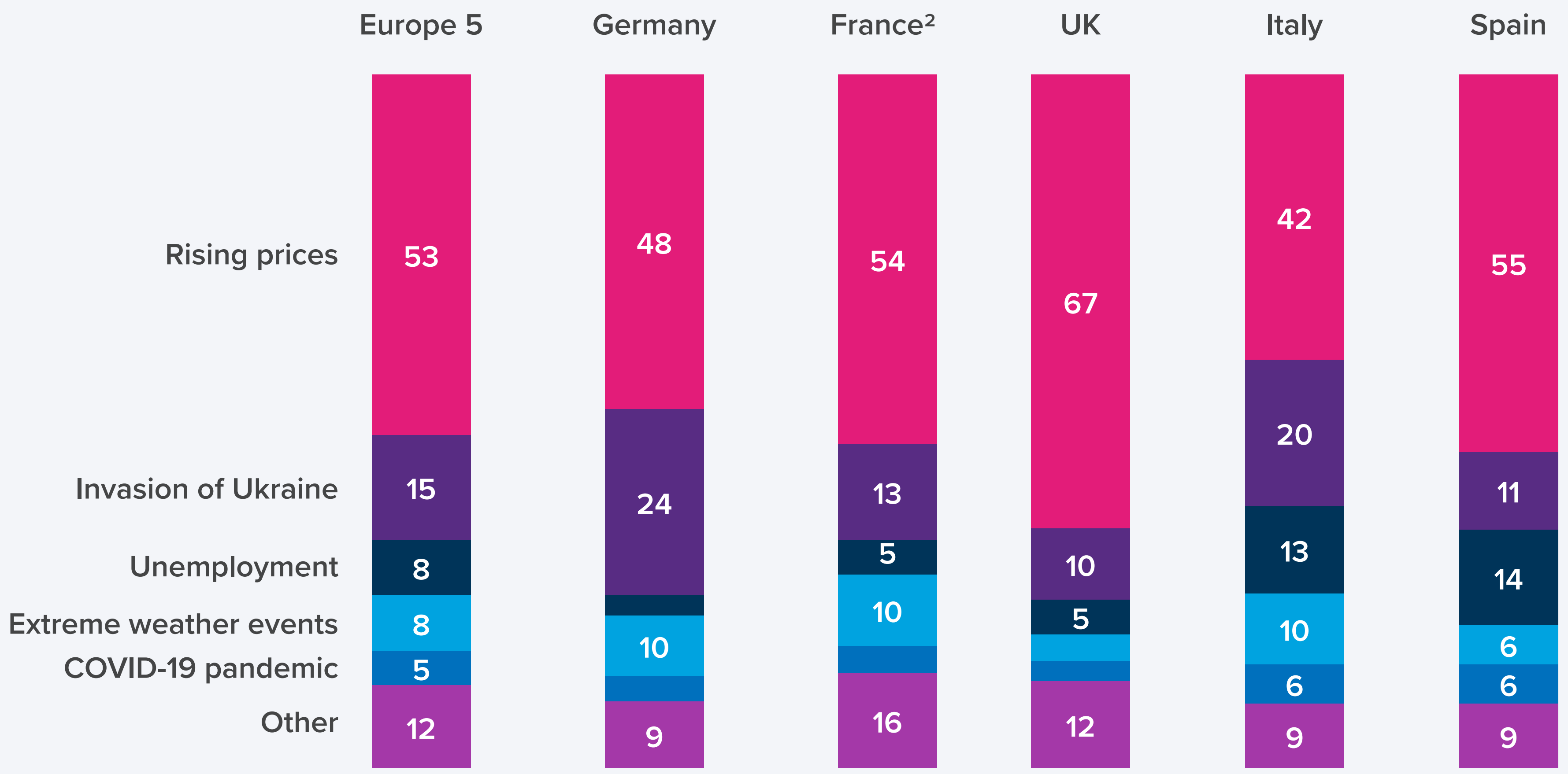
WORRY

NEARLY

**60%**

OF EUROPEANS SAY THEIR COUNTRY'S ECONOMY IS IN BAD SHAPE

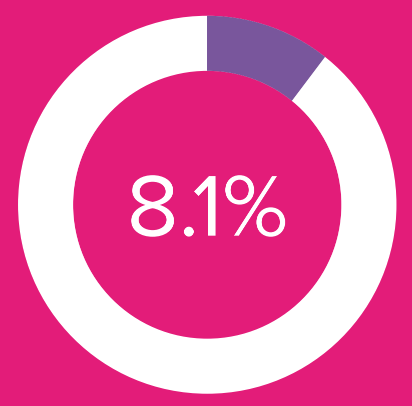
## Rising prices and the invasion of Ukraine are the top concerns of European consumers, far ahead of COVID-19




Top source of concern,[1] % of respondents

[1]Q: Which of the following is your top concern today?
²For France, political insecurity (9%) and immigration (8%) are concerns mentioned by more than 5% of consumers.
Figures may not sum to 100% because of rounding.

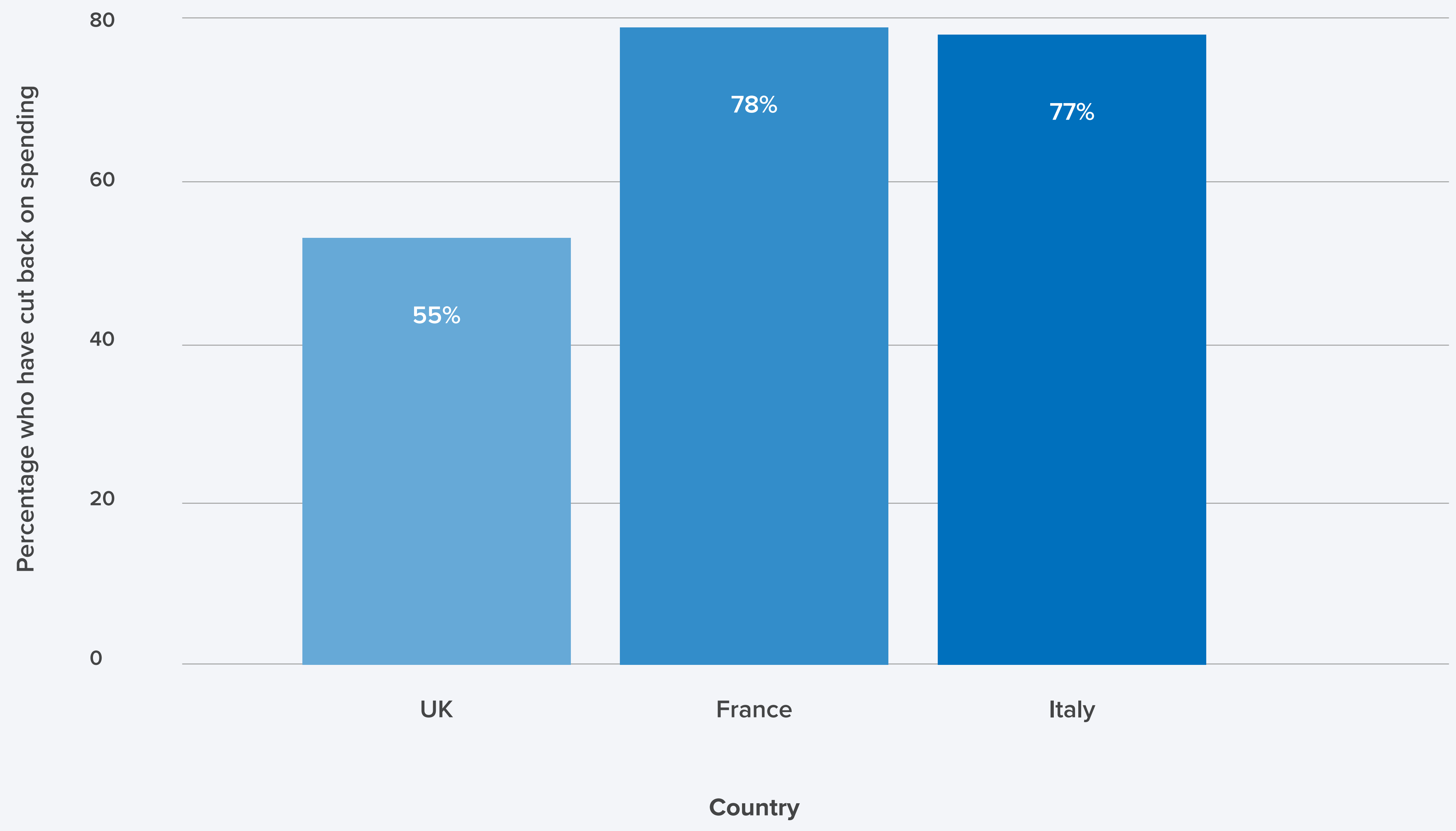
Source: McKinsey & Company Europe Consumer Pulse Survey, 06/08-06/12/2022, n=5.076 (France, Germany, Italy, Spain, UK), sampled to match European general population 18+ years.




And why wouldn't rising prices be a top concern? Throughout much of 2022 inflation has been setting monthly record after record. The European Central Bank is simultaneously raising interest rates while predicting inflation will hit an average annual rate of 8.1% this year. Gas prices are surging across the region as Russian supplies dwindle and stop.

The result: An overwhelming majority of consumers surveyed by Signifyd say rising prices have caused them to reduce their spending this year.

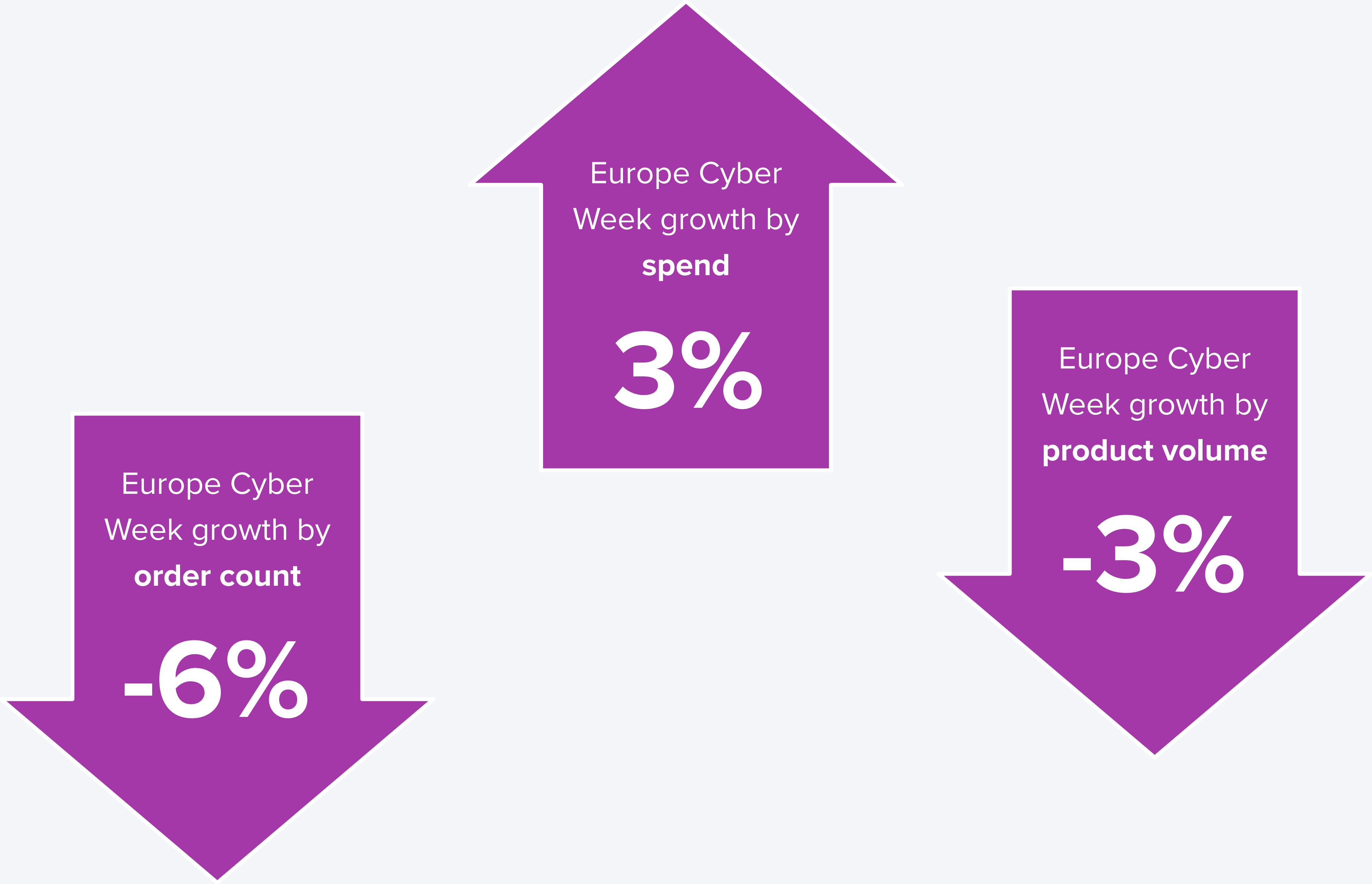
## Customers tighten budgets in tough times



The consequences for retailers are clear in declining ecommerce sales. And the picture is not likely to get any prettier as the year runs out of months and the holiday shopping season begins. During the closely watched Cyber Week, with its mythical Black Friday, consumers will be spending more online than last year to buy less. And they won't be spending much more, according to Signifyd projections.

## Rising costs and waning consumer confidence are drivers of overall sales contraction in Europe

**YoY Cyber Week projections**
23/11/2022 - 29/11/2022




While predictions for overall spend are up, it's clear from order count and volume decline that inflationary pressures will have an effect on peak trading season.

Source: Signifyd, Retail Economics-Hyperiar consumer panel

**YoY Nov/Dec projections**
1/11/2022 - 31/12/2022

Europe Nov/Dec growth by **order count**

**1%**

Europe Nov/Dec growth by **spend**

**-4%**

Europe Nov/Dec growth by **product volume**

**-6%**

A recent survey found 77% of consumers are planning on cutting Christmas spending, a trend that is reflected in season projections. Flat growth of orders highlight that consumers may opt for cheaper products or fewer goods.

Source: Signifyd, Retail Economics-Hyperiar consumer panel

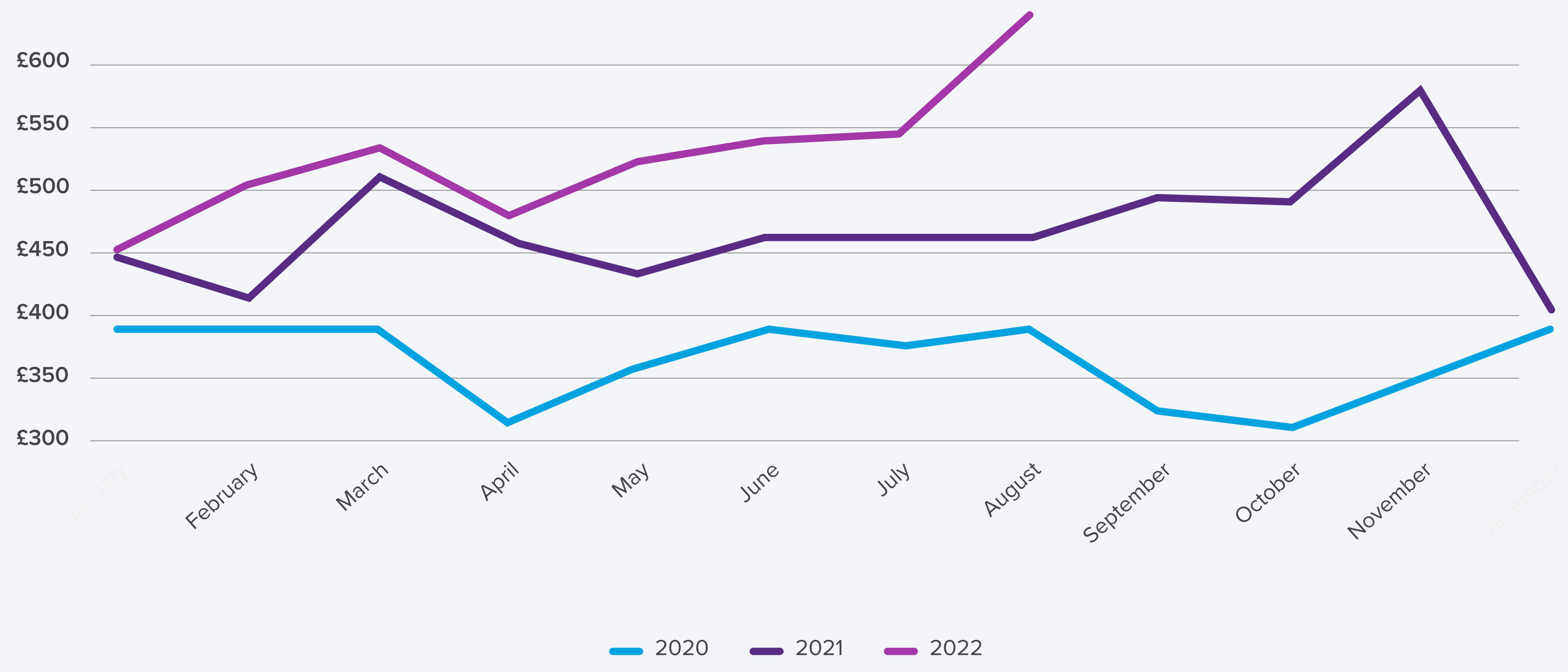
**77%**

OF CONSUMERS ARE PLANNING ON CUTTING CHRISTMAS SPENDING

Furthermore, Cyber Week stands to be a harbinger for a solid but slow holiday season throughout November and December. Signifyd sees a slight dip in spending this year compared to last year and fewer products sold.

## Football fever: Winter World Cup is a step into unknown for television sales

**Average TV prices by month 2020-2021**
Signifyd network



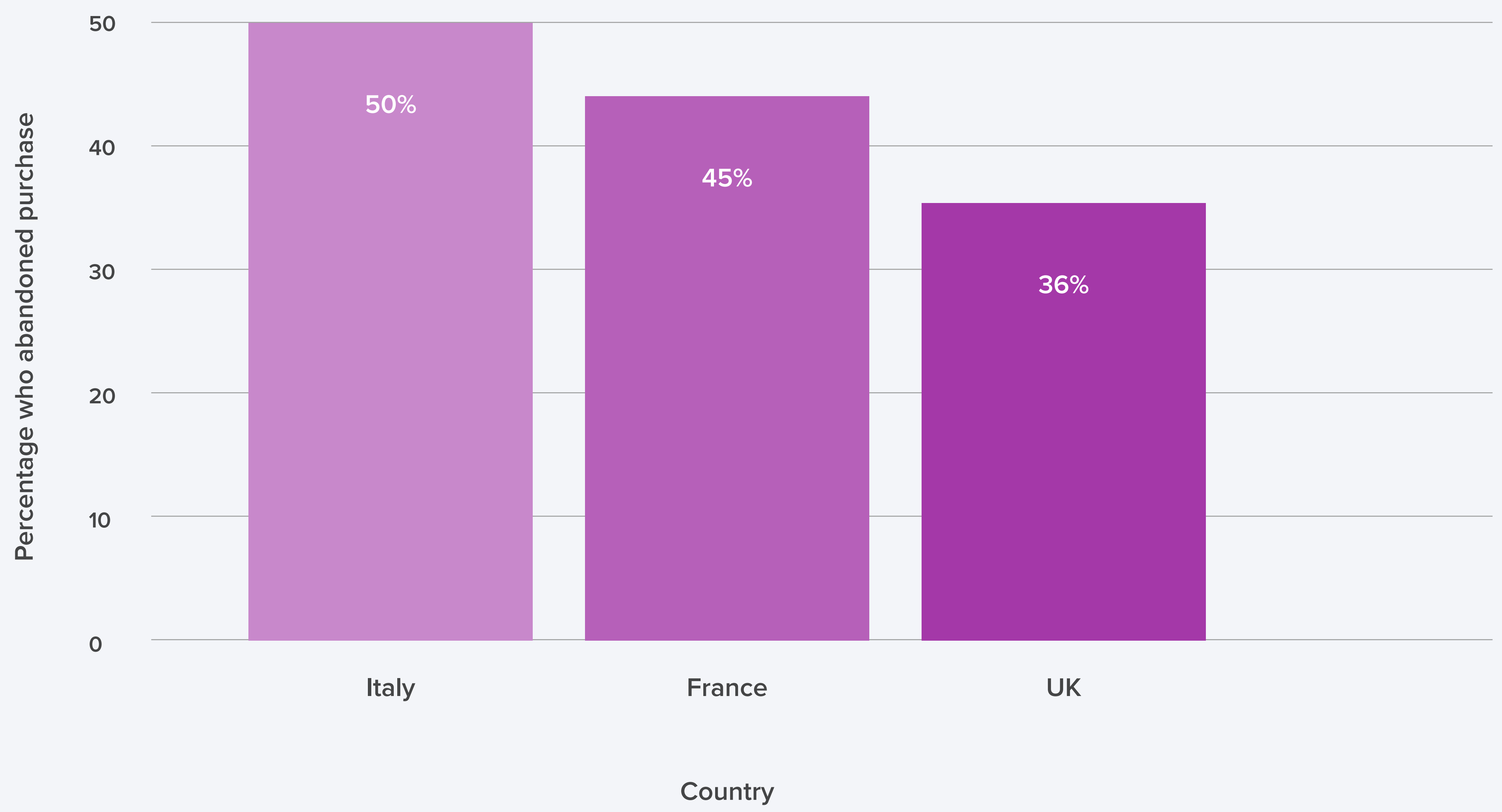

Even the shift of the World Cup from summer to the holiday season wasn't enough to push the predictions to impressive heights. One explanation: Television purchases are a big driver of sales. But TV prices have been rising steadily — up from £349 (€399) in 2020 to £516 (€590) this year. During World Cup 2022, TV prices will be on the rise and household budgets will be tight, meaning the pandemic TV purchase or even the set that fans watched France beat Croatia on in 2018 might be good enough this year.

> **The winter tournament will be a step into the unknown, with the two biggest drivers of TV sales clashing and then culminating in an actual England match on Black Friday.**
>
> MATT NEWMAN
> CURRYS, TO RETAILWEEK

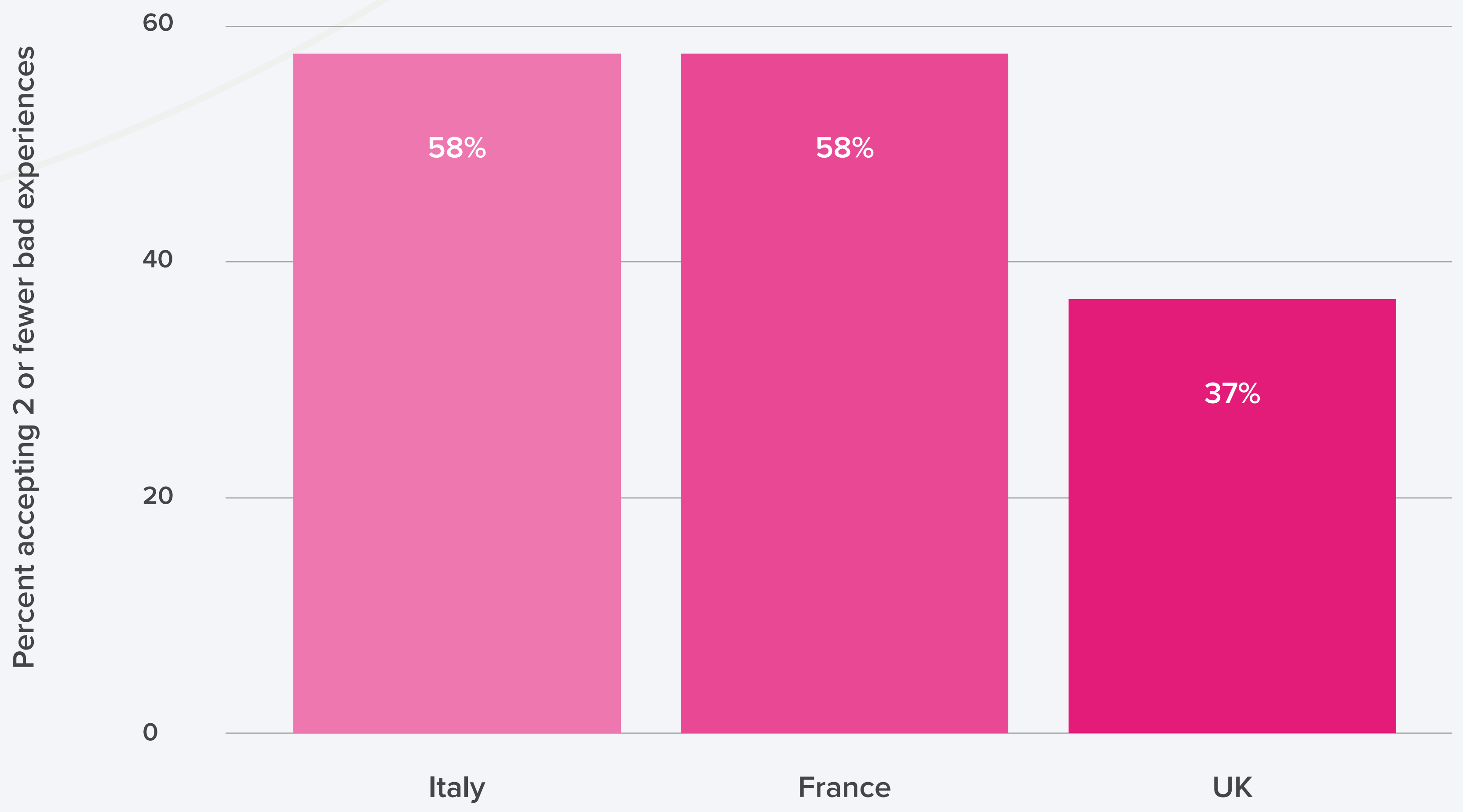
# Not a golden age for customer experience

Consumers are also struggling with the shopping experience created by SCA regulations. The requirement that consumers authenticate themselves with two out of three of the following — something they know, something they have or something they are — has soured some online shoppers on digital buying. Half of Italian consumers, 45% of consumers in France and 36% of consumers in the UK have had to abandon purchases because of trouble with SCA, according to a Signifyd survey of 2,000 shoppers in each country.

## Consumers frustrated with SCA



## Consumers abandon merchants after a bad experience




Furthermore, a large percentage of shoppers said they would stop shopping with a retailer after having one or two bad online experiences. At a time when consumers are under financial pressure and shopping around for the best deals, online retailers don't want to give them a reason to leave for the competition.

# Merchants need to adjust to the new reality

The growing economic uncertainty and rapidly changing consumer preferences mean merchants need to be relentless in finding ways to leave no revenue behind. The answer comes down to giving consumers what they want. Hardly new advice, but advice that takes on new meaning in the current state of affairs.

This e-book will dig into four areas that have the potential to make a meaningful difference in the fortunes of online retailers. Taken together, mastering these four challenges will lead to more conversions, meaning higher revenue; more satisfied customers, meaning higher customer lifetime value; expanded markets, meaning more sales; and returns that are not only sustainable but a driver of deeper customer loyalty.

Let's dive in.

## The transformation of online payments

Payments have been center stage in the UK and European Union for years as PSD2 (Payment Services Directive 2) and its strong customer authentication (SCA) requirements were on again, off again, on again, delayed and finally enforced. Today the new payment requirements, meant to make online commerce more secure for consumers, are the regulation of the land across the European Economic Area.

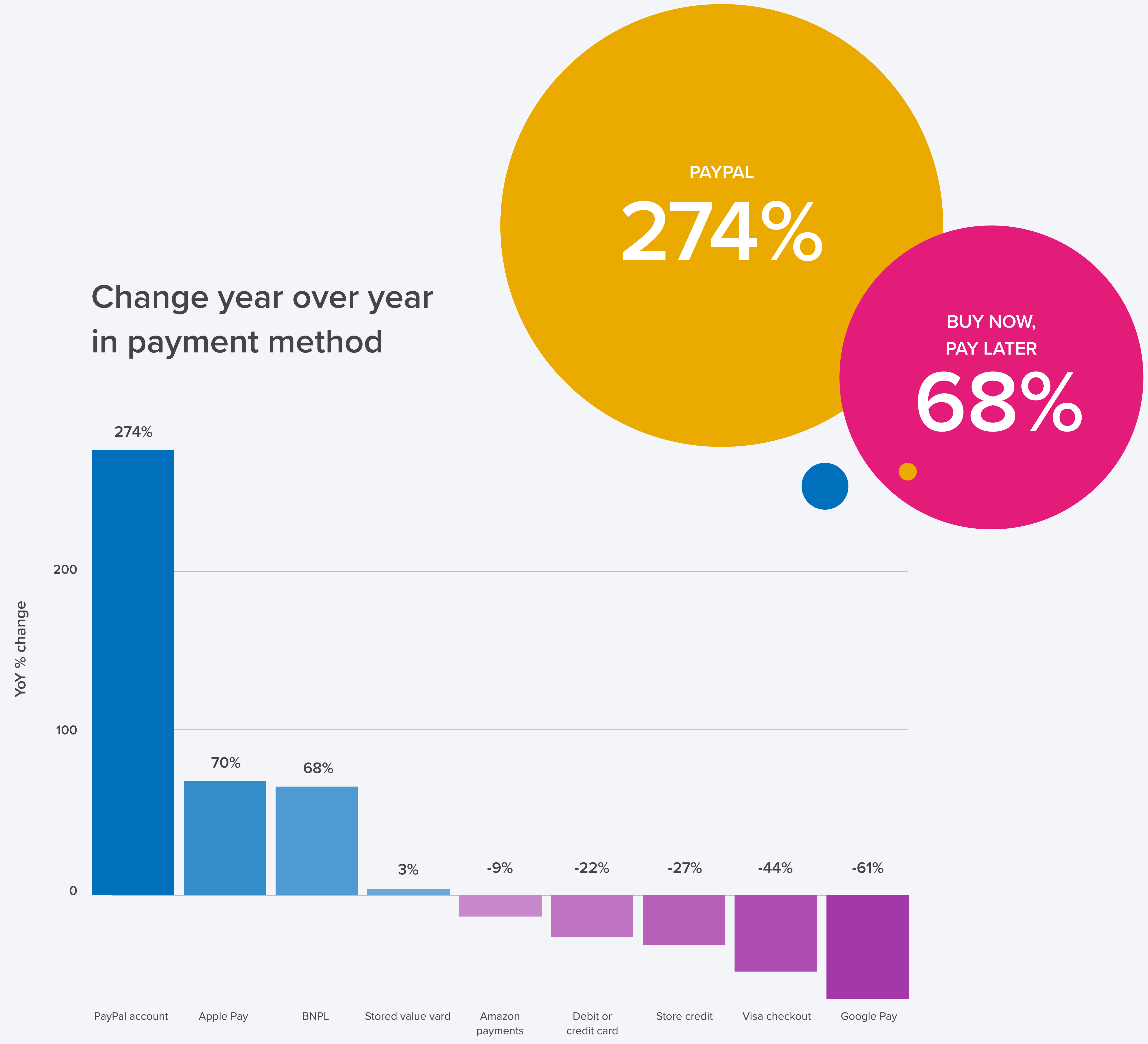
SCA adds a layer of complication to what is already a key stop along the customer buying journey and we'll tackle SCA in depth later in this e-book. For now, a reminder that with or without SCA, it's vital for merchants to master the basics when it comes to payments and checkout.

Payments are undergoing a rapid and dramatic transformation. Consumers look to pay in different ways for different purchases and leave retail sites disappointed when their payment method of choice isn't available. Credit cards are still a dominant force, but shoppers today turn to buy now, pay later options (BNPL), digital wallets and increasingly in the era of open banking, direct payments from bank accounts.

In fact, Europe is leading the world in BNPL, according to FIS Worldpay. 8% of ecommerce sales in Europe rely on the instant-loan option, more than twice any other region, according to the FIS Worldpay Global Payments Report.

# Payment preferences are constantly changing

Consumers' embrace of the new is driving a shift away from the old. Ecommerce sales conducted via debit or credit card have dropped 22% this year compared to last year, according to Signifyd data. Meanwhile, buy now, pay later rose 68% while PayPal and Apple Pay were up 274% and 70% respectively.

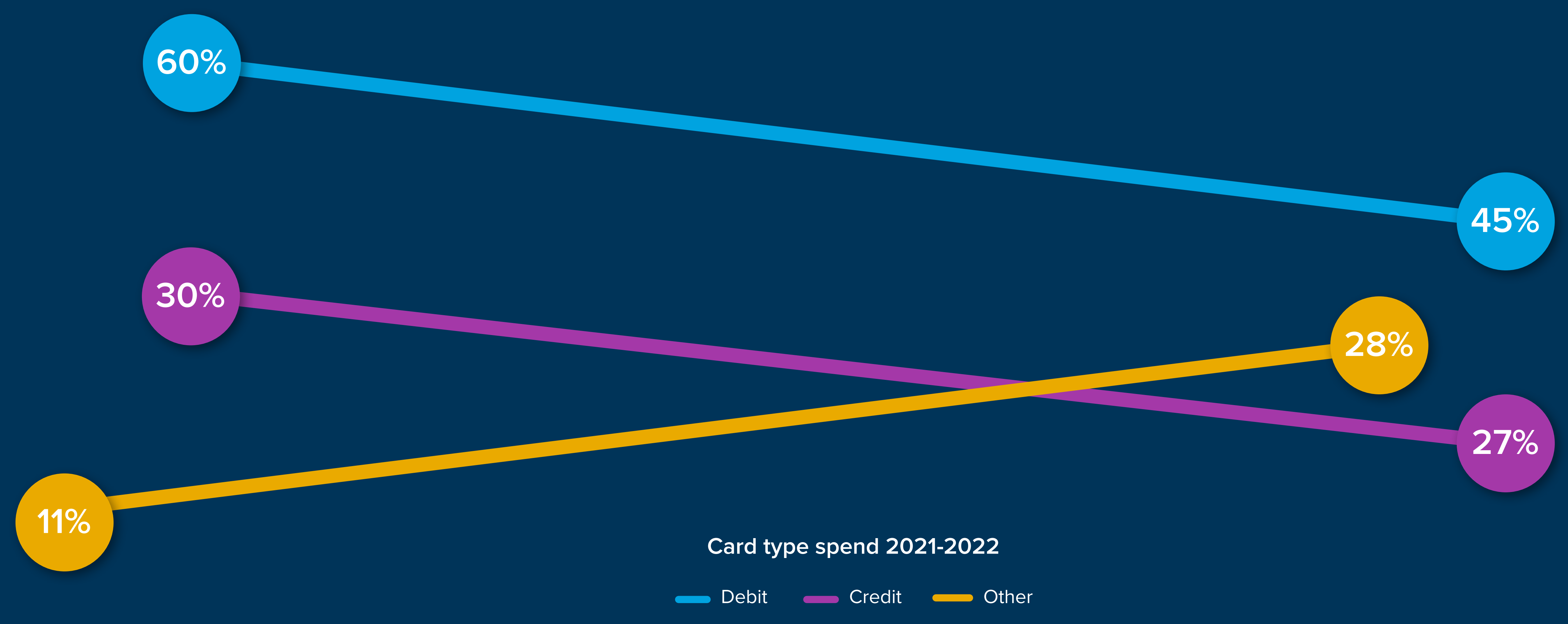


**£1.8 billion**

Lost a year

The lesson for retailers is that they need to accommodate a variety of payment options, especially considering the same customer might use a different payment option depending on the circumstance. A UK Consultancy Merchant Advice Service study found that merchants in the region were losing £1.8 billion (€2.1 billion) a year by not providing consumers with their preferred payment method. In a 2021 survey, the consultancy also discovered that one in five consumers will abandon their purchase when they cannot pay the way they would like to.

## Europe's shift from credit cards

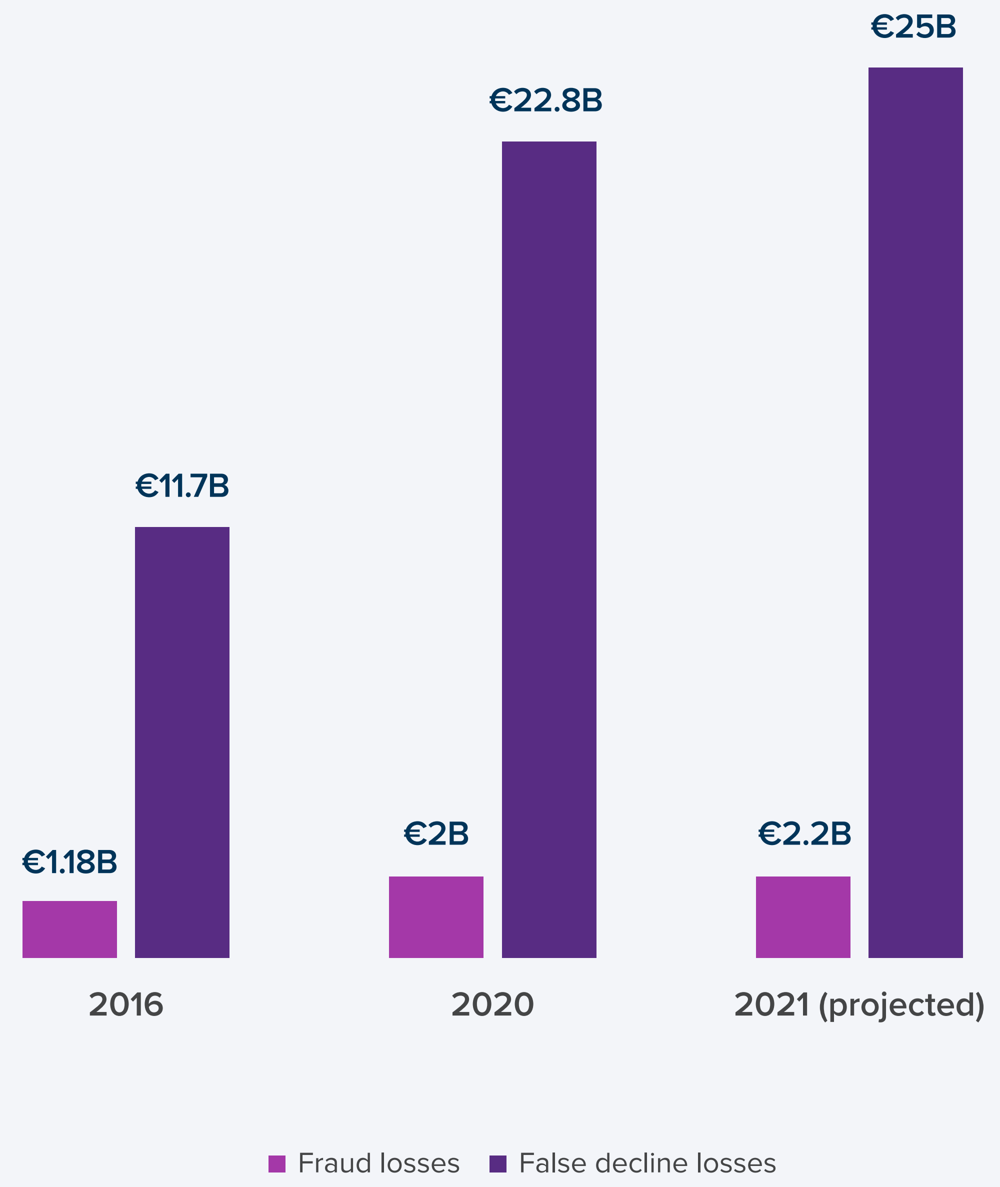


## There is more to smooth checkout than getting SCA right

Even before SCA was in full force, CMSPI found that retailers were losing sales and customers to poor risk management. In fact, the CMSPI researchers found that online retailers in Europe were losing €25 billion annually in false declines — meaning they were declining legitimate orders because they thought they were fraudulent. To underscore how unnecessarily damaging false declines are, CMSPI noted that in the same year, European merchants lost only €2.2 billion to fraud itself.

Retailers often take the safer bet and decline an order if the identity and intent behind it are unclear. They lack the data, or access to the data, to build the intelligence needed to power learning machines that instantly sort legitimate from fraudulent orders. And it costs them.

### Revenue lost to false declines and fraud in Europe over time

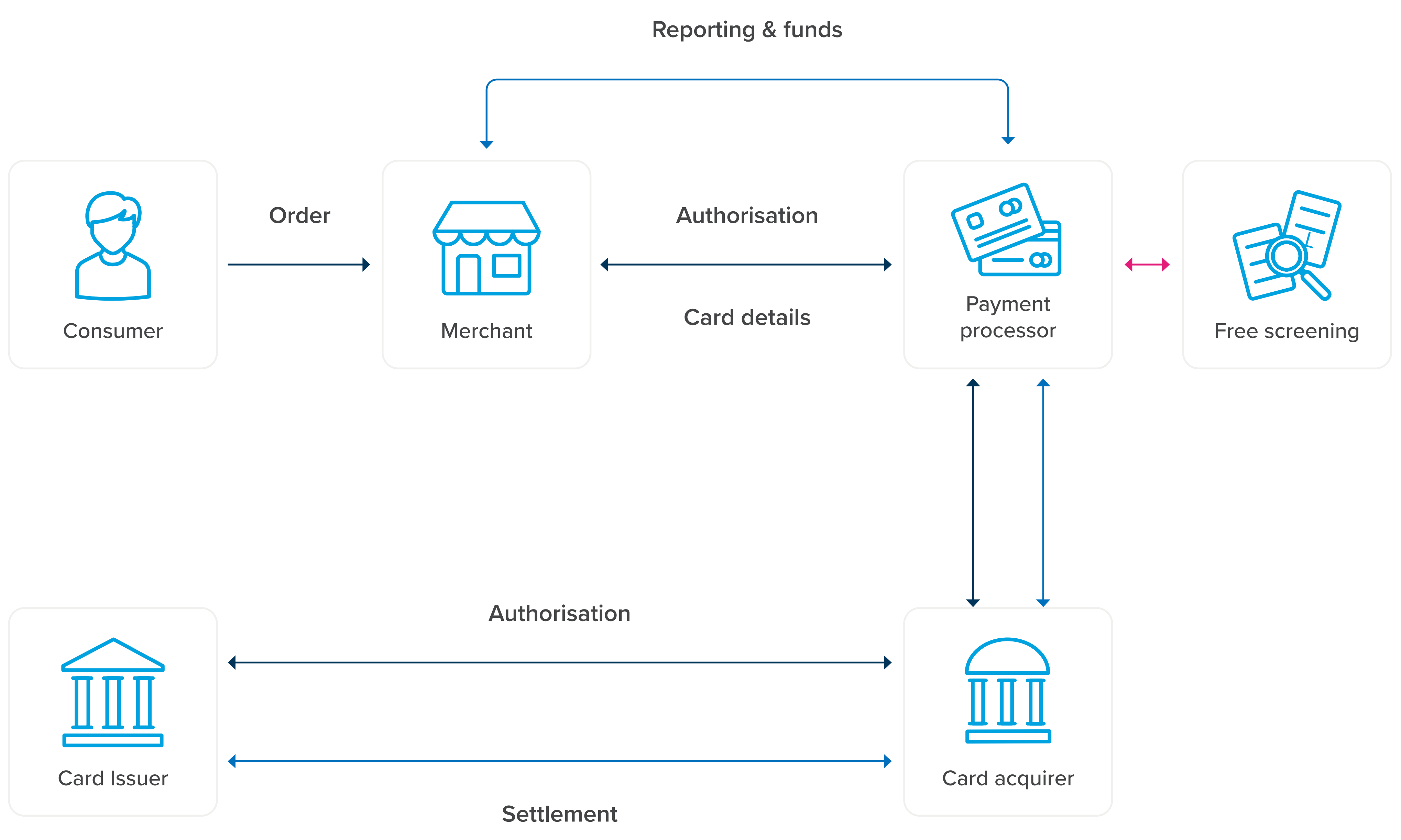


## Data paves the way to a friction-free checkout experience

Merchants who are successfully navigating the new era of payments are turning to data. Not just more data, but better use of the data that is available. They've dismantled data silos that existed along the payment chain, from authorisation, through the Candy-Land-like path of acquirers, processors, issuers and merchants to unleash tons of data and open a clear line of sight from beginning to end of the payment process.

More importantly, they understand that payments can unlock revenue that has been left behind historically.

"Payments is kind of like a utility," says Nicole Jass, senior vice president, growth solution product at FIS said, introducing Guaranteed Payments at Signifyd's FLOW Summit. "By leveraging payments, we actually have a ton of data that can help our customers create higher approval rates, drive more loyalty and help them understand who their best customers are."

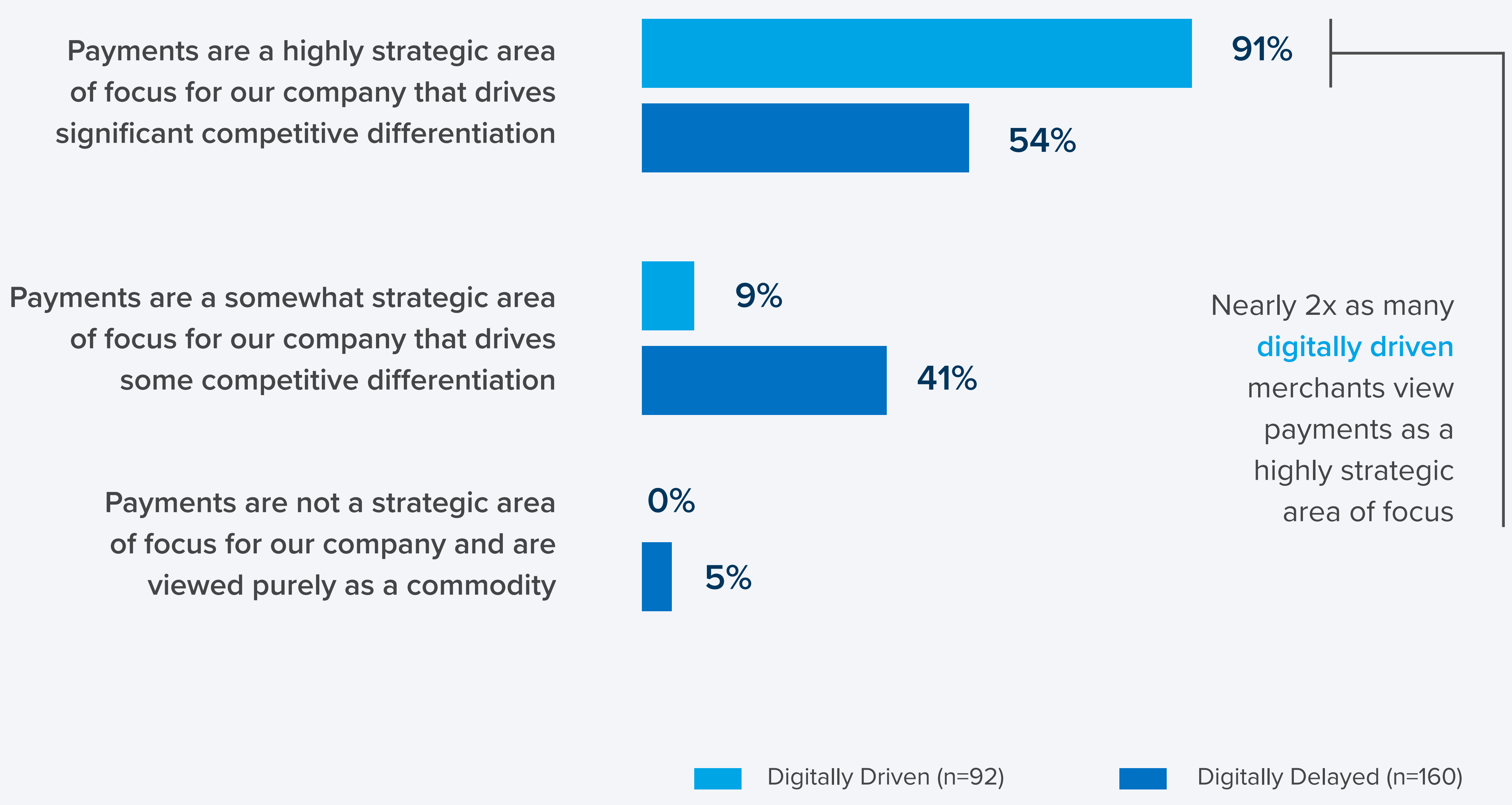


An analysis by technology research firm 451 Research found that merchants who considered payments to be a highly strategic area of their business saw their sales increase at a considerably higher rate than others during the pandemic. More than half of those (55%) in 451's study who agreed that payments were highly strategic saw their sales increase. Only 25% who said payments were somewhat or not-at-all strategic experienced a rise in revenue.

"As the digital economy accelerates, the impact of payment technology is being felt across the business," 451 analyst Jordan McKee concluded. "Merchants that had scalable payments infrastructure, accepted a diverse mix of payment methods, and put automated fraud-prevention processes in place weathered the storm. Many even thrived."

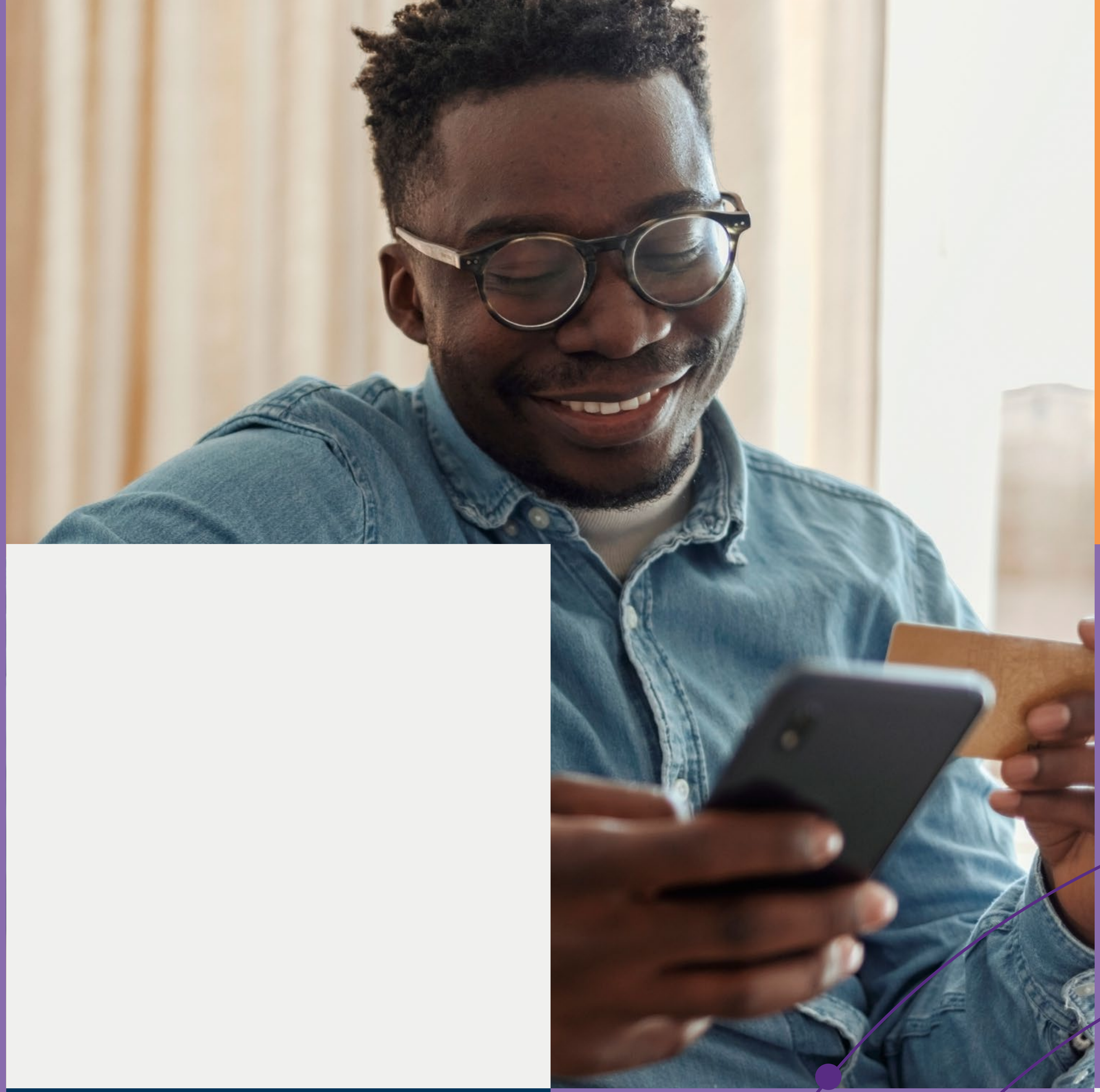
At the heart of the transformation was data — data derived from a vast network of billions of transactions that allow merchants to determine the identity and intent behind each order.

## Payments have emerged as a strategic area of focus for high-performing merchants



INDUSTRY INSIGHTS

worldpay from FIS



# Europe's payments trends in ecommerce

Europe's ecommerce market posted 11% year-over-year growth in 2021 and is expected to extend 11% CAGR (compound annual growth rate) through 2025. The biggest expansions into 2025 are projected to take place in Turkey (25% CAGR) and Russia (20%), but robust growth is also forecast through 2025 in Italy (16%), Spain (13%) and Sweden (15%). More modest annual growth rates are projected through 2025 for Europe's largest ecommerce markets in France (9%), Germany (9%) and the U.K. (6%).

EUROPE'S ECOMMERCE MARKET POSTED

**11%**

YEAR OVER YEAR GROWTH IN 2021

THE BIGGEST EXPANSIONS IN 2025 ARE PROJECTED IN

**TURKEY**
**25%**

**RUSSIA**
**20%**

Ecommerce in Europe continues to shift toward alternative payment methods and away from cards. Digital wallets are the leading ecommerce payment method, accounting for 26.7% of transaction value in 2021. Credit cards account for 24.7% of Europe's 2021 ecommerce transaction value, and debit cards an additional 17.2%. Bank transfers represent 14.2% of regional spend, with direct debit driving an additional 4% of regional transaction value. BNPL options continue to appeal to European consumers, accounting for 8.1% of 2021 ecommerce spend.

**24.7%**

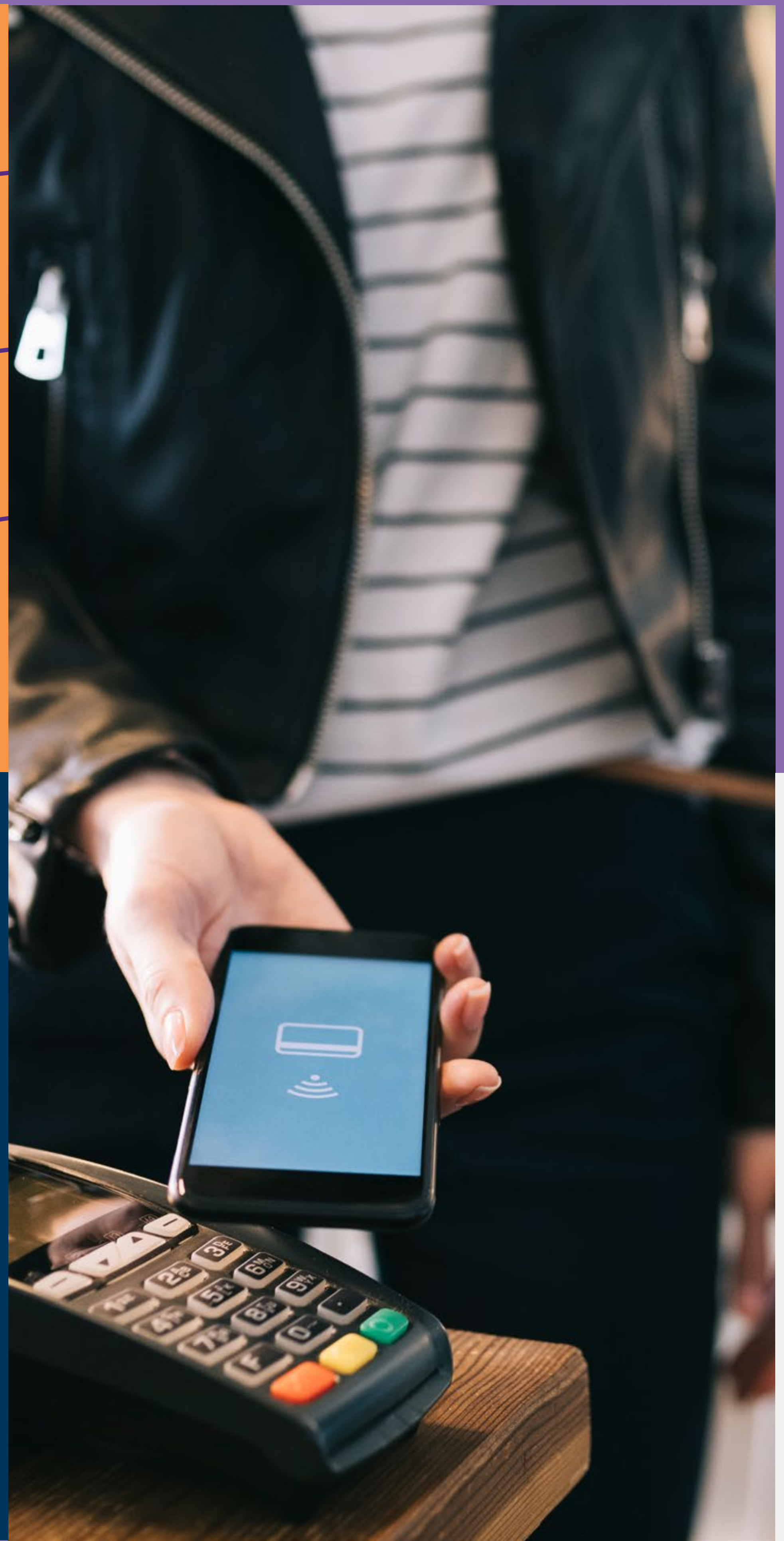
EUROPE'S 2021 CREDIT CARD ECOMMERCE TRANSACTIONAL VALUE

**14.2%**

BANK TRANSFER REPRESENTATION OF REGIONAL SPEND

BNPL continues its impressive growth in Nordic markets. In 2021, BNPL represented 11.7% of ecommerce share in Denmark, 12.8% in Finland, 18.1% in Norway and 25.2% in Sweden. The Nordics show strong digital wallet growth propelled by local players Swish in Sweden, Vipps in Norway and MobilePay in Denmark. Digital wallets accounted for 25.6% of Danish ecommerce spend in 2021 and are projected to overtake debit cards to become the leading ecommerce payment method in 2022. Shares of both credit and debit cards are projected to fall throughout the Nordics through 2025.

In Germany, digital wallets (28.7%) and BNPL (19.7%) were the most popular ecommerce payment methods in 2021, with both methods expected to steadily gain share through 2025. Direct debit is exceptionally strong in Germany (15.8% 2021 share), while bank transfers, cards and cash on delivery (COD) all project long-term declines in market share.



DIGITAL WALLETS ACCOUNTED FOR

**28.7%**

OF GERMANY TRANSACTION VALUE IN 2021

Credit cards lead the way in France with 34.9% share in 2021, a lead that is expected to grow through 2025. Digital wallets in France will hold steady near 25%, while BNPL projects growth from 4.1% in 2021 to 7.1% in 2025. Propelled by PayPal and local wallet BBVA Wallet, digital wallets in Spain accounted for 30.3% share in 2021 to overtake credit cards as the leading regional ecommerce payment method. Digital wallets, credit cards and BNPL are all on the rise in Spain, while debit cards, bank transfer and COD shares are expected to decline through 2025.

PROJECTED GROWTH IN FRENCH BNPL FROM 4.1% TO

**7.1%**

BY 2025

DECLINING SHARES

Cards remain strong in the U.K. with credit (26.9%) and debit (23.9%) together outpacing all other payment methods combined. Digital wallets are now the single largest ecommerce method, with 32.3% of 2021 transaction value. Credit and debit cards are expected to lose ecommerce share in the U.K. through 2025, while bank transfers, digital wallets and BNPL all project growth. BNPL projects to nearly double in the U.K. to 12.1% share by 2025. Cards reign in Ireland, with debit (37.7%) and credit (23.6%) combining to account for over 60% of ecommerce transaction value. By 2025, digital wallets will continue to grow share of Irish ecommerce to 28.4%, driven primarily by international brands such as Apple Pay, Google Pay and PayPal.

Bank transfer is the leading ecommerce payment method in Poland, with the low-cost local option BLIK propelling bank transfer to a 54.5% share of ecommerce transaction value, projected to reach 58.6% by 2025. Bank transfer shares are also projected to rise in Russia (to 15% in 2025) and Turkey (to 15.9% in 2025) driven by recent instant payment innovations in Russia's Faster Payment System (FPS) and Turkey's Instant and Continuous Transfer of Funds (FAST) System.

Download Worldpay's full Global Payments Report and get the insights you need to propel your business into the future.

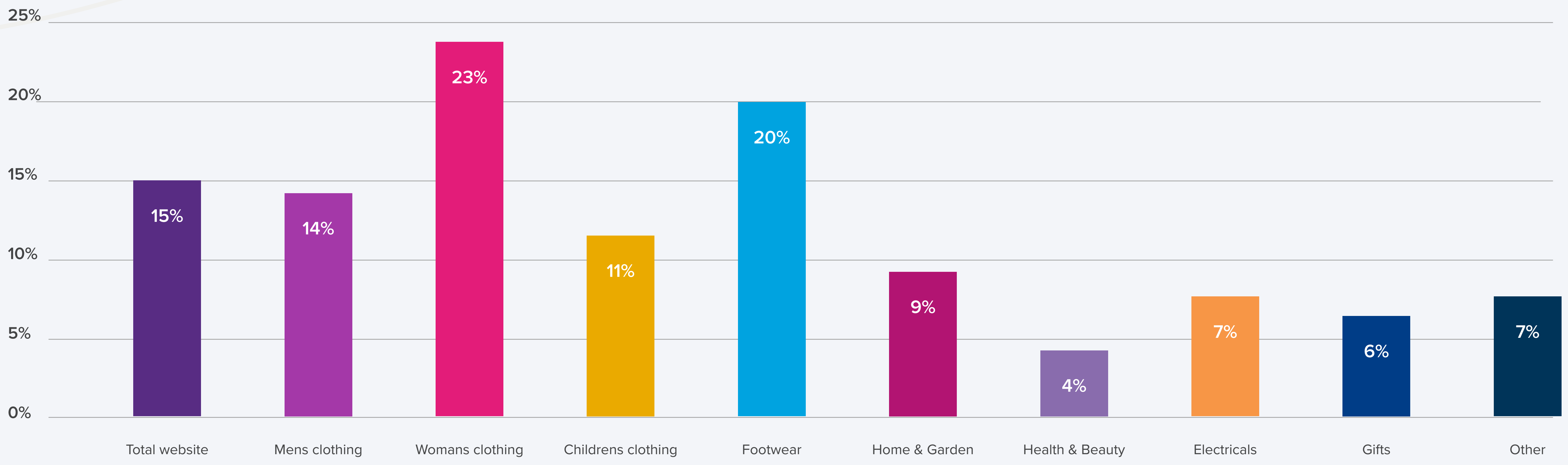
# The post-COVID returns reckoning

Ecommerce in Europe, like the rest of the world, is experiencing a returns reckoning. COVID lockdowns pushed more consumers online more often. Even as consumers return to routine in-store shopping, ecommerce accounts for a significantly larger share of retail sales than it did in pre-pandemic days. In large markets, the UK for instance, ecommerce makes up 26.3% of retail sales — up from less than 20% pre-pandemic, according to the region's Office of National Statistics.

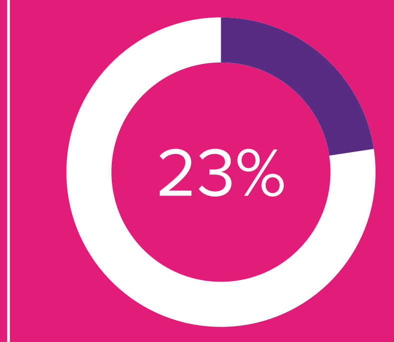
The big shift in shopping habits brought with it a big rise in online returns. Ecommerce sales result in returns far more often than in-store purchases, which allow for close inspection of a customer's desired item. Meanwhile, returns of a more sinister variety also increased.

## Average returns rates by category

Source: IMRG quaterly benchmark Q4 2020




A review of return rates by category also shows a relatively typical split, with womenswear seeing a returns rate of 23%. Footwear was the next highest at 20%. Health & Beauty looks like an outlier here with a returns rate of only 4% however, we should remember that there are restrictions on what products can be returned in this sector.




womanswear return rate

Whilst the figures represented here represent multichannel and pureplay combined product categories, they reflect the trend across digital sales.

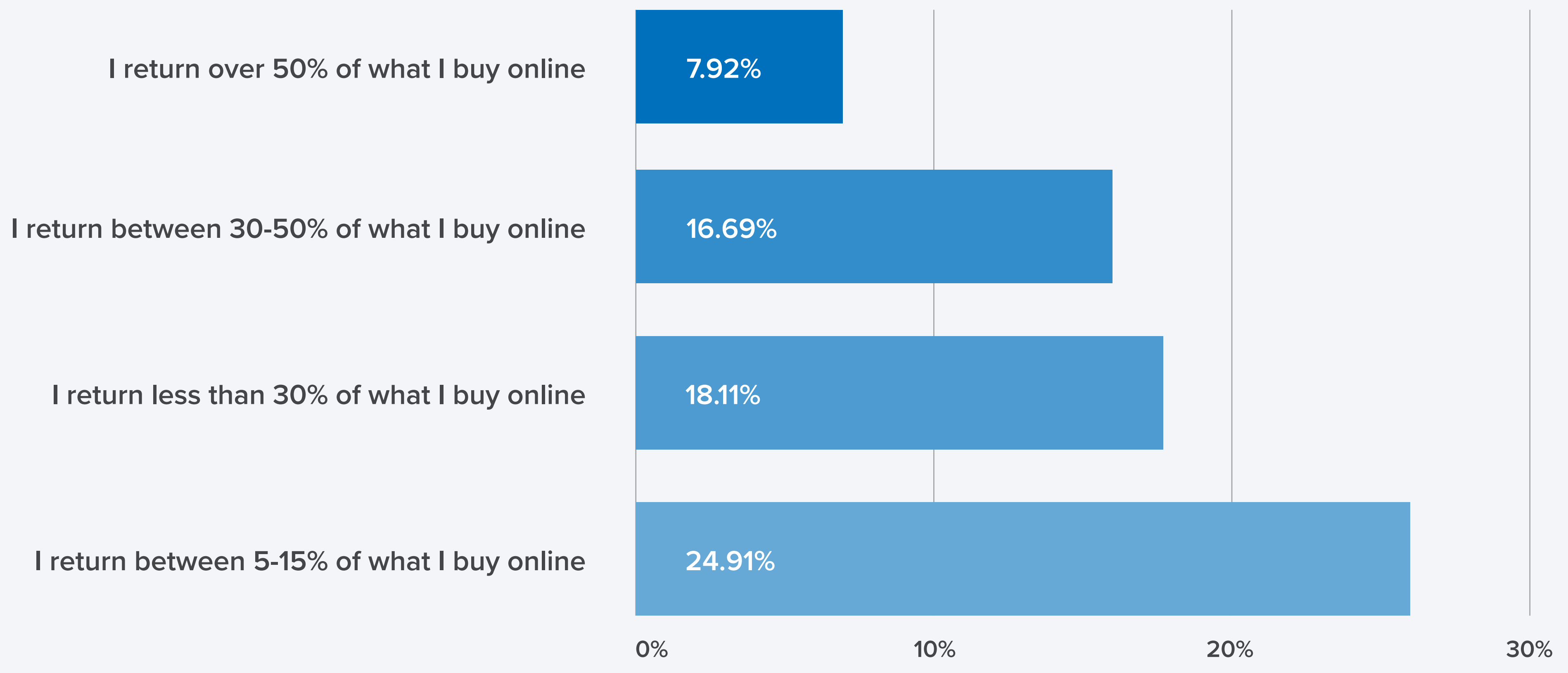
# Consumers see returns as a part of the shopping process

For their part, consumers have grown more comfortable with returns. Maybe it's that they feel more comfortable with conducting commerce online. Maybe it's that two years of on-again-off-again lockdowns left consumers feeling they deserved to be taken care of. Mintel found that 38% of consumers became more comfortable with the idea of returning online purchases during the pandemic.

"The legacy from Covid is higher return rates," Nick Carroll, a Mintel researcher, told the BBC.

Pre-COVID, 84% of survey respondents told IMRG researchers that they rarely or occasionally returned online products, according to "The Returning Conundrum," research published by the British ecommerce industry group IMRG and ReBound Returns, a reverse logistics company.

Customer's product return habits
Which of the following best describes your return habits?



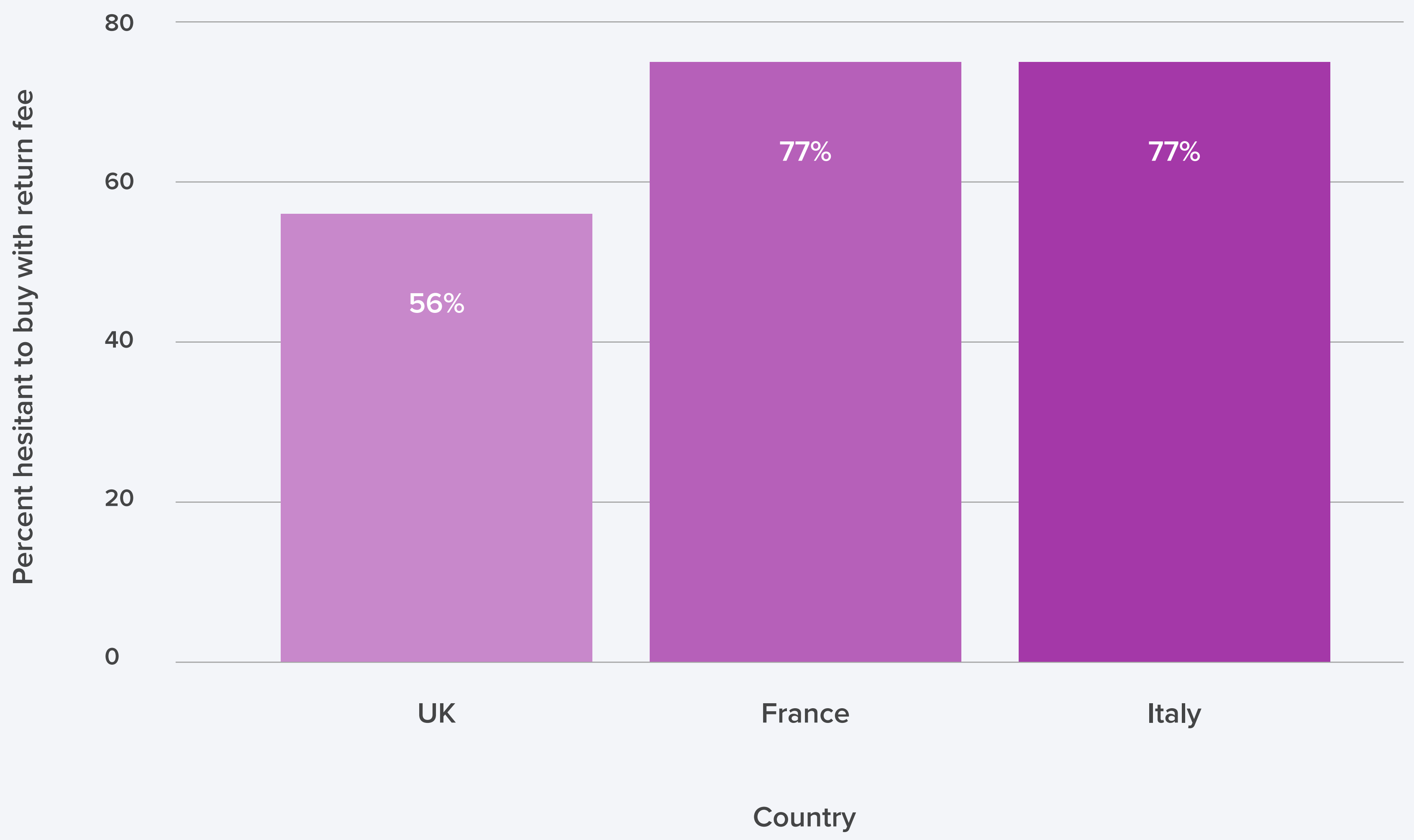

Source: ReBOUND Returns Consumer Survey 2020

The surge in returns has retailers like Zara and Boohoo adding return fees for online returns. Asos is warning investors that returns spurred by inflation are eating into annual profits — which will come in at anywhere from £50 to £120 million lower than earlier projected. While it is understandable that retailers would want to discourage costly returns and recoup some of that expense, they might want to carefully consider the risk and reward of such a move. By solid to strong majorities, consumers in Europe told Signifyd they would hesitate to do business with brands that charge for online returns.

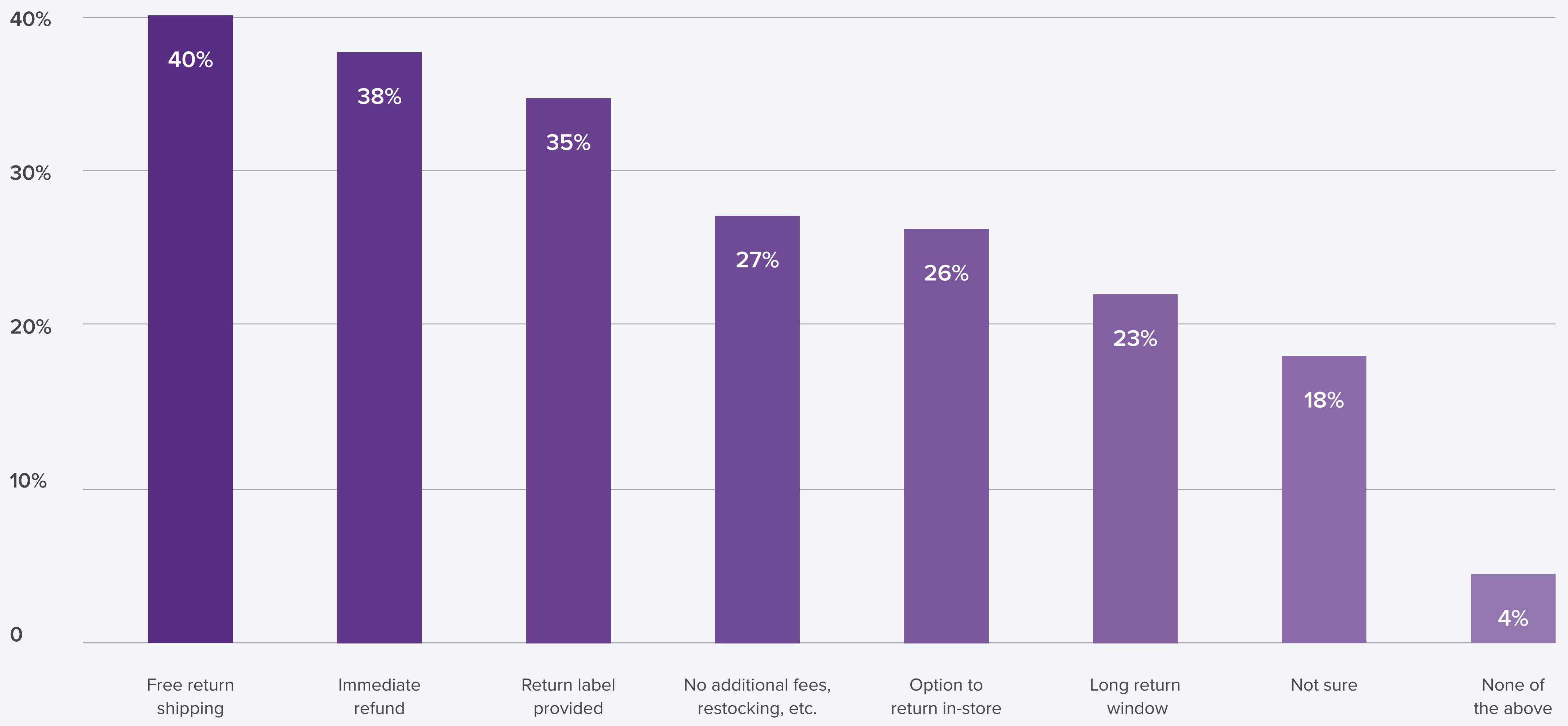
**£120 MILLION**

LOWER THAN EARLIER PROJECTED

## Retailers charging return fees will lose business



**What makes for a good return experience?**
UK online shoppers want free shipping and fast refunds




## The United Kingdom

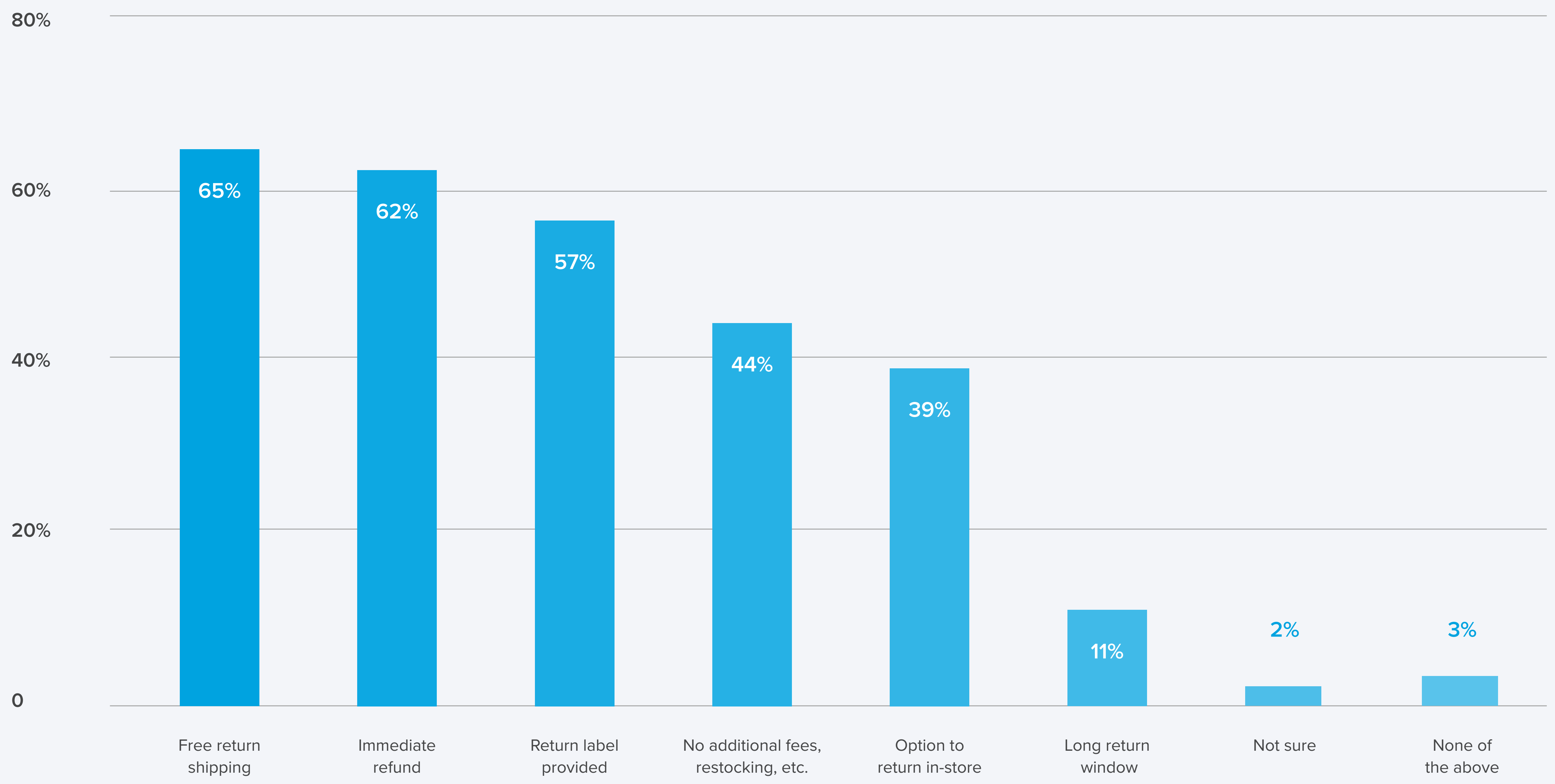
Not only are fees unpopular but "free returns" was the top vote-getter when Signifyd asked consumers in three countries to name the key elements of a good return experience. As further evidence that shoppers don't want to pay for returns, significant percentages in all three countries said having no additional fees (such as restocking fees charged to recover some of the reverse logistics costs) was key to a good return experience.

The popularity of free returns reigned supreme throughout the region. In the UK, free returns was the top choice for those surveyed, followed by fast refunds.

## France

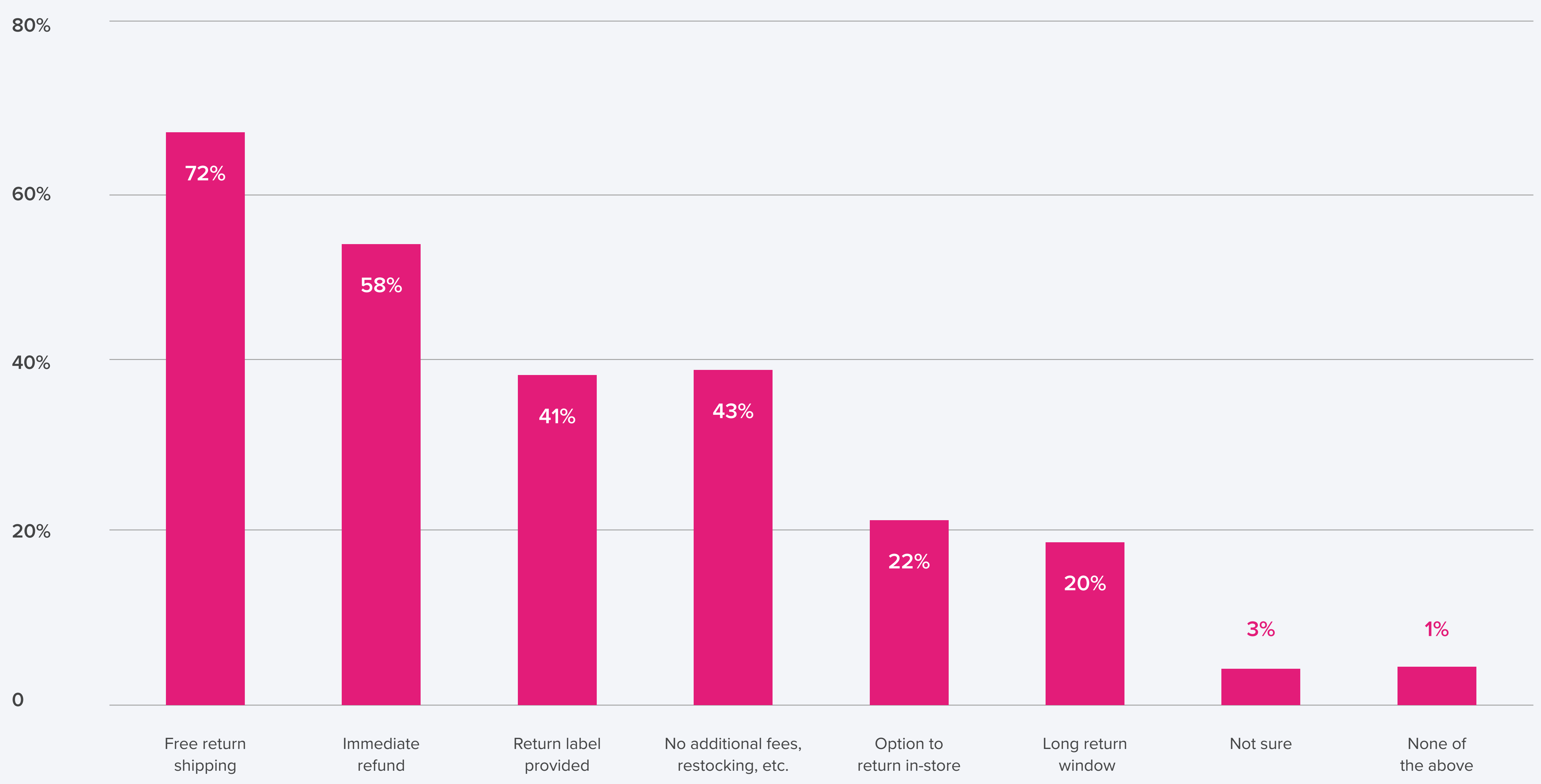
A higher percentage of French shoppers put a high priority on free returns than did consumers in the UK. Immediate refunds was a strong contender for the top spot in France.

**What makes for a good return experience?**
French shoppers don't want to pay to return purchases



## What makes for a good return experience?

Italians are most enthusiastic about free returns shipping




## Italy

Italian shoppers were most enthusiastic in their embrace of free returns shipping. The feature finished 14 percentage points ahead of Italians' second favourite, which was — you guessed it — immediate refunds.

## With more returns, a darker side emerges

The increase in fraudulent returns seems natural enough — as overall returns rise, that portion of returns that are fraudulent rises with them. But there is more going on here. Strong customer authentication (SCA) is reshaping fraud in Europe. As committing fraud at checkout becomes more difficult, fraud rings probe the buying journey to find other weaknesses to take advantage of. Returns represent a rich target. Ollie Marshall, managing director of UK electronics giant Maplin, has seen the devious ingenuity first-hand — like shipping back beans to stand in for expensive electronics.

The beans scam and others are a way for fraudsters to rely on consumer-friendly return processes to grab a quick refund before their deception is discovered. Fraudsters also turn to alternatives to a straight return scam to secure a refund. Some will claim an item that arrived, never arrived. Or that what did arrive was not the item described on the website or was damaged on the way. Looking at a relevant subset of Signifyd data shows a 35% increase this year in false claims that an item never arrived. False claims about the condition of a product were up 68% in the region.

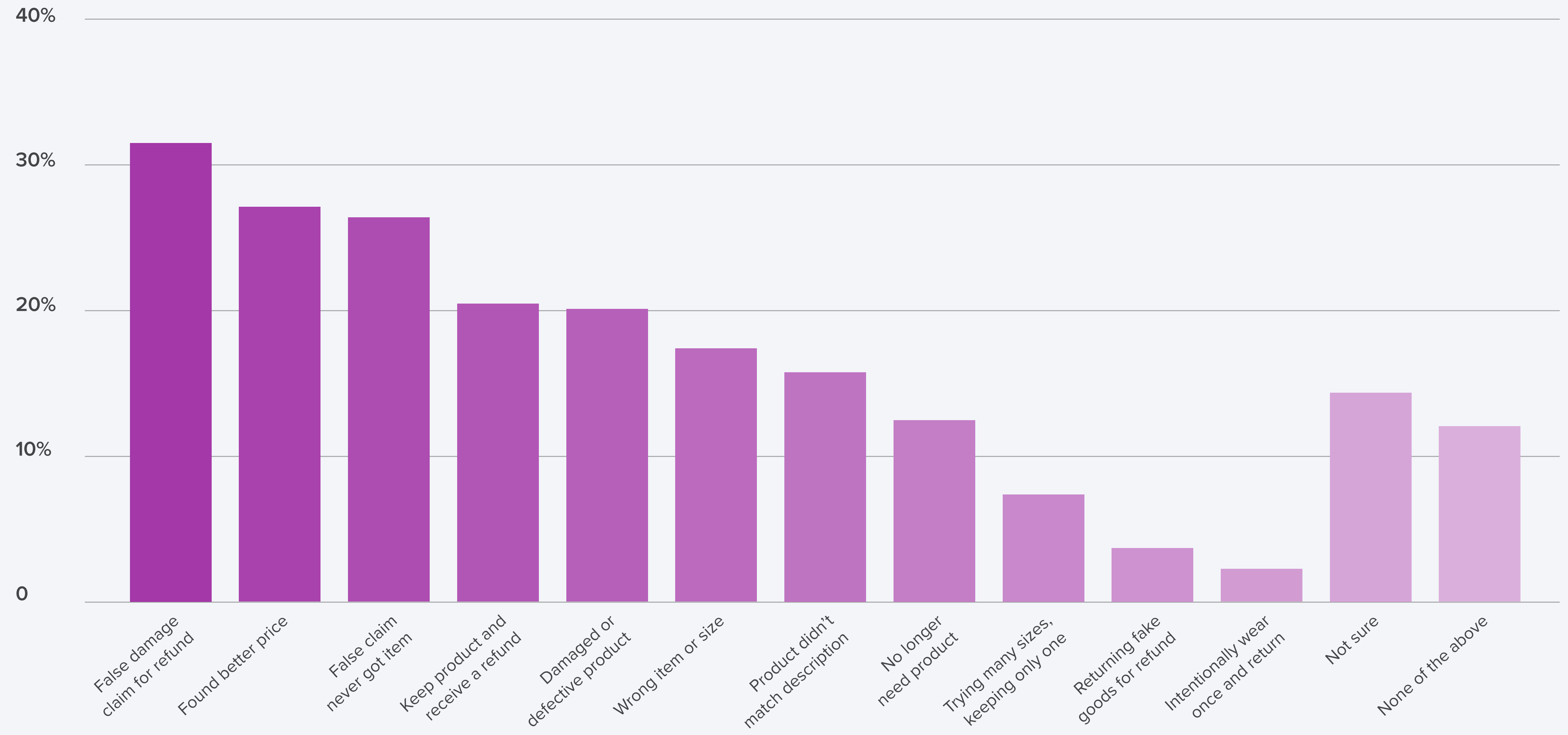
"Some favourites are, you know, sending those cans of baked beans that weigh similar to a PlayStation that they bought."
Marshall says, recounting a scam in which a fraud ring sends back a decoy package, which is scanned in as a return.

**Ollie Marshall**
Managing director, Maplin

And it's not just fraud rings. Some more typical consumers apparently have become as comfortable with dodgy returns as they've become more comfortable with returns in general. In the UK, nearly one-third of consumers had falsely claimed that an item they ordered arrived in damaged or otherwise unsatisfactory condition in an attempt to keep the item and receive a refund. More than a quarter claimed an item that did arrive never arrived, hoping for the same result.

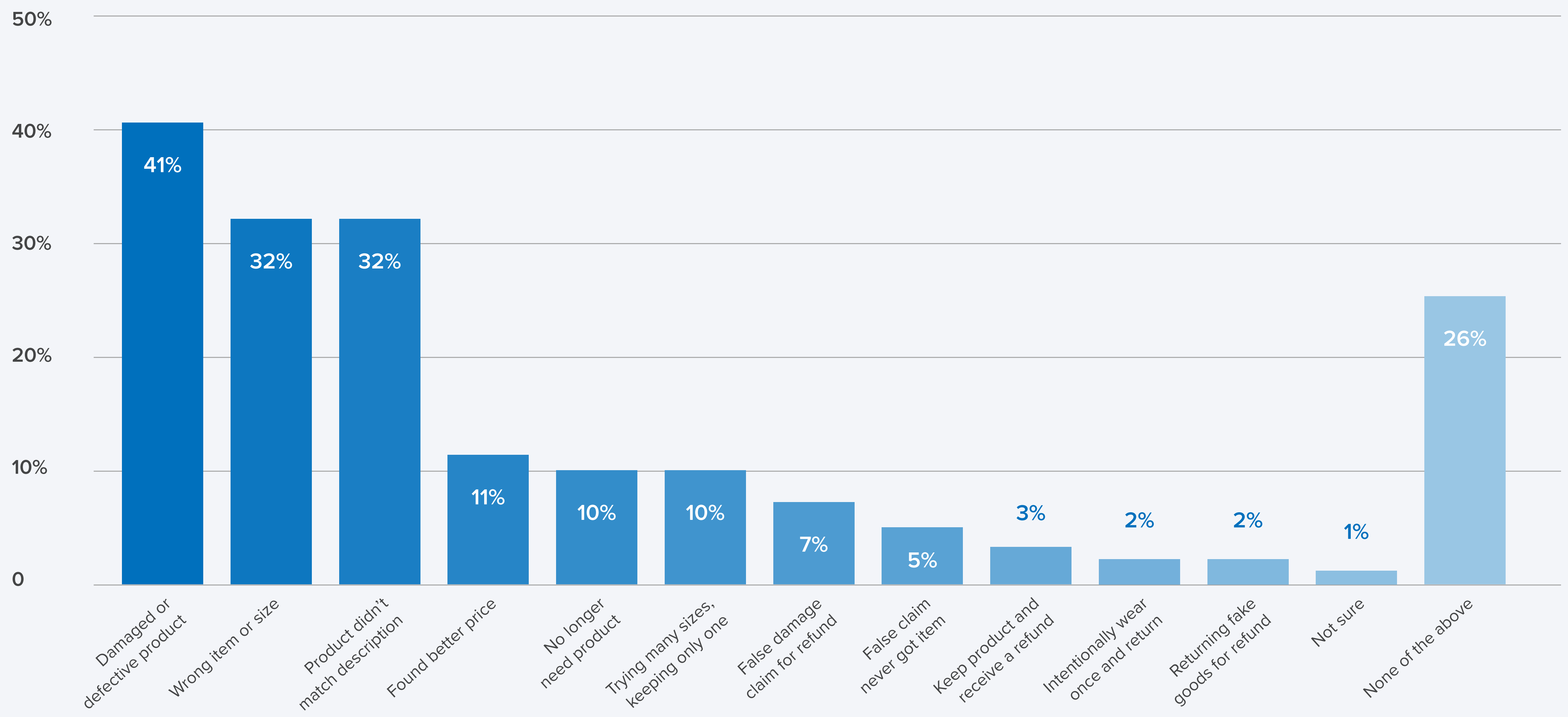
## UK shoppers had their reasons for returns

Attempts at illegitimate refunds led the way in the UK



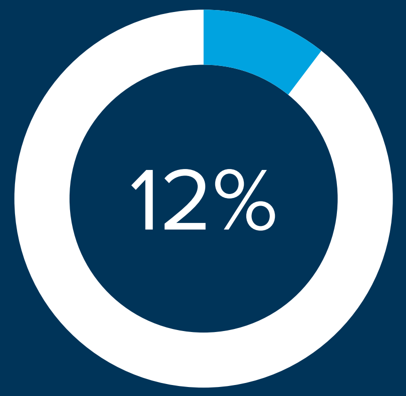
## Why shoppers in France return goods

Damaged goods and the wrong fit lead the way in French returns




Of course, there are legitimate reasons for returns — the trousers didn't fit, the retailer sent the wrong item, the item really didn't meet expectations — and online shoppers in France, by and large, gave those reasons for their returns. Retailers want to be responsive to those legitimate concerns, especially given that consumers say a good return experience is a key motivator when it comes to their loyalty.

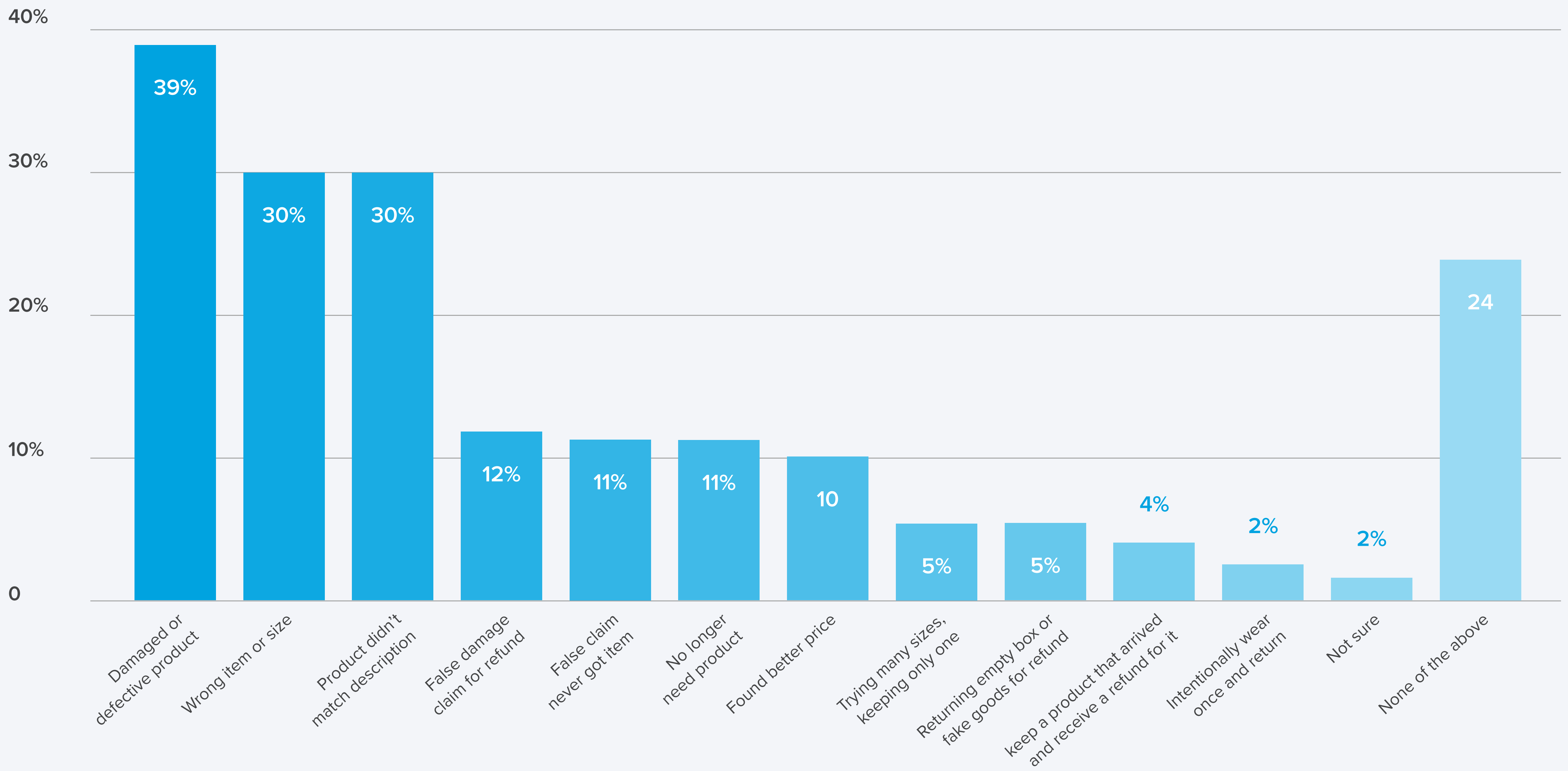
WITH MORE RETURNS, A DARKER SIDE EMERGES




Italy’s return profile was closer to France’s than the UK’s with only 12% and 11% respectively saying they had falsely claimed that a product that had arrived had not arrived, or that an item arrived in unsatisfactory condition.

## Why Italian shoppers returned goods

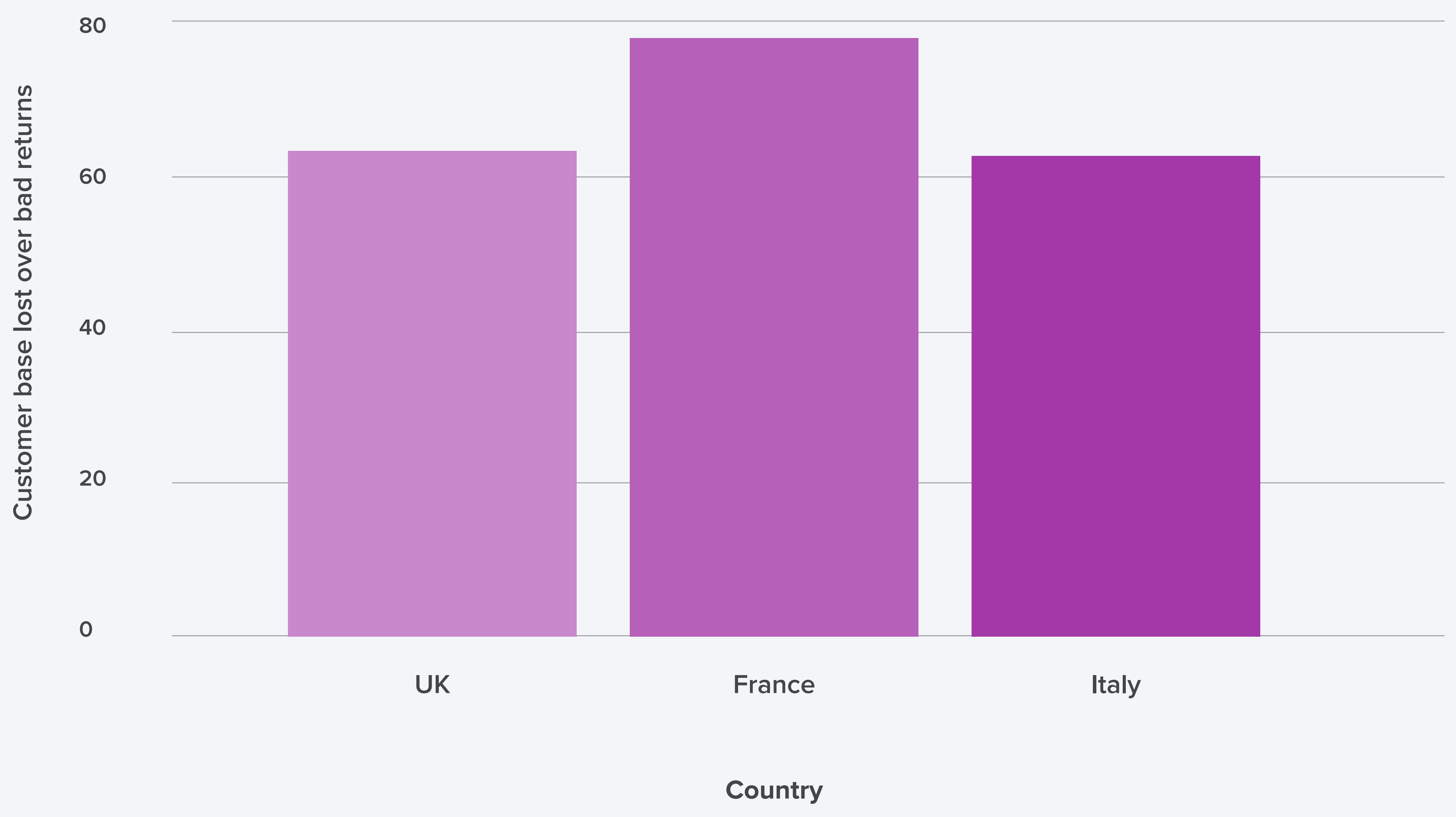
Damaged goods, failure to meet expectations and wrong sizes lead the list



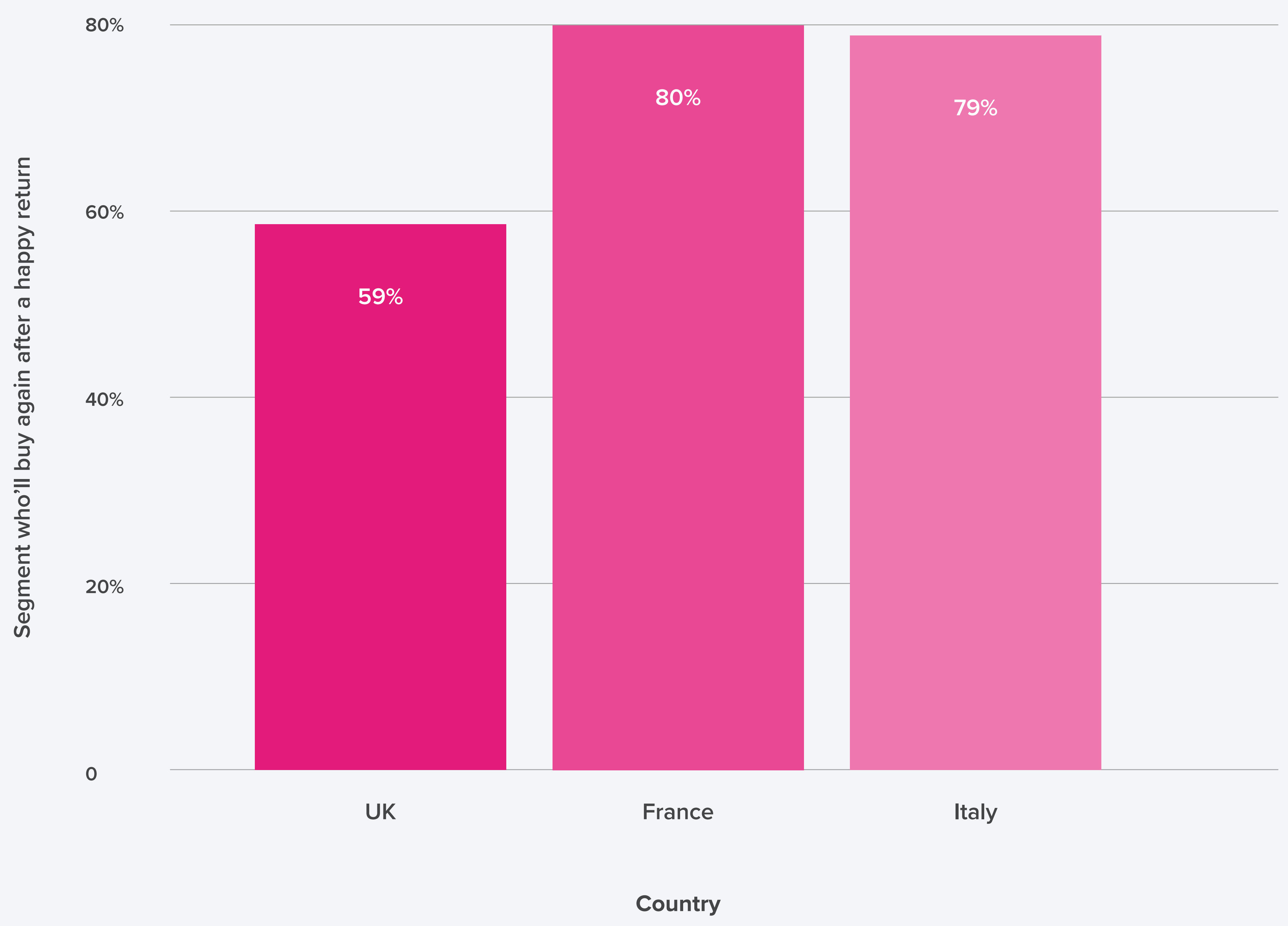
Given the volume of returns and the importance of the returns experience to consumers, retailers need to balance protecting their enterprises from those who would take advantage with making returns free, easy and fast for their loyal customers.

**Unhappy returns kill customer loyalty**

More than 3 of 5 say they'd quit a retailer over a bad return experience



## Good return experiences win over customers




The key for retailers navigating the new era of online returns is to maintain return-friendly policies for their best and legitimate customers while building barriers to keep out those who would cheat or take advantage of the system.

Future-focused retailers are embracing machine-learning models that determine the identity and intent behind every return and refund request and allow merchants to control their response depending on the potential risk of the request.

INDUSTRY INSIGHTS

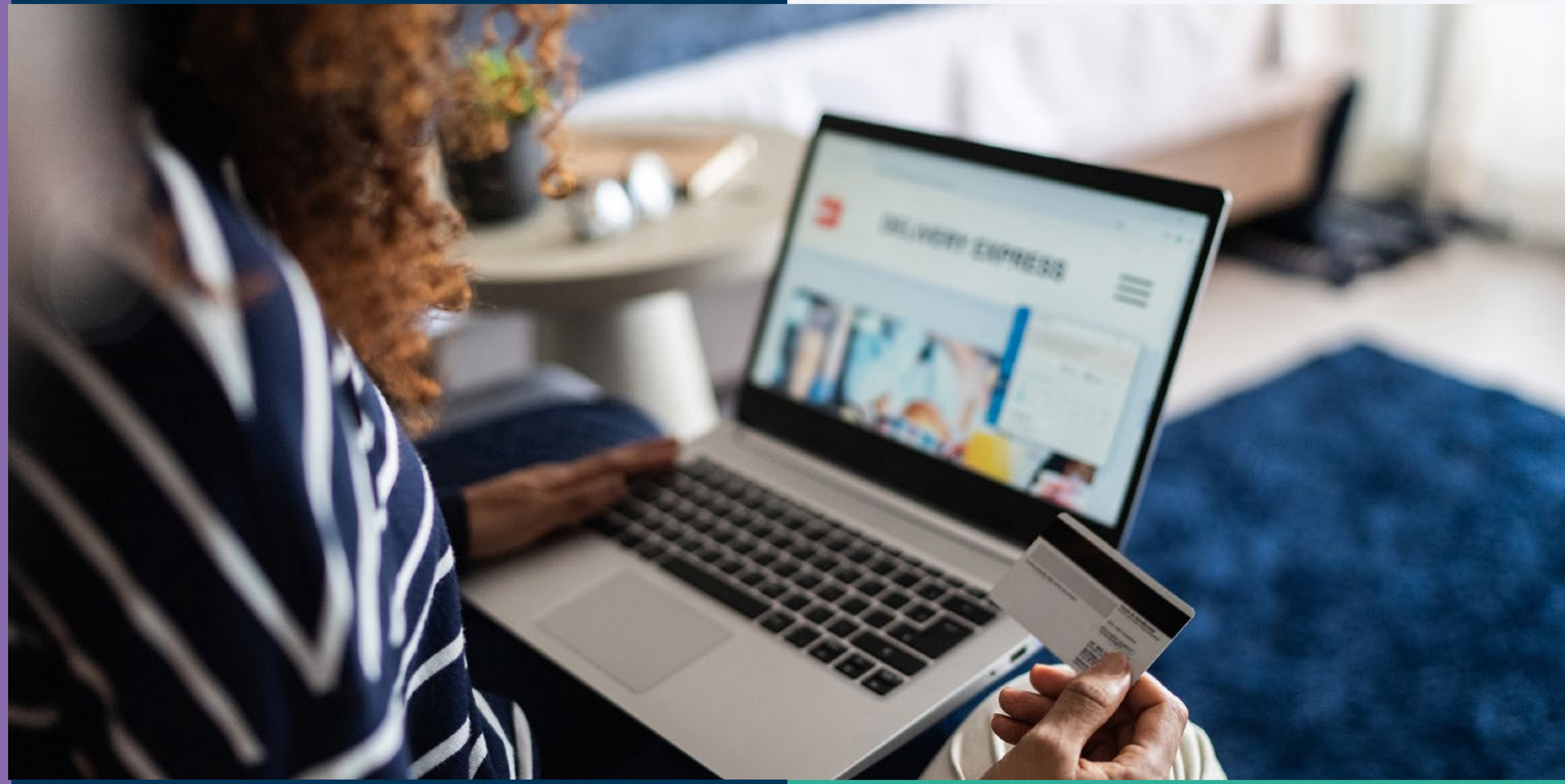
cmspi

# The top three challenges for retail payments managers

European payments preferences are some of the most diverse in the world. To meet them, the market has evolved a complex ecosystem of domestic card schemes, bank transfer options and financing solutions – all of which can be make-or-break for conversions. The challenge for merchants is meeting these demands without sacrificing on cost, transaction success or fraud risk. But today, three core trends make that more difficult than ever.

OF U.S. ONLINE SALES,
**21%**
BECAME RETURNS

IN 2021, ONLINE SALES ACCOUNTED FOR OVER
**$1 TRILLION**
OF TOTAL U.S. RETAIL SALES

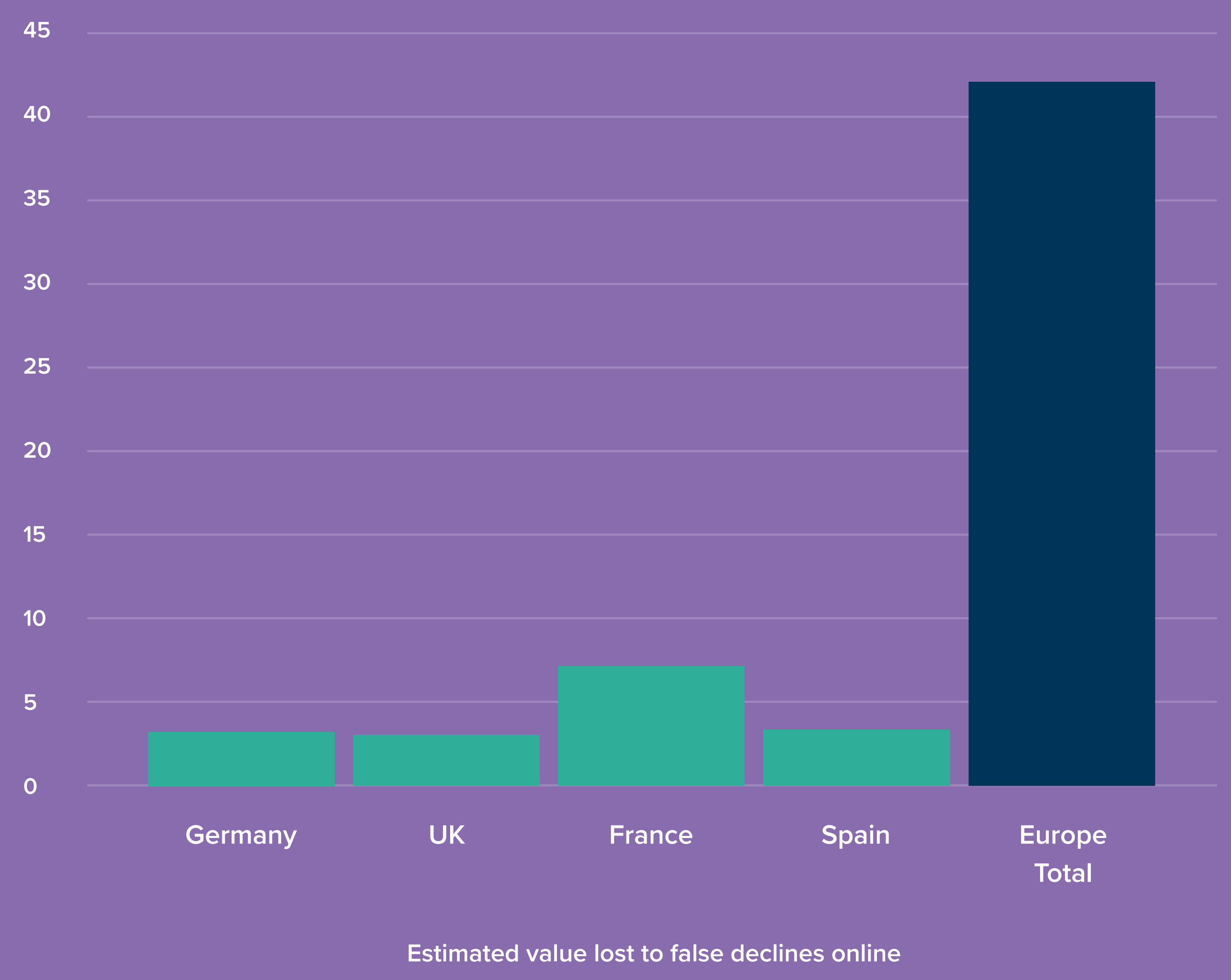


**58%**
OF SHOPPERS CAREFULLY CHECK RETURN POLICIES BEFORE MAKING A PURCHASE

**50%**
PROJECTED ECOMMERCE SALES GROWTH OVER THE NEXT FOUR YEARS

Figure 1. Estimated lost revenue to falsely declined transactions online in 2021.

Source: CMSPI estimates and analysis




## 1 The shift to digital

European ecommerce grew by 13% in 2021 – over 2020 levels, and is continuing to grow despite lifted lockdowns across the continent. From reduced access to some domestic card schemes to the potential for significantly higher card fees, to the increased likelihood of falsely-declined transactions (Figure 1), the digital sphere is a whole new frontier for payments. For many merchants, this challenge was coupled with a scramble to meet strong customer authentication requirements, which led to transaction failure rates as high as 29% by September 2021.

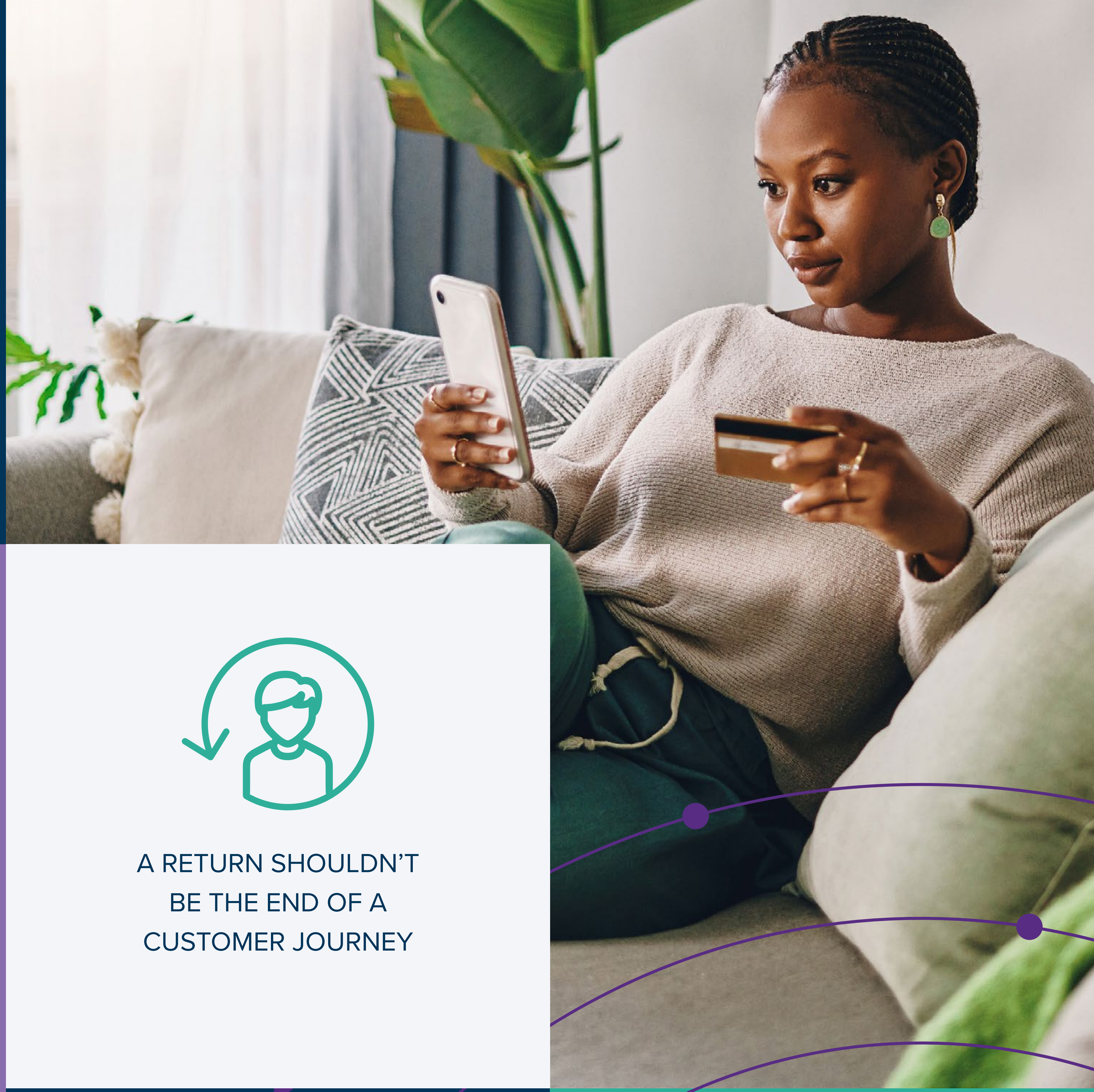
## 2 The cross-border conundrum

Even though cross-border commerce dipped in the pandemic, it still made up 22% of B-to-C turnover for 15 prominent ecommerce markets in 2020 – accounting for over 50% of total commerce in Finland, Austria, Ireland, Norway, Switzerland and Sweden, according to The Paypers. As this staple of European commerce reopens, it becomes even more crucial for merchants to monitor their cost base effectively. That isn't just about acceptance fees – which saw fivefold increases for many transactions between the UK and European Economic Area last year – but also about fears of heightened fraud risk, especially with the additional costs of processing refunds internationally. To tackle this, CMSPI works closely with merchants, leveraging cross-merchant datasets to audit the pass-through of their acceptance costs, as well supporting them in the search for the right partners to implement options such as pre-authorisation fraud screening that can identify risk before an item is shipped.

## 3 Rising complexity

For multinational merchants, these patterns mean that it is no longer enough to service a pan-European estate as a homogeneous entity. Payments managers – and their growing teams – are becoming ever-more integral to retail success, with 44% of UK customers reported to abandon a purchase if their preferred payment method is not available, according to payment platform PPRO. While integrating dozens of domestic payment options may be crucial for conversions, doing so has impacts on your entire payments setup - from reconciliation, to renegotiation of market-leading rates, to multi-acquiring structures. And merely creating options isn't enough; More than one in five customers in one study said they would abandon a purchase if it took over one minute to check out, meaning that seemingly small improvements to approval rates or fraud rulesets become central to revenue.

> **Payments are increasingly becoming a key lever in increasing revenue for merchants. In this era of increasing customer acquisition cost, rising fulfillment costs and economic uncertainty, brands need to focus on those areas that they control. Payments are certainly at the top of the list.**
>
> -CALLUM GODWIN,
> CHIEF ECONOMIST
> GLOBAL PAYMENT ADVISORS CMSPI



## The Solution

CMSPI knows that the job of a European payments manager is more challenging than ever. The most successful merchants are those who rely on data to collaborate with their payment partners to create a full view across the payment supply chain to understand the risk behind every transaction. That collaboration extends to building payments teams that nimbly address all aspects of the payments universe, from Transaction Risk Analysis exemptions, to fraud rulesets, to fee negotiations and beyond.

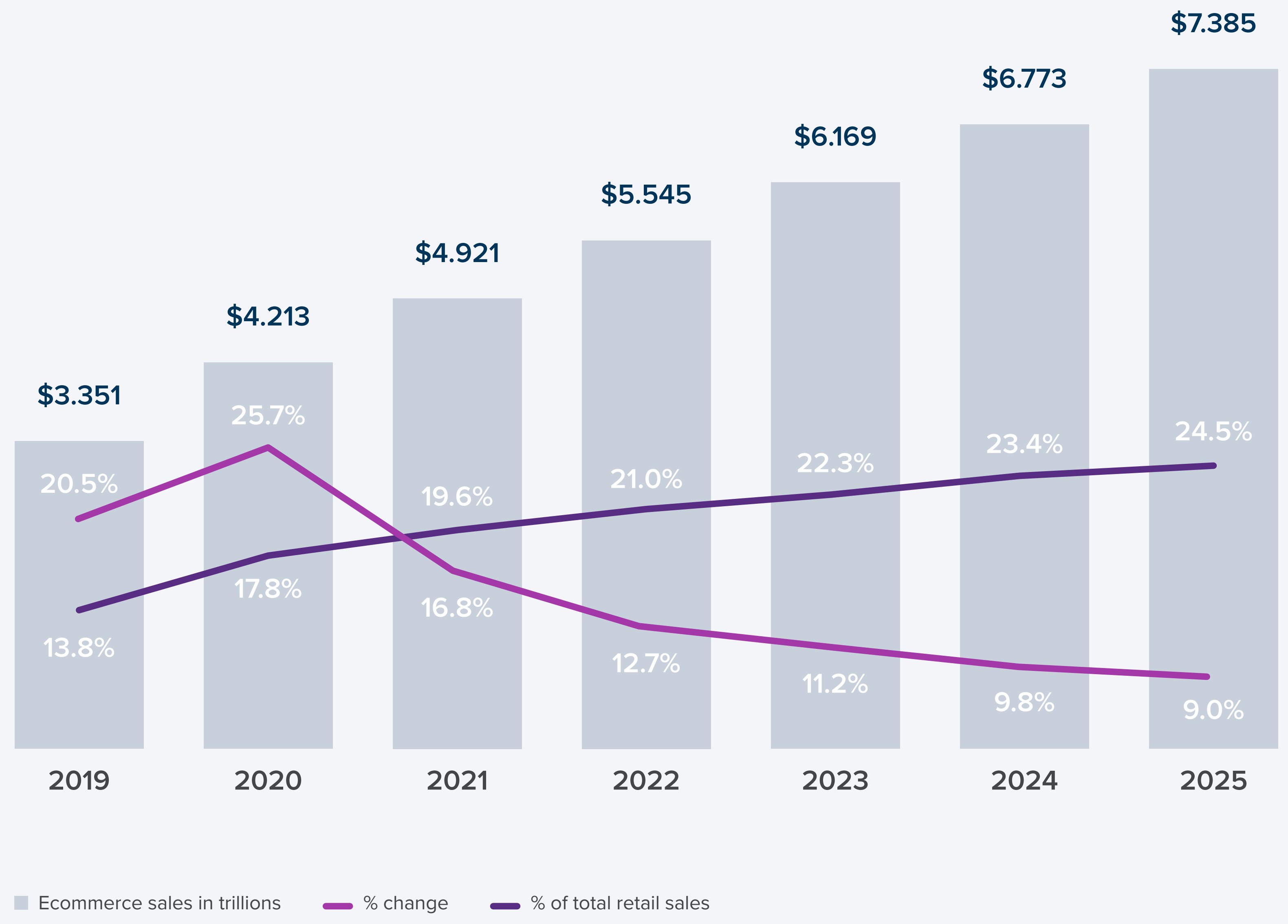
A RETURN SHOULDN'T BE THE END OF A CUSTOMER JOURNEY

# International expansion opens new markets

Whatever the current economic headwinds, global ecommerce is in for substantial growth in the years ahead. eMarketer says the worldwide opportunity for digital commerce will reach $6.17 trillion by next year. Online sales have continued their robust growth — up 33% year over year in 2021, according to Signifyd data — even as shoppers return to stores in larger numbers, if not at quite pre-pandemic numbers.

One significant part of this growth is the increase in cross-border sales — up 45% this year compared to pre-pandemic figures, Signifyd data shows. As a growth opportunity, ecommerce presents a unique retail opportunity. Just as online consumers can buy from nearly anywhere in the world while nearly anywhere in the world, online merchants can set up shop nearly anywhere from wherever they are.

## Retail ecommerce sales worldwide, 2019-2025

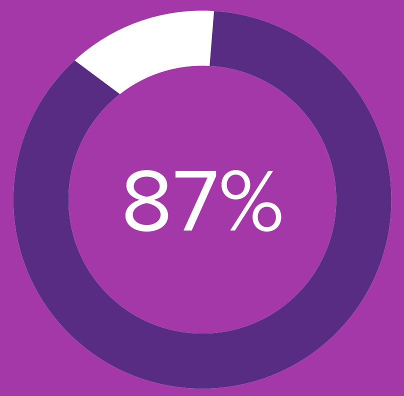



Note: Includes products or services ordered using the Internet, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, food services and drinking place sales, gambling, and other vice goods sales
Source: eMarketer, May 2021

That's not to say that international expansion is as easy as flipping a switch for ecommerce merchants, though it's getting easier by the day. Retail leaders face a host of considerations before selling internationally.

Online consumers have increasingly shown that they are comfortable shopping across borders to get the items they want at the price they want to pay. Participating in the global economy opens new markets for retailers and exposes them to vast markets of new consumers — a particular benefit if sales are reaching saturation in a merchant's home market.

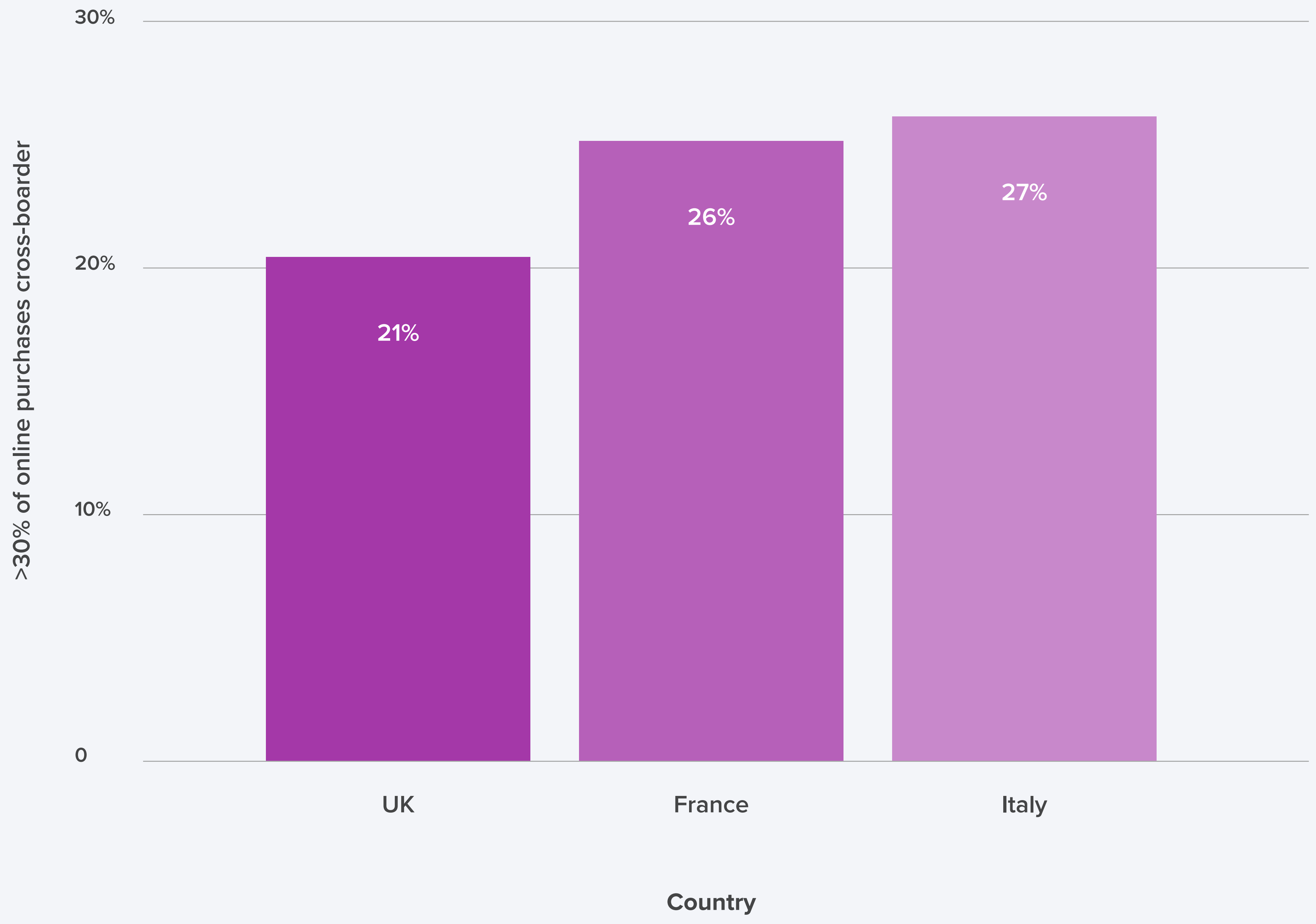
INTERNATIONAL EXPANSION OPENS NEW MARKETS




Online shoppers in the UK, France and Italy have demonstrated that they will buy from merchants outside their home countries. In fact, 87% of UK consumers say they shop cross-border, while 90% of consumers in EU members France and Italy say they shop cross-border. Between 1/5 and just over 1/4 of shoppers surveyed make more than 30% of their online purchases cross-border.

But going international isn't for every merchant or every product. Retail leaders need to check off a long list of considerations before making a move into new markets.

## Cross-border purchases aren't foreign to European consumers



"Localising to local payment methods, local brands, and local products has been a really key strategy for our forays into new markets," says Tara Mitchell, Wish director of risk operations, whose organisation has expanded into more than 60 countries. "There's a lot of work that goes into this, and a lot of specific data points that we need to collect, to make sure we get it right."

New markets mean new customers — a good thing. New customers potentially mean new languages, new currency, new customs, new ways of shopping and new expectations about how goods are presented, priced and shipped. There are customs and tariffs to consider. And laws and regulations that differ from the rules at home. European merchants — particularly outside the UK — have the distinct advantage of the European Union, which standardises many of the variables.

Whatever the considerations, one big one should be that now is the time to move — if a merchant hasn't already gone international. That double-digit global ecommerce growth is attractive to every ecommerce leader. There will be early-mover advantage. New brands arriving in a region are by definition novel. Those that execute at a high level will find that shoppers arriving to try something new will return again and again. Competitors that move in later will have to work hard to pry those now-loyal customers away from the brands they've grown loyal to.

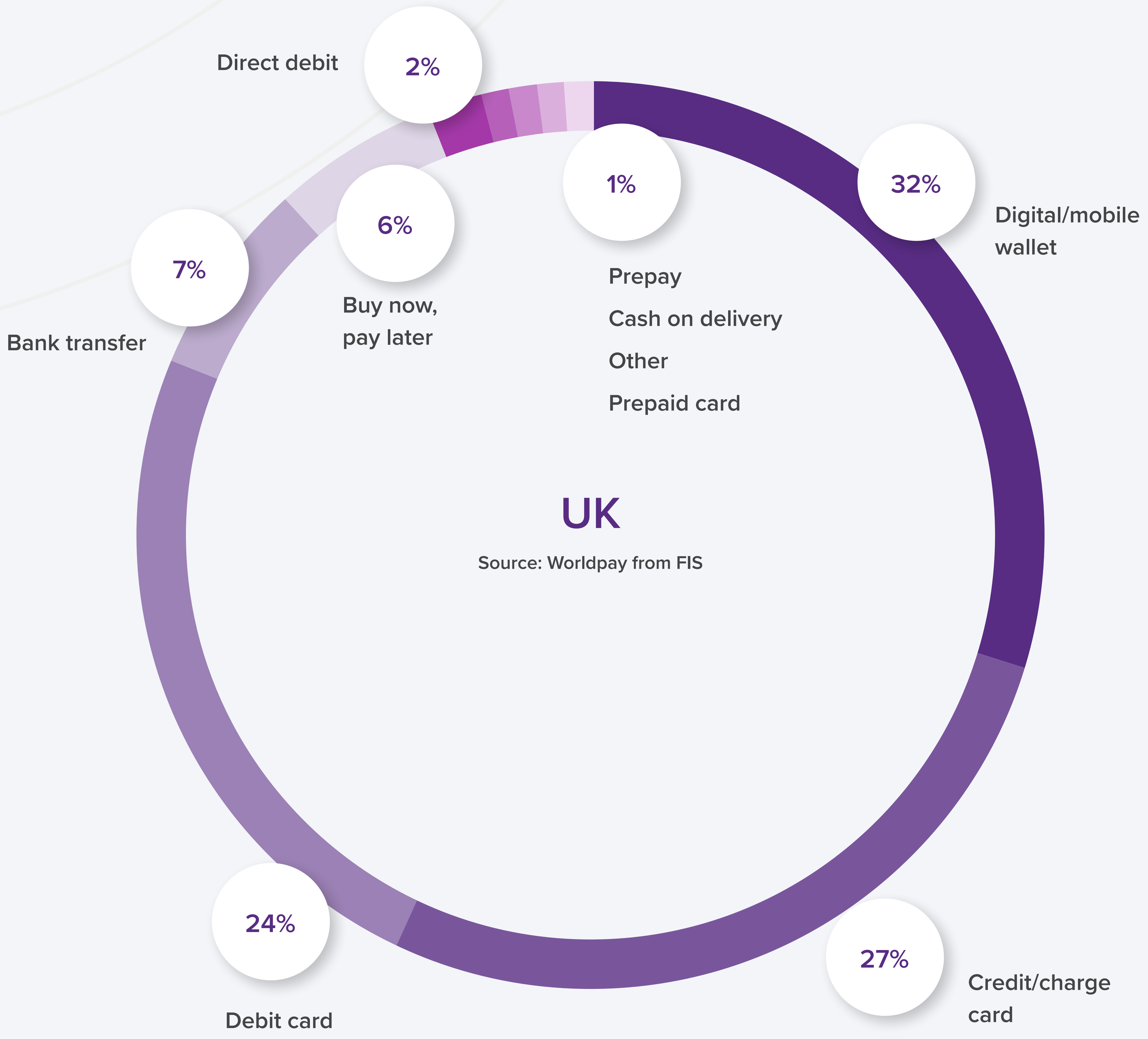
Meanwhile, brands that are popular in their home country will find they are approaching market saturation. Acquiring new customers, already one of online retail's biggest challenges, will become increasingly more difficult. Moving into new markets substantially increases the pool of potential customers and with a winning strategy, the number of loyal shoppers.

# New markets are rarely turnkey

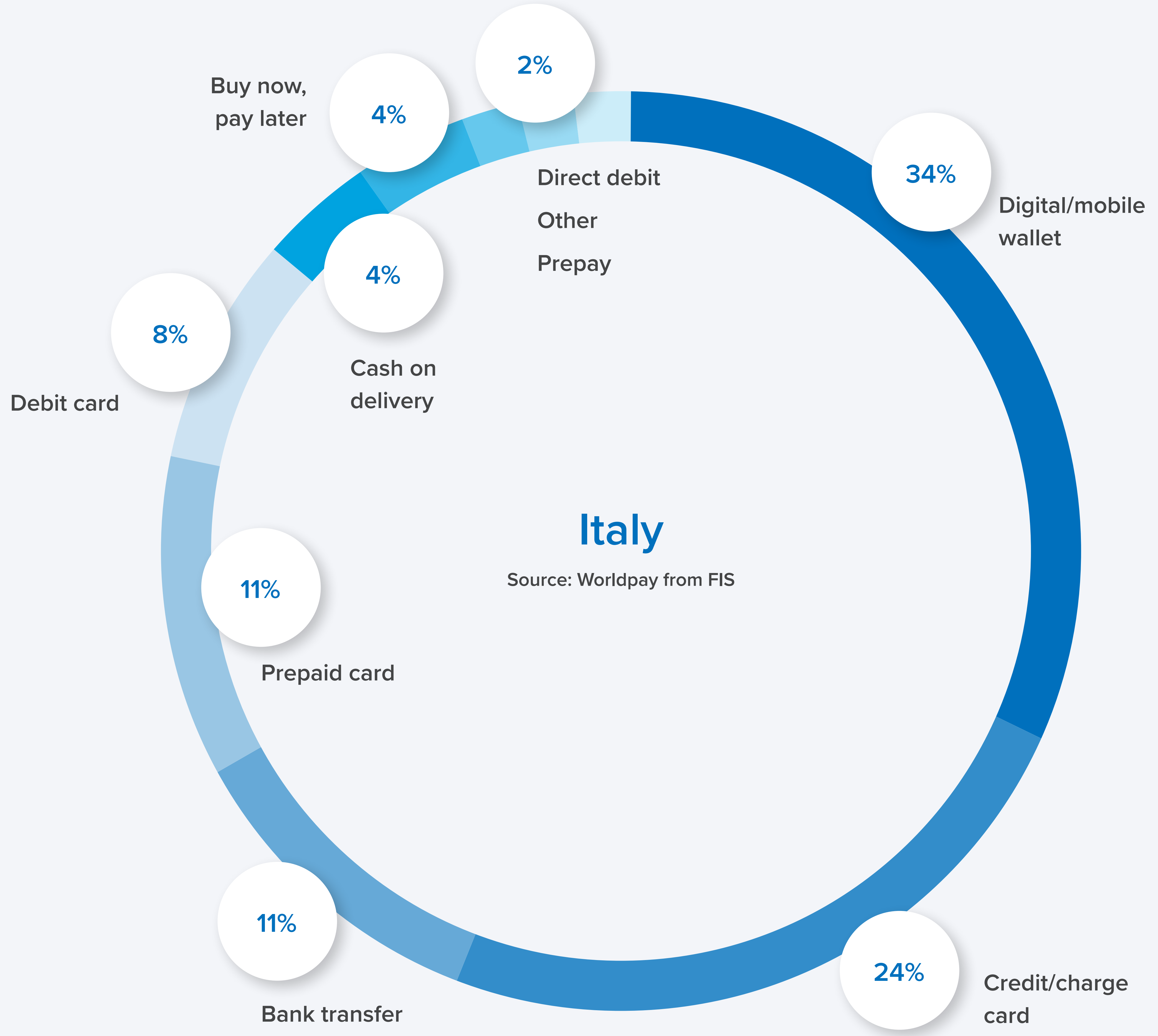
Each country comes with its own set of characteristics — customs, language, currency, favoured payment options, data privacy rules and fraud trends. It's what makes international travel so exhilarating. And it's what makes international expansion so challenging.

It's worth the time to consider those characteristics in the context of product-market fit, the added costs of shipping, customs, taxes, payroll and administrative support. For some merchants moving into some countries, it might make sense to establish an in-country operation. Alternatively, there are a host of consultancies that will help analyse market opportunities and provide support on everything from localisation of digital sites to legal support, logistics and marketing. New territories and new customers also mean novel threats. Without the transaction history that comes with known customers, fraudulent orders can be hard to identify. Buying patterns that are unfamiliar in a merchant's home country might be common in a new market. The availability and regulation of data vary from country to country. In a new market, that could mean a more limited understanding of who's behind an order and what their intent is.

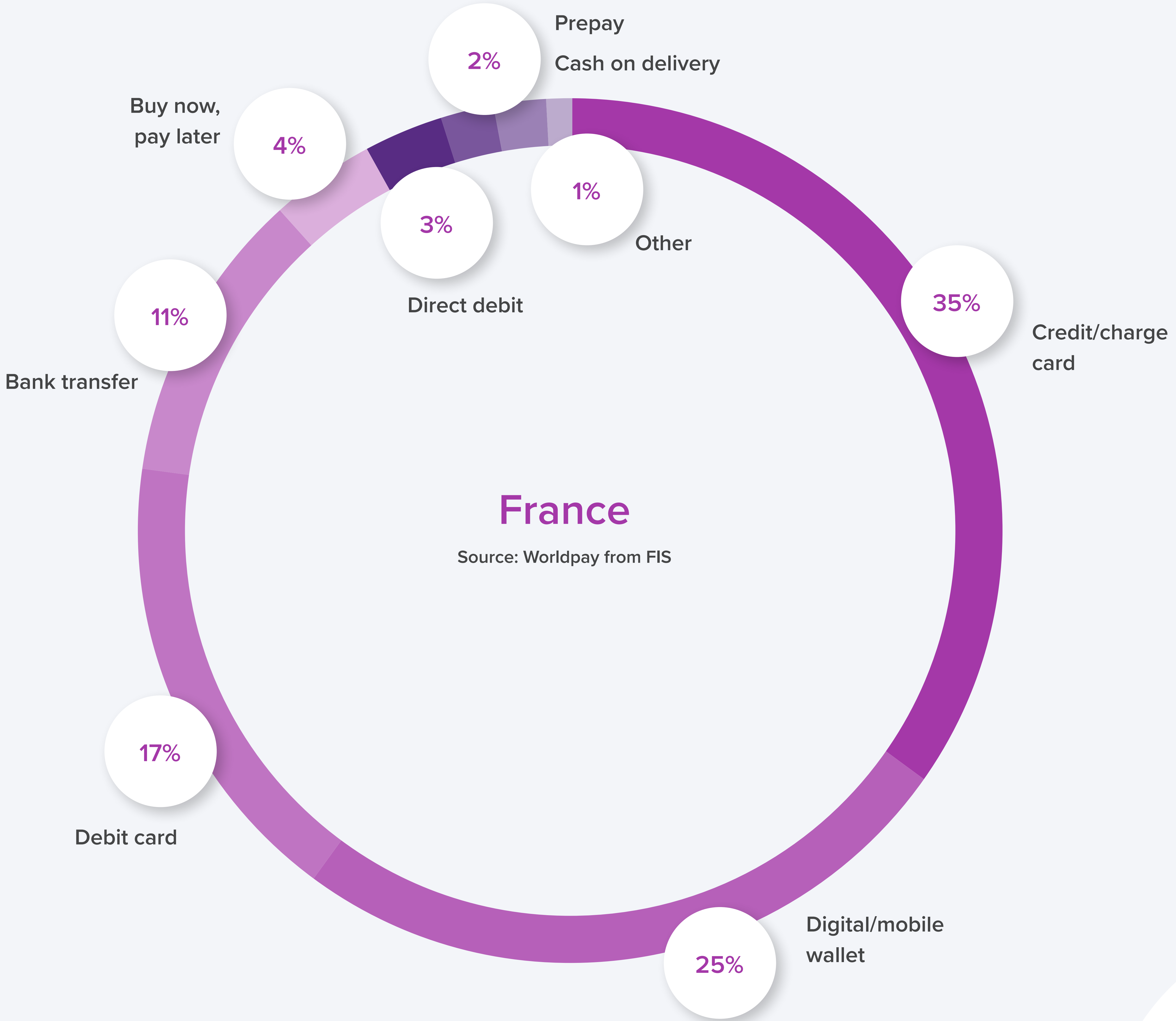
## 2021 ecommerce mix by payment method




## 2021 ecommerce mix by payment method



## 2021 ecommerce mix by payment method




The good news for UK and European Union merchants is that acclimation to many of those idiosyncrasies is streamlined in Europe where EU members share open borders and a common currency. But merchants still need to do their market research to understand if what they are selling is what consumers are buying. Proper localisation of your online store — particularly around language and payment methods — is also important so your new potential customers are comfortable with your brand and trust your website to be secure.

# A thoughtful approach – and maybe some help – is the way to go

Retailers venturing into new geographies should look for help from those who have gone before. There is nothing like learning by doing and peer networks are valuable resources for intelligence on big, new initiatives. Alternatively, seek professional help from consultancies whose mission it is to help merchants succeed at international expansion. Look for partners who can navigate the particular face of fraud in your target markets — fraud protection providers that have large, global networks that provide the wealth of intelligence necessary to understand the identity and intent behind every order, even in countries where you've never sold before.

In many ways, retailers themselves can be their best international expansion consultancy. They know their enterprises best — the value proposition, the positioning of their products, the ultimate company goals and how new markets can help realise those goals.

Retailers can also rely on their own data — where are your current customers coming from? Are any new countries obvious choices for launching a digital presence? Short of that, what can you learn about the buying habits in the countries you are considering? What verticals are the top-selling? Where does your vertical rank when it comes to share of wallet? How do consumers buy in the places you're exploring — are they more mobile than most? Are they big on livestream shopping? Do influencers hold particular sway?

Armed with the answers to these questions, retailers can overlay the market fit and potential onto the costs for moving into a market and make a decision about where to make a first move. Which is something else for merchants to think about: International expansion doesn't have to — and probably shouldn't — happen all at once. They'd be wise to identify their best chance at success and begin there.

INDUSTRY INSIGHTS

commercetools

# Five questions to ask when considering international expansion

**Amal Ahmed**, Signifyd head of global financial services and EMEA marketing, sat down with **Chris Holley**, commercetools global director for independent software vendor partnerships. commercetools is an ecommerce platform that through headless commerce provides merchants with the flexibility to efficiently expand and scale internationally.

THE COMPETITIVE SITUATION.

IS MY COMPETITION THERE?

**Amal Ahmed**: How should a merchant approach international expansion — what are the four or five questions a merchant should be asking themselves?

**Chris Holley**: First of all, why. Why am I expanding? Why now, as opposed to down the road? Where? How am I going to get there? And more importantly, what am I willing to risk in terms of investment, time and people in order to expand? Those are the five you have to ask.

**Amal Ahmed**: And what answers to those questions should merchants should be looking for?

**Chris Holley**: I guess that it starts with, where is a cultural affinity? The other is you have to have good macro-dynamics. It tends to be job growth, educational growth and net positive growth. Two more things: The competitive situation. Is my competition there? And often governments put legal, but nontariff, barriers to business. So ask yourself, can you get your money out or are there legal restrictions to that?

> **First of all, why. Why am I expanding? Why now, as opposed to down the road? Where? How am I going to get there? And more importantly, what am I willing to risk in terms of investment, time and people in order to expand?**
>
> Chris Holley
> commercetools global director for independent software vendor partnerships

WHAT ARE THE MOST ATTRACTIVE COUNTRIES?

Amal Ahmed: So, having made the decision to expand internationally, how does a merchant know where to start?

Chris Holley: You have to do an analysis of what are the most attractive countries and, then you have to consider the characteristics that make them successful in their existing markets. And so the list might be one country or it might be five. Then, order the list. This is the most attractive, the second, this is the third. And I wouldn't go much deeper than three. And I would only expand it one at a time.

WHERE ARE YOUR EXISTING ORDERS COMING FROM?

Amal Ahmed: With that said, would you say there are intelligent ways for testing markets? Or is it a case of just picking the top three?

Chris Holley: There are a couple. Some of it is, where are your existing orders outside of your host country coming from? Think about it in the UK. I was in Oxford and there was a shoe company there, been making shoes for 500 years. If I'm them, where are my orders coming from? If 90% of my orders are coming from Dubai or Saudi Arabia, well that would make sense that there's a market there. And then we would look at your online customer inquiries, your shipments. You could also run ads in a country for organic search and see what comes up. So test it first.

**Amal Ahmed**: And what about marketplaces? What are the pros and cons of expanding through a marketplace rather than selling directly into a new country?

**Chris Holley**: I'm a huge fan of using the marketplace to test. While it's relatively high cost, the marketplace is attracting eyeballs. They're doing all the heavy lifting. You're going to have a higher commission cost. But I can try to sell five things on a marketplace — whether it's a specialty marketplace or one of the big ones like Google or Amazon — in three countries for a year. I'm willing to risk $100,000 of loss. That's a great way to get a sense for, you know, who will buy. There is a great book by a guy named Frank Lavin that's relevant here — "The Smart Business Guide to China Ecommerce." While it's focused on China, it applies to other markets.

WHILE IT'S RELATIVELY HIGH COST, THE MARKETPLACE IS ATTRACTING EYEBALLS.

SOME CULTURES
DON'T BUY ONLINE.
THEY RESEARCH ONLINE

Amal Ahmed: What are some of the pitfalls that can trip up a merchant when expanding internationally?

Chris Holley: Do not launch your global expansion into a country to be the low-cost provider of a generic product. Don't bother if someone there is doing it. You want higher-margin products with a unique value proposition. Don't go in and sell pens. It just won't work.

Amal Ahmed: Right. What else?

Chris Holley: The first thing is, is the cultural connection. China is huge on marketing with the short video. The TikTok-type approach. That was eye-opening to me. The second is buying habits. Some cultures don't buy online. They research online. They get interested, but they buy through traditional fulfillment. It may be cultural preference. It may be security of shipping or delivery. Many of the pitfalls you avoid by using a marketplace until you get some traction. And then when you know you have a fairly solid book of business, then you can make a more informed investment.

EVERYBODY LIKES
TO THINK INTERNATIONALLY,

BUT SOMETIMES
IT'S NOT THE BEST IDEA

**Amal Ahmed:** Outside of some of the things that you've mentioned, what else should merchants be aware of as they consider expanding internationally?

**Chris Holley**: What I would say, as a general rule, is that it's always going to take longer than you think, and it will cost more than you think. This isn't, "We opened up a store in Germany and we made millions overnight." These things take time. One of the questions that isn't asked when it comes to global expansion is should you even do it? Sometimes you shouldn't. Sometimes your product isn't attractive. If you are a distributor, if all you're doing is reselling other people's products, it's hard to say that you could expand from that. If I'm selling plumbing supplies, the thought that I can move to Canada and be more competitive than the existing Canadian distributors, that's probably a stretch. Everybody likes to think internationally, but sometimes it's not the best idea.

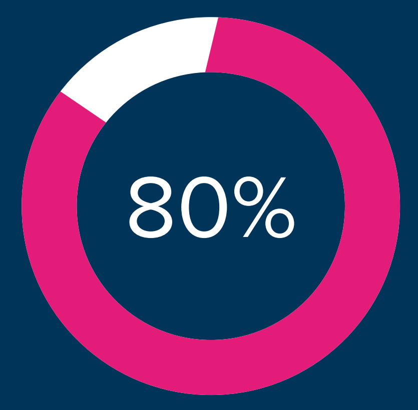
# SCA's new payment path is one bumpy road

Enforcement of strong customer authentication (SCA) across Europe marked the biggest change in online payments in a generation. The provision of the Payment Services Directive 2 (PSD2) was aimed at making digital commerce more secure, which it apparently has. It had another effect that was not wholly unexpected: Requiring more robust authentication of a merchant's customers sent conversion rates falling.

What's SCA all about? The requirement, which is the regulation of the land in the European Economic Area, requires that online buyers prove who they are with:

- Something they know — such as a one-time passcode
- Something they have — such as a mobile device
- Something they are — such as a fingerprint or retina scan

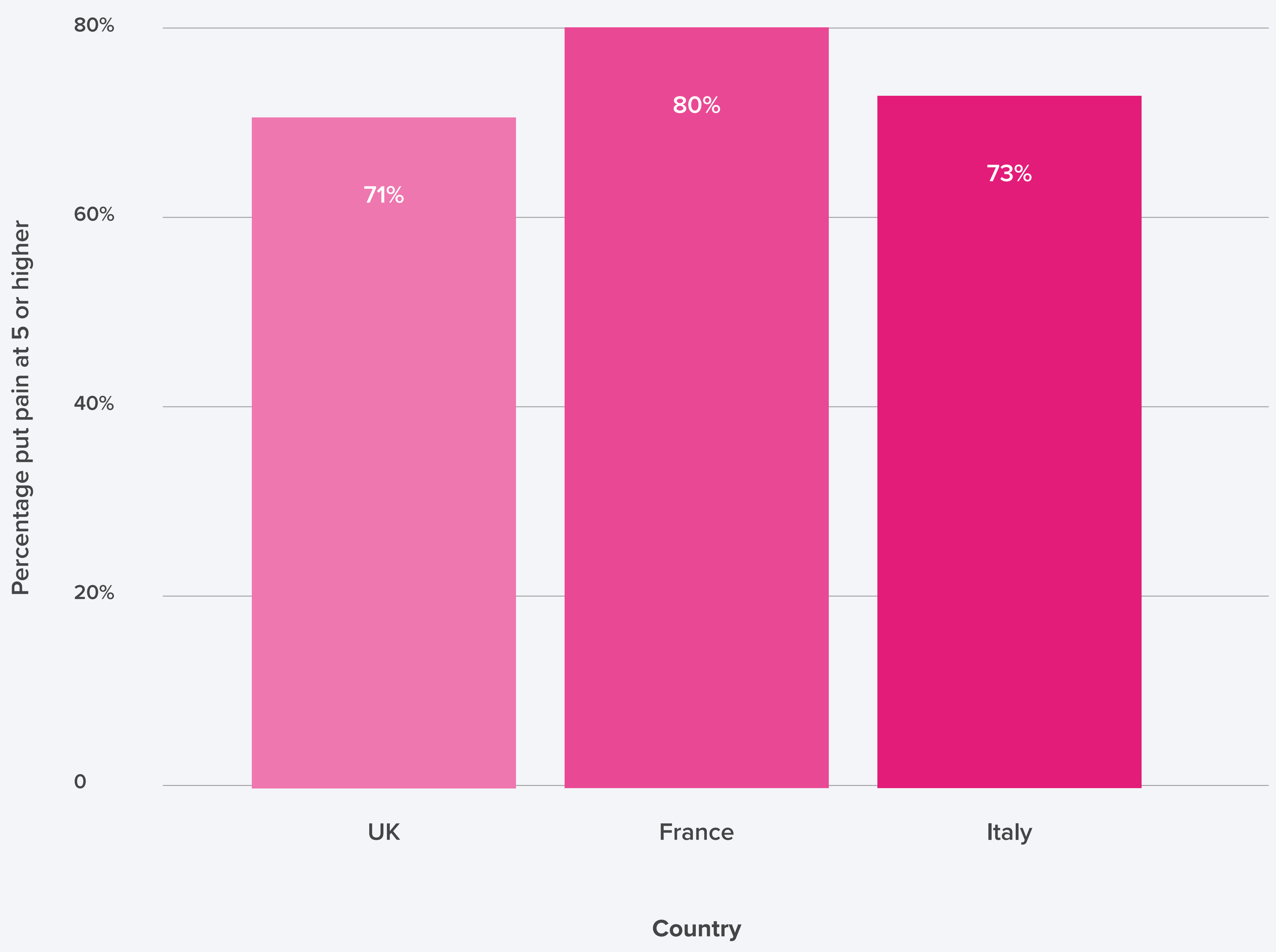
But not everybody — as in merchants and banks — were necessarily ready for the change. And not everybody — as in consumers — liked the change. Or at least the parts of the change that made online shopping a pain. In fact in Italy, half of the consumers Signifyd surveyed said they'd been unable to complete an online purchase because of the new requirement. In France, the number was 45%. In the UK, it was 36%.




And the experience has a lasting effect. Asked to rank on a scale from 1-10 how frustrated they felt at not being able to buy what they wanted, 80% of French respondents put their consternation level at five or higher. It was five or higher for 73% of Italian consumers. And 71% of UK respondents put the experience at five or higher on the frustration meter.

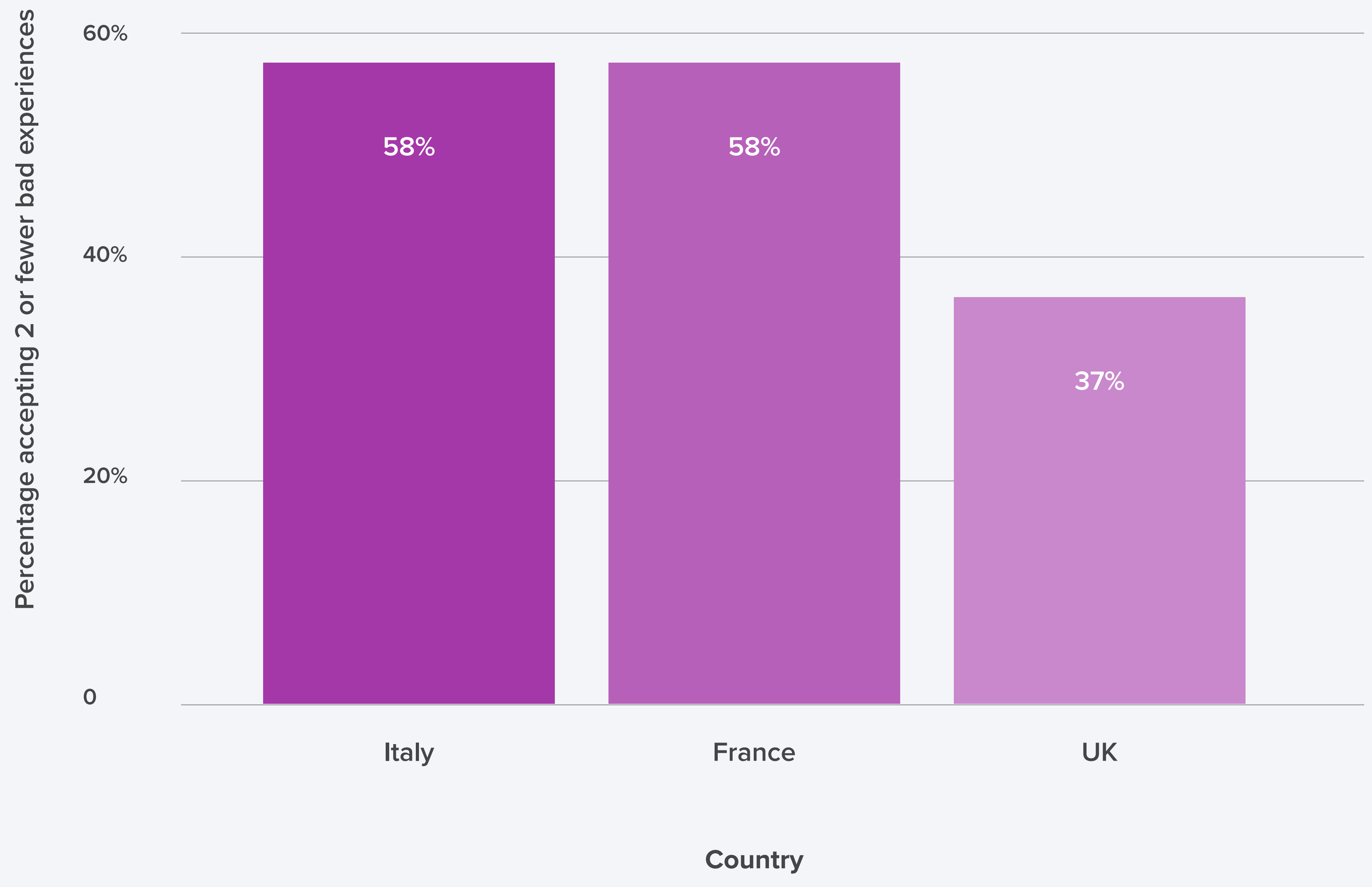
## How painful is SCA frustration?

Customers rank unsuccessful checkout from 1 to 10



## Consumers abandon merchants after bad checkout experience

It doesn't take much to lose a customer for good

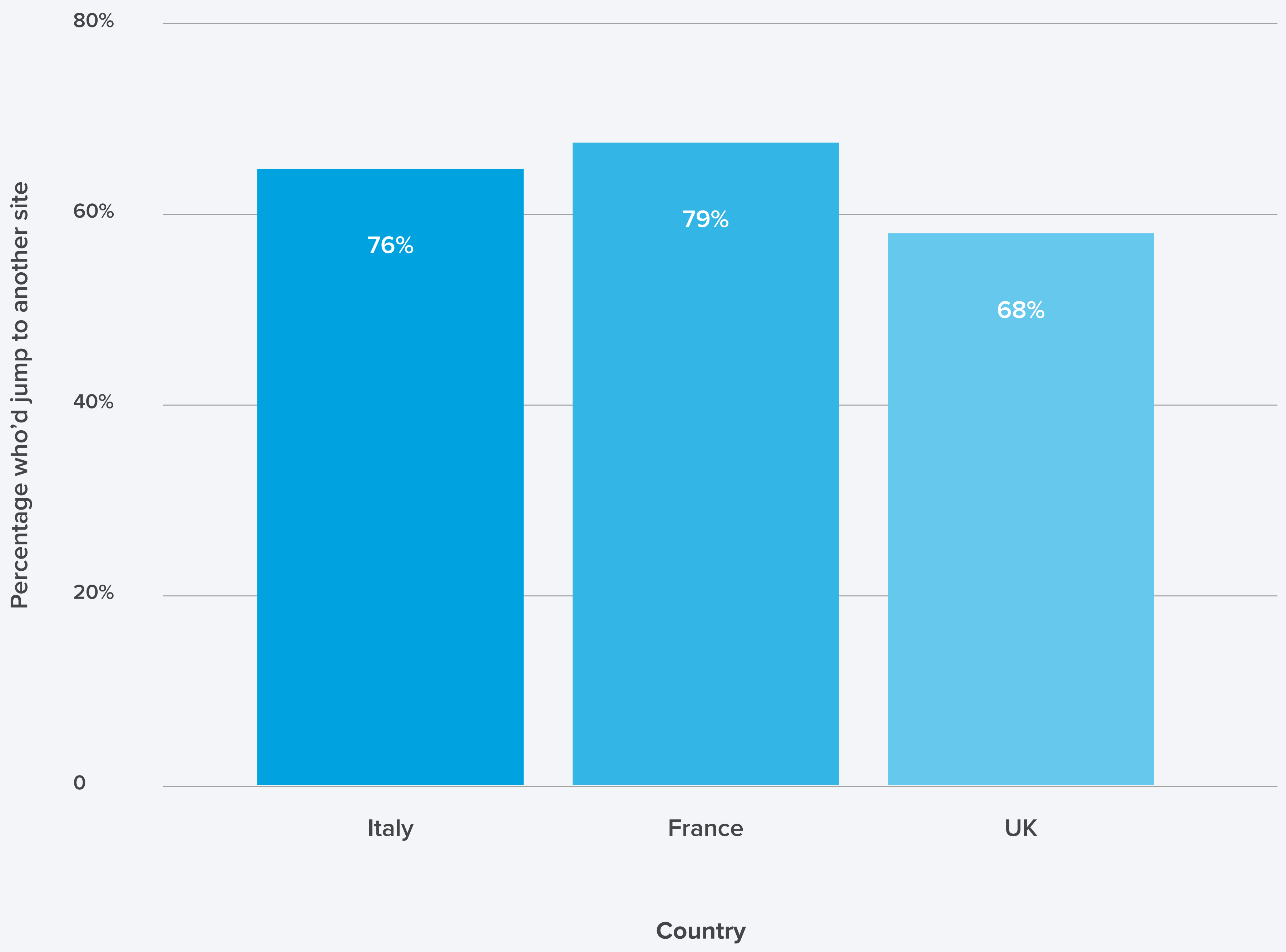



In those cases, SCA was bad news for consumers. It was also bad news for merchants — and not just in that case. It turns out a frustrating experience can turn a consumer against a merchant for good. In Italy, France and the UK, 58%, 58% and 37% of consumers respectively said two or fewer bad online checkout experience would cost a merchant their business for good.

Everyone in retail understands the deal today. If a shopper can't buy what they want, when they want to, how they want to — and without a whiff of friction — they'll go somewhere else. A significant number of respondents to Signifyd's survey on consumer attitudes regarding SCA left little doubt about that.

Consumers were asked specifically, "If you were shopping online with a small company and had a bad experience, how likely would you be to look for the same product with a large company (eg. Amazon, Alibaba). "Likely" or "very likely" responses ranged from 68% in the UK to 79% in France, indicating that convenience wins out over loyalty.

## Life's too short for checkout frustration



Optimising payments is tricky enough with or without SCA.

SCA just adds another degree of difficulty. And while it appears the SCA era in the UK and European Union is off to a rocky start, the SCA experience is not the same throughout the region. Just how much pain consumers encounter and how much revenue merchants miss out on is very dependent on what countries they are selling in.

A Signifyd analysis earlier this year of a subset of transaction data found wide variations by country in the success rates for SCA transactions. The key factor appears to be the version of 3D Secure that dominates in a given country. 3D Secure is a long-existing protocol that is now widely used in Europe to meet SCA requirements. The problem in some countries is that the old version of 3D Secure, known as 1.0, has been the predominant form of the protocol.

> "Our merchants are absolutely asking us: Help us increase our approval rates. Help us understand when we should route things through certain debit networks. Help us understand when we should use network tokens versus our own tokens."

**Nicole Jass**
Senior vice president, growth solution product at FIS

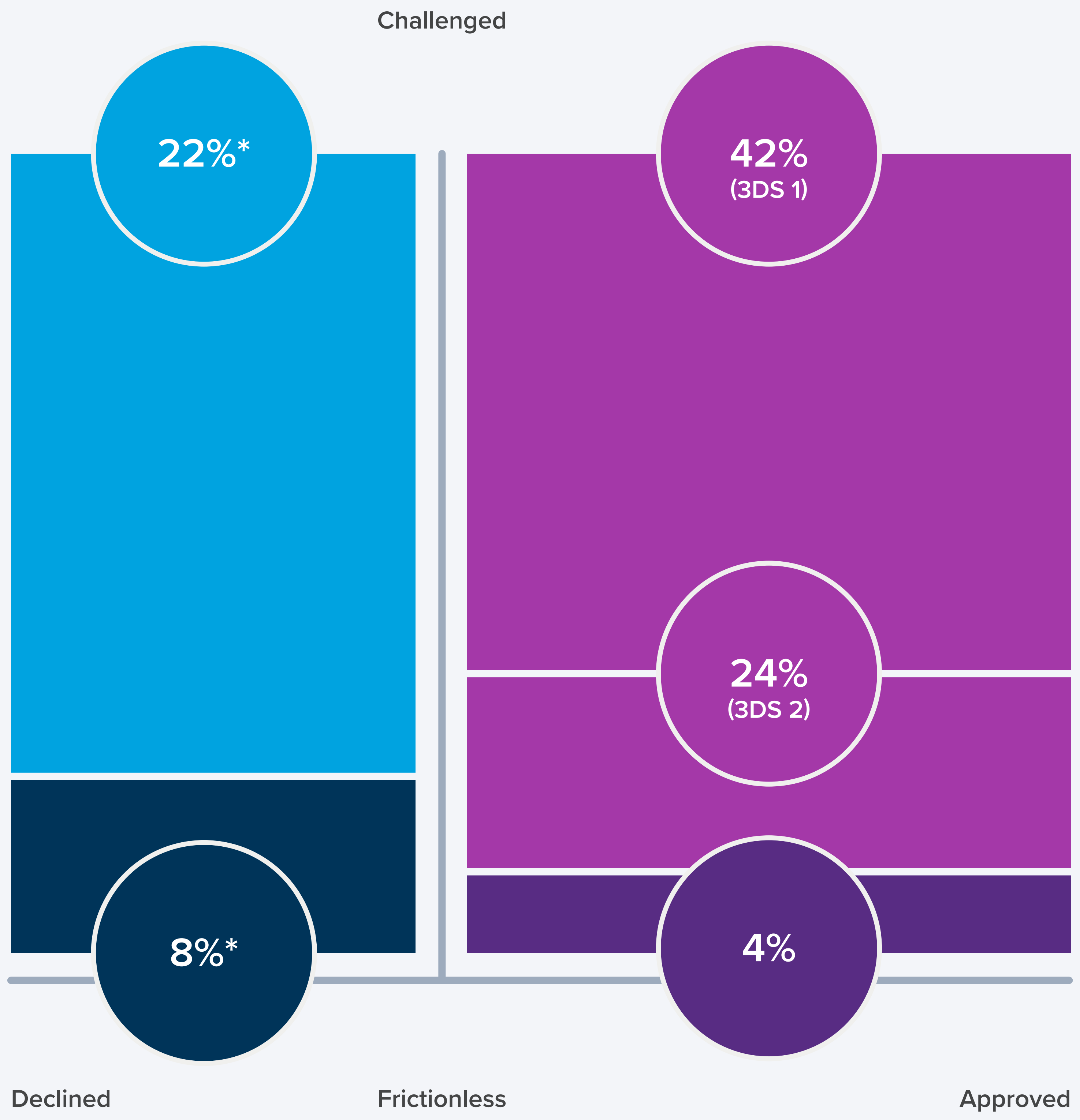
This all changes with the sunsetting of 3D Secure v.1 — a move that makes the immediate problem worse, not better. The end of 3D Secure v.1 means that a transaction subject to the old protocol will fail without the option of a step-up. The likely result for merchants: A lost sale. The disruption will not affect all counties equally.

Consider Signifyd's analysis of orders subject to the two versions of 3DS in Italy, Spain and France. Signifyd's analysis showed that only about 70% of 3D Secure orders in Italy were approved. And it gets worse. Signifyd discovered that 42% of Italy's approved orders were met with significant friction, due to a 3DS version 1 review — a recipe for cart abandonment.

On the decline side, 22% of orders were rejected or abandoned due to 3DS friction or the lack of a customer-friendly SCA strategy focused on avoiding SCA reviews when possible. In the real world, that happens when frustrated shoppers cancel or ignore an SCA step-up challenge; or when an order times out, due to confused consumers or creaky technology that takes too long to process the order.

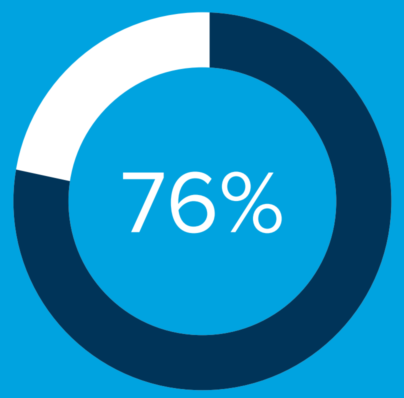
What did that mean for merchants selling in Italy? Only 8% of orders in Italy were declined for good reason, such as genuine fraud, invalid credit cards, failed authorisation and other serious red flags. Conversely, only 28% of orders were approved with low friction, either via the newer version of 3D Secure (24%) or through the exemption process (4%).

## Italy



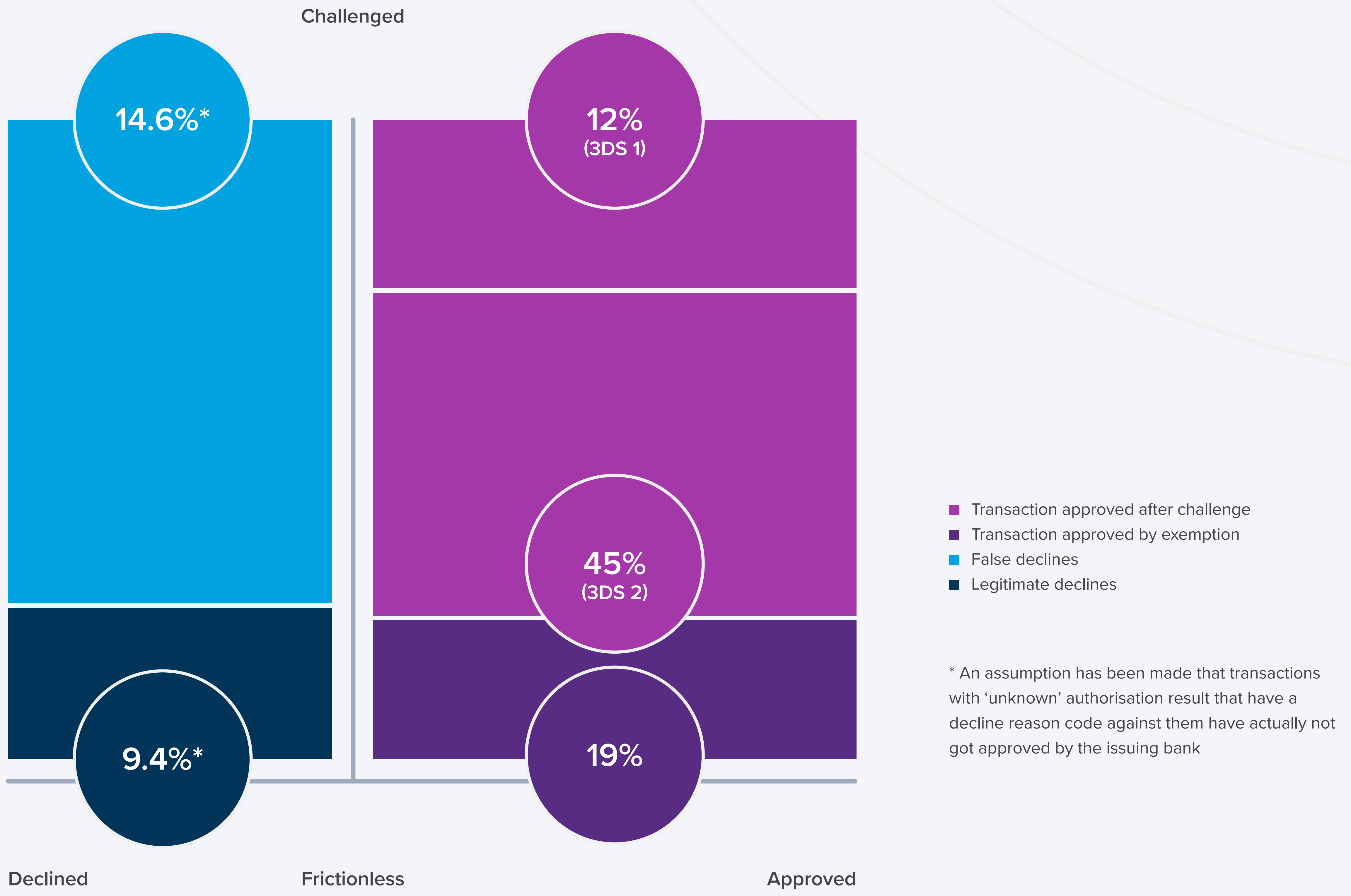

- Transaction approved after challenge
- Transaction approved by exemption
- False declines
- Legitimate declines

* An assumption has been made that transactions with 'unknown' authorisation result that have a decline reason code against them have actually not got approved by the issuing bank



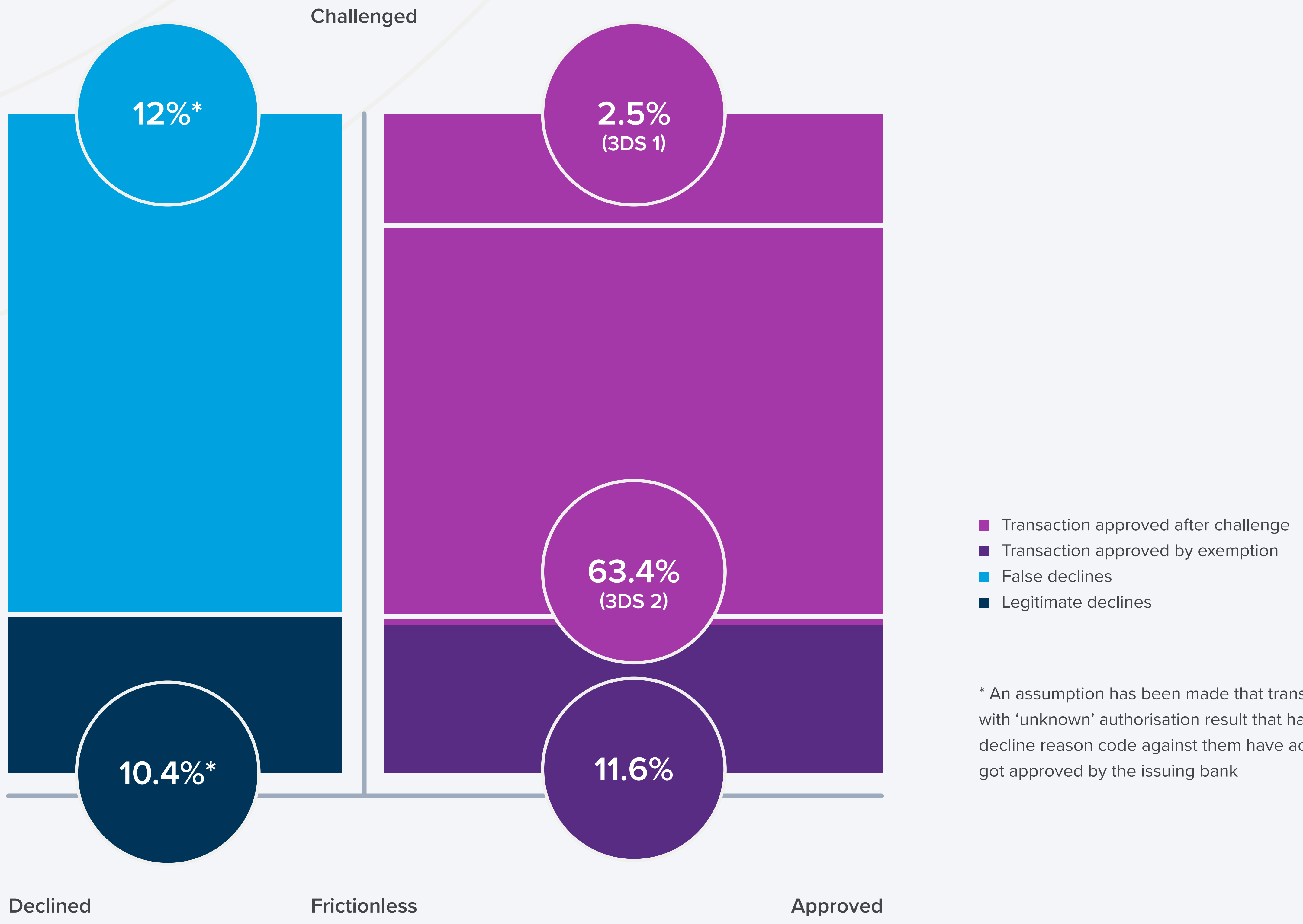

Compare the experience in Italy with Spain and France, where a much smaller percentage of transactions were subject to the outdated 3D Secure version 1. In Spain for instance, where the overall approval rate was 76%, only 12% of approved orders were subject to review by the old protocol.

## Spain




* An assumption has been made that transactions with 'unknown' authorisation result that have a decline reason code against them have actually not got approved by the issuing bank

## France




* An assumption has been made that transactions with 'unknown' authorisation result that have a decline reason code against them have actually not got approved by the issuing bank

In France, with an overall approval rate of 77.6%, the number of approved orders subjected to the old version of 3D Secure was a scant 2.5%.

Clearly, with the demise of 3DS v.1, countries like Italy have much more at stake and much more work to do, than countries like France and Spain.

# Transaction Risk Analysis is an SCA must

The new world of SCA has meant that fraud and risk intelligence teams have had to ramp up their expertise when it comes to exemptions and the path a transaction takes to be completed. As we've seen in our examples, not every transaction is required to undergo SCA.

First, any number of transactions are considered out of scope.
These include:

- **Merchant-initiated transactions, such as a subscription or buy now, pay later payments.**
- **Mail-order or telephone-order purchases.**
- **One-leg-out transactions in which either the acquiring or issuing bank is outside the European Economic Area.**
- **Gift cards**

## Exemptions smooth the way for SCA

And then there are exemptions, which also grant a pass on SCA scrutiny. Exemptions include:

- Low-risk transactions, as determined by Transaction Risk Analysis (TRA). TRA provides assurance that there are no red flags among a transaction's many elements.
- Low-value transactions or transactions below €30. After a series of such exemptions, SCA will need to be applied.
- Trusted Beneficiary transactions are orders from a customer who has asked their card-issuing banks to place them on a retailer's "allow list" after undergoing SCA the first time. The decision is completely within the issuer's control.
- B-to-B transactions made from secure corporate environments
- Recurring payments.

Merchants that adopt a future-focused fraud solution will have a system that will recognise exempt transactions before the order authorisation process begins. That will allow the order to be evaluated for potential risk and then automatically routed down an efficient path that maintains a pleasant customer experience while protecting the merchant from fraud. The system is designed to substantially increase the size of the green territory in our Italy, Spain and France examples above. Non-exempt orders, meanwhile, take a different path, meeting the requirements of SCA without disrupting the customer's buying journey.

Merchants concerned about their SCA readiness or interested in benchmarking their readiness can take Signifyd's free SCA Impact Assessment to measure their SCA strategy and practice.

# What does the future hold for commerce?

Retail and online commerce are constantly evolving. In the new era of ecommerce, the rate of change is accelerating. While a savvy consumer class with high expectations presents challenges for those who serve them, it also presents an opportunity.

As we look forward to 2023, it's clearer than ever that retailers who embrace speed, agility and an innovative approach to growing their businesses and building customer experiences will seize the opportunity that rapid transformation provides.

# Lift revenue and future-proof your brand with Signifyd

## Transform payments

Signifyd's machine learning models and financial guarantee on approved orders give merchants the freedom to offer a host of payment methods by protecting them against fraud and non-fraud chargebacks. Meanwhile, Signifyd's precise fraud solutions dramatically limit the number of false declines.

## Take control of the online return experience

Signifyd's Return Abuse Prevention provides insights into the motivation behind a return request. The solution gives online retailers the flexibility to set automated guardrails to alert customer support employees to the degree of risk involved with a return request along with recommendations on how to process the return.

## Shift the liability for fraud

Signifyd, with its Commerce Network of thousands of merchants selling in more than 100 countries, knows the customers in regions you want to expand into. Its Guaranteed Fraud Protection means merchants can sell into new markets without worrying about novel fraud attacks or the cost of chargebacks resulting from fraud and abuse.

## Find SCA's frictionless path

Signifyd's Dynamic Exemption Management maximises the number of orders routed down a friction-free transaction path, exempt from SCA. The Transaction Risk Analysis happens before order authorization and orders are sped along the best path for acceptance based on the issuing bank's past performance and acceptance rates

# Signifyd is the leader in commerce protection

Signifyd's Commerce Protection Platform is a holistic solution addressing key challenges emerging in the post-pandemic era. The platform protects the entire buying experience from account creation and log-in, to checkout and returns. Powered by a Commerce Network of thousands of merchants worldwide, Signifyd leverages behavioural and transaction intelligence from billions of orders to provide an understanding of the identity and intent behind every order.

The powerful technology and Signifyd's superior data science team and award-winning customer success team make the Commerce Protection Platform the ideal solution for the world of new and emerging commerce trends.

**Learn how Signifyd can help you grow at www.signifyd.com**