



# PAYMENT

HOW PAYMENT METHODS INFLUENCE A PURCHASE DECISION

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Online shoppers are demanding when it comes to payment. The range of available payment methods can be a decisive factor.



Trousers, shoes, a jacket – the customer has quickly added a couple of items to his digital shopping basket. However, whether or not the transaction will actually take place depends on whether retailers are able to provide a selection of payment methods. For example, purchases by invoice and direct debit are extremely popular payment methods in Germany. Credit cards are the preferred payment method in the UK, and alternative payment methods are growing increasingly popular in both countries. Nevertheless, online shops are still facing a challenge: the buyer might cancel the transaction if the right payment method is not available. In a survey of internet users carried out by the market research institute Fittkau & Maaß<sup>1</sup>, almost one-third of respondents

said that payment problems had caused them to cancel a purchase. To be exact, 29.1 per cent could not find their preferred means of payment, and 3.4 per cent found the security of the payment to be lacking.

The recent payment study carried out by ECC Köln<sup>2</sup> produced similar results. It was based on a survey of 2,040 German online shoppers and 562 online retailers. In the survey, 74.6 per cent of customers confirmed that the payment process is a defining factor in their personal shopping experience in an online shop. And 53.7 per cent said that they had cancelled a purchase because of the lack of what they considered an acceptable payment method.

<sup>1</sup> Fittkau & Maaß: W3B report 'Kaufentscheidung im Internet', 2014. <http://www.fittkaumaass.de/news/fehlende-zahlungsart-groesster-conversion-killer>

<sup>2</sup> ECC Köln: 'Payment im E-Commerce Vol. 19 – Der Internetzahlungsverkehr aus Sicht der Händler und der Verbraucher', 2015.

<http://shop.ecc-handel.de/de/Themen/Payment-Pricing/Payment-im-E-Commerce-Vol.-19-Der-Internetzahlungsverkehr-aus-Sicht-der-Haendler-und-der-Verbraucher>

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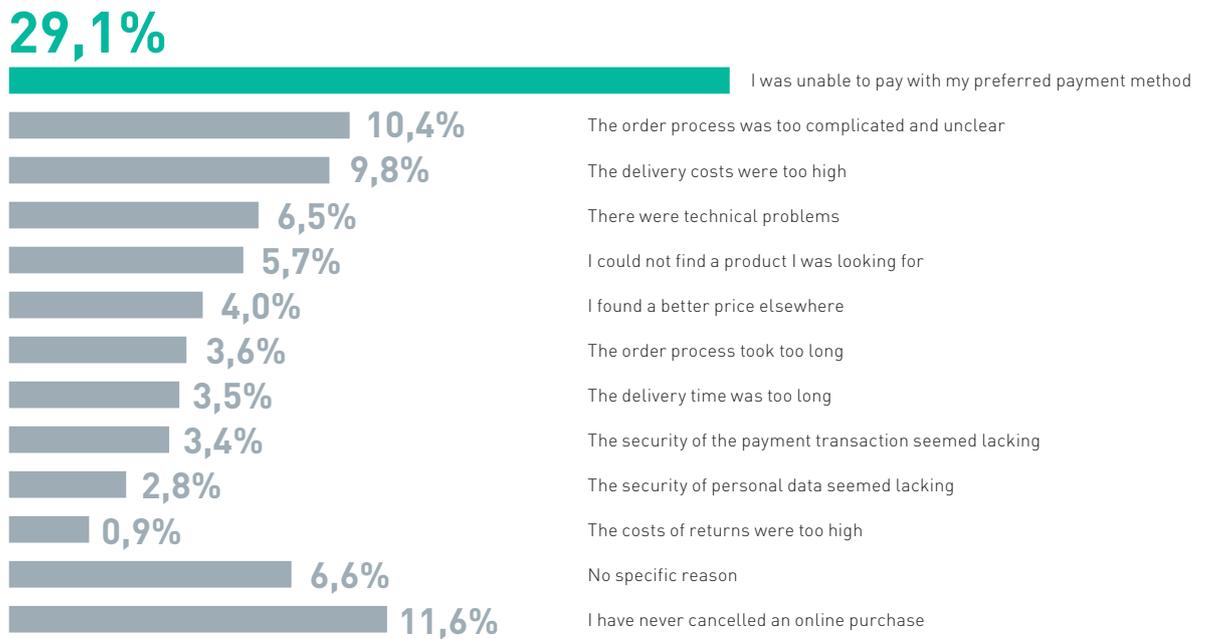
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This shows that customers are sensitive when it comes to payment. They want to be free to determine how retailers receive their money, and they do not want to be exposed to any risks from the money transfer. What does this mean for retailers? They would be wise to provide an attractive, serious and secure range of payment methods in their online shops. Shop operators running international businesses should also always take the preferred payment methods of each country into consideration, so

as not to miss out on valuable sales. The advantages are obvious: both the conversion rate and the retailer's sales increase. Outsourcing financial processes is an excellent option which allows retailers to focus on their core business. Specialised payment service providers (PSPs) can help shop operators integrate necessary payment solutions and assist them by securely processing all payments in line with the PCI Security Standards.

## MISSING PAYMENT METHODS ARE THE MOST COMMON REASON FOR CANCELLATION

### Reasons why you cancelled your most recent online purchase



Total German Internet users surveyed

Fig. 1: Fittkau & Maaß, W3B report 'Kaufentscheidung im Internet', 2014.  
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## GERMAN CONSUMERS PREFER PURCHASES BY INVOICE

According to a recent study by the EHI Retail Institute, purchases by invoice remained the undisputed favourite payment method amongst German online shoppers at 28 per cent.<sup>3</sup> However, many online retailers are still struggling with this payment method.

Online retailers are now also benefitting from positive developments in purchases by invoice, as increasing numbers of PSPs have started adding this payment method to their portfolios in recent years. This allows retailers to offer the popular payment method with calculable costs and manageable effort.

Direct debit is the second favourite payment method in Germany. The introduction of SEPA in 2014 also supports the popularity of this payment method throughout Europe. At 21.8 per cent, direct debit even slightly overtook PayPal (20.2 per cent) in Germany in 2014. This means that 70 per cent of all online sales involved these three payment methods: purchase by invoice, direct debit and PayPal. In contrast, credit cards and prepayments were much less frequently used in 2014 than in the previous year.

### ADVANTAGES AND DISADVANTAGES OF PURCHASES BY INVOICE FROM THE PERSPECTIVE OF BUYERS AND RETAILERS



#### Buyer

Exceptionally quick checkout

No critical data required

Particularly 'serious' payment method

Free to determine the payment date

'Simple' payment method

Feel valued by the trust of the retailer

No registration, login data, etc.

Protection against monetary losses



#### Retailer

Higher conversion rate

Lots of risk assessment work

Relatively high return rates

No reliable payment date

More frequent payment problems

Lots of dunning/collection work

High and unpredictable costs through processes and default

Fear of fraud



<sup>3</sup> EHI Retail Institute: Study 'Online-Payment 2015'. <https://www.ehi.org/presse/lifeehi/detailanzeige/article/erst-die-ware-dann-das-geld-1.html>

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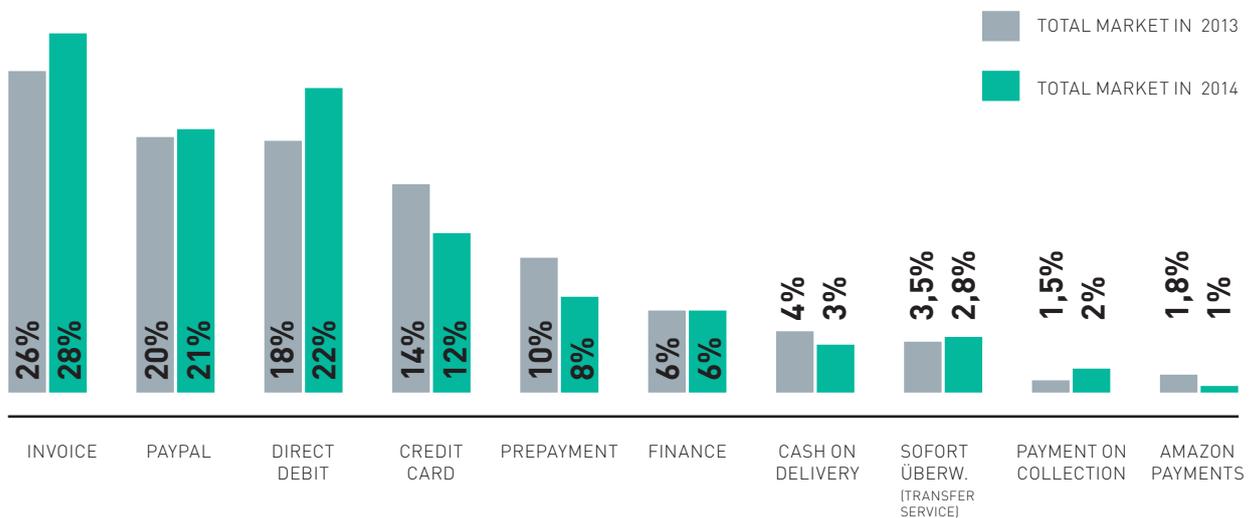
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Retailers who see the selection of payment methods as a relevant conversion funnel must, however, avoid sticking too closely to this 'top list'. For one, the payment preferences of their customers vary by age and gender – and also depend on the products they are purchasing. Additionally, habits change over time and the continuous growth of shopping on smartphones and tablets will keep

the market in a state of change. PayPal, for example, has already reached first place for mobile purchases. And customers have other preferences when it comes to international purchases, depending on the country from which target groups are ordering.

## SALES BY PAYMENT METHOD FROM 2013 TO 2014.\*



\* Top 1,000 online shops in Germany, 2014

Fig. 2: Sales by payment method from 2013 to 2014.  
Source: EHI study: 'Online-Payment 2015' (EHI Retail Institute)



## THE PAYMENT METHOD IS ONE OF MANY CONVERSION FUNNELS

Fortunately, increased experience with e-commerce has made customers more tolerant and less picky. The study carried out by ECC Köln also showed that it is not at all necessary to offer every customer their preferred payment method. Rather, most buyers have a 'set' of acceptable payment methods. It only becomes unreasonable for them when none of the options from their personal set are available.

However, increased experience among purchasers is also leading them to have higher expectations of retailers. Experienced 'heavy shoppers' quickly respond to excessively long order processes or surcharges on their preferred payment methods by cancelling the purchase. Less-experienced 'rare shoppers' find mandatory registration with a new PSP and unclear checkout processes major hurdles in particular.

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When compiling their range of payment methods, retailers should therefore consider payment methods and their costs, but they should also never lose sight of the overall process. PSPs can advise retailers on tailored solutions for their websites. Shop operators should clearly display all payment methods and carefully consider the order in which they want to arrange the various methods, and what option will be the default method. Customers who choose payment methods based on time and costs will accept such recommendations and use the given options – especially when these are conventional and popular payment methods. In this way, retailers have the opportunity to guide customers towards a cheaper payment method. This will allow them to positively influence the overall costs of the payment process.

## CUSTOMERS RESPOND TO TRANSPARENCY AND SECURITY

In online shopping, trust is the most important resource. If an online shop offers transparency and security, customers will be more willing to complete the purchase. Discounts and vouchers are another exciting way of giving customers other incentives to make a purchase. By contrast, surcharges on certain payment methods are not readily accepted. Retailers who cannot or will not do without such payment methods, however, should always clearly indicate and explain such costs. It is advantageous, especially for 'rare shoppers', for a payment method to include a short description of what steps will follow in that process.

## IN FOCUS: MOBILE COMMERCE AS A PAYMENT GAME CHANGER

Online buying habits have changed in light of the increasing prevalence of mobile end devices. More and more consumers are now shopping online using their tablets and smartphones while on the move. These mobile purchaser groups have mainly caused payment methods such as PayPal or SOFORT Überweisung to increase in popularity, whereas the proportion of traditional payment methods used in purchases on mobile end devices has decreased in previous years.

Surprisingly, this situation has changed again slightly in recent months. Following growth of six per cent in 2014, both the PayPal and SOFORT Überweisung payment services declined by two per cent in spring 2015.<sup>4</sup> One reason for this might be the growing presence of responsive Web design, which can be used comfortably on all screens thanks to its flexible format. This flexible design ensures that an online checkout involving traditional payment methods can be viewed comfortably on a mobile device – an advantage for customers and shop operators alike.



## CONCLUSION

Customers appreciate a secure and user-friendly payment process. The trend indicates that consumers always want to use the same payment method everywhere – online, via mobile and at the point of sale. Consumers who are unable to use their habitual payment methods are more likely to cancel their purchase. The main factors that determine whether or not a payment process will be accepted are trust and a sense of security. Shop operators would be wise to outsource financial processes to a service provider who offers everything from a single source: payment, risk management and banking.

<sup>4</sup> German E-Commerce and Distance Selling Trade Association e.V. (bevh) and Boniversum: spring survey 2015: Mobile purchasing and payment with smartphones and tablets. [http://www.boniversum.de/fileadmin/media/document/Umfragen/Boniversum\\_bevh\\_Mobiler\\_Einkauf\\_Fr%C3%BChjahr\\_2015.pdf](http://www.boniversum.de/fileadmin/media/document/Umfragen/Boniversum_bevh_Mobiler_Einkauf_Fr%C3%BChjahr_2015.pdf)