



# Digital Commerce: How Merchants Can Master the Challenges of the Industry

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wirecard

# Payment Solutions for Digital Commerce

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## 1. What's so special about digital commerce?

The world in which we live today is digital, and this development is impacting retail as well. Almost everything that's sold in brick-and-mortar stores can also be sold online. And it's the same for the goods themselves: Many tangible products have long been available in digital versions. You can download music rather than buy a CD. Films can be streamed, so you don't need a DVD. You can play games directly online. You can read books as e-books rather than in print. You can work out at home with an app instead of going to the gym. And you can purchase tickets online and save them on your smartphone rather than having printed tickets snail-mailed to you.

For merchants, digital goods bring new opportunities. For customers, they bring greater convenience. But what's different about digital commerce? And how is trade with digital goods defined? Digital commerce is the trade with goods that don't exist as physical products but are instead stored and purchased online and used digitally. Another characteristic is the immediate execution and delivery of the online transaction. From codes for online games to digital magazine subscriptions and audio books: As soon as customers have purchased the digital product and, if necessary, downloaded it, they can start using it. Digital commerce is a burgeoning market. After all, there are many good reasons for its growth, on both the merchant and the customer side.



### Merchant

New, lucrative source of income

Straightforward global alignment

Economical, because for example, no warehouse or shipping is required



### Customer

Convenient purchasing, because products are available at any time

Immediate use is possible

Simple purchasing, for example, with a click in an online game

On a global scale, annual sales of digital media (video on demand, digital music, video games, e-publishing) rose by almost 22% between 2016 and 2018, to US\$126 billion. By 2022, according to forecasts, annual sales are slated to rise to US\$153 billion, in other words, by another 21%. Much of the revenue is generated in the United States, followed by China, Japan, the United Kingdom, and Germany<sup>1</sup>. In some cases, double-digit growth is also expected in individual segments of the digital market. Two segments stand out in particular:

<sup>1</sup> Statista: 'Digital Market Outlook – Digital Media – Worldwide', as at June 2018



## E-entertainment

The gaming sector is responsible for a big chunk of sales in digital commerce. In 2018, some 1.5 billion gamers worldwide spent around US\$67 billion on download games, browser-based games, codes, and in-game extras, and the upward trend continues. While the United States are the leaders in digital goods consumption in most segments, the gaming industry is booming particularly in China: Chinese gamers spend around US\$20 billion on and in online and mobile games<sup>2</sup>. Fantasy gaming, such as role-playing games or e-sports, are especially noteworthy. In India alone, fantasy games are set to attract 100 million gamers by 2020<sup>3</sup>.

Globally, presence on the e-entertainment market is distributed very unevenly. In China, video games account for 82% of digital media sales. At 63% (US\$1.4 billion), the video game market in Russia also makes up a big share of the country's digital media market, which is worth US\$2.2 billion in total<sup>4</sup>.

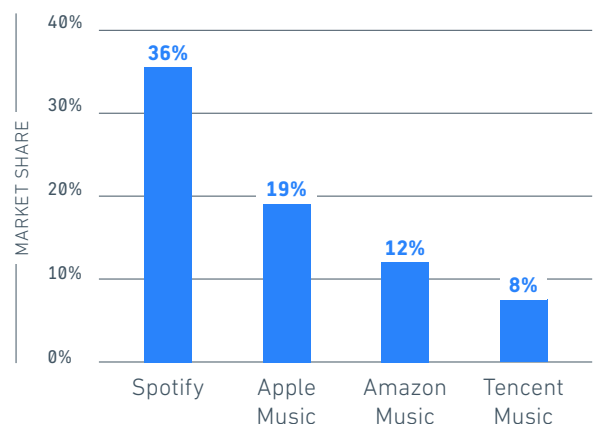
## Software as a Service (SaaS)

### B2C: streaming

If we look at user numbers, digital music is almost on a par with online games. Almost 1.3 billion people enabled com-

panies to generate sales of US\$14 billion in 2018. Around half of the revenue (US\$7.4 billion) was derived from the United States, followed by Germany (US\$923 million) and the United Kingdom (US\$815 million)<sup>5</sup>.

## Share of music streaming subscribers worldwide as of the first half of 2018, by company



Statista: Share of music streaming subscribers worldwide as of the first half of 2018, by company

<sup>2</sup> Statista: 'Digital Market Outlook – Video Games – Worldwide, as at June 2018

<sup>3</sup> Entrepreneur India: <https://www.entrepreneur.com/article/317663> as at July 2018

<sup>4</sup> Statista: 'Digital Market Outlook – Digital Media – Russia', as at June 2018

<sup>5</sup> Statista: 'Digital Market Outlook – Digital Music – Worldwide, as at June 2018

**“To grow your customer base, it’s essential to offer the most popular local payment methods, from traditional ones such as credit cards to modern options such as Alipay. Merchants need to ‘think global, act local’ when it comes to payment options.”**

Martin Osterloh, VP Sales  
Digital Entertainment, Wirecard

The video-on-demand segment has comparatively few users but strikingly high sales. In 2018, revenue reached approximately US\$27 billion, with US\$15.5 billion in the United States alone. Here, too, other countries lag some way behind: China with US\$2 billion, Germany and the United Kingdom with US\$1.5 billion each, and France with US\$670 million<sup>6</sup>.

#### **B2B: software solutions**

A subsegment of cloud computing, the software-as-a-service market for B2B customers has been prospering for years. SaaS comprises, for example, CRM solutions, project planning tools, and ERP systems. Sales saw a three-fold increase within three years: from around US\$31 billion in 2015 to 72 billion in 2018. By 2021, the SaaS market is forecast to be worth US\$113 billion<sup>7</sup>.

#### **E-health and e-fitness**

Growth in the e-fitness industry, for example, in fitness and nutrition apps or courses, is also impressive. From 2018 to 2023, revenue is forecast to rise some 8.1%, reaching a market volume of US\$2.7 billion. The top three countries for e-fitness sales are the United States, China, and India. The digital health market is booming, too. Between 2015 and 2020, it is predicted to grow by 21%, and exceed the mark of US\$200 billion. This is especially thanks to the mobile health sector, where average annual growth is expected to reach 41%<sup>8</sup>.

## **2. The biggest challenges for merchants of digital goods**

Merchants in digital commerce face particular difficulties, not only due to the huge upswing, but also because of certain product features. The risk of fraud is a notable issue, as is the provision of the right payment methods to cater to the international nature of the market. Let’s explore the biggest challenges in greater detail.

### **Challenge 1:**

#### **Offer and manage the right payment options**

Digital goods can be sold anywhere in the world at the touch of a button. Neither a warehouse nor shipment is necessary to provide virtual products to users in Asia, Europe, or the United States within seconds. However, payment preferences can differ hugely from country to country. To grow your customer base, it’s essential to offer the most popular local payment methods, from traditional ones such as credit cards to modern options such as Alipay. Merchants need to ‘think global, act local’ when it comes to payment options. But that takes us straight to the next hurdle. Merchants must integrate each payment method into their processes in such a way that it functions reliably and quickly and allows a secure checkout.

### **Challenge 2:**

#### **Delays increase the risk of cart abandonment**

If you’re selling digital goods, every second counts. Statistics show that for an online shop with a turnover of US\$100,000 a day, a delay of one second to the loading time can slash annual sales by US\$2.5 million<sup>9</sup>. There is an unequivocal link between loading time and revenue. This applies especially to trade with digital goods, where users expect to be able to buy and use the product within seconds. If that’s not the case, the provider’s cart abandonment rate increases. In other words, users leave the site without concluding a transaction, and may well switch to a competitor. Content, navigation, design, and the general user experience can also influence cart abandonment, but speed and a site’s loading time should not be overlooked here either.

<sup>6</sup> Statista: Digital Market Outlook – Video-on-Demand – Worldwide, as at June 2018

<sup>7</sup> Public cloud application services/software as a service (SaaS) market revenues worldwide

<sup>8</sup> Statista: Projected CAGR for the global digital health market in the period 2015-2020, by major segment

<sup>9</sup> KISSmetrics: How Loading Time Affects Your Bottom Line; accessed on December 3, 2018: <https://neilpatel.com/blog/loading-time>



### Challenge 3:

#### Hardly time for fraud checks

The speed and immediacy of digital commerce lead to another challenge. Wait times as a result of checks performed manually or applying fraud detection rules can cause customers to cancel a potential purchase and switch to a competitor where the transaction goes through automatically. What's more, merchants who sell tangible goods have it easier when it comes to fraud, because there's a buffer before products are shipped, which enables more in-depth checks to be made.

By contrast, checks in digital commerce must be completed within fractions of a second, in order to keep the customer on board. On the one hand, simplicity is important. But on the other hand, security is vital, because checkouts that are too simple make light work for fraudsters. This can become expensive for companies. According to statistics, companies that sell digital goods spend five times more on fraud detection than companies that sell physical product<sup>10</sup>.

### Challenge 4:

#### Less data for checks

Merchants who sell digital goods have less data to verify the identity of their customers than traditional retailers. For example, they have no physical delivery address. If fraudsters use stolen passwords or credit card numbers, it's far easier for them to masquerade as legitimate customers. For purchases of digital goods, the fraud rate is comparatively high. Identity theft and the use of stolen credit card details are particular challenges. After all, criminals who operate in digital commerce need less data to inflict damage. It is therefore all the more important for both the customer and the merchant to have effective fraud prevention.

The types of fraud in digital trade and e-commerce are similar. But there's one major difference: Stolen digital goods don't have to be stored or delivered anywhere. Instead, they can be stored digitally (and in large quantities) and immediately monetized on illegal or reputable marketplaces.

<sup>10</sup> Ravelin Guide: Fraud Detection for Digital Goods

## Challenge 5:

### The danger of false positives

Because the decision either for or against executing a transaction has to be made so fast, the risk of making the wrong decision is greater. Not only is this bad if an order is completed that wouldn't have passed a more thorough check. Digital merchants also have to contend with false declines, that is, when a customer is rejected accidentally or without good reason. If that happens, it usually means a customer is lost forever to the competition.

## 3. What merchants can do about high fraud risk

Online fraudsters actively search for the weak points in merchants' security systems. The fact that speed and convenience are so crucial to customer satisfaction in digital commerce is something that they will exploit. It's therefore important to find the right balance between fraud protection and risk, and between a simple shopping experience and preventive measures. Customers must not sense any kind of disruption during the transaction. At the same time, merchants must ensure that they have sufficient fraud protection. Combining the two is no easy task.

So that merchants can reduce the risk of fraud in their shop, the volumes of data generated by every order must be optimally used and analyzed. This includes, for example, the digital goods ordered, the card used for payment, where the order was made, and the device used. Only then, with the right processes and solutions, can payment acceptance

and security be maximized. There are many ways in which the balance can be achieved between a smooth payment experience for the user and accurate fraud detection for the merchant. It's not important whether customers execute the transaction completely in-app, for example, during an online game, or whether they download a product.

Using a combination of different methods and individual systems tailored to the online merchant, fraud prevention can be optimized, and cases of non-payment can be reduced.

### Industry-specific approaches and prevention methods used by credit card companies include:

#### 3D Secure and 3D Secure 2:

An authentication method from the card networks Visa and Mastercard that determines whether the credit card is being used by the legitimate cardholder. The new 3D Secure 2 protocol has been available since April 2019.

#### Address Verification Service:

A verification method whereby the address data given by the user of the card is compared with the address data stored by the credit card network.

#### Blacklists:

A list of negative data that is automatically identified when a transaction is attempted and subsequently not accepted.

#### IP/BIN verification:

Method whereby the IP address is used to find the customer's current location or Internet access point, while the bank identification number (BIN) identifies the card-issuing bank and its country of origin. This allows certain country combinations to be accepted or rejected.

#### Tailored solutions:

For merchants of digital goods, it's important that the payment process is integrated with the customer experience as a whole, both optically and functionally. If the payment page has the same look and feel as the merchant's website and if the sector's most important payment methods are offered, users won't register any inconsistencies and the rate of completed transactions increases.

**“It's therefore important to find the right balance between fraud protection and risk, and between a simple shopping experience and preventive measures.”**

Boris Bongartz, Head of Sales,  
Digital Commerce, Wirecard

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## **Device fingerprinting:**

This determines different attributes of the device used and makes a user identifiable over a number of different visits to websites.

## **Velocity checks:**

A frequency check in which payment transactions are reviewed for repeating patterns within a defined (short) period.

## **Artificial intelligence:**

Artificial intelligence also has the potential to reduce the risk of wrong decision-making in payment processes. Based on different data, the system can make automated and reliable assessments about the trustworthiness of a payment and reject it if the fraud risk is high.

## **4. Conclusion: the balance between simplicity and security**

To be successful, merchants of digital goods must find the right balance between a simple and fast payment experience for the customer and effective and equally fast fraud control. Only if preventive methods are used in a targeted way and are always adapted to the current situation can digital merchants reach maximum sales. The fact that digital goods don't require physical delivery makes global alignment easy, which opens up enormous potential, as long as merchants have the right payment strategy and appropriate fraud protection measures.

## **5. Wirecard—your partner for digital commerce**

Wirecard can offer merchants in digital commerce all the known fraud prevention methods, and much more besides. With us, merchants are optimally equipped to sell their digital goods to customers anywhere in the world.



We give you individual fraud protection tailored to your needs and provide the optimal payment experience for your customers. This is made possible by our internal software solutions and by our collaborations with specialized national and international service providers, such as credit agencies.

As a leading innovation driver of digital financial technologies, we know what's important in digital commerce.

### **🛒 Just one integration:**

Enable your international customers to pay using the method they like best. Whether it's by credit card, PayPal, or WeChat Pay: With just one integration, Wirecard offers you the most important payment methods for your digital shop.

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## **Fraud prevention:**

Be one step ahead of fraudsters with efficient and individual fraud prevention. Fraud protection from Wirecard gives you all the solutions and methods you need to identify and prevent fraud at an early stage in the sales process.

## **Reporting and analyses:**

Keep a constant eye on current values and transactions. We customize our practical reports to fit your needs precisely. You can view key performance indicators (KPIs), such as the fraud rate, the acceptance rate, and the number of chargebacks, at any time.

## **Value-added services:**

Use additional services to go that extra mile for your customers and set yourself apart from the competition. Value-added services such as loyalty programs or individual vouchers and discounts ensure satisfied and returning customers and greater customer retention.

But Wirecard can do much more than integrate payment methods easily and free of risks, as well as minimize fraud-related payment default. Wirecard has many innovative solutions designed for merchants in digital commerce, including virtual call centers as in-game support and loyalty solutions for even better customer retention. And, all the time, the security of your data and your customers' data is our top priority, which is why we only use secure servers in Europe.

Ultimately, with all these means, we strive to achieve one thing: to facilitate an optimal shopping experience for your customers, where payment isn't a hassle but slots perfectly into your shop. At the same time, we won't skimp on protecting you from all kinds of fraudulent activity. With us, you get the balance right between security and simplicity and between customer satisfaction and fraud prevention.

## **Digital commerce solutions from Wirecard**

### **Everything from one source:**

Together, we find solutions to fit your needs perfectly. From the integration of further payment methods to KPI reporting and tailored fraud protection for your shop, you'll find precisely what you're looking for when you come to us. Rely on our experience and unlock the full potential of your digital business.

### **A long-term partner on an equal footing:**

With Wirecard, you have a partner at your side who you can really rely on. Your dedicated contact person works with you to personalize and individualize your solution, keep it up-to-date, and improve it in the long term.

### **Global and local alignment:**

Make your business global with us—we'll take care of the local details. Together, we'll devise a global strategy and master its local implementation—from the integration of payment methods to payment processing. You can rely on us.



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## About Wirecard

Wirecard AG is a global technology group that supports companies in accepting electronic payments from all sales channels. As a leading independent supplier, the Wirecard Group offers outsourcing and white label solutions for electronic payments. A global platform bundles international payment acceptance and methods with supplementary fraud prevention solutions. With regard to the issuing of own payment instruments in the form of cards or mobile payment solutions, the Wirecard Group provides companies with an end-to-end infrastructure, including the requisite licences for card and account products.

Wirecard (GER:WDI) is one of the world's fastest growing digital platforms in the area of financial commerce. We provide both corporate clients and consumers with a constantly expanding ecosystem of real-time value-add-

ed services built around innovative digital payments by using an integrated B2B2C approach. This ecosystem concentrates on solutions in the areas payment and risk, retail and transaction banking, loyalty and coupon programs in addition to data analytics and conversion rate enhancement across all sales channels (online, mobile, ePOS). Wirecard operates regulated financial institutions in several key markets, in addition to holding issuing and acquiring licenses from all major payment and card networks. Wirecard AG is listed on the Frankfurt Stock Exchange (DAX, TecDAX, ISIN DE0007472060). Visit us on [www.wirecard.com](http://www.wirecard.com), follow us on Twitter @wirecard and on Facebook @wirecardgroup.

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