WORLDLINE

Why “à la carte” acquiring is now on the menu for merchants

Position Paper

Digital Payments
for a Trusted World

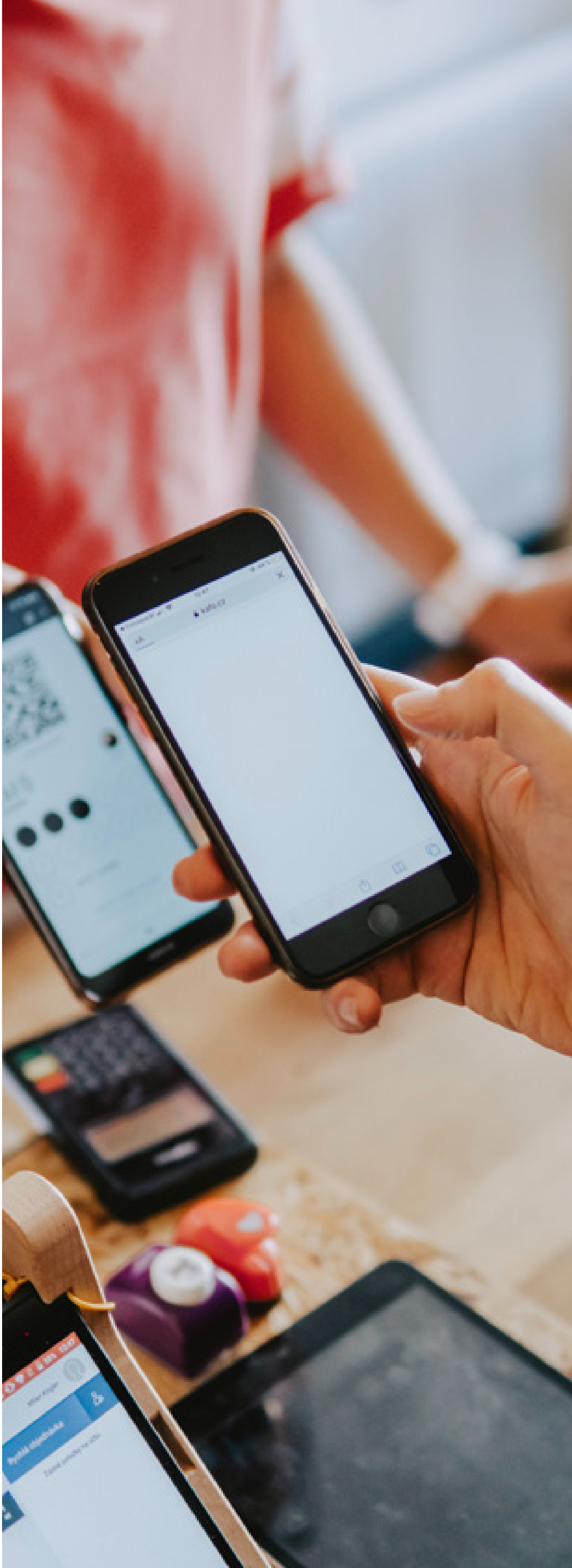
The old rules of acquiring have changed

Merchant card acquiring has been transformed in recent years as the payment market has evolved, segmenting into two types of acquirers – local acquirers (usually banks) and international acquirers.

Both have their advantages, but also disadvantages, and deciding which strategy to follow has been challenging for merchants as they strive for greater control of costs, visibility and management.

Today, a solution has emerged better suited to each merchants' specific needs by combining the benefits of both local and international acquiring, allowing cost reduction, improved financial reconciliation and overall providing greater customer experience.

In this paper, we will see how "à la carte" acquiring combines the best of both worlds to put this strategy on the menu for merchants.



The need for acquiring choice and control

The acquiring landscape in Europe is fragmented and local payment options often vary significantly between countries.

Merchants previously had two choices when it came to acquiring.

They may choose local acquirers who have strong domestic footprints and capabilities in their markets and will also usually offer the most competitive prices. However, their offering outside of their domestic market is weaker by comparison.

By contrast, international acquirers are sometimes more expensive but have a stronger coverage of international payment methods such as UPI, JCB, Alipay, WeChat Pay etc., as well as the ability to cover several different countries with the same offer.

For those merchants opting for the local acquirer route, expanding into new countries can mean having to negotiate and forge relationships with numerous acquirers. Establishing and managing these relationships in each country is time-consuming and challenging, adding operational constraints and the need for increased local resources.

Moreover, for merchants with ambitious international expansion strategies and proven market demand, this challenge can increase time-to-market, with the danger that their competitors seize the opportunity first.

Alternatively, merchants may choose to work with international acquirers for operational simplicity and the greater payment method coverage they offer. But for very large merchants this may mean having a more expensive acquiring service charge, in particular in markets where "on-us" pricing can be proposed by banks (i.e. the ability to offer cheaper interchange and scheme fees on their own issued cards).

120

There are over 120 acquirers in Europe, the vast majority of them purely focused on their domestic market.

Escaping the catch-22 dilemma for large international merchants

It's a catch-22 situation. International merchants need to work with multiple acquirers to achieve the best fee rates.

But this introduces additional back-office costs and complexity in negotiating individual acquirer contracts and subsequently managing such relationships.

For example, merchants must manage contracts with varying terms and conditions, oversee and integrate reporting formats and work with disparate support teams and tools.

It's distracting and costly. Merchants become caught in the trap of needing to benefit from multiple acquirer options but being penalised with increased back-office costs for set-up and management.

Improving the customer experience for tourism-dependent merchants

It's not just large retailers expanding internationally that face such difficulties. For domestic retailers with a significant international or tourist customer base - such as luxury retailers, department stores or tourist attractions - comes a similar dilemma.

On the one hand, they need to offer all the preferred payments method for their international customers - UnionPay, Alipay, WeChat Pay, JCB, Diners, American Express etc. This needs to be done at a competitive cost, which only a handful of international acquirers can provide.

On the other hand, for domestic shoppers, the only way to have the best possible acquiring prices is to work with one of the local banks/acquirers to enable the benefits they provide.

“À la carte” acquiring: the best of both worlds

The new concept of an “à la carte” acquiring offer allows merchants to escape this catch-22 dilemma and get the best of both worlds by accessing the best combination of acquirers depending on their needs through a single omnichannel gateway.

That may be connecting to a range of local acquirers, giving them access to local schemes and “on-us” pricing or connecting to the gateway’s own centralised acquiring, with full international coverage, making it possible to have the same contract and the same service across many countries as well as offer international payment methods to foreign shoppers.

Thanks to the gateway’s smart routing capabilities, transactions are dynamically sent in real-time to the relevant acquirer based on the parameters agreed with the merchant concerned. And all transactions, both from local acquiring (external) or central acquiring (internal), are reconciled into the gateway’s reporting features.

160

Through Worldline’s own acquiring, more than 160 acceptance currencies and 21 settlement currencies, and wide coverage of local and international schemes:

Potential savings

Consolidating acquiring for markets representing below one billion € in annual turnover can generate significant operational and back-office savings.

As an example, for a merchant processing about one million transactions across three countries:

- **>100 K€** one-off savings in set-up, deployment, testing costs
- **>100 K€** recurring annual savings in acquiring relationship management and financial reconciliation
- **>100 K€** recurring annual savings in transaction costs (volume massification resulting in reduced prices)
- The above savings can increase significantly if merchants process higher volumes

Meeting merchants' different needs

The "à la carte" acquiring approach allows merchants to better match the acquiring solution with their needs. For instance, for markets where their revenue is high (ie above several billion euros annually), merchants may need to be able to access local banks and local payment schemes to qualify for the cheapest fees. For more standard markets, where volumes aren't as great or are still building, then an international acquirer route is usually better suited.

Through an "à la carte" acquiring strategy large merchants in multiple markets can accept a full range of standard and local payment solutions without the worry of excessive acquiring costs.

Meanwhile, domestic merchants can accept a wider range of payment methods for their foreign shoppers while benefitting from the lowest possible fees for their domestic shoppers' transactions.

The benefits of financial reconciliation

The greater visibility enabled from an "à la carte" acquiring offering also allows for more efficient financial reconciliation by providing one solution to monitor transactions into one reconciliation tool such as Worldline's ePortal.

This means that merchants can identify whether each transaction submitted by Worldline to acquirers has been paid; obtain an aggregated view of the status of transactions, including chargebacks – for all acquirers and channels; and get an overview of the fees paid. The reconciliation tool also means that merchants can verify – based on their agreed conditions – that the fees applied by acquirers are correct.

7.5B

According to the Nilson Report (May 2021), Worldline is the #1 merchant acquirer in continental Europe in 2020, with 7.5 billion acquired transactions (400 billion €).

Worldline "à la carte" acquiring provides connections to more than 25 local acquirers instore and 30 acquirers for e-commerce.

Q&A interview

Remi Maeno

VP of Strategy and Global Development, Worldline Global

What are the use cases for an “à la carte” acquiring strategy?

“There are two main use cases. For large, international merchants present in several countries, or domestic merchants that have large international customer bases.
In the first case, the “à la carte” acquiring strategy suits large, globally recognised brands typically with a presence in multiple countries and a turnover of several billion euros and above. These merchants may need to work with local acquirers in markets where their volumes are the highest in order to get the lowest possible fees, typically through “on-us” pricing.

An “à la carte” acquiring strategy allows them to do this while working directly through Worldline as an acquirer in smaller or more standard markets. All acquirers (local acquirers and Worldline acquiring) are plugged into the same omni-channel gateway enabling a unique reporting and financial reconciliation view, making activity steering simpler.

In the second use case, the target customers are domestic merchants with a significant proportion of foreign customers – such as luxury retailers, high-end department stores or tourist businesses. These companies need to get the cheapest possible fees using a local bank on their domestic transactions, but at the same time, they need to be able to offer the preferred payment methods to their broad international shopper base coming from around the world to avoid losing sales and offer the best possible customer experience.”

“The savings that can be made are widescale, both on a per-transaction level and on the central back-office level. For large international merchants, several hundred thousand euros can be saved annually.“

How significant are the savings that merchants can make?

“The savings that can be made are widescale, both on a per-transaction level and on the central back-office level.

For large international merchants, several hundred thousand euros can be saved annually: transaction costs are decreased in larger markets using the most competitive local banks, back-office costs are decreased in the long tail of smaller markets using centralised acquiring while payments’ transaction costs are optimised through volume consolidation. Everything is then reported and reconciled into the omni-channel gateway portal providing full central visibility across all countries

Regarding tourism-dependent merchants, they improve customer experience since their customers can pay via their preferred payment method, like Alipay and WeChat Pay for Chinese tourists. Transaction costs are optimised for both domestic and international shoppers and they can implement best-in-class dynamic currency conversion on foreign currencies. And again, all transactions are then reported and reconciled into the omni-channel gateway portal providing full central visibility over both the domestic and international activity.

For both use cases, there are substantial operational savings from the financial reconciliation benefits. Back-office management is reduced, meaning that resources can instead be focused on other areas of the business.”

How do merchants know if an “à la carte” acquiring strategy will work for them?

“If merchants fall into either of these use cases – i.e. a large international merchant present in multiple markets or a domestic merchant with a large international customer base - then “à la carte” acquiring is likely to be the right approach.

It offers the advantage of working with both local acquirers and international acquirers without the hassle of having separated financial flows to be reconciled. The model is available across Europe. Worldline’s team of experts work together with merchants to discuss the perfect tailormade combination.”

About Worldline

Worldline [Euronext: WLN] is the European leader in the payments and transactional services industry and #4 player worldwide. With its global reach and its commitment to innovation, Worldline is the technology partner of choice for merchants, banks and third-party acquirers as well as public transport operators, government agencies and industrial companies in all sectors. Powered by over 20,000 employees in more than 50 countries, Worldline provides its clients with sustainable, trusted and secure solutions across the payment value chain, fostering their business growth wherever they are. Services offered by Worldline in the areas of Merchant Services; Terminals, Solutions & Services; Financial Services and Mobility & e-Transactional Services include domestic and cross-border commercial acquiring, both in-store and online, highly-secure payment transaction processing, a broad portfolio of payment terminals as well as e-ticketing and digital services in the industrial environment. In 2020 Worldline generated a proforma revenue of 4.8 billion euros.

worldline.com

For further information:
WL One Commerce