

October 2024 white paper

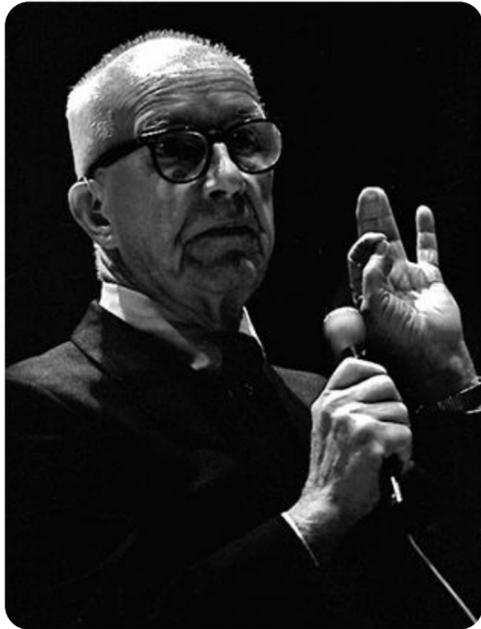
Choosing the right Local Payment Methods

How to select and onboard the Local Payment Methods that will make the biggest difference to your online sales



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For an insight into the state of payments in 2024, and how things are set to evolve, it's worth looking at the writings of Buckminster Fuller – a mid-century American architect-come-futurist who invented the geodesic dome, designed a prototype for a flying car, and wrote a series of popular philosophy books.

One of his theories was that, all too often, businesses reach for what's expedient, not what's right. And, to demonstrate the point, he came up with the parable of the piano top.

Imagine you're in a shipwreck. You find yourself adrift in the icy water. At that moment, among the debris, the top of the ship's grand piano comes floating past. You grab it and it saves your life. And from that moment on, the piano top becomes the global standard for the life raft. After all, it worked once, it worked well, so why not use it again. And again, and again.

The next thing you know, factories around the world are tooled up to produce piano top life rafts. All ships have standardised fittings for piano top life rafts. The die is cast. The use of piano top life rafts becomes more and more entrenched. Yet, if you were starting from scratch, you would never design a life raft like this - not this shape, not this size, not carved from mahogany.

So, what's the relevance to payments?

The card-based payment system is a bit like a piano top life raft – something digital merchants reached for when ecommerce first took off, and which then became entrenched as the industry standard, even though it's ill-equipped to do the job effectively. Finally, a range of alternatives are flooding onto the scene in the shape of local payment methods (LPMs). But, with hundreds of these LPMs now available, the challenge for digital merchants is to ensure they select an actual life raft – not a passing bed base, or a door, or some other random floating object.



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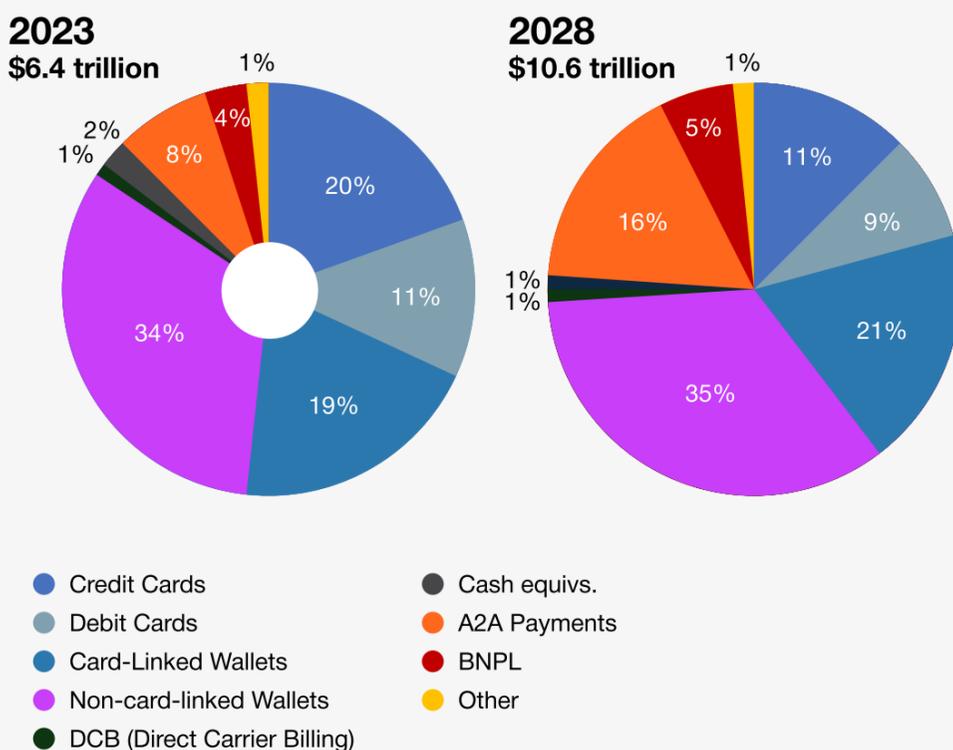
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Reasons for digital merchants to embrace the shift to LPMs – but to be careful in choosing which ones to support

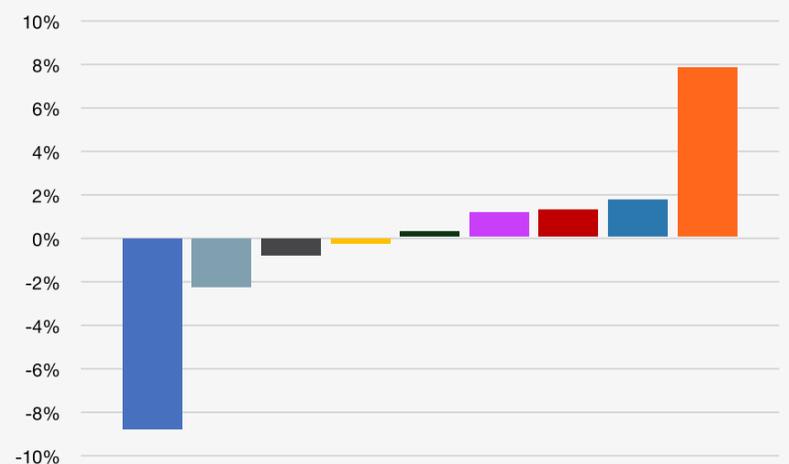
It's clear that the shift to LPMs is happening at speed and at scale.

A 2024 report from Boku and Juniper Research analysed ecommerce payment data from 37 major markets worldwide, highlighted global, regional, and country specific trends, and presented mid-term forecasts. It concluded that, across the world, consumers are moving at speed and at scale towards local payment methods. By 2028, card-based payment, including card-linked wallets, is set to account for just 41% of global ecommerce payment value – down from 50% in 2023.[1]

Ecommerce transaction value 2023-2028F (%)



Change in share of ecommerce value 2023-2028F (%)



Even in regions where card-based payments currently dominate, the shift is gaining momentum. In North America, card-based payment is predicted to fall from 76% in 2023 to 66% in 2028. In Europe, over the same timescale, it will slip from 71% to 57%. In other regions, where card-based payment starts with a lower share, the shift looks destined to be starker and swifter.[2]

[1] [2] Boku, 2024 Global Ecommerce Report, The Changing World of Payments, 2024: <https://www.boku.com/boku-knows/2024-boku-global-ecommerce-report>

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There are plenty of reasons for digital merchants to embrace the shift. Enabling consumers to use their preferred payment choice is a core consideration. But there's also a golden opportunity for digital merchants to reduce their exposure to the limitations, the frustrations, the costs, and the inefficiencies of card-based payments. Again, card-based payments were only ever a piano-top-type solution. And many of the LPMs are simply a more elegant and fit-for-purpose way of processing digital payments:

Five ways that LPMs can outcompete card-based payments

Example #1 More efficient

Often, the operating model of LPMs is simpler and more elegant. While the card-based model was first designed for analogue payments in the 1950s, LPMs were designed for digital payments in the 21st century. An example is the need in the card-based model for a protracted, two-stage payments cycle (starting with authorisations and followed, sometime later, by clearing and settlement).

Example #2 Better security

Most LPMs are specifically built to take full advantage of the security capabilities that are inherent in today's mobile devices, including the biometrics, and the device fingerprinting. By contrast, the card payment model can always revert to static credentials (PAN, expiry date, and CVV2), and all the security risks this entails.

Example #3 Less costly

The four-party, card-based payment system is weighed down by an unwieldy economic model. Because most LPMs are unencumbered by the need for multi-lateral interchange fees, they are often more cost-efficient to accept.

Example #4 More scope for innovation

Because they were designed specifically for modern-day digital payments, LPMs enable merchants to explore related innovations. For example, features such as instant payment open up entirely new opportunities for innovation and improved customer service, such as instant refunds.

Example #5 Easier compliance

With 1000s upon 1000s of pages of operating regulations to abide by, the acceptance of card-based payments is always complex, and the mandates constantly change. With a simpler model, and no need to accommodate +50 years of legacy requirements, LPMs tend to have a simpler compliance regime.

All of this creates an incredible opportunity for forward-thinking digital merchants, but also a real dilemma. Clearly, with so many LPMs now available, it's not feasible to support them all, nor is it sensible to clutter payment flows with too many payment choices. So, which LPMs should be supported? And how should they be integrated?

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The importance developing of a coherent, evidence-based LPM acceptance strategy

These are thorny considerations. And, as the shift to LPMs gathers pace and scale, the strategic significance of getting it right – or wrong – can be profound. Afterall, to be effective and seamless, each LPM integration can require a considerable investment. Also, of the many hundreds of LPMs becoming available, some are ill-equipped for some types of commerce, some simply double-up on existing alternatives, and some are destined to be passing fads – while others can be real game-changers.

In short, there's a pressing need for digital merchants to develop a coherent, evidence-based LPM acceptance strategy. And the details will be determined by their business specifics across three core dimensions:

<p>Dimension #1 Geography</p>	<p>Which countries do you operate in or intend to enter? As the term Local Payment Methods implies, this is a key consideration. But it's not nearly as simplistic as selecting the biggest or best-known LPMs in each geography, because the market leaders won't be relevant for every type of merchant. Also, in many countries the scene is changing rapidly, especially if loyalty and reward programs have a disproportionate impact on prevailing consumer payment choices.</p>
<p>Dimension #2 Business model</p>	<p>What is it that you sell? Digital goods? Physical goods? Services? Or a mixture? Are you dealing primarily with micro, low-value, sub-\$50 payments, or higher values? Are they typically one-off, regular, or recurring? How about your refund and return requirements? And your experience with payment disputes? Factors like these probably have the biggest bearing on the type LPMs you select – and the ones you forsake.</p>
<p>Dimension #3 Customer characteristics</p>	<p>This is where things can get tricky, because different LPMs can have very different user bases and customer demographics. And it's not just about age groups. It's also about whether customers are banked or unbanked, their level of financial literacy, their risk tolerance, whether they operate primarily in the grey economy, the other payment methods they can access, and so on.</p>

As an example, consider the situation in Japan. A digital merchant aiming to establish operations in the country will be confronted by more than 60 payment methods spanning 12 broad categories. Which ones are the best fit for its business, its target customers, and its growth plans today? And will the picture remain the same a year or two into the future?

Online Payment Methods in Japan

Credit Card



Carrier Billing (DCB)



Cross Border



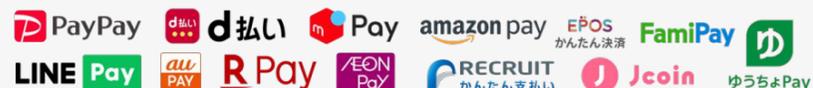
Prepaid



Convenience Store



Online e-Wallet



Online Banking/Bank Transfer



Buy-Now Pay-Later



e-Money (FeliCa)



OS



A2A/RTP



Other Services (COD etc)



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What you should expect from your payment service providers

From the Boku perspective, this environment puts an onus on payment service providers to change the nature of the service they deliver. As well as providing elegant connections and effective processing solutions, it's also changing the nature of the business relationships – working more collaboratively and consultatively with digital merchants.

The fact is, for many digital merchants, the move into LPMs is uncharted territory. There's also very little data in the public domain, and very few old-school payment consultants have any meaningful experience. By contrast, payment service providers can offer unique insights. They have a direct line-of-sight to the performance and impact of LPMs. They see the respective payment flows across each of their customer segments. They also have the inherent capability to benchmark the performance in areas like fraud and refunds. As the shift to LPMs gathers pace, it's their responsibility to share those insights – and the responsibility of digital merchants to demand them.

For more information about the local payments opportunity, visit www.boku.com. Or to download our 2024 Global Ecommerce Report, visit page <https://www.boku.com/boku-knows/2024-boku-global-ecommerce-report>