



Opinion Paper - Issuer Perspective

Accelerating the shift to ecommerce

How Visa Consulting & Analytics can help
issuers respond to the COVID-19 pandemic

For most businesses, there is not a lot of upside to the COVID-19 crisis.

Across the world, there has been a sudden, stark contraction of GDP. Household spending has been hit at least as hard. In addition, there is uncertainty as to how the crisis will evolve, how long it might last, or what the recovery could look like.

Amid all the upheaval, one of the few bright spots is a surge in ecommerce. In this paper, Visa Consulting & Analytics (VCA) looks at the implications for digital payments, and the way forward-thinking card issuers can respond.

When the COVID-19 pandemic struck and shops closed their doors, the world's consumers turned to the internet. Everyone knows the theory. But, the true extent of the reality isn't always appreciated.

Back in mid-March, for example, before the UK had even entered

lockdown, one of the country's best-known ecommerce retailers was getting anxious. The finance director of the online-only grocer Ocado told investors that the surge was so great it suspected a denial of service attack was underway: "We have had hours in the week when we have had 100 times the normal level of transactions on the website. This is really unprecedented levels of demand."¹

Although the Ocado experience may have been extreme, it was not unusual. Subsequent figures from Visa Inc. have indicated the global extent of the shift. In Latin America for example, 13 million Visa cardholders made ecommerce transactions for the first time ever during the March quarter and, in the US, non-travel digital commerce spending during the month of April rose by 18%². Meanwhile, the payments industry news service PYMNTS.com reported that, in a period of just eight weeks, it had observed "six times more consumers working from home, four times more consumers buying groceries online instead of going into the grocery store, four times more consumers ordering takeout from aggregators or their favorite restaurants, and three times more consumers shopping online for things other than groceries."³

Importantly, many of the incremental transactions are in the everyday spend category, with grocery being the prime example. In parallel, this is feeding an increase in debit card volume, as well as cash substitution, so the implications go deeper and broader than credit cards.



¹ "Ocado expected to impose rationing on more products", The Guardian, 19 March 2020, <https://www.theguardian.com/business/2020/mar/19/ocado-online-shopping-expected-to-impose-rationing-on-more-products>

² "Visa sees 'massive' digital acceleration with millions trying e-commerce for the first time", MarketWatch, 14 May 2020, <https://www.marketwatch.com/story/visa-sees-massive-digital-acceleration-with-millions-trying-e-commerce-for-the-first-time-2020-05-13>

³ "Why Consumers Aren't In A Rush To Reopen The Economy", PYMNTS.com, 4 May 2020, <https://www.pymnts.com/coronavirus/2020/no-rush-to-reenter-physical-world/>

Spotlight on grocery transactions

Visa analysis reveals the extent of the shift – and suggests that habit formation may be the strongest among the newest ecommerce adopters

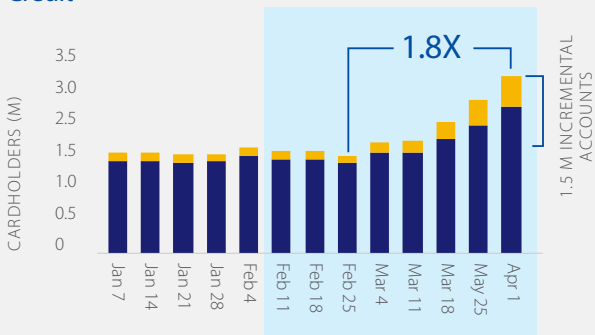
Transaction data from Visa reveals that, from the end of February to the end of March, the number of US credit cardholders conducting ecommerce transactions at grocery stores increased by 1.8 times.

Digital Shift

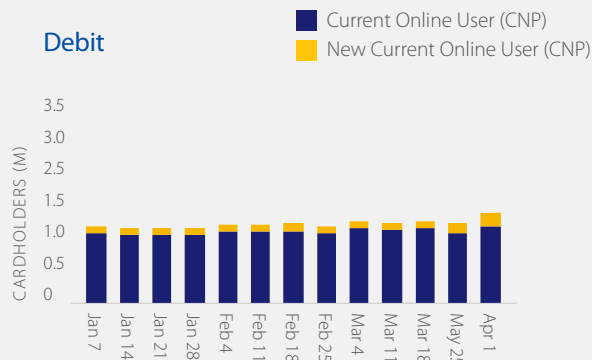
The number of cardholders making card-not-present (CNP) grocery purchases has increased 50%¹

Digital Grocery Orders – First-Time vs. Repeat CNP Buyers

Credit



Debit

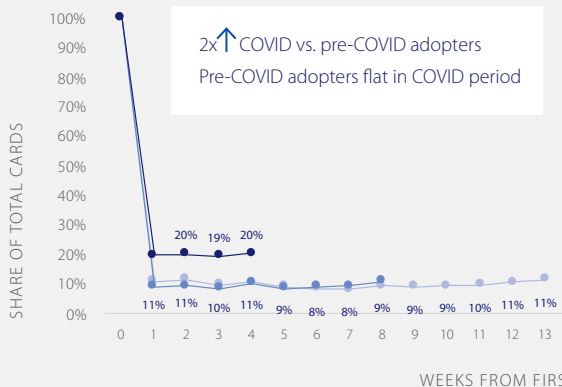


Drilling down to another layer of detail, it emerges that, in terms of their share of grocery spend, the shift is greatest among the newest adopters. Among those cardholders who made their first ecommerce grocery transaction prior to the lockdown, the share of grocery spend reached an average of around 25%¹. However, among those who did not make their first ecommerce until March 2020, the share of grocery spend reached an average of 41%¹.

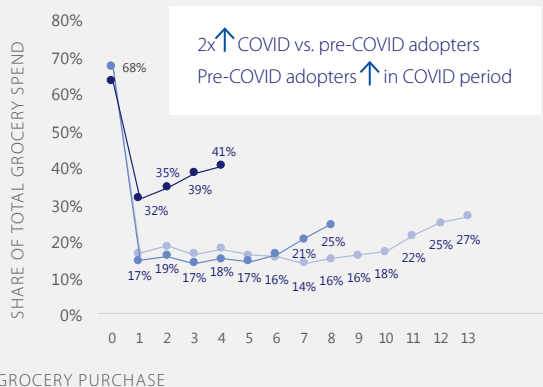
Digital Shift

Habit formation is stronger among digital adopters during the COVID crisis

Share of Cards Active in CNP Grocery



Share of Grocery Spend



Given the profound nature of these shifts, issuers need to focus hard on their ecommerce offer in order to defend and extend their top of wallet status – and secure the coveted card-on-file position.

1. VisaNet data, February 2020- March 2020.



What are the implications for payment card issuers?

COVID-19 has affected credit or debit card issuers in many ways. Overall spend levels have tumbled, credit quality has declined, and there has been an increase in attempted fraud as fraudsters seek to take advantage of the confusion, distraction and vulnerability stemming from the crisis.

In an effort to adjust the situation, all issuers have their hands full. However, because ecommerce strategy lies at the fulcrum of the changes, it deserves special attention for issuers that want to:



Capture a larger proportion of spend

With more consumers turning to ecommerce for more of their shopping, there is potential for issuers to capture a larger proportion of everyday spend, and a strong ecommerce offering therefore has the promise to partially offset the broader challenges presented by the pandemic.



Respond to a new competitive dynamic

With ecommerce in the spotlight, those issuers that lack a strong digital offer face a new level of competitive threat, while those issuers that have focused on digital have a new opportunity – in other words, the scene is set for some renewed competition to reach and keep the top-of-wallet position.



Guard against a commensurate increase in fraud risk

While most of the new ecommerce volume will be legitimate, it will most likely be masking an increase in attempted fraud. In pressing ahead, issuers will have to remain attentive to the digital risks as well as the digital opportunities.



How do you respond?

On the following pages, we outline eight imperatives to address each of these considerations – with recommendations on how to drive more ecommerce spend, defend and extend the top-of-wallet position, optimize authorizations and guard against the risks in the digital realm.

It should also be emphasized that, while ecommerce may have captured the headlines, it is just one part of a much broader digital story. In the US, for example, COVID-19 has given contactless a timely boost. In Asia, person-to-person payments (like Visa Direct) have skyrocketed. In addition, with a focus on health and safety likely going forward, there is an even stronger emotional rationale behind mobile wallets, also known as the 'Pays'. It is therefore important for issuers to think wider and deeper than the ecommerce space and to consider how they can best gear-up for a broader digital offering.

The specifics of the response will be determined by the issuer's circumstances, the size and character of its portfolio, and the severity of the crisis in its home markets. Here, we have outlined eight ecommerce essentials for all issuers to think about as we emerge from COVID-19.

Eight ecommerce essentials for payment card issuers

#1

Get a granular understanding of your marketplace – and benchmark everything

Now, more than ever, you need good business intelligence.

The shifts in your own business performance are important. However, you need to see them in the context of the wider marketplace – otherwise, you have nothing to judge yourself against, and no way of knowing whether, in relative terms, your response is good, bad or indifferent.

Where you see shifts in the competitive dynamics, however small, find out what is causing them, and ensure that you are equipped to respond accordingly.

Some persona-driven analysis could be particularly useful. Maybe you could segment your customers based on their past behaviors, and track them over time. For example, do those people with a lot of face-to-face grocery shopping continue that behavior? Does it move online? Or has it become conspicuously absent? – Indicating a shift in top-of-wallet.

Meanwhile, if you can cross-reference your digital banking metrics, with digital payment metrics (such as digital payment adoption, digital payment frequency, and extent of adoption across both digital channels and merchant categories) you have a strong basis to create targeted campaigns that can lead customers through their digital.

#2

Scrutinize every detail of your authorizations log – it's an immediate source of business intelligence, and key to improving your ecommerce performance

Your authorizations log gives you a direct line-of-sight to what is happening in your portfolios – including the shifts in consumer behavior, the way payment volumes are changing, the migration to digital channels, and the experience your customers are receiving.

With the mass migration to digital, you are likely to encounter many types of declines that are characteristic of digital channels, and it is important to put fixes in place. For example, re-check your rules for recurring payments or card-on-file transactions, re-visit your approach to expired card transactions, and check whether your system has a “blanket decline” approach to account verification transactions.

Your approach to authorizations also needs to align with your organization's broader strategic response to the COVID-19 pandemic. It is a direct reflection of your organization's risk appetite, its customer service ethos, and its digital ambitions.

If you have not already done so, you should form an Authorizations Committee with representatives from key teams from across the business, including digital – and ensure that it is empowered to implement the necessary changes.

#3

Think beyond the ecommerce transaction experience

Your ecommerce offer is about much more than the transaction experience.

So, think through all of the touchpoints, dependencies and functionalities – which could include digital wallet sign-up and fulfilment, digital instant issuance, card-on-file handling, any relevant merchant offers and partnerships, the way that you respond to ecommerce fraud, your dispute handling procedures, and more.

Remember, the actual transaction is just one of your ecommerce “moments of truth”. They all contribute to your end-to-end ecommerce offer.

#4

Communicate, communicate, communicate (and, wherever possible, segment your messaging)

Take every opportunity to inform, educate and reassure your customers – especially those who you know to be new to ecommerce.

So, for example, point-out the protections you offer. Advise them on safe shopping practices and remind them of any ecommerce merchant partnerships you run. The more profile you give to ecommerce in your communications, the more likely your customers are to regard you as an ecommerce leader.

Also, think about how you can use spending alerts (if, for example, you have declined a transaction, tell your customer why, and what they can do to resolve the issue next time around).

#5

Keep an eye on your operational efficiencies, and automate where you can

Your teams are going to be working flat-out, dealing with the everyday realities of the pandemic. So, look for ways to lighten the load. Force yourself to find new efficiencies, and look for automation opportunities across the entire digital journey.

For many issuers, for example, acquisitions is one area that can eat-up precious resource (indeed some recent studies suggest that the cost of physical acquisition can be 20-to-30 times the cost of digital acquisitions). So, any small steps you can take towards digitalization, such as eliminating any remaining paper-based application forms, can bring big savings.

Also, be prepared to redirect parts of your organization. At times like this, people need to adopt new roles, for example, in-branch sales teams could be moved into the call center or cross-trained to support email and chat enquiries. Similarly, people from the analytics teams could be directed towards ecommerce-related risk and fraud management. So, look at everything anew, with a view to re-thinking, re-imagining, and re-purposing.

#6

Understand the shifts in public sentiment – and how they can benefit your business

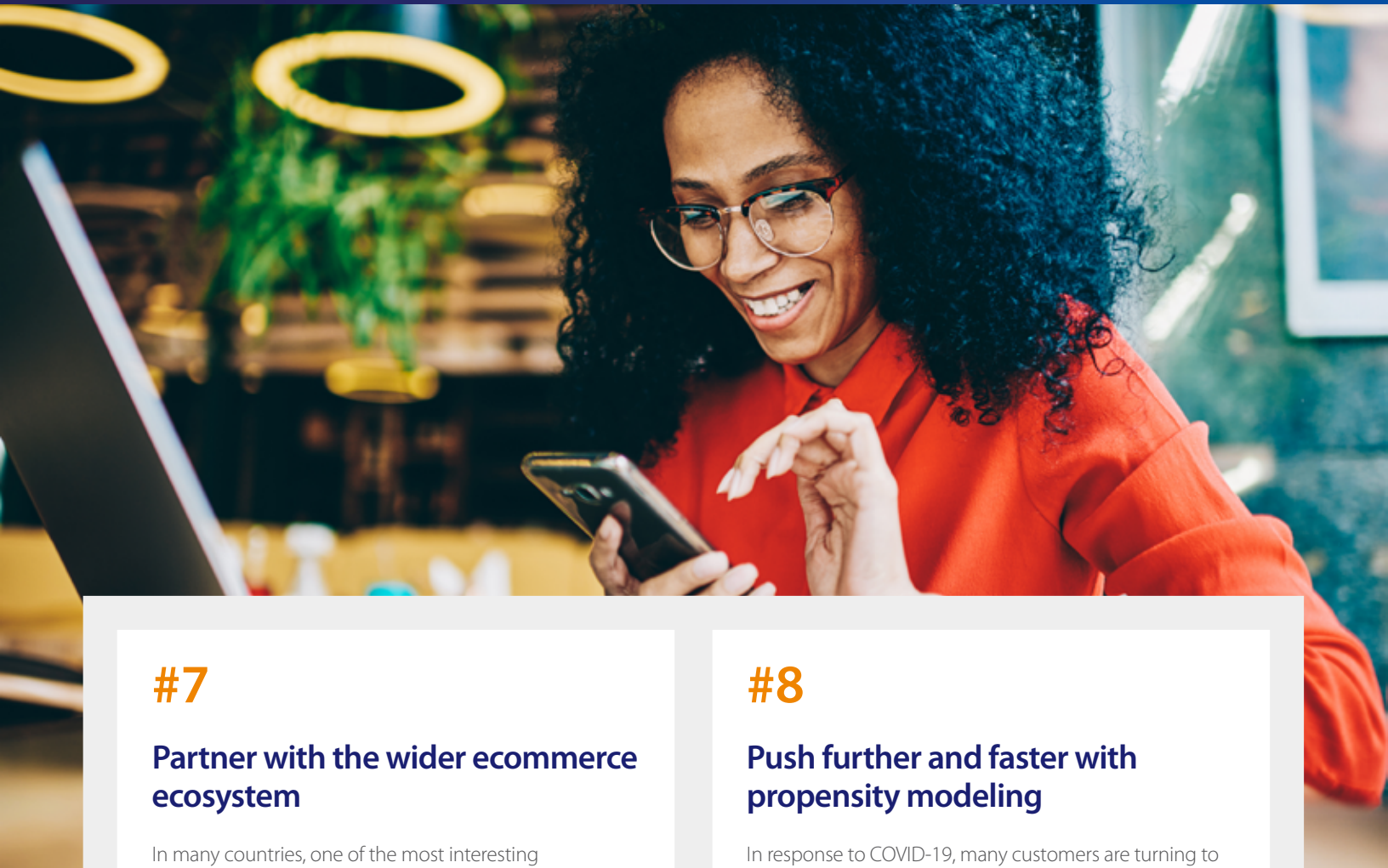
As the crisis recedes, we are likely to see some profound changes in attitude.

For example, consumers are already starting to gravitate towards trusted brands, and imagery of human interaction is declining in online advertisements.

It is therefore important to keep your finger on the pulse of public sentiment. Think about how this may play to your advantage, and be prepared to act fast to make the connection.

For example, is there a preference shift to local or specialty retailers? If so, do they fall within your acceptance network? What partnerships could you forge with them?

Is there a perception that cash is unhygienic? How does this play to your digital offerings?



#7

Partner with the wider ecommerce ecosystem

In many countries, one of the most interesting developments has been the agile response of small and local businesses – with neighborhood retailers expanding into home delivery, restaurants and bars introducing a carry-out service, and a variety of instructors (like Yoga, fitness, and so on) migrating online.

One thing that has made this diversification possible is the innate flexibility of today's payment acceptance infrastructure.

If you have a merchant acquiring business, ensure that it is enabling these changes. If you have a small business banking solution, make these customers aware of what is on offer. Work with other payment service providers and vendors to develop the market. And ensure that ecommerce and digital get a high profile in your offers and reward programs.

#8

Push further and faster with propensity modeling

In response to COVID-19, many customers are turning to ecommerce for the first time. It has forced them to take the first few footsteps on their digital payments journey and that gives you the opportunity to coax them further.

A great way to do this is through propensity modelling. With smart analytics, you can identify those customers who are most likely to diversify their digital spending – and make more transactions across more merchant categories, and/or across more digital channels.

This enables you to run highly relevant campaigns which, in turn, provides a better return for your digital marketing dollar. When you persuade a customer to use their card in more situations, it tends to have a multiplier effect. Often, their overall usage increases dramatically, as they become more engaged with their card.

While the COVID-19 crisis has affected businesses everywhere and in every sector, one bright spot coming out of this pandemic is how it has fast-tracked the migration to digital payments and, for issuers, the digital-first roadmap needs to accelerate in step.

At VCA, we can support your response to the COVID-19 pandemic. To have a more in-depth discussion on this topic, please contact your Visa account representative.

About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics and machine learning with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.



For help addressing any of the ideas or imperatives above, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to VCA@Visa.com. You can also visit us at [Visa.com/VCA](https://www.Visa.com/VCA).

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