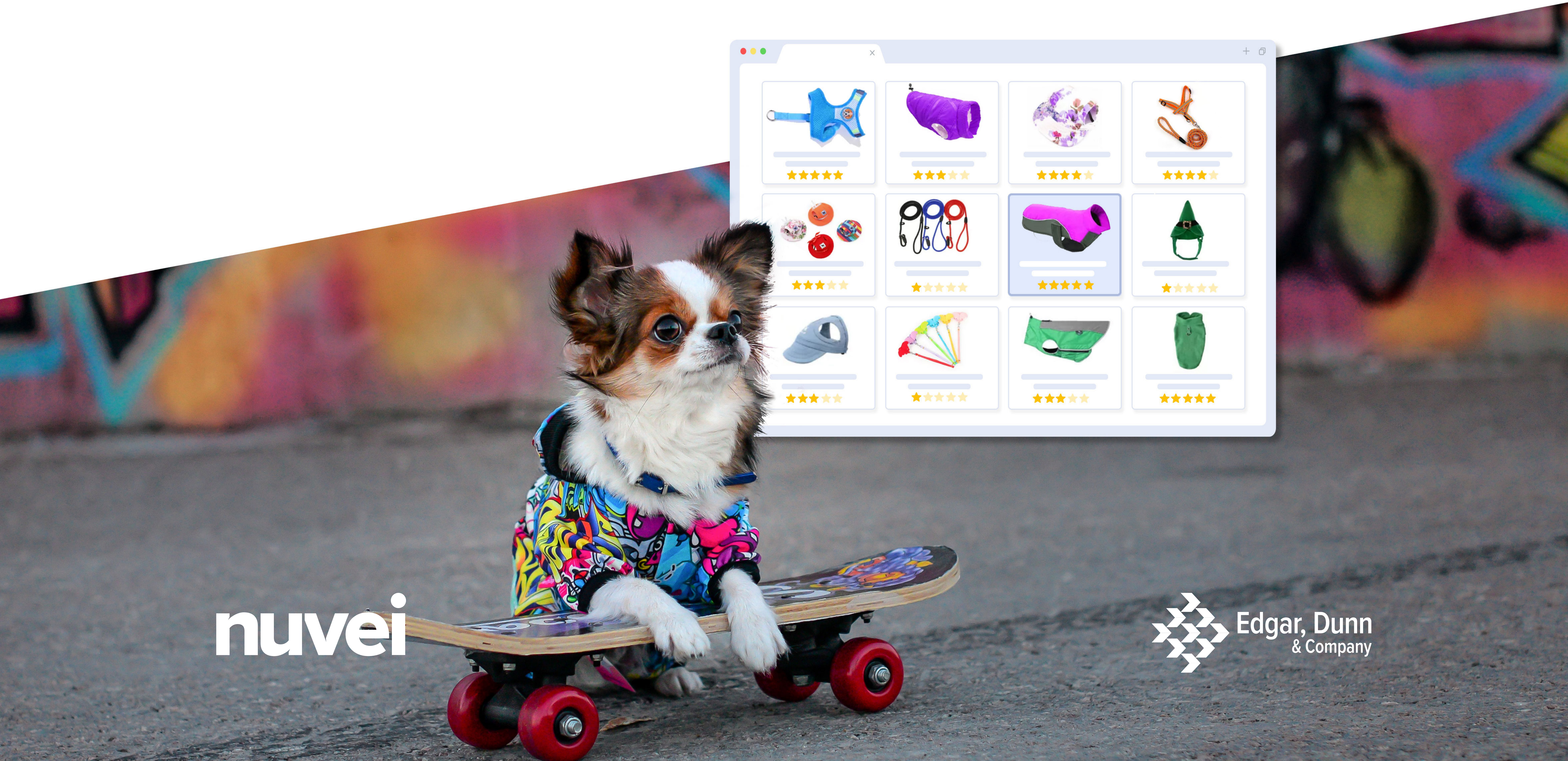
The Evolving Needs of Today's Marketplace

Leveraging payment technology as a growth catalyst



nuvei

Edgar, Dunn & Company

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INTRODUCTION

In 2019, marketplaces accounted for 57% of eCommerce retail sales[1]. COVID-19 has profoundly accelerated the growth of eCommerce in general, and traditional retailers have been obliged to follow suit and open their own marketplaces. As a result, leading marketplace players are broadening their offering with new products and services and are placing the digital purchase experience at the forefront. B2B marketplaces are also becoming increasingly important, and with this growth comes new challenges. Besides the regulatory challenges (e.g. PSD2 in Europe), marketplaces must also focus on optimizing their payment technology, so that they can offer fast and simple pay-ins and pay-outs, and accept a wide range of sellers, while creating a seamless payment experience.

In this context, Nuvei has decided to revisit a study conducted in 2017 with Edgar, Dunn & Company to discuss:

- **The current state of the marketplace ecosystem: how COVID-19 has accelerated the growth of online sales and impacted customers' needs and behavior, creating new opportunities for marketplaces (e.g. emerging models with niche marketplaces, B2B sector specific marketplaces, offline marketplaces).**
- **Challenges specific to marketplaces:** resulting from the fast growth of the eCommerce market and evolving customer behavior, regulatory constraints (international and local), onboarding and KYC processes, pay-in and pay-out optimization, and financial reconciliation.

Seven best practices for marketplace payment strategies that optimize profitability:

1. Create frictionless onboarding, efficient and automated KYC/KYB
2. Optimize checkout (pay-in) to increase conversion
3. Provide efficient flow management and financial reconciliation
4. Deliver fast and convenient pay-outs
5. Simplify and externalize compliance with international and local regulations
6. Perform proactive fraud management
7. Ensure efficient internal processes

[1]source: digitalcommerce

"A huge boom in eCommerce sales and the evolution in customer behavior, following the COVID-19 crisis, have created immense opportunities for marketplaces. These online sales platforms are the future of eCommerce, in both B2C and B2B markets. Optimizing the customer journey through frictionless payment experiences will be more important than ever in order to remain relevant in this competitive environment".

Yuval Ziv
Managing Director Digital Payments at Nuvei

"Marketplaces are a complex ecosystem involving different stakeholders: buyers, sellers and different external providers. In this context, managing efficient payment processes with a frictionless checkout experience for customers is key. Just as important is the efficient on-boarding process and pay-out for sellers, and this can be a strong source of separation. We hope this white paper will help marketplaces identify and leverage relevant best practices in payments".

Greg Toussaint
Director at Edgar, Dunn & Company

Marketplaces - the new norm for online sales

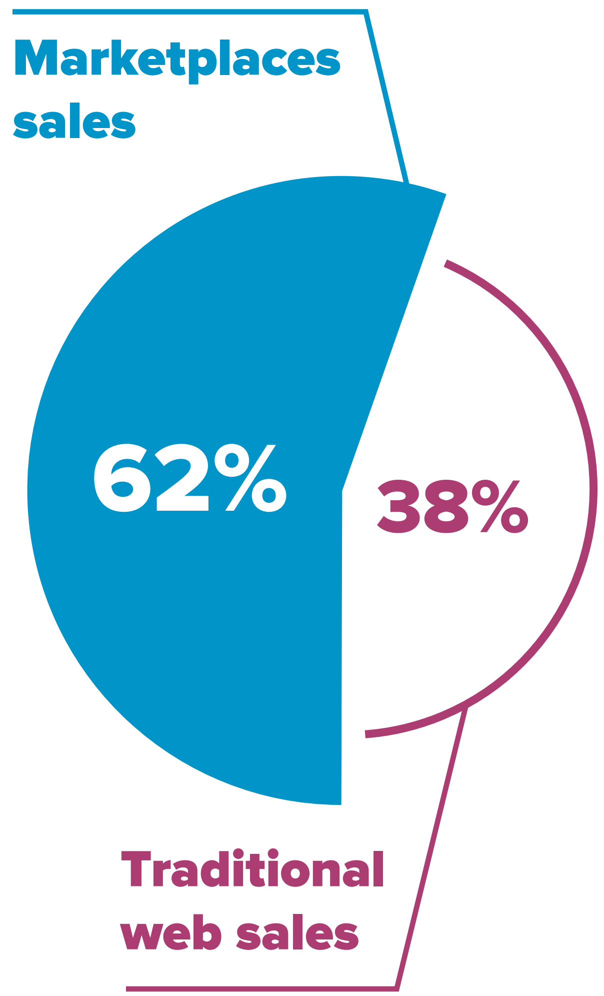
PART 1

Effects of COVID-19

As a result of the lockdowns and restrictions caused by the pandemic, growth of online sales has accelerated, which has created unique opportunities for marketplaces. Retail eCommerce sales (defined as B2C eCommerce sales) were worth $4 trillion in 2019, and are today forecasted to reach $7 trillion by 2023.[2] Within retail eCommerce sales, marketplaces now have a leading position over traditional direct web sales, accounting for 62% of global retail sales in 2020.[3] Compared to the 2017 forecasts included in Nuvei's and Edgar, Dunn & Company's previous white paper, this is a significant increase. Previous estimates expected marketplaces to account for only 40% of global retail sales in 2019.[4] Consequently, marketplaces have unexpectedly dominated eCommerce.

Retail e-commerce sales worldwide (in trillion US dollars)

Figure 1 – Retail e-commerce sales worldwide (Statista 2019)



Global web sales in 2020

Figure 2 – Global web sales (Digital Commerce 360, 2020)

[2] https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/
[3] https://www.digitalcommerce360.com/article/infographic-top-online-marketplaces/
[4] In 2017, previous study estimated Retail e-commerce sales worldwide $4tn by 2020 and marketplaces share of online sales to reach 40% by 2020

A recent study from Mirakl indicates that marketplace growth outperformed eCommerce growth in 2020 by 81% year over year.[5]

Figure 3 – Marketplace vs e-commerce growth (Mirakl, 2021)

[5] https://f.hubspotusercontent20.net/hubfs/1749772/enterprise-marketplace-index-customer%20(1).pdf

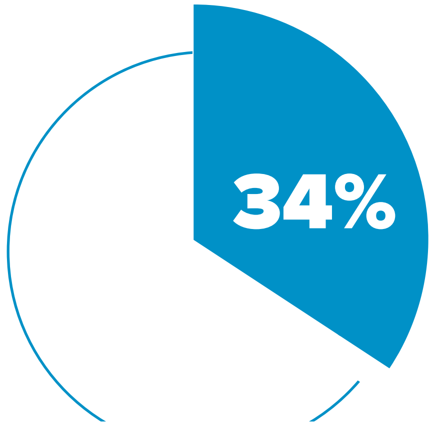
Evolving customer behavior and needs

COVID-19 has had a significant impact on the way consumers shop:

- **E-commerce:** the impact of the pandemic over the past year has resulted in a surge of screen usage throughout the customer journey. Although selected consumer segments have already been doing so for a while, prioritizing the couch over the crowds is a new behavior of the many consumers who adopted online shopping as a social distancing measure. In Q4, marketplaces experienced a 34% traffic increase YOY on their sites.[6] Behavioral conditioning over the past year may mean that these consumers today no longer consider purchasing certain items offline.

- **Panic purchases:** pandemics create panic, justified or not, which is portrayed in consumer behavior. Purchase decisions can be influenced by fear. Many consumers have chosen online shopping out of fear of leaving the house due to sanitary concerns, and have also stocked piled necessity products out of fear of lack of availability. Mass purchasing has resulted in physical stores running out of supplies, which amplifies further consumers' sense of urgency to purchase online. Marketplaces have benefited from this behavior, not only because they offer a virtual shopping experience, but also because of their extensive and diversified product offerings via a wide range of sellers.

- **Loyalty:** marketplaces have fulfilled consumers needs during the pandemic, by offering a wider range of products and ensuring their availability. As a result, marketplaces are likely to be rewarded with customer loyalty.



In Q4, marketplaces experienced a 34% traffic increase YOY on their sites[7]

- **Ecosystem:** marketplaces have undergone a significant change, they are no longer catalogue centric (acting as pure intermediary between sellers and buyers) but instead seek to create an entire ecosystem (e.g. large product choice additional services, partnerships with brands, etc.) for their customer base. Customers are able to use a single platform to complete all their purchases, facilitating the purchase process with a one-stop-shop.[8] In this context, marketplaces are virtually recreating mall experiences.

> **"COVID-19 and related lockdowns pushed customers online, we experienced a significant growth of eCommerce volumes. In Italy in 2020, eCommerce overall gained 1.3 million new customers within only a few months!"**

Mauro Stangalini
IT Project Manager at laFeltrinelli IBS

[6] Enterprise Marketplace Index by MIRAKL
[7] Enterprise Marketplace Index by MIRAKL
[8] https://www.strategydriven.com/2020/01/24/online-marketplace-new-challenges-to-overcome/

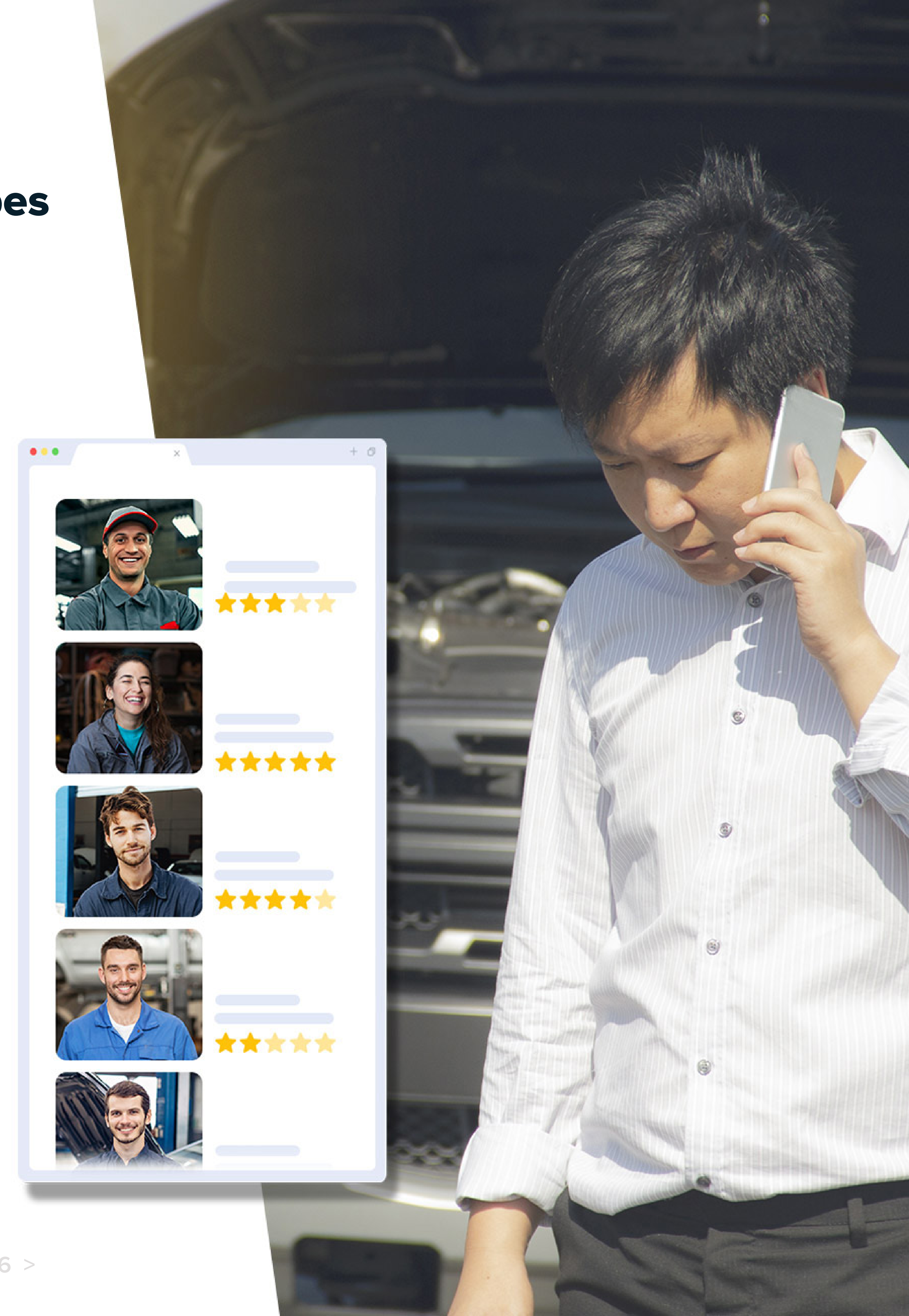
Business models and different types of marketplaces

Online merchants have had to react in a timely manner to meet the new needs and expectations of their customers. In doing so, 36% of retailers modified their marketplace strategy.[9] Changes included a greater focus on socially distanced service components, such as click & collect, as well as diversification of their product offering.[10] Although the impact of COVID-19 may be vertical specific (e.g. travel and leisure were obviously more negatively impacted than other verticals), merchants across verticals have been challenged with the task of re-thinking their services in order to promote safe and secure customer and payment experiences.

From the perspective of online marketplaces, there are current or expected platform changes that will shape the industry:

- New verticals launching marketplace platforms (e.g. closing of real estate leasing deals via online platforms using VR/AR, etc.).
- Innovative technology facilitating new services (e.g. delivery services, data insights, etc.).
- Community – the pandemic has emphasized the importance of community among customers. Marketplaces have a prime positioning to facilitate the functioning of communities.

There are a variety of online marketplace models that share a key benefit: they allow retailers to enhance their reach and grow at a faster pace, whether that be in terms of customer exposure or product selection.



[9] https://www.digitalcommerce360.com/product/online-marketplaces-report/?utm_source=Web&utm_campaign=2020-Article&cmp=1&utm_medium=Article
[10] https://besedo.com/resources/blog/opportunities-and-challenges-for-online-marketplaces-post-corona/

Historical models

Our previous study identified the 4 most common marketplace models:

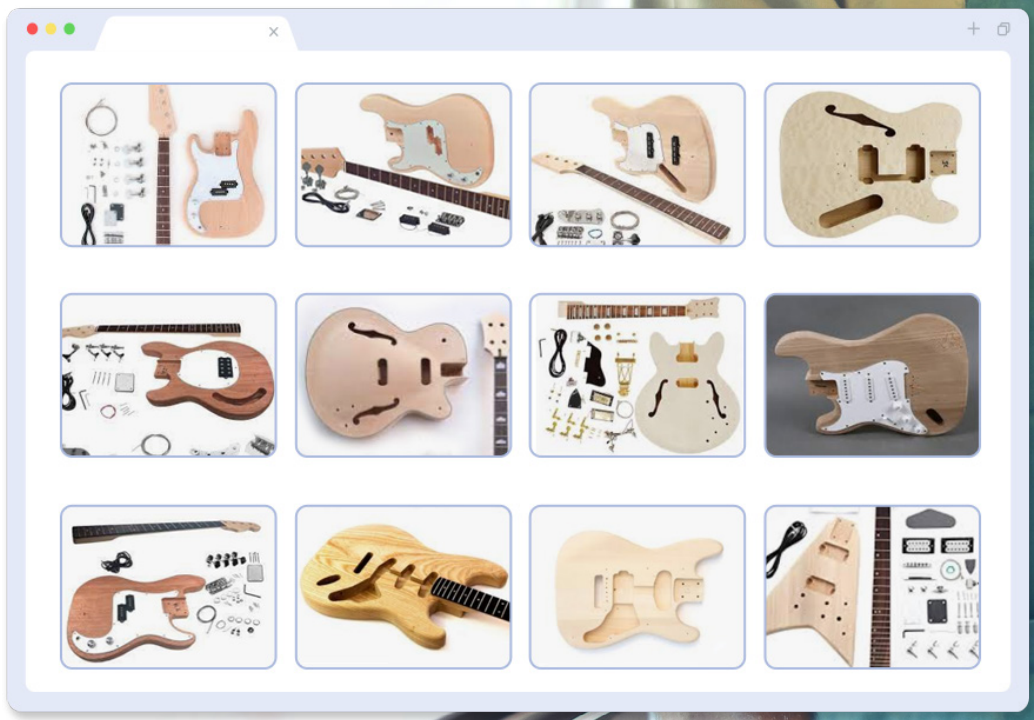
Pure Players: do not own inventory and are simply used to connect sellers and buyers.

Generalist pure players (e.g. Amazon, eBay) offer a vast range of goods spanning across many categories, and in some cases, like that of Amazon, they may internalize some of the inventory. Vertical pure players offer specialized marketplace services in specific sectors such as ArtPlace in the arts space, Evaneos in the travel industry, G2A in the software/gaming space and Houzz in the home design and decoration industry.

Click & Mortar: traditional retailers launching their own online marketplaces to reach a wider audience and avoid disintermediation (e.g. Auchan, Decathlon, Tesco, Walmart). This is a developing trend as a result of COVID-19 impacts and growth in general online marketplace sales, leading to many large retailers choosing to introduce their own marketplace[11] and complement their existing offerings.

Collaborative/Sharing Economy: marketplaces supporting the shared economy via online community driven platforms (e.g. Airbnb, Blablacar, Fiverr, Deliveroo). These platforms can also be identified as on-demand marketplaces.

B2B Goods and Services: pure players' platforms connecting manufacturers, suppliers and distributors to businesses looking for raw materials as well as finished products or services (e.g. Alibaba, Supplyon, Capterra).



[11]https://www.digitalcommerce360.com/article/infographic-top-online-marketplaces/#:~:text=The%20 top%20online%20marketplaces%20in,to%20Digital%20Commerce%20360's%20analysis

Emerging models

In addition to the historical models identified in our previous study, new models are emerging:

Niche Players: offer a narrow range of products such as apparel or electronics (e.g. FarFetch, Vestiaire Collective).[12] Niche marketplaces allow smaller platforms to enter the market, without having to compete with global established players. Their value proposition prioritizes specific segments and personalization, to build consumer trust and loyalty.[13]

"Smart" marketplaces: innovative platforms with advanced technology integrations that involve enhanced understandings of their usership. For instance, key insights used by these marketplaces (such as Uber Pool[14]) are based on data from payment providers.[15]

Offline marketplaces: replicate the online marketplace model in physical stores. For example, large supermarkets can optimize profitability by inviting other merchants to have a physical space in their store, creating an offline marketplace. This has been implemented by Auchan supermarkets in France who have allocated space for Decathlon in their stores. This setup could be an opportunity for marketplace payment flows to occur in a non-virtual setting.

B2B sector specific: B2B marketplaces are emerging and fast developing. One key driver is the need to simplify supply management via digitalization of the purchasing/sales process. B2B websites have begun simplifying the supply chain by creating a marketplace with their own suppliers to present a broader product offering to their clients. Key industries moving to digital marketplaces include automotive, chemicals and metallurgy sectors. For instance, Station One was launched by Alstom and focuses on Railway related products.

Physical stores are trying to optimize the space within their walls to meet consumer needs and generate additional visits. We see an increasing number of 'corner stores' being located within larger physical stores to address this need. Today, these corner stores remain in control of their payment processes (e.g. using mobile POS), but in the near future we could see new offline marketplace payment models emerging

Anaïs Becquart
Project Leader in Payments at Auchan Retail

Auchan RETAIL

[12] https://www.webinterpret.com/us/blog/ecommerce-trends-2020-marketplaces/
[13] https://techcrunch.com/2018/10/23/smart-marketplaces-the-next-of-marketplace-generation-is-intelligent/?guccounter=1
[14] https://medium.com/@paybase/how-payments-have-transformed-online-marketplaces-4ce2e0d3467f
[15] Interview with a marketplace

Key payment challenges for marketplaces

PART 2

A complex ecosystem

A complex ecosystem supports marketplaces. Several stakeholders are involved in the value chain including buyers, sellers, platforms, payment providers and third-party providers (e.g. tax calculation). Payments and related processes are key factors in efficiently managing marketplaces.

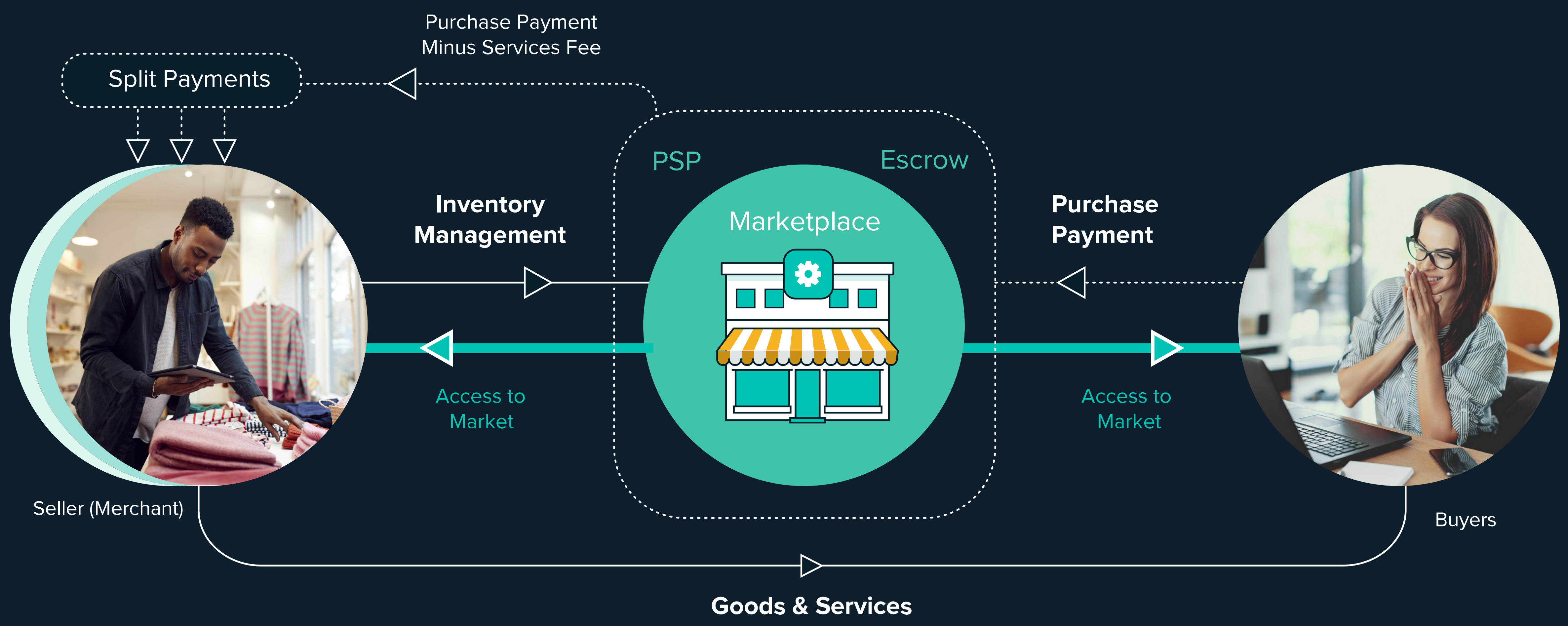
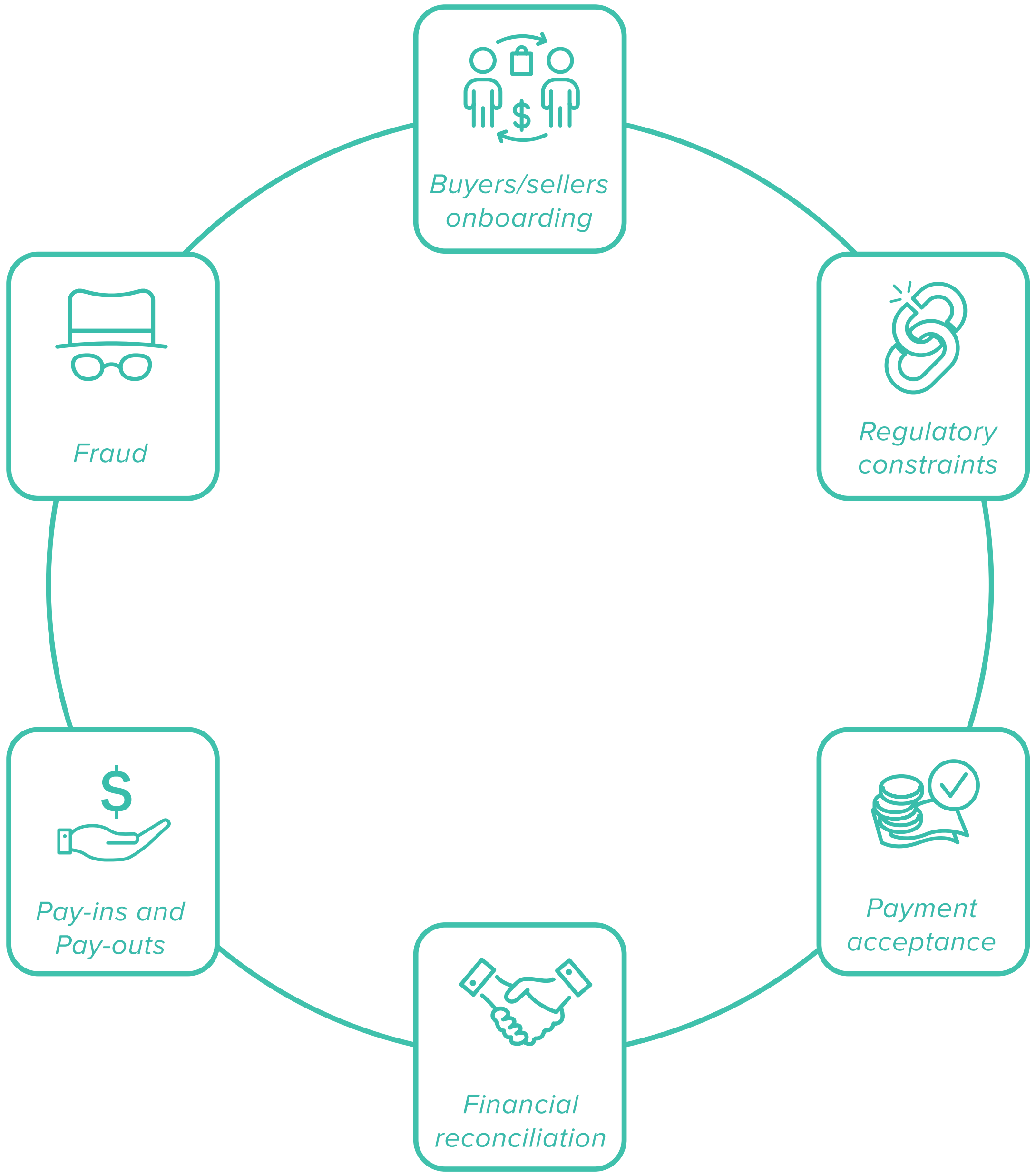


Figure 4 - Marketplace ecosystem

Effects of complex ecosystem

This complex ecosystem creates several key challenges related to:



Buyers/sellers onboarding

Onboarding is one of the main challenges highlighted by marketplaces. Onboarding is often a highly manual and time-consuming process that includes multiple areas of potential friction. It needs to be compliant with the latest customer due diligence (CDD) regulations (i.e. KYB 'Know Your Business' and KYC 'Know Your Customer'). This can be even more complex with international sellers, as some marketplaces have expressed difficulty onboarding them (e.g. Canadian sellers for a US based marketplace).

In addition, depending on the marketplace's relationship with sellers, the risk related to payment transactions can lie either with the marketplace or their Payment Service Provider (PSP).

In this context, marketplaces must choose their sellers carefully as marketplace users tend to consider the marketplace brand rather than the brand of the seller. Consequently, if sellers do not deliver a positive customer experience, the marketplace's brand image may suffer.

Payment acceptance

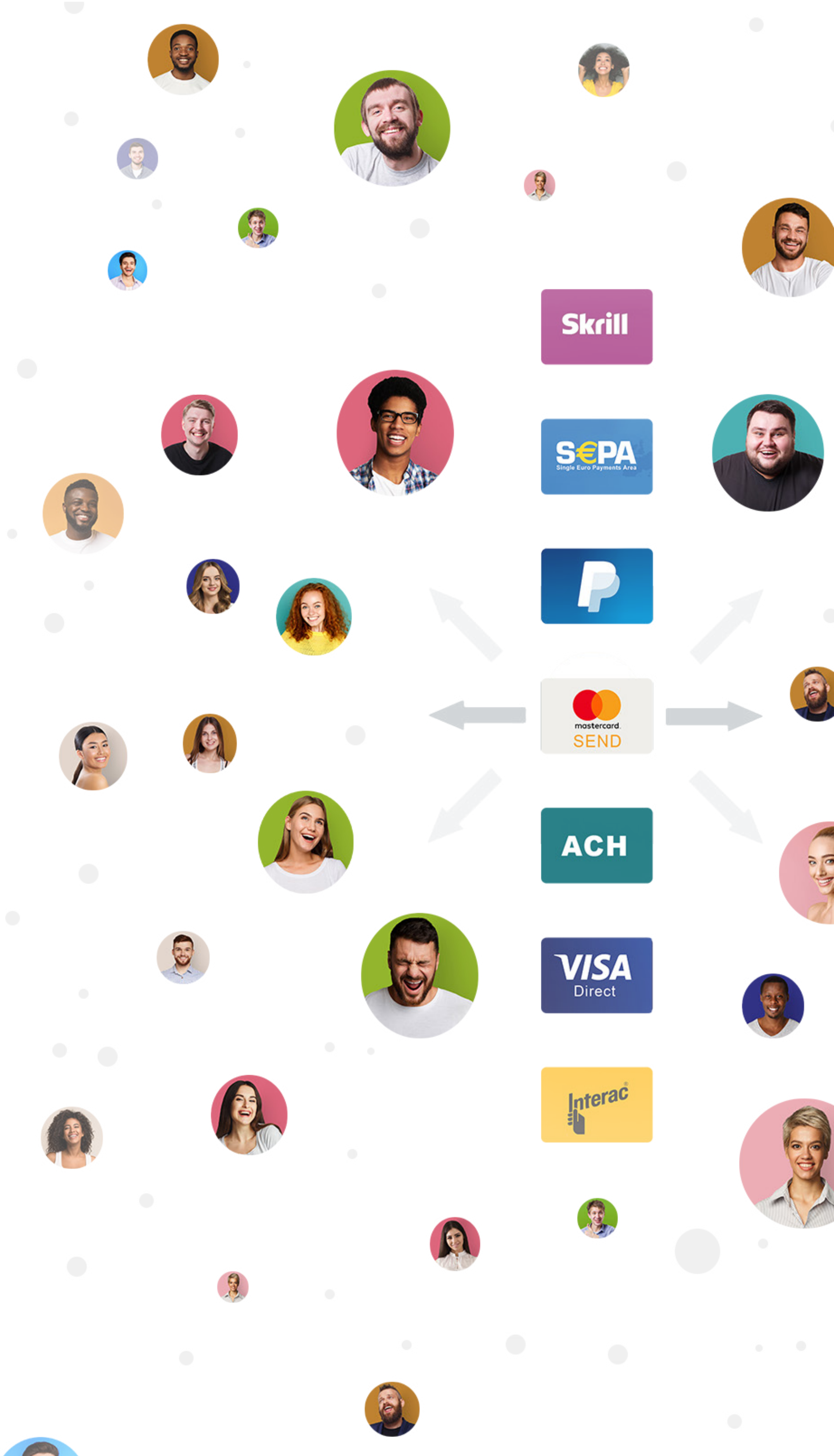
It is important for marketplaces to offer local payment methods tailored to customer needs and preferences (e.g. Sofort in Germany, iDeal in the Netherlands, PayPal in many markets). Customers also expect their payment experience to be frictionless, secure and efficient.

Marketplaces also need to offer emerging payment methods such as Buy Now / Pay Later or installments, which can significantly increase conversion rate. An interview with a marketplace revealed that the conversion rate could vary by 30 points between providers of alternative payment methods. It is important for marketplaces to select relevant providers depending on target segments, geographies and use cases.

Pay-ins and Pay-outs

Pay-ins and Pay-outs generate different types of complications for marketplaces:

- Managing transactions can be challenging if the pay-in and pay-out providers are different. This creates complexity for the marketplace in terms of reporting and reconciliation.
- Certain marketplaces, often coming from the brick-and-mortar world, prefer their historic acquirers to handle pay-ins in order to maintain existing relationships and processes, and a low level of payment acceptance fees. However, they sometimes face difficulty finding payment gateways that are acquirer agnostic. Payment providers with a dedicated offer focused on marketplaces will often provide a packaged offer (including acceptance and acquiring) which is not needed by all marketplaces.
- Currency management can be a struggle for marketplaces covering several geographies with international buyers/sellers. Indeed, some local currencies may not be offered, and cross-border transactions can involve regulatory constraints depending on markets.
- Tax is another issue faced by marketplaces. When operating in the US, marketplaces need to process different tax brackets between states. Tax disruptions are also expected as a result of Brexit with British buyers/sellers operating in Europe.
- The pay-out process is vital to keep sellers engaged and loyal to the platform. Key challenges include frequency, delay and cost.

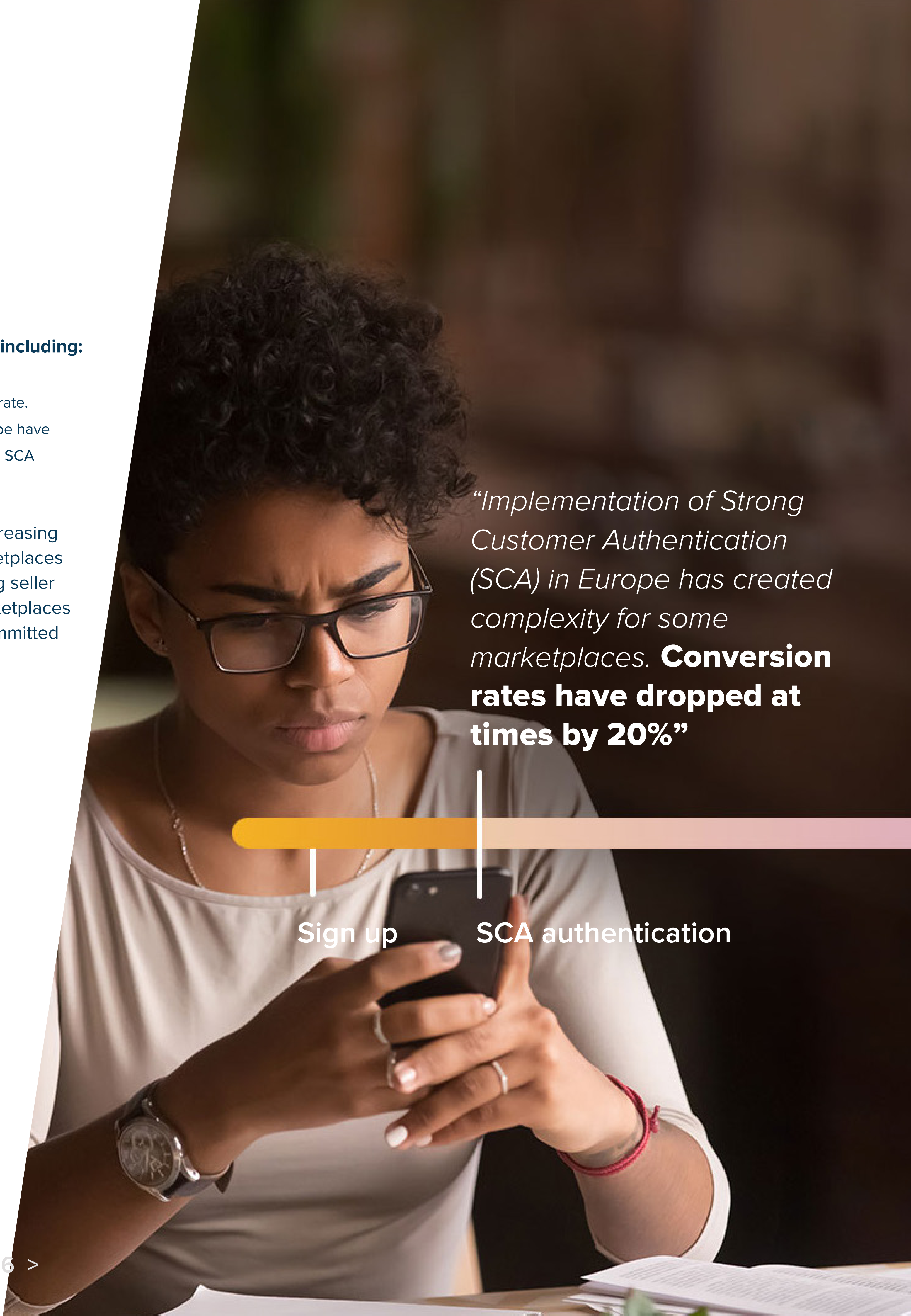


Regulatory constraints

In Europe, marketplaces are facing several challenges from a regulatory standpoint including:

- The 2nd Payment Service Directive (PSD2) in Europe imposes the regulatory requirement for intermediaries handling funds between a seller and a buyer to obtain a payment institution license. Marketplaces need to decide whether to meet the regulatory requirement themselves or to outsource the responsibility to their PSP and become an agent of the payment provider.
- A European regulation review of VAT payments for purchases made via marketplaces has led to the online platforms being allocated more responsibilities. However, the overall level of marketplace responsibility will not equate to that of a seller to avoid ambiguity for consumers and prevent increased commission rates that would make using intermediaries no longer be relevant for sellers.[16]
- Implementation of Strong Customer Authentication (SCA) in Europe has created complexity for some marketplaces. Conversion rates have dropped at times by 20%.[17] This varies across marketplaces depending on their usage of 3DS, but also between the geographies in which they operate. The payment stakeholders in Europe have yet to efficiently implement smooth SCA process.

In North America, there is increasing regulatory pressure for marketplaces to be responsible for verifying seller information. This means marketplaces are accountable for fraud committed by sellers.[18]



[16] https://www.ecommercemag.fr/Thematique/retail-1220/Breves/Les-marketplaces-atout-majeur-e-commerce-358710.htm
[17] https://retailleader.com/online-marketplaces-face-more-heat-over-fraud
[18] Interviews with marketplaces

Financial reconciliation

Financial reconciliation happens at different levels: pay-ins, pay-outs and payments of commission. This is particularly important when a single checkout experience involves multiple sellers with a split payment between several parties, creating complexity and room for error.

Many sellers do not have the capability to carry out their reconciliation process in an efficient and effective way, which leads to increased back-office issues. Key challenges include order status, payment cycles, commissions, refunds and settlement of payments.[19]

Additional specific challenges were highlighted by marketplaces and include:

- Mixed baskets (one order including multiple sellers) can create issues of financial reconciliation at the time of delivery as there are multiple payments being made. However, this is dependent on the type of delivery method used, as well as the date of delivery.
- Split payments can involve high costs depending on the payment model; for some marketplaces, a basket with three sellers means fees need to be paid to each seller for each pay-in and each pay-out vs. the entire transaction.

Reconciliation could be compared to a bathtub with several taps and several siphons: the difficulty is to calculate the number of liters in that bathtub at a specific time, and whether each tap and siphon has been working as it should have.

Laurène Lecomte
Head of Risk, Payments and Fraud Backmarket

[19] https://www.evanik.com/understanding-marketplace-reconciliation-for-online-sellers/

Fraud

Marketplaces act as an intermediary between buyers and sellers, and their various interactions unfortunately bring opportunity for different types of fraud. As marketplace platforms have gained traction, they have become increasingly attractive to fraudsters due to the significant increase in online payment volume. It is imperative for marketplaces to dedicate resources to monitor fraud and take proactive prevention measures on an on-going basis.

Different types of fraud are observed in the marketplace ecosystem:

- **Seller fraud and fake identities: involve fake sellers selling non-existent goods. For marketplaces without a dedicated fraud monitoring team, detection can be difficult, which in turn will lead to damaged brand reputation.**
- **Money laundering: collusion between a buyer and a seller to make a purchase using money obtained from criminal activity.**
- **Seller collusion: sellers artificially enhancing their portfolio by purchasing fake reviews. Sellers can also create multiple accounts to artificially improve their customer evaluations.**
- **Device takeover: a growing trend where fraudsters take over devices, as a new form of account takeover, to make purchases.**
- **Credit card theft: fraudsters using stolen payment cards to make purchases and have them specifically shipped offshore or delivered to them personally, which has been facilitated by new contactless delivery methods.[20]**
- **Abusive behavior from customers: coupon abuse or returns abuse.**

[20] https://thepaypers.com/expert-opinion/hidden-frauds-that-translate-into-marketplace-losses--1247053?utm_campaign=20210208-automatic-newsletter&utm_medium=email&utm_source=newsletter&utm_content=&utm_source=newsletter&utm_medium=Email&utm_term=&utm_content=&utm_campaign=

Optimizing Payment Strategy

PART 3

Optimizing Payment Strategy

Payment is a key aspect in marketplaces' strategy to ensure funds are exchanged seamlessly between sellers and buyers. By leveraging best practices, marketplaces can optimize their payment strategy and significantly increase profitability.

Payment related best practices

Edgar, Dunn & Company conducted interviews with marketplaces to identify seven best practices related to payments:

- **Create frictionless onboarding, efficient and automated KYC/KYB**
- **Optimize checkout (pay-in) to increase conversion**
- **Provide efficient payment flow management and financial reconciliation**
- **Deliver fast and convenient pay-outs**
- **Simplify and externalize compliance with international and local regulations**
- **Perform proactive fraud management**
- **Ensure efficient internal processes**

Create frictionless onboarding, efficient and automated KYC/KYB

Discussions with marketplaces highlighted that the onboarding process, including KYC ('Know Your Customer' for a person) and KYB ('Know Your Business' for a legal entity), is a critical success factor.

Providing a clear explanation for all required documentation is important in order to facilitate the ease of the onboarding process for the seller. Marketplaces need to be aware that requirements can differ from one market to another, depending on local regulations.

Automatization of onboarding and KYC/KYB processes is imperative. Marketplaces can rely on platforms and their payment provider to receive and analyze the documentation from sellers and handle the complexity of different regulations. They can rely on tools connected to specific databases (e.g. credit score) to check consistency of documents and use a rule-based engine to define legitimacy of sellers. It is also a best practice to localize the KYC platform (e.g. local language, specific local documentation).

"Seller onboarding is a crucial step for a marketplace. Optimizing the KYC process will work to prevent seller attrition."

Leonardo Costa
Head of ePRICE Marketplace

Several tools are available to optimize the onboarding process. These tools tackle two main challenges related to onboarding:

Cost related to documentation verification:

- An automatized process will support your marketplace as it grows to ensure scalability, reducing costly manual reviews.

Time required for the seller to complete the onboarding process and go live on the platform:

- One approach is to implement a 2-step on-boarding and due diligence process allowing an initial processing of funds with specific limitations (limited amount of sales in a limited timeframe) and enabling settlement only when the customer due diligence has been finalized. In order to minimize risk, this approach must be aligned with the marketplace risk policy and implemented in close discussion with the payment partner. Marketplaces want to avoid a situation where they have to handle a payment that has been initiated with a seller but that will ultimately not complete the due diligence process.

- For example, Nuvei has introduced several features on their KYC platform, reducing significantly the average time required to approve sellers.

When considering B2B marketplaces, onboarding is also a highly important process necessary for both buyers and sellers. It involves providing specific documents that are required by local regulators (e.g. in France it is controlled by the ACPR, the French Prudential Supervision and Resolution Authority that monitors sectors such as banking and insurance). On top of that, due diligence during onboarding can be supported by other verifications types such as Credit Scores (relevant for B2B due to higher value baskets and specific payment terms) and/or VAT checks. As B2B marketplaces become increasingly important, it is highly relevant for marketplaces to automate onboarding processes and create a best-in-class experience for both buyers and sellers.

“KYB process is a critical aspect in the strategy of a marketplace. Automatization and standardization of the KYB process thanks to a relevant partner is key to ensure efficient seller onboarding”

Mauro Stangalini
IT Project Manager at laFeltrinelli IBS

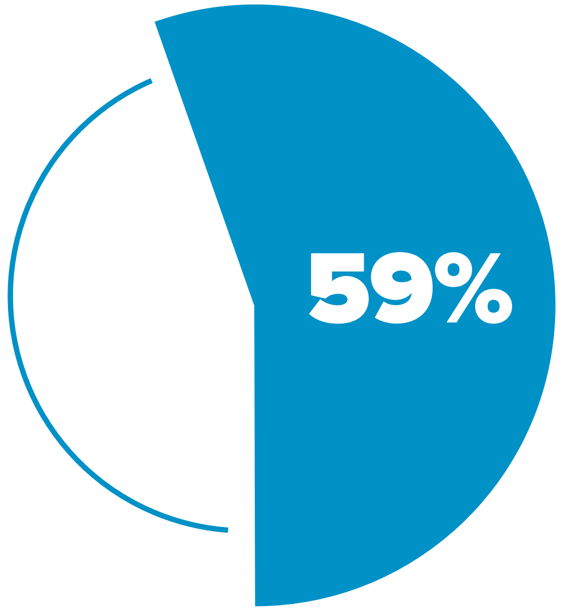
Optimize checkout (pay-in) to increase conversion

Checkout is the final step in the customer journey and ensures the conversion of a potential buyer into an actual buyer. It is also a determining factor of loyalty, with 59% of customers choosing to remain loyal to a marketplace based on payment speed and 13% of sellers switching marketplace platforms due to unsatisfactory payment processes.[21] It is therefore crucial to make this step seamless. Marketplaces strive to replicate the customer experience of traditional eCommerce:

Our objective is to use the same set of payment methods for existing eCommerce channels and our marketplace."

Xavier Fouré
eCommerce Treasury Manager at Decathlon

DECATHLON



59% of customers choose to remain loyal to a marketplace based on payment speed

13% of sellers switch marketplace platforms due to unsatisfactory payment processes

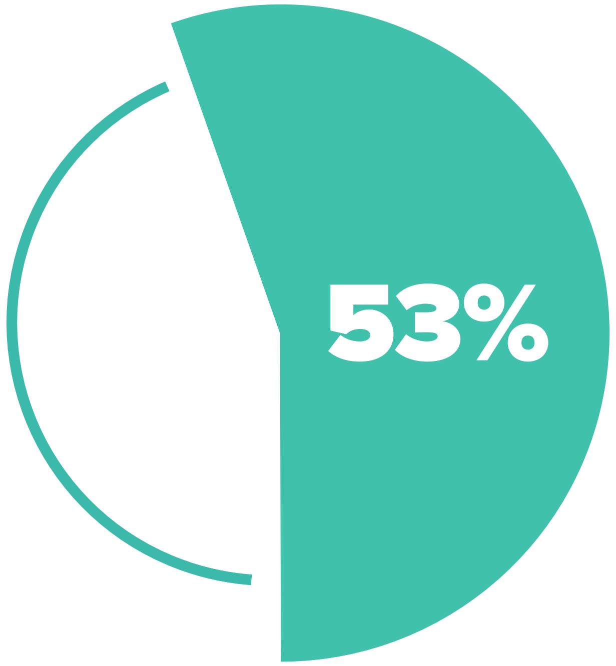
[21] CS-Cart based on https://www.cs-cart.com/marketplace-software/payment-processing-on-ecommerce-marketplace, https://www.braintreepayments.com/learn/braintree-merchants/taskrabbit, https://www.hyperwallet.com/app/uploads/HW_The_State_of_Ecommerce_Marketplace_Selling_in_2017_V1.0.pdf

Interviewed marketplaces insisted on the importance of payment methods offered to buyers. Marketplaces need to provide relevant local payment methods (e.g. iDeal in the Netherlands or Cartes Bancaires in France) as well as alternative payment methods such as wallets and digital/mobile-based solutions that are thriving as a result of COVID-19, such as PayPal and Apple Pay. Installment payments, also referred to as Buy Now Pay Later payments, are also becoming increasingly popular in many countries. Although, 53% of customers globally prefer to pay using a credit card[22], this figure illustrates the importance of accommodating the remaining 47% of customers with alternative methods of payment.

"It is key to understand customer needs and adapt your payment offering at a local level (e.g. in Italy payment on delivery is very popular)."

Leonardo Costa
Head of ePRICE Marketplace, at ePRICE

ePRICE



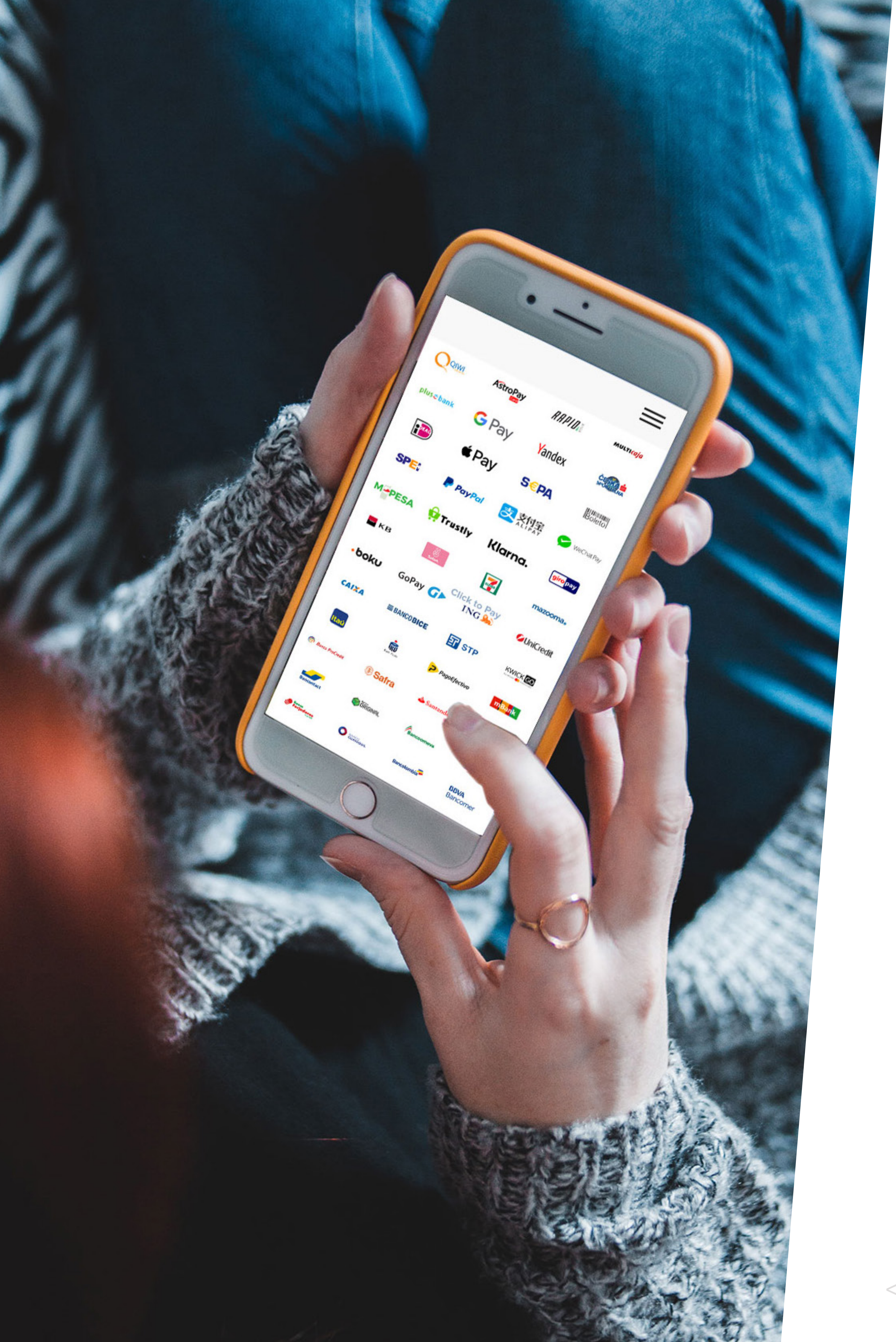
53% of customers globally prefer to pay using a credit card

"The checkout must be the most intuitive, it has to be frictionless. At the end of the day, there are so many alternatives, that if the customer is stumbling upon the payment page, he will just move on to the next party who provides the same or similar product ."

Adina Pop
Digital Payments

nuvei

[22] CS-Cart based on https://www.cs-cart.com/marketplace-software/payment-processing-on-ecommerce-marketplace, https://www.braintreepayments.com/learn/braintree-merchants/taskrabbit, https://www.hyperwallet.com/app/uploads/HW_The_State_of_Ecommerce_Marketplace_Selling_in_2017_V1.0.pdf



When considering B2B marketplaces, specific payment methods must be taken into account. Preferred payment methods differ from B2C, and include direct debit and bank transfer. Payment terms also need to be considered with many purchases paid at day +30 or day +60. Installments (e.g. Buy Now Pay Later) can also be of interest in the B2B space for both buyers and sellers for some segments. Offering financing options is a way for B2B marketplaces to provide value-added services to both buyers and sellers and justify their commission.

At the end of the day, whether it is B2B or B2C, marketplaces must know their customer well enough to identify the most relevant payment methods to offer on their checkout page.

"Payment must be frictionless and support the overall user experience. You need to know your customer and offer relevant payment methods according to their needs."

Mauro Stangalini
IT Project Manager at laFeltrinelli IBS.

Provide efficient payment flow management and financial reconciliation

Managing payments flow at a granular level is also key for marketplaces. It allows them to reconcile their transactions properly and optimize costs of payment acceptance.

In this context, a key best practice shared by marketplaces is to limit the number of providers for pay-in and pay-out (e.g., 1 or 2 providers) in order to reduce complexity related to payment flow and facilitate reconciliation. When considering B2B marketplaces, payment flow management and reconciliation have even a greater degree of complexity. B2B payments require specific processes related to sending and receiving invoices and process flows to approve purchases (e.g. payment triggered upon reception of specific documentation). These aspects require marketplaces to develop specific process flows and an in-depth understanding of buyers’ and sellers’ needs regarding key aspects such as payment terms, management of pay-ins and pay-outs, and financial reconciliation.

Cost of payment acceptance: *marketplaces need to ensure they have visibility of the cost of payment acceptance with detailed and granular reporting systems. Providers such as Nuvei offer tailored reporting, enabling marketplaces to have cost transparency at a transaction level (including fees and commissions). Merchants can optimize reconciliation and have a comprehensive view of their costs.*

Reconciliation: *an end-to-end process from KYC to processing and settlement. Marketplaces should have as much control as possible of the payment flow, with features such as pre-settlement APIs that can withhold a settlement for a number of days.*

Split payment: *different features need to be supported to optimize payment flows for marketplaces. This includes multiple captures for mixed baskets with multiple sellers as well as refund capabilities. Split payments are another essential component of financial reconciliation optimization. This feature enables commissions to be split at the time the order is placed and automatically deducted from the settlement. This simplifies the pay-out process and the reconciliation process for the marketplace, commission calculation and seller pay-outs.*

Currency management: *is also a necessary component of reconciliation optimization. For example, in the case of a cross-border transaction, marketplaces need to support different currencies to pay sellers and perform pay-outs in local currency. It should also address the complexity of invoicing the buyer with a single invoice when a seller makes sales in different currencies. The marketplace should provide one invoice (instead of separate invoice per provider and currency).*

Deliver fast and convenient pay-outs

As for the checkout experience on the buyer side, pay-outs must be fast and convenient for sellers to ensure the correct amount of funds is received in a timely manner. It is indeed key to keeping sellers on the platform.

Marketplaces need to identify the most appropriate pay-out payment methods according to the needs of their sellers (e.g. bank transfer, wallets, cards and alternative forms of payments). These will vary depending on geography (e.g. SEPA payment instruments in Europe) and different use cases (e.g. B2B vs B2C).

While it is primarily used on the buyers' side, representment is also an option on the sellers' side. Offering an alternative payment method in case of issues with the initial payment method facilitates pay-outs and smoother flow of funds between marketplaces and sellers.

As mentioned earlier, B2B processes are much more complex than those of B2C. They involve additional processes (e.g. invoicing, collection of payment on due date that needs to be taken into account). B2B marketplaces are still maturing compared to B2C marketplaces, but they are experiencing strong demand and growth. These marketplaces are a key part of the digitalization of B2B trade and B2B payments, especially to facilitate supply chain payments.

"B2B marketplaces are a new sales channel for manufacturers and distributors. They are meant to facilitate supply chain management, but there is a real challenge around customer experience while matching B2C UX codes. There is a change of paradigm as sellers become the marketplace suppliers, while buyers on the B2B marketplace are the operator's existing clients. Being a trusted deal broker in the B2B digital world is not enough to avoid disintermediation. B2B Marketplace operators need indeed to provide value-added services on their platform (e.g. Order to Cash services, vendor onboarding, financing, invoicing, reconciliation, dunning, collection), that are essential to B2B commerce"

Webhelp

Julien Duméry
International Development Director at Webhelp

Whether B2B or B2C, it is key to ensure that the payment provider can handle the different pay-out use cases and facilitate flow of funds between marketplaces and sellers.

“The goal for marketplaces is to replicate the frictionless shopping experience of eCommerce, taking into account the operator, the customers, but also the marketplace sellers”

Antoine Deroche
Head of Solution EMEA, at Mirakl

MIRAKL

Simplify and externalize compliance with international and local regulations

In Europe, PSD2 imposes a challenge for marketplaces. They must have the required regulatory status to receive and store funds, so marketplaces either need to acquire a payment license or act as an agent of their payment provider. Externalizing the payment complexity to a licensed third-party provider is often the preferred option for marketplaces in order to reduce the regulatory burden and related processes, such as regulatory reporting. The payment partner will enable the platform to accept payments from customers, manage funds via escrow accounts and transfer the funds to the sellers, reducing the operational complexity for marketplace operators.

PSD2 also imposes the additional regulatory requirement of SCA (Strong Customer Authentication), which applies in EEA countries and the UK, with the objective of reducing payment fraud. All transactions - unless an exception applies – are required to be SCA compliant and authenticated. The specific enforcement date varies across Europe depending on local regulators and the implementation schedule of SCA. Marketplaces must discuss with their payment partners and put in place a strategy to optimize the use of SCA and minimize potential negative impacts (e.g. use of 3DS v2.0 and above, leveraging exemptions and risk-based analysis).

Another aspect highlighted by interviewed marketplaces was the management of different taxes when working across geographies (e.g. European marketplaces operating in the United States where taxes vary per state). In this context, marketplaces may decide to be supported by specific partners to handle the complexity of taxes for pay-outs, with providers such as Avalara or Vertex Inc. Tax compliance is another process that can be externalized to a third-party provider that specializes in tax calculation and compliance with local regulators.

Marketplaces also need to anticipate the disruption linked to Brexit, for trade between the UK and the EU. This includes tax-related topics but also involves additional topics such as applicable interchange fees. For example, Mastercard announced it will increase card interchange fees for UK online purchases made in the EU from 0.3% to 1.5% from Q4 2021, with these transactions being considered as 'inter-regional'.[23]

[23]https://www.ft.com/content/39f553a0-00c5-48ad-a8ee-0b9fd75554b0

Perform proactive fraud management

The marketplace ecosystem creates opportunities for fraudsters, so both the buyer and seller journeys need to be managed. As the number of stakeholders increases, so too does the potential for fraud. In this context, marketplaces need to find the right balance to ensure an optimal experience on their platform and to enforce an efficient fraud prevention policy.

First, marketplaces must correctly understand and map out the interaction between their buyers and sellers to ensure transactions are legitimate. Legitimacy can be verified through the location of both parties and confirmation that there is no suspicious behavior.

Second, marketplaces also need to stay innovative to ensure they are prepared for the latest types of fraud attacks. This can be done by leveraging relevant solutions provided by their payment provider (e.g. Artificial Intelligence or Machine Learning to adapt swiftly to potential threats like mass bot attacks using multiple cards at the same time etc.).

Enforcement of SCA in Europe aims to reduce fraud. However, as mentioned previously, it will have an impact on customer experience and conversion rates. Even in markets with a high roll out of 3DS version 2, such as in the UK, interviews indicated a cart abandonment rate of up to 20% in some cases. Marketplaces must closely monitor the impact of 3DS and work closely with their payment providers to optimize authorization rates and limit negative impacts on conversion.

Marketplaces must consider their end-to-end ecosystem in order to protect buyer and seller journeys from fraud.

“Payment fraud is now relatively well understood, and most merchants are now using some form of fraud prevention at the point of checkout. As a result, we are increasingly seeing fraudsters attacking other parts of the customer journey which are less protected - for example, over the last year there has been a significant rise in account takeover fraud, bot attacks, and returns abuse.”

Nir Maayn
Head of EMEA Analytics at Forter

FORTER

Ensure efficient internal processes

Marketplaces are supported by a complex ecosystem and involve multiple transaction flows.

In this context, it is fundamental for marketplaces to have a detailed understanding of their payment flows from day one and review their internal processes on an on-going basis to ensure efficiency and automation.

These components will become increasingly relevant as marketplace platforms reach scale and need to become more efficient and automate internal processes.

Another aspect mentioned during discussions with marketplaces and industry stakeholders is the need for flexibility surrounding the integration of new features and functionalities as the platform grows. The choice of payment providers - and PSP in particular - is therefore key, as must be advanced technologically to allow flexibility for all the payment demands of the marketplace.

"Before setting up a marketplace, it is necessary to have a good understanding of the flows and to document them well, as well as analyze all process components (e.g. different use cases, amount, settlement delay, regulatory aspects with a payment agent etc.). There is still a lot that merchants need to learn."

A marketplace in the luxury sector

"Integration is key. The PSP must be included in discussions from day one as they interact with functionalities essential to the marketplace's operation (e.g. payment and order workflow, invoicing and reporting)"

Jeremie Chemla
Associate Director at Izberg Marketplace

IZBERG an open company

How to implement best practices

Implementation of best practices can help marketplaces optimize their payments processes and also increase profitability. So, how can marketplaces identify and implement relevant payment best practices?

Analyze the current situation

First, marketplaces must assess their current state of payments. To do this, they can conduct a 360° payments diagnostic to review all payment components and processes including internal payment organization, acceptance policies, operational processes (e.g. reporting, back-office, settlement) and relationships with payment providers.

This diagnostic will enable marketplaces to benefit from a detailed assessment of their current state of payments and identify areas of improvement, which can then be prioritized based on key strategic priorities.

Marketplaces need to prioritize payment initiatives that they would like to implement and develop a roadmap to support their strategy, for example: The choice of payment partners is strategic for marketplaces. Payment partners can support marketplaces in developing their payment strategy and provide relevant functionalities to help reach scale.

- **Automate the onboarding process**
- **Use the same payment provider for pay-ins and pay-outs when possible**
- **Optimize pay-ins and pay-outs by implementing relevant payment methods and offering representment options**
- **Document all payment flows**
- **Identify the best option for regulation compliance (e.g. agent of payment institution or become a payment institution)**
- **Optimize financial reconciliation and support key features (e.g. split payments, multi-capture)**

Implement your strategy considering organizational aspects

Marketplaces must rely on a dedicated internal resources to optimize payments and reduce payment costs. This was highlighted in our previous white paper, which indicated that companies with a dedicated payments team decrease their payment acceptance costs and increase revenues.[24] This internal organization may vary according to the marketplace's resources and could include:

A payment manager Or **a dedicated payment team**

Internal resources dedicated to payments will assist marketplaces to focus on all payment aspects (e.g. reporting, data analytics, conversion rates, costs and revenues), coordinate different internal departments to ensure internal consistency and positive results, and collaborate with payment providers.

To support this organization and monitor their strategy, having relevant KPIs is essential for marketplaces. Some relevant KPIs for marketplaces include:

- **Onboarding time for both sellers and buyers**
- **Authorization rates with different levels of granularity (e.g. per country, per issuer / scheme, per 3DS version)**
- **Conversion rate / drop-off on the payment page**
- **Chargeback rate**
- **Pay-in / pay-out volumes**
- **Cost of payment acceptance**

[24] 'The 7 habits of successful New Payment Leaders' – SafeCharge (prior to acquisition by Nuvei) in collaboration with Edgar, Dunn & Company, 2019

Conclusion

Marketplaces operate in a complex ecosystem, experiencing fast growth with +81% in 2020 according to Mirakl's Enterprise Marketplace Index. COVID-19 has created a surge in demand for marketplace purchases making the model more and more competitive in the eCommerce space. In this context, marketplaces are faced with the challenges of optimizing their processes and payments (e.g. frictionless and automated buyers/sellers onboarding, comprehensive payment acceptance, fast pay-outs to sellers, automated financial reconciliation and internal processes). Discussions with marketplaces and platforms have highlighted these intricacies and identified the importance of building a future proof payment strategy and taking into account local payment requirements.

Payment is a crucial step in buyer/seller marketplace journeys to maximize conversion and revenues. It should be as seamless and automated as possible, and integrate an optimized customer and seller experience for both B2C and B2B marketplaces. Leveraging key payment best practices will support marketplaces to support their strong growth and meet the ever-increasing demand of both customers and sellers.

"Despite the belief that marketplaces are international by nature, localization is becoming more and more critical. Their booming global presence is built on offering service components tailored to a local level, particularly in terms of payments."

Yuval Ziv
Managing Director Digital Payments at Nuvei

ABOUT

Nuvei

We are Nuvei (TSX: NVEI and NVEI.U), the global payment technology partner of thriving brands. We provide the intelligence and technology businesses need to succeed locally and globally, through one integration – propelling them further, faster. Uniting payment technology and consulting, we help businesses remove payment barriers, optimize operating costs and increase acceptance rates. Our proprietary platform connects merchants in 200 markets worldwide with local acquiring in 44 markets, supports 470 local and alternative payment methods, nearly 150 currencies and 40 cryptocurrencies.

https://nuvei.com/

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