ADVERTISING FEATURE

MULTINATIONAL ONLINE TRADING WITH CONFIDENCE

Expanding internationally can be an appealing option for retailers. Barclaycard discusses the products and services available and their benefits and limitations

As consumers grapple with the harsh economic climate, many retailers are facing flat or recessionary markets and it looks likely that single-digit growth will be with us for some time. Nevertheless, online international expansion offers an attractive, alternative growth strategy – especially if retailers can conquer the on-going risk from currency fluctuations. Below, Barclaycard examines the highs and lows of the options that every online retailer needs to consider.

Retailers rely heavily on credit and debit card instructions and so the need to provide locally tailored payment options when expanding overseas is critically important.

As an example, Asos uses country-specific websites, offering international delivery. However, the difference in payment expectations across the world is a major issue for all multinational retailers operating online. Taking Germany as an example, not offering bank-to-bank payments (the preferred online payment option) would significantly reduce the scope of success – whereas in Africa mobile payments now represents a huge opportunity for retailers.

Selling in local currency is a pre-requisite for physical outlets in new markets and something online businesses must introduce to be successful. Shoppers across the globe demand this convenience and may distrust retailers that haven't adjusted prices to align with their specific market.

However, adopting a sales model across multiple currencies online introduces currency conversion, or 'FX', risk and this comes with a cost that needs to be integrated into retailers' business models, with the level of sophistication and complexity evolving as the online transactions and the business as a whole expands.

So how do multinational online retailers best deal with these challenges? There are in fact a number of models they can adopt to manage or avoid the impact and risk to their business; however, we believe some provide far better, lower risk solutions than others. Here are Barclaycard's thoughts:

Sell exclusively in your home currency

Some retailers evolve at such a fast pace, serving international clients is simply a by-product of their domestic success. While the physical supply chain can support the overseas client demand, selling in the retailers' home currency provides a poor client experience. Retailers are likely to alienate international clients and may be missing out on repeat sales and incremental profit margins from exchange rates.

Dynamic Currency Conversion (DCC)

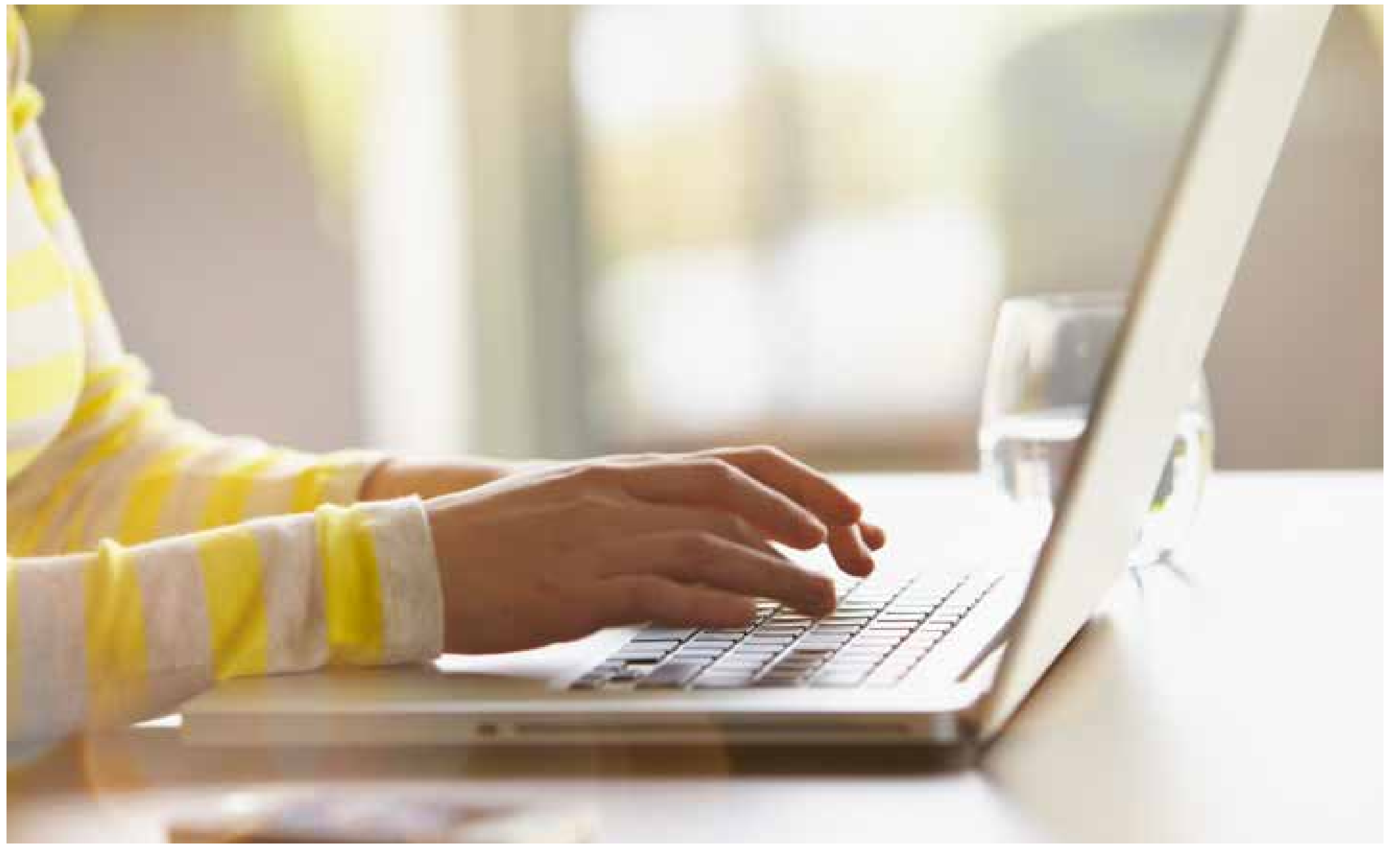
DCC is historically a popular choice in physical stores, hotels and airports. It makes use of point-of-sale technology that recognises the card issuer's country of origin, and offers customers payment in that currency. In an online environment, DCC provides a particularly poor client experience as the currency changes at the point of checkout, often resulting in confusion and suspicion with low conversion levels and, even worse, abandoned sales baskets. Similar to the previous option, retailers using DCC price in their home currency meaning their products are less likely to be featured by local aggregators (ie, comparison websites).

Card Scheme Conversion

Most card acquirers and payment service providers offer multicurrency services. Retailers simply receive all international income in their home currency. This enables online retailers to sell in multiple currencies across multiple markets without having to open multiple currency accounts, making it a popular initial choice. Shifting to local currency pricing makes aggregators, such as comparison websites, more likely to include your products and services. However, there can be hidden running costs and difficulties in forecasting and reconciling exchange rates, as both card schemes and acquirers typically apply a margin for holding FX rates open, consuming hard-earned retailer margins. Retailers must still set and manage exchange rates to ensure card rates are close to those set online. It is common for retailers to set prices using spot rates without applying margins resulting in small losses, after the card scheme's FX margins are taken into account, or worse still, retailers using out of date exchange rates – resulting in a risky mix of gains and losses.

Treasury Approach

Here, larger retailers opt to manage the FX risk internally within a treasury or finance function. This requires the retailer to get their card acquirer, or payment service provider, to settle their card transactions on a like-for-like basis (without FX conversion) in each currency. The finance function will then typically book spot transactions to convert their foreign currencies back into their home currency on an ad-hoc basis. This approach provides some flexibility – as they can retain local currencies as a natural hedge to cover any costs or local taxes – but the retailer then carries additional FX risk. Retailers typically require significant scale to justify the resourcing and infrastructure to support this approach.



Internet, mobile and social media technology have made expansion overseas possible for retailers and can be a low-cost alternative to opening physical stores

Multicurrency Pricing (MCP)

Multicurrency Pricing (MCP) can be a relatively new product and is gaining popularity in the market. It achieves a balance between ease of management and an optimal consumer experience. The provision of FX rates can be automated, as can the offloading of the FX risk as international sales occur. Automated FX rates can be provided on a regular basis, allowing the retailer to set and manage prices internationally. These FX rates can be guaranteed by the FX partner for a set time – providing certainty over the rates that apply to any international sales made during any given time period. This approach enables the retailer to apply an additional margin to the guaranteed FX rates – securing with certainty an incremental income stream for international sales, regardless of what happens in the FX market. The MCP model enables the retailer to be in full control of their FX margins with little to no risk. These solutions are provided by banks and other financial service providers.

There are a few further considerations when choosing an MCP solution. Counter-party Risk needs to be considered as MCP providers take the foreign currency into their account before conversion to the retailer's base currency account. Any disruption with your FX partner (ie, insolvency, system down time, operational failure or compliance breach) may have a knock-on effect on your financial supply chain and may lead to high costs in terms of time and money that will be hard to recover. Bank providers of MCP services are obviously better placed to support the bank accounts required under this model. Pricing is also important and banks are normally better placed in terms of the rates they set, as they are price makers, rather than takers and typically have FX flows in the opposite direction enabling them to net off FX trades and price more efficiently. Flexibility in terms of solution is also critical as a flexible and bespoke approach will be required, given no one online retailer is structured the same as another.

Making a decision on which FX solution to choose for your business will be best taken given all of the benefits and limitations of the options we have discussed. As an expert in the field we hope the information we have shared adds value to any decision-making process and we are happy to help any interested party that would like us to further guide them through this complex topic.

If you would like to find out more about Barclaycard's products and services for online retailers, please visit: www.barclaycard.co.uk/business/ecommerce Alternatively, call us on: 0800 092 4266 or email: barxfxpay@barclays.com

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