



# Digital payments strategies: A comprehensive guide.

Top strategies for optimizing payments, enhancing customer experience, and managing fraud in a digital world.



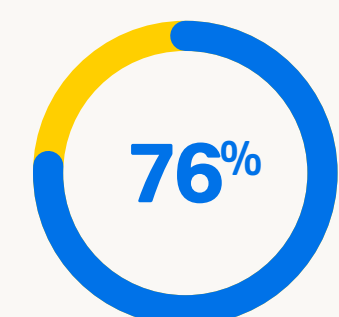


**In today's dynamic business landscape, businesses face a multitude of challenges ranging from customer acquisition and market competition to operational efficiency and payment optimization.**

**Our Digital Payments Playbook underscores a gap between current business practices and the strategies needed to optimize payments and safeguard both businesses and customers.**

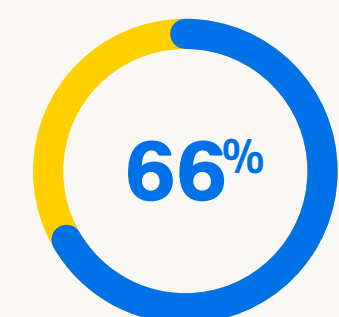
# Executive Summary

Research shows that merchants' foremost objectives for payment optimization in the next two to three years include<sup>1</sup>:



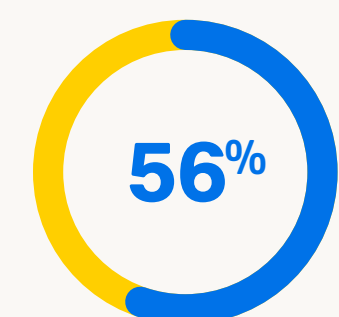
## Mitigating security risks

Businesses are increasingly aware of the importance of safeguarding sensitive data and transactions against emerging threats.



## Reducing fraud & chargebacks

The automation of dispute resolution processes is pivotal in minimizing financial losses and ensuring seamless operations.



## Enhancing user checkout experience

Simplifying payment processes to create frictionless customer experiences is a paramount goal for businesses.

Despite the critical role that payment processes play in business operations, they are often overlooked and treated as static procedures. In the hustle of daily operations and more immediate concerns, businesses may struggle to allocate resources for continuous process improvement. Consequently, outdated processes persist, potentially affecting long-term growth and efficiency.

Neglecting payment optimization may lead to:

- ✗ Inefficient payment processes
- ✗ Difficulty tapping into emerging markets
- ✗ Financial losses from chargebacks and fraudulent activities

To address these challenges and guide businesses toward optimal payment and operational strategies, our report emphasizes four key pillars: authorization rate, fraud management, uptime and reliability, and digital experience. We cover prevailing industry practices in each area and introduce advanced tactics and strategies for businesses seeking cost-effective solutions and sustainable growth.

<sup>1</sup> Cicero Research survey commissioned by PayPal, PayPal Payment Processing Benchmark Assessment 2023. n=927, 5 markets: the US, UK, Australia, Germany and France. Online survey of global merchants (Executive & senior decision-makers responsible for selecting their business's payment provider) between April 2023 - May 2023.



# Optimizing your path to revenue.

**In the ever-competitive realm of commerce, one metric stands out amongst merchants: improving authorization rates. However, the pursuit of maximizing revenue sometimes leads businesses down the path of default strategies that may secure the bottom line, but ultimately limit the potential for authorization rate optimization.** This section illuminates the current strategies employed by businesses and provides insights into industry-specific nuances that can be leveraged to enhance authorization rates effectively.





## Approaches to drive authorization rates.

Currently, 50% of firms report an authorization rate falling within the 81%-89% range, while the top 30% of firms boast an impressive authorization rate exceeding 90%<sup>1</sup>. Notably, retail firms consistently demonstrate the highest authorization rates, while professional services industries often record the lowest. Intriguingly, service industries exhibit a more proactive stance in improving authorization rates. This variance could be attributed to the nature of transactions and the varying degrees of customer interactions in these sectors.

A significant **59% of merchants** adopt a hybrid authorization rate strategy, blending multiple methods and criteria to ensure flexibility under diverse circumstances and enhanced user convenience<sup>1</sup>.

## Strategies for authorization rate improvement.

The pursuit of improved authorization rates prompts businesses to use various strategies, with several common approaches:

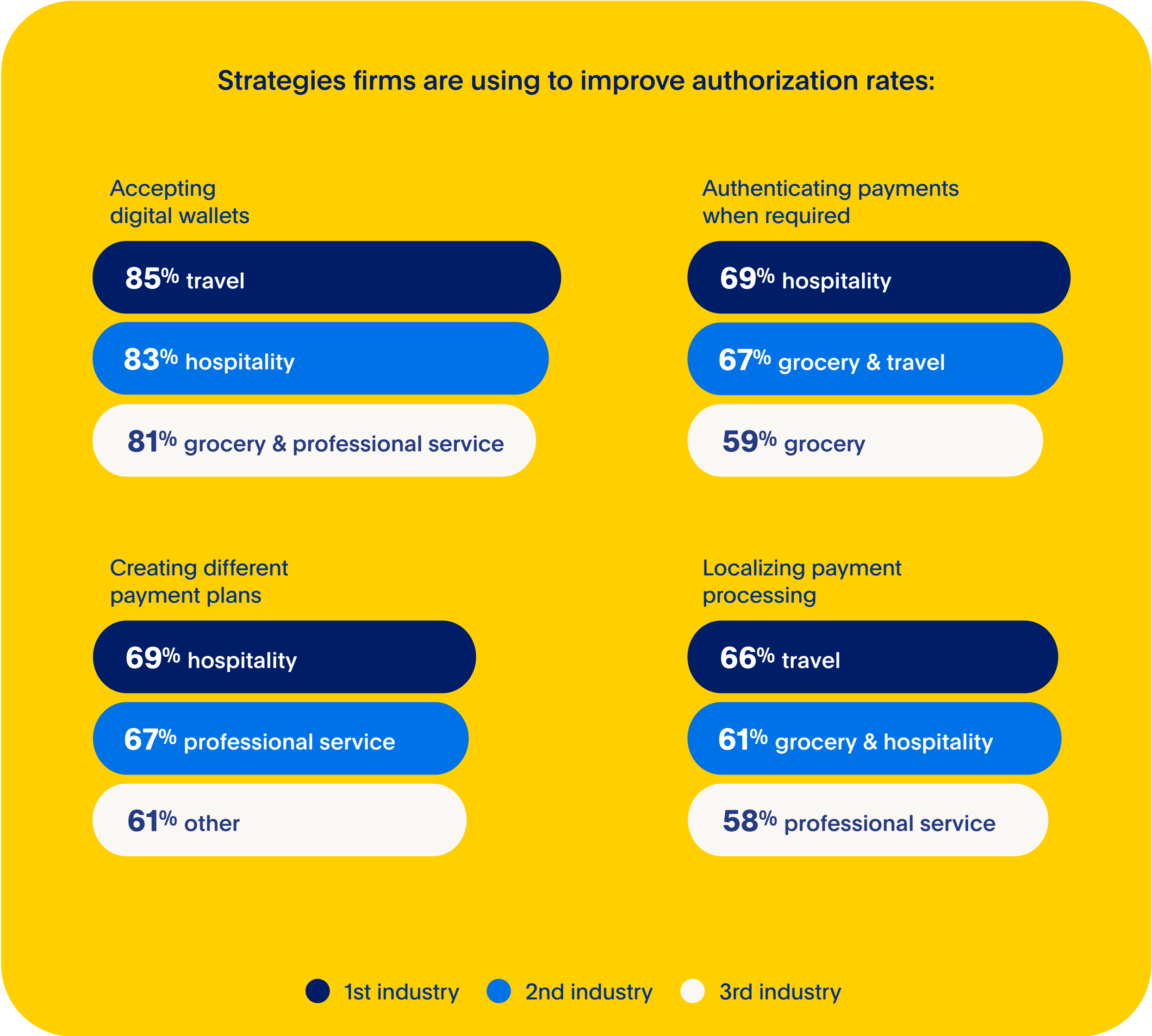
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**Accepting digital wallets**  
Integrating digital wallet options into payment methods.
- 

**Authentication on demand**  
Implementing authentication protocols when required based on specific transaction characteristics.
- 

**Custom payment plans**  
Creating tailored payment plans to cater to diverse customer needs.
- 

**Localization of payment processing**  
Adapting payment processing methods to align with regional preferences and expectations.



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# Customized authorization strategies.

The optimal balance between authorization and risk tolerance is a key consideration for merchants. While 73% of surveyed merchants believe that risk tolerance and authorization rate are equally important, there isn't a single strategy that works for every business<sup>1</sup>. Businesses should align their priorities with their optimization and growth goals. For instance, entities with high-value transactions often prioritize risk reduction, while those with lower-value transactions may lean towards higher authorization rates.

## Prioritization of risk tolerance and payment authorization.



Furthermore, industry-specific authorization strategies are pivotal. **Currently, only 32% of businesses adopt industry-specific approaches, with a mere 6% opting for a customized strategy<sup>1</sup>.** Industry-specific strategies align security measures with industry-specific risk profiles and customer behaviors, facilitating the drive toward incremental value.

By delving into industry nuances such as transaction volumes, customer behaviors, and prevalent fraud patterns, merchants can tailor their authorization rules. This fine-tuning reduces instances of false positives, ultimately enhancing both the authorization rate and the overall customer experience.

## How PayPal can assist.

While merchants possess unparalleled insight into their businesses, PayPal offers support in authorization rate enhancement. 31% of PayPal users report authorization rates exceeding 90%, compared to 24% of non-PayPal users<sup>1</sup>. PayPal users are also more likely to employ industry-specific authorization rate strategies (33% vs. 29% of non-PayPal users)<sup>1</sup>. Our flexible solutions can be customized to suit your industry and business objectives, which can help enhance your authorization rates and agility. Remarkably, 79% of merchants rate our authorization rate services as exceeding expectations, surpassing the industry average of 67%<sup>1</sup>.

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# Elevating security & trust.

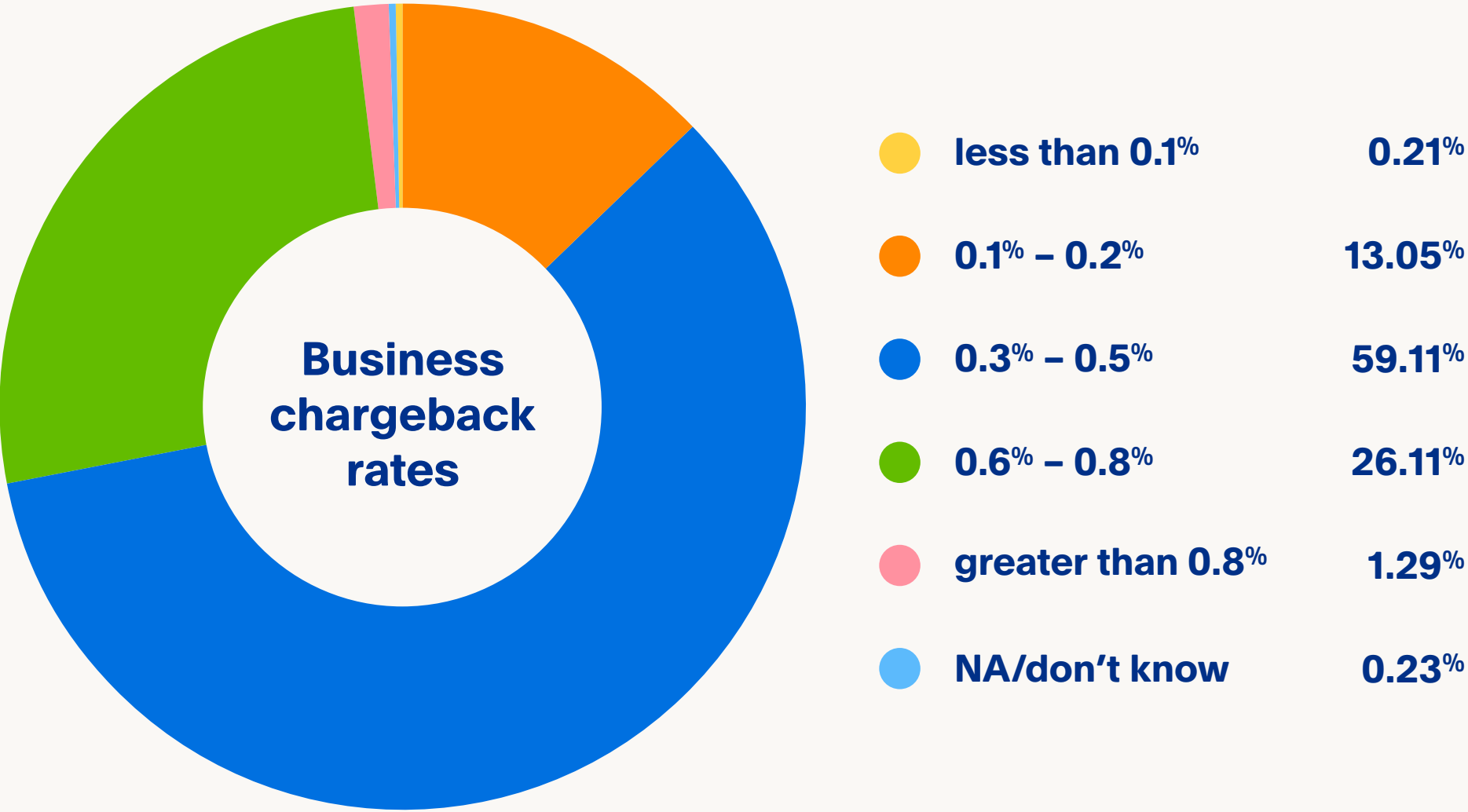
**Fraud management extends far beyond the realm of safeguarding sales; it is the bedrock upon which business credibility is built.** A robust fraud management system not only secures transactions but also fosters customer trust, an invaluable asset for nurturing long-term relationships. Despite being a top priority, there is ample room for businesses to strengthen their fraud management strategies.





# Chargeback rate data.

One of the key metrics for evaluating fraud detection performance is the chargeback rate. Currently, 59% of merchants surveyed fall within the 0.3%-0.5% chargeback rate range, with 25% of businesses experiencing even higher rates, ranging from 0.6%-0.8%<sup>1</sup>. Although these percentages may seem negligible, for large businesses, they translate into thousands of transactions and substantial revenue losses.



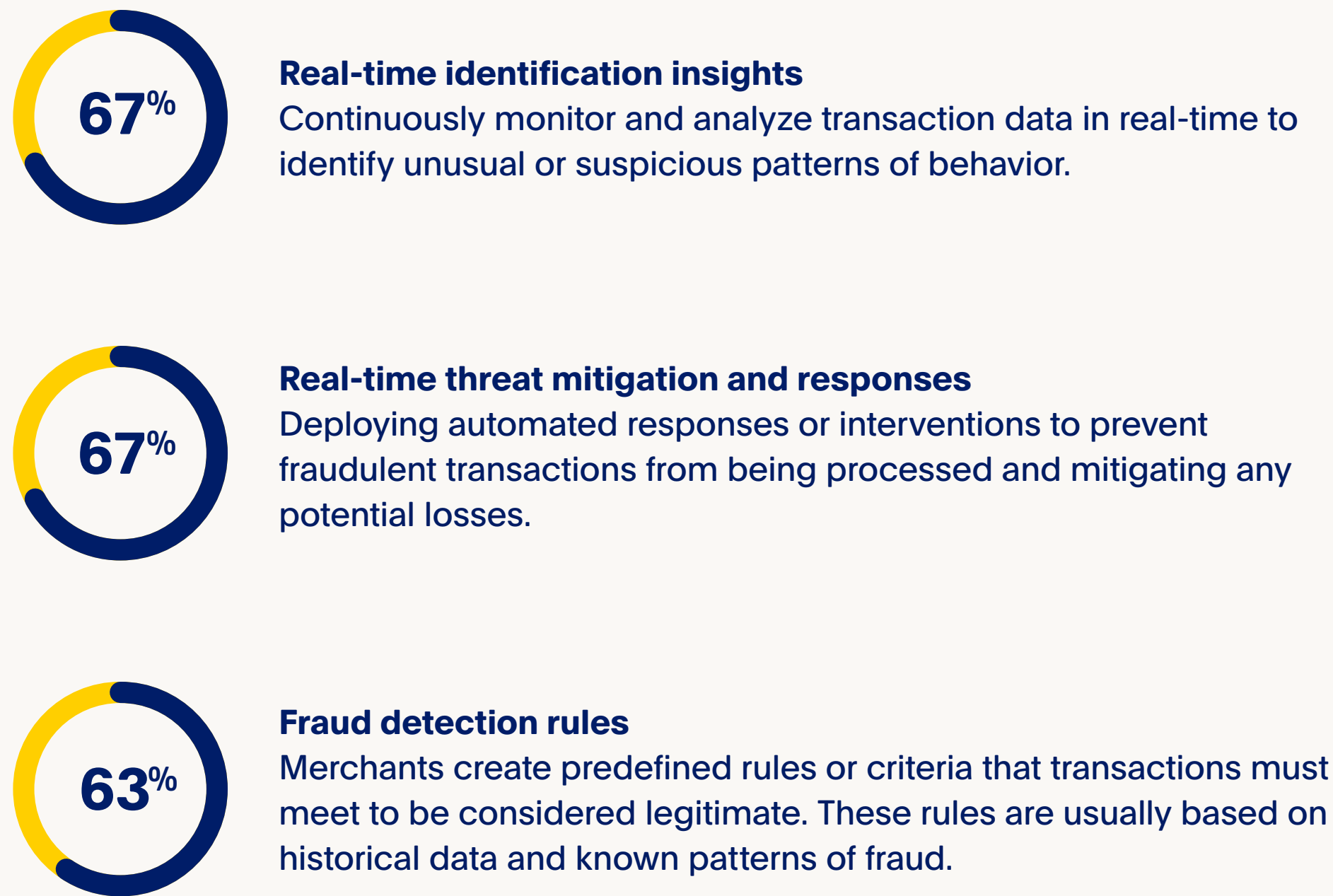
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# Building on fundamental chargeback management tactics.

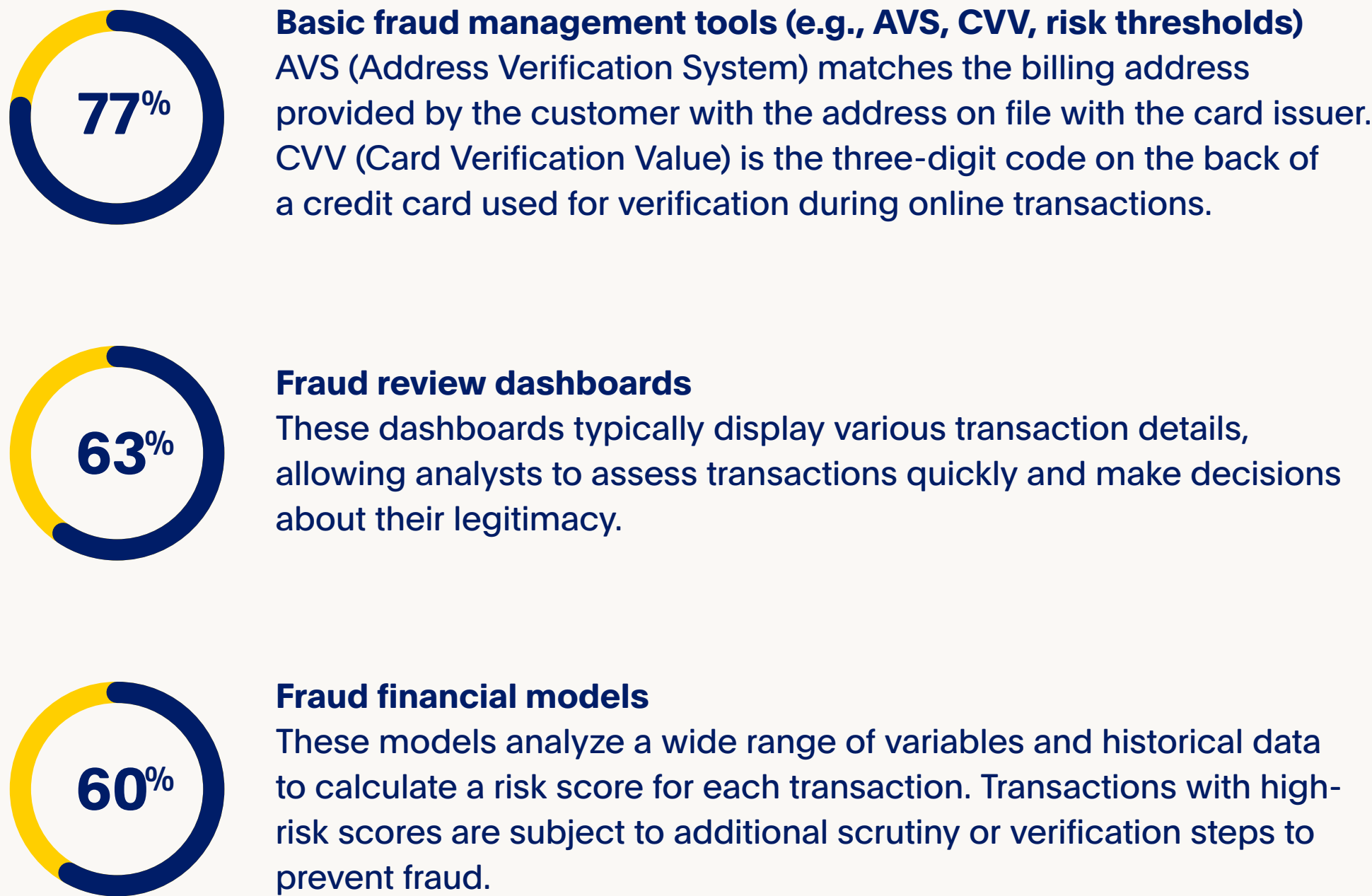
Interestingly, while security risks top the priority list for payment processing in the next two to three years, many merchants persist in employing basic fraud management tactics.

## Top three tactics currently used for fraud detection:



Similarly, the top three tactics for fraud management are comprised of basic fraud management tools, fraud review dashboards, and fraud financial models.

## Top three tactics currently used for fraud management:



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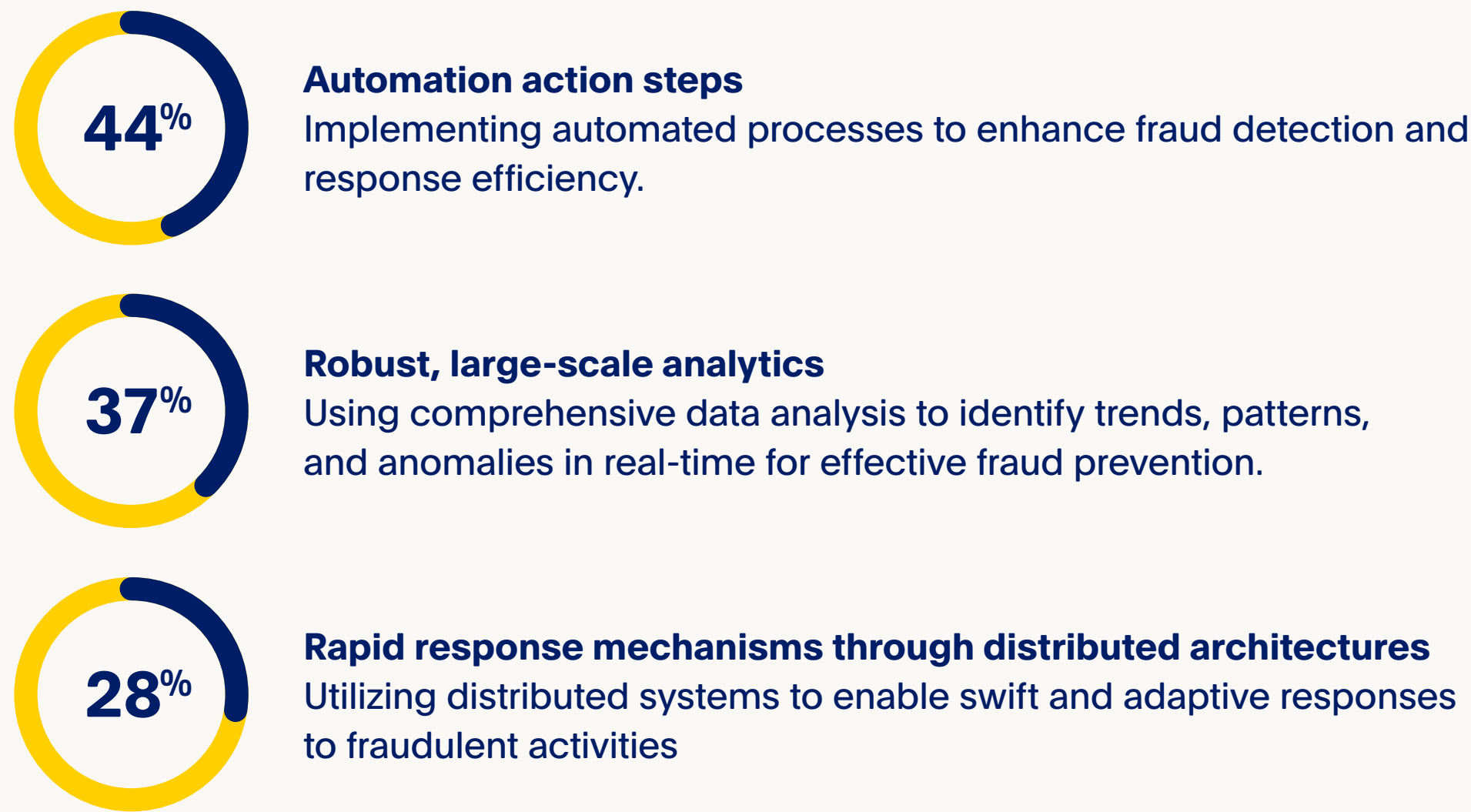


# Advanced strategies for enhanced payment security.

To fortify both their businesses and customers against evolving fraud threats, merchants could delve deeper and invest in advanced strategies. These advanced techniques enable businesses to tailor fraud management strategies precisely to their needs, enhancing fraud decisioning, and data analysis.

According to our research, less than half of businesses have embraced these advanced strategies<sup>1</sup>. These strategies may encompass automation action steps, large-scale analytics, and rapid response mechanisms through distributed architectures.

## Fraud management strategies businesses currently have in place:



These strategies offer real-time responsiveness, empowering businesses to proactively detect and respond to fraudulent activities efficiently and adaptively. They may also represent a more sophisticated and comprehensive defense against ever-evolving fraud threats.



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# Customized fraud management strategies.

**While the majority of merchants adhere to default strategies, advanced businesses are exploring the strategies below to enhance their fraud management capabilities.**

## Industry collaboration & best practices:

These businesses are looking at external and internal resources, industry insights, and data analytics to stay at the forefront of fraud management. They actively engage in collaborative efforts with industry peers and organizations to share knowledge and implement best practices. By tapping into the collective expertise of the industry, they may be enhancing their fraud detection and prevention strategies, ensuring they are at the optimizing their fraud and chargeback security measures.

## Custom rule sets, decision transactions, & tailored fraud review:

Once they've reviewed the best practices in their industry, they can then craft customized fraud management strategies. These techniques allow businesses to tailor rules precisely to their unique operations and fraud characteristics.

## Reviews of product margins:

Additionally, reviewing product margins may aid businesses in determining whether to adopt a risk-averse or risk-taking approach, influencing their fraud management stance.

Despite the clear advantages, less than half of businesses have adopted these strategies. To gain a competitive edge, merchants should proactively explore advanced tools and strategies aligned with the payment characteristics of their respective industries. This proactive approach fortifies operations, ensures financial stability, and bolsters customer trust in the face of a continually evolving fraud landscape.

## Fraud management strategies businesses currently have in place:



## How PayPal can help.

Notably, 84% of mid-market PayPal merchants surveyed affirm that PayPal provides superior customer information protection compared to other payment methods<sup>1</sup>. Our vast intelligence resources and cutting-edge machine learning technologies empower businesses to protect themselves effectively and effortlessly. PayPal users (40%) are more likely to harness robust and extensive analytics to identify trends, patterns, and anomalies compared to non-PayPal users (33%)<sup>1</sup>.

With access to our extensive data sources, businesses can conduct comprehensive analyses and train their fraud management models for efficient fraud detection and trend forecasting. Moreover, businesses can fine-tune their filters with PayPal Fraud Protection Advanced, receiving actionable recommendations for filter optimization.

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# Helping drive trust & growth.

**Uptime and reliability are not mere technical metrics; they are important indicators to a business. Their significance lies that they may help improve the ability to keep your operations running, helping your business to continue accepting payments and generating revenue. Equally vital, they may help drive trust and loyalty with your customers.** Consistently delivering seamless, reliable services may instill confidence and help assure customers that their transactions will be smooth and secure. Conversely, any lapse in these factors can translate into significant sales losses and irreparable damage to a brand's reputation.





# Current uptime industry performance.

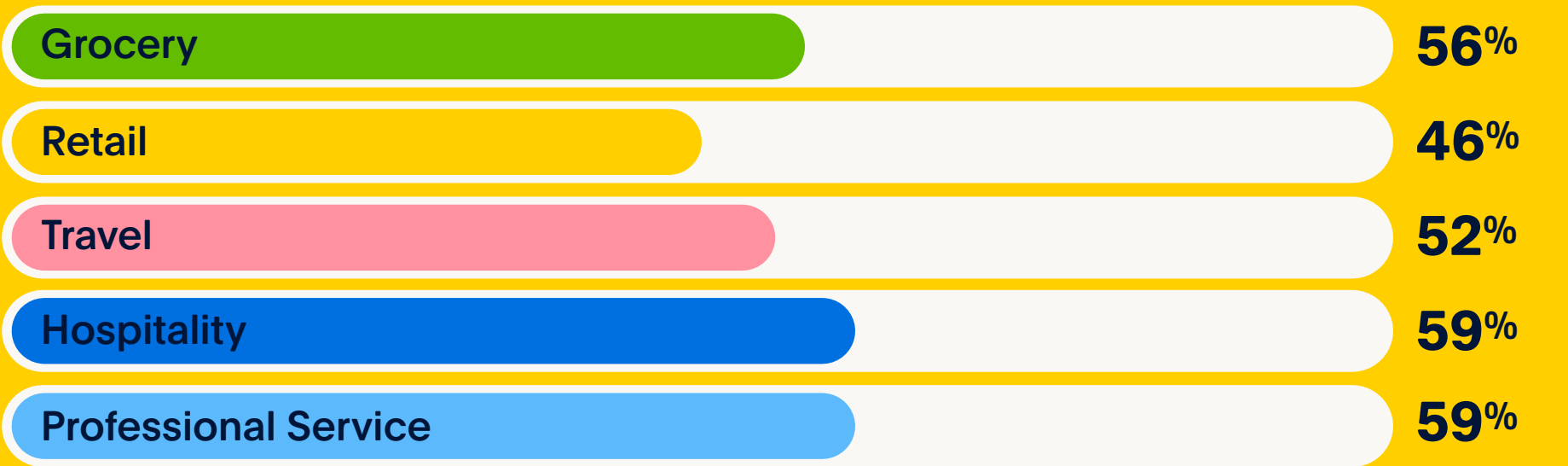
According to our survey, a majority of businesses have achieved a commendable payment processing uptime of 99.99%<sup>1</sup>. Our research reveals that 52% of surveyed merchants can maintain this impressive uptime<sup>1</sup>. While this figure may appear robust, it’s essential to recognize that the remaining 0.01% downtime can equate to substantial revenue losses for large businesses<sup>1</sup>.

Moreover, an even more noteworthy **44% of merchants** can reach uptime levels of 99.999% or higher in their payment processing systems<sup>1</sup>. These numbers highlight the industry’s dedication to ensuring continuous service availability.

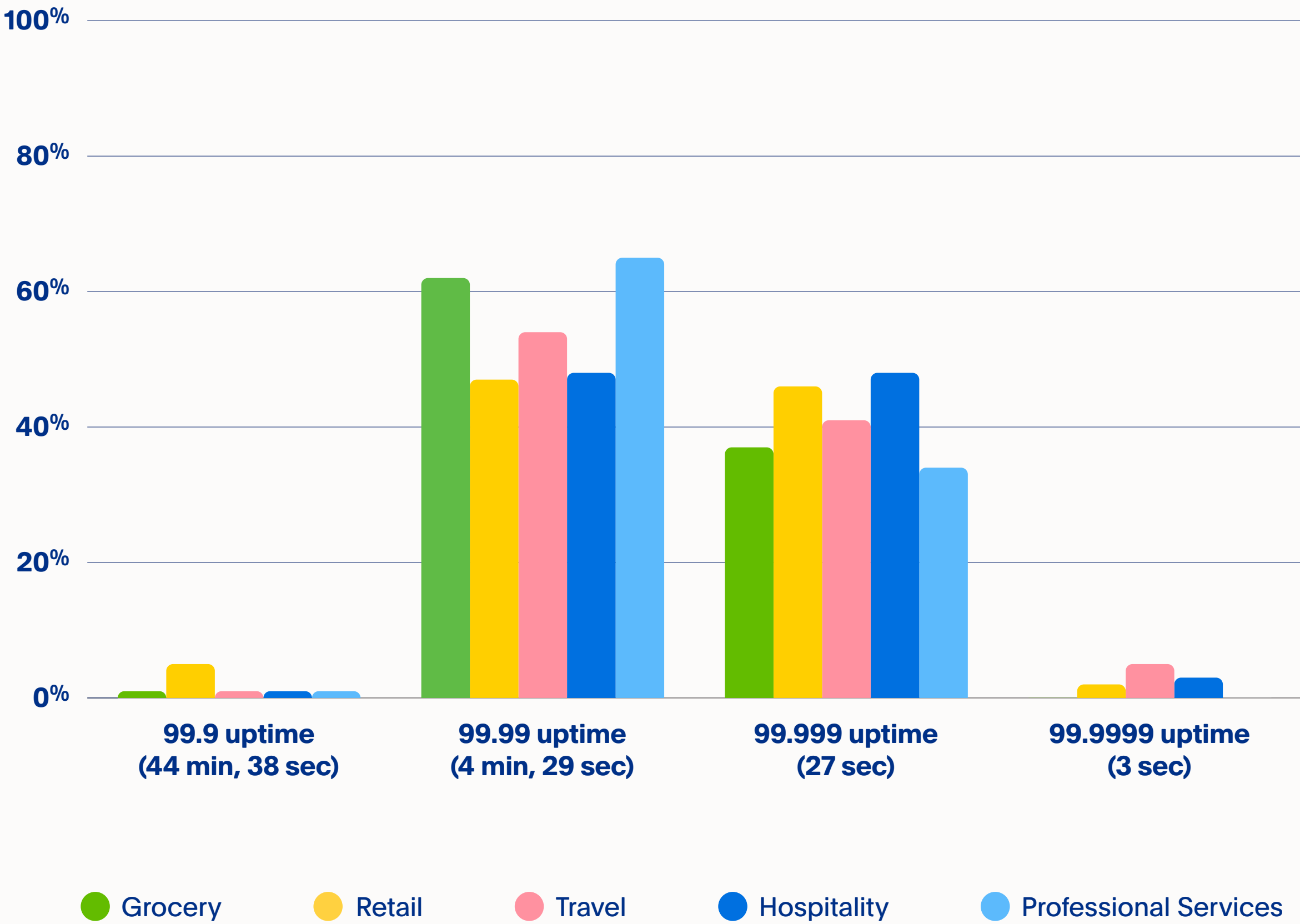
# Impact on customer service.

In the world of commerce, customer service plays a pivotal role. It serves as a bridge between businesses and their customers, addressing inquiries, resolving issues, and building relationships. However, when payment processes are not convenient or intuitive, they can give rise to customer confusion.

Currently, 46% to 59% of merchants surveyed report that a significant portion of their customer service calls are payment related, depending on their industry. The percentage of calls related to payment concerns ranges from 20% to 39%<sup>1</sup>. This statistic underscores the critical link between a smooth, hassle-free payment experience and reduced customer service demands.



What is your approximate uptime?



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## Opportunity for improvement.

While the industry has made substantial strides in ensuring uptime and reliability, there is always room for improvement. By enhancing operational efficiency, businesses can further elevate their service levels, fostering increased customer trust and loyalty. Moreover, by focusing on continuous service enhancements, businesses can not only help minimize revenue losses but may also bolster their brand's reputation as a provider of reliable and dependable services.

In essence, uptime and reliability are the cornerstones upon which businesses can build lasting customer relationships, secure revenue streams, and position themselves as leaders in their respective industries.

## Partner with strong payments solutions.

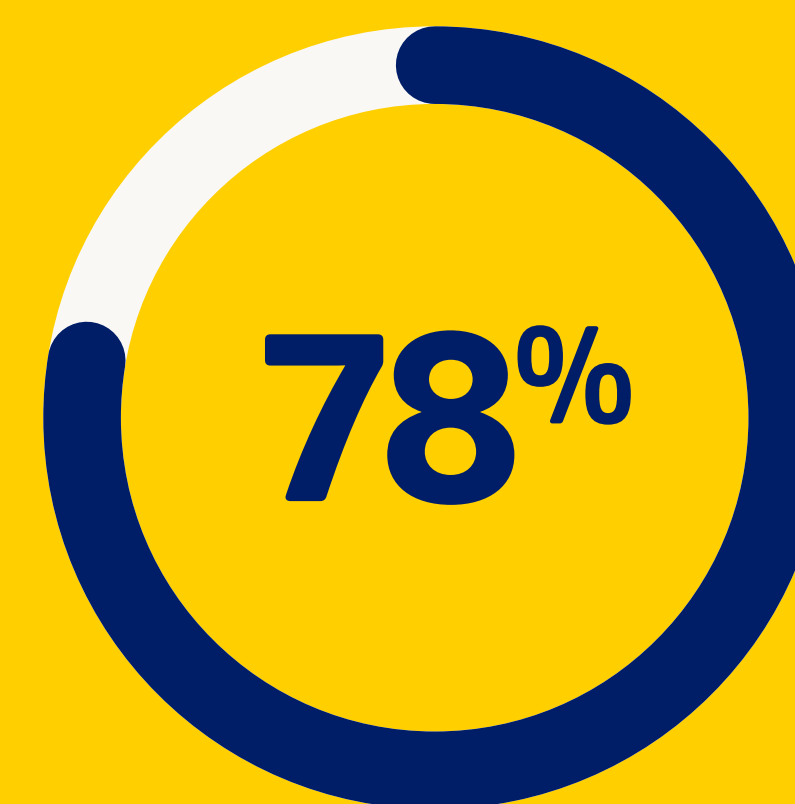
Partnering with robust payments solutions is a strategic move for businesses seeking to optimize and safeguard their operations. Leveraging the expertise of a payment support team can help maintain seamless operations. Strong payments support teams can provide valuable insights, technical assistance, and proactive support, ensuring that your payment processes run smoothly.

Additionally, adopting a modular integration approach is highly advantageous. This approach allows businesses to identify and isolate specific components within their payment systems for maintenance or enhancement. The benefit lies in making agile adjustments while helping minimize disruptions to the entire system. As a result, system-wide downtime is minimized, and continuous operations are ensured, significantly enhancing overall reliability.

Furthermore, integrating platforms to consolidate various processes may be a key strategy for reducing potential points of failure. By streamlining payment processes, businesses can create a more robust and efficient system. This consolidation minimizes complexities and the risk of disruptions, contributing to enhanced uptime and reliability.

## How PayPal can help.

Uptime and reliability are vital for the viability of your business, and PayPal is your solutions provider in helping drive improved viability.



of PayPal users rate us above expectation, surpassing the industry average of 68% above average<sup>1</sup>.

PayPal Braintree is the solution that empowers large businesses to meet their conversion and revenue goals efficiently and seamlessly. We excel at managing global payments and integrating multiple payment methods. Our expertise lies in optimizing payment routing, orchestrating traffic without negatively impacting authorization rates or increasing costs. With PayPal Braintree, you can help ensure business continuity and payment optimization without additional effort and expenses, allowing you to focus on scaling and achieving growth.

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# Building customer trust & loyalty.

**A seamless digital customer experience isn't just a bonus; it's an important factor for merchants looking to boost conversion rates and drive business growth.**

A holistic view helps customers find, purchase, and receive orders with minimal hassle, thereby enhancing trust and building long-term relationships.

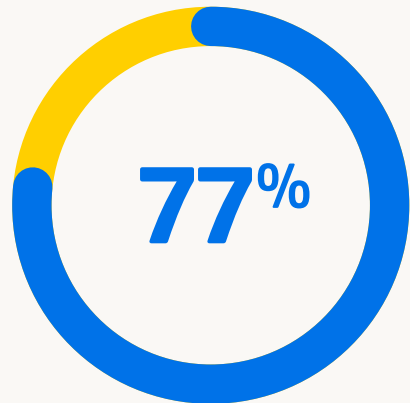
However, while many businesses focus on improving the customer-facing experience, such as UX and CRM, they often overlook the back-end operations, including inventory management. A well-optimized inventory management system is the engine that ensures customers have a smooth experience, leading to enhanced trust and stronger relationships.



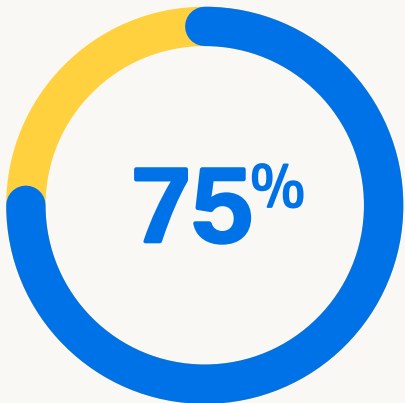


# Current digital payment experience industry practices.

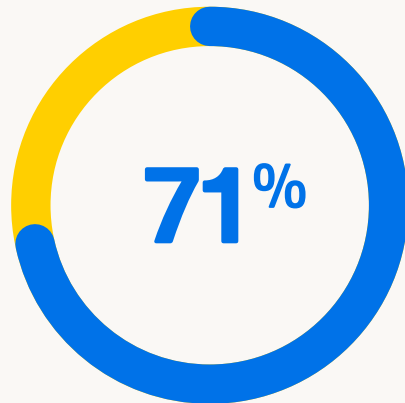
One of the key metrics for evaluating fraud detection performance is the chargeback rate. Currently, 59% of merchants surveyed fall within the 0.3%-0.5% chargeback rate range, with 25% of businesses experiencing even higher rates, ranging from 0.6%-0.8%<sup>1</sup>. Although these percentages may seem negligible, for large businesses, they translate into thousands of transactions and substantial revenue losses.



Consumer comms (email/SMS)

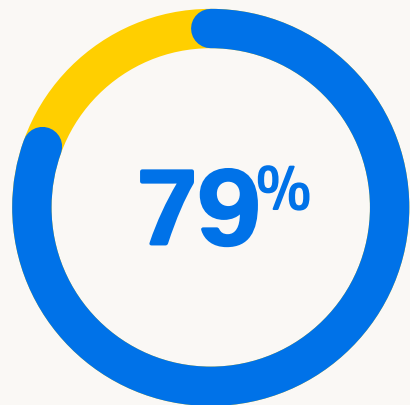


Digital receipt

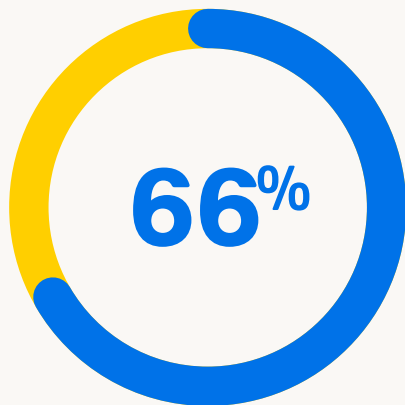


Customer support

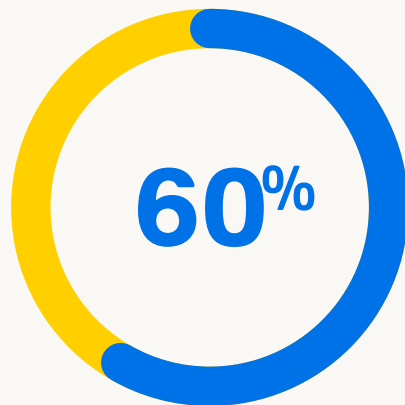
Additionally, merchants prioritize payment security and cost-effectiveness to help reduce cart abandonment rates and provide a secure checkout experience. Their top three priorities in digital payment offerings revolve around increasing payment security, reducing costs, and improving unified reporting and tracking. These priorities aim to build customer trust and brand reputation, ultimately enhancing customer loyalty.



Increasing payment security



Reducing costs



Improving unified reporting & tracking



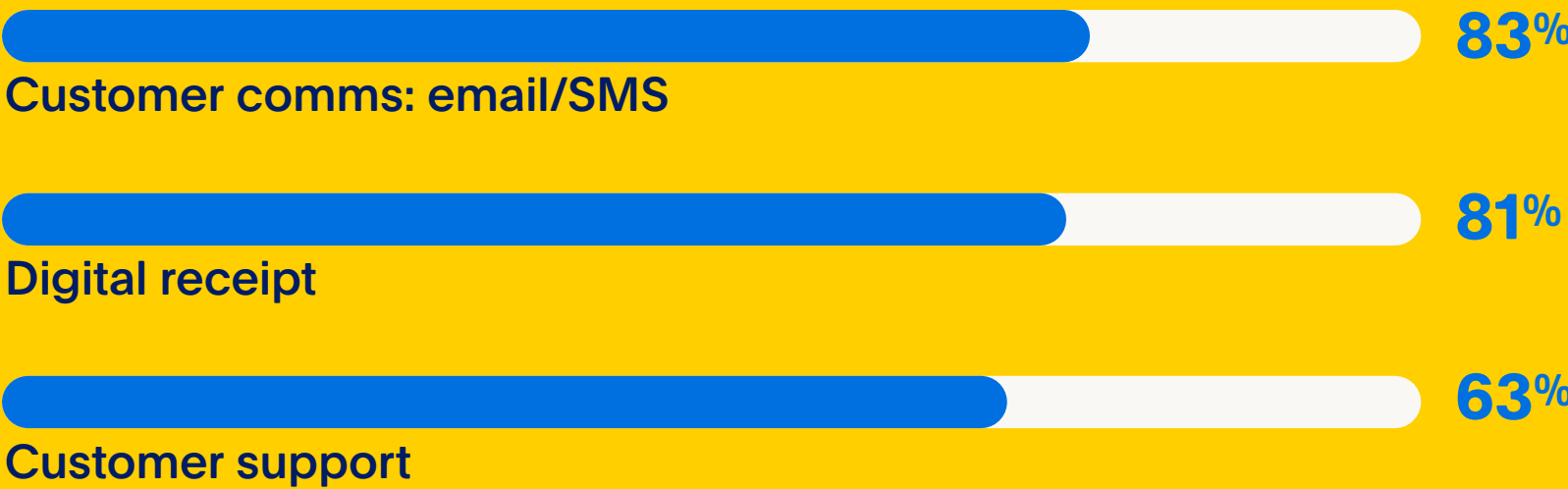
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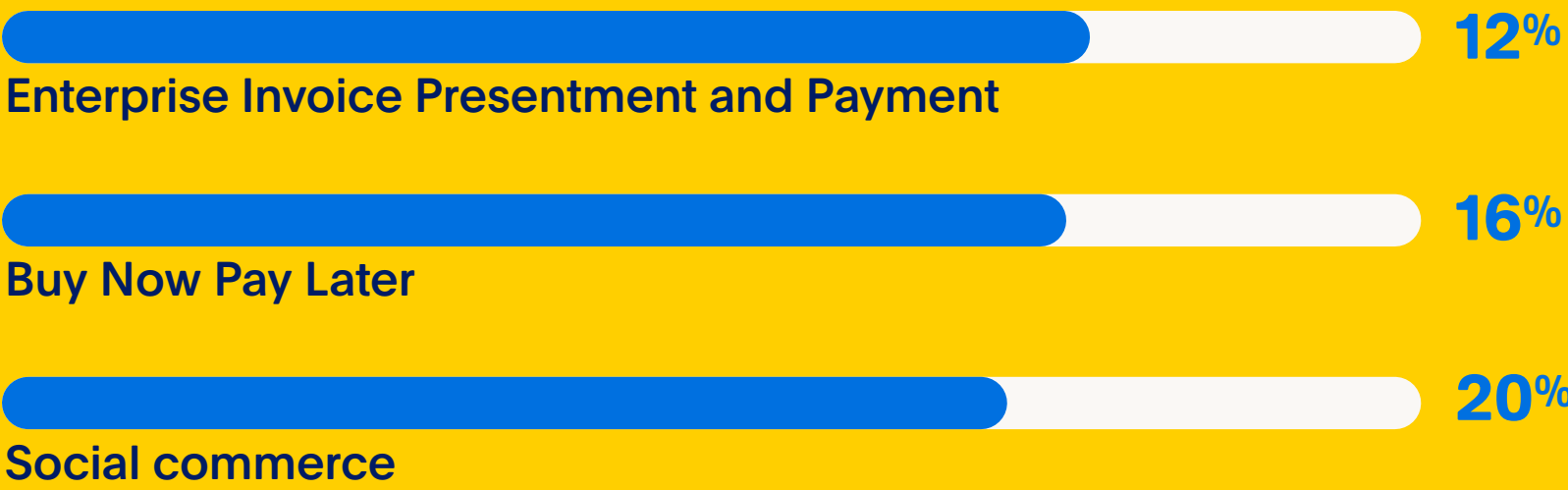
# Advanced tools & capabilities for enhanced digital experience.

Forward-thinking businesses are investing in technologies that offer customers greater convenience and flexibility.

Beyond common payment methods like credit cards and digital wallets, they're exploring more advanced options such as Enterprise Invoice Presentment and Payment, Buy Now Pay Later, and social commerce.



Enterprise Invoice Presentment and Payment (EIPP) streamlines invoicing and payment processes, providing a user-friendly approach for electronic access and payments. Buy Now Pay Later (BNPL) not only offers customers greater financial flexibility but also encourages higher spending, aligning with evolving preferences for flexible payment options. Social commerce, driven by the impact of social media on buying decisions, may help brands to attract and retain customers.



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## Back-end management for seamless operations.

Emphasizing backend optimization results in more efficient and transparent operation systems enhance customer satisfaction. Such optimizations help reduce order errors, provide accurate delivery estimates, and improve satisfaction by managing expectations.

### Integration with payment processing platform:



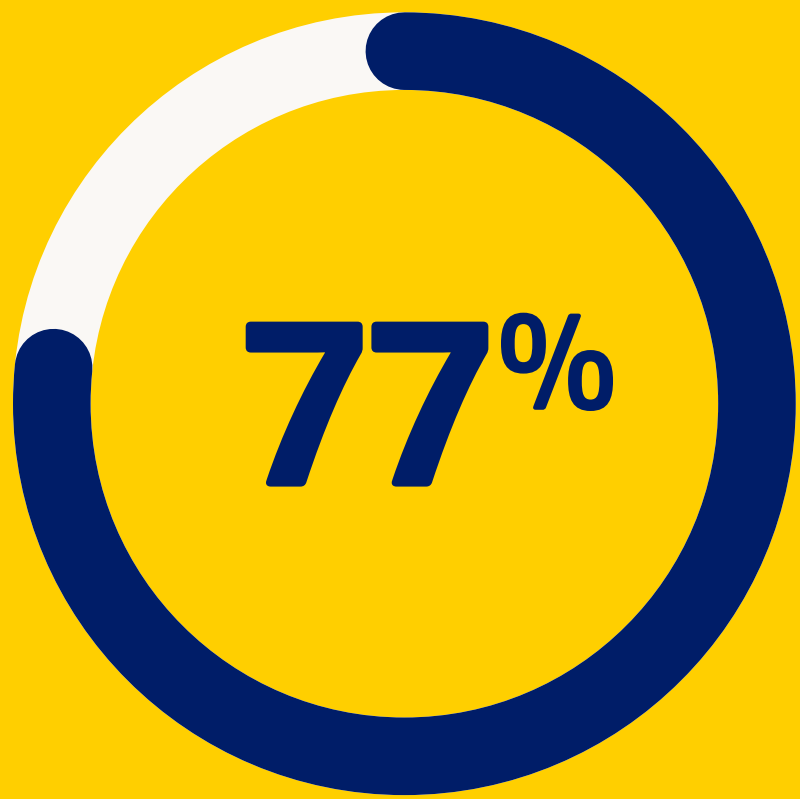
Streamlined inventory management can help further optimize the supply chain, allowing businesses to manage stock levels, reduce storage costs, and improve order fulfillment.

## Advice for merchants.

Merchants should not only focus on customer-facing capabilities but also prioritize the development of robust and scalable backend operations. Integrating advanced payment methods can significantly boost conversion rates, enabling businesses to remain adaptable to changing customer demands and emerging industry trends.

## How PayPal can help.

PayPal offers a modern payment system to help businesses create an exceptional customer experience.



of PayPal users rate our digital payment offerings as above expectations, surpassing the industry average of 70% as above average<sup>1</sup>.

Our solution helps empower businesses to optimize their customer experience by offering alternative payment methods without additional work, quickly and at scale, through intelligent and agile optimization. This not only navigates the unpredictable nature of today’s economy but also enhances customer impressions and loyalty.

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# Optimizing & safeguarding your business.

**As technology evolves rapidly and customer expectations continue to rise, optimizing and safeguarding your business is important to sustained success.**

Whether you operate in the world of grocery retail, the realm of fashion, or the complex landscape of travel and hospitality, this guide is your compass for navigating the intricacies of payment optimization and security enhancement. We'll explore tailored strategies that align with your industry's distinct payment dynamics, leveraging advanced tools, and focusing on critical pillars such as authorization rates, fraud management, uptime, and digital experience.







## Grocery

Grocery merchants navigate high transaction volumes and vast inventories. Their primary goals include risk mitigation, enhancing the checkout experience, and reducing fraud. Efficient payment methods and advanced inventory management are essential for maintaining customer satisfaction.



## Retail

Retailers must provide omnichannel shopping options for flexibility and convenience. Point of Sale (POS) integration for in-person retail is crucial to success. Retailers are proactive in incorporating multiple payment methods to help reduce checkout bottlenecks and cart abandonment rates.



## Travel

The travel industry deals with numerous international transactions, often involving preauthorization and fund holds. Fraud prevention is a significant concern. Travel merchants should proactively explore new tools and strategies to detect and prevent fraud.



## Hospitality

Hospitality merchants prioritize fraud management and payment convenience due to a high growth rate in fraud incidents. Customer behavior drives continuous improvement in payment solutions. Flexibility, accuracy, and data security are paramount for guest satisfaction.



## Professional services

Professional service merchants require customized payment solutions, typically invoice-based and often tied to hourly or project-based work. Flexibility is key, with customized payment plans based on the scope of service. Advanced fraud tools, diverse payment plans, and fraud review dashboards are commonly deployed.

**Businesses should assess their unique payment characteristics before choosing strategies. Simply layering payment strategies can be cost-ineffective and lead to operational inefficiencies. Understanding how customers shop and make payments, as well as identifying vulnerabilities to specific types of fraud, is essential.**



## Four key pillars.

Mastering the four key pillars of authorization rate enhancement, fraud management, uptime and reliability, and digital experience is your key to business optimization and resilience.

### Authorization rate enhancement:

Tailor strategies to your industry's payment dynamics. Understand nuances to optimize authorization processes, increase successful transactions, and boost customer satisfaction and revenue.

### Elevate fraud management with AI & advanced tools:

Utilize AI-driven technology and sophisticated fraud detection tools to fortify your fraud management strategy. Real-time analysis of vast datasets identifies patterns and anomalies, minimizing fraudulent activities while ensuring smooth legitimate transactions.

### Strengthen uptime & reliability through integration:

Achieve operational efficiency and high uptime by integrating various platforms into a unified gateway. This streamlines payment processing, reduces potential points of failure, and ensures consistent service, maintaining customer trust and business continuity.

### Enhance digital customer experience with back-end focus:

Deliver an exceptional digital customer experience by prioritizing back-end management, particularly inventory logistics. Scalable operational structures, efficient inventory tracking, timely restocking, and responsive logistics can improve conversions and help support long-term growth.





# How PayPal can help.

Take action now to optimize and help safeguard your business with PayPal. Reach out to us for tailored solutions that enhance your customer experience, streamline operations, and protect your business from the evolving landscape of payment challenges.

