



A How-To Guide for Alternative Payment Methods



Introduction

As the world economy begins to restart, online merchants are eagerly eyeing the global market for new customers. But access to potentially billions of consumers comes with its own business challenges. No two shoppers are the same, and those in different regions may have idiosyncratic preferences for how they pay.

This is what alternative payment methods (APMs) were made for—empowering merchants to expand their horizons and drive conversions among a near-limitless customer base, while reducing fraud and disputes, and optimizing operational costs.

Having occupied the fringes of the payment industry for some years, APMs are now mainstream. Driven by the success of digital wallets, they account for an estimated 65% of ecommerce payments, and are predicted to surge to 72% by 2023.¹ But the landscape isn't uniform across the globe.

In Europe, digital wallets dominated in 2020, accounting for over a quarter (26%) of online payments, although bank transfers (13%) are also popular.² Buy Now, Pay Later is gaining traction in several countries, including the United Kingdom where Buy Now, Pay Later (BNPL) services are the fastest-growing online payment method, growing 2x as quickly as bank transfers and more than 3x the rate of annual growth in digital wallets.²

By 2023, it is expected that there will be 33% of the market share of digital wallets payments in the UK.² The use of digital wallets in the UK is higher, with 31% using digital wallets compared to 23% in the US.³

The pandemic has driven some consumers to look outside their own country for bargains in ever greater numbers—offering merchants new opportunities to sell cross-border. APMs are an increasingly important method of reaching these consumers and, it's important to remember, that the more specific payment methods can offer the best results.

This paper has been designed to help merchants overcome these challenges and more. It provides a high-level overview of what APMs are and how they work around the world, their key benefits for merchants and how PayPal can help.

When deciding which APMs to include, merchants should consider quality and relevance over quantity.



65% of ecommerce payments use alternative payment methods.¹

1. PPRO, Payments in a Time of Social Distancing, 2021.

2. Worldpay Report from FIS 2020 Global Payments Report - "Use of "buy now, pay later" products in the UK set to more than double by 2023, finds new Worldpay report". Published on Feb 29, 2020.

3. Forrester, Commissioned by PayPal, September 2020. To evaluate the state of mobile checkout experiences and payments, Forrester conducted online surveys of 2,064 consumers (US : N=1,039; UK:N=1,025 aged 18+) who had made a mobile purchase in the previous month and 202 decision makers at merchants (US:N=101; UK:N=101) that sell on mobile channels.

What Are APMs?

APMs are payment methods that, as the name suggests, are used as an alternative to traditional credit and debit cards. These could include digital wallets, cash payment methods, bank transfers or other payment types that operate only in specific regions for local populations.



Digital wallets are predicted to account for nearly 41% of all ecommerce payments by 2024.²

Some common examples include:



Digital/ mobile wallets

One of the most popular alternative payment methods, these offer an electronic way to store funds and make payments online, in-app or in person. They are prepaid accounts where you can store money for future transactions or link to a card or bank account. Wallets typically require customer verification such as biometrics, SMS or passcode to complete a payment. Examples include Alipay, WeChat Pay, PayPal, Venmo, Apple Pay, Google Pay, GrabPay, etc.



Bank redirects

Bank redirects add a layer of verification to complete a bank debit payment. Instead of entering their bank account information, customers are redirected to provide their online banking credentials to authorize the payment. Examples include iDeal, Bancontact, P24, Giropay, EPS.



Direct banking

A simple transaction that allows customers to pay securely through a direct connection to their local bank account. Examples include SEPA.



Vouchers

Vouchers enable customers to use cash to make online payments. The customers receive a scannable voucher with a transaction reference number that they can then bring to any ATM, bank, convenience store or supermarket to complete the payment in cash. Examples include Boleto and Oxxo.



Deferred payments

They allow consumers to get what they want today and pay for it at a future date ("try before you buy"). The buyer places an order, receives the goods, tries them/verifies they are in good order, sends back the not fitting items and, only then, pays the invoice for the items which remain with the consumer. Examples include Pay upon Invoice (PUI).

2. Worldpay Report from FIS 2020 Global Payments Report - "Use of "buy now, pay later" products in the UK set to more than double by 2023, finds new Worldpay report". Published on Feb 29, 2020.

Why APMs matter

As of January 2021, there were 4.7 billion active internet users worldwide, 93% of whom go online via their mobile devices.³ This helped fuel a 17% surge in global ecommerce sales in 2021 to exceed \$4.9 trillion by the end of the year—growing even faster in the coming years to top \$6.5 trillion by 2023.⁴

To expand internationally, capture new buyers networks and drive incremental sales, merchants will need to customize their payment acceptance approach to the unique payment needs of different geographies, cultures and domestic economies across the globe.

The ability to seamlessly accept a wide variety of global APMs can be critical to enabling business growth.

However, simply offering hundreds of payment methods and hoping for the best isn't the way to go.

As the number of APMs multiply and fragment, your APM strategy can be the difference between expanding

your reach to a broader range of customers and alienating the customers you already have.

Consumers are as passionate about their payment preferences as they are about where they shop: 82% say they're more likely to shop with an online retailer when it displays their preferred payment provider's logo, and three quarters (76%) say they spend more per visit when their preferred payment method is offered.⁵

17%
surge expected in global ecommerce sales in 2021.⁴

71%

of consumers are more likely to trust businesses that offer their preferred payment method.⁵

26%

of online shoppers have abandoned a transaction because their preferred payments provider wasn't available.⁶

70%

of consumers are more likely to spend more at a merchant that offers their preferred payment method.⁷

3. Forrester, Commissioned by PayPal, September 2020. To evaluate the state of mobile checkout experiences and payments, Forrester conducted online surveys of 2,064 consumers (US : N=1,039; UK:N=1,025 aged 18+) who had made a mobile purchase in the previous month and 202 decision makers at merchants (US:N=101; UK:N=101)that sell on mobile channels.

4. Statista, Global digital population as of January 2021, September 10 2021.

5. eMarketer, Retail Ecommerce Sales Worldwide, 2019-2024. December 2020.

6. Braintree, Why Relevant Local Payment Methods are Key to Optimizing Global Expansion, accessed January 2022.

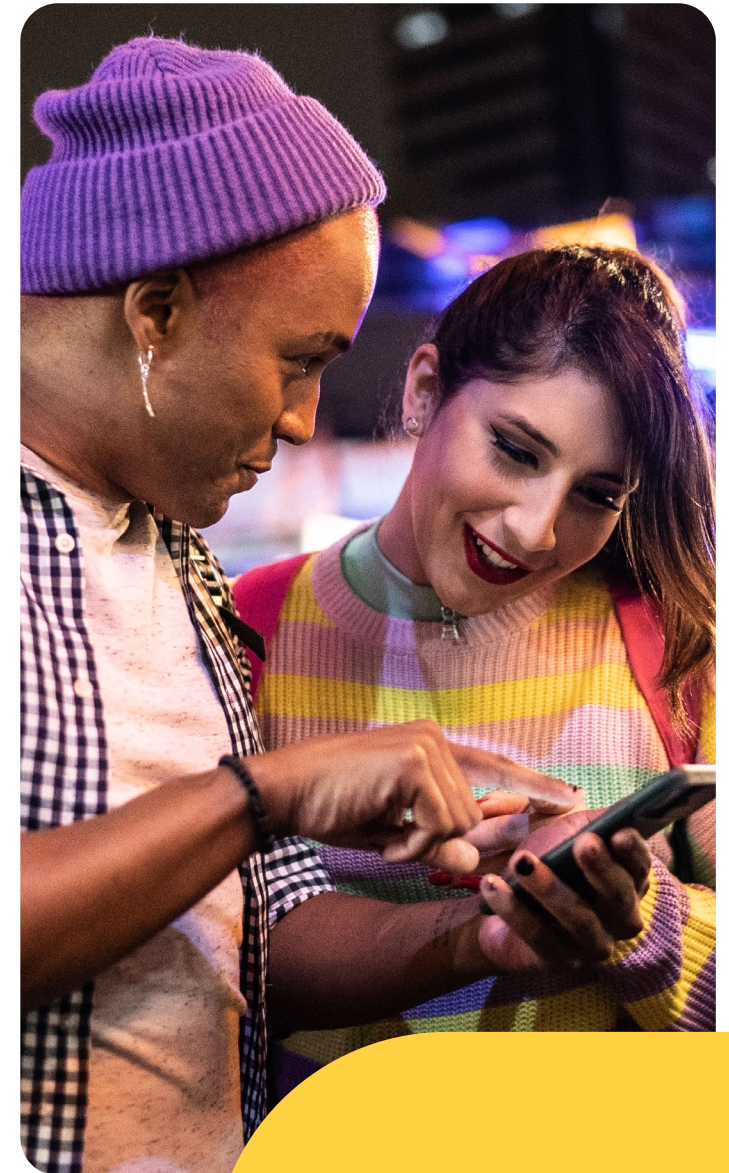
7. A Mercator Advisory Group Research Brief - "Are You Maximizing Your Revenue Potential?", Sponsored by PayPal, December 2020.



Choosing the Right APMs

26% of shoppers abandoned their carts when their preferred payment methods were unavailable at checkout.⁸ APMs can be a key differentiator for merchants to help to drive sales. But how do you go about choosing the right ones for your customers?

- 1. Understand what business goal you're trying to achieve. Are you looking to serve existing customers?** Or attract new ones? Is this goal to increase frequency of spending or average sale size?
 - 2. Cross border.** In a global economy the merchant should look for the APMs for the countries where they are already aware of the cross-border corridors to strengthen the payment options relevant to that particular country.
 - 3. Consider how it will impact your payment processes.** Could it delay settlements? Will it impact reconciliation and reporting?
 - 4. Understand the impact on the customer experience.** Once again this comes down to understanding the local behavior and payment needs of the markets that you operate in — what APMs are right for your customers, communicating honestly and transparently with them.
 - 5. Consider the costs involved.** This includes technical integration and ongoing management, monitoring, reconciliation, etc.
 - 6. Understand the potential fraud impact of various APMs and whether you will be responsible.** This could be considered another potentially hidden cost.
 - 7. Do your due diligence on providers.** The market is awash not only with different APM types, but also vendors. Take time to understand what each has to offer.
- Too many payment options can be confusing and frustrating for customers, adding unwanted extra friction to the checkout process. It might even slow page times down. But more than that, it all comes down to quality—or relevance—over quantity.**



⁸. Online study commissioned by PayPal and conducted by Netfluentia in November 2020, involving 1,000 US online shoppers ages 18-39 N.

PayPal Offers Merchants a World of Ways To Pay

PayPal makes it easy to offer the most relevant payment methods based on your customers and business—with a seamless, scalable and highly flexible approach.

Integrating an alternative payment method individually can take multiple months. Thanks to PayPal's expansive local payment coverage and acquiring footprint, merchants can accept and reconcile APM payments across borders with just a single integration into PayPal and easily turn on new APMs as they become available on our roadmap.

This capability is available across the globe, although some APMs will only be available for domestic use.

PayPal makes APMs simple, robust and scalable— driving enhanced conversions, improved customer experiences and operational benefits.

Thanks to PayPal's expansive coverage and footprint, merchants can accept and reconcile APM payments with just a single integration into the PayPal Commerce Platform.



Enhanced conversion rates and trust

- Drive familiarity, trust and loyalty by allowing customers to pay by their preferred methods and currency. Reduce cart abandonment and convert browsers into buyers.
- Enhance the customer experience through a fully customizable APM placement, for earlier engagement and a seamless checkout.
- Full flexibility and control over APM presentation so it's consistent with merchant brand look and feel.



Access new customers and markets

- Offer the most relevant payment methods to expand reach into untapped markets. Personalization and localization to specific geographies, economies and cultures.
- Full visibility into buyer actions and which APMs they favor.
- Increase cross-border payment volume and revenue.



Improved risk mitigation and compliance

- Easily expand into new markets with minimal resources or regulatory risk.
- Fully compliant with the EU button law and full transparency of end-to-end local payment processing.



Enhanced operational efficiencies

- With instant funding, funds get settled into the merchant PayPal account right after the buyer completes the APM checkout flow.
- Localize the checkout experience via enabling/disabling relevant APMs with little or no additional code.
- A single integration into PayPal enables merchants to accept and reconcile cross-border payments with no need for additional integration or contracting.
- PayPal continues to add more APMs to its inventory, all of which are provided to merchants automatically.
- Increase staff productivity through consolidated monitoring, reporting and payouts.
- Support popular APMs with a single entity and bank account (no need to set up a local entity in each new market).

Conclusion

APMs are an increasingly important part of the payments landscape and will become even more so thanks to the impact of regulations like the EU's PSD2, and as more users come online around the world. As these figures creep up, new consumers around the world will bring with them into the digital sphere their own payment preferences.



Merchants that understand these long-term trends, and the benefits alternative payments can drive for their business, are still faced with the challenge of operationalizing an effective APM strategy.

That's why you need a trusted partner with global reach, a large international acquiring footprint and decades of digital experience.

To learn more, visit our [local payment methods hub](#).

Want to get started on the path to our end-to-end payment solutions?

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