THE PAYPERS

Insights into Payments

Monetisation of Digital Business Models

Insights into Billing and Recurring Payments

MGI Research

Monetisation of Digital Business Models

Insights into Billing and Recurring Payments

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Introduction

Context

Nowadays, consumers expect to be able to engage with products and services fast and easy, while companies are trying to meet these expectations by simplifying the purchase and delivery processes. Customised offers, one-click checkouts, and fast replenishment processes are benefits that many customers expect.

In order to reach customers directly and to ensure a constant connection with the end-consumer, companies look for new business strategies and new monetisation models. Some concepts like renting, subscribing, pay per use, pay per click, etc. are top of mind for businesses from a wide range of industries, selling digital but also physical goods, and the transformations implied are related to the means through which customer demand is created and translated into revenues.

As MGI Research shows, over the next five years every type of business and organisation will be required to invest in new systems and processes to exploit the opportunities created by new business models and to meet the changing expectations of business and individual consumers. The total amount of these investments is forecasted to exceed USD 172 billion. The downside, however, is related to the challenges companies face when sustaining certain business models. Subscription services and other models as means of monetising digital or physical goods registers a huge growth, but the true potential of this business model is related to the way in which companies succeed in maintaining a low churn rate. According to **McKinsey**, the subscription ecommerce market has grown by more than 100% a year over the past five years. However, around 40% of ecommerce subscribers cancel their subscriptions and more than 30% of consumers who sign up for a subscription service cancel it in less than three months.

Merchants are constantly preoccupied with targeting the right customers and designing a smooth onboarding process. In this case, free product trials are perfect for testing out new products before making a purchasing decision. Nonetheless, sometimes a free trial can unintentionally turn into a recurring product subscription that may be difficult to call off, which is costly for both consumers and their banks. For this reason, earlier in January 2019, **Mastercard** has issued new rules for merchants that offer free-trials and retain card information. According to the new rule, merchants will be required to gain cardholder approval at the conclusion of the trial before they start billing. Merchants will have to notify the cardholder regarding the transaction amount, payment date, and merchant name, and provide them with clear instructions on how to cancel a trial. The new rule only applies to free trials for physical products.

With all these complexities involved, companies looking to adopt new monetisation models and get the most out of the ones already implemented need to stay on top of the latest trends and developments, understand the regulatory aspects meant to protect consumers' privacy and data, and learn from other success stories to maximise the success of their own business strategies.

Our commitment

The Paypers is always committed to providing clear perspectives on the ever-changing commerce and payments environment in order to help professionals and industry players understand the opportunities that arise and keep pace with the latest developments.

The first edition of the report covers the main trends that are top of mind for merchants, payments executives, and not only. These topics can prove significant in the strategic thinking process for merchants and technology providers, as they can determine the most successful path and the right partners.

Apart from the major trends reflected by the editorials and interviews featured in these pages, professionals can also find a must-read overview on the M&A and investments in the subscription space and a glossary with the most relevant terms. ➔

Introduction

Structure

The first edition of the report features three chapters, dedicated to new business models and monetisation in the digital economy, subscription economy, and to billing and recurring payments. The guide also encloses a glossary of the jargon and terms used by the industry.

The first chapter, **Monetisation in the Digital Economy – New Business Models**, depicts the latest trends and developments in monetisation models and subscription commerce. The focus is on understanding what is dominant today in subscription commerce and in the monetisation of the digital economy, from the need to speed and business agility to agile monetisation platforms and anything touching revenues, profits, and customer relationship with a business. From an organisational point of view, the educational articles enclosed in this chapter describe the challenges arisen from making the move from a product model to delivering a subscription service once companies move to a recurring revenue model. As MGI Research shows, in 2019, we witness an interest in offering complex subscription plans. In addition, vendors that only offer simple subscriptions are at best growing in line with the overall industry, while billing companies that support simple to complex subscription models are growing faster than the market average.

The second chapter, **Subscription Economy**, encloses a series of educational articles and interviews with top industry players and specialists that share their expertise and success strategies, along with statistics and in-depth analysis of the current state of the subscription economy. On one hand, the focus here is to provide the insights merchants need in order to sell their digital goods in emerging economies, like the ones in LATAM, and present what the global growth perspectives are. Additionally, another important aspect depicted in the pages of this chapter are related to regulatory aspects, with special attention to PSD2, merchant-initiated recurring card transactions, SCA and the EU's Digital Content Directive that influences subscription-based businesses. Separately, the chapter features an overview of the subscription economy landscape depicting the most important mergers and acquisitions, investments, and developments that have as main actors companies with a subscription-based business model but also solution providers.

The third chapter, **Billing and Recurring Payments**, approaches the aspects that shape the payments side of implementing new business models and presents the key challenges for companies that are looking to monetise their digital services. Delivering a seamless purchasing experience is an integral part of a successful subscription and determining the right payments strategy can prove very complex, due to the multitude of solution providers in this space. When considering payments facilitators and merchant of record models, it is of utmost importance for organisations to understand what is key in order to maximise their value and avoid disappointment when deploying them.

Acknowledgement

We would like to express our gratitude to our partner, MGI Research, and to all our thought leaders, consultants, organisations and top industry players that contributed to this edition, providing us with valuable insights that helped us depict a comprehensive picture of the entire process and factors implied in the monetisation of new business models. All the insights shared by major players in the industry and renewed specialists and consultants can constitute the basis behind the strategic thinking and forging of future success stories.

Table of Contents

Monetisation in the Digital Economy – New Business Models

MGI Research

Trends in Subscription Commerce: Agile Monetisation Rising

About Andrew Dailey: Andrew Dailey is a Managing Director of MGI Research, an independent research and advisory company focused on disruptive business and technology trends. Mr Dailey leads the agile monetisation and quote to cash coverage for MGI. He has over 25 years of diversified technology and financial services experience as a software executive, industry analyst (Gartner), and advisor to Fortune 500 companies. He is a co-founder of Gartner's Software Asset Management service, and served on the team that coined the term ERP in the early 1990s.

Andrew Dailey ▪ *Managing Director* ▪ MGI Research

In an era of rising customer expectations, the notion of frictionless commerce is gaining currency. In our personal lives, customised offers and one-click checkouts are the norm. Amongst the digital native millennial generation, there is no patience for anything but a seamless purchasing experience. This expectation now extends to the world of B2B commerce.

Rising to meet this challenge is not easy. Companies have weighed down legacy processes and systems while competitive and shareholder pressures compound the challenge, forcing organisations to improve their game, simultaneously limiting their ability to invest. With this as a backdrop, three trends are dominant in subscription commerce today: the need for speed and business agility, prioritisation of investment in agile monetisation tools, and enterprises embracing the journey and reaping the rewards of an agile monetisation platform.

In an era of uncertainty, never before has the need for business agility been so pronounced. Global brands that once dominated their category have been swept aside by ascendant subscription-businesses. From razor blades and movies to IT hardware and software, customers have switched from buying a product to subscribing to a solution. Digital native companies are disrupting highly profitable markets, eroding margins and rapidly making impressive market share gains.

Whether it is a digital native or a 100-year-old business, organisations in all industries and sizes are striving to move faster – to launch products faster, to introduce new offers, and to respond to customer needs in days or weeks rather than months or years. Businesses that once sold via a distribution channel are now looking to build a direct relationship with the end consumer. This changes the requirements for systems of engagement, as well as for operations and finance systems like billing.

Understanding customer preferences and profiles is vital to creating customised offers that are presented quickly and that can be delivered at scale. Ecommerce teams and systems can no longer be an island – they need to be integrated into the entire enterprise business platform.

Customers want to know the availability of products and inventory, they want to have the agency to place their own orders, to see consumption trends, to increase or decrease a subscription, and to provision their services themselves. In addition, they want it now, right now, not when the business opens, at 9am in your time zone, and definitely not tomorrow or next week. Everyone wants to move faster – it's not just the customer that wants faster response times. Boards of directors and investors are pointing to hyper-growth unicorn startups and pushing executives for greater speed and growth. The need for speed is pushing legacy systems beyond the breaking point.

Over the past five years, the weaknesses of traditional systems have been exposed. Most ERP systems cannot handle subscription or usage billing without expensive and time-consuming customisations. Most commerce systems that are more than ten years old cannot handle today's requirements. ➔

The good news is that modern, cloud-based solutions that address all areas of monetisation – from quoting systems, to commerce sites, subscription billing engines, payments providers, and more – are available, and these systems provide best-of-breed functionality in specific domains.

Today, organisations are re-thinking their business and IT priorities, as the demand for greater business agility combined with the ever-increasing strength of the new tools makes it possible to modernise even the most calcified business platform. The concept of an agile monetisation platform – AMP, for short – is gaining acceptance as legacy systems are replaced and core processes are re-imagined and streamlined.

Monetisation, defined as how demand is created and translated into revenues, profits, and business differentiation, is becoming the focus of many digital transformation and customer experience (CX) projects. To be digital, by definition, a process should not include human intervention. The millennial consumer – and in fact all consumers – now demands a seamless experience. Many of the areas of analogue friction can be found in traditional CRM and ERP systems and back-office operations. An agile monetisation platform gives organisations the speed and operational scalability required.

Processes that were once reliant on manual touchpoints or used spreadsheets to manage edge cases are being re-calibrated to eliminate bottlenecks. Instead of sales managers manually approving custom offers, customers themselves are able to configure complex orders, select the pricing model that fits their needs (subscription, usage-based, tiered, etc), and push the 'buy now' button. Product managers are able to introduce new services, with different price points and options based on customer profiles, and then ramp them up if they are successful or quickly shut them down if not. Unable to handle the growing complexity of enterprise contract arrangements, many companies allow revenue to go unbilled or uncollected.

MGI Research estimates that the average revenue leakage in a company is 3–5%. Finance directors hunting for a positive earnings surprise are able to justify the investment in a new billing solution based on this data point alone. Modern payments solutions allow customers and business partners to be paid faster, in the currency of their choice, and provide the enterprise CFO with greater speed, transparency, and lower fees. These are just a few of the many benefits that are being realised by adopters of AMP.

The market is whole-heartedly embracing these new tools. The average subscription billing vendor is growing 30–50%+ annually, an indicator of underlying demand. Compared to other categories of enterprise applications, vendors in the AMP segments tend to have above industry average growth rates overall. Clearly, subscription commerce and agile monetisation are becoming investment priorities.

The third major trend in subscription commerce in particular, and business in general, is the growing embrace of AMP as a business journey. Order management, billing, ecommerce, and payments, these critical elements of monetisation are also at the heart of a business. Anything touching revenues, profits, and customer relationships is the life-blood of an enterprise. A disruption or stoppage can put the entire business at risk. At the same time, the cumbersome, expensive, and tightly-coupled legacy systems that we are eager to replace have been in place, delivering revenues, profits, and passing audits for years. These often convoluted and highly customised systems have taken years, even decades, to put in place. It would be unwise, and unnecessary, to rip and replace these systems overnight. Progressive organisations recognise that the move to AMP is in itself a process, which often begins with the need for a cloud-based, agile solution in a single domain – eg a new quoting tool, an agile billing engine, or a fresh payments infrastructure. The benefits these individual systems deliver often exceed expectations.

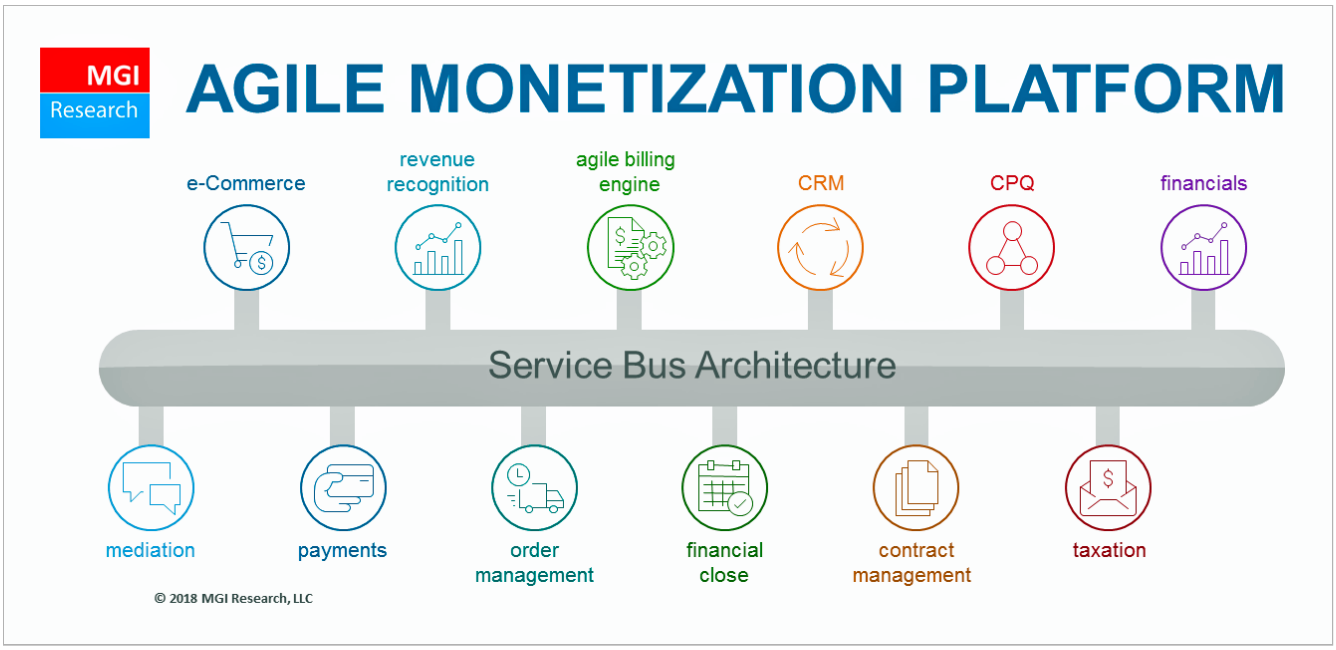
The interconnected nature of the quote to cash process highlights the organisational need to address monetisation holistically. For example, a new subscription billing system pushes the business to consider who (if anyone) owns pricing, and where the master price book should reside within the enterprise architecture. →

Should customer accounts mastering objects be part of CRM, billing, or legacy ERP? These questions, and the vital complexity they expose, tend to open eyes and focus management attention on solving the broader monetisation challenges. It is in these moments of financial and operational introspection that many organisations hear the call and begin their monetisation journey.

Business today faces myriad challenges – rising customer demands, a growing number of activist shareholders pushing management for faster growth and increased profitability, and a legacy base of IT systems and business processes that are slow to change and rife with friction.

Progressive executives are addressing these challenges and beginning to deliver break-through experiences by looking to the concept of an agile monetisation platform. For these leaders, digital transformation and the adoption of new business models are only possible when the underlying monetisation capabilities of the enterprise are brought into the cloud-first agile era of the 21st century. Not only does it require across-the-board investments, but it also necessitates sustained organisational commitment to embark on a transformational journey.

Agile Monetisation Platform – AMP



About MGI Research: MGI Research is an independent research and advisory firm focused on disruptive business and technology trends. It serves business and finance executives, tech CEOs, and institutional investors.

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MGI Research

New Monetisation Models: Subscriptions and Beyond

About Andrew Dailey: Andrew Dailey is a Managing Director of MGI Research, an independent research and advisory company focused on disruptive business and technology trends. Mr Dailey leads the agile monetisation and quote to cash coverage for MGI. He has over 25 years of diversified technology and financial services experience as a software executive, industry analyst (Gartner), and advisor to Fortune 500 companies. He is a co-founder of Gartner's Software Asset Management service, and served on the team that coined the term ERP in the early 1990s.

Andrew Dailey ▪ *Managing Director* ▪ MGI Research

Agile monetisation rising

As individuals, we are now accustomed to discovering and engaging with products and services from the palms of our hands. Commerce leaders like Amazon and the myriad platform businesses built on top of the iPhone (like Uber, Airbnb or Delivery Hero) have made the purchase and delivery of all types of goods and services incredibly simple. They have also brought new pricing and monetisation models into the mainstream. Instead of owning something, the concept of renting or subscribing to a service is now a possibility. These two pervasive trends – the notion of frictionless commerce and acceptance of new pricing models that enable completely new types of businesses – are now transforming nearly every industry around the world. At the root of these trends is the notion of monetisation: the process through which customer demand is created and translated into revenues, profits, and business differentiation.

At MGI Research, we see three over-arching macro drivers for monetisation. First, innovative and highly disruptive business models have irrevocably altered consumer expectations. Either in a B2C scenario or a B2B context, buyers of goods and services today expect a 'one-click' purchasing experience, available anytime, anywhere. The notion of omnicommerce that came out of the retail industry now applies to all industries. Disrupters across a wide swath of industries from hospitality (Airbnb) and grocery (Instacart), to transportation (a plethora of ride-sharing services) have forced companies of all sizes to rethink their product and services offerings. New subscription offerings and 'as a service' business models are putting pressure on existing systems, highlighting their age and lack of agility as product managers, sales leaders, and even CEOs demand faster time to market (even though many of the operational and financial systems in place aren't designed for these new models and/or rapid change).

Secondly, regulations and government intervention into 'digital business' are on the rise. Tax regimes are changing as governments seek to fill fiscal gaps by imposing new taxes on digital goods and services. Modern technology also is changing the nature of regulation and the ability of the regulatory bodies to collect; tax authorities are able to track and record digital transactions in ways that weren't possible in the analogue world.

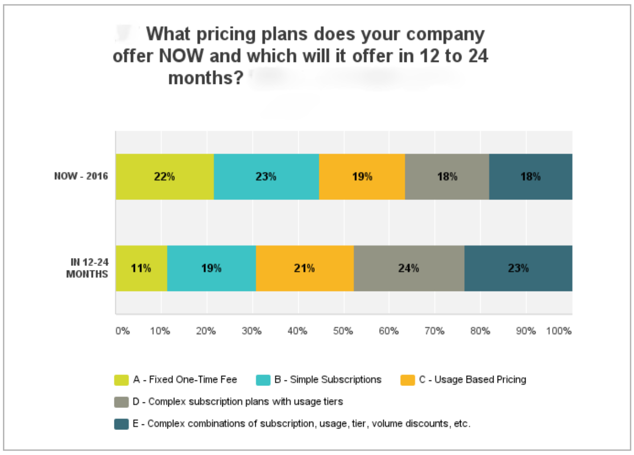
Thirdly, cloud computing and the scalability of agile monetisation solutions opens up all kinds of new possibilities. Global giants with hulking legacy infrastructures can gain the speed and faster time to market that their startup competitors have. Conversely, startups can now afford sophisticated systems and monetisation services that can instantly enable them to reach a global customer base. The single demand driver for new monetisation solutions is speed. Companies big and small share a hyper-intense need for speed. Faster time to market, faster time to introduce new offerings, faster time to expand geographically, faster time to respond to customer demands – everyone wants to move faster.

Monetisation models

In 2016, MGI Research conducted a survey of organisations around the world, asking various questions regarding the evolution of pricing plans and current and future plans for adopting new ➔

modes of monetisation. Despite years of past investment in enterprise business applications, nearly 60% of the respondents cited significant customer friction due to billing disputes. This single issue underscores a common challenge. For all the emphasis on improving the customer experience and digital transformation, organisations of all types are struggling to operationally keep pace with the needs of their customers and their own desire to introduce new offers into the market. This, in part, explains the growing interest and investment in monetisation.

The survey data also uncovered a key insight. Organisationally, it was a challenge to make the move from product model with a single price to delivering a subscription service. However, once companies move to a recurring revenue model, they experience the success of offering a broader range of pricing models and quickly want the freedom to present customers with a wider variety of pricing plans beyond just subscriptions.



The survey data at the time clearly illustrated the shift from simple one-time charges and simple subscription models towards sophisticated, hybrid approaches that combine subscription, tiered pricing, usage, and volume purchasing options.

- share of fixed one time charges (OTC) is on the decline from 22% in 2016 to 11% by 2018;
- share of simple subscription plans is expected to decline from 23% in 2016 to 19% by 2018;
- usage-based is expected to gain share modestly from 19% in 2016 to 21% by 2018;
- complex combinations of subscription pricing with usage tiers are expected to gain share from 18% in 2016 to 24% within by 2018.

In 2019, the market evidence supports what the survey data predicted. Interest in offering complex subscription plans – eg product bundles, tiered models with a combination of upfront commitment and usage-based charges, et al – is exploding. Growing demand for supporting complex pricing models is also evident in the performance of the billing vendors. Vendors who only offer simple subscriptions are at best growing in line with the overall industry while billing companies that support simple to complex subscription models, as well as more sophisticated rating capabilities, are growing faster than the market average. The early leaders in subscription billing are moving into usage-based and support for more complicated business models.

Responding to the customer's needs requires investment in tools and capabilities that provide functionality that is far deeper than where most 'digital transformation' efforts are focused today. They require a rethinking of business models and a re-invention of the monetisation engines that power them.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Subscription Economy

Selling Existing Products in New Ways

Subscription models have been around for a while. During the seventeenth and eighteenth centuries, the publication of different materials by **subscription** was anything but an isolated economic phenomenon – readers often subscribed to receive books or even news of that time in printed form. Charles Dickens himself sold his novels as a subscription. Four hundred years later, however, there are seemingly endless possibilities for new types of subscriptions, for a wide range of services and products, from cable television, meal packages, gym, music, and video services, to pet food, washing machines, or even razors.

Nowadays, according to an **analysis** by ING, European consumers alone spend up to EUR 350 billion per year on subscriptions. If a consumer wants to watch a movie, they will probably stream it through Netflix, HBO Go, or Amazon Prime Video, and if they want to listen to music, companies such as Spotify or Deezer usually make it available. The term 'subscription economy' refers to the business landscape in which brands function under a subscription-based model, as opposed to a pay-per-product (or service) structure. In the framework of the subscription economy, the service or product, be it digital or physical, is provided for a fixed monthly fee, as part of a contract that stipulates its frequency of usage or delivery, its cost, and its timeframe.

Gaining momentum

It comes as no surprise that, according to **McKinsey**, the subscription ecommerce market has grown by more than 100% a year over the past five years. Consequently, according to an **analysis** by ING, the ongoing growth is enabled by factors such as:

- technological developments, like IoT, big data, and smart devices, which facilitate subscription models, making them more attractive for businesses;
- a shift in consumer preferences, determining the emergence of a different way of engaging with customers; time, accessibility, sustainability, convenience, transparency, and flexibility are some of the benefits that come with subscriptions;
- stronger relationships with customers, therefore companies listen, engage, and continually serve their customers' expanding interests, helping them discover and sample new products they might not have otherwise known about;
- the current low-interest rate environment, that supports the subscription business model, making subscriptions more attractive for consumers as well;
- the added value – or, simply put, an improvement or addition that makes the worth of a product or service grow – varies from offering to offering and can, for instance, consist of extra services, extra convenience, a lowering in transaction costs, the flexibility to upgrade/downgrade, or even a combination of these.

What is more, Gartner **predicts** that, by 2020, all new entrants and 80% of historical vendors will offer subscription-based business models.

The challenges

Subscription-based business models come with specific challenges, which include ensuring the financial data of customers is secure, managing chargebacks and invalid payments (recurring payments typically have higher payment failure rates, as card details expire and cards are often lost or stolen), and controlling customer churn. According to Verifi's **study**, chargebacks represent one of the major pain points for companies with a subscription-based business model, with some customers not remembering they had subscribed or simply forgetting to cancel. Another challenge for subscription providers is matching supply and demand, since consumers are more likely to cancel a service when it cannot meet their requirements. Therefore, one of the biggest challenges facing companies that have a subscription-based business model is churn. It can undermine their growth, since the cost of replacing lost subscribers could also make it difficult to meet long-term objectives. That, in turn, leads to a different challenge: the acquisition and then the retention of consumers. According to **McKinsey**, conversion is still weak, with only 55% of those who consider a service ultimately subscribing to it. However, there are several things that can be done in order to improve this, such as understanding the key touchpoints in the onboarding process and adjusting it, identifying the needs of different customer segments, using testimonials and reviews from other customers to increase trust, and clearly presenting the key features of a certain product/service. ➔

Selling Existing Products in New Ways

Moreover, regulations worldwide are changing and the recent ones greatly impact the subscription economy. **Strong Customer Authentication (SCA)** is part of a broader European law regarding payments, the second Payment Services Directive (PSD2), and will be fully implemented starting with September 2019. **Digital Content Directive** is approved by the Internal Market and Consumer Protection Committee and it covers B2C contracts for the supply of digital content or digital services, and **Mastercard's new policy** for merchants that retain customers' card information after they sign up for a free trial aims to help increase transparency and ensure a streamlined experience for cardholders.

The expert knowledge

In this chapter, payment professionals – from associations to ecommerce and invoicing service providers – share their expertise on best practices and key challenges that occur when selling digital goods, and the main global growth perspectives. They address aspects related to the impact of regulations upon the subscription economy, offering a full spectrum perspective on this space at the moment.

Philipp Bock, Founder and CEO at the LATAM payment provider **allpago**, presents the size of the digital goods market in LATAM and the most interesting markets in this region, Brazil and Mexico, which make up approximately 65% of the entire market. He also talks about the major challenges encountered by a seller of digital goods when expanding into LATAM and elaborates on the status of payment methods across Brazil.

After going through the interview with Aston Fallen, CEO at **asknet | Nexway**, a Commerce-as-a-Service platform and merchant services provider, we reach a clearer view on the global growth perspectives provided by the digital goods and services market. He presents the synergy between Germany-based ecommerce service provider Nexway and software shop provider asknet, while elaborating on the important worldwide footprint gained by making this move.

Marc Zinnemers, CFO at **Teamleader**, a platform for CRM and invoicing, shares insights into the company's background, the importance of customer feedback, and the main challenges in terms of product, pricing, and support a company faces during its growth phase. With a churn rate that has been declining from close to 2% to below 1.3%, Teamleader proves that companies can experience organic growth by following a customer-centric philosophy.

Dr. Léon Mölenberg, Senior Policy Advisor at **Ecommerce Europe**, offers information about the Digital Content Directive (DCD) and the directive on the sales of goods, both of them providing a coherent and clear legal framework. He takes the topic further, elaborating on the purpose of DCD, which is obtaining a high level of protection and legal certainty for European consumers, especially when it comes to cross-border commerce, as well as supporting traders when selling across the European Union.

Mark Beresford, Director at **Edgar, Dunn & Company**, takes a deep dive into general and regulatory aspects of subscription economy. He provides an analysis regarding the major players in this space, the recurring payments in the financial services industry, and the recent European regulations. He also reviews the complex scenery represented by recurring payments or subscriptions and the impact SCA has on recurring transactions taking place across Europe.

Andrew Dailey, Managing Director at **MGI Research**, approaches the trends that shape the subscription commerce space and its specific payment options. He also shares insights into the role Quote to Cash plays in enabling subscription economy and the technology disruption accelerating the demand for new pricing models.

And what better way to conclude this complex chapter than with a full overview drafted by our editors, featuring some of the most important investments and major mergers and acquisitions that took place in the global ecommerce market over the last few years, while providing an in-depth analysis of the innovations and developments that are currently going on in this space.

allpago

Selling Digital Goods in LATAM – exclusive interview with Philipp Bock, allpago Founder and CEO.

About Philipp Bock: Philipp studied at the Technical University of Berlin, at the ESCP Europe in Madrid, Oxford, and Paris, as well as at the INSEAD in Fontainebleau. He holds a Master of Science in Finance, a German Diplom Kaufmann and a French Diplôme de Grande École. He is fluent in German, English, French, Portuguese, and Spanish.

Philipp Bock ▪ *Founder and CEO* ▪ allpago

What is the size of the digital goods market in LATAM and what are the most interesting markets in this region? What is the expected growth for 2019 and beyond?

We refer to the digital goods market as reaching roughly USD 70 billion without travel services, and USD 100 billion with travel services in LATAM in 2018.

The top two markets in the region are Brazil and Mexico, which make up approximately 65% of the entire market; depending on different statistics: Brazil makes up 40-45%, while Mexico – around 20%. Then, there are about 25% for the other top four markets, which are, by size, Argentina, Chile, Colombia, and Peru; and then, there are the remaining 10%, which are roughly covered by countries like Venezuela and the rest of the LATAM countries.

> *“Ecommerce in Latin America is growing at an incredible pace, making this region an attractive opportunity for Global Merchants to look at the top six markets when expanding in the region.*

Global companies usually look at the top six markets when expanding in the region. In 2018, we saw big companies such as Google, Spotify, and Netflix interested for the first-time in expanding into smaller markets, and other companies that are finally entering LATAM and they would always enter through Mexico and Brazil.

Brazil and Mexico are mature markets, making up for the big chunk of the volume (65%), but there is a lot of competition in the region, especially in terms of regulations, which stirred a lot of debate in the past month in the other top four markets. For example, in Argentina, the third market by size, the only two acquirers now process Visa and Mastercard. Considering this was not possible before, the country saw some bad times for payments as there was no competition. In Chile, in 2018, for the first time ever, the only acquirer opened up to business processing, meaning that one needn’t have to redirect 3-D Secure type of authentication process, which makes it possible for digital merchants to also operate with recurring transactions without the need for TPPs to get authorisations in real time; for them, it was not possible before.

Therefore, I believe that in these other top four markets, Argentina, Chile, Peru, and Colombia, we can say that the market deregulation and the local economic environment only made it possible for merchants to strategically consider them, which is a sign for a lot of growth expected in the next two to three years in these markets. →

What are the most promising segments within the digital goods market?

We see a lot going on around marketplaces (transportation, shared economy etc.). E-learning is also rising due to the growing middle class. Brazil, for example, is in the top three global markets for e-learning. Gaming and gambling are also promising segments, even though gambling is still not allowed in LATAM. Once this opens, there is going to be a huge growth segment.

What regulatory or other challenges does a seller of digital goods face when expanding into these growth markets?

The biggest challenge is acceptance, because there is a problem with payment methods. There is a huge lack of transparency in the market for merchants that want to understand which provider offers the best product/service. Right now, the two most relevant things for a seller are to be directly integrated and to be aware of taxes, as many digital merchants are evading taxes on behalf of their clients, without them knowing it.

In Brazil, for example, the Brazilian Central Bank has shut down a major part of the payment operations for the first time. For several ecommerce merchants and institutional providers, **it was no longer possible to process Boleto Bancário**. If one looks at the specific provider, the entire body of the operation was shut down, which led the customers to lose 20 to 60% of their revenue from one day to the other. What we always recommend is to have a legal opinion before entering any market.

Could you elaborate on what payment methods should be offered to increase conversion in Brazil?

In Brazil, for example, around 80% of the volume is processed through local cards: Visa, Mastercard, AMEX, Elo, or HiperCard. Then, there are alternative payments and other payment methods for unbanked people, like Boleto Bancário, for those who don't have credit cards or for those who simply prefer to pay in cash than with card. For digital subscriptions or SaaS companies, this should roughly make up for 20% of the entire processing volume, as we see at our clients. Therefore, the challenges that these merchants need to overcome are related to local cards and alternative payment methods.

What are the key challenges regarding fraud when selling digital goods in LATAM? How can sellers best protect their business?

According to a study conducted by **Visa**, merchants in LATAM report a chargeback rate of 1.7%, a manual review rate of 28%, and a rejection rate of 9.2%. This means that businesses are potentially sacrificing a significant portion of valid orders, thereby alienating good customers and reducing potential revenue.

We see a lot of fraud activity happening in the region. 3-D Secure is also not working in a way that we would expect it to, as many merchants prefer not to use it and rely on manual reviews instead. In the digital space, this is not possible because of real time authorisation. The main challenge, especially for our client base, is that subscription model-based business often experiences a lot of friendly fraud. This is the real problem for subscription clients, specifically when they don't have resalable goods.

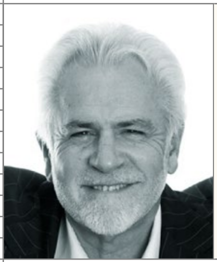
About allpago: allpago (www.allpago.com) is the leading payment service provider for Latin America, enabling ecommerce merchants and payment providers to accept all relevant local payment methods through a single platform and API in over 90% of the Latin American Market.

www.allpago.com

Type of service provider	Payment Service Provider (PSP)
Active since	2010
Operational Area	Argentina, Brazil, Colombia, Chile, Mexico, Peru
Industries	Digital products in general, specially software licensing, e-learning, gaming, with a focus on merchants running subscriptions models or in need of one-click or recurring functionalities.
Sales channels	Ecommerce
Core services	Gateway, payment facilitator, crossborder transactions
What is unique about your company?	allpago is always directly connected and directly contracting all acquirers and payment providers. This enables the local experience that the merchant wants to offer to its end-buyers in Latin America (processing in local currency, excellent auth rates, identification of Merchant on all transactions, transparency etc.). allpago doesn't work with any third-party processor. allpago has built all its systems in order to enable the features that are key for the success of those models (real-time authorisation, eg one-click for transactions without CVV, card-updater, intelligent routing, chargeback disputes etc.).
Payment Methods supported	1. Credit cards (local and international) 2. Debit cards (local and international) 3. Cash payment methods 4. Bank transfers 5. PayPal Wallet
Potential reach (growth plans)	90% of coverge in LATAM ecommerce

asknet | Nexway Group

Digital Goods and Services Market: Global Growth Perspectives - Exclusive Interview with Aston Fallen, asknet | Nexway CEO



About Aston Fallen: Aston Fallen is an experienced multi-national entrepreneur and C-level executive focused on building digital commerce businesses worldwide. Aston's specialties include leadership of multi-cultural companies in several countries, re-structuring of challenged businesses, international sales & marketing, and public relations. Aston holds an MBPA from Southeastern University.

Aston Fallen ▪ *CEO* ▪ asknet | Nexway Group

How has the market of selling digital goods and services evolved over the last years and what are the global growth perspectives?

The word best describing this growth would be 'extraordinary', especially looking ten years or further back. We are talking about a different acceptance level in the sale of digital goods and services. Ten years ago, the whole concept was relatively new from both the consumers' and the general practical point of view.

In this 10-year period, you can point to very effective success stories, Amazon being probably the most well-known. The idea to take a small online bookstore and convert it into the worldwide behemoth that it has become, is an example of how they learned to interact with the end-user effectively and, as a result, build the confidence in the end user to purchase online.

> *"The acquisition of Nexway SAS will enhance asknet's ability to simplify selling products and services globally, enabling businesses to accelerate sales, reduce time to market and manage operating costs.*

Other benchmarks include specific sales periods (Black Friday, Christmas/pre-Christmas season), showing over the years an evolution from a very small percentage of overall sales to gradually becoming the most important part of the season.

If we measure the value of overall sales of products online, the smaller percentage (roughly 20% of worldwide sales) is comprised of digital goods, while the remaining 80% is made up of physical products. Thus, the market of selling digital goods and services has not just evolved, it's just grown to such an important part of what we as individual purchasers, buyers and users, are using on a day-to-day basis.

Could you elaborate on the synergies in both product and geographical markets, as well as market segments?

The reason why we chose to bring asknet and Nexway together is that there was so much complementarity between the two.

First of all, there are new geographical market possibilities. The German company asknet has been present in the German, the northern European, Asian and the US markets, while the French company, Nexway, has been present in the French-speaking, the southern European, the Latin American and the US markets. Therefore, joining these two companies together gives us an important worldwide footprint that did not exist for either company beforehand.

Secondly, both companies have portfolios of substantial names with a worldwide footprint, but there is no overlap between them.

➔

By joining the two companies together, we now have a substantial customer database, without impeding on each other's existing customers, yet offering all the opportunity to work in new markets.

Also, given the rapid evolution of this specific area, the technology that underlies the entire process is very important to its success. When the first players arrived on the market in the late 1990s or early 2000s, they were state-of-the-art, yet today is all about the cloud, API and SaaS. Nexway, which started 16 years ago, made the choice 2-3 years ago to invest in new technology. Today, they are able to provide a customer-facing API SaaS solution that is attractive to a customer who has also grown more sophisticated. In addition to that, asknet brought on an experienced sales team who can work at a very effective product portfolio, which can be introduced to our increasingly large customer group.

Finally, each of these businesses had specific target markets that the other was not exposed to. For instance, asknet is very focused on the academic market (with portals in 90% of the German-speaking universities), while Nexway has a very effective diffusion system and works very closely with brands like FNAC-Darty, the net effect being complementarity synergy.

You have leadership and executive background in multi-national companies in several countries. Is the organisational culture in a German company (asknet) different from the one in a French company? How do you bridge these differences? Do they influence international business?

I've had the opportunity to work in the German culture on multiple occasions, both as a customer and as part of the management team. Also, the French culture is part of my identity, as I have French roots, helping me in creating a relationship of trust with my French colleagues. From my experience, the French - as a group of people - tend to be emotionally-based, while the Germans are at the opposite spectrum, seeing things in black and white. However, these two cultures can blend very well together. The secret is to get the people talking to each other, as both groups appreciate each other's qualities. You need open communication and empathy, looking at problems from each other's point of view, with the result of cultural synergy.

How do you see the capabilities of the asknet-Nexway company evolving over the next two years?

The overall digital commerce marketplace has nothing but growth – trillions of dollars worth of growth. Our opportunity as asknet-Nexway is in addressing the market with new technology, and using our expertise to help companies interact with the customer and make their businesses more effective.

However, customers are also becoming more sophisticated, and the market is evolving, with the customer needs becoming broader and more specialised. Our plan is to become even more involved in the payment facilitation process, by building out a team focused on the activities of our core business, which is merchant of record.

Finally, we can also help large organisations that carry all the processes and support all the costs (from manufacturing, to storing, warehousing and inventorying), by offering consulting services and building them a time-to-market formula or a bill-to-order model that eases the process and allows them to focus on new growth opportunities.

Type of service provider	Global Commerce-as-a-Service platform and merchant services provider
Active since	asknet = 1995 | Nexway = 2002
Operational Area	Worldwide
Industries	Software, games, e-retail, service subscriptions, education
Sales channels	Ecommerce, distribution
Core services	One single ecommerce platform
What is unique about your company?	The combined company offers the industry's most comprehensive product and service suite in the subscription billing and ecommerce space, linking payment model flexibility with advanced ecommerce, recurring revenue management, and marketing capabilities on a global level. Its API-driven platform unlocks the opportunities hidden in the changing face of online payments and customer behavior.
Payment Methods supported	300 payment methods
Potential reach (growth plans)	As of 1 February 2019, the combined group served more than 700 clients around the globe to sell their products in up to 190 countries

asknet
Enabling your eBusiness

nexway
CONNECT & MONETIZE

Sell your digital products & services
with asknet | Nexway MONETIZE.

Full-service e-Commerce platform that
solves the complexities of digital commerce,
unlocking customer conversions
& simplifying payments.

INCREASE YOUR ONLINE REVENUE

- Seamless checkout experience (B2C / B2B, direct /resellers)
- Flexible pricing & subscription models
- AI-triggered promotions & email marketing
- Real-time reports & dashboards

SCALE YOUR BUSINESS

- Rapid integration using API
- Payment processing & invoicing in 140 countries
- Multilingual customer care service
- Adapted payment methods

NO HEADACHE!

- Secured transactions
- Local law compliance
- Tax collection & remittance
- Fraud & chargeback mitigation

2 Weeks AVERAGE LAUNCH TIME	**+3 to 5%** CONVERTED ABANDONED CARTS	**+30%** INCREASED CONVERSION RATES	**77%** GLOBAL RENEWAL RATE	**20%** GREATER CUSTOMER LIFETIME VALUE

asknet | Nexway MONETIZE: Unlocks, accelerates & simplifies commerce!
www.asknet.com | www.nexway.com

Teamleader

How SMEs Can Simplify Work - Exclusive Interview with Marc Zinnemers, Teamleader CFO.

About Marc Zinnemers: Marc Zinnemers is a seasoned financial expert with over 20 years of experience in finance and operations. As CFO at Teamleader, Marc oversees Teamleader's Finance, HR and Legal department.

Marc Zinnemers ▪ *CFO* ▪ Teamleader

Can you share with our readers the story behind Teamleader and its journey since the inception?

Powered by a strong entrepreneurial spirit, CEO and founder Jeroen De Wit started his own web design agency during college together with co-founders Willem Delbare and Mathias De Loore. A customer's request for project management components prompted the idea to build a standalone software application from the ground up.

> *“Our software provides small businesses with the overview and insights they need, and takes away the burden of repetitive administration and sales follow-up.*

Eventually, they switched their entire focus to supporting and developing their new CRM software. In this context, Teamleader was founded in July 2012 and grew organically following a customer-centric philosophy. The CRM module, the beating heart of the tool, was built from scratch, based mainly on customer feedback.

Teamleader is in constant flux. Once it began to take shape, funding was raised through three consecutive funding rounds: a Seed Round of EUR 1 million in May 2014, a Series A of EUR 2.5 million in May 2015, a Series B of EUR 10 million in November 2016, and a Series C of EUR 18.5 million in July 2018, all used to further fuel the company's growth.

With all these investments, we're excited about what the future holds.

Over the course of two years, Teamleader gained a foothold in various European countries, including the Netherlands, Germany, Spain, France, and Italy. The company now counts 170 employees and it is still growing.

Every day, our team works to improve our product, in our mission to help SMEs simplify their work. We see businesses struggle to generate and manage leads. Time management is an important factor as well. Teamleader allows you to create certain triggers in invoices, create payment reminders, and so on. We help manage the entire cycle from lead to cash, helping users generate more leads and collect cash all the same.

Teamleader has a strong position in the Benelux SME market. What new growth markets does the company want to explore in the future?

Teamleader has grown to 10,000 customers by having a direct sales model. New international markets demand different sales models and go-to-market models. Germany is an example of a country where indirect sales with local partners are essential.

The company has customers in France, Italy, Germany, and Spain, and will continue to operate in these countries while building out an international distribution and partner network. The key growth markets for Teamleader are France and Germany. To that end, we are launching the channel/indirect – reseller model in Q2 2019. ➔

The market in these five countries is already very well developed, but if we take a closer look, many businesses still don't use CRM software. Over time, though, they'll understand how much of a necessity it is. On the other hand, there are companies that are using an on-premise CRM tool, which is not hosted in the cloud. We aim to increase CRM adoption and cloud CRM adoption in particular.

One of our most important segments is small consultancy agencies, as we can truly help those businesses shine. We might consider opening up to new markets, however, right now, our focus is the five countries in which we currently operate.

What are the challenges in terms of product, pricing, and support Teamleader faces in its growth phase?

Initially, Teamleader was very successful with a horizontal offering. But as we grew to over 10,000 customers, this horizontal approach held us back in terms of focus and priorities. Now, we'll focus mainly on specific segments like agencies and building contractors, which require specific features.

We have a **marketplace**, a platform that offers over 260 integrations that complement our solution, which has specific modules – CRM, project management, and invoicing – and can be labelled around simplifying the companies' work. We're talking about integrations with Google Calendar, Microsoft calendar, integrations for ecommerce activities, to web shop activities, integrations for those that want to generate more leads, for recurring payments enablement, synchronising invoices and much, much more.

Could you elaborate a bit on customer retention ratios at Teamleader and the company's strategies to maximise retention?

Customer retention is measured by churn, the actual net lost customer rate, which gives a stronger focus on driving customer success vs focusing on retention rates. Teamleader's churn rate has been declining from close to 2% to below 1.3%, and the key growth market is close to 1%. Earlier in 2018, we started mapping the customer journey and identified key touch points to drive customer success and, hence, higher retention rates. In addition, we started mapping NPS scores per go-to-market segment, to gain a deeper understanding of our successes and challenges in each segment.

What is on the future roadmap of Teamleader?

The SME CRM market is huge, and Teamleader will use a segmented strategy to conquer it. With the Marketplace, launched in 2017, we will continue to extend the offering for our customers by having local integrations and addressing any daily challenges SMEs face in their process from lead to cash.

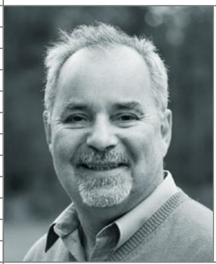
SMEs struggle with the manual work involved in their day-to-day jobs, from tracking time, to using disparate Excel sheets and sending invoices. That's where we come in: we simplify day-to-day work for European SMEs and ensure they can focus on driving their business forward.

About Teamleader: Teamleader develops intuitive cloud software that simplifies work. Built with small businesses in mind, it makes the process from lead to cash more efficient. Teamleader combines CRM, projects, invoicing and customer support in one simple software tool, and integrates seamlessly with other tools.

www.teamleader.eu

Ecommerce Europe

Compromise on the Digital Content Directive



About Dr. Léon Mölenberg: Since 2006, Léon Mölenberg is a Senior Policy Advisor at Thuiswinkel.org (**www.thuiswinkel.org**), the Dutch Association of Distant Sellers, and since 2014, he holds the same position at Ecommerce Europe (**www.ecommerce-europe.eu**). His expertise is on distance selling, consumer contract law, competition, and privacy and data protection.

Dr. Léon Mölenberg ▪ *Senior Policy Advisor* ▪ Ecommerce Europe

The Internal Market and Consumer Protection Committee of the European Parliament approved the Digital Content Directive as provisionally agreed with the Council on 20 February. The compromise ensures that the DCD and the directive on the sales of goods are congruent and provide a coherent and clear legal framework. It should provide provide for a high level of protection and legal certainty for European consumers, in particular when buying cross-border, as well as supporting traders, especially SMEs, to sell EU-wide.

Specifically, it states for uniform rules on the conformity of digital content or services, remedies for non-conformity or failure to supply and how to exercise them, and for modification of long-term digital content or services. Member states must implement the directive within two years after it comes into force, and have it applicable within six months after implementation.

Scope

The directive covers B2C contracts for the supply of digital content or digital services. This includes data produced and supplied to consumers in digital form (eg music), services allowing consumers to create, process, store or access data in digital form (eg cloud storage), services for sharing data (eg Facebook) and any durable medium used exclusively as a carrier (eg DVDs).

Tangible goods with digital elements (eg smart fridges) are outside the scope and regulated under the new sales of goods directive.

In addition, the DCD covers all supply of digital content for which the consumer pays a price, which means money or virtual currency, or provides his personal data to the trader, except where the trader processes these data only to perform the contract, or to comply with legal obligations.

'Over the top' interpersonal communication services (OTTs) are subject to the DCD. It is however not applicable to electronic communication services, healthcare, financial services, gambling services, non-digital services, and free open source software.

Maximum vs minimum harmonisation

The aim of the directive was to bring maximum harmonisation in contract rules for the supply of digital content. However, in several areas, member states will be allowed to maintain or introduce different provisions, such as a longer legal guarantee period. Member states may also regulate general contract law aspects, such as formation, validity, nullity, and contract termination in so far as not regulated in this directive, or the right to damages. The same accounts for rules on redress in the chain. This will not solve the issue of legal fragmentation in the EU; in other words, it will not help online merchants selling more cross-border in Europe.

Supply, conformity, and updates

The main obligation of the trader is to supply the digital content without undue delay after contract conclusion by making it available or accessible to the consumer. The digital content has to meet subjective conformity criteria and correspond to the description, quantity, quality, duration, version, functionality, compatibility, interoperability, performance features (accessibility, continuity, and security), as required by the contract, or be fit for any particular purpose for which the consumers require it and upon which they →

agreed with the trader. Furthermore, it must be supplied together with all accessories, instructions, customer assistance, and updates, as contractually agreed.

It also has to meet objective criteria, that require it to be fit for purposes for which digital content or services of the same type would normally be used, and have the features, performance, security, accessories, and instructions the consumer may reasonably expect.

In addition, traders must inform the consumers and supply them with updates, necessary to maintain conformity and security throughout the contract duration. Unless agreed otherwise, the most recent version of the digital content or service when concluding the contract must be supplied. However, for long-term contracts, the trader is allowed to modify the digital content, under certain conditions.

Liability, legal guarantee period, and reversal of proof

The trader is liable for any failure to supply the digital content or service and for any non-conformity. In addition, the trader is liable for any non-conformity that occurs within a period of at least two years from the time of supply and at least for the time of the contract duration. However, member states are allowed to introduce or maintain a longer period. Finally, the burden of proof of conformity at the time of supply is on the trader for any non-conformity apparent within a year from the time of supply of the digital content or service.

Remedies, hierarchy, and redress

Where the trader failed to supply the digital content or service, the consumer shall allow the trader a second chance. If the trader fails again, the consumer may terminate the contract. In case of non-conformity, the consumer is entitled to either have the digital content repaired or to a proportionate price reduction or contract termination. The former applies to all cases, except when the repair is impossible or would impose disproportionate costs on the trader. In addition, the repair must take place within a reasonable time, and must be free of charge and inconvenience. The latter applies to cases where the repair is impossible or disproportionate, the trader failed or refused to repair, or the non-conformities' nature justifies immediate price reduction or termination. The reimbursement must be performed without undue delay and within maximum 14 days from the day of termination notice.

About Ecommerce Europe: Ecommerce Europe is the voice of the European digital commerce sector. Through its 19 national ecommerce associations, Ecommerce Europe represents more than 75,000 companies selling goods and services online to consumers in Europe. Ecommerce Europe acts at European level to help legislators create a better framework for online merchants.

www.ecommerce-europe.eu

Edgar, Dunn & Company

Subscription Economy – General and Regulatory Aspects

About Mark Beresford: Mark Beresford has over 20 years of consulting experience in the financial services and payments industry. He is a Director at Edgar, Dunn & Company (EDC), based at their London office, where he supports a variety of payment providers and retail clients all around the world.

Mark Beresford ▪ *Director* ▪ Edgar, Dunn & Company

Definition

Recurring or subscription payments are not new in the financial services industry. For instance, standing orders and direct debits are recurring payments. Direct debit payments are processed through the Automated Clearing House (ACH) network in the US and, across Europe, through the equivalent clearing houses at a country level. Europe even has the SEPA Direct Debit, a pan-European clearing and settlement network for SEPA Direct Debits. Every day utility bills, rents, gym memberships, and other regular payments are processed over tens of thousands of financial institutions across the US and Europe.

However, there seems to be a relatively new trend in terminology that is creeping into the payments industry, used mainly by the payment service provider community. The term is 'subscription economy'. It refers to the business of offering subscriptions to consumers and to some companies who need certain products regularly (convenience commerce) or want to discover or try something new (discovery commerce). Their entire business relies on a subscription business model, such as video streaming (Netflix) and music (Spotify). Other companies use subscription models as a supplement to their core product sales businesses, such as Amazon Prime, whereby incorporating a subscription service into their ecommerce business model. Subscription models are starting to appear everywhere and more frequently across a wider range of businesses – file storage (Google Drive, Dropbox), fashion (Stitch Fix, Chapar), car industry (Kinto, Flexed), music (Spotify, Apple Music), fitness (Peloton), food (Blue Apron, Carnivore Club), personal software applications (Microsoft 365) etc.

As millennials shift away from car ownership, Toyota understands that it cannot continue down the same path to sustain growth. It launched Kinto, the subscription service that allows customers to drive automobiles such as the flagship Lexus for several months or switch to a sports utility vehicle. Insurance, maintenance fees, and taxes will be included in the monthly fixed price. This is effectively a leased car, and a leased car is nothing new. However, a lease may have a minimum term of three years before you return the car, whereas Kinto is aligned to be more appealing to millennials, with a far more flexible proposition, and yet all-inclusive access to a car.

Perhaps the 'reality is ownership' is dead. In the new subscription economy, young consumers want accessibility. It is true: customers have changed. Customer expectations have changed. They're looking for new ways to engage with businesses and businesses are looking at new ways of offering their products and services in a more accessible way. These include placing the consumer – or better said, subscriber – at the centre of an ecosystem of services that are personalised and catering to the need to grow along with the subscribers' changing requirements. Consumers today have a new set of expectations. They want outcomes, not ownership. They want a good experience, customisation, not generalisation. Constant improvement, not planned obsolescence. ➔

But what about the payment?

As previously mentioned, recurring or subscription payments in the financial services industry are not new. However, what is new is the source of the funds. There has been a shift from the bank account, where regular direct debit payments are the source of funds, to the credit card. Recurring payments or subscriptions are initiated by the merchant, not by the shopper; therefore, they are different from card-on-file payments, which are always initiated by the payer, the shopper. Following this reasoning, Uber is not part of the subscription economy; it isn't a recurring payment, it is customer-initiated. Other personal transport models exist, such as city bike sharing scheme, which are not recurring payments; they are based on demand and usage. Riders will rent a city bike – and there is a wide selection: Bluegogo, Mobike, ofo, YouBike, Lime-E etc – and pay based on the miles travelled. Everything is charged to the card-on-file using the customer's mobile app and the geo-location technology to provide the bicycle's location.

Impact of European regulations (after 14 September 2019)

Because the customer isn't involved in the second and all the subsequent payments in a recurring payment or subscription, security is an issue and it's about to get more complex in Europe. Recurring transactions with a fixed amount will be exempt from Strong Customer Authentication (SCA) after the first transaction when the recurring payment/subscription is created. Only this initial transaction will require SCA. However, if the amount changes, SCA will be required for every new amount. Most subscription payments will not need SCA since most of them are merchant-initiated and the amount of the recurring payment is the same.

Not fully harmonised in the UK

In the UK, the Financial Conduct Authority (FCA) – the local competent authority – has clarified that for merchant-initiated recurring card transactions SCA will only be required when the payer sets up and initiates the first of a series of payments and won't be required for the following transactions. This is entirely aligned with the European Banking Authority's (EBA) and the European Commission's point of view.

The FCA goes further to clarify additional merchant responsibilities, such as to ensure that the recurring payment sets out clearly the amount that will be taken in each transaction. Furthermore, merchants should provide the range within which the recurring amount may vary. In other words, in the UK, according to the FCA, it appears that a recurring card payment transaction, that may vary each time the payment occurs, does not require SCA after the first cardholder-initiated payment. One thing is clear, in Europe, when a payer creates, amends, or initiates for the first time a series of recurring transactions, then SCA is required.

MGI Research

Subscription Economy: the Size of the Market Growth

About Andrew Dailey: Andrew Dailey is a Managing Director of MGI Research, an independent research and advisory company focused on disruptive business and technology trends. Mr Dailey leads the agile monetisation and quote to cash coverage for MGI. He has over 25 years of diversified technology and financial services experience as a software executive, industry analyst (Gartner), and advisor to Fortune 500 companies. He is a co-founder of Gartner's Software Asset Management service, and served on the team that coined the term ERP in the early 1990s.

Andrew Dailey ▪ *Managing Director* ▪ MGI Research

Driven by a variety of factors, organisations of all types are adopting new business and pricing models. Commonly referred to as the 'subscription economy', this transformation is sweeping across industries, compelling organisations to re-think their existing processes and systems.

Every element of the Quote to Cash process plays a role in enabling the subscription economy; however, the reality is that most of the systems in place today are not designed to handle the new requirements of a subscription model. Over the next five years, virtually every type of business and organisation will be required to invest in new systems and processes to exploit the opportunities created by new business models and to meet the changing expectations of business and individual consumers. The total amount of this investment will exceed USD 172 billion, according to MGI's quantitative forecasts. For purveyors of technology solutions that facilitate subscription business models, this represents a huge addressable market. For user organisations looking to adopt new business models, investing in agile solutions is becoming a business-critical priority.

Today's customer – be it an individual or an enterprise – wants more pricing options, more flexible payment plans (eg via op-ex instead of as a capital expenditure), and transparent, easy-to-understand invoices and billing. Currently, subscriptions, demand-based price models, pay-per-use, and increasingly complex enterprise agreements with a litany of unique entitlements are the norm.

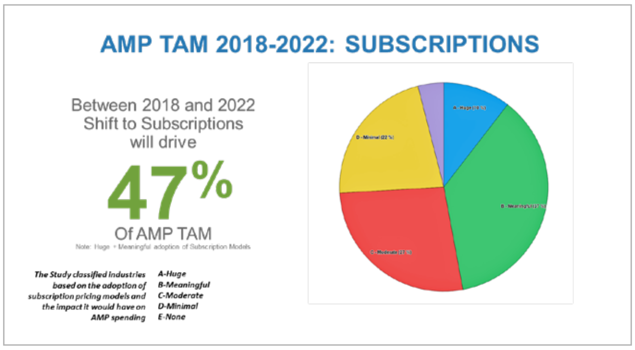
Technology disruption accelerates the demand for these new pricing models, which are everywhere, from the Internet of Things (IoT) to autonomous vehicles, artificial intelligence, and digital disrupters like Netflix, Airbnb, and Uber. Neither multinational companies nor corner stores are immune to this revolution. Reacting to these new business needs, organisations are looking to revamp their core business systems, particularly in the area of monetisation.

In an effort to quantify the investment required to support the move to more flexible pricing and services delivery models, MGI Research closely tracks current spending trends related to all segments of agile monetisation platforms (AMP), including billing, CPQ (configure, price, quote), commerce, contract lifecycle management (CLM), customer service (CRM and customer support), financials, order management, and revenue recognition. MGI Forecasts use a bottom-up approach to quantify market opportunities and aim to model how typical companies of various sizes, in different industries and geographies, acquire and adopt new software.

A core element of the AMP TAM forecast is an extensive data model. MGI Research sourced, distilled, and normalised data on 37,000 publicly trading companies worldwide with revenues exceeding USD 1 million/year. Afterwards, this initial data set was filtered down to 34,817 operating companies and classified based on geography, sectors, industries, company sizes, and growth profiles. The AMP TAM forecast used a relatively conservative set of assumptions for economic growth around the world with an average GDP growth forecast of just above 1.3%. ➔

While this is a huge jump from the 2015 forecast (which used a GDP growth estimate of under 0.4%), it reflects an emerging rather than a sustained global growth recovery. Impact of currency exchange rates was not explicitly factored into the AMP TAM model, although it is implicitly affecting GDP growth forecast. The estimates tend to reflect minimal typical spend over the five year forecast period. The source data addresses companies from 116 countries across 10 major geographic regions, from within 10 core economic sectors and 66 underlying industries.

The total addressable market (TAM) for cloud-based AMP exceeds USD 172 billion, from 2018 to 2022, according to MGI Research. The forecast also looked at the market size and growth based on the impact of three key trends: digital transformation, the rise of IoT, and the shift to subscription business models. Companies undergoing a huge or meaningful digital transformation will account for over 50% of all AMP spend from 2018 to 2022. 73% of the spend will come from industries with huge or meaningful adoption of IoT. Subscriptions are forecast to represent nearly 50% of spend around AMP. These market forces, taken as a whole, explain in part why every segment of AMP is growing at a compound annual growth rate (CAGR) of at least 25%, with most growing faster than 30%.



On a geographic and industry basis, Europe is playing a key role in this growth. Germany is expected to become the third largest single market for AMP components, and core industries like industrials, consumer discretionary, and IT are predicted to represent the largest three verticals.

Overall, this shift to new business models – and the underlying need to invest in systems to exploit the new models – has proven to be a durable trend. In times of growth, the ability to offer greater pricing flexibility is a competitive weapon that enables faster customisation of offers and quicker response times to market forces. When economic growth slows, modern monetisation tools give companies the ability to optimise revenue and margins based on individual customer cases. Subscription and recurring revenue models are valued for their predictability and supplier-customer alignment – customers only pay as long as the services delivered meet expectations. As customer expectations continue to evolve, new pressures on pricing models and commerce systems will undoubtedly appear. The one constant, however, will be the need for agile business applications that adapt and support new pricing models. In periods of economic upswings and downturns, the demand for solutions that support the subscription economy will persist.

About MGI Research: MGI Research is an independent industry research and advisory company focused on disruptive trends in the technology industry. The company was founded in 2008 by a team of senior analysts and executives from firms such as Gartner, Mastercard, and Morgan Stanley. MGI is the only company with a dedicated practice around agile monetization, including billing, CPQ, financials, commerce, payments, and revenue recognition.

www.mgiresearch.com

Subscription Economy Landscape: Mergers and Acquisitions, Investments, Developments

Ana Păstrăvanu & Raluca Mihai ▪ *Online Payments and Ecommerce Content Editors* ▪ The Paypers

Subscription commerce continues to be a promising sector, with **100% growth** over each of the past five years. It is undeniable that growth, combined with ever-changing customer expectations and new regulations aiming to protect their rights, lead to a lot of innovation and consolidation through mergers, acquisitions, and investments. The boom of the subscription economy has also led to an increase in the recurring revenue models; currently, around **18% of global payments are recurring**.

More and more companies are looking to implement subscription services, either for digital goods or for physical goods. From top Fortune 500 to medium-sized, businesses are searching for new business models and perceive subscriptions as the next big thing in reaching the customers directly, acquiring new ones, retaining them, and increasing their revenue. For physical goods, easy replenishing, combined with doorstep delivery and customisation, have turned the subscription model into a success story for many businesses.

A lot of innovation and development is currently going on in this space. Earlier in February 2019, **Disney ended its streaming deal with Netflix** and launched its own service, Disney+, as the exclusive streaming home for Disney movies and TV shows. **Google** seems poised to offer a paid subscription gaming service. According to **Forbes**, the company will reveal at Game Developer's Conference details about its game streaming service.

In October 2018, **Loot Crate**, a US-based subscription commerce platform for passionate fans of games, anime, sports, and pop culture, announced the launch of a new digital subscription, the first of its kind on the platform, focused on independently developed PC games. Launching today, Loot Play will offer subscribers five high-quality, highly curated indie games starting at USD 10 a month. In April 2018, **the worldwide leader in fan subscription boxes** has implemented NetSuite to manage the rapid growth it's undergone in just five years. With NetSuite, Loot Crate has a unified and flexible platform to scale with its growth and to handle the complex requirements of its business model.

Automotive companies are also interested in subscription services. In November 2018, Toyota announced the launch of its car subscription service called **KINTO**. **Three months later**, the company established KINTO, a new company that will manage and operate its car subscription service.

When it comes to consumer goods, we also notice many developments. In June 2018, **Nestle** launched a subscription program for nutritional drinks in Japan and expanded ReadyRefresh, an online bottled water service, in the US. It also wants to expand the Tails.com subscription pet food from UK to continental Europe, and it is testing the service in France for a possible launch later in 2019. **Unilever** launched its Skinsei brand in the US after a testing phase, offering personalised skincare by subscription. In 2017, the company expanded its Dollar Shave Club subscription razor service to include more products. **Procter & Gamble** expanded its Gillette on Demand razor subscription service to Canada; its subscribers are offered the possibility to text when they are ready for their next shipment.

Even though some subscription models are relatively new, they show signs of shifting into the fast lane. For example, recent **projections** indicate that the global automotive subscription market will grow at a CAGR of 71% between 2018 and 2022. On the opposite, while some automakers are opening their doors to subscriptions, others are closing them. **General Motors'** Cadillac subscription service BOOK closed in December 2018.

Mergers and acquisitions

Unilever's USD **1 billion acquisition** of Dollar Shave Club in 2016 is probably the highest deal in the subscription space, followed by **Albertsons'** USD 200 million acquisition of Plated in September 2017 and Walgreens's minority stake in beauty subscription box company Birchbox in October 2018 for an undisclosed amount. Also for an unspecified amount, earlier in February 2019, **Unilever** acquired UK-based snack brand Graze from investment company The Carlyle Group. ➔

In the solution providers' space, we have also witnessed certain important acquisitions. In February 2019, **asknet**, a provider of e-business technologies and solutions for the global distribution and management of digital and physical goods, has announced the acquisition of Nexway, an ecommerce services provider of solutions for monetising digital business models and connecting companies to the global ecommerce market. The company's plan is to be more involved in the payment facilitation process, by building a team focused on the activities of its core business: merchant of record.

In May 2017, **Zuora**, a US-based provider of subscription commerce, billing, and finance solutions, signed a definitive agreement to acquire Leeyo Software, to add more capabilities in reporting and revenue recognition automation.

In April 2017, **Avangate**, a global ecommerce and subscription billing platform for software, SaaS, and digital solutions, acquired 2Checkout, a global payment processor. From a strategical point of view, as part of the agreement, Avangate added payment capabilities to its subscription billing/merchant of record business model.

Investments and partnerships

Subscription-based businesses and solution providers have been subject to important investments in the past period.

Subscription-based companies:

- In February 2019, **Ritual**, the direct-to-consumer women's vitamin subscription company, announced USD 25 million in series B funding.
- In the same month, **Billie**, a US-based shave and body brand, announced a USD 25 million in series A investment.
- In December 2018, **Blue Apron**, a US-based meal kit company, inked a deal with Weight Watchers International, with the aim to make healthy meal kits for dieters.
- In August 2018, **Loot Crate** secured an investment of USD 23 million led by Atalaya Capital to refinance its debt facilities and provide capital for the business.
- In May 2018, Viking Global acquired a majority stake in **Birchbox**, a US-based online monthly subscription service that sends its subscribers a box of four to five selected samples of makeup, or other beauty related products, after agreeing to invest around USD 15 million of new cash into the business. Until now, Birchbox raised around USD 90 million in financing from investors since its inception in 2010.

Solution providers:

- In January 2019, content monetisation and audience intelligence tech company **Piano.io** raised USD 22 million in a Series B funding round led by private-equity firm Updata Partners.
- In January 2019, the US-based accounting electronic payments system **BizPayO** has integrated with QuickBooks to set up recurring payments and synchronise with QuickBooks from one platform.
- In the same month, **Paysafe** has announced a partnership with Vindicia, an Amdocs company and a business-to-consumer digital services monetisation provider. The integration will enable Paysafe's merchant customers to bill recurring payment transactions by automatically resolving previously declined card payments.
- In January 2018, **LogiSense**, a Canada-based global subscription and usage-based billing solutions provider, and Vertex signed an agreement to service clients in need of global billing and to provide them with the ability to keep up-to-date with complex and constantly changing communications taxation.
- In March 2018, **Chargebee**, a US-based SaaS subscription management and recurring billing solution, secured USD 18 million in growth capital led by Insight Venture Partners. The capital was said to be used for increased investment in product research and development.
- In November 2018, NEC Corporation chose **Zuora's** platform as the core component of its platform for enterprise subscription business implementation.
- In June 2017, **allpago's** payment gateway was integrated into Zuora's subscription management platform.
- In February 2017, **Recurly**, a US-based enterprise-grade subscription management platform, integrated with QuickBooks Online to allow customers to manage subscription billing and accounting data.
- In July 2017, **Recurly** integrated with Xero to automatically synchronise billing and invoice data and provide customers with a complete view of recurring revenue and transactions.
- In December 2017, Recurly partnered with Adyen to fuel international expansion for subscription businesses.

Billing and Recurring Payments

Let Your Customers Choose How They Pay for Your Subscription Products and Services

For digital merchants, the ability to create as many subscriptions as they like is of utmost importance because it helps them cater to the different needs of the market segments they serve.

One of the aspects of successfully monetising a digital business model is related to the ability to offer flexible billing and payments solutions:

- flexible billing: the ability to send out invoices for all kind of pricing models (pay-per-use, subscriptions, tiered pricing, trials, freemiums – through which basic services are provided free of charge while more advanced features must be paid for);
- payment methods optimisation/localisation to enable (recurring) payments (B2C and B2B).

In this chapter, Marko Fliege, Founder and CEO of **JustOn**, shares his expertise on the process of implementing billing solutions. JustOn is a billing and invoice service provider whose mission is to automate the order-to-cash process and to combine the entire digital invoicing process in one solution. The solution includes contract management, billing and invoicing, accounts receivable, and payment management functions, is developed on Force.com, and integrates with Salesforce CRM. The company has almost ten years of experience in supporting companies to realise their digitisation strategy. Marko Fliege explains the key challenges for companies that are looking to monetise their digital services and shares his opinion on the best practices and pitfalls to be considered when implementing automated billing solutions. In addition, he underlines the changing needs of the companies involved in this space and presents the trends that will impact them in the future years.

Andrew Dailey, Managing Director of **MGI Research**, explains what it means to deliver a seamless purchasing experience as an integral part of a successful subscription and how determining the right payments strategy can prove very complex due to the multitude of solution providers in this space. When considering payments facilitators and merchant of record models, it is crucial for organisations to understand what is key to maximise their value and avoid disappointment when deploying them. He further explains the concepts of payment facilitators (PayFacs) and merchant of record (MOR) and underlines their role in the world of digital goods and services.

JustOn

Exclusive Interview with Marko Fliege, Founder and CEO of JustOn, on Best Practices and Pitfalls in Billing and Invoice Management.

About Marko Fliege: Marko Fliege, CEO at JustOn, has over 20 years of experience in developing and marketing of software solutions for e-commerce and e-invoicing. The graduate industrial engineer founded the company with the vision of an easy-to-use business software that automates and simplifies billing and invoice management processes.

Marko Fliege ▪ *Founder and CEO* ▪ JustOn

What were the main drivers and motivations behind starting your company, what are your customers' profiles and what issues in their experience are you striving to solve?

JustOn started almost 10 years ago, with the main motivation to provide great backend software as a cloud service. Since I have a background in ERP software and e-commerce, I worked with on-premise software, which was the standard at that time. The goal was to remove some of the old, slow ERP processes and bring it closer to the customers. As a result of that vision, we came up with billing software because it was a niche in the market. After having researched different cloud platforms where we could develop this software on, we decided in favour of the Salesforce Platform.

Our typical customers are small and medium-sized businesses with recurring revenue and the need to build contracts with usage data. Moreover, most of our customers have international needs, as they transact cross-border, and the software helps from the beginning to serve internationally trading clients.

> *“Billing and invoice management are no longer back office tasks, provided by the accounting department. Billing becomes part of the customer experience.*

What are the key challenges for companies that are looking for the monetisation of their digital services?

Tax is a real issue, at least for our clients that act globally. VAT in Europe is relatively easy, but if you sell into the US, there you face a complex tax system, which we integrate via a partnership with Avalara.

Another challenge is regulation, caused by newly introduced invoicing standards. In 2019, Italy introduced a law specifying that, from now on, all companies have to send real e-invoices to the tax authority. E-invoicing processes are different from country to country, sometimes you need to use the invoice number that the tax authority provided, sometimes you send the invoice to the client after the approval or the tax authority itself. A similar law has been introduced in Germany and will be implemented step by step, which complicates global activities due to the different approaches. For enterprises with international clients it could mean that they need to send invoices to different servers, in different formats to support various e-invoicing processes.

Another challenge is relevant for companies that sell based on contracts, with recurring revenue business models: Revenue recognition, meaning that when sending an invoice for a yearly contract (either in advance or at the end of the contract period) the revenue has to be recognised on a monthly basis in order to be compliant.

→

juston

With an experience of over 150 automated billing software implementations, what best practices as well as pitfalls could you share with us?

Small and medium-sized businesses expect agile, real-time, and fast implementation methods. That is what we've learned from our over 150 projects. We put this experience together into an implementation method that we call X4C: Exploration, Clarification, Configuration, Connect, and Close. For our project staff and our customers, it clarifies how we implement our billing and invoice management system, and it supports us in getting the system to work in just a few days.

We have also learned that a best practice is to follow the experts. All software projects should work with an expert on the subject matter, in billing in particular, because there is a need for cross-functional expertise, starting with insights on contract management and pricing models as well as accounting issues.

In addition, when we go into a project, we often start at the end of the process chain, asking our customers what it is that they want to get out of their system, which reports they need. That gives us insights into the real needs of the customer.

Lastly, do not underestimate the mess of your data: sometimes our clients discover the poor data quality only when the invoice is visible on a PDF. Surprisingly, the invoice is where you really see what data is missing.

Could you elaborate on the changing needs of companies monetising digital services?

Billing usage data is definitely the new standard. Over the last few years, we have seen a shift to the subscription economy. Everybody starts testing how they can sell services based on subscriptions. However, flat fee subscriptions are not sufficient anymore – you need more pricing models. Clients want to use consumption data and use such data to introduce new pricing models. Nowadays, the CFO works closely together with sales operations to turn the ideas of the sales department into real revenue.

At the same time, automatic payments become highly important. From a process perspective, there is billing and the invoice creation process: Once the invoice is created and sent to the customer, the next issue is payment. Clients expect that the billing and invoice management system is tightly integrated with payment systems and offers ways to pay automatically for the service.

How do you see the electronic billing industry changing in the next two years?

Billing and invoice management are no longer back office tasks, provided by the accounting department. Billing, combined with payment, becomes part of the customer experience. That is why a good invoice and payment experience is crucial to a good customer experience.

Secondly, regulation will change the way we think about and handle billing and invoice management. Lastly, with the increasing activity in cross-border trade, we are likely to see more in cross-border payments. In matters of payments, in Europe SEPA Direct Debit may become the favourite payment method for SMBs, because – at least in Germany – it is still more accepted than credit card payments.

About JustOn: Since 2010 JustOn stands for successful, cloud-based automation of billing and invoicing processes. With our innovative software JustOn Billing & Invoice Management we are a leading provider on the Salesforce Platform and support companies to realise their digitisation strategy. With JustOn SMBs worldwide monetise every business model directly.

www.juston.com

Type of service provider	Billing and invoicing service provider
Active since	2010
Operational Area	Europe, North America, Australia
Industries	Subscription market, SaaS, media, digital services, real estate, consulting, e-mobility, travel, commerce, food and beverage, telecommunications
Sales channels	Marketplaces, online marketing, press activities, public relations, social media, direct sales, indirect sales, fairs and conferences
Core services	Billing automation, invoice management, accounts receivable, analytics and reports
What is unique about your company?	JustOn Billing & Invoice Management is a contract-to-cash software. It's perfect for billing and invoicing subscriptions based on recurring revenue with usage data, commissions and marketplaces. The software is 100% integrated with Salesforce CRM. We offer limitless extensibility and very fast implementation cycles so that our clients choose the fastest way to agile monetization.
Payment Methods supported	20+
Potential reach (growth plans)	150+

juston

Billing & Invoice Management

Easy Billing and Invoicing

Everytime, worldwide and for any business model

Billing Automation

- Combination of subscriptions and usage data
- Flexible pricing models

Invoice Management

- Generation
- Layout
- Distribution
- Archiving

Accounts Receivable

- Payment provider and banking integration
- Payment management
- Dunning
- Data transfer to accounting systems

Platform

- Extensibility
- Connectors
- Security

Analytics, Reports and Forecasts

- Revenue
- Cashflow
- 360-degree customer view
- Churn rate

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MGI Research

Payment Options in the World of Subscription Commerce

About Andrew Dailey: Andrew Dailey is a Managing Director of MGI Research, an independent research and advisory company focused on disruptive business and technology trends. Mr Dailey leads the agile monetisation and quote to cash coverage for MGI. He has over 25 years of diversified technology and financial services experience as a software executive, industry analyst (Gartner), and advisor to Fortune 500 companies. He is a co-founder of Gartner's Software Asset Management service, and served on the team that coined the term ERP in the early 1990s.

Andrew Dailey ▪ *Managing Director* ▪ MGI Research

Delivering a seamless purchasing experience is integral to a successful subscription commerce business. For organisations looking to build a next-generation subscription commerce platform, determining the right payments strategy and partnerships can be daunting, given the plethora of options.

To the uninitiated, the world of payments is full of confusing jargon. This is particularly true when considering payment facilitators ('PayFac') and the merchant of record ('MOR') models. Both of these models provide unique advantages that can help an organisation reach more customers faster, with less friction in the process. However, they fulfill different use cases, so understanding their optimal use is key to maximising their value and avoiding disappointment when deploying them.

Payment Facilitators – PayFacs

PayFacs operate as a master merchant that facilitates credit and debit card transactions for sub-merchants (the PayFac customers) within their payments ecosystem. A PayFac assumes all the risk involved in payment processing – including fraud loss, chargebacks, and non-payment. They underwrite and provision the merchant account themselves and fund their sub-merchant's payments.

Unlike a traditional merchant account provider that puts each customer through a risk assessment process, the PayFac offers speed and simplicity. Customers and accounts can be added almost instantly with global coverage for pay-in and local/ domestic bank payouts in many countries. One of the major advantages of using a PayFac is agility. Customers experience a fast, nearly friction-free process, and rich, modern APIs make it easy to integrate a PayFac into your marketplace or commerce solution. Compliance is streamlined, making it easier to adhere to local regulations and rules.

Examples of PayFacs are companies like Adyen, Stripe, Square, BlueSnap, PayPal, and Checkout.com (this is by no means the definitive list). Amazon is also a PayFac and a merchant of record.

So what is a merchant of record?

Merchants of Record

In the MOR model, a consumer makes a purchase online, and the MOR serves as an intermediary between the buyer and the seller. The MOR handles processing of the payment, and, in fact, takes legal ownership of the good or service (albeit for a split-second). Thus, the MOR is responsible for fulfilment of the good or service and the risks and liabilities associated with the payment.

In the world of digital goods, providers like Avangate/2Checkout, Digital River, cleverbridge, FastSpring, and Nexway (among others, including Amazon) offer full service platforms that include commerce, marketing/promotional services, payments, local tax and compliance, and more. A retailer or business seller is able to plug into an MOR and start selling very quickly, via the MOR, into global markets. The MOR handles issues like translation, billing, local currency and payments processing, and assumes the risks of transacting with the buyers. The benefit to the seller is the ability to reach new geographic markets without having to stand up local infrastructure. ➔

Small to midsize companies find this appealing because they can serve new customers very quickly. Some mid to very large software and digital goods companies consider the MOR model an attractive channel for product lines that are not necessarily their primary focus.

These product lines can be sold via the MOR, and the underlying monetisation – from marketing to contracting, provisioning, and collecting payments – is outsourced to the merchant of record without having to be integrated into an existing infrastructure. In addition to the overall benefit of speed, the MOR model benefits companies looking to expand into specific countries or regions without having to invest in the resources (people, technology, processes, partners) to operate legally in those places.

It's important to keep in mind that merchants of record are full service providers. The customer is obligated to use the complete stack of capabilities – from the ecommerce system to billing, payments, etc. As for critical steps in the end customer's journey – eg when a customer renews a subscription –, the business that is using an MOR is dependent on that MOR to deliver a seamless renewal process, since the customer relationship is actually in the hands of the MOR.

Organisations that have their own resources in any one of the sub-domains provided by the MOR – eg subscription billing or ecommerce – may find the MOR model too restrictive. In this case, there are PayFacs that provide API-driven services for payments handling and localisation issues that are easy to connect into an existing monetisation infrastructure.

Cost is also an important consideration. While MORs provide speed and the simplicity of outsourcing, it comes at a cost. Small to midsize companies will find the total cost of ownership of the MOR model attractive, particularly since it is relatively inexpensive to initiate the MOR services from a capital investment perspective. For larger enterprises that place a premium on their brand experience and also have existing resources in their country, the

MOR model may not make economic sense.

In an era in which businesses are seeking speed and flexibility, PayFacs and MORs can be compelling. Getting the right fit requires clear business objectives and a detailed understanding of both the costs and the benefits of each. The massive market adoption of PayFacs, like Adyen and Stripe, is a testament to the appeal of the model and of those solutions.

Glossary

Glossary

3-D Secure 2.0

3-D Secure (3DS) is the programme jointly developed by Visa and Mastercard to combat online credit card fraud. To reflect current and future market requirements, the payments industry recognised the need to create a new 3-D Secure (3DS) specification that would support app-based authentication and integration with digital wallets, as well as traditional browser-based ecommerce transactions. This led to the development of EMV 3-D Secure – Protocol and Core Functions Specification v2.0.0 (EMV 3DS 2.0 Specification). The specification takes into account these new payment channels and supports the delivery of industry-leading security, performance, and user experience.

Account updater

A service offered by payment processors that provides updated customer account information from the card networks.

API (Application Programming Interface)

A set of programming techniques (web API, remote API, SDKs, libraries, frameworks, and more) that are available for software developers when they integrate with a particular service or application. In the payments industry, APIs are usually provided by the participants in the money flow (eg payment gateways, processors, service providers) to facilitate the money transferring process.

Average customer lifetime value (ACLV)

The total recurring charges fees for subscription billing. It is an important measurement for subscription or recurring revenue based businesses. In a subscription context, ACLV is the product of the average customer duration and the amount charged on a recurring basis: (average customer duration) x (amount charged) = ACLV. Increasing the average customer lifetime by just a few months can lead to significantly higher ongoing revenue streams.

Average revenue per customer (ARPC)

A SaaS metric representing the revenue generated per account, usually calculated on a monthly or yearly basis. It provides a quick glimpse into the current worth of a company's customers and can be an indicator of overall growth when increases are seen.

However, a few very large customers can greatly influence the average, so it is also useful to look at the range of revenue contributed by each customer. It is sometimes called Average revenue per user (ARPU) or Average revenue per account (ARPA).

Card-on-file (CoF)

Authorised storage of a consumer's payment credentials by a merchant, PSP, or WSP, that allows the consumer to conveniently make repeated or automatic purchases without the need to re-enter payment credentials each time.

Conversion rate

Calculated as the percentage of users whose status changes, eg from an Internet search to a click on a link or paid ad; from a website visitor to a known lead (through completion of a web form or inbound contact); from a free trial or free product user to a paid subscriber etc. Subscription businesses depend upon known conversion rates to monitor the health of their business and to predict future pipeline and revenue.

Conversion Rate Optimisation (CRO)

A process by which a certain experience is created for a website's visitors. The experience is so compelling that it can generate the transition from a 'visitor' status into a 'customer' status.

Customer Retention Rate

It designates the percentage of customers the company has retained over a given time period. Retention rate is a reverse side of churn rate, which shows the percentage of customers a company has lost over a specific period. There are several formulas to calculate Customer Retention Rate, and one of the most used is the following:

Customer Retention Rate = ((EC-NC)/SC)*100, where:

EC – number of customers at the end of a period

NC – number of new customers during that period

SC – number of customers at the start of that period

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Glossary

Direct carrier billing

A payment method for purchasing items or services by charging the purchase to mobile phone account. At the time of checkout, the customer selects the mobile billing option on a smartphone and follows a two-factor authentication procedure. After the authentication, the consumer's mobile account is charged for the amount of the purchase, plus applicable taxes and, in some cases, a processing fee. Direct mobile billing does not require any previous registration and it does not involve any other sources of funding such as credit cards or bank accounts.

Expiration date

The embossed date on a bank card. After that date, the card becomes invalid and should no longer be accepted.

Freemium

A free service with the option for certain or all customers to upgrade to a paid, premium version with additional capabilities or convenience.

Friendly fraud

When a consumer (or someone with access to a credit card) makes a purchase and then initiates a chargeback, saying they did not make the purchase and/or did not receive the goods or services.

IoT (Internet of Things)

The network of physical objects that feature an IP address for internet connectivity, and the communication that occurs between these objects and other internet-enabled devices and systems.

Machine learning

An artificial intelligence (AI) discipline geared toward the technological development of human knowledge. Machine learning allows computers to handle new situations via analysis, self-training, observation, and experience.

Merchant of record

An entity authorised and held liable by the financial institution to process the end consumer's credit and debit card transactions. The merchant of record is also the organisation whose name appears on the cardholder's credit or debit card statement when they make a purchase.

Monetisation

The conversion of an asset into or establish something as money or legal tender. The term 'monetise' has different meanings depending on the context. It can refer to methods utilised to generate profit, while it can also literally mean the conversion of an asset into money. For example, the US Federal Reserve can monetise the nation's debt; this involves the process of purchasing debt (treasuries), which in turn increases the money supply. This essentially turns the debt into money (monetisation).

Monthly Recurring Revenue (MRR)

Calculates subscription fees normalised to a monthly value. Does not include set up, activation, or overage costs. MRR is a key metric for subscription businesses.

PSD2

On 24 July 2013, the European Commission adopted a proposal for a revised Directive 2007/64/EC on Payment Services (the PSD2). The main high-level objectives of the revision are to promote better integration, more innovation, and more competition in the market for payment services within the EU.

Recurring billing transaction

A recurring payment that the merchant initiates automatically for services or goods at a prearranged schedule. To initiate a recurring billing transaction, the merchant requires the cardholder's permission upfront only once.

Recurring payments

The payments whereby the merchant is able to charge the customer's credit card without involvement of the cardholder or the need for the cardholder to re-enter credit card details when checking out. Recurring payments can service two business purposes: to facilitate recurring billings (eg subscription based payments and utility bill payments) and to simplify checkouts for returning customers.

SaaS (Software-as-a-Service)

A software delivery model in which a software is provided on a usage, duration, or frequency basis rather than as a one-time license.

➔

Glossary

SEPA (Single Euro Payments Area)

The vision, directive, and goal of the European Commission, which means that citizens and companies within the EU are able to pay with a single set of payment instruments. This set is the combination of a bank account and instruments like money transfer, direct debit, and cards. SEPA signifies the end of international payments within Europe.

SEPA Direct Debit Mandate

It is a payment method through which a merchant, authorised by its customer, can collect future payments from its Euro bank account.

SMEs (Small and medium-sized enterprises)

Non-subsidiary, independent companies that employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union.

Strong Customer Authentication (SCA)

In accordance with EBA Consultation Paper, the authentication procedure shall result in the generation of an authentication code that is accepted only once by the payment services provider each time that the payer, making use of the authentication code, accesses its payment account online, initiates an electronic transaction, or carries out any action through a remote channel that may imply a risk of payment fraud or other abuses.

Subscription box

A recurring, physical delivery of niche-oriented products packaged as an experience and designed to offer additional value on top of the actual retail products contained in a box. The subscription box trend kicked off in 2010 with the launch of Birchbox – a monthly beauty sample subscription service. The typical box ranges from USD 10 to USD 40 per month.

Subscription churn

Churn is a key measure of customer attrition. Subscription churn is calculated as the number of customers who discontinue the subscription service during a specified period, divided by the total number of customers at the start of that period. Subscription churn is an operational metric used to gauge the overall health of a subscription business.

Subscription churn is measured in units or dollars. There are two different types of subscription churn:

- Active subscriber churn – this measures the active attrition rate of subscribers. When subscribers purposely cancel their subscription or recurring service because they no longer want it, the process is called active subscriber churn.
- Passive subscriber churn or involuntary churn – when a subscriber wants to stay with the subscription service but cannot do so, that is called passive subscriber churn or involuntary churn.

Billing problems are by far the leading cause of passive subscription churn. The recurring transaction for the subscription fails. Problems can include expired cards, exceeded limits, cards temporarily blocked, and more. When a transaction fails, the payment processor usually returns a code indicating the reason.

Subscription economy

A business landscape in which traditional pay-per-product (or service) companies are moving toward subscription-based business models. Subscription economy companies are allowing their customers the adaptability to either pay as they go, or pay per subscription monthly, or via a long-term contract.

Total customer lifetime value (TCLV)

Calculates the total recurring charges over the lifetime of a subscription. TCLV is a key performance metric for SaaS or subscription-based businesses. For instance, a three-year contract billed annually at USD 15,000 per year would have a total contract value of USD 45,000, assuming there are no activation or set up fees.

Usage charge

Charge associated with the actual consumption of a given product or service. This can be measured in terms of time on a site, gigabytes of data, number of reports generated, miles driven, or any other unit of measure.

Usage pricing

Pricing a service or item based on its consumption or usage, rather than a flat rate for a given service or period.

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Payment Methods Report

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