Global Business on a Local Basis

In many ways the payments we use on a daily basis and how we handle money can be as culturally individual as our language. The payment mechanisms in each country have been developed in line with local political and cultural factors as well as economic necessities.

The UK for instance has largely mimicked the trends set, initially, in the U.S. with the adoption of credit and debit cards. Its surprising, given the familiarity so many of us have with payment cards, to realize what a recent innovation they really are, the first debit card being launched in the UK in 1987.

In January 2010 (Source: British Bankers Association) it was reported that some 60.7 million credit cards are in circulation and yet, in Germany, this is matched against 4 million credit cards less than 5% of the population, as of 2009 (Source; Euromonitor International, January 2010.)

See chart below:

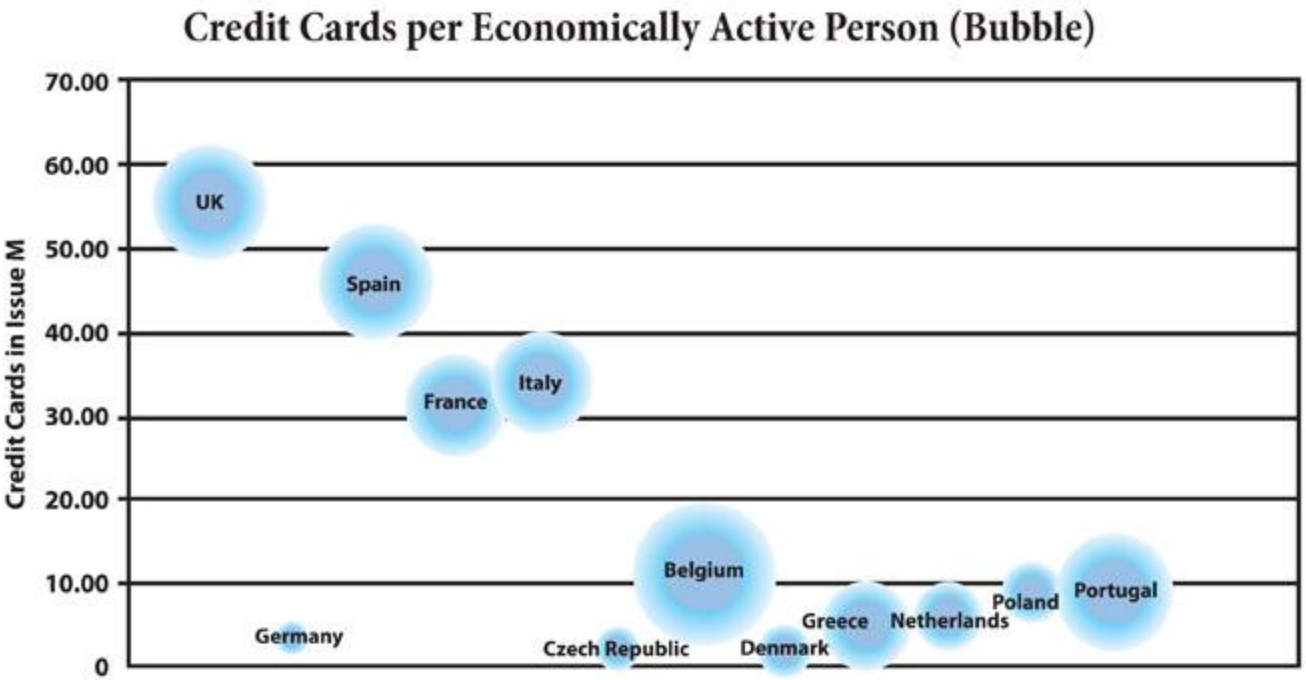
% of Customers Who Purchase Online With...

	Cash on Delivery	Debit Card	Credit Card	Bank transfer (giro)	PayPal	Direct link home banking without card	Prepaid Card	Payment mobile phone	Friend or Relative	Collect at Retail Shop	Direct Debit	Other
Russia	45	38	24	17	20	11	10	23	4	31	0	16
Greece	59	29	41	9	49	2	29	3	4	25	0	1
Italy	28	7	35	23	55	3	45	2	4	7	0	1
Germany	12	15	54	71	63	12	2	1	1	21	21	6
UK	6	74	60	3	70	2	4	1	0	6	0	2

This is not due to a lack of interest in credit but more the differing way it is offered on a local basis which results in fewer card-related credit contracts. In markets such as Spain it has been reported that as little as 13% of payments made are with debit or credit cards.

Individual countries have their favored products: iDEAL in the Netherlands, for instance, is an online payment product processing some 68.8 million transactions in 2010.

It can sound endlessly complex and confusing and it's possible to quote a myriad of statistics and products from countries across the world. For the online market there are infinite possibilities.



As chart 2 shows, in Europe alone the variation is huge.

So when the likes of Google develop their wallets, how much attention is really paid to the mechanics? When looking at the long-term credibility of such wallets we should be asking: How much attention is paid to translating a payments structure when entering a new market? When launching into new countries, a great deal of time and attention is paid to appeal to the cultural environment, the site is translated into local language, appealing designs are used. The big question though goes beyond accepting local currency. How much attention is paid in translation to suit the local payment culture?

We all talk about global business and the international nature of the internet, but the reality is, just like language and laws, everything has a local flavor. At the core there maybe similarities in how the culture has evolved but, as they say, 'the devil is in the details.'

The resultant success, or failure, comes from choosing your payment partners from those who recognize that payment cultural adaptation is needed. HSBC runs many adverts based around 'building global businesses by utilizing local relationships,' this kind of thinking is critical from the global payments perspective.

There is talk of mobile payments and wallets constantly in the press; Google Wallet is called 'a smart, virtual wallet for in-store and online shopping.' MPESA is called 'Kenya's mobile wallet revolution.'

But will Google go beyond the boarders of the U.S. and will MPESA reach beyond Kenya?

What, you might ask, is the source of the skepticism? Its generated by the tunnel vision that the media generally presents around 'alternative payments' and their propagation beyond their originating country.

The reality remains that with the exception of a very few, 'alternative' payment products have difficulty expanding beyond their initial national boundaries.

Wallets, whether mobile or internet, require value in as well as value out. They sit on a secondary level to base payments, customers are required to put value in using their most accessible means. Launching a product in parts of Europe with the exactly the same load mechanisms that are available in the U.S., for instance, is likely to cause immediate barriers.

One of the main attractions for merchants to adopt wallets is the cost-effective ability to access consumer funds without extensive integrations. If the consumer is not provided with the comfortable cost-effective choice for value in, then the value of the proposition immediately drops.

It is often easy to think of cards such as Visa and MasterCard as a global facilities and yes, to some extent they have become so, but many markets are not comfortable with ‘credit’ arrangements and so have adapted them to their own environments. Acquiring such cards in a ‘wallet’ is not necessarily a centrally located action either. Commercially localized acquiring is often not only more successful but certainly more cost-effective.

There is always a central ‘bottom’ line to this profit. Many localized payment products work because of convenience for the consumer and cost for the merchant. If the localized ‘load facilities’ are not maximized, then with added partners in the supply chain, cost becomes a seriously inhibiting factor.

The phrase ‘keep it simple’ seems to be key when it comes to rolling out ‘global product.’ When it comes to cost- effective, workable localized solutions on the value in side of the equation, start with the simplest supply chain. In any environment this is going to be bank to bank. Then add the options that work for the locals. Where possible localized acquiring is likely to offer fewer declines and better rates.

Its worth considering that one of the reasons that companies such as Visa and MasterCard work on a global basis is because they are dependent on local banks implementing products within localized rules and regulations.

Overall the message has to be global business works better with a localized approach.