



Digital Commerce:

How retailers master the challenges and risks of selling digital goods

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Table of contents

1. What is special about digital commerce?
2. The biggest challenges for retailers of digital goods
3. Fighting back: What retailers can undertake against the high risk of fraud
4. Conclusion: Balance between simplicity and security
5. Getnet Europe – Your partner for digital commerce

1. What is special about digital commerce?

The world we live in today is more digital than ever before – the pandemic was a catalyst for this development and retail was not spared.

Since March 2020, retailers have made huge investments in order to enable them to offer their goods online. As a result, almost everything that is sold in traditional retail can now also be sold online. The same applies to products: Many material, haptic products have been available in digital versions for a long time. Music is available as a download instead of a CD, films are streamed instead of bought on DVD, games can be played directly online, books are available as e-books instead of printed works, fitness is trained at home with the help of an app instead of at the gym, and tickets are bought online and saved on mobile phones instead of being sent by post as a physical ticket.

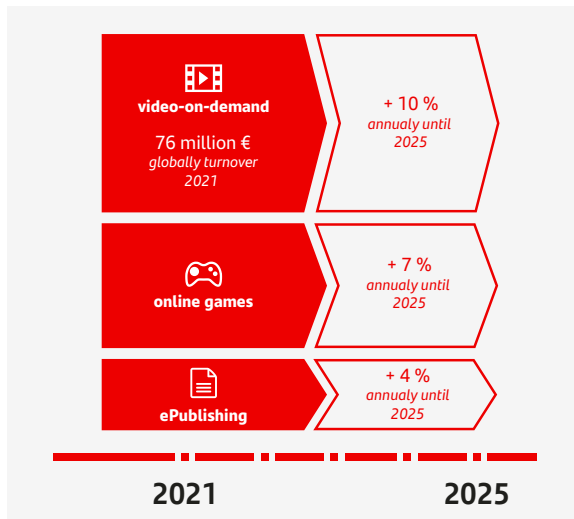
For retailers, digital goods represent new opportunities, for customers more convenience. But what exactly characterises digital commerce? How is digital commerce defined? Digital

commerce is the trade in intangible goods that are stored and purchased online and used digitally. Another characteristic is the immediate execution and delivery of the online transaction. Codes for online games, digital magazine subscriptions or audio books – as soon as a customer has bought and possibly downloaded the digital goods, he can use them immediately.

Digital commerce companies coped with the Corona pandemic far better than traditional companies.¹ The emerging digital commerce market is benefitting from several aspects that are fuelling growth, both on side of the retailer and the customer.

Retailer	Customer
new, lucrative source of income	convenient way of shopping – always available
uncomplicated global focus	immediate use possible
Cost-effective, e.g. no warehouse and shipping necessary	shopping is easy e.g. with one click within the online game
Sales opportunities independent of Corona regulations, e.g. shop closure, limited number of customers in the shop.	Possibility to shop independently of Corona regulations such as having to make an appointment, compulsory testing or vaccination.

¹ bitkom.org; as of September 2021.



Globally, the turnover of video-on-demand as digital home entertainment will be around 76 million euro in 2021 and is expected to grow by 10 % annually until 2025. According to the forecast, this will increase the number of users worldwide to 2,226 million.² Other demand services will also be able to further increase their turnover according to current forecasts: in the online games sector, annual growth of 7 % is expected by 2025³ and in the ePublishing sector, an annual increase in turnover of 4 % is forecast by 2025.⁴ The USA in particular accounts for a large part of the turnover: a turnover of around 75 million euro is expected here for 2021.⁵

A transformation of digital goods can currently be observed due to various technological developments such as advancing connectivity, processing of large amounts of data, artificial intelligence and cloud computing. Individual on-demand products are becoming digital platforms. One example is the US company Amazon, which originally improved delivery conditions with its prime offer. This was followed by its expansion to become a streaming service. In the meantime, the Prime offer is being expanded continuously and already includes various channels that can be booked, music and video streaming, e-book subscriptions and on-demand purchases.

✓ **Video games (e.g. downloads or in-game-purchases):** The video games sector is responsible for a large part of revenue in digital commerce. According to the Digital Market Outlook, gamers worldwide will probably spend around 195 billion US dollars on game purchases, gaming apps, subscriptions, microtransactions and eS ports in 2025 – and the trend is still rising.⁶ While the US leads the way in most other areas of digital goods, the gaming sector is particularly popular in China. Chinese gamers are expected to spend around 40 billion euro on and in online and mobile games in 2021.⁷

✓ **Digital music (e.g. Spotify or downloads):** Music streaming services such as Spotify and Apple Music continue to enjoy great popularity. In terms of global turnover, most music download sales are expected in the USA in 2021: just under 489 million euro. In total, the segment is expected to generate a worldwide turnover of 1,458 million euro in 2021.⁸

✓ **Video-on-Demand (e.g. Netflix or Amazon Prime):** Comparatively few users (2 billion worldwide) and a conspicuously high turnover can be found in the video-on-demand sector: around 70 billion euro are expected to be generated in 2021, 29 billion in the USA alone. According to forecasts, the market volume will reach 102 billion euro by 2025, which corresponds to an annual growth in turnover of around 10 %.⁹



² Statista: Video-on-Demand. Worldwide; as of: June 2021.
³ Statista: Online Games. Worldwide; as of: June 2021.
⁴ Statista: ePublishing. Worldwide; as of: August 2021.
⁵ Statista: Digital media. Worldwide; as of: August 2021.
⁶ Statista: Prognosed turnover in the worldwide video games sector; as of: June 2021.
⁷ Statista: Video games China; as of: June 2021.
⁸ Statista: Digital Market Outlook – Digital music worldwide; as of: August 2021.
⁹ Statista: Video-on-Demand. worldwide; as of: July 2021



Online fitness (e.g. Runtastic or Freeletics):

The growth in the eFitness segment is also impressive, for example, fitness and nutrition apps or online courses. The industry was already on the upswing before but is experiencing a spurt in the wake of the pandemic. Sales of digital goods in the health segment are expected to reach a market volume of 2.4 billion euro in 2023. The currently most successful fitness app, "The Assessment App" alone, is expected to reach a turnover of around 3.3 million US dollars in 2021.¹⁰

2. The biggest challenges for retailers of digital goods

Not only the enormous upswing, but also certain product characteristics pose particular difficulties for retailers in digital commerce. In particular, the risk of fraud and, due to the global orientation, also the provision of the right payment methods pose challenges. The biggest challenges are described in more detail below.

Challenge 1: Offer and manage the right payment options

Digital goods can be sold worldwide at the touch of a button. Neither a warehouse nor shipping is necessary to make the virtual products available to users in Asia, Europe or the USA within seconds. However, preferences in terms of payment options differ from country to country, sometimes significantly.

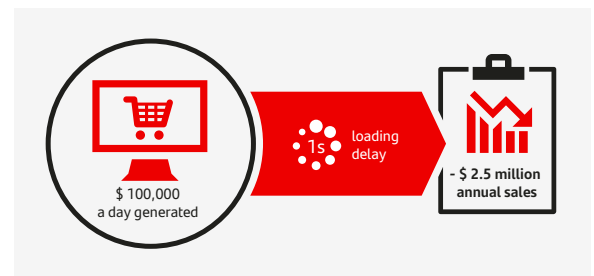
"Think global, act local"

Offering the most popular local payment methods, from classics like credit cards to modern options like Alipay, is important for increased customer loyalty. "Think global, act local", should also be observed when it comes to payment options. But this leads

directly to the next challenge. Retailers need to integrate each payment option into their processes in such a way that it works reliably and quickly and enables a secure checkout.

Challenge 2: Delays increase risk of abandoned shopping baskets

When it comes to trading digital goods, every second counts. Statistics have shown that for an online shop that generates \$100,000 a day, a one-second loading delay can reduce annual sales by \$2.5 million.¹¹ As early as 2007, a study found that online retailer Amazon loses 1 per cent of revenue for every 100 milliseconds of extra loading time.¹² On the other hand, Walmart was able to improve the loading time by 1 second, which improved the conversion rate by 2 %.¹³



So, there is clearly a correlation between loading time and turnover. This is especially true for the trade with digital goods. Here, users expect to be able to buy and use the product within seconds. If this does not work straight away, the competition is just around the corner.

Challenge 3: Hardly any time for checking for fraud

The speed and immediacy of digital commerce creates another challenge. The waiting time caused by a manual check or a check controlled by purchase rules can lead to customers abandoning the purchase and switching to the competition, where the transaction is carried out immediately. It is also easier for retailers to trade in stationary goods, as there is a time buffer until delivery, during which a more detailed check can be carried out.

¹⁰ Statista: Health and Fitness Apps in Google-Playstore in terms of turnover worldwide; as of: October 2021

¹¹ KISSmetrics: How Loading Time Affects Your Bottom Line; viewed on 03.12.2018 at <https://neilpatel.com/blog/loading-time>

¹² Ron Kohavi and Roger Longbotham: "Online Experiments: Lessons Learned", September 2007

¹³ findologic.com: Every Second counts! Correlation between Conversion rate and loading time. as of: May 2020.

In digital commerce, on the other hand, the check must be carried out in a fraction of a second so as not to deter the customer. Simplicity on the one hand, security on the other – because a checkout that is too simple makes it more prone to fraud. This can be expensive for companies. According to one statistic, companies selling digital goods spend five times as much on fraud detection as companies selling physical products.¹⁴

Challenge 4: Less data for verification

Retailers of digital products have to verify the identity of their customers with less data than traditional retailers. For example, a physical delivery address is missing in comparison to material trade. If fraudsters use stolen passwords or credit card numbers, it is much easier for them to pass themselves off as legitimate customers.

When it comes to types of fraud, digital commerce and e-commerce differ only slightly. One big difference, however, is that stolen digital goods do not have to be stored or delivered physically. Instead, they can be stored digitally in large quantities and immediately turned into money on illegal or legitimate marketplaces.

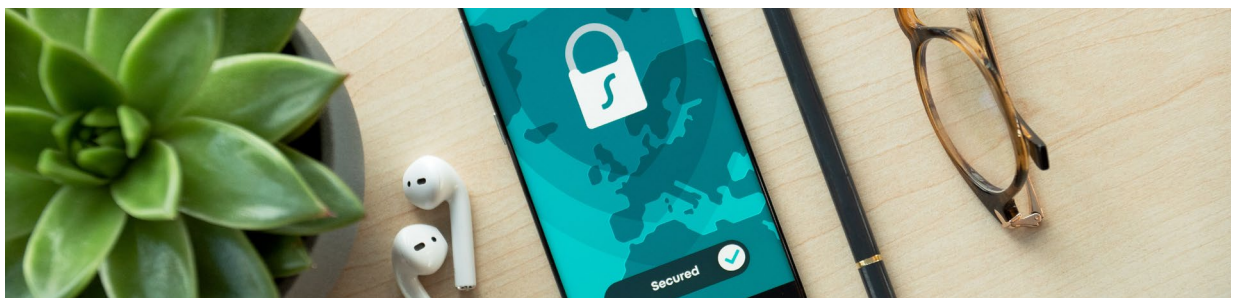
Challenge 5: Risk of false positives

Since the decision for or against the execution of a transaction has to be made at high speed, the risk of making a wrong decision also increases. This is not only bad when an order has been completed that would not have stood up to more scrutiny. Digital traders also have to deal with false positives, i.e. when a customer is rejected by mistake or without justification. When this happens, it usually means the customer is lost forever and the competition gains sales instead.

3. Fighting back: What retailers can undertake against the high risk of fraud

Online fraudsters specifically look for the weak points in retailers' security systems. The fact that speed and convenience are so critical to customer satisfaction in digital commerce can be identified by fraudsters as a weakness. In digital commerce, it is therefore, particularly important to find the right balance between fraud protection and risk as well as simple buyer experience and prevention. The customer must not be disturbed during the transaction, but at the same time the retailer must ensure sufficient fraud protection – not an easy task.

In order for retailers to effectively reduce the risk of fraud in their shop, the existing data volumes that are generated by each order must be optimally used and analysed. This includes, for example, the digital goods ordered, the card used for payment, the location of the order or the device used. Only then can the acceptance of payments and security be maximised with the right processes and solutions. The means by which this desired balance between a simple payment experience for the user and accurate fraud prevention for the retailer can be achieved are manifold. The same applies for a full in-app transaction, for example during an online game, or the download of a product. By combining different methods and individual systems tailored to the respective online retailer, fraud prevention can be optimised and the number of payment defaults minimised.



¹⁴ Ravelin Guide: Fraud detection for digital goods.

Prevention methods used by credit card companies and industry-specific methods include:

3D Secure and 3D Secure 2.0:

3D Secure and 3D Secure 2.0: An authentication procedure of the card organisations Visa and MasterCard that determines whether the credit card is used by the legitimate cardholder. 3D Secure 2.0 is a dynamic procedure that bypasses the password assignment and has been in use since 2019.



Address Verification Service:

Address Verification Service: A method of checking the address data provided against the address data stored with the credit card organisation.



Blacklists:

A list of negative data that are automatically recognised and not accepted when processing a transaction.



IP / BIN Verification:

A verification that uses the IP address to determine the customer's current location or access point to the Internet, while the Bank Identification Number (BIN) is used to determine the cardissuing bank and its country of origin. Thus, certain combinations of the two countries determined can be authorised or rejected.



Device Fingerprinting:

Detects various characteristics of the device used and makes a user identifiable even beyond the first visit.



Velocity Checks:

A frequency check that examines payment transactions for recurring patterns within a defined, short period of time.



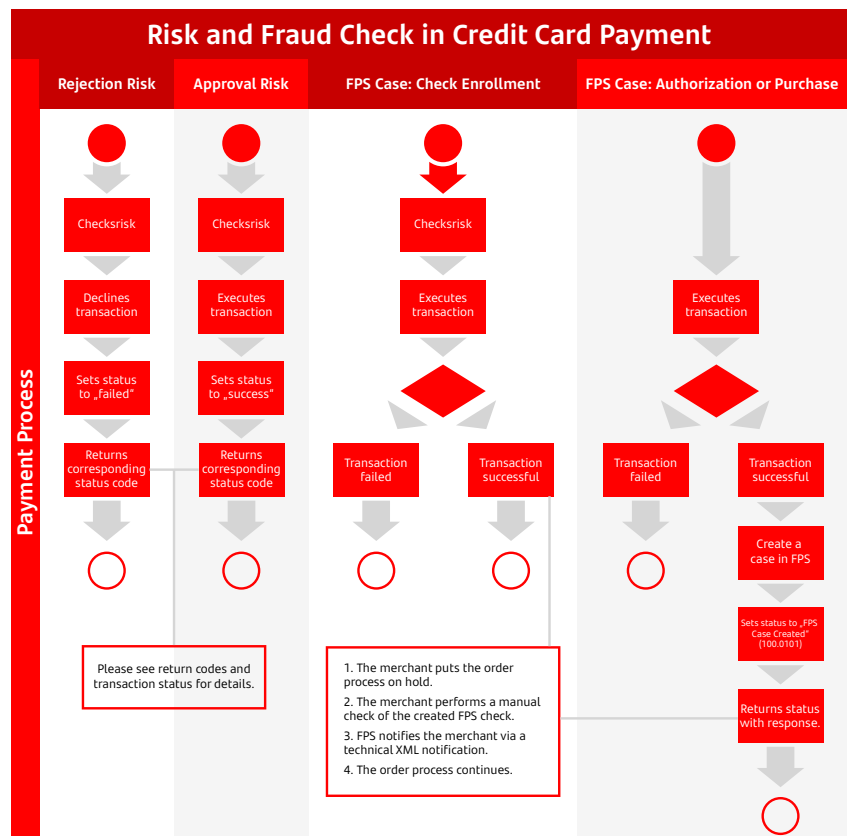
4. Conclusion: Balance between simplicity and security

Digital goods retailers need to strike a balance between a simple and fast payment experience for the customer and effective and fast fraud control for the success of the business. Digital retailers can only achieve the maximum turnover they are aiming for if prevention methods are used in a targeted manner and always adapted to the current situation. In particular, the simple global orientation due to delivery logistics not being necessary, opens up enormous potential with the right payment strategy and appropriate fraud protection.

5. Getnet Europe – Your partner for digital commerce

Getnet Europe can offer digital commerce retailers all known prevention methods – and much more. We help retailers prepare optimally for the global sale of digital goods. We offer customised fraud protection to suit your needs and the delivery of the optimal payment experience for your customers. This is possible due to our in-house software solutions or through cooperation with specialised national and international service providers, such as credit agencies. We know what matters in digital commerce.

1) Just one integration: Enable your global customers to pay with the payment method they prefer. Whether credit card,



Paypal or Wechat Pay – with just one integration Getnet Europe offers you the most important payment methods for your digital shop.

2) Fraud prevention: Stay one step ahead of fraudsters with an efficient and customised Fraud Prevention Service (FPS). Getnet Europe's Fraud Prevention Suite provides you with all the solutions and means to detect and prevent fraud attempts at an early stage of the sales process. The underlying automation rules of the prevention suite have been created based on the diverse experiences of retailers in the respective market segment.

FPS cases are created with automated evaluation and interpretation of data. The FPS is involved in the credit card payment process, for example. Here, the payment gateway performs a risk check if configured accordingly. This risk check triggers the acceptance or rejection of the payment as well as the verification with the fraud prevention solution. The latter is reported to the retailer, who can then stop the order process, check the created FPS case in the portal and, after reviewing it, manually initiate the completion of the order. Thus, the fraud prevention software prevents the damage before it occurs.

3) Reporting & analyses: Always keep an eye on the current values and processes. We adapt our clear reports completely to suit your needs and show the most important key performance indicators (KPI) at any time, for example the fraud rate, acceptance rate or the number of charges reversed. Getnet Europe offers you much more than simple and risk-free integration of payment options and minimisation of fraud-related payment defaults. Getnet Europe offers retailers in digital commerce numerous innovative solutions for even better customer loyalty. The security of your data and that of your customers is our top priority.

With all these means, we aim for one result: We want to provide your customers with an optimal shopping experience for their digital goods, where payment is not a disturbing factor, but integrates ideally and easily into your shop. At the same time, attempts to protect against fraud attempts in various ways must not be neglected. We help you achieve the balance between security and simplicity, customer satisfaction and fraud prevention.

Digital commerce solutions from Getnet Europe

- ✓ **A long-term equal partner:** Getnet Europe is the partner at your side who you can rely on. With a personal contact person you can work out your personal and individual adaptations and improve them in the long term and sustainably.
- ✓ **One single source:** Together we will find the solutions that exactly fit your needs. From the integration of additional payment methods and the reporting of the most important key figures, to customised fraud protection for your shop, we offer everything you desire. Rely on our experience and make full use of your potential in digital commerce.
- ✓ **Global and local focus:** Make your business global with us – we keep an eye on the local particularities for you. Together, we create a global strategy and master the local implementation – from the integration of payment methods to payment processing. You can rely on us.

