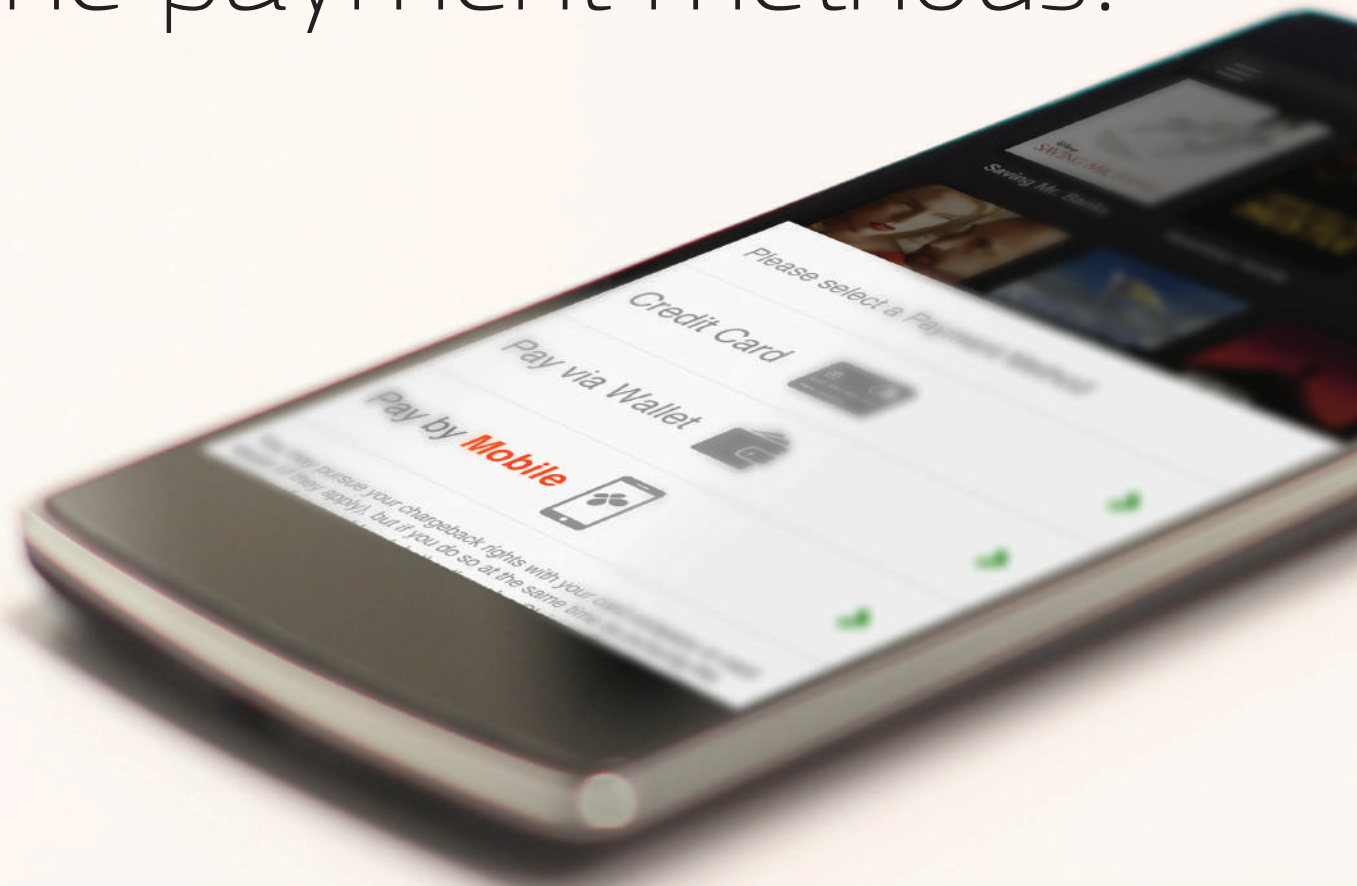


How to avoid cannibalization between online payment methods?

White paper by Fortumo



Introduction

It is vital for merchants to provide a variety of payment methods such as credit cards and local direct debit complemented by mobile payments to cater the needs of each possible end-user. Yet adding a new payment method always presents a risk to merchants. If the new payment method does not work or is unavailable to some users, it ruins the purchasing experience and they might switch to a competing service instead.

But the biggest concern for merchants is very often payment cannibalization. If a new payment method is added, it might happen that users who are already making purchases simply switch to the other payment method. This does not result in additional revenue for the merchant but can instead have a negative impact in case of a different fee structure. It also costs development time to set up a new billing method.

Cannibalization is a key aspect that merchants need to think about when adding new payment methods, whether it's pre-paid vouchers, mobile wallets or direct carrier billing. This white paper outlines 6 solutions for merchants to resolve or reduce the impact that cannibalization can have on their business. These tactics can be used in any market globally as there is no single payment method that covers all end-users in any given country.

Geographical and demographic targeting

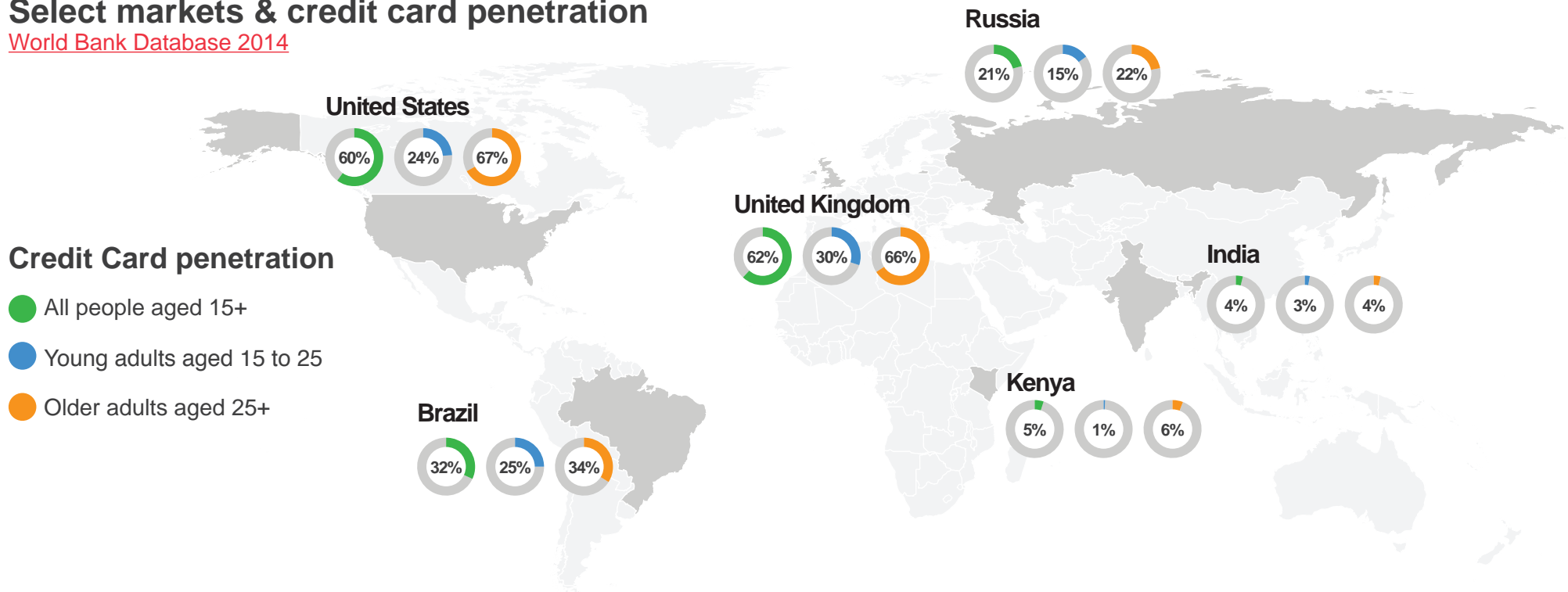
While credit cards work great in some markets, other countries have virtually no credit card users. But even in a market with a large penetration of credit cards, some groups of the population have a significantly lower level of access to traditional online payments.

Issues such as identity and reputation management, debt enforcement, credit scoring and access to financial products have prevented credit card based payments from becoming a popular payment method in emerging markets. In India for example there are 4.5 smartphone owners for every 1 credit card owner.

Therefore the first step to avoiding cannibalization is geographical and demographic targeting of payment methods - segmenting out those countries and demographic groups who you know are statistically less likely to have access to your existing payment methods.

Select markets & credit card penetration

[World Bank Database 2014](#)



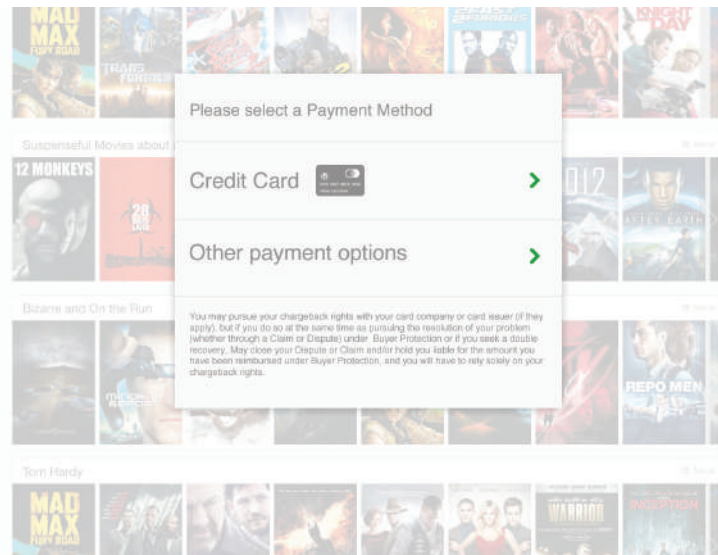
Behavioral and service based targeting

Another approach to avoiding cannibalization is looking at end-user payment behavior over time. Let's say a user has signed up for your service and has logged in daily, but has not entered their credit card payment data in 2 weeks. In such a case, the user is happy with what they are getting for free and are unlikely to convert to a paying customer. This segment is a good one to try out alternative payment methods on as the risk of running into someone who has a credit card but has not been paying with it so far is highly unlikely.

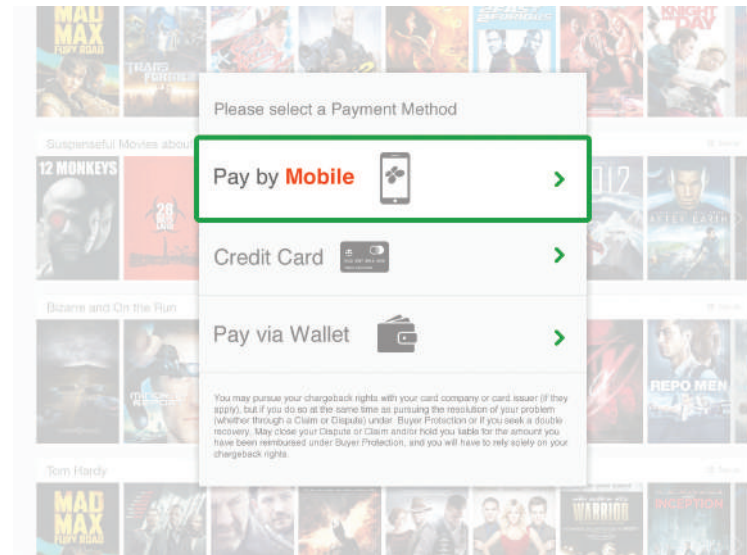
Another reason that keeps users from making payments online is fear - according to a [recent report](#), people fear online fraud more than getting robbed on the street. A new user might not trust the merchant enough to hand over their credit card details, but might be willing to share their phone number to make the purchase, in which case the risk for them is significantly reduced.

This means the user's fear can be alleviated by offering "teaser" products for sale through alternative payment methods and later (once consumer trust has been established) also giving them the option to pay with a credit card for higher cost items. A teaser product can be anything ranging from a small-value virtual coin pack, 1-day access to a streaming service to a 1-day of VIP status on a dating network, depending on the service the merchant provides.

Checkout window for a user who has entered their credit card details to their profile.



Checkout window for a user who has not made a payment for 2 weeks after signing up.



Revenue based targeting

While geographic targeting with payment methods makes sense from a statistical point of view, users do not sometimes behave in a manner which would make sense. For example, despite Brazilian users having significantly worse access to credit cards compared to people living in the United Kingdom, the latter tend to spend more than twice as much on digital services using carrier billing (based on Fortumo's internal data).

Whether it's dependent on user income, awareness of carrier billing or fear of card payments, the fact is that different payment methods perform differently across the world. In order to avoid cannibalization from the alternative payment methods, it makes sense for merchants to define markets where credit cards are performing for them the worst in ARPU and testing out whether alternative or local payment methods can bring a positive impact in revenue.

Fortumo compiles a monthly overview of user spending behaviour on a [global map](#) which can be used to benchmark credit card revenue against direct carrier billing. It is recommended for merchants to ask similar data also from other payment providers whose solutions are planned for implementation.

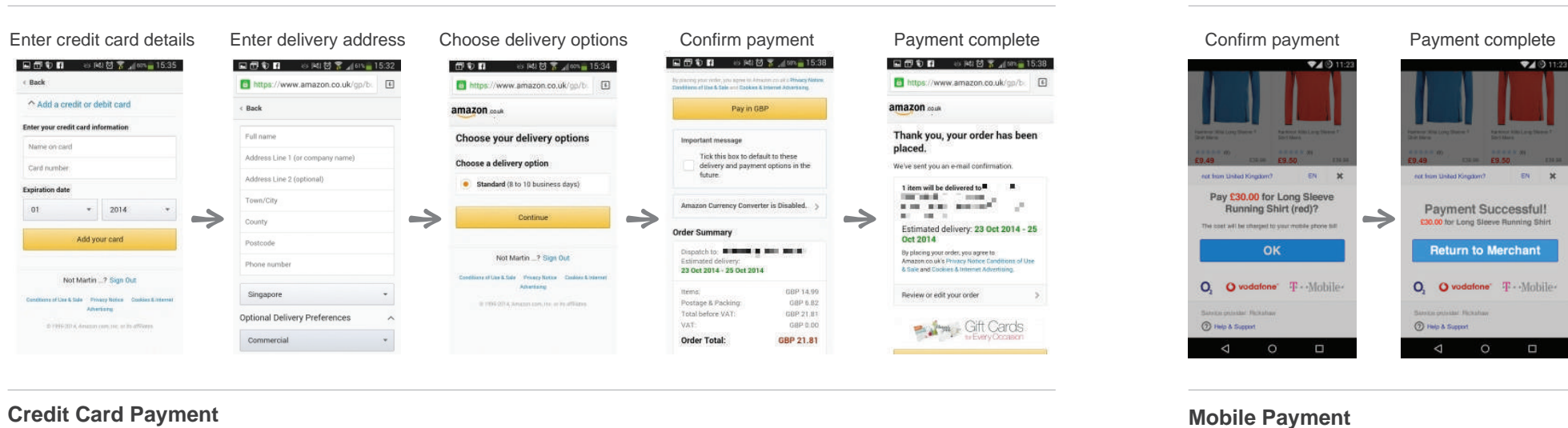


Device-based targeting

A recent report from [Criteo](#) indicates that payment conversion for e-commerce merchants is a massive 50% lower on mobile devices compared to traditional desktop devices. This is natural as doing transactions using a credit card from a mobile device requires users to create an account, enter sensitive data and fill out long forms on a small screen. Even on tablets this is a hurdle.

On mobile devices, credit cards are a conversion killer because they were never meant to be used in such an environment. If the merchant sells items across various platforms, alternative payment methods are highly recommended to be tested out in this environment. Alternative payment solutions also often have the advantage of brand awareness (for example in case of locally popular wallets such as m-Pesa in Africa) which can further increase conversion and thus revenue from mobile customers.

Checkout experience on a mobile device with credit cards and carrier billing



Credit Card Payment

Mobile Payment

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Additional reading



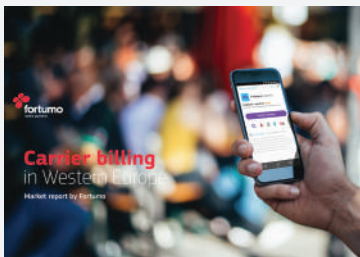
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Fortumo allows any merchant to set up payment processing for web and mobile services, games or apps. Users with a mobile phone are then able to make one-click payments using Fortumo without the need for a credit card: payments are charged to their mobile operator bill instead. Fortumo supports payments in more than 90 countries through 350 mobile operators. Founded in 2007, Fortumo has offices in Estonia, San Francisco, Beijing, Delhi, Mumbai, Singapore and London and is backed by Intel Capital and Greycroft Partners. Get started with mobile payments at <https://fortumo.com>.

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