

How treasurers can drive a seamless e-commerce expansion

The rapid growth of e-commerce during the pandemic has brought treasurers closer to customers as they optimise the digital payments infrastructure and safeguard consumers' financial data. Our survey reveals treasury priorities amid this shift, including a more strategic collaboration with the supply-chain function.

Although e-commerce was growing at a steady clip before the covid-19 pandemic, few executives would have predicted the pace at which e-commerce expanded in 2020. "The pandemic ended up accelerating e-commerce trends by about 3-5 years," says Can Balcioglu, senior director, head of global risk and legal entity management at treasury, PayPal. Lockdowns and social-distancing measures drove consumers to online channels for purchases ranging from essentials such as groceries and cleaning supplies to non-essentials such as clothing and furniture.¹

On the back end, this shift upended the corporate treasury function in numerous ways. As companies started to expand their e-commerce platforms or shift their business

models to sell directly to consumers (D2C), treasurers had a critical role to play. They were integral in expanding their companies' digital payments infrastructure, and in managing risks arising from a sharp increase in the volume of online and cross-border transactions as well as data security concerns related to the use of digital payment service providers (PSPs).

These risks are here to stay. Consumers expect to maintain some of their new online shopping behaviours even after the pandemic ends,² so treasurers in B2C and B2B2C³ companies—ranging from retailers to consumer-goods manufacturers—have to prepare to support a seamless omnichannel shopping experience whereby customers

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¹ SAP, "The Influential Shopper": <https://www.sap.com/dmc/exp/2021-03-74292-data-exploration-tool/>

² SAP, "The Influential Shopper": <https://www.sap.com/dmc/exp/2021-03-74292-data-exploration-tool/>

³ "B2B2C companies" refers to consumer-goods manufacturers that sell products to consumers through retailers.

discover products online and buy in store or discover in store but order online. In 2020, it is estimated that about 1bn people worldwide had made digital payments using their mobile devices, a figure that is forecast to rise to 1.3bn in 2023.⁴



31%

Percentage of respondents who believe that “accelerated adoption of technologies” will have the most impact on the treasury function.

Indeed, in a survey of 150 senior corporate treasurers across North America, EMEA (Europe, the Middle East and Africa) and Asia-Pacific conducted by The Economist Intelligence Unit and supported by Deutsche Bank, treasurers stated that between February and April 2021 “accelerated adoption of technologies” will have the most impact on the treasury function, cited by 31% of respondents. As companies expand their e-commerce platforms, they rely on application programming interface-connected platforms (API) and cloud technology for real-time access to data and on artificial intelligence (AI) for predictive analytics in a rapidly changing environment. The fact that companies are accelerating their investment

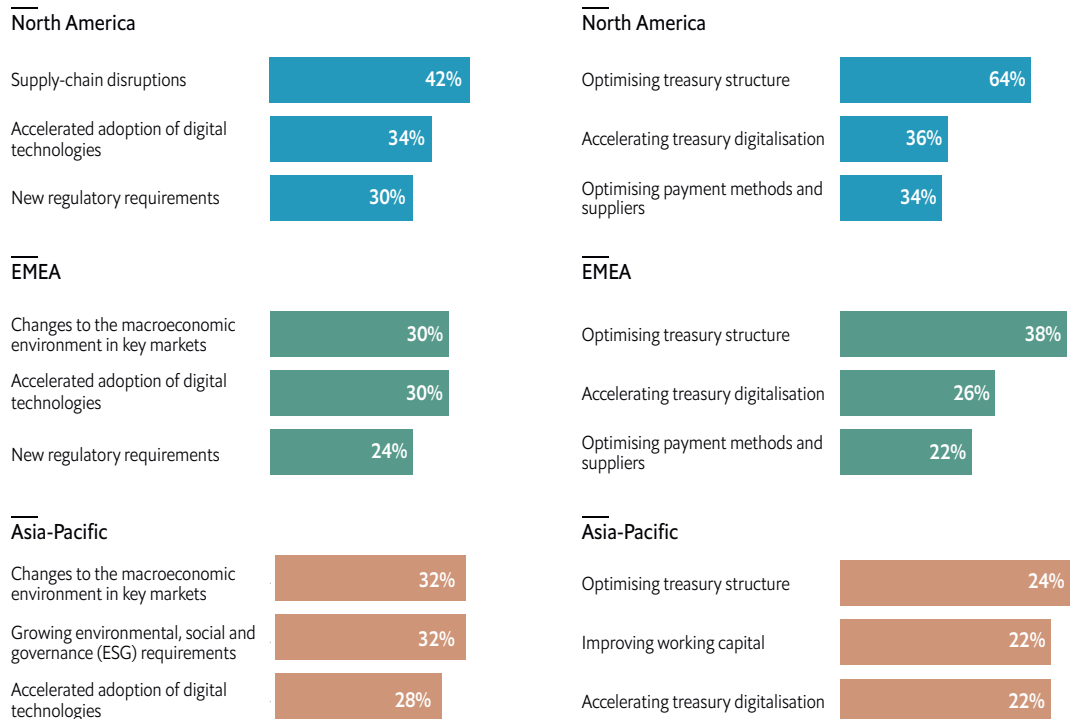
in technology amid a global recession and an overall fall in global retail sales in 2020 is testament to the importance of technology for business continuity, or even survival.

At the regional level, close to one third of treasurers surveyed in Asia-Pacific and EMEA stated that changes to the macroeconomic environment in key markets would have the most impact on treasury in the coming months (see Figure 1). In Asia-Pacific, although China’s economy is expected to grow by 20% year on year in the first quarter of 2021, other countries are expected to experience little or no growth (0.5% growth in South Korea, and a contraction of 3.1% in Japan), dampening overall consumer spending. In Europe, a protracted pandemic and a slower than expected vaccine rollout are casting doubt over the speed and strength of an economic recovery in 2021.

Most interestingly, treasurers in North America believe that they will be most affected by supply-chain disruptions, at a significantly higher rate than other regions (42%, compared with 14% in EMEA and 12% in Asia-Pacific). This makes sense in the light of reports of congestion at US ports in January.⁵ Sporadic lockdowns, which not only disrupted trade in raw materials and finished goods but also shuttered retail stores, meant that companies had to reconfigure their supply-chain strategies.

⁴ merchantsavvy.co.uk

⁵ Bloomberg, *Los Angeles Port Congestion Lingers, Slowing U.S.-Asia Trade*: <https://www.bloomberg.com/news/articles/2021-03-01/los-angeles-port-congestion-lingers-slowing-u-s-asia-trade>; Bloomberg, *U.S. Steps Up Heat on Container Carriers to Ease Port Congestion*: <https://www.bloomberg.com/news/articles/2021-02-18/u-s-steps-up-heat-on-container-carriers-to-ease-port-congestion>; CNBC, *Retailers pay more to fly everything from bikes to hot tubs from China as U.S. port backup delays deliveries*: <https://www.cnbc.com/2021/03/05/retailers-pay-more-to-fly-bikes-to-hot-tubs-from-china-as-backup-at-us-ports-delays-deliveries.html>; S&P Global, *Retailers to face continued pandemic-induced supply chain pain well into 2021*: <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/retailers-to-face-continued-pandemic-induced-supply-chain-pain-well-into-2021-61981889>;

Figure 1: Factors affecting treasury most and treasury priorities in Feb-Apr 2021, by region

Source: Economist Intelligence Unit survey February 2021.

Globally, those who believe that supply-chain disruptions will have the most impact on treasury are more likely to be optimising their treasury structures (59% of respondents, compared with 41% of the whole sample). This is linked to the treasury transformation that is under way resulting from the shift to e-commerce. For treasurers, supply-chain disruptions have meant adapting cash-management strategies. This includes financing the shift in the distribution model from retail stores to flexible warehousing, managing a higher frequency of returns and refunds, setting up automated payments for scheduled product replenishment, among other strategies.⁶

As a result, a more strategic relationship between treasury and the supply-chain

function is emerging. As treasurers are increasingly able to harvest payment data flows, they can build a picture of the supply chain and interrogate it to find trends and weaknesses.

As e-commerce becomes a more prominent feature of B2C companies' business models, treasurers are grappling with managing old issues (such as foreign-exchange, or FX, risk) through a new lens of high-volume, cross-border online sales and are encountering fresh challenges such as systems integration for a seamless omnichannel shopping experience. In the remainder of this article, we explore the challenges that treasurers have faced during this transition and the ways in which they believe they can make the most valuable contribution.

⁶ Deloitte, *COVID-19 will permanently change e-commerce in Denmark*: <https://www2.deloitte.com/content/dam/Deloitte/dk/Documents/strategy/e-commerce-covid-19-onepage.pdf>

Teething troubles

"If you were not selling directly to customers before, this is a significant shift in culture," says Grégoire Toussaint, director at Edgar, Dunn & Company, a digital payments consultancy. As companies expanded their digital payments infrastructure, the top challenge that treasurers faced was **systems integration**, cited by 39% of respondents globally (see Figure 2).

This was a significantly bigger challenge for treasurers in North America (cited by 66% of respondents, compared with 28% in EMEA and 22% in Asia-Pacific). When a company's systems are not well integrated with payment service providers, it can result in delays in processing and payments, which in turn may lead to higher fees and lost transactions.⁷

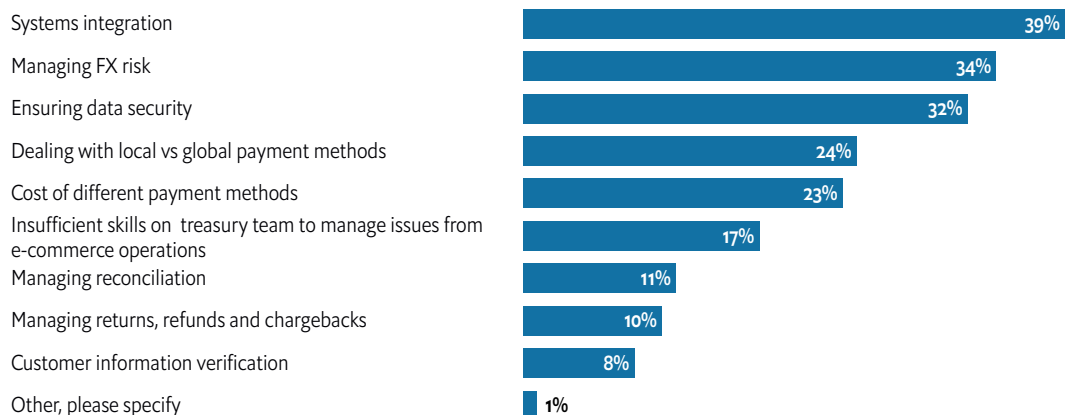
Stephen Hogan, vice president regional treasury Asia Pacific at Deutsche Post DHL, a leading international logistics firm, explains why systems integration is such a problem.

"So, on the front end it may look good, but on the back end the challenge is that there are no standards in terms of the [interface] for all of these different [payment methods], so your back end reconciliation has challenges."

Managing FX risk is the second-biggest challenge facing treasurers globally (cited by 34% of respondents), but it was at the top of the list for respondents in Asia-Pacific (38%). It was also selected by a higher share of respondents in North America (40%), compared with only 24% in EMEA.

Although treasurers are familiar with managing FX risk, such risk has heightened in the era of e-commerce. As consumer brands increasingly sell directly to consumers through their own websites (as opposed to selling through retailers), they must manage a higher volume of smaller transactions. For companies with a presence in many countries, this raises challenges with regard to pricing in local currency and managing FX fluctuations if there are delays in the checkout process or if

Figure 2: Top challenges facing treasurers as they expand their digital payments infrastructure



Source: EIU survey, February 2021.

⁷ *Munner's Daily*, "Breakthrough of the Century—Online Payments": <https://medium.com/munners-daily/breakthrough-of-the-century-online-payments-fdb0132b46d9>



[Payment] partners should help companies meet customers where they are, where they want to be—across different channels and devices—and allow customers to use whatever funding source or method they want to use.

Can Balcioglu, senior director, head of global risk and legal entity management at treasury, PayPal

items sit in a cart for days. Payment providers such as PayPal are offering some solutions to this problem, holding FX rates steady for up to 24 hours.

Globally, 32% of respondents also found **safeguarding consumer data** within digital payment systems difficult, and in EMEA this was the top challenge (34%). A greater awareness of data security in EMEA may stem from stringent enforcement under the EU's General Data Protection Regulation (GDPR). But ensuring data security was also a key challenge for 32% of respondents in Asia-Pacific and 30% in North America; our analysts say that companies outside the EU are working towards GDPR compliance even though they are not required to do so.

Greater access to consumer data means more compliance requirements for treasurers. Here, they have a decision to make, as Mr Hogan explains: "Do I [keep all of the consumer data] with my payment service provider? In that case, I don't store any of my customers' data and it's held within the PSP. This means they will have to maintain compliance, but then I've kind of lost some of the data [and the insights that come with it]." The decision will come down to firm size and the robustness of a company's information technology (IT) infrastructure and enterprise resource planning (ERP) systems, he says.

Dealing with **local versus global payment methods** was cited by about a quarter of respondents globally (24%) but by a higher share in North America (30%). Companies operating in many countries may find this more of a challenge. It is imperative to offer payment methods that consumers expect and can access locally—so Boleto Bancário in Brazil, PayPal in the US, Klarna in Germany, Alipay or WeChat Pay in China—with the aim of reducing the number of customers who switch to competitors and generating a higher conversion rate (the percentage of transactions approved). "[Payment] partners should help companies meet customers where they are, where they want to be—across different channels and devices—and allow customers to use whatever funding source or method they want to use," says PayPal's Mr Balcioglu.

But for merchants "it's a trade-off between offering the relevant payment methods to consumers, the complexity of dealing with a higher number of alternative payment methods and how to implement and manage these payment methods on an on-going basis," says Mr Toussaint. Often, companies integrate with payment platforms such as Stripe or Wellpay, which can manage the plethora of local payment methods for them. We explore priorities in the selection of payment methods below (see Box).

Twin goals in payment provider selection: cost and ubiquity

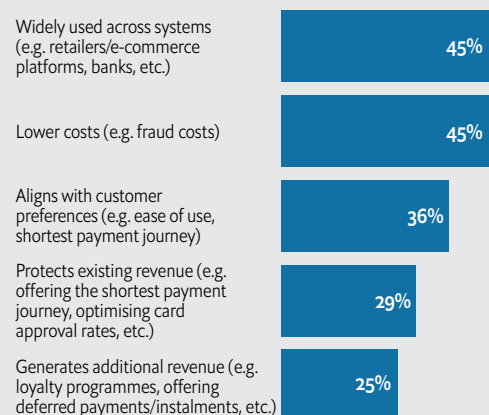
There are hundreds of payment methods, including e-wallets, credit and debit cards, and loyalty programmes, with preferred providers in each country. Understandably, then, when asked about treasury priorities in the next few months, over a quarter of respondents (27%) cited optimising payment methods and suppliers, placing it among the top three priorities (see Figure 1). By region, it was the top priority among Asia-Pacific respondents (cited by 24%), and in North America it was selected by a significantly higher share of respondents (34%, compared with 22% in EMEA).

Globally, treasurers are trying to achieve the twin goals of lower costs (not only operational and FX costs, but fraud costs as well) and ubiquity, with each of these objectives being cited by 45% of treasurers surveyed (see Figure 3). Working with widely used payment methods, merchants can negotiate lower fees because of a higher volume of transactions, and it is also easier to aggregate data across markets. As such, 52% of smaller businesses in our survey (those with annual revenue of US\$2bn-5bn) prioritise methods that are widely used across systems in order to benefit from these economies of scale, compared with just 31% of larger businesses (those with annual revenue in excess of US\$5bn).

By region, ensuring that payment methods are widely used across systems was

particularly important for treasurers in North America (cited by 60%, compared with 38% in EMEA and 36% in Asia-Pacific). In EMEA, selecting payment methods that align with customer preferences was the most important factor (42%). As some payment methods are widely used across Europe, it is unsurprising that 'widely used' is not a priority for our EMEA respondents. In addition, in Europe, lowering costs may not be a top priority as the FX risk is lower (given the large number of countries in the region that use the euro), interchange fee caps⁸ have been introduced and regulations such as PSD2 have strengthened the payment authentication regime, lowering fraud costs.

Figure 3: The most important criteria in the choice of payment providers offered to customers



Source: EIU survey, February 2021.

⁸ Fees that are applied to credit-card transactions by the customer's bank.

For treasurers, the challenges discussed above are shaping today's operations and tomorrow's priorities. In the final section of this article, we reveal the activities that treasurers believe they can make the most contribution to as retailers expand their e-commerce platforms and consumer brands switch to D2C models.

The role of treasury in the shift to e-commerce

Despite the transformation of business models and treasury team structures, treasurers remain focused on one of their core activities: **financial risk management**. Even as their companies shift to e-commerce, the majority of treasurers surveyed (52%) believe that ensuring effective financial risk management will be their top priority. The concerns explained in the preceding sections, specifically around managing FX risk and safeguarding consumer data, provide a strong basis for this expectation.

Financial risk management is significantly more important to treasurers in North America than in other regions (cited by 70%, compared with 52% in EMEA and 34% in Asia-Pacific). This could be attributable to the maturity of the e-commerce industry and, by extension, use of digital payments, in the US (see Figure 4). The US only managed to launch its RTP (real-time payments) network in 2017, nearly a decade after the UK delivered the Faster Payments service.^{9, 10}

Treasurers can turn to their payment providers to offload some of this risk. "We essentially manage counterparty, liquidity and operational risks ourselves while remaining fully compliant with local regulations in providing a seamless payment service to our customers," says PayPal's Mr Balcioglu.

Table 1: Top ten countries ranked by retail e-commerce sales share % of total retail sales

	2021	2022
1 China	52.1%	55.6%
2 South Korea	28.9%	31.6%
3 UK	28.3%	28.5%
4 Denmark	19.1%	19.8%
5 Norway	17.6%	17.7%
6 US	15.0%	16.3%
7 Finland	14.3%	14.4%
8 Sweden	13.2%	13.8%
9 France	11.2%	11.7%
10 Spain	10.9%	11.2%

Note: includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes or money transfers, food services and drinking places sales, gambling and other vice good sales.

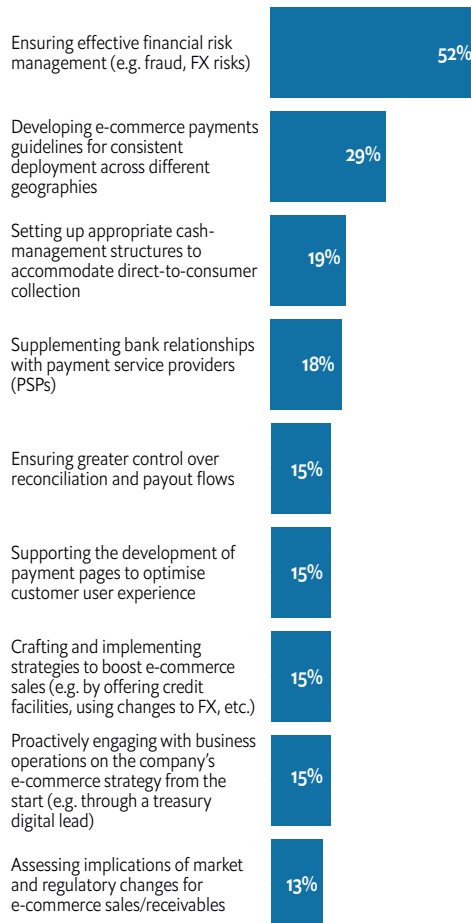
Source: eMarketer, Dec 2020.

⁹ Faster Payments website: <https://www.fasterpayments.org.uk/our-achievements>

¹⁰ The Clearing House website: <https://www.theclearinghouse.org/payment-systems/rtp/institution>

Figure 4: Most important aspects of the treasury's role in their company's shift to e-commerce

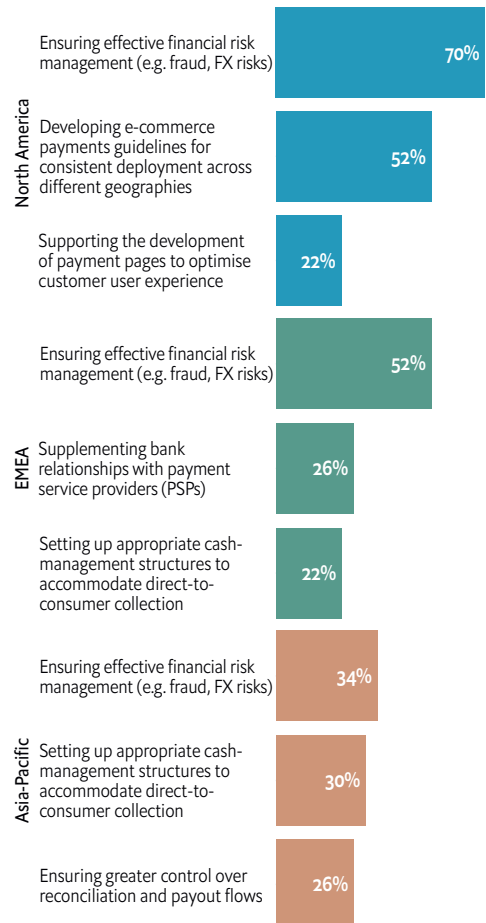
Global breakdown



Source: EIU survey, February 2021.

Beyond financial risk management, 29% of treasurers surveyed believe that **developing e-commerce payment guidelines** will be one of the most important aspects of the treasury function's role (see Figure 4). When expanding into new markets and working with a plethora of local payment providers "you can end up with something very fragmented related to payments within your organisation and [so] it is highly relevant to develop a payment acceptance policy document," says Mr Toussaint.

Regional breakdown



Such guidelines, he explains, would outline how to integrate with existing web and payment platforms, what types of payment method to offer, and requirements from providers (such as their payments acceptance policy)—essentially, guidance for rolling out and managing payments in different countries or regions. Treasurers who found it challenging to deal with local versus global payment methods were more likely to state that developing e-payment guidelines was the most important aspect of treasury's role in the shift to e-commerce (44%, compared with an average of 29% across the sample).



[Treasurers] need to get out from behind their spreadsheets and understand what their commercial or operations teams need, but also what consumers want.

Stephen Hogan, vice president regional treasury Asia Pacific, Deutsche Post DHL

In Asia-Pacific, **setting up appropriate cash-management structures** to accommodate D2C collection was considered the most important function. Thirty percent of treasurers surveyed in that region stated this, compared with 22% in EMEA and just 6% in North America. With more currencies in the region than in Europe or North America and different regulation across markets within the region, managing cross-border e-commerce revenue can be more complex in Asia-Pacific (depending on whether settlement takes place locally and whether payments are made to a single bank account or to multiple accounts, among other factors).

Ultimately, for a successful transition to e-commerce, engaging the treasury function

at the outset is imperative. Treasury's role in companies' shift to e-commerce is firming up, and its priorities are clear. As companies expand their online presence, treasurers must establish best practice for the seamless deployment of payment systems across geographies and must demand greater standardisation of PSPs in order to achieve better systems integration. But most importantly, treasurers must keep customers front and centre. "Yes, treasurers need to manage compliance, they need to focus on risk management, but they also need to understand their customers," says Mr Hogan. "So they need to get out from behind their spreadsheets and understand what their commercial or operations teams need, but also what consumers want."

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