



# Tapping Global Buying Power

*As international consumers flock to U.S. merchants, those offering currency conversion cash in*

By Richard H. Gamble

Attracted by the weakened value of the U.S. dollar, international buyers have brought a flood of business to domestic merchants. The biggest winners now offer dynamic currency conversion (DCC) and/or multicurrency conversion (MCC) at the point of sale, enabling consumers to buy with credit cards in their own currency and know exactly what they will be charged.

The weak dollar, coupled with the growth of travel and global online commerce, has been the driving force behind the growing popularity of POS currency conversion, notes Jim Morin, vice president and director of international and emerging payment solutions at First National Merchant Solutions. "As they travel more, cardholders get pretty savvy," he points out. It's not unusual to have a customer pull out a BlackBerry and check the current Reuters exchange rate when he's deciding at the cash register whether to accept the exchange rate offered by a DCC program, he says, particularly when purchasing high-ticket items such as jewelry.

International travelers' more valuable currency gives them more buying power here, regardless of how the currency conversion is handled mechanically. This is especially true in areas favored by tourists, such as Florida, Hawaii, Las Vegas, New York, and San Francisco, says Ken Musante, president of Humboldt Merchant Services.

## Four Choices

Consumers from outside the United States who use a credit card to buy from a U.S.-based merchant have four options, explains Chuck Fillingier, a consultant affiliated with the Strawhecker Group.

**1. Buy the merchandise in U.S. dollars.** The merchant gets paid in dollars, like a domestic transaction, but the cardholder eventually gets billed and pays in his home currency. The currency conversion is done invisibly by the card



networks and issuing banks. The cardholder takes the loss or gain if there's a change in the exchange rate between the time of the purchase and the time the transaction is posted.

**2. Present the charge to a foreign buyer in the buyer's currency.** This is an option for card-not-present transactions. For example, on the payment page of a Web site, the buyer may indicate which currency he or she wants to use to make the purchase. MasterCard funds the merchant in U.S. dollars. The card brands handle the currency exchange and pocket whatever profit is made. The merchant is exposed to shifts in the exchange rate between the time the transaction is authorized and when it is processed—typically within a few hours or perhaps a day.

**3. Make an MCC transaction.** This is another option for card-not-present transactions, provided certain criteria are met. In this case, the whole transaction is done in the chosen foreign currency. The U.S. price is translated into the currency of

choice, and then the buyer pays in that currency and the merchant is paid in that currency. The catch is that the merchant must have some business operation in the region where it is receiving payment—for example, an operations center or sales office in Mexico if it is to receive payment in pesos. Because the entire transaction is done in the foreign currency, no party is exposed to any gain or loss due to shifting exchange rates.

**4. Use DCC.** Although this option is the only currency conversion service that works in the card-present world, it can be used for card-not-present transactions as well. When buyers make their purchases, they are prompted to choose between making that purchase in U.S. dollars or their native currency. The POS system must show them the cost in both currencies and the currency conversion rate that will be applied. Their choice is binding, and a charge for that exact amount will appear on their billing statement. The merchant, on the other hand, always is paid in U.S. dollars. The currency con-

version provider takes any gain or loss from changes in the exchange rate while the transaction is in progress.

However it's done, converting currencies is not free. If an international buyer uses a credit card to buy dollar-denominated goods or services, the fees and the profit-spread built into the exchange rate go to the issuing side, and the buyer finds out later what those will be. With DCC, the fees and spread are shared by the merchant, ISO, acquirer, and foreign exchange provider. While the buyer knows up front what that amount will be, the difference usually isn't large.

"It makes little difference to cardholders financially," Musante says, "but they like to know just what they're paying. Given that choice, most buyers opt for DCC."

### DCC Benefits

DCC has two advantages. For the buyer, it is transparency. Business travelers often receive lengthy billing statements for credit card transactions weeks after a trip. Without DCC, they could be looking at names they don't recognize and amounts that don't exactly correspond

to receipts. It's hard to tell whether the charges are legitimate. With DCC, there's a perfect match of amounts and fewer disputes to resolve.

The second advantage is that the merchant and acquiring chains now get the revenue for handling the currency conversion instead of the card networks and the issuing side. This additional revenue helps to offset the interchange merchants are charged, Fillinger says. However, DCC may require an investment by the merchant in an intelligent POS system, Morin notes.

Humboldt pays a merchant 75 basis points on transactions that use DCC, Musante reports. The company only does DCC on Visa and MasterCard signature transactions, he says, noting that DCC is just starting to take off in the United States. It gained popularity sooner in Europe, where there were more currencies.

ISOs that offer DCC to their merchants need a processor that is connected to a currency service provider. That provider, in turn, must be connected to bank foreign exchange desks in order to settle up trades at the end of the

day—for example to fund a merchant in dollars who sold in euros to a German visitor. Most processors use a third-party provider like Omnipay or Planet Payment, Morin explains. "It's a huge investment," he notes. "So processors build a real-time interface to a currency provider that is integrated with the back office for settlement."

For Internet merchants, allowing international consumers to buy in their own currency is the key to increased sales and not a difficult or expensive service to add, Fillinger says. It typically just takes some tweaking to the payment page and a connection to a currency service provider. For the brick-and-mortar merchant, the process is typically harder and more expensive. POS equipment often has to be modified so that it generates an acceptable receipt. That's why, as a general rule, U.S. retailers located in popular international tourist areas or along the Mexican and Canadian borders are likely to find that it pays to offer DCC, he says. **TT**

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