New Hope for eCommerce in Nigeria!

By: Peter Ojo: First published in 2009
Nigeria is not known for large deposits of gold or silver, but it may well be a gold mine for savvy Internet
Nigeria is the largest market in Africa with over 40 million Internet users and this is only 25% of Nigeria's 160 million people according to the latest top internet report by Miniwatts Marketing Group. Meanwhile, Nigeria's economy has been growing steadily for decades. In US dollars, Nigeria's GDP in 1997 was a mere $36.2 billion. Ten years later it grew to $265.5 billion. During the same 10-year period, the country's debt dropped from $78.5 billion to $7.8 billion in 2007. No wonder Internet giants like Google are now setting up presence in Nigeria. Not that there aren't challenges. It is often difficult to pay for goods and services online even when buyers have debit cards, due to lack of regional payment system with capability for global access. Most Nigerian banks did not issue international credit or debit cards before year 2005, although local ATM and debit cards were issued much earlier. As a result, despite the burgeoning entrepreneurial spirit of Nigeria's youth there is still a major eCommerce knowledge gap that is costing Nigeria millions in lost revenue.

Those who have ventured to start an online business have had significant setbacks and are often discouraged from trying again. The average life span of a web site in Nigeria is between 3-6 months as at 2009, after which it's deserted when owners are unable to surmount the numerous obstacles to paying for further ongoing maintenance and hosting although some progress has been made since, and if a site accepts payments for goods or services, there are several more layers of challenges that are rarely overcome. Even if a determined entrepreneur manages to survive, there is still the problem of finding a reliable eCommerce infrastructure that will safely and reliably handle the electronic transactions without viewing the seller from Nigeria as high risk. So bi-directional commerce is virtually not in existence in Nigeria.

The influence of online merchants is critical in ecommerce chain in that when online shopper enters debit or credit card information at the point of purchase online, the seller's Website (in some cases) captures the card information and passes it on to an eCommerce payment processor. The processor then presents that information to a payment gateway, which in turn presents it to an inter-bank network for processing by Visa, MasterCard, American Express, Discover, etc. In this chain, sellers generally have the option to approve or decline a purchase made with debit cards whether or not it was initially approved by the card issuer. Basic economics would indicate that merchants are generally happy to have as many buyers as possible, irrespective of the location of the buyer. In fact, the broader the scope of buyers, the better for the seller. So one might well ask why a merchant would deny a sale that had already been approved?

Il things been equal, a merchant would not deny such an approved sale, so long as the payment was
A guaranteed. However, due to the nature of existing payment systems, a seller may lose the money even though the buyer consented to the purchase - even after the item has been shipped and received. Nearly every merchant worries about chargebacks, which can occur for a variety of reasons that have nothing to do with the seller or his integrity. The purchase could have come from the fraudulent use of or a stolen credit card, or the shipment could get lost in the mail, or the buyer could come up with any number of reasons why he is not happy with the product after the product has been opened or used. Most credit card companies stand behind the buyer and will issue a full refund, leaving the merchant with neither his money nor his product. Even if the buyer should send the product back, it is unlikely that it will be suitable for resale.

If the purchase originated from the US or a European country, these issues can usually be handled with minimal loss to the seller. Dealing with buyers from elsewhere, however, can be quite risky because of the time and cost of dealing with the issuing banks in those countries. This puts sellers in a very difficult position. If merchants lose too many sales due to chargebacks, the banks may penalize them or cancel their accounts, putting them effectively out of business. It is much easier and safer, from the seller's point of view, to simply deny the purchases from the so called "unsafe" countries. Contrary to popular opinion, it is more often merchants rather than the credit card companies that make the final decision to deny an order. For this reason, merchants are very important in the chain and are the most difficult to deal with from a buyer's point of view. However, this dynamic changes completely if a different mode of payment is used.

Although buyers in Nigeria have been shut out of eCommerce for nearly 15 years, this trend can be reversed almost immediately. Historically most eCommerce payment processors were regional in their outlook, but they've all expanded beyond their original boundaries. While most regions now have their own ecommerce centric payment platform, PayPal, Money Bookers, Alipay are three such examples. PayPal (acquired by ebay for $1.5b in 2002) started as a USA-based eCommerce payment processor. Money Bookers (now Skrill) is a similar service that began in the UK and Alipay the Internet payment subsidiary of the Chinese B2B e-commerce giant Alibaba Group. Because these companies rely almost exclusively on credit/debit cards to operate, their position as an aggregator more or less puts them in the role of a merchant, placing them in the same risk as the merchants described earlier. In fact, their position is even more tenuous in that they have no guarantee of a finalized sale and no control over the product itself. Such an extended risk and responsibility is what has kept such providers from extending service to Nigeria. There must be another alternative if Nigeria is to fully participate in the profits generated from an exploding eCommerce market.
ont count on credit card companies when it comes to ecommerce in Nigeria. In a nation of 160 million people. **There is no single person in Nigeria** who can be sure that the Visa or MasterCard debit card issued to them by their bank will be accepted when used online to make a purchase. It may or may not be accepted. It makes no difference if you have enough funds to cover the purchase. The purchase may be declined because the buyer is in Nigeria. This is more than a tragedy. It's a Nation's survivability at stake, but this problem can be eliminated by understanding the dynamics and putting resources where it should be and that is why the mobile payment licenses issued by CBN should be seen as one of the greatest achievement of the Central Bank of Nigeria.

Although mobile payment is just starting in Nigeria, the slow pace should not be a surprise. You can't undo the loss of confidence in the system and knowledge gap in few months. A few things can be done differently by the CBN however, but largely this will be the answer to the ecommerce payment problems that has been plaguing Nigeria for decades. The global community will not be able to ignore the Nigeria market any longer and that will eventually lead to unconditional acceptance worldwide.

The Nigeria payment system built post internet era must do one thing differently than the traditional credit card system; Inbuilt in it must be a fair system to handle dispute resolution between a buyer and seller that doesn't penalize the merchant simply because a buyer lodges a complaint. Except in blatant cases where a merchant is clearly defrauding customers, sellers should be able to compromise when necessary without the worry of losing their account due to some arbitrary number of chargebacks, which is the main reason why merchants don't want
to accept debit card payments from Nigeria.

VTN (Virtual Terminal Network). VTN began as an experiment to see if Nigerian market would benefit from a change in merchant attitude given a proper payment solution for the region. Specifically designed for Nigeria with ambitions for the rest of the continent, VTN offers a unique blend of features that have become very popular.

First, VTN is a very simple and secure way to make online purchases, even through the use of a GSM mobile phone. Money is safely transferred from VTN account of buyer to that of merchant or person to person transfer. Recipient can withdraw sales proceeds to their Bank account at anytime. Security features include a five minute recyclable 4 digit pin that comes from atmospheric noise that flashes on users GSM for added security and the ability to lock an account if it is suspected that an account and password have been compromised. VTN account holders can even add minutes directly to their cell phones without scratch cards and there is a referral program that earns them commissions if a friend uses the service. Sellers like the cross-border payment system and a dispute resolution system that doesn't automatically blame merchants when something goes wrong.

Here's how it works:
In the diagram, we see the typical eCommerce cycle. Instead of the traditional credit/debit card processing, however, VTN handles the transaction so the money is transferred without risk either to the buyer or the seller. The seller's
account is no longer held hostage by the whims of a foreign bank.

Due to the global economic downturn, the competition for new markets is fiercer than ever. More and more merchants are following the lead taken by Google, as evidenced by the recent surge in merchant registrations outside of Nigeria. In fact VTN was selected to power USA-AFRICA trade mission summit held in Maryland, USA in November 2008. Merchants are now flocking to VTN, which is projected to become the dominant eCommerce payment processor in the region. After years of waiting, VTN is finally paving the way for Nigerians to join the eCommerce marketplace with minimal competition.

Nigeria has the highest penetration of Internet users in Africa and because VTN satisfies the single most important concerns of merchants outside Nigeria, and the bi-directional transaction capabilities which will assure inflow of funds into Nigeria, they have a historic opportunity to reach millions of potential new Nigerian customers and thousands of global merchants. VTN has been growing at phenomenal rates since its pre-inauguration. Its initial success has allowed VTN to recruit thousands of new merchants from around the globe, making Internet shopping more attractive and useful for Nigerians than it has ever been. With millions of transactions already processed by VTN, there has not been a single case fraud - a remarkable achievement in today's world and a positive example of what is possible in Nigeria.

You can register to test the solution here at: www.virtualterminalnetwork.com
Via Mobile: www.vcash.com.ng

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