Payment trends in the European retail sector

Edgar, Dunn & Company
Second Annual Retailer
Survey

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& Company
Management Consultants

Contents

Figures

1   Executive summary

1.1   Introduction

Today consumers are more empowered in making the choice in their preferred payment method and the channel they wish to transact

This is the second annual EDC retailer survey and payments continue to be a hot topic for retailers. Consumers have an increasing array of choices when making a payment and they have greater empowerment in this choice and the channel they wish to transact. Cash, plastic cards, contactless, e-wallets, m-wallets, banks transfers are all contributing to the payment mix that both consumers and retailers must now consider and support. Retailers are also placing greater emphasis on what consumers perceive in-store or online and how they treat marketing information during their browsing, researching, decision making and purchasing at the point-of-sale or on the checkout page.

We have found that the sheer volume of information available to retailers is unprecedented, even for brands that have years of experience analysing customer data. Monetising data will be key for retailers. Retailers are also introducing in-store kiosks, free Wi-Fi, and arming their sales staff with mobile devices. These devices allow staff to better serve web-savvy customers face to face, and introduce a new point of interaction that could be in the changing room or where the shopper happens to browsing. For consumers there will be a greater blurring of the lines between online and offline retailing. The design of the traditional "pay here" checkout desk or point of sale is undergoing a complete rethink.

In the next 2 to 3 years EDC expects that changing consumer preferences and technological developments, such as mobile acceptance and mobile payments, accompanied by the emergence of a number of new retailer business models and sales channels will have a substantial impact on the retail landscape. How retailers will use data will be increasingly important to differentiate in a highly competitive marketplace. Change in the way consumers pay for goods and services will be fast. Consumers are responding positively to technological innovation and many retailers are finding it challenging to respond to this changing behaviour.

1.2   Survey scope

From the outset EDC wanted to look beyond the quantitative data of the online survey and dig deeper into the retailer's mind, aiming to understand their pain points related to payments and their priorities for today and in the next few years.

The survey scope was for retailers who had traditionally operated physical store locations and who had entered into other sales channel such as the internet or mobile. At EDC we call these retailers 'multichannel retailers' rather than 'omni-channel retailers'.

Omni-channel retailing could be the next evolution of multichannel retailing where a smooth consumer experience across all the available shopping activities and the touch

points is seamless. EDC wishes to keep a watching eye on how omni-channel and multichannel retailing will evolve.

1.3   Methodology

This is the second year that EDC has conducted the retailer survey, therefore, it has been the first year the results of the 2012 survey and the 2013 survey can be compared. By conducting twice as many in-depth interviews than last year with large tier 1 and tier 2 retailers, that have multichannel operations either nationally or on a pan-European basis, we wanted to capture an insight that many surveys often neglect.

We approached 1,366 contacts from 559 well-known retail brands, in the four largest retailing markets in Europe (UK, France, Germany and Spain) to complete an online survey in October 2013 and conducted individual telephone interviews with around 45 retailers (across UK, France, Germany, Spain and Italy) from August 2013 through to October 2013. The findings described in this paper provide a representative sample of multichannel retailers and the opinions of experts within the industry whose jobs depend on the smooth processing of consumer payments.

The objective of this white paper is to gain a better understanding of how payment-related changes affect the way multichannel retailers are doing business. It looks at how retailers are creating opportunities to increase sales, enhancing customer service and optimising payments to differentiate their customer proposition. As a result of the qualitative interviews from some of Europe's leading retailers, this report offers additional value with in-depth analysis and insight.

1.4   Key findings

EDC has found some interesting differences of opinions and a shift in the survey results that are indicative of the direction that retailers are moving and focusing their attention in the next few years. The survey findings suggest that many multichannel retailers are continuing to focus on payments to reduce costs, increase customer service and differentiate their service in a highly competitive market. The key findings of this survey can be grouped under headings:

❯ An integrated multichannel strategy is key to growth

❯ The payment mix is at the heart of an integrated multichannel strategy

❯ The future of retail payments is mobile for both consumers and retailers

❯ Convergence of customer loyalty and customer payment is an emerging trend

This year the survey has shown that loyalty combined with mobile payment will be a priority for retailers. Last year it was recognised that mobile payment would be important but the shift has been toward the need to combine loyalty with mobile. Both the survey results and the telephone interviews have indicated that loyalty combined with mobile payment will be widely adopted by consumers within the next two years.

It is clear that the payments piece for any retailer has to be strategic, supported at board level, covering the issuing of payment methods, payment acceptance and payment processing, all within an integrated multichannel strategy.

2   An integrated multichannel strategy is key to growth

Retailers already recognise that by developing an integrated multichannel strategy it can provide a differentiated shopping experience for customers and lead to additional benefits and sales growth for retailers. However, there are challenges for prospective retailers who are embarking on the road to an integrated multichannel retailing strategy.

What channels do you use to sell to your customers?

Channel	Percentage
Internet	80%
Brick and mortar shops	77%
Phone order	43%
Mobile app	37%
Mobile website	31%
Mail order	26%
Kiosk	14%
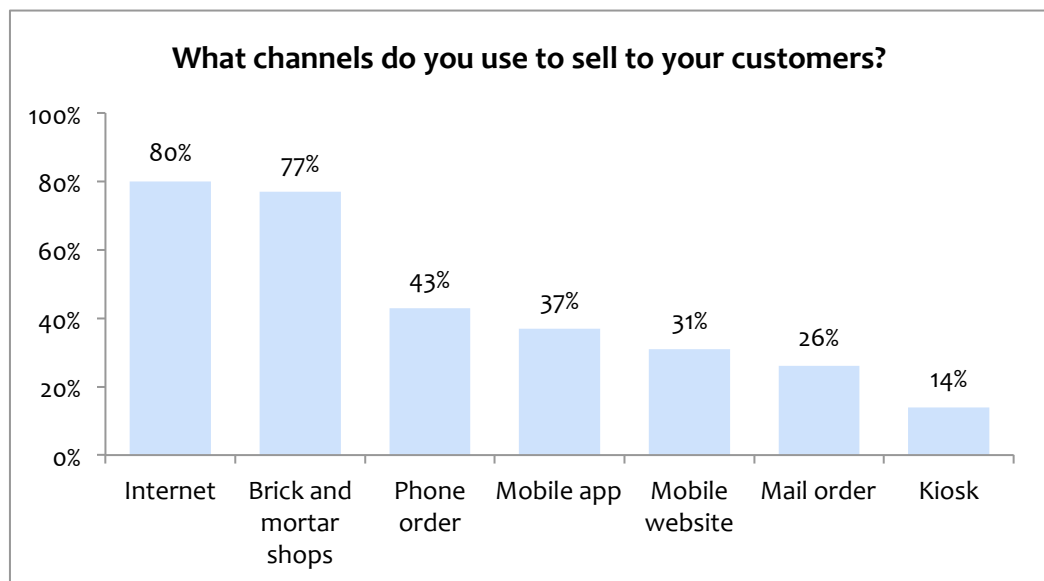
Figure 1: Multiple customer touch points

The in-store and online channels remain the most widely supported by retailers

Bricks and mortar shops, along with the internet, continue to be the channels most frequently supported by our survey respondents. Some channel differences between markets have also become apparent from the 2013 survey; mobile applications and mobile websites are far more common for UK retailers, whilst Spanish retailers will more frequently offer MOTO (mail order / telephone order) channels. The mobile app is continuing to be an attention-grabbing development and many retailers have added this channel to complement their marketing communications. How this particular channel will evolve will be interesting to see in the context of accepting payments.

Consumers are interacting across multiple channels for a single retail brand and are truly channel agnostic and want a consistent experience throughout. Therefore, retailers need to fully appreciate the risks of either diluting the brand promise or damaging its consistency of service across the different channels.

Many retailers sell through multiple channels, both physical and virtual; however, it is the degree to which these channels are integrated that indicates the strength of a multichannel retailing strategy.

2.1   The importance of an integrated multichannel strategy

If a customer wants access to new channels, then a multiple channel strategy will likely serve the purpose. This is seen where a direct channel, such as a mail order catalogue, is separately launched to the main physical stores. However, EDC has seen that retail customers are increasingly receptive to the cross-channel benefits associated with an integrated multichannel strategy and so developing such a strategy is becoming important for retailers seeking competitive advantage.

The survey asked retailers how they would best describe their integrated multichannel retail strategy. The following statements were presented to survey respondents to indicate how they define their strategy:

- Developing primarily a marketing strategy

- Bringing together both business processes and technology systems

- Maximising revenue and loyalty

- Consolidating purchasing data into a single customer database

In last year's survey far more respondents indicated that an integrated multichannel retail strategy was comprised of all of the above elements, however, this year opinion is far more divided. Only 35% still believe that all these elements are necessary whilst almost 30% indicated that it should be about maximising revenue and loyalty and a further 20% think that bringing together both business processes and technology systems should be the priority. This could suggest that retailers are more unambiguous in what they want to achieve with their multichannel strategy.

EDC also asked the retailers to indicate if they had already begun developing this strategy within their business, and if not, were they planning on doing so in the future?

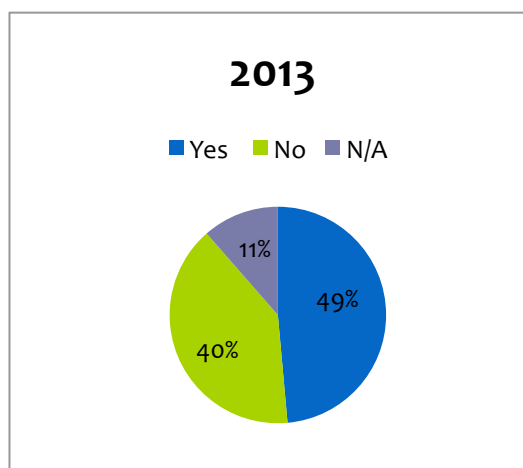**Figure 2: Do you plan to develop an integrated multichannel strategy?**

One interesting outcome of this year's survey is the apparent decline in the proportion of retailers who believe that they have already developed an integrated multichannel

retailing strategy. Only 49% of respondents indicated that they had developed such a strategy, whilst in last year's survey more than 80% of respondents indicated that they had done so. EDC believes that this decline could be related to the fact that some retailers are now struggling with the entire scope of an integrated multichannel strategy, particularly as they aim to make the mobile channel part of the mainstream-shopping proposition.

Based on some of the survey telephone interviews it was apparent that retailers are embarking on or in the process of large multi-year change projects. These could involve the implementation of back-end enterprise applications and the integration of their systems for the customer front-end, order management and inventory management software applications. These are big projects, often involving every aspect of the business. They are disruptive and it is challenging to manage change across, what are often, diverse and geographically spread business functions. They involve, in many cases, several countries and hundreds of thousands of people. This is particularly the case where new point of sale equipment is being rolled out.

> EDC Perspective: Large European retailers appear to fully grasp the importance of establishing and embedding a multichannel strategy into the culture of the business. However, it is often never that simple and the larger the system, the older the business, and the more diverse the operation (in terms of footprint and service mix) the more complex it has been to achieve a truly integrated multichannel strategy.

2.2   Benefits of an integrated multichannel strategy

There are a number of other benefits of using multiple channels in a more seamless and integrated way, these included:

Over 80% of survey respondents said improving customer experience and customer satisfaction were an important part of their integrated multichannel strategy

- Improved shopping experience, customer satisfaction and loyalty
- Access to a valuable subset of new customer segments (multichannel customers)
- Access to improved and actionable customer information (across all channels)

29% of respondents indicated that an integrated multichannel strategy was about 'maximising revenue and loyalty'. This year, optimising payments acceptance is not given the same level of importance as other potential benefits. EDC believes that this is because payments acceptance is a necessary part of any integrated multichannel retail strategy, and not strictly a benefit. Payments acceptance is something that has the potential to differentiate the shopping experience and is something that should be controlled and owned by the retailer.

Survey respondents have shifted the factors on which they place the highest relative importance as benefits of an integrated multichannel strategy. Customer experience remains to be the highest priority for retailers. Similarly the need to provide a competitive advantage (82% high/very high) and access new customer segments (82% high/very high) have become the most important factors this year compared to last year. Interestingly this directly supports that shift we saw in how respondents defined an integrated multichannel strategy, towards maximising revenues.

Improved and actionable customer information

A physical store often faces difficulty in linking customers to specific past transactions – particularly if the customer has paid by cash or with a third party credit card. In order to address this, many retailers encourage the use of loyalty cards, store cards or asking shoppers for personal information. In contrast, when looking at transactions through the internet or mobile channels, retailers automatically collect customer information in order to ship the merchandise. In addition to this, these channels offer retailers the opportunity to collect data about a customer's online shopping behaviour.

Retailers can see where on their website a consumer has browsed and where the customer has connected from, be it a search engine, comparison website or social network, and what days of the week and times of the day the transactions occurred, all of which gives the retailer valuable insight into the customers' shopping habits.

Improved shopping experience

Large retailers are collecting more data about customer shopping behaviour and are establishing a competency in doing so, but it is surprisingly difficult for medium and smaller businesses. One thing is certain, retailers who can harness the power of insight and data analytics to drive customer experience, loyalty, brand, social media, marketing campaigns and operations will be the future winners.

In our experience of working with multichannel retailers, EDC has found that customers want a seamless shopping experience regardless of the channel or payment method. Customers expect the same level of customer experience from a retailer's website or mobile app as from their in-store channel. Furthermore, customers expect to be able to cancel or exchange purchases via any channel, regardless of where they initiated the transaction or what payment method they used.

EDC Perspective: EDC's client experience demonstrates that the retailers are being overwhelmed with data from a flood of new digital channels, such as email, mobile, POS, social and internet, all of which consumers use to engage with brands from any device, anywhere, at any time. EDC has found that retailers are aiming to create a single view of data in a centralised dashboard by drawing upon common data sources from across all its customer touch points. This way information about the customers' buying habits across a wide range of touch points can be harvested.

2.3 Challenges of an integrated multichannel strategy

Many retailers have now become or are becoming, multichannel operators, but some are intentionally turning away from this type of strategy for two main reasons: 1) the costs of supporting a multichannel offering and 2) operational difficulties of integration.

In addition to these, retailers may face several other challenges, such as organisation structure, lack of a CRM[1] approach, IT constraints, lack of data integration and customer analytics. If your business has 50,000 to 90,000 staff; moving toward a multichannel solution will often involve a substantial training programme.

In last year's survey respondents did not put as much emphasis on the challenges of an integrated multichannel retail strategy as the benefits, ranking most challenges fairly consistently. However, in the 2013 survey retailers clearly identified two areas of concern:

❯ Data integration - 85% of respondents indicated that this was of high or very high importance (i.e. data across channels). This compares to 65% of respondents in the 2012 survey

❯ CRM and centralisation of customer data - 85% of respondents indicated that this was of high or very high importance. This compares to 56% of respondents in the 2012 survey

EDC also sees these two challenges as significant hurdles to implementing an integrated multichannel retail strategy; especially as both data integration and CRM are operational concerns, which were also of high concern among retailers.

CRM and centralisation of customer data

Traditionally, customer data collection and management is handled by a particular channel, with the consequence being that retailers do not have the capability to track transaction information across multiple channels and link it to a specific customer, and therefore track a customer's activity and profitability across channels. In direct channels, such as the internet, retailers are able to easily identify and track a specific customer's shopping behaviour. However, when this same customer interacts with the retailer's store channel, it is difficult for the retailer to link this new interaction with the shoppers purchase history on the internet.

By 2018 'Click & Collect' is expected to reach €20-25 billion in Europe compared with the current €9-€10 billion today

This is particularly highlighted with the rapid growth and adoption of 'click & collect' services whereby customers buy online and collect in-store (or return in-store). The agnostic nature of customers and how they interact with different retail channels has placed a greater emphasis on forming an integrated multichannel strategy.

Data integration

Customer transactions (both online and offline), conversations and intentions can all be brought together by retailers and used to both improve the retail shopping experience and maximise revenues. Collectively, this information is commonly referred to as 'Big Data'.

The issue lies in that Big Data refers to both structured and unstructured data:

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[1] CRM: Customer Relationship Management is not merely a software package but a way of running the operation with the aim of capturing customer data, profiling customers, growing the customer base and retaining customers through customer satisfaction and brand experience

❯ **Structured data** - refers to data easily captured in existing databases and may include transaction and conversion rates, amongst other statistical indicators

❯ **Unstructured data** - this is more fluid, being comprised primarily of social media interactions.

EDC customer experience indicates that unstructured data is currently less of a priority for retailers, who already face a significant challenge in making productive use of the sheer amount of structured data they collect. Going forward, integrating structured and unstructured data into a single database will be a key challenge, but will provide retailers with a wealth of actionable customer information.

> *EDC Perspective: Whilst there are no 'one size fits all' solutions to multichannel retailing, EDC believes that a more centralised, integrated organisational structure offers a more efficient approach when operating in multiple channels. If a retailer sells through multiple channels, but manages each one as a separate entity, it is likely to pose difficulties in creating a single brand identity, which is vital to securing customer loyalty. Nor will it facilitate the sharing of customer behaviour and preferences across channels, which is an integral part of delivering a compelling retail experience.*

3 Payment mix is at the heart of an integrated multichannel strategy

Retailers need to differentiate themselves in a highly competitive environment and the payment mix can become a significant differentiating factor as part of an integrated multichannel strategy.

Appropriate payment methods increase sales and improve customer experience

According to the survey, retailers acknowledge the significance of different forms of payment. When asked which business drivers influence their choice of new payment methods, respondents considered that improving customer experience (69%), targeting new customer segments (59%) and improving loyalty (50%) are the three most important criteria. This is largely in line with last year's results, however, there has been a shift away from targeting increased sales in-store, with customer experience having more importance when introducing new payment methods.
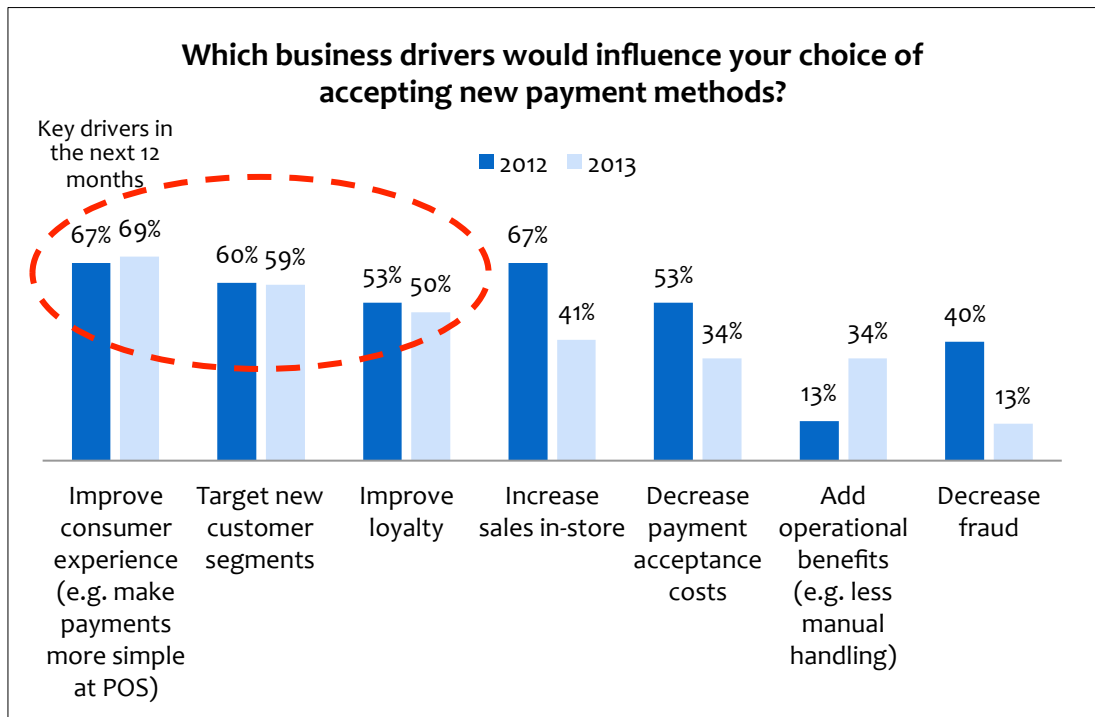
Which business drivers would influence your choice of accepting new payment methods?

Key drivers in the next 12 months

■ 2012   ■ 2013

	2012	2013
Improve consumer experience (e.g. make payments more simple at POS)	67%	69%
Target new customer segments	60%	59%
Improve loyalty	53%	50%
Increase sales in-store	67%	41%
Decrease payment acceptance costs	53%	34%
Add operational benefits (e.g. less manual handling)	13%	34%
Decrease fraud	40%	13%

Figure 3: Drivers to accept new payment methods

New payment methods can unlock specific customer segments and generate additional sales

New payment methods can unlock specific customer segments and generate additional sales. For instance, American Express, with its feature-rich programmes, tends to generate higher transaction value and PayPal provides access to a global customer base of more than 120 million PayPal accountholders. Appropriate payment methods need to be offered taking into consideration opportunities and restrictions relevant to each channel.

It is interesting to see the drop in priority from 67% to 41% as a driver to accept new payment methods in a physical store. This could because of the hype of alternative forms of payment acceptance in-store has not lived up to expectations and retailers are adopting a more realistic or an open mind to what are the real benefits of accepting new forms of payment at the in-store POS. Similarly, accepting new forms of payments is not always a means of decreasing fraud – only 13% of retailers said this was a driver compared with 40% last year. This drop may be related to the fact that alternative forms of payments open up new issues and technical challenges relating to preventing fraud.

The '1-click ordering' feature developed by Amazon is characteristic of a simple customer experience designed to encourage repeat sales and is positioned at the core of Amazon's payment checkout strategy. Retailers need to decide which payment methods to accept and which payment methods to issue.

EDC Perspective: This year EDC has found that retailers appreciate the importance of the payment mix in terms of the acceptance of payments across different channel. There has certainty been a maturing in the thinking about alternative and new forms of

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payment methods. However, this year we have seen the need to think about the payments mix in terms of both the acceptance and the issuance of payment methods. This is particularly critical in terms of a retailer's branded mobile wallet and its positioning in conjunction with private label payment cards, loyalty and gifting.

3.1 Payments are key to linking different sales channels

Besides increasing sales and unlocking customer segments, payments can also play an even greater role and link different channels. The payment process needs to be consistent and support brand identity across all channels. Customers increasingly use a combination of channels (in-store, social media, computer, tablet, smartphone) to support their purchase decisions. 87% of French consumers researched using the internet before purchasing products in-store and 52% indicated that they search on the internet in-store with their smartphone[2]. Retailers have found that customers, who shop on mobile devices and personal computers, and in stores, shop more frequently and spend more money than in-store-only shoppers do. Google estimates that frequent mobile shoppers spend 25% more in stores than occasional mobile shoppers.

Retailers need to consider the whole shopping experience to generate synergies across channels

'Showrooming' is the practice of visiting a shop or shops in order to examine a product before buying it online at a lower price. Often feared by many retailers, in contrast, John Lewis (along with many others) has embraced showrooming and found that more than 60% of their customers researched products online before visiting a shop to make a purchase. In-store WiFi access at John Lewis allows them to continue and complete that journey, accessing product information and viewing ratings and reviews to influence their purchase. Similar research in other markets has indicated that customers are becoming channel agnostic, there is a constant blurring of the lines of distinction between in-store and online browsing, price comparing, reviewing, researching and buying.

A retailer's website has evolved beyond a 'simple' e-commerce channel for online sales to become a multichannel source of information. A retailer's website actually becomes a significant sales driver for in-store, online and mobile interactions and needs to assist customers at the three major points-of-interaction: in-store, on the go or at home. Similarly, mobile advertising is the fastest growing advertising medium, up 106%[3] on average every year for the past three years.

Apple's EasyPay is effectively an electronic wallet

Retailers need to consider the whole payment process to generate synergies across channels. Design of the payment process should not only consider the last step in concluding the purchase transaction, but it should be viewed as playing a core role in a multichannel strategy, linking different channels across all payment methods and non-payment types of interaction between the customer and retailer.

Retailers using an integrated multichannel strategy could identify customers based on the usage of payment methods and provide loyalty or marketing offers at the time of purchase. Retailers can also use electronic wallets to store customers' personal and

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[2] Opinion Way survey - September 2012
[3] PwC Global Entertainment and Media Outlook 2008 - 2012

payments information. Electronic wallets link online and mobile channels to provide a consistent customer experience, simplify payments and encourage repeat sales.

> *EDC Perspective: By considering the whole payment process and all the points-of-interaction, retailers can optimise both front and back-end payment processes. For instance, returns or refunds ought to be part of a holistic approach. Retailers would need to brush aside inconsistencies and focus on implementing consistent return and refund policies regardless of the channels used. This will contribute to providing a consistent customer experience and will strengthen customer loyalty.*

3.2 Towards a frictionless customer experience

The proliferation of new sales channels has significantly modified customers' expectations. Customers now demand convenience, simplicity and an effortless experience. Apple was one of the precursors by offering the possibility to pay vendors directly without queuing in its Apple stores and creating a quick and simple payment process for customers. Called 'EasyPay', Apple created a payment wallet using the iTunes account allowing customers to scan the barcodes of products in-store and pay without going to the checkout. Customers can also reserve products, arrange for home delivery, book a one-to-one training session or attend a workshop, all via their iPhone.

Retailers need to provide a frictionless payment experience – a private label mobile wallet is likely to be the answer

High customer expectations of service require retailers to offer a frictionless customer experience and develop an appropriate payment process for each channel. Retailers need to optimise all points-of-interaction, of which payment is a significant element. 98% of respondents to the EDC Advanced Payments Survey[4] considered that convenience, ease of use or speed of payment were the key drivers for adoption of mobile payments and this is confirmed by the retailers in this survey. 69% of retailers said that implementing new payment methods would improve the customer experience (e.g. make payments simple at the POS) and 55% considered that simplicity for the consumer is one of the key challenges faced when accepting payments.

3.3 Striking a balance between convenience and security

In their quest to provide a seamless shopping experience regardless of the channel or payment method, retailers also need to consider customers' concerns. The increased quantity of personal information shared with different entities across different channels makes customers apprehensive of potential data issues. Security breaches as evidenced in different cases in the US and Europe have become a significant issue and source of genuine concerns for retailers and customers. 73% of consumers in the US and 72% of consumers in the UK stated that 'payment security' was their main concern shopping online[5].

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[4] The 2012 EDC Advanced Payments Report included a global survey of 525 payments professionals

[5] Consumer Survey conducted in October 2012 by Neoworks

Fraud proves to be very expensive for retailers both in terms of costs to prevent fraud as well as fraud losses. Retailers consider security (for payment acceptance) and simplicity for the consumer as the top challenges when accepting payments, as seen in Figure 4 below. This was not the case last year then payment fees were one of the top issues for retailers.

The customer experience should be at the heart of the value proposition whilst ensuring a high level of security. Balancing these two aspects should be considered when adding new payment methods and optimising payment processes (i.e. purchase, refund, return, etc.)

3.4 Counting the costs of an integrated multichannel strategy

Respondents in this year's survey did not identify a single standout challenge to accepting payments, whereas last year 81% of the survey respondents considered that the greatest challenge related to payment fees paid by retailers to other stakeholders. This may suggest a change in how retailers view payments acceptance towards a more holistic overarching view where security, simplicity for consumers, and fees are the top 3 core concerns for payment acceptance.

Fraud is always an issue particularly for online-only retailers but this year we only had multichannel retailers participating and the concern with payment fraud has shown no change in its priority relative to other acceptance challenges but it has dropped to 42% from last year's 56%. EDC has found this is mainly related to e-commerce third party and friendly fraud[6].
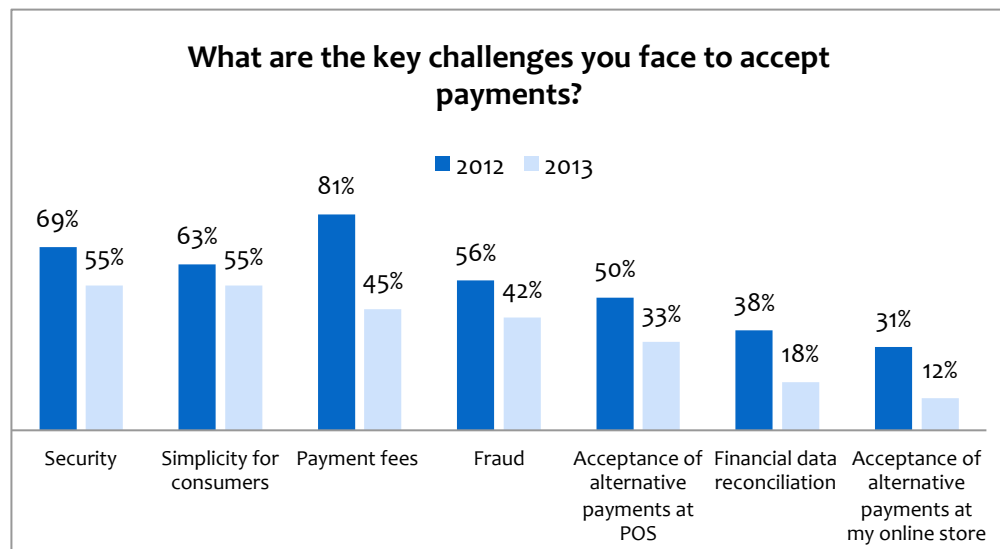

What are the key challenges you face to accept payments?

■ 2012   ■ 2013

	Security	Simplicity for consumers	Payment fees	Fraud	Acceptance of alternative payments at POS	Financial data reconciliation	Acceptance of alternative payments at my online store
2012	69%	63%	81%	56%	50%	38%	31%
2013	55%	55%	45%	42%	33%	18%	12%

**Figure 4: Key challenges for payment acceptance**

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[6] Friendly fraud is sometimes known as chargeback fraud or first party fraud

3.5   Issuing new payments products

68 % of retailers surveyed planned to launch new payment methods in the next 2-3 years

Retailer payments have always been relatively constant with cards, cash and cheques being dominant until the early 2000s. However, since then there has been a proliferation of new payment methods and the advent of online and mobile commerce has contributed to increased complexity in accepting payments.

2013

■ Yes ■ No

32%

68%
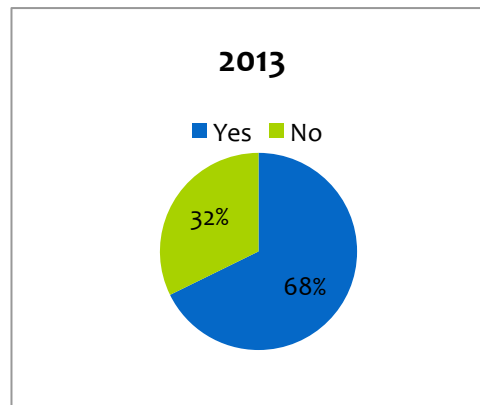
Figure 5: Do you plan to launch new payment methods in the next 2-3 years?

Beyond loyalty cards, some retailers have issued store cards, co-branded cards or prepaid gift cards to issue their own payment instruments and strengthen the customer relationship. The change in the payment landscape provides an opportunity for retailers to issue new payment instruments, with 68% of retailers indicating that they plan to launch new payment methods in the next 2-3 years. This is in-line with last year's survey (62%) and highlights that new payment methods remain at the top priority for retailers.

Non-payments activities will play a key role at the various points-of-interaction and will strengthen the customer loyalty via the smartphone

Payments play a central role in the strategy of retailers to offer new points-of-interaction and strengthen customer loyalty. It is expected that new payments using recent technological developments (e.g. contactless for card payments, online or mobile channels for wallets) will become increasingly valuable by interacting directly with customers. The different functionalities of smartphones (e.g. internet, camera, in-app features) or the use of social media are very likely to create new use-cases and generate additional sales. For instance, push messages or location-based offers will create targeted incentives for customers and are likely to increase in-store or online conversion rates.

2013

■ Yes ■ No

27%

73%
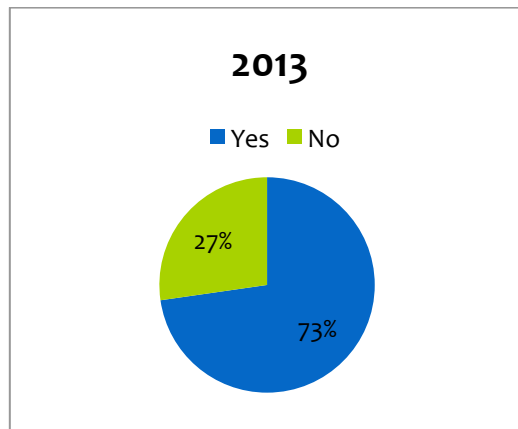
Figure 6: Would you consider using third-party providers?

As payment complexity has significantly increased, retailers face pressure to be compliant with the latest payment standards. Regulatory constraints, for instance, PCI DSS[7] compliance or Point-to-Point-Encryption (P2PE), can create a significant burden on IT resources.

Faced with this increased complexity, 73% of retailers surveyed indicated that they would consider using third-party providers such as hosted services or services in the cloud for payment-related services. Payment partners can help retailers benefit from specific expertise, implement projects when facing low bandwidth and shorten time-to-market to launch innovative solutions. This is not a significant change from last year's survey (the result was 75% last year). Therefore, the appetite remains high.

3.6 Contactless continues to grow

Since last year the growth of contactless terminals and their usage has grown significantly. In Europe there are estimated to be almost 700,000 terminals. UK, France and Spain are the three markets that have shown greatest adoption. According to Visa, European consumers have made 211 million contactless purchases over the August 2012 to July 2013 period.

For retailers contactless technology has to be a great way of reducing queuing time for consumers. The contactless transaction limit was raised in June 2012 from £15 to £20 in the UK and across Europe it remains at €25. Another raise in the threshold is likely to be seen soon across Europe and this will represent another leap forward in the growth of contactless payments that will be seen as a normal form of payment for many retailers and consumers in the next 12 months.

Outside Europe, for example in Australia, where the contactless threshold is $AUD100 (around £56 or €67) some grocery supermarkets are finding that as much as 70% of card payments are contactless.

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[7] PCI DSS: Payment Card Industry Data Security Standards is a worldwide information security standard defined by all the key stakeholders of the payment card industry

4   Loyalty and mobile are the future of retail payments

The increased penetration of smartphones in developed markets creates new opportunities for retailers. With the rapid rise of smartphone and tablet penetration, m-commerce is moving closer to becoming a mainstream reality. Smartphone penetration is rapidly increasing in developed markets across the world and over the past couple of years has overtaken that of feature phones in many markets.

2013 continues to see an explosion in the number of mobile wallets and retail services using smartphone features. This includes mobile wallet pilots or launches such as Google Wallet, PayPal, ISIS, Apple PassBook, V.me and MasterPass, along with new entrants such as Samsung, WEVE, Flashiz and a multitude of smaller players.

79% of retailers surveyed consider mobile payments either important or very important

Retailers are becoming more active in the mobile wallet space in many markets. In the US more than a dozen large retailers including Walmart and Target have come together to form the Merchant Customer Exchange (MCX) initiative. In France Auchan has launched Flash'n Pay, a QR code based multi-channel mobile payments product. In addition to payments propositions, there is an abundance of mobile applications providing loyalty, discounts, offers and other value-added services, which are increasingly being combined with payment. AIRTAG (France), LevelUp (US) and Znap (UK/Ireland) are just a few examples of mobile applications which are starting to combine payment and loyalty with a single proposition. The significant increase in the number of smartphone-related initiatives highlights the potential of mobile, and it comes as no surprise, that 79% (up from 76% in 2012) of retailers surveyed consider mobile payments either important or very important. For example, Greggs, the UK high-street baker, and others have launched a mobile wallet-based loyalty scheme.

As customer acceptance of connected technologies continues to rise, it will become increasingly important for retailers to identify mobile as a valuable part of the loyalty eco-system and as such, part of their loyalty strategy. For the most part, mobile payment applications merely offer an additional option to pay at the point-of-sale (POS), whilst the vast majority of mobile loyalty applications lack payments functionality. The convergence of these two technologies has the potential to offer considerable value.

4.1   The rise of m-wallets

Mobile payment is clearly a high priority for retailers, with 70% of retailers surveyed indicating that they currently accept or are planning to accept mobile payments in the future. Almost 30% are already accepting mobile payments whilst 64% intend to do so by 2015, compared to 53% in last year's survey.

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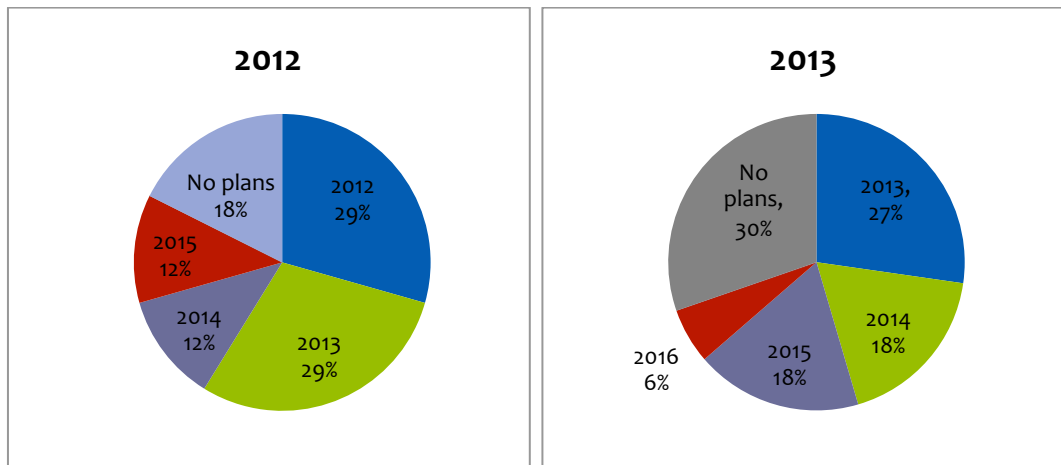
Figure 7: When do you plan to implement mobile payments?

Mobile continues to be a priority for many stakeholders, who perceive the significant size of the mobile payments opportunity. 61% of survey respondents declared that they are planning to launch a mobile wallet (or m-wallet) in the next 2-3 years, compared to only 13% for prepaid cards (down from 35% in 2012) and less than 10% for co-brand and private label cards. This demonstrates the importance retailers are beginning to place on mobile as part of the future of the retail payments landscape.
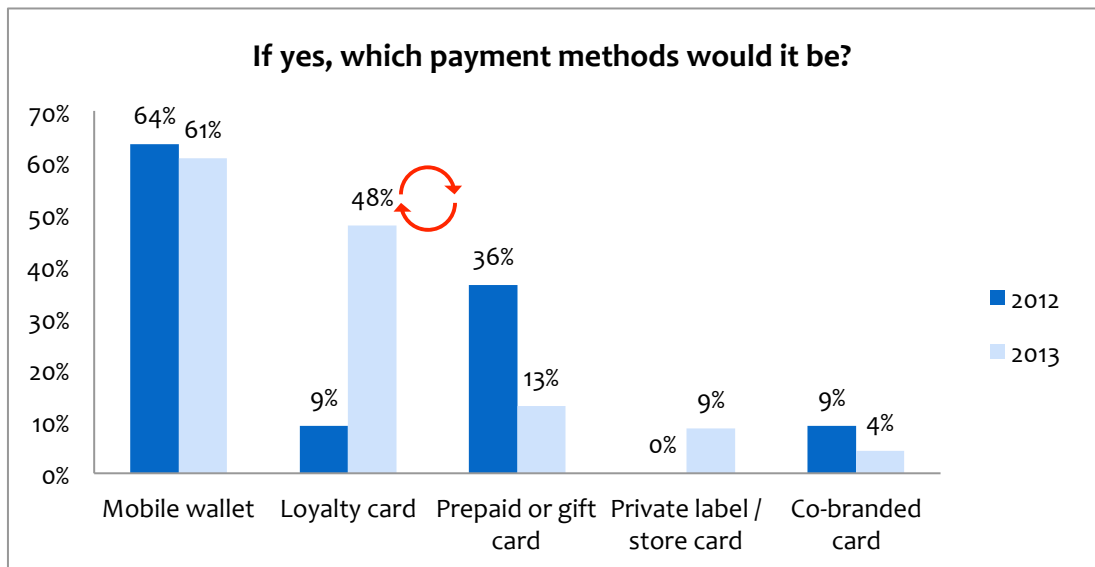
Figure 8: Which new payment methods do you plan to launch in the next 2-3 years?

The value of a mobile payment has the potential to expand beyond customer convenience benefits when combined with mobile loyalty at the checkout, retailers will be able to track, identify and reward customers.

The mobile wallet continues to be a priority, but what is particularly interesting when looking at 2013 and 2012 data is that there has almost been a completed 180-degree turnaround from planning to launch a prepaid/gift card to planning a loyalty card. Loyalty has been positioned to be far more important today and in the next couple

years. 48% of respondents (only 9% last year) stated that a loyalty card would be launched in the next 2 to 3 years. The next logical evolution will be to combine payment, mobile and loyalty.

4.2   The importance of loyalty

The move from paper to digital form factor is almost complete, which has led to a vast increase in the amount of data - both structured and unstructured. Retailers have the ability, through loyalty and payments, to use this data to engage with customers as individuals.

❱ Retailers will be able to recognise a valued customer regardless of the payment type

❱ Combining data collated from structured and unstructured sources, such as social media, will help deliver a far more personalised shopping experience
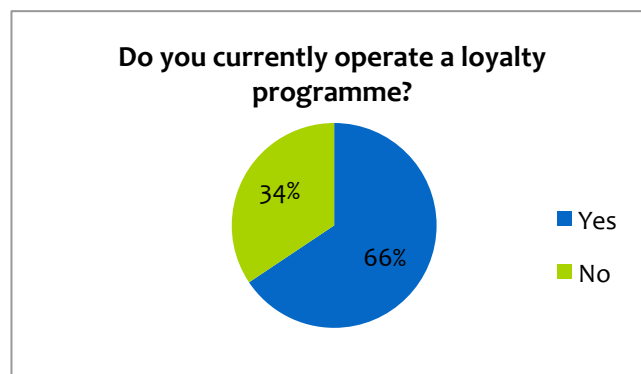

Figure 9: Do you currently operate a loyalty programme?

Creating a connection with consumers has always been an objective for leading retailers. Today, there are more ways than ever to attain this goal, as retailers are increasingly able to access customer data, an invaluable resource that goes far beyond transactional history. Retailers responding to our survey are no exception with almost two-thirds indicating that they already operate a loyalty programme.
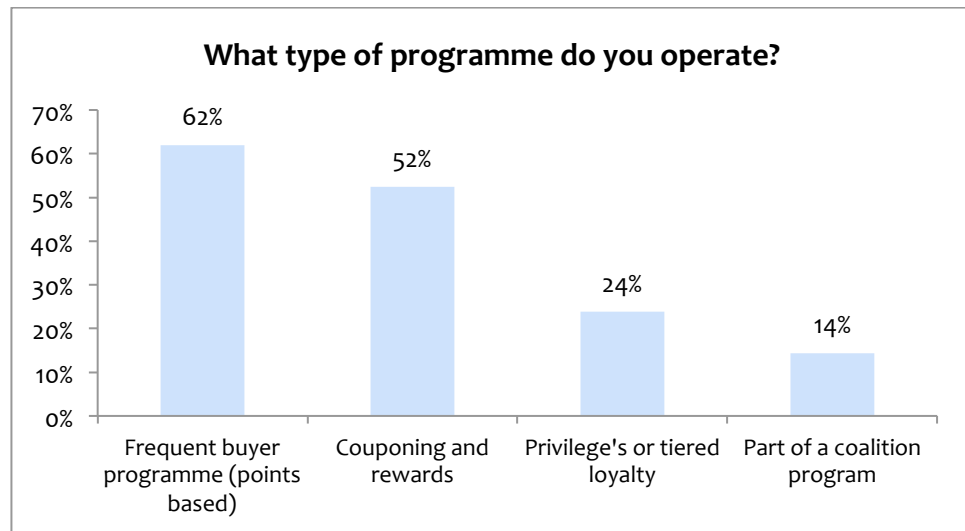
Figure 10: Loyalty programme types

Over the last 2-3 years, mobile loyalty programmes have entered the market, providing businesses of all sizes (even those with limited resources) an opportunity to create low cost programmes to reward loyal customer behaviour. These programmes, such as LevelUp, allow businesses to tailor loyalty programmes to their specific business needs. Other applications are facilitating the consolidation of loyalty in a single location and providing additional value-added services. Apple's Passbook application offers an excellent example of how mobile loyalty can and should work. The app allows users to collect and store loyalty cards and offers from multiple companies all in one location as well as integrating in-app push notifications to prompt the use of store loyalty data.

4.3 The convergence of loyalty and payment

Mobile loyalty and mobile payment offerings are often two separate strategies, but it is becoming increasingly clear that the two could greatly benefit each other and be combined to provide a stronger user experience and promote wider adoption. Survey respondents are clearly coming to a similar conclusion with almost 50% indicating that they want to introduce loyalty as a payment method in the next 2-3 years, up from 9% in our 2012 survey. In addition to this, 50% of respondents believe that loyalty will be widely combined with mobile payment in the future.

How will mobile and loyalty be combined in the future?
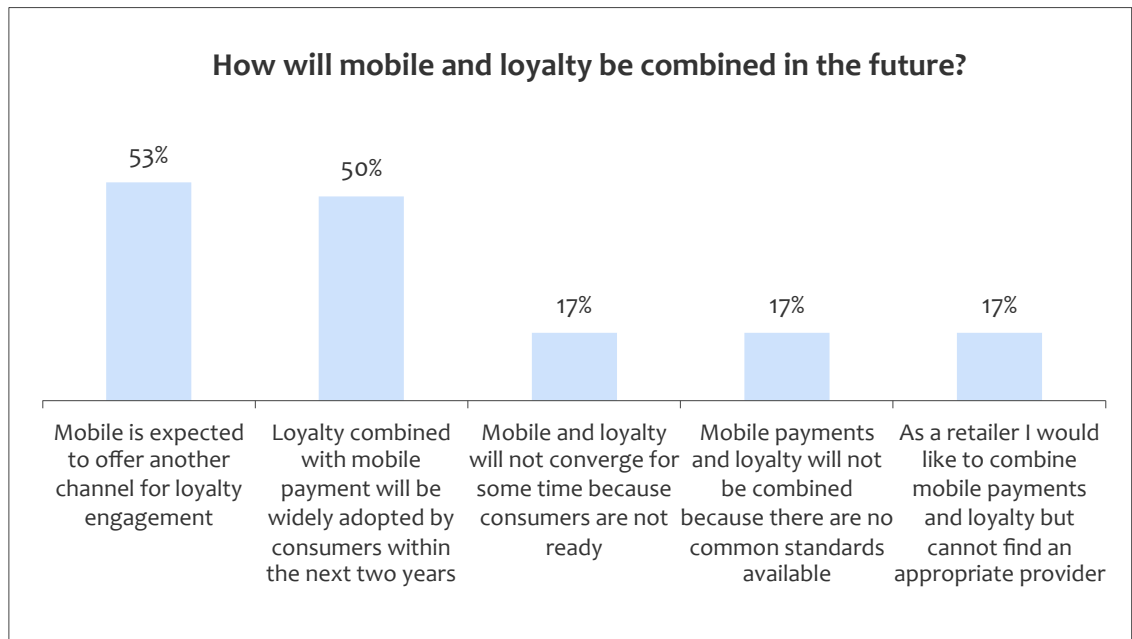
Figure 11: How will mobile and loyalty be combined in the future?

This combination of mobile loyalty and payments will be beneficial to both merchants and consumers:

❱ **Value for Merchants** - the convergence of payments and loyalty should attract new customers, increase sales and engagement from existing customers and provide more actionable customer data with which merchants can create a more streamline integrated multichannel experience

❱ **Value for Consumers** - this convergence should deliver more relevant deals and offers as well as vastly improving the shopping experience

The increasing adoption of mobile payments by both merchants and consumers, combined with new POS environments, will aid the convergence of loyalty and payment systems. As merchants upgrade POS systems and technology, they should take the opportunity to introduce new features and functionality, including the ability to accept payment and loyalty solutions from mobile handsets.

4.4　How do we get there?

The concept of using a mobile device to initiate or facilitate a transaction has existed for some time; however, the adoption rate has remained low. The explosion in smartphone penetration and the growing customer acceptance of such technology presents the perfect environment for mobile payments to become a mainstream reality.

Several factors are driving the recent surge in interest in mobile payment applications:

❯ **User Experience** - feature rich mobile applications are finally providing the convenient, seamless, and on the go user experience that consumers have come to expect. Retailers need to provide a seamless integration of payments and loyalty to ensure customer benefits. Marketing messages such "you have just earned an additional 30 miles with this purchase" will provide a positive impression and strengthen brand loyalty

❯ **Genuine Value-Added Services** - providers are combining a range of services utilising the rich functionality of smartphones and payments in order to create additional sales and increase conversion rates. Non-payment services before and after the payment can be key to providing relevant and timely information to customers - store finder, product list, product information and price comparison tools all give the customer relevant information which can be used to plan and facilitate a purchase

❯ **Security** - consumers who are already comfortable conducting transactions online are more accepting of mobile devices as an alternative channel for payments. Whilst consumer acceptance is increasing there are still some questions to be answered, such as what technology will act as the secure element for a mobile payment service; the phone, the SIM card or payment credentials stored in the cloud? As these questions are addressed there will be further opportunity for building secure payment services with a level of risk comparable or better than current services.

5   Other payment trends that might impact retailers

In the last 12 months EDC has found, and we have substantiated this during the telephone interviews, that there are three themes that were regularly discussed in boardrooms across a broad range of retailers:

❯ The coming of age for a multichannel strategy – the relationship that payments has across multiple touch points and sales channels for retailers has become an essential ingredient in a successful business operation (we observed that is was more obvious in retailers operating in several European markets)

❯ How social media is playing a role – retailers have realised and adopted a strategy for social media and social commerce, particularly in the digitalisation of loyalty and customer engagement

❯ The processing of data is no longer divorced from the marketing function – by combining disparate sets of data, from browsing patterns, social, payment transactions to even the time and location of a refund transaction, all types of data is substantially improving the marketing and sales efficiency of multichannel retailers.

5.1   A mature multichannel strategy

Both the quantitative and qualitative information captured in this year's survey has convincingly shown a maturing in the retailer's thinking in regards to their desire to be truly integrated multichannel retailers.

A multichannel strategy relies on the synergies of payment data across each consumer touch point

Without the proper technology, internal knowledge and best practices in place, it's difficult to maximise the potential benefits of an integrated multichannel strategy. By leveraging data more retailers are finding that payments and other related consumer data has the potential to differentiate their offering in an industry that is being challenged by a slow economy, increasingly empowered consumers, smartphone proliferation and an ever-growing number of sales channels. Although data is having profound impacts on retail and marketing strategy, it's important for brands to use these trends as building blocks for a frictionless customer payment experience. Retailers recognise the synergies between payment data and its usage across the different consumer touch points.

We have found the retailer's requirement to combined loyalty with payment has been more profound that we had expected. This could be related to the loosening of the restrictive investment budgets that retailers have experienced in the last few years. The potential uplift in the economy and a greater confidence in the expectation that business will grow have contributed to more emphasis being placed on the need to generate new revenues. An integrated multichannel strategy can be complex; requiring organisational, technological and often a cultural change.

5.2   Social commerce

Social networking is the most popular online activity; more than 82% of the world's online population engage in social networking. Social commerce has always existed in the form of individuals making recommendations to friends and family, and word of mouth is still the most trusted form of advertising - this is directly mirrored in the digital world. 40% of Twitter users regularly search for products or services (via Twitter) and 77% of online shoppers use reviews and ratings before making a purchase.

❯ Many retailers are struggling to successfully address social commerce, commonly falling into the trap of simply recreating their existing web stores on a social platform. Social commerce does not necessarily have to be through a social network, it starts with the addition of customer reviews and other user-generated content. In order to take advantage of this growing trend retailers need to design the experience around the consumer, taking advantage of all the available tools.

❯ There are significant potential benefits to social commerce:

▪ **Sales uplift** - social engagement can lead to significant increases in conversion rates, average order values, and repeat business

- **Increase brand engagement and loyalty** - social commerce gives consumers greater opportunity to interact directly with the brand, potentially building natural and lasting affinity.

5.3 Monetising Big Data

Retailers are already using insight gained from data analytics as they strive to improve business performance. In particular, data analytics is seen to be essential for the buying and merchandising team, making sure the inventory matches what consumers are buying. To match the consumer's demand for the right product, in the right place, at the right time is a basic requirement for any retailer.

Today it is easier for retailers to store more data and analyse huge datasets

The data mining efforts seen in the US market at Walmart and Target have been well documented in the last decade. Today, the ability for more retailers to analyse larger datasets from a wider range of data sources has been particularly interesting and more evident in the last few years. EDC has found that retailers are placing a greater emphasis on 'datafication', that is pulling together more data from a wider range of diverse sets of information about customer behaviour analysis - storing far more data than their existing systems are currently using - and then going back and doing post-analysis of customer data. This could be diverse as the frequency of in-store Wi-Fi registrations, smartphone geo-location information, social media, the relationship between purchases and returns, etc. In some ways datafication has been made possible by the dramatic reduction in the price of processing power and data storage. This has made it is easier for organisations to store more data and analyse huge datasets.

Exactly what the return on investment in this data analysis remains to be unclear and very few have truly found where the value exists, but retailers are convinced this is a worthy investment.

6 So where should retailers start?

This study has clearly identified that there are a large number of payments-related opportunities that retailers can further explore to generate additional sales, reduce costs, enhance profitability and improve the customer experience. So the next question is "where should retailers start?"

EDC would suggest a three-step approach.

6.1 Conduct an EDC 360° Payments Diagnostic

- It does not need to be a major exercise, but retailers must have a factual understanding of where they currently stand, i.e. what is currently in place, what is working, what is not working, what is the size of the payments opportunity in terms of incremental revenue and cost reduction?

- In EDC's experience, a 360° Payments Diagnostic should include collecting not only basic quantitative data (e.g. transaction volumes, actual costs) but also a review of existing payment policies, refunds / cancellation policies, payments-related tools and processes of the internal organisation

- This can be done in less than 4-8 weeks depending on whether there is any involvement in issuing payment products and the geographic reach of payment acceptance. The diagnostic sets the basis for identifying and prioritising improvement initiatives, it will appraise your in-house payment solutions versus third party payment service providers and other banking relationships

6.2   Develop a payments optimisation plan

- Based on the outcome of the above 360° Payments Diagnostic, retailers will need to prioritise the list of potential improvement initiatives, which could for instance culminate in the issuance of a request for proposal (RFP) in order to evaluate the most appropriate payment solution partner(s)

- Where the 360° Payments Diagnostic highlights any mobile payment opportunities the EDC Mobile Payments Matrix will provide a framework for retailers to develop new mobile payments solutions, taking into account three key elements:

  - **Mobile proximity payments** when considering face-to-face payments, should it be based on NFC (Near field communication), cloud or QR code (two-dimensional matrix barcode) technology. This category also includes mobile phones as POS terminals with solutions, such as Ingenico iSMP, which provides a terminal or device connecting with the smartphone to accept card payments[8]

  - **Mobile remote payments** when looking at distant mobile payments using the internet or mobile networks to conduct a payment. This would typically include mobile online payments for goods, services and digital content, as well as in-app payments to generate additional sales (e.g. 1-click ordering)

  - **Value-added services** providing benefits to customers beyond payments. These services could include location-based offers, loyalty or marketing discounts (e.g. integrated loyalty with payments, digital coupons stored on the smartphone, digital gift cards), purchase-related services (e.g. in-store shopping list, price comparison tools, food recipes, etc.) or direct interaction and social media (e.g. new product release information, 'push' loyalty offers, viral marketing, social marketing, etc.)

- The EDC Mobile Payments Matrix allows retailers to consider the different elements of an end-to-end purchase process and ensure that retailers can consider each of them to develop appropriate solutions and define a comprehensive value proposition. An m-commerce strategy must aim to

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[8] mPOS solutions, such as Square, iZettle or mPowa, were not considered to be within the remit of this year's survey because their primary proposition is not intended for the multichannel retailer. However, in next year's survey EDC will test this because we believe this hypothesis is expected to change

encompass the whole purchase process from a customer's perspective; before payment, during payment and after payment, and dovetail into the retailer's integrated multichannel strategy

- For a revenue increasing initiative this would include setting up the infrastructure for direct prepaid sales, a gift card or a loyalty programme, defining the payment acceptance policy (e.g. which payment methods to accept in which country) for brand.com plus your returns/refunds procedures for each payment method

- For a cost reducing initiative this would include reviewing the fraud prevention policies, process and tools, renewing or consolidating the relationships with third party payment providers and banks

- In establishing a payments optimisation plan it will take into consideration all the different customer touch points, in-store, online, social, and mobility (i.e. not just the mobile device but all the non-payment services that consumers are now expecting – search, product reviews, balance enquiry, loyalty collection/redemption of rewards, servicing, delivery tracking, etc.)

6.3   Establish a programme of on-going monitoring and management

- Payments within a retailer have always been a hot topic but often they are not given the appropriate senior management attention or executive sponsorship. Payments are strategic and offer a great opportunity for retailers to offer a differentiated, frictionless customer experience

- Once the payments-related foundation is in place, it is important to have in place the right organisation (e.g. a cross-functional 'payments committee') and tools (e.g. a payments dashboard with monthly updates on payments-related Key Performance Indicators and benchmarks)

If you are interested in discussing any of these payments-related topics, EDC will be pleased to set up an initial conversation to discuss in further detail the learnings from this study and how retailers can optimise payments.

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The observations and conclusions in this document are entirely those of EDC and are not intended in any way or form to reflect the views or perspectives of any individual or retailer.

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From offices in Atlanta, Frankfurt, London, Paris, San Francisco, Mexico City and Sydney, EDC delivers actionable strategies, measurable results and a unique global perspective for clients in more than 45 countries on six continents.

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