CARDS INTERNATIONAL

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Retail technology’s impact on banking services

*The retail industry is affecting everything around it, from banking to information and communication technology. The increased adoption of mobile devices, which shows no sign of slowing down, and the emergence of new payment solutions are forcing a re-evaluation of technology. **Patrick Brusnahan** writes on MasterCard's report on this trend*

In *The New World of Retail*, a report compiled by MasterCard and **Innovalue**, a strategic management advisory firm, considers how the retail sector is forcing change upon the industries surrounding it.

The study claims that the development of Apple Pay and the roll-out of NFC-enabled Android and Microsoft phones are important to push forward the usage of solutions such as NFC. Furthermore, this is allowing consumers to change their payment preferences at checkout.

Consumers prioritise comfort, safety and convenience when choosing a specific payment product. Convenience and availability particularly influence the probably of completion of the checkout process.

As a consequence, these key factors not only influence payment decisions, but also consumers' shopping preferences and the success of a checkout process. In addition, consumers are asking for innovative payment acceptance solutions, as well as seamless shopping experiences that cross channels and touch-points.

With the emergence of mobile wallet solutions, increased adoption of NFC and the proliferation of new methods of capturing and storing transactions and credentials, retailers are faced by not only increased complexity of payment options at checkout, but also by an increased risk to their customers and ultimately to their businesses.

Fraud is still a major threat to retailers. Not only can it cause some severe short-term losses, but it can ruin a retailing brand's value and consumers' trust in the long run. Research undertaken by MasterCard highlighted how consumers' choice of retailer, channel and payment type can be heavily influenced by a negative experience of a fraud incident, regardless of who was actually responsible for the fraud.

Ultimately, the report says, the payment is only the final step in a customer journey that should be an enabler and not a barrier to the completion of a purchase. Both consumers and retailers demand simplicity, seamlessness and safety, but it is up to the payment sector to provide these features and to retailers to ensure that the easier, safer and more seamless options are available to customers both online and offline.

The report states: "Today, online and in-shop buying experiences are converging as a consequence of consumer adoption of new devices and increased availability of real-time connectivity."

Considering the fast growth of e-commerce and m-commerce, retailers now have opportunities that were not available a few years ago. However, the establishment of these new channels and devices does not only imply that there are new ways to reach consumers, but also that consumers are mixing channels on a single purchase. Customers can review a product online and purchase it offline later. Alternatively, they can browse in a brick-and-mortar store and then complete the transaction online.

If retailers focus on only one channel, or by even not integrating channels at all, they risk a disconnection with their customers and losing revenue in the time where a competing retailer is one click away.

Retailers are not only concerned with the requirement to operate through multiple channels, but to make sure that all of these channels are integrated. This 'channel convergence' or 'omnichannel retailing' is summed up in the customers' ability to shop anywhere, anytime and anyhow. The demand for this is increasing as digital channels have become more integral to consumers' daily lives.

Payments are a strong indicator in reflecting the change that is taking place in the retail industry.

Traditional 'brick and mortar' shops are still the most relevant channel with the highest volumes, but this includes relatively small growth rates. Electronic payments are gaining relevance in this sphere, but the share of payments in cash is still significant.
In 2013, retail shops in Europe had an approximate market value of €5,452bn ($5,949bn). 42.4% of these sales were completed through a card payment while 57.6% were settled via cash.

While cash is still dominant, it is losing part of its market share due to the increase of electronic payment. However, this varies depending on the value of the transaction. Generally, the smaller the transaction value, the higher the probability it will be settled by cash.

The shift is set to accelerate in Europe as the European Union Commission has rationalised the cost of electronic payments to a degree that arguably these are lower than cash handling to retailers, thereby eliminating a perceived cost barrier to card payments acceptance for smaller retailers.

Online and e-commerce payments are similar to shops in terms of volume and growth rates, but compared to physical channels, online payments have much more variation and different fragments.

In the retail space, e-commerce has been growing by a double-digit percentage rate, which is crucial to the growth of all retail sectors. Europe's total e-commerce market in 2013 was €518bn and it is expected to hit €826bn by 2018; this equates to an average growth rate of 11.4% per year.

The United Kingdom is currently the e-commerce leader in Europe with a value of €128.9bn of online purchases and is expected to hold on to its position until 2018 with an estimated transaction value of €175.3bn.

Despite the value of e-commerce growing at a fast rate, it still represents only a small percentage of the total value of retailers' transactions. Overall, e-commerce in Europe was less than 10% of the total retail revenues in 2013.

E-commerce is very fragmented in terms of payment methods used by consumers compared to retail POS where cash and cards are the kings. With the online world, card payments lead the market with a share of 51%, followed by PayPal with a share of 19%, bank transfer with 9%, and cash at delivery that holds a share of 8%.

Mobile payments and payments based on mobile infrastructures are still a small-sized channel, but this is compensated by high growth rates and show signs of containing an even higher degree of fragmentation than e-commerce.

With the exponential rise of smartphones, their increasing functions and capability, mobile devices are increasingly used for the purchase of goods and services. Mobile devices are predominantly used to buy virtual goods, such as music or applications. Mobile phones are only now being used for proximity payments through a POS terminal.

Mobile proximity payments are expected to grow at a higher rate than previously seen as payment applications, such as Google Wallet and Apple Pay, gain wider adoption. This is expected to be aided as Square has allegedly been working on an Android tablet of its own that would replace the iPad-powered Square Registers for small businesses.

As a reaction to Apple Pay, Google has been working on a new mobile payments system named 'Plaso'. It is currently being tested at a few retailers and the service allows customers to pay at checkout by just confirming their name or initials to the cashier. Initiative such as these would bring more mobile-initiated payments into the brick-and-mortar world.

The mobile commerce market in Europe is still low compared to in-store and online purchases, only accounting for a value of €158.7bn in 2013. However, it is expected to rise to €450.8bn by 2018.

Drivers of change

Payments are in the middle of a period of dynamic change. This is a result of the new and emerging technologies in the market.
Card functionality being integrated into phones is just one example of new possible business models, like the implementation of NFC transactions or the possibility to pay for goods via scanning a QR code that has been printed into a catalogue. All of these changes suggest a sizable cost to upgrade infrastructure and an increase of risk from the perspective of retailers.

According the report, there are three crucial drivers of change:

- The rise of smartphones: Since 2007, with the launch of the first iPhone and Android based devices, the mobile has been transformed into a 'portable, pocket-sized computer'. Alongside the increase of data connectivity, smartphones are now an ever-present e-commerce opportunity

- The rise of millennials: Digital technology is omnipresent in the lives of millennials (or Generation Y) to the point that smartphones are often quoted as the channel of choice for any type of service.
- Emerging new models and industry convergence: Start-ups from the finance sector and technology providers have been monitoring technology innovations to develop new services and evolve existing services. The size and the brand value of companies such as MasterCard, Apple and Google are not only influencing and shaping consumer preferences but reshaping the retail environment through the development of new payment solutions as well as evolving their established products.

The report states: "These drivers of change are highly interconnected. Moreover, they do not only influence the way consumers expect or are looking to complete a transaction, but also affect many other parts of daily life. From a retailer's perspective, the changes go well beyond payments, and one typical example is the retail channel convergence.

"Consumers require and expect sales and access to information to be integrated into a seamless and consistent user experience. Their expectations about payment availability and performance are only one of the many aspects of channel convergence, but it is a crucial part of the user experience as well as an influencing factor for the completion of a sales journey."

New channels, attitudes and preferences
Consumer behaviour can change significantly depending on which form of payment they prefer. Therefore, understanding consumer preferences and having the ability to leverage the right triggers for the desired consumer behaviour is important to increase the rate of checkout completion.

The demands of the modern consumer are more varied than ever before. While consumers still have traditional needs, such as convenience and security, there are now a new set of requirements, which include seamless and consistent experiences, value added services, and all of these services connected to a mobile phone.

While most consumers prefer to pay with a card or cash at the retail POS with cash payments being most prevalent for low value transactions, typically for low-cost purchases (between €0.01 and €25), this is changing. Contactless payments through cards or mobiles are offering more convenient methods to eliminate cash in low value payments.

The NFC transaction market is forecasted to experience startling growth in the next eight years according to ReportsnReports.com, increasing at an estimated CAGR of 8.83% from 2014 to 2022, hitting a total global contactless transaction value of $16.25bn by 2022.

Preferences with regards to mobile payments are slightly more complicated.

The report says: "Consumer mobile payment preferences appear to be driven by a more complex number of factors, e.g., the growing number of smartphones, improved mobile data connectivity and overall social changes. Analysing these drivers for consumer adoption of m-payments, one of the key factors is once again 'convenience'.

"But it is worth noting that 'speed of payments' (including a quick purchase in-store as well as 1-click-ordering via mobile apps) and value added services, like incentives and personalised offers, also score highly within the context of the research. These new factors appear to be highly relevant in the context of mobile commerce and provide a valuable indicator to retailers searching to maximise sales through the mobile channel."

The report concludes: "Ultimately, the payment is only the final step in a customer journey that should be an enabler and not a barrier to the completion of a purchase. Both consumers and retailers demand simplicity, seamlessness and safety but it is up to the payment industry to provide such features, and to the retailer to ensure that the simpler, seamless and safer option is made available to consumers both online and offline."