

PAYMENTS INDUSTRY INTELLIGENCE

Payments
CARDS & MOBILE



THE CHALLENGE FOR **RETAILERS** BUILDING AN OPEN PAYMENT PLATFORM

Payments Cards and Mobile Research Study for RBTE

H|P|S
ENABLING INNOVATIVE PAYMENTS

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1.1 EXECUTIVE SUMMARY

In the last decade, contactless technologies, the mobile Internet and always connected mobile devices have significantly changed the way consumers consider their shopping experience. Consumers are also looking for seamless simplicity, this is driving retailers to define new user experiences, with the keys to this being frictionless transactions and omni-channel options for the consumer.

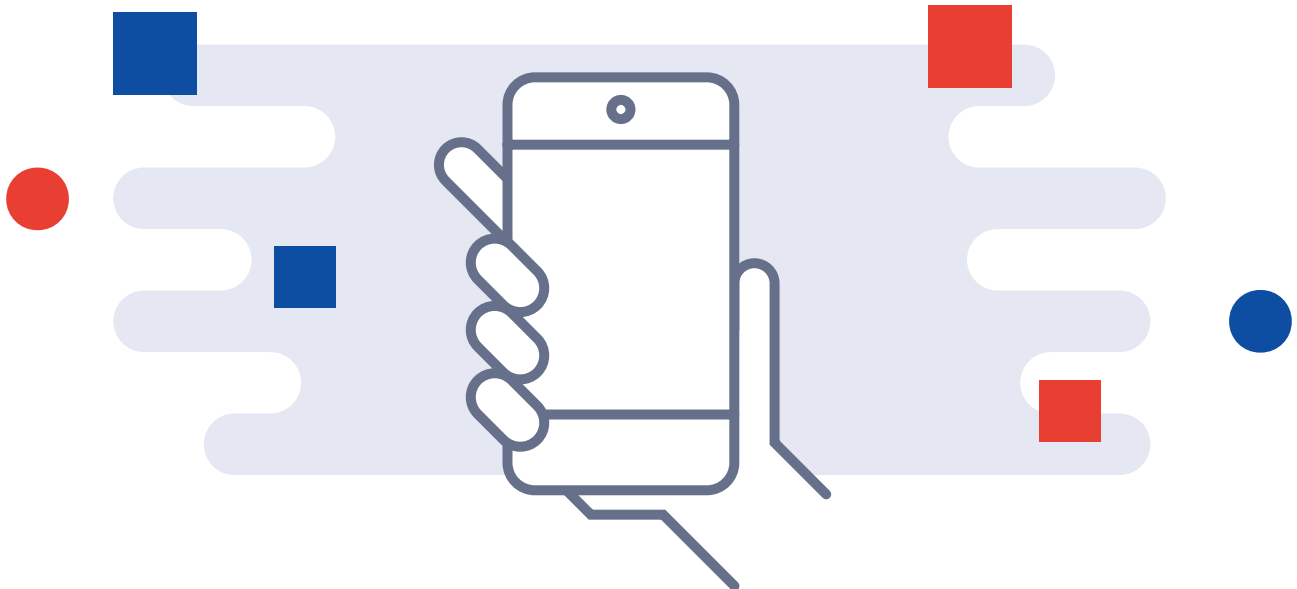
The report, a joint venture between PCM Research, the in-house research arm of Payments Cards and Mobile and HPS a provider of innovative payment solutions to issuers, acquirers, card processors, independent sales organizations (ISOs), retailers, and national and regional switches around the world, sought to understand the retailers' pain points with their existing payments

platforms and what retailers demand in terms of omni-channel, multi-payment services supporting an Open Retailing Payment ecosystem.

A few years ago, we saw retailers starting to issue their own cards, in addition to their loyalty cards, so that they were able to better control their electronic payment costs but also looking to strengthen the relationship with their customers.

More recently, retailers started to setup their own payment platforms to adapt to the ever-evolving customer journey and continuously increasing methods of payments made available to the customer, always looking for an improved customer experience while providing better customer knowledge.

Having been involved in the building of such platforms, we decided to work with Payments Cards and Mobile to produce this report to highlight the challenges faced by those retailers as well as quantify the benefits of building such a platform.



1.2 INTRODUCTION

Retailers need to embrace new consumer demands and learn from new consumer consumption patterns to meet their shopping expectations. This is driving complexity for the retailer community since it means supporting new checkout means, new payment means, new payment channels, new technology, and adapting to new ways of enabling the shopping journey.

These new consumer demands challenge both pure online merchants which lack in-store expertise and brick and mortar merchants. They need to implement digital shopping experiences and omni-channel retail infrastructures. It is about creating a seamless customer dialogue through every stage of the customer journey, from pre-purchase research to post-sales support and after sales care, and from in-store to in-app and online - independent of the device used.

Retailers also need to transform their supply chain management and logistics processes, especially to take into account inventories, orders, consumer data, loyalty, and real-time stock verification to support Click & Collect. The objectives here include the ability to improve the whole interaction between online and offline to the customer's convenience, creating a single customer database, and simplifying the current, separate outlet and online sales systems.

In the light of the latest payment trends like Open Banking payment apps, invisible payments and conversational commerce, retailers need a strong global omni-channel strategy for payment acceptance to succeed.

Specific key challenges for retailers consist of implementing a new kind of central payment platform. At the heart of the retailer's omni-channel strategies, a central payments platform combined with multi-payment acceptance services appears to be a key business enabler, providing a basis for better customer knowledge and improved consumer experience. Further, it is a prerequisite for large retailers that have the intent to become acquirers of their own transactions.



A central payments platform can simply hide the multi-payment service complexity behind the scene. In addition, it can provide the basis for customer identification verification, purchase validation, upstream/downstream services and support, seamlessly to the consumer's convenience.

With these trends in mind, Payments Cards and Mobile collaborated with HPS to review the latest shopping behaviour of consumers, the blurring of previously separate shopping channels, and the payment trends demanded by consumers.

The methodology used in this study is composed of results from recurring market research in the retailer sector, and lessons learned from discussions with key players in the retail sector and in the supporting payments industry.

2.0

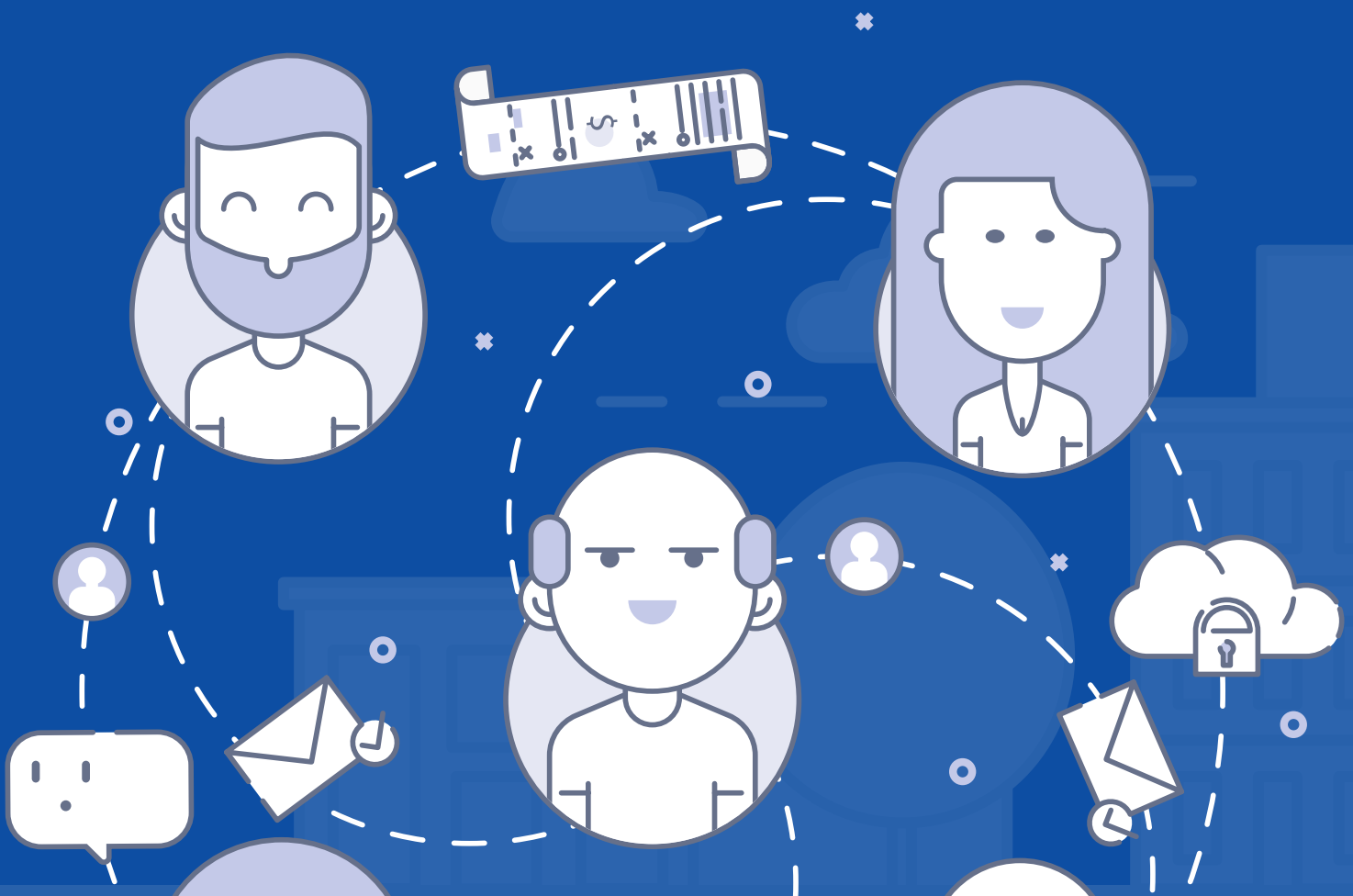
CHANGING CONSUMER BEHAVIOUR

Today's Consumers are becoming increasingly connected and they have embraced tablets, smartphones, wearables, messenger apps and social media. This change significantly impacts their shopping experience. Consumers have started to purchase anywhere, at any time, from any device, from any channel, and using any payment means of their choice.

According to retailer associations, the consumer expects a seamless omni-channel shopping and payments experience combined with added-values, and their use of connected mobile devices is seen as a game changer.

Driven by the development of social media and mobile devices, the emergence of permanently connected consumers has impacted their interaction with brands but also their expectations of how to shop using the increasing number of touch points and checkouts between consumer and retailer.

By no surprise, pricing is now a hyper sensitive criteria in a transparent digital commerce world. However, according to Mastercard, consumers consider that the shopping experience and convenience prevails over price or rewards. In detail, the study shows that value (44 percent), track record/experience (36 percent), and convenience (34 percent) outpace loyalty rewards (26 percent) as the aspects that drive the omni-channel shopper back to the same merchant.



In 2018, consumers can shop faster and easier using mobile devices for many new shopping use cases:

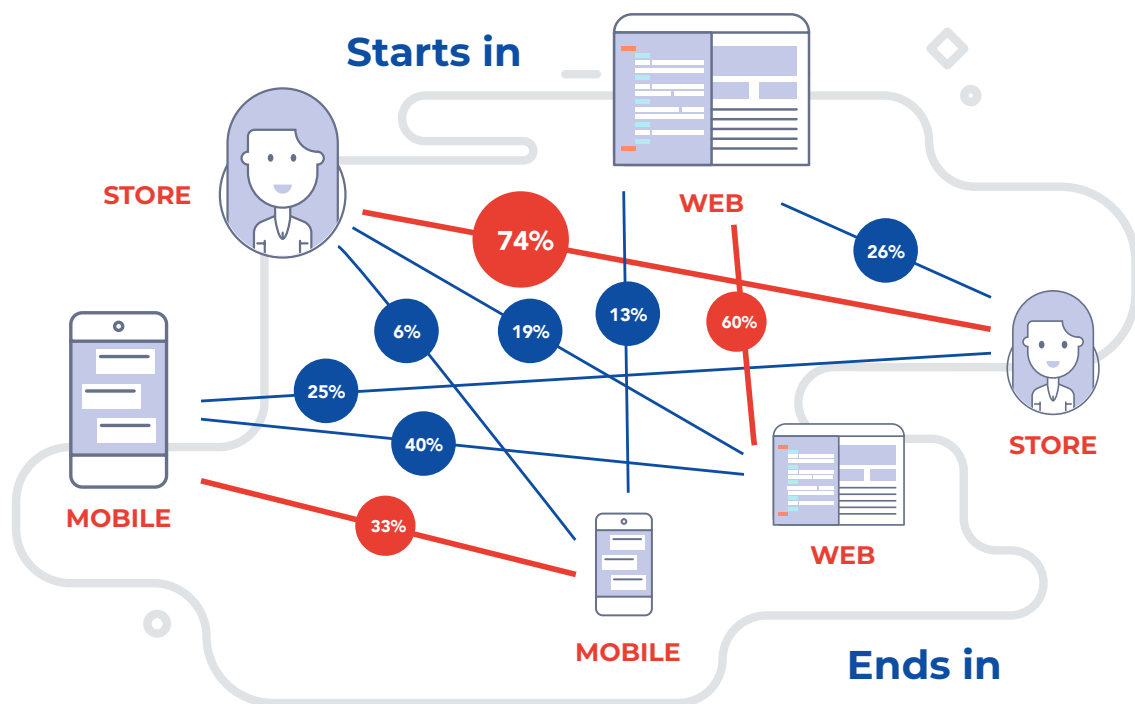
- › In-store mobile device usage to look up product and pricing information, purchase and payment in-outlet:
 - | Look up prices in online shops and, in some cases, approach the merchant for a better price
 - | Purchase at a different online merchant, if price in retail outlet is not competitive or product not available
 - | Instant savings and communication with BLE beacon or QR-code
 - | Self-checkout or in-cart checkout – combined with automatic payment
- › Online purchase in online shops – while being at home, in-store or away from home
- › In-app purchase and payments using QR-codes to bridge from posters to the merchant's online shop
- › Click & Collect – online purchase with delivery and payment in outlet or by postal service

Even more, consumers demand to be able to use new types of payment use cases:

- › In-store payments with mobile devices:
 - | IBAN-based in-app payments directly from the bank account (e.g. HCE NFC, 1D-barcode, QR-code)
 - | Mobile HCE NFC payments on cards and/or on digital wallets (MasterPass, Visa Checkout, PayPal)
 - | Payments with messenger apps (e.g. Alipay, WeChat App), initiated by QR-code or 1D-barcode
 - | One-click checkout with automatic invisible payments, conversational commerce
 - | Online buy-buttons with one-click payments (e.g. Facebook, Google, Amazon)
- › Online payments on cards, from bank accounts, or using messenger apps (e.g. Alipay, WeChat App)

FIGURE ONE

The shopping journey of connected consumers



SOURCE: PCM RESEARCH.

2.1 CONSUMER BEHAVIOUR EVOLUTION

According to recent studies from the UN, it forecasts that 66 percent of the population will live in urban environments by 2050. Urban lifestyle along with increasing choice, greater access to alternative options and time pressure, means consumers are becoming less loyal.

Saving time is a recurring rationale for shopping online but it is also a reality in-store as well. In order to shorten the checkout queue, nearly half of consumers would appreciate being able to pay using a tablet, smartphone or wearable in-store, according to studies of retail associations in France and Germany.

Time is valuable and shoppers perceive it as precious and therefore do not want to waste any. Consequently, they expect absolute efficiency from retailers at every stage of the purchasing process.

With the advance of contactless and online technologies in combination with mobile apps, smartphones and tablets, many consumers expect a more convenient shopping experience both in outlets and on the internet. In a digitally connected world, consumers expect no more barriers between face-to-face outlets and e/m-commerce.

Encouraged by market players like Amazon, Facebook, Google and Uber, and as reported by many retailer associations, more and more consumers demand more convenient shopping with access to a global retailing market place, and their preferred payment services to be offered by retailers, independent of the channel they purchase from.

However, a high level of convenience does not satisfy all consumer requirements. Retailers are also expected to provide responsive services, knowledgeable assistance and customisation options. Whether customers shop in-store or online, they will no longer accept perceived overpricing and poor standards of customer service and are likely to switch to alternatives as well as post negative feedback for other consumers.

Taking into account the advance of mobile banking and payment apps in the Open Banking ecosystem, the consumers' mobile devices are going to become a kind of dashboard for reviewing omni-channel shopping and payments that meet with the various checkout forms already offered by the retailers (see Figure 2).

This high-level view on a potential future Open Retail infrastructure was shared in the discussions with European retailers and their supporting payments industry players.

FIGURE TWO

Outlook – Consumers' Dashboard meets Retail Checkout Forms

CONNECTED CONSUMER DOMAIN

MOBILE BANKING APPS

Bank payments from account, cash-in/ cash-out at POS, P2P

SECURITY FEATURES

Tokenisation, SCA, biometrics, payment control

SERVICE TOOLS

Scanner: 1D-codes, QR-codes

PAYMENT APPS

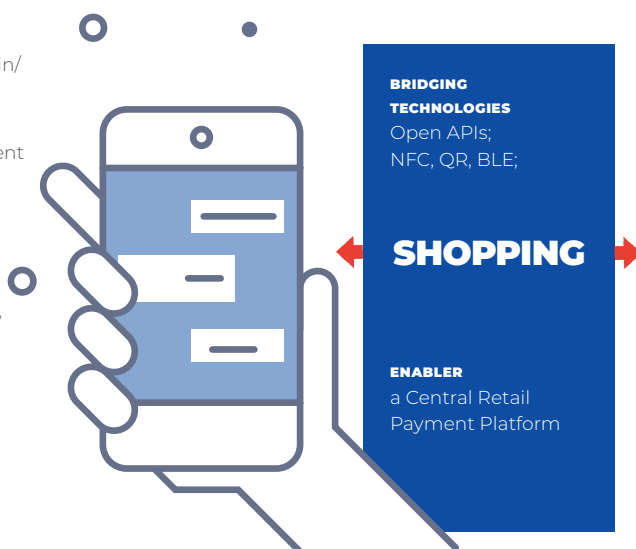
Cards, wallets, 'the Pays', IoT, in-store, in-app, in-car, instant

DATA-ENABLED SERVICES

Personal finance management, e-Invoicing, subscriptions

RETAILING APPS

Emails, outlet finder, vouchers, discounts, loyalty, e-invoices



RETAIL DOMAIN

POS OUTLET CHECKOUT

ECR devices, POS terminals

ONLINE SHOP CHECKOUT

Online multi-payment page

SELF-CHECKOUT

Particularly for small number of items

QR CODE

New shopping areas, e.g. poster shopping

IN-CART CHECKOUT

From warehousing to retail application

IN-APP/IN BACKGROUND

'My phone, my terminal' s

MOBILE CHECKOUT

Expanding from small to medium-sized POS

SOURCE: PCM RESEARCH.

2.2 CONNECTED CONSUMERS DRIVE THE CHANGE

Mobile devices and the Internet are seen as game changers for the payments industry and for retailers. The number of connected devices on the so-called Internet of Things will explode to 50 billion by 2020

(source: PCM Research).

In the last decade, consumers have embraced these new technologies and the demand for a unique omni-channel checkout experience has gained momentum. Especially, the connected use of mobile devices gives consumers access to unlimited digital data, allowing them to make more informed decisions.

In addition, the influence and role of social networks and chatrooms for consumers seeking information is increasing. Even more, consumers communicate their shopping experience and sales recommendations for products and services in social media.

According to a VivaKiAdvance report from 2016: 88 percent of consumers worldwide look up information online before buying in-store or in-app, and 67 percent of consumers

think that having the ability to compare and get more information about products in-store via their mobile devices influences their purchasing decision.

According to retailer information, omni-channel showrooming is a new consumer attitude (source: PCM research):

- › In Europe, 59 percent of consumers think that “bricks & mortar” merchants are providing the best advice
- › 55 percent of smartphone owners use their mobile to look up merchant information on the go
- › More than 50 percent of people already use their smartphone in-store to compare prices
- › Pricing is the most sensitive criteria: 50 percent of users will walk away for a 5 percent difference
- › Satisfied consumers report being 40 percent more likely to buy from other channels at the same merchant

Looking into the specific data of major European countries shows that connected consumers are the new normal for retailers and their supporting payments industry partners.

Table 1: Connected Consumers

CONNECTED CONSUMERS (2016)	CZ	A	PL	S	NL	B	CH	E	D	I	UK	F
Population (in million)	10.57	8.74	37.97	10.00	17.08	11.35	8.42	46.53	82.52	60.59	65.81	66.99
Households (in million)	4.69	3.86	14.23	4.83	7.72	4.69	3.61	18.44	40.54	25.80	28.65	29.14
Households with internet access	82%	85%	80%	94%	97%	85%	92%	82%	92%	79%	93%	86%
Last internet use (individuals, 12 months)	83%	85%	75%	95%	94%	87%	93%	81%	91%	71%	95%	88%
Internet users who bought online	57%	68%	56%	80%	79%	66%	81%	54%	81%	41%	87%	75%
Last online purchase (individuals, 12 month) (EU: 53%)	47%	58%	42%	76%	74%	57%	75%	44%	74%	29%	83%	66%
Mobile phone subscriptions per 100 population	115%	166%	146%	127%	130%	111%	136%	110%	115%	140%	122%	103%
Smartphone user penetration of mobile phone users	64%	70%	63%	82%	85%	64%	80%	67%	72%	62%	78%	67%
Mobile phone internet user penetration of mobile phone users	79%	74%	81%	83%	87%	76%	83%	70%	73%	66%	79%	70%
Tablet user penetration of internet user	24%	35%	32%	62%	66%	32%	34%	55%	54%	52%	67%	54%
GDP value (€bn)	176.8	356.2	430.9	474.3	699.0	421.3	547.1	1,149.0	3,205.8	1,776.8	2,430.2	2,229.1
Online B2C eCommerce value (€bn)	3.66	8.30	8.10	12.00	20.20	9.10	9.30	23.90	77.90	19.90	174.00	72.00
B2C eCommerce growth rate GR15/16	22.0%	10.7%	6.6%	24.1%	25.7%	10.4%	9.0%	31.7%	30.5%	19.8%	10.7%	10.9%
Ø B2C e-Commerce amount per eShopper per year	€611.8	€1,391.9	€380.9	€1,500.8	€1,502.2	€1,223.6	€1,369.8	€945.6	€1,160.9	€804.1	€3,026.3	€1,433.1
Cross-Border B2C Purchases of individuals	10%	47%	10%	39%	31%	40%	61%	25%	20%	14%	33%	27%
eGDP share in GDP	2.1%	2.3%	1.9%	2.5%	2.9%	2.2%	1.7%	2.1%	2.4%	1.1%	7.2%	3.2%
Market share of country in European B2C eCommerce	0.69%	1.56%	1.53%	2.26%	3.81%	1.72%	1.75%	4.50%	14.68%	3.75%	32.79%	13.57%

Note: eShoppers from 16-74 in % of capita. Data of sources are 2016 figures. Italic figures are estimated. Note: B2C commerce values are for goods & services. Table sorted by commerce value from left to right by. Sources: Eurostat, eCommerce Europe, ITU.int, eMarketer, PCM Research.

A = AUSTRIA, B = BELGIUM, CH = SWITZERLAND, CZ = CZECHIA D = GERMANY, E = SPAIN, F = FRANCE, I = ITALY NL = NETHERLANDS, PL = POLAND, S = SWEDEN, UK = UK

2.3 CONSUMER DEMANDS ADDRESSED TO RETAILERS

According to large retailers, consumer expectations for retailing services are a seamless, omni-channel shopping and payments experience, combined with value-added services across all retail channels, regardless of the challenges this poses the retailer.

According to a study of European retailers conducted by Edgar Dunn, 79 percent of retailers believe that seamless cross-channel interaction is the key to great customer experience with 69 percent of retailers agreeing that data integration is a key challenge for omni-channel strategy implementation.

According to many retailers, selected omni-channel retailing criteria from the consumer perspective include:

- › **Faster Shopping:** 52 percent gave up their purchase due to waiting time at checkout
- › **Flexibility:** 92 percent would appreciate out of stock items being shipped to their home
- › **Flexible delivery options:** postal services, in-store at retail outlets and, in the case of digital goods, download
- › **Omni-channel payments:** same payment service options independent of the type of checkout
- › **Multi-payment services:** 71 percent of consumers want more payment options at the checkout of choice
- › **Connected services and payments in-store and online:** expected by 43 percent of consumers
- › **Cross-Border:** Consumers are no longer limited by geographic boundaries while purchasing goods and services

Driven by the development of social media and mobile devices, the emergence of permanently connected consumers has impacted their interactions with brands but also their expectations of how brands interact with them. The increasing number of touch points between consumers and retailers has led to the need to redefine the position of every sales channel: from a siloed checkout to a global brand experience.

As connected consumers shop using more and more touchpoints and checkout channels, it has become more difficult for the individual merchant to analyse the consumers' purchase and payment patterns at an individual level in order to understand how to improve their respective sales strategy accordingly.

It is about creating a seamless customer dialogue through every stage of the customer journey, from pre-purchase research and showrooming to post-sales touch points.

Retailers are expected to be able to offer the answer to this new consumer behaviour pattern and deliver seamless omni-channel consumer experiences.



3.0 MARKET TRENDS

For a long time, shopping and payment services in retail outlets have been pretty straightforward. The advent of online shopping did not make things more complicated as e-commerce was seen as a completely separate channel.

However, the innovation of contactless technologies, always connected mobile devices and mobile banking apps has significantly changed the consumer landscape. Proliferation of shopping channels and fragmentation of payment services has made the checkout landscape increasingly complex. In addition, mobile technologies have changed the way consumers consider shopping.

Retailers embracing new omni-channel shopping trends to cater for new consumption patterns and expectations that are far more impulsive, immediate and integrated are emerging as market share winners.

The blurring of previously separate channels is only set to continue. According to research firm Forrester, purchases that consumers begin using a digital channel but do not complete online will reach €704 billion by 2020, up from €457 billion in 2015. Combined with online sales, these omni-channel sales are expected to reach €947 billion, or 53 percent of total European retail sales by 2020.

One of the main drivers of omni-channel is mobile. In 2017, there were around 7.8 billion mobile connections, representing 5 billion unique subscribers worldwide, according mobile industry trade body the GSMA. When tablets and smartphones are the device of choice for accessing the Internet – and are the only means a consumer has of getting online in some countries – this has a significant impact on the customer retail journey and increases mobile-enabled B2C commerce.

According to consumer reports and retailer associations, B2C commerce with mobile devices will account for a greater share of retail sales in the near future, partly due to the number of different ways to purchase and pay using a tablet, smartphone or Internet of Things (IoT) like wearables or in-car purchases.

However, the most recent significant market trend with even more significant impact on retailers and their payments platforms is the Open Banking Mandate of the revised Payment Services Directive, PSD2. For the very first time in Europe, PSD2 sets the stage for a pan-European Open Banking Ecosystem:

- › PSD2 sets the mandate on Open Banking and payment services in Europe
- › PSD2 grants trusted payment providers (TPPs) the right to access bank account payment data
- › PSD2 regulates the open access to customer payment account data (XS2A) and banking infrastructure
- › PSD2 mandates the rules for Strong Customer Authentication (SCA) to be provided in the Regulatory Technical Standards (RTS) to be published by EBA, the European Banking Authority.

From January 2018, the PSD2 has set the stage for Open Banking – a European Open Banking Mandate – providing regulated open access to customer bank account data by trusted payment providers, if and only if, the customer gives explicit permission for the respective transaction.

One significant impact of the emerging Open Banking ecosystem is the development of mobile banking apps combined with payments direct from the account and with account information services across-banks. It is obvious that consumers are going to embrace the new banking services and would like to use them while shopping.

In a nutshell the technology trends, Open Banking payment apps, and the changing consumer behaviour will have significant impact on the consumers shopping experience (see section 3.1). In addition, they are going to reshape the payment service landscape beyond just payments on cards (see section 3.2).

3.1 ABOUT MOBILE DEVICES USED FOR SHOPPING

Contactless, mobile apps and mobile devices are going to be increasingly the new normal for consumers, and for retailers they offer the potential for competitive differentiation.

Connected consumers have embraced mobile devices that enable them to shop cross-border and omni-channel. In the last decade, innovation has started to change the retailers' shopping infrastructure, key amongst these are:

- › Connected mobile devices allowing consumers to shop at outlets, in-store, in-app and in online shops, thus enabling consumer journeys that start in one channel and are completed or fulfilled using another
- › Market proven bridging technologies connecting consumers with any touch point and checkout type, e.g.
 - | Contactless, HCE NFC, 1D-barcodes, QR-codes, RFID, Bluetooth Low Energy (BLE)
- › 1D-barcodes and QR-codes that are used to connect consumers to product information and product offerings, the merchant's online shop, and to in-store retailer service points
- › Most payment accepting POS terminal devices installed and in-store tablet solutions are now contactless enabled

- › Mobile HCE NFC payments with smartphones and card credentials stored in the cloud are widely accepted by contactless POS terminals
- › Retail staff using tablets and retailer apps, combined with mobile POS terminals to service consumers in-store
- › Small and mobile merchants replacing ECR devices and POS terminals with tablets and MPOS terminals

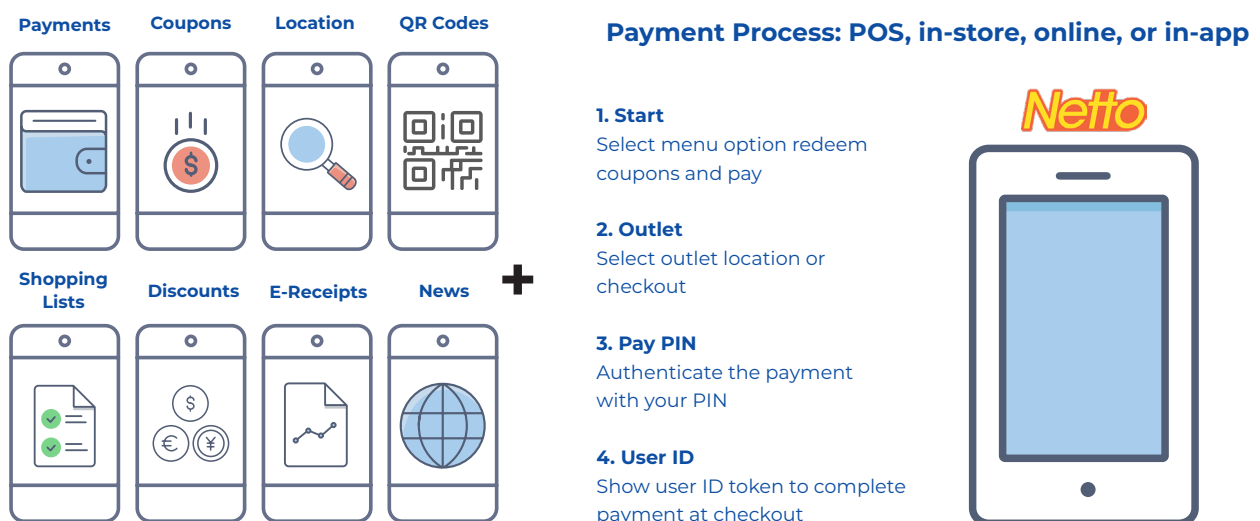
Modern retailers communicate with individual consumers through retailer-issued shopping apps offered for free download. Typical app functions include location finder, QR-code scanning, couponing, special offers/discounts, loyalty, news, shopping lists, purchase e-receipts, and optional payment functions (see Figure 3).

Always connected devices are a significant game changer for retailers, an example of this is where a retailer can push a promotion through their mobile app to consumers within a defined radius at a particular store, offering instant incentives if the consumer is in-store during a specific time frame.

According to retailer associations and statements from speakers at conferences, modern retailers understand mobile devices as enabler for more consumer convenience and the latent demand consumers have for seamlessly integrated mobile-based journeys into their frictionless shopping experiences.

FIGURE THREE

Retailer Shopping & Payments App – Example NETTO app



SOURCE: RETAILER NETTO (D), PCM RESEARCH.

Payment option: direct debit directly from bank account

3.2 A RESHAPED PAYMENTS LANDSCAPE

Like other in-house retailer IT-systems, POS payments in outlets and payments for online purchases have been processed in completely separate channels. Even more, retailers have practiced separate payment platforms and separate payments acceptance strategies by channels and by country, all serviced by different acquirers.

Thus, card payments in outlets and Card Not Present payments (CNP) for online and mobile transactions were identified as two separate payment channels with different security and authentication solutions – they also have had differing obligations for the retailer.

To date, cards have not only dominated POS payments, but in many markets, they have been the primary means of online payment. In addition, retailers accept traditional after-purchase payment means in online shops and in outlets:

- › Payment on invoice
- › Cash-on-delivery, card-on-delivery
- › Payment in advance
- › Click & Collect – purchase online with payment and delivery in-store
- › Instalment purchases

However, driven by new consumer demands, technology innovation and in the light of new Open Banking payment apps, the payments landscape for European retailers is in a dramatic transformation process.

In parallel to cards, IBAN-based bank payments direct from bank accounts and online wallets (e.g. PayPal) play an increasingly significant role in the B2C e-commerce space. Further, bridging technologies like NFC, 1D-barcodes, QR-codes or BLE, will allow any card-less payment service to be accepted at POS terminals and at any other checkout type.

In 2018, non-cash payment services for most European retailers include contactless card products and form-factors, credit transfers, direct debits, and prepaid products. In many instances, these payment types are applied to

specific use cases and checkout types only.

In parallel, the card schemes launched digital wallets and new security levels like 3D-Secure 2.0 and tokenisation of card credentials, with the objective of fighting card fraud by removing static card data from retailer systems.

From end-2017, immediate payment services (e.g. Instant SEPA Credit Transfer, SCTINST) are also new cash-less payment services relevant to the individual merchant and their checkouts.

In addition, more and more consumers expect their preferred payment service options to be available in the omni-channel environment, independent of the type of touchpoint they want to purchase from. Based on the technologies existing today, connected consumers believe that mid-term all payment services relevant for them can be used omni-channel, including card-less payment services beyond cards.











































In order to support consumer demand for a seamless and convenient payment experience, retailers need to combine all checkout channels, enabling both shopping and payments. A new multi-payment approach aims to enable customers to search, buy and pay seamlessly across multiple checkout types.

Amongst others, these include in-app-based payments on wallets, banking app payments directly from bank accounts, payment initiation enabled by payment initiation service providers (PISPs) or retailers, person-to-person mobile money transfers, contactless payment in-store via either NFC, 1D-barcodes or QR-codes, invoice payments in outlets, and cash-advances in retail outlets (cash-out in-store).

Where this is achieved, retailers acknowledge the value of having card payments combined with emerging payment options for consumers – ideally at all consumer touchpoints and all retail checkout types.

Providing a consistent omni-channel shopper experience initially involves development of tokenised acceptance points across-channels. Tokenisation enables retailers to accept digital payment types and contactless form-factors like NFC stickers, mobile HCE NFC payments, wearables, Apple Pay, Samsung Pay, Android Pay and digital scheme wallets, without having to store sensitive card credentials or bank account data in their systems.

Table 2: Selected Payment Services relevant for European Retailers

PAYMENT SERVICE TYPES	SELECTED RELEVANT PAYMENT SERVICE BRANDS
IBAN-based payments directly from bank accounts	Channels: online, in-app, also: POS
Direct debits:	IBAN-based SDD, BACS (UK), ELV (D), paydirekt (D)
Credit transfers:	IBAN-based SCT, Sofort, MyBank, iDEAL (NL), eps (A), giropay (D), Pingit (UK), MobilePay (DK), Vipps (N)
Immediate Payments:	Faster Payments (UK), instant payments (SCTINST), Swish (S)
Scheme cards	Channels: POS, online, in-app
Credit cards:	      
Debit cards:	    
Digital Wallets:	  
Card form-factors:	  
Airline cards:	 
Domestic credit cards (accepted on demand, e.g. cross-border)	 
Domestic debit cards (accepted on demand, e.g. cross-border)	        POS only:  
Advanced Payments	Channels: online, mobile in-app, also: POS/MPOS
Wallets:	    
Prepaid products:	
Instalments:	   

Based on retailer information and payments industry player reporting, in 2018, increasingly fragmented sets of cashless payment services are relevant for the individual merchant from a European perspective (see Table 2). With consumers becoming increasingly connected and the line between online and offline payments continuing to blur, the need for a multi-payment acceptance service strategy – in combination with an Open Retail infrastructure and a new kind of central Retailer Open Payment platform that bridges the gap between online shops and bricks-and-mortar outlets – is vital for retailers (see Section 6).

Furthermore, the implementation of a multi-payment acceptance strategy – supporting the availability of all

relevant payment options in any given channel – is a significant challenge for retailers (see Section 7).

Solving the reshaped payments landscape challenge will enable retailers to enhance the payment experience for consumers, and this will ultimately contribute to long-term, omni-channel retailing business success.

Modern retailers are expected to be able to offer the answer to these evolving consumer payment preferences and deliver seamless omni-channel, multi-payment consumer experiences. In addition, it is a prerequisite for large retailers which plan to become acquirers of their own.

Outlook

The latest payment trends with impact on the retailers' checkout include messenger Pays, Open Banking in-store, invisible payments, conversational commerce payments, and in-car payments.

Messenger Pays

More and more consumers chat with businesses through messenger apps like Facebook Messenger, WhatsApp and WeChat. In addition, consumers may demand to use added payment functions like WeChat Pay, Alipay, Google Pay. For example, The Chinese WeChat Pay enables payments via 1D-barcode initiated Quick Pay, QR-code payments, and in-app payments.

Open Banking in-store

More and more Open Banking apps combine payment functions like digital wallets or IBAN-based bank payments directly from the account. In other words, online banking comes to retailer outlets in-store. Bridging technologies include 1D-barcodes, QR-codes and NFC. It is noted that strong customer authentication remains part of the online banking service, e.g. mobile TANs.

Invisible Payments

Two of the most cited examples that have removed the checkout and payment experience altogether. At the end of an Uber journey, the passenger just gets out of the cab. There is no checkout and payment happen in the background. Similarly, at the Amazon Go store in Seattle, customers choose the items they want from the shelves. When they have finished, they leave. Amazon charges their online account and sends a receipt. Amazon Dash button is a similar Click & Collect button with added invisible payment.

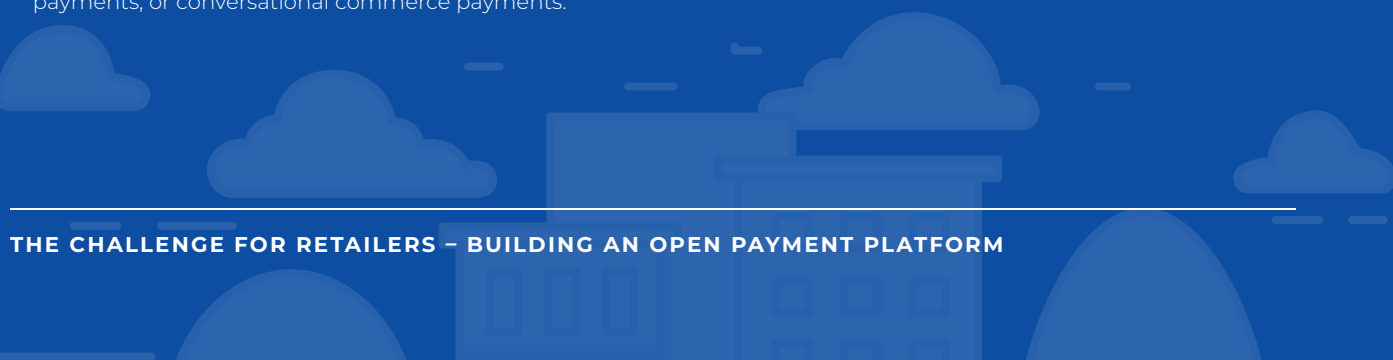
Spanish banking group BBVA is testing a facial recognition system at its inhouse cafeteria that is capable of recognising users and their orders and charging their cards as part of a strategy to render checkouts and payments 'invisible'. The order-ahead app enables users to order a coffee, pick it up without waiting in line and pay for it without their wallets. Designed in conjunction with BBVA's restaurant partner, Sodexo, the app additionally allows users to split the bill with fellow diners and incorporates loyalty points and discounts.

Conversational Commerce Payments

Conversational commerce refers to the intersection of digital assistants and consumers while shopping. Meaning, the trend toward interacting with online shops through digital assistants like Amazon's Alexa, Apple's Siri, Google Assistant, and Microsoft's Cortana. In addition, consumers may configure their invisible payment means individually in the digital assistant app. The conversational purchase process is then of type "Alexa, buy me a pepperoni pizza" with invisible payment and immediate home delivery.

In-Car Payments

Is a new trend in the Internet of Things (IoT) world. The car industry invests in internet connectivity of cars. This enables drivers to purchase in-car from online shops and pay in-car. In-car payments can be Click & Collect payments, invisible payments, or conversational commerce payments.



4.0 KEY CHALLENGES FACED BY RETAILERS



Many retailers have been focusing on big bricks-and-mortar store networks for decades. In the past, retailers had underestimated the potential of new checkout types and online channels, treating them as a separate business line.

However, in the last decade, the retail industry has fully embraced online shopping to help satisfy increasing consumer demand for speed, convenience, and a frictionless user experience. Consequently, the retail environment is experiencing change at a faster pace than ever before.

Online technologies and the demands of connected consumers drive the changes that are rapidly transforming the retail sector offering retailers new opportunities to generate differentiation and additional revenues or gain market and customer share, through better customer engagement.

The increasing number of connected consumers, the growing penetration of disruptive technologies and new shopping behaviour reinvented through social collaboration mean retailers are confronted with a dynamically complex shopping environment with significant impact on the retailer IT systems and payment platforms that are separate by channel and by country.

Moving towards omni-channel may now appear mandatory for most retailers, and the process of going through fundamental changes not only to avoid disappointed customers but also to harness new opportunities from new technologies is challenging.

A powerful consumer experience is not just about maintaining consistency, relevance and convenience at any cost; it is about creating seamless consumer dialogue through every stage of the customer journey, from pre-purchase research to post-sales touch points and this often requires embracing social media.

4.1 TRANSFORMATION – IMPLEMENTING OMNI-CHANNEL RETAILING

Transforming to an omni-channel retailing business model, in which all the channels are seamlessly integrated and function harmoniously, is a key challenge for the retail sector.

Historically, bricks & mortar merchants fought against pure online merchant players (e.g. Amazon). In the last decade, many retailers developed new sales channels as separate retailing businesses.

But the consumers see online sales as complimentary to physical sales, and stores continue to be key to consumers as 80 percent of purchases are finalized in-store. Therefore, many merchants have started improving customer experience, offering convenience by individual channel and bringing the digital experience in-store.

Historically, retailers have operated retail IT systems separated by channel. For both brick & mortar merchants and online merchants, the omni-channel retailing transformation is a long and expensive process. Despite their investments, the split between online and in-store remains strong - with common problems and challenges for retailers being:

- › In-house competition between online and physical sales channels (cannibalism) and different after-sales service by channel:

- | How to sell omni-channel? How to support an omni-channel user experience?

- › In-store evolutions are more complex to implement as operational costs are way heavier than online:

- | Separate payments infrastructures and payment service partners by channel. How to get cross-channel support?

- › Different consumer insight by channel and separate stock and order management by channel:

- | There are many tools to understand and track online consumer behaviour but not so prevalent in-store

- | Implementation of customer journey mix – from store to online/mobile and from online/mobile to store

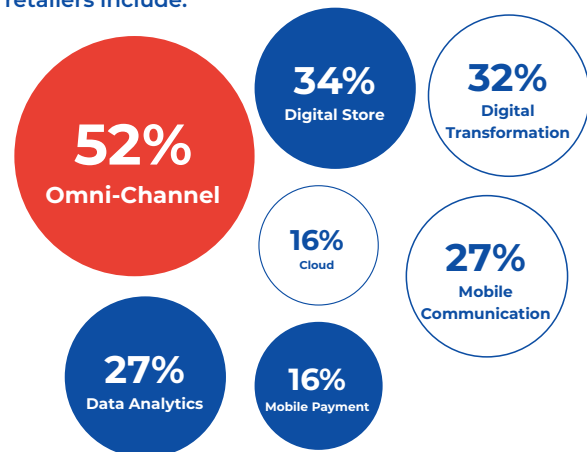
- | Offer value-added services to customers at all touchpoints, including delivery service options

- | How to support Click & Collect with delivery in-store?

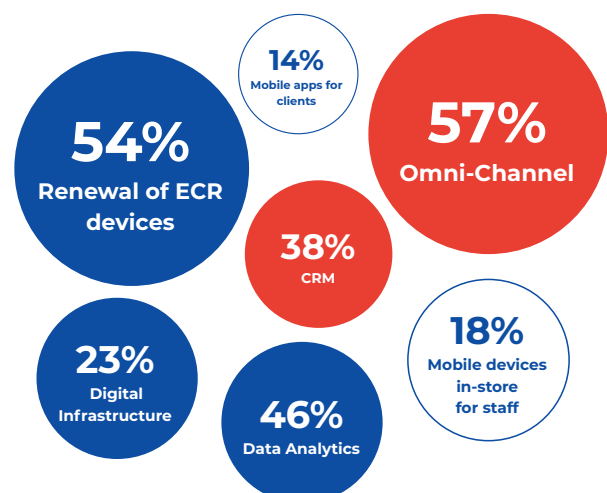
- › How to implement integrated omni-channel retailing IT systems focused on the customer experience?

- › One retail customer database: How to track/monitor consumer patterns from both purchase data and payments data?

Retailers in Europe are aware of the reshaping shopping environment. According to annual reviews with retailers made by the retailer association EHI Retail Institute, German merchants - like other European merchants - believe that the most important technology trends for retailers include:



Apart from core business activities like supply chain management and merchant ERP systems, important IT projects planned for roll-out by retailers include:



Regarding implementing omni-channel retail IT systems, most important for the individual merchant is the diversification of consumer touchpoints in order to sell goods and services and take payments where the consumer demands:

- › Add missing touchpoints and checkout types: outlet, mobile in-store, in-app, online, self-service kiosks
- › Add advanced bridging technologies like contactless NFC, 1D-barcode, QR-code, Bluetooth BLE
- › Click & Collect: buy online with delivery and payment in-store
- › Support purchases in-stores with connected digital sales tools
- › Solutions to analyse customer purchase and payments behaviour, i.e. retailing becomes data-driven
- › Cash-out in-store using Open Banking apps
- › Retailer apps supporting purchases with smartphones, tablets and wearables

It is noted that a high level of convenience does not satisfy all consumer requirements, retailers are also expected to provide responsive services, knowledgeable assistance

and customisation options, whether the consumer shops in-store or online. Consumers no longer accept perceived overpricing and poor customer service standards and are likely to change retailer.

Based on discussions with retailers and retailer associations, 65 percent of retailers said they implemented or are implementing omni-channel strategies to offer a digital shopping experience as they embrace the omni-channel trend and new consumption and loyalty patterns.

According to many small and large merchants, they are looking for the ideal omni-channel shopping platform that can easily be adapted to retail business needs and create the best possible consumer experience.

A modern retail platform shall enable differentiation through highly configurable and modular products with standard interfaces across different shopping channels and consumer touch points, ideal for integration to external systems and adaptations of functionality. All generated transactions shall be collected in a central transaction repository, which serves as a single point of retail shopping integration. Figure 4 shows an illustrative omni-channel retailing platform with focus on consumer data.

FIGURE FOUR

Illustrative Omni-Channel Retailing Platform – Consumer Data in Focus



SOURCE: PCM RESEARCH.

4.2 THE RETAIL CHALLENGE – NO CENTRAL PAYMENTS PLATFORM IN PLACE

Historically, large merchants have operated and/or outsourced payment platforms separated by channel and by country. Small merchants have used the services of payment service providers like NSPs, PSPs and/or card acquirers.

However, the interchange fee regulation (IFR) in 2015, the Open Banking Mandate of the revised Payment Services Directive (PSD2) in 2018, and emerging Open Banking payment apps have started to reshape the European payments landscape providing new opportunities and benefits for the individual merchant.

According to recurring annual talks, many retailers confirm that the integration of POS terminals, mobile POS terminals and payment pages of online shops in one single payments platform is one of their most significant challenges.

In addition, modern retailers are aware that they need to manage all the different payment use cases (including mobility in-store) and payment services accepted (see Table 2), ideally supported by a centralized multi-payments platform.

Both leading merchants and innovative small merchants say that they would benefit from a central multi-payments platform connecting the new payment means demanded by consumers with multiple-checkout types.

However, the historical split between online payments, POS payments and mobile in-store payments in outlets still remains strong with common problems for retailers being:

- › Lack of new payment services demanded by consumers. How easy to integrate?
- › Acceptance of card-less payment services is limited to online channels. How to improve?
- › No way to accept the same payment services across all shopping channels and checkout types.
- › No in-house focus on payments security as a key to the retailer's brand image - no trust, no purchase!

In short, modern retailers are looking for Open Retailing Payment platforms enabling omni-channel payment acceptance services for cards, IBAN-based bank payments direct from bank accounts, online wallets, digital wallets, prepaid products, in-app payments, and mobile HCE NFC payments in-store.

In addition, retailers face multiple digital trends and need to assess and position themselves. Taking into account the advance of new Open Banking payment apps through the Open Banking ecosystem, the retailers' key challenges for Open Payment platforms supporting omni-channel shopping are illustrated in Figure 5.

FIGURE FIVE

Digital Payment Trends affecting Retailers – Selected Key Queries



4.3 THREATS FROM EXISTING RETAILER PAYMENT PLATFORMS

Traditionally, many retailers use fragmented payment platforms by country for POS outlets, online-shops and mobile apps. While large retail groups may operate in-house solutions, small and medium merchants usually outsource payment service platforms to their supporting payments industry partners, e.g.:

- › POS terminal network processors and POS terminal management to POS network service processors (NSPs)
- › POS terminal maintenance services to POS terminal vendors or their local partners
- › The online payment service gateways for online shops are managed by Payment Service Providers (PSPs)

In the light of omni-channel retailing strategies, modern retailers innovate their checkouts in order to support any payment means from any channel and add new payment means, e.g. immediate payments and mobile banking payments in-store.

In addition, retailers want to be able to better understand their customers purchase and payments behaviour, e.g. how their loyal customers behave versus the others.

However, retailers experience threats from their existing card payment platforms that are mostly not built to support omni-channels and card-less payments. According to retailers, the common pain points include:

- › Lack of insight into consumers omni-channel payment patterns and friction in the payment process
- › Separate platforms for POS payments in outlets and online shops by country with focus on card payments only:
 - | Missing: card-less payments, in-app payments, digital wallets and Open Banking payment apps
 - | Lack of frictionless customer experience for cards, card-less, omnichannel etc.
 - | Missing payments consolidation and payments reconciliation on retail group level or per consumer

- › No consolidation of existing platforms possible, especially for retailers with presence in multiple countries:

- | Operating cost for multiple payment systems, transaction processing and cost of deployment

- | Multiple compliance cost for payment solutions: certification, PCI, schemes, PSD2, AMLD, GDPR

- | No common interface standards (e.g. NEXO, IFSF); no standard API-based interfaces to gateways

- | Missing security standards: tokenization, 3D-Secure 2.0, RTS SCA, payment credentials stored in the cloud

- | Missing functionality for own payment collection and/or payment clearing and settlement

- › No platform option for large retailers planning their own acquiring business

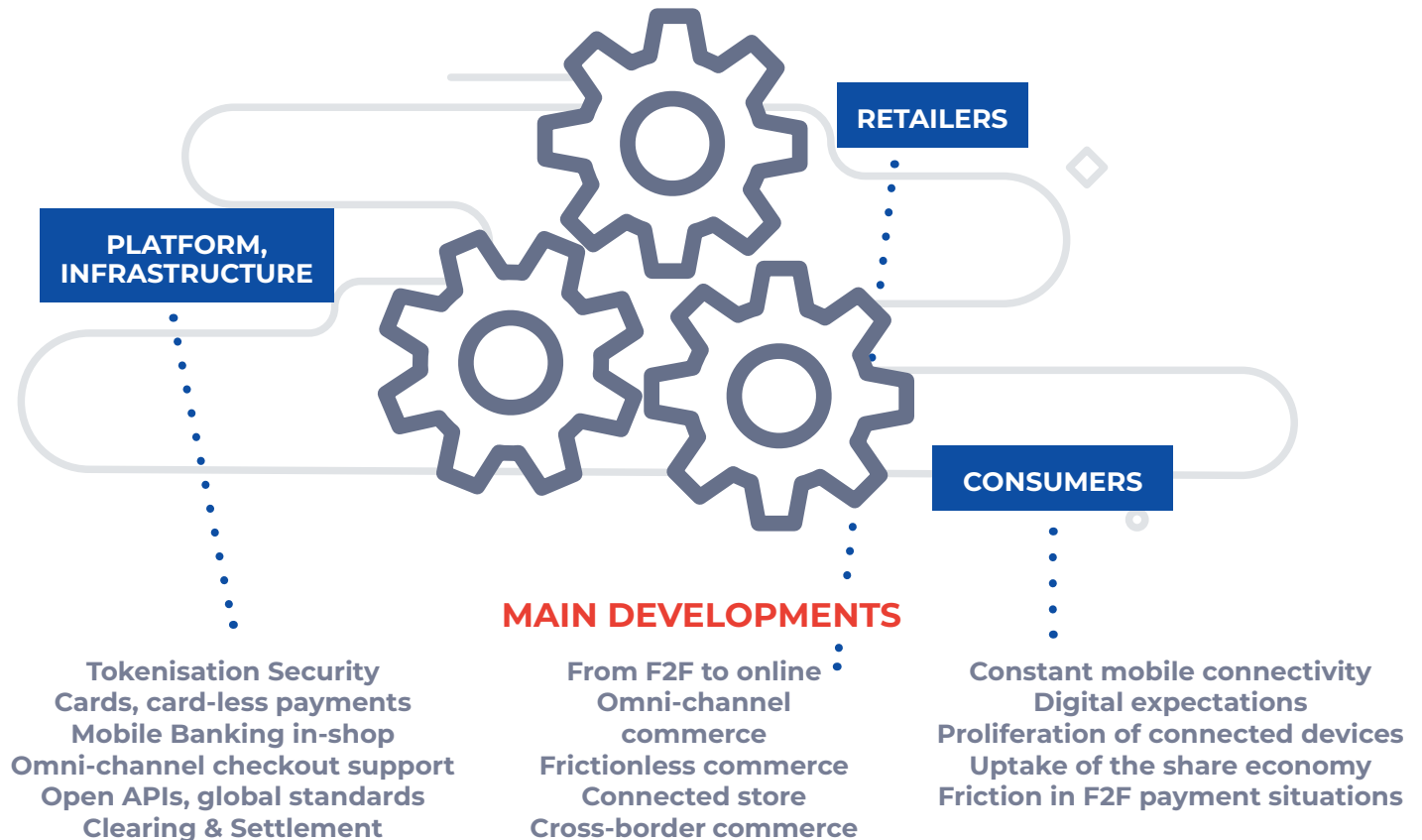
In contrast, the Open Banking Payment ecosystem, mobile banking apps combined with payment functions and new checkout forms offer a completely different strategic direction for retailers.

In the light of digital payments implication and omni-channel shopping infrastructure requirements, the need for a flexible and configurable omni-channel payments platform is obvious for modern retailers.

Figure 6 illustrates the main developments in the digital payments market and digital payments implications for the payments industry with obvious relevance for omni-channel shopping strategies in the retail sector.

FIGURE SIX

Digital Payments Market Environment – Outlook



DIGITAL PAYMENTS IMPLICATIONS

1. Changed (digital) requirements
2. Evolved needs
3. New payment channels
4. More form factors
5. New acceptance strategy
6. Embedded payments
7. Data analytics
8. New sourcing rationale
9. Increased security obsession
10. New institutional environment
11. Changing competitive landscape
12. Emerging processing technologies



4.4 RETAILER COST AND FRAGMENTED PAYMENT PLATFORMS

In the light of investment costs for implementing omni-channel strategies and transforming bricks & mortar outlets into connected digital stores, the investment costs for payments are again at the retailers CEO/Board level.

Typically, most retailers claim that they experience high cost for existing payment platforms, and the majority of retailers believe they would pay less cost for the payment services rendered if they would have a consolidated payment platform.

These statements were given independently from whether the individual merchant operated an in-house platform or has outsourced payment service processing to a set of supporting payment industry partners.

Taking into account that retailers generally use separate payment platforms for POS payments, for online payments, for mobile payments and for card-less payments, the retailers' expenditures for payment services is often based on payment volumes by channel without any option for pooling effects, e.g.:

- › Higher cost per payment transaction due to smaller volumes per channel compared to total payments volume
- › Cost for multiple platform implementation, maintenance and operation – either in-house or per processor
- › Cost per checkout device type: installation, maintenance and operation – multiple device management tools
- › Higher workload and cost for payment scheme certification and regulatory compliance for multiple platforms
- › Cost for different payment security standards and proprietary protocol standards per platform
- › Higher merchant service charge fees due to different service partners – no pooling effect
- › No option for optimization for interchange fee cost due to fragmented payment platforms

The key pain is that fragmented payment platforms by country and by channel, in combination with different supporting payment industry partners, do not allow for bundling payment volumes on retail group level.

In contrast, a centralized omni-channel payment platform combining cards, card-less payments, mobile banking payment in-store, and new checkout forms would give a completely different payment cost for retailers.

In the light of digital payments implication and omni-channel shopping infrastructure requirements, a configurable omni-channel payments platform would allow the minimization of payment costs based on scaling volume effects. Thus, both large retailers and small and medium merchants would benefit from of a centralized payment platform.

5.0 THE CHALLENGE – OPEN RETAILING PAYMENTS INFRASTRUCTURE



Both large merchants and innovative small and medium merchants say they lack a configurable, flexible, Open Retailing Payment infrastructure capable of supporting all checkout types and multi-payment services, omni-channel.

Modern retailers see omni-channel payments combined with a flexible central payments platform as a prerequisite and an increasingly common starting point for omni-channel retailing.

Large retailers are especially demonstrating an appetite for new technologies that will help them to deliver a higher quality, differentiated service to their consumers, which they see as central to their omni-channel strategy.

According to the German EHI Retail Institute, multi-payments, omni-channel service is one of the key applications for omni-channel strategies. Having a global

approach across all points of sale is now becoming a major asset for merchants and will help them significantly improve the consumer shopping experience, increase sales and minimize costs.

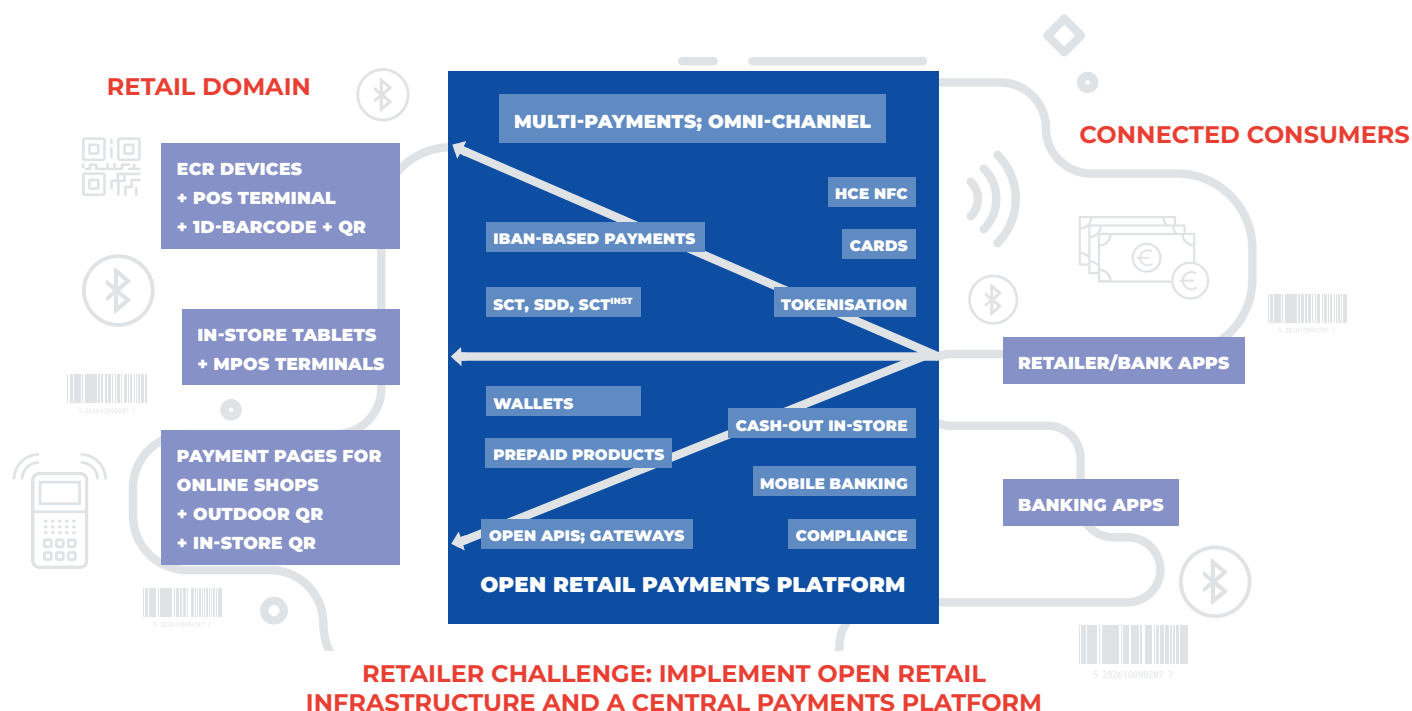
It appears that a prerequisite for omni-channel retailing is a configurable omni-channel payments platform with integrated services focused on delivering a new level of consumer experience, resulting in increasing demand for a central payments platform.

Modern retailers expect an all-in-one omni-channel payment infrastructure service combining POS network payments, online payments and other checkout forms, either all-in-one or unbundled according to merchant's demands.

Figure 7 illustrates the modern retailers' high-level view of a flexible Open Retailing Payment infrastructure as an indispensable building block for omni-channel strategies and new consumer experience.

FIGURE SEVEN

Open Retailing Payment Infrastructure – Flexibility for Retailers



SOURCE: PCM RESEARCH

Composed from interviews with European retailers, the requirements for omni-channel payment services include:

- › Easy to configure payment use-cases: Click & Collect, web to store, mobile in-store, mobile in-app, store to web:
 - | Support contactless card payment form-factors and card-less payment services
 - | Support online payments initiated from the retailer's online shops and from self-service kiosks
 - | Support digital payments and digital wallets in combination with tokenization security
 - | Support of retailer apps and Open Banking payment apps
- › Omni-channel processing of relevant payment transaction types
- › Increased flexibility to charge consumers upon shipping or collection, split or recurring payments
- › Allow for insight into consumer payments behaviour, including unified reporting and data export
- › After-sales services independent from checkout type, e.g. delivery options

In addition, European retailers say new key requirements for central payment platform functionality include:

- › Capability to consolidate retailer's payments platforms by country on retail group level
- › The system architecture should be modular, easy to configure, use Open APIs and standard interfaces:
 - | Easy to configuration checkout types, e.g. POS terminals, MPOS terminals, in-store tablets, in-app
 - | Scheme compliant device management of POS terminals, online payment pages, and retailer-issued apps
 - | Flexible gateway connection to card acquirers, FinTechs, card-less payment service providers (e.g. PISPs, AISPs)
 - | State-of-the art payment security – e.g. P2PE encryption, 3D-Secure 2.0, tokenization, RTS SCA
 - | Capabilities for payment collection services, refund services, DCC services and tax refund services

- › Unique merchant information portal with key performance indicator dashboard:

- | Compare and check payment activity of consumers (basket, by channel, by payment services)

- | Compare and check merchant service charge fees (MSC)

- | Enable reduction of merchant fraud thanks to improved fraud prevention management capabilities

Even more, many European retailers say that payment management is more important for them than it was in the past:

- › Optimisation of the consumer experience: frictionless payments to increase conversion
- › Minimisation of merchant service charge fees: acquirer fees, interchange fees, scheme fees, TX fees, VAS services
- › Consolidation of cost for payment platforms, payments operation, and platform maintenance

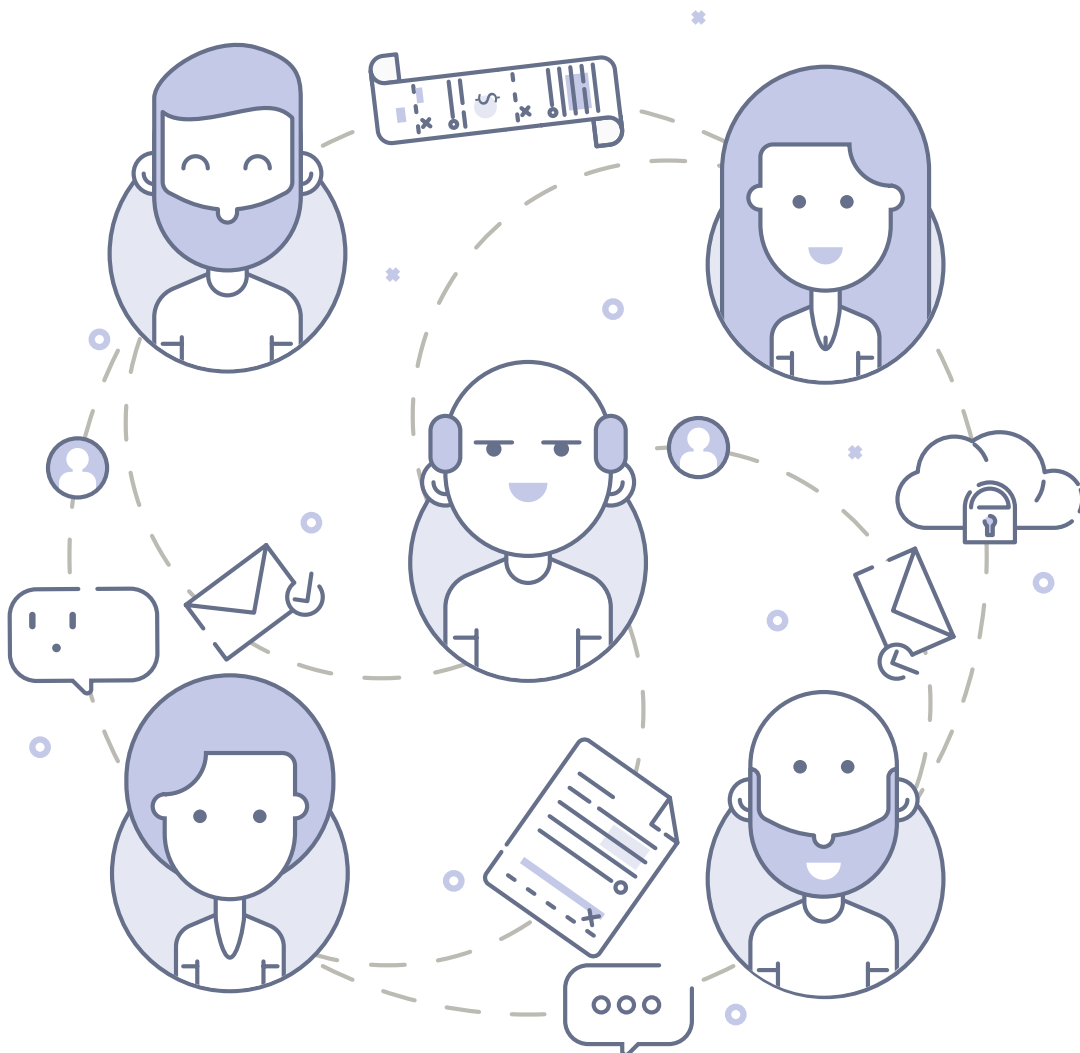
- › Minimisation of compliance cost with card schemes and regulators

- › Support for own payment clearing and settlement for the individual merchant

- › Acquirer option for retailers: a central payments platform shall be capable to start own acquiring operations

The key takeaway is that modern retailers are looking for an omni-channel Open Retailing Payment platforms that enables multi-payment acceptance services for cards, IBAN-based bank payments directly from bank accounts, online wallets, digital wallets, prepaid products, in-app payments, and mobile HCE NFC payments in-store.

As payment management becomes more strategic for them, large retailers say that they see payments as a competitive differentiator for their retailing business.



6.0 THE OPPORTUNITY – BUILD AN OPEN PAYMENT PLATFORM



Today, most retailers are only connected to the card payment ecosystem and accept cards and card form-factors. Only in the online shopping world do merchants accept card-less payment services.

However, one significant impact of the Open Banking payment ecosystem is the emergence of mobile banking apps combined with bank payments directly from the account. In addition, payment initiation service providers (PISPs) and account information service providers (AISPs) are going to be new business partners for retailers.

It is obvious that connected consumers are going to embrace the new Open Banking service apps and would like to use them for payments in omni-channel shopping environments.

Therefore, a prerequisite for an Open Retailing Payment platform is to interact with any relevant payment ecosystem:

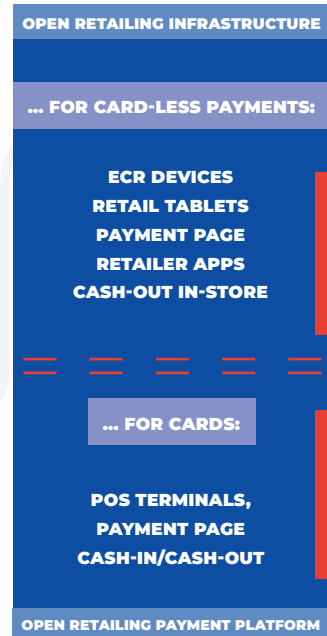
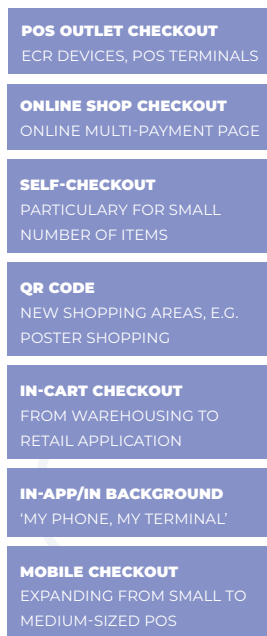
- › The digital card payment ecosystem
- › The card-less Open Banking payment ecosystem
- › Trusted payment service providers, like the “Pays”, Apple Pay, PayPal, AliPay, WeChat Pay

Figure 8 illustrates the important role a new kind of central payments platform would perform in connecting the individual merchant with both the digital card payment ecosystem and the Open Banking payment ecosystem.

FIGURE EIGHT

Impact of Open Banking Mandate (PSD2) on Retail Infrastructures

RETAIL DOMAIN

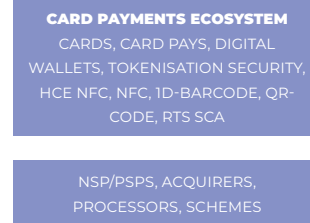
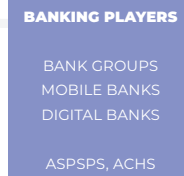


PAYMENT SERVICES RELEVANT FOR RETAILERS



OPEN APIS, E.G.
BERLIN GROUP

BANKING DOMAIN



SCHEME
GATEWAYS



SOURCE: PCM RESEARCH

With omni-channel shopping strategies in mind, building a new kind of central payments platform is a fundamental opportunity for both large retailers and small and medium merchants.

Key drivers for an Open Retailing Payment platform include financials, data and security, compliance, easy adoption of payment innovation, flexible omni-channel payments processing and checkout configuration, new security standards like tokenisation security, transparent reconciliation of payments and frictionless omni-channel user experience.

Large retailers say it would be a pre-requisite for their omni-channel strategies to stay connected with the fast-moving digital payments world and to be capable of cooperation with the new types of card-less payment service providers.

Among others, the benefits of an Open Retailing Payment platform for retailers and their omni-channel ambitions include:

- › Key services for omni-channel payments processing, easy to add new payment services
- › Flexible device management, e.g. checkout network processing, in-app processing

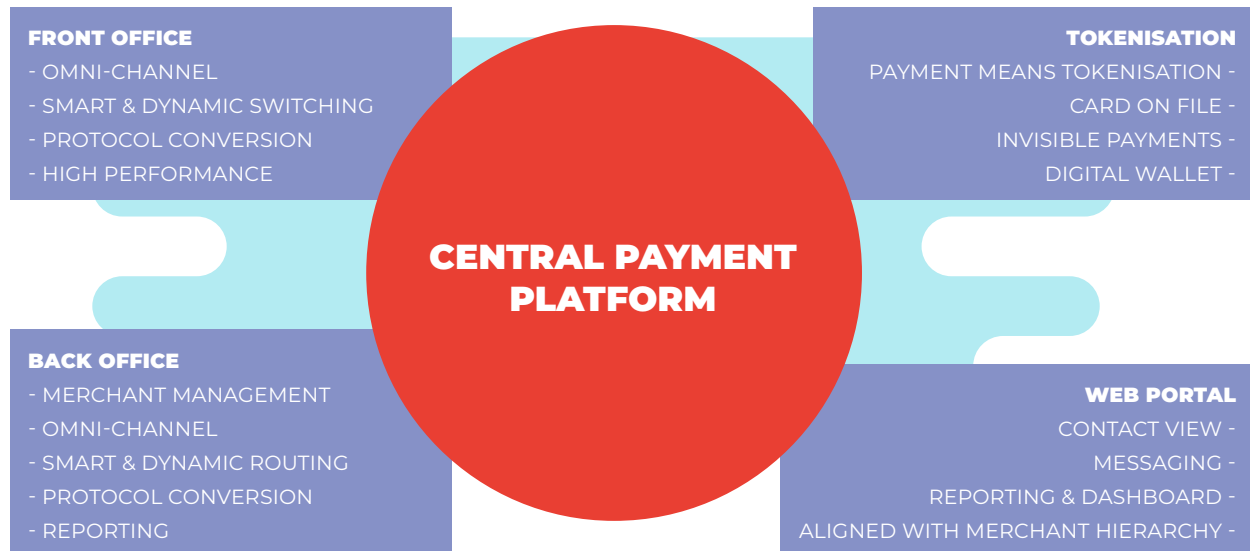
- › Customer insight: e.g. purchasing patterns, payments behavior, one smart data base
- › Frictionless omni-channel consumer experience: cards, card-less, omni-channel
- › Continued compliance with schemes and regulators
- › Optimization of payment cost, payment collection, and payment clearing and settlement
- › Reduce operating cost, compliance cost, certification cost, and interchange fee cost
- › Use of global standards (e.g. NEXO), and state-of-the-art cloud-based modular platform technology

Other benefits from an Open Retailing Payment platform include digital capabilities, value-added services options, partnering with digital banks and trusted payment service providers.

Figure 9 breaks down the high-level Open Retailing Payments platform concept into a technical illustration that matches with the Open Retail infrastructure requirements as shown in Figure 8.

FIGURE NINE

Central Payments Platform for Open Retail Infrastructures – Retailers’ Response for the Digital Payments World



Retailers recognize that omni-channel payment platforms demand a higher level of complexity and integration, in combination with continuous regulatory upgrades to meet the need of regulators and card schemes.

Small merchants say they tend to follow the general adoption of new payment means, and they consider working with third-party providers to support their omni-channel infrastructure and their multi-payment acceptance service needs.

Large retailers say they tend to be much more reactive to new payment means and omni-channel payments especially if their competitors are also responding to the changing consumer behaviour. Also, they say that they push for some innovation on their own since this is a way for them to attract their consumers.

In any case, the impact on retailer payment platforms is obvious: If retailers have flexible systems they are able to react quite quickly. If not, then this will be costly for them to bring those changes onto their platform. Modern retailers say that the worst-case scenario is for them to be unable to support those changes because their platform can't manage it.

It is noted that flexible Software-as-a-Service (SaaS) models have become a valid option both for large retailers and small merchants speeding up the pace of change whilst lowering investments and potentially lower operational cost.

CASE STUDY

Building a centralized Open Retailing Payments platform for a multi-national Retail Group

Client profile

Retail Group operating in 50+countries

Objectives

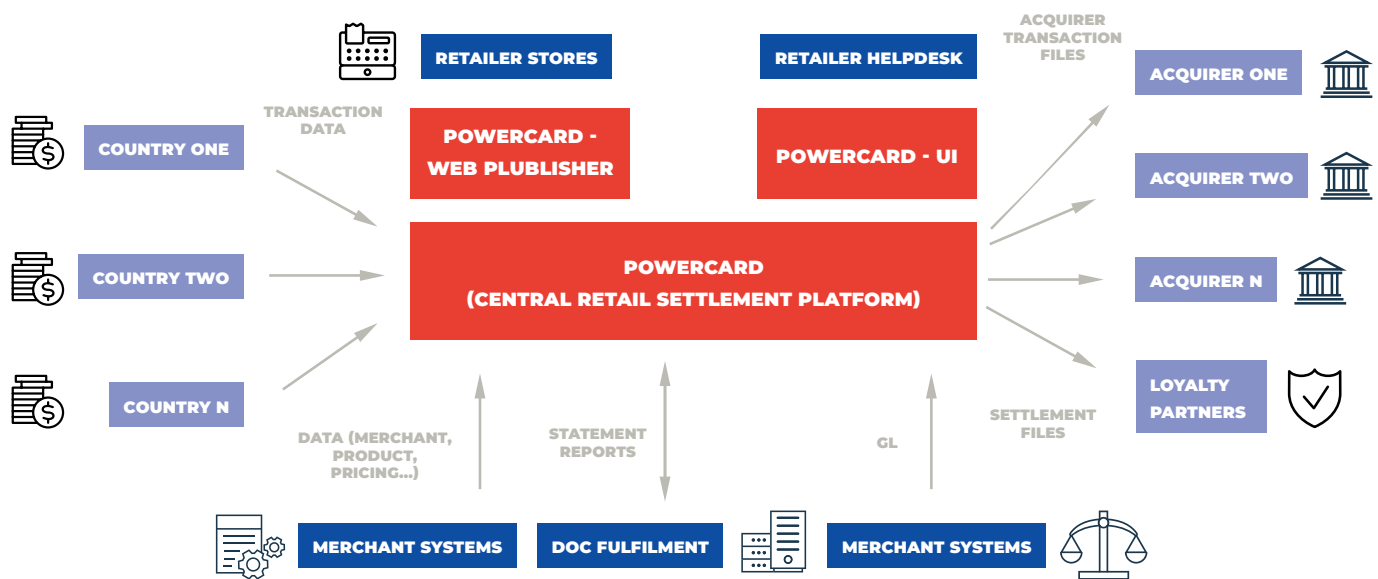
Create a global payment platform with retail group standards, move to modular omni-channel platform. Reduce operating cost, optimize payments cost, enable insight into consumer behaviour

The solution

A global consolidated, centralized, standardized payment processing operation plan: global Open Retailing Payments platform, including global switching, global settlement and global accounting.

FIGURE TEN

Consolidated Open Retailing Payments Platforms for all countries of operation



7.0 ABOUT OPEN RETAILING PAYMENTS ACQUIRING

Payments have been pretty straightforward in the past. In parallel to POS payments in outlets and at vending machines, online payments for e-commerce purchases have been a separate payments acceptance channel with different security and authentication solutions.

So far, most retailers have separate payment acceptance service acquirers by channel, and they sign them with one or more payment service providers of their choice:

- › An acceptance contract for domestic cards, or domestic payments schemes
- › One acceptance contract for all cards branded with one of the Mastercard or Visa brands
- › Separate acceptance contracts with American Express, Discover, Diners, JCB, UnionPay
- › Separate acceptance agreements for account-based payments acceptance, wallets and prepaid products

Markedly, there is an emergent approach to bundle omni-channel and multi-payment acceptance service contracts into a centralised service agreement signed with selected payment service providers. Thus, the acceptance for card payments in outlets and Card Not Present payments (CNP) for online and mobile transactions will need to merge.

In addition, a wave of new market entrants has increased the consumer appetite and willingness to try new emerging payment services derived from convenience. Especially, card-less payments and mobile payments in-store combined with omni-channel interactions bring about new payment acceptance challenges for retailers.

Thus, modern retailers expect their payment service providers to accept any type of the merchant relevant payment service and at any type of checkout, e.g. IBAN-based bank payments, online wallets, and prepaid products.

Modern retailers say that multi-payment services acceptance is a prerequisite for their omni-channel strategies. Having a consolidated approach on retail group level across all channels and checkout types is going to be a key asset for retailers that will help them significantly improve the customer experience and increase sales.

7.1 OMNI-CHANNEL PAYMENT SERVICE ACCEPTANCE DEMANDS

Retailers acknowledge the benefit of having more than just card payments for consumers at all consumer touchpoints.

With the event of the intensive cross-border acquiring competition at the European level following the interchange fee regulation of 2015, retailers may choose to change their current acceptance practice and sign a cross-channel and cross-border contract with just one payment service provider active in Europe. However, the charges levied by acquirers and card schemes appear to make this less attractive with few retailers selecting this option currently.

Retailers do have the choice between cost benefits from bundling their multi-payment acceptance volumes to one payment service provider or a complexity-based approach with increased risk, continuing their proven acceptance strategy splitting their payment volumes between several partners.

The breadth of payment technologies, mobile apps and the fragmented card-less payment service market, most retailers are mindful of the continuing need to control payment cost and the need to improve payments productivity (e. g. payments faster, less merchant fraud, less purchase abandonment due to missing payment option).

Providing a consistent omni-channel shopper experience initially involves the development of omni-channel acceptance points. Furthermore, they should be able to accept contactless payments and contactless card form-factors like NFC stickers, HCE NFC payments, wearables, digital wallets and the Pays.

The vast majority of online merchants say that multi-payment acceptance services are key for omni-channel retailing. In particular, online payments and mobile devices are more flexible than POS payments regarding the addition of new payment services, something that is changing fast with new payment types such as in-store mobile payments.

Increasingly retailers manage multiple formats of omni-channel purchase transactions and recognize it is time to think about implementing a flexible multi-payment acceptance strategy - improving the consumer experience.

The ability to provide security-driven, flexible acceptance of both card payments and card-less payments constitutes a major asset for retailers in terms of cost management, sales development and customer satisfaction.

The majority of large merchants, innovative small and medium sized retailers say that they lack advanced payment acceptance services supporting seamless contactless payment. Furthermore, their pain and experience at cart abandonment levels highlights that more and more connected consumers expect to use their preferred payment services omni-channel.

A growing number of European retailers continue with their individual payments acceptance strategies. However, they request omni-channel, multi-payment acceptance services from their payment service providers. The new requirement topics include:

- › Transparent calculation of merchant service charge fees:
 - | E.g. acquirer service, scheme fees, interchange fees, TX processing fees
 - | With a choice between bundled and unbundled payment acceptance contracts
- › Unique web portal for merchant information with key performance dashboards and enhanced reporting:
 - | To compare and check payments accepted (basket, by channel, by payment services)
 - | To compare and check merchant service charge fees (interchange fees, scheme fees, acquirer fees)
 - | Effective payment fraud prevention tools without impacting consumers or losing legitimate sales

Unchanged, many retailers see their individual payments acceptance strategy as the way to reduce payment cost, improve customer service and provide differentiation in a highly competitive retail market. However, the complexity of multiple payment platforms separated by channel ultimately means they will lose out to competitors that benefit from an Open Retailing Payment platform enabling multi-payments processing omni-channel.

7.2 THE OPTION – RETAILERS AND THEIR ACQUIRING BUSINESS

One of the key findings of this study is that only a handful of large retailers operate their own POS network processing hubs. In addition, only a few large retailers operate their own banking operations to service their consumers, and only a very few operate their own acquiring businesses.

So far, there are two reasons why most retailers do not run their own acquiring businesses: it has not been seen as core to the retail business, and there were no payment platforms in place processing cards and card-less payments omni-channel.

However, modern retailers acknowledged that a central Open Retailing Payment platform is a pre-requisite for all-in-one acquiring services. In addition, with high payment acceptance volumes with significant growth rates year-over-year, large retailers say they may reconsider the opportunity for an in-house acquirer businesses for a good reason.

Modern retailers acknowledge they need to interface with the Open Banking payment ecosystem. In the light of Open Retail infrastructures, omni-channel an Open Retailing Payment platform (see section 6) would be a key asset for retailers to operate their own acquiring businesses combining card payments and card-less Open Banking payments.

8.0 KEY FINDINGS FROM REPORT

Mobile technologies and new consumer demands are rapidly transforming the retail sector and their payment platforms. They provide retailers with new opportunities to generate bases of differentiation, gain consumer loyalty and win market share.

Omni-channel shopping is seeing exponential growth and retailers are increasingly looking to take advantage of cross-border initiatives as a way to increase revenue growth along with providing more options for their customer base.

At the heart of the retailer's processes, a flexible omni-channel payments platform combined with multi-payment acceptance service capabilities appears to be a key business enabler, providing better knowledge of consumer behavior and consumer payment patterns – these insights would improve the frictionless consumer experience.

Based on continued discussions with retailers from 2011 to 2017, the key findings of the study include:

- › Contactless, mobile devices and Open Banking payment apps and are going to be increasingly the new normal for consumers but can offer potential competitive differentiation for the individual merchant
- › Consumers have embraced mobile technologies as they enable them to shop cross-borders and omni-channel. The consumers use their mobile devices for shopping in-store, in-app and online, without registering that they are using different modes of access
- › The change is universal, looking into specific domestic data of European countries, connected consumers are the new normal for retailers across Europe, making this a significant game changer for omni-channel shopping
- › Transforming to an omni-channel retail business model, in which all the channels are seamlessly integrated and function harmoniously, is no small feat for the retail community
- › Success in omni-channel is underpinned by a fragmented set of cash-less payment services relevant for omni-channel merchants, such as cards, contactless card

form-factors, IBAN-based bank payments, online wallets and prepaid products

- › In the forthcoming digital payments world, the channels POS/MPOS/online shops/in-store/in-apps are going to consolidate into single omni-channel Open Retailing Payment platforms
- › A central payments platform can simply hide the multi-payment service complexity behind the scene, and it is a prerequisite for large retailers to start their own acquiring business
- › Many retailers now see payment management more strategically and as a competitive differentiator for the retailing business

New consumer demands, omnichannel, multi-payment and optimizing payment costs are challenges for retailers. However, they can benefit from a new kind of centralized Open Retailing Payment platform approach.

In the light of the latest payment trends like conversational commerce, Open Banking payment apps and invisible payments, retailers need a strong flexible payment acceptance strategy to succeed.

An Open Retailing Payment platform hides the multi-payment service complexity behind the scenes. In addition, it can provide the basis for customer identification verification, purchase validation and upstream/downstream services and support, seamlessly to the customer's convenience. It can also reduce operational cost for payment service acceptance and benefits from continued innovation and compliance combined with up-to-date data and security standards.

For those retailers intending to run their own acquiring businesses, implementing an Open Retailing Payment platform is mandatory. One of the key benefits would be the flexible Open API-based combination of card payments and the Open Banking payment ecosystem.

9.0 ABOUT THE RESEARCH

Payments Cards & Mobile

In business since 1994, Payments Cards & Mobile is an established hub for global payments news, research and consulting. We work with recognized industry experts to provide impartial, up-to-date and relevant information and analysis on every area of payments.

Personal relationships have been the hallmark of our business. We remain committed to working closely with our many long-standing customers and welcome new customers in producing quality business intelligence and providing a variety of ways in which you can consume this information. Our aim is to provide you with the highest quality data so you can position your business and key personalities in this increasingly competitive industry.

PCM Research

Payments Cards and Mobile Research offers comprehensive, in-depth research into topics which are relevant and tailored to our clients' needs. Our in-house research facility is available for short term projects. We specialize in M&A activity, market entry data, country report analysis and statistics. Research reports on banking, payments and mobile payments worldwide.

Topics range across the measurement of efficiency and performance, card and payment service related information, the role of brands in banking and the impact of non-banks such as retailers and FinTechs on the financial services and mobile financial services market.

Payments Cards and Mobile offers specific research on all aspects of banking, card payments, card-less digital payments, Issuing/Acquiring, financial services and the mobile financial services market.

HPS

At HPS, since 1995, we are providing innovative payment solutions to issuers, acquirers, card processors, independent sales organizations (ISOs), retailers, and national and regional switches around the world. Our mission from the start has been to provide our clients with innovative technology solutions that transcend the entire payments value chain, enabling them to innovate rapidly and bring new products and services to market with ease and efficiency using our HPS' PowerCARD software solution. Today, our software is used by more than 400 institutions in over 90 countries. As such, we have been able to see the payment world evolving for the last 20 years in more than 90 countries.

Today, HPS helps retailers to build centralised, open and flexible retail payment platform that allows a seamless shopping experience for customers (shop by any channel, 24-hours-a-day) by accepting transactions from any channel, within a secure payment environment.

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Since 2011, Horst Forster is co-editor of the European Payment Cards Yearbook, responsible for market analysis and for compiling/writing the country profiles. Horst has expertise in both omnichannel card business and card-less payments, since 1996. Cross business and cross borders – his profession is business development and market intelligence services for the Payments Industry, including digital payments in an Open Banking ecosystem.

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