

# 2016 Global Payments Insight Survey: Merchants and Retailers

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Changing the merchant experience

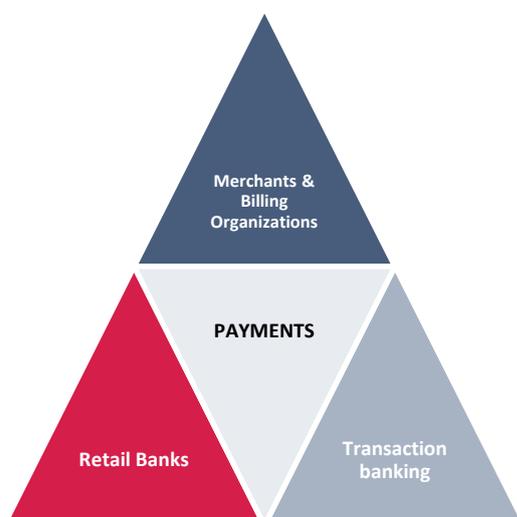


# Catalyst

## Payment players need to rethink roles and relationships

The payments industry has always been an ecosystem in which participants have particular roles and relationships with others.

It is now changing rapidly as existing participants continue to invest in technology and adjust to new roles while new entrants, particularly from the fintech world, continue to create new business models and threaten to displace incumbents.



Payment technologies and platforms bind these participants together in a tight ecosystem. Merchant retailers and billing organizations interact with corporate and transaction banks in a different part of the value chain than they do with their own customers and with retail banks. However, each have different and changing priorities as well as common needs and goals.

How those touchpoints are changing, how they affect the relationships between different participants, what opportunities that

presents and what that means for their future strategies is the subject of this series of reports.

While much of the media attention is driven by the fintech hype machine and filtered through a consumer lens, there are considerable shifts happening at the regulatory, infrastructural and technology level that will have a profound effect on the way the payments industry operates. Market participants will have to create business and technical strategies to address the changes and make decisions about their role in the value chain.

In 2015, technology analyst house Ovum, in conjunction with ACI Worldwide, conducted the first annual Ovum Global Payments Insight Survey. This global survey of merchant retailers, retail banks and transaction banking, and billing organizations examines strategic plans and IT investment trends, asking respondents about their experiences, perceptions and expectations of payments and how this is shaping their behavior.

This merchant focused report highlights some of the key findings from the second year of this research and provides an explanation of how the views and perspectives of the different players in the ecosystem contrast. It is one part of a five-part series based on Ovum's 2016 survey. Those interested in the reports focusing on billing organizations, retail banking and transaction banking should visit [www.aciworldwide.com/paymentsinsight](http://www.aciworldwide.com/paymentsinsight) for further information.

# Summary

## Merchants see payments as an opportunity

The role of payments within the merchant and retail environment is changing at a rapid pace, and shows no sign of slowing down anytime soon. Driven by the demands of always-on, and increasingly ambivalent digital consumers, merchants are at the forefront of needing to find new and better ways to engage with their customers, and payments will be central to this. Improving customer engagement, growing consumers' expectations of evolving mobile and online channels complying with every changing regulatory and security needs, and decreasing substantial spending on payments are all immediate concerns for merchants and retailers.

Despite the pressures they face, most merchants are optimistic about new payment technologies, and are increasingly open to working with less traditional payment providers such as startups and online players. Merchants view payments as more than just a challenge, and if managed correctly, as a significant opportunity. This positive outlook ensures the continued rapid pace of change in the payments space.

Key insights of the 2016 Global Payments Insight Survey: Merchants include:

- Up to 81% of merchants view payments as a clear part of their business strategy, and a similar amount feel new payment technologies will provide benefits to

their organization, a substantial increase over the previous year

- 92% of all merchants expect to increase or maintain their investment in payments over the next 12 to 18 months
- 70% of merchants are concerned about securing customer payment credentials
- Over half of surveyed merchants already offer, or hope to offer in future both contactless card and mobile NFC acceptance
- An average 77% of merchants would consider working with an online payment provider.

The surprising consistency of these findings between merchant and retailer segments highlights the impact the payments evolution is having across the merchant space. This suggests that across all segments merchants should:

- **Proactively develop their payments roadmap** and understand what new payment technologies can do for their business in all channels
- **Modernize legacy infrastructure** where necessary, providing added flexibility to experiment with innovation
- **Stay on top of the latest payment technology developments.** Not all new payment technologies will prove beneficial or profitable, and merchants should remain knowledgeable about technological advances.

## Merchants are focused on payments

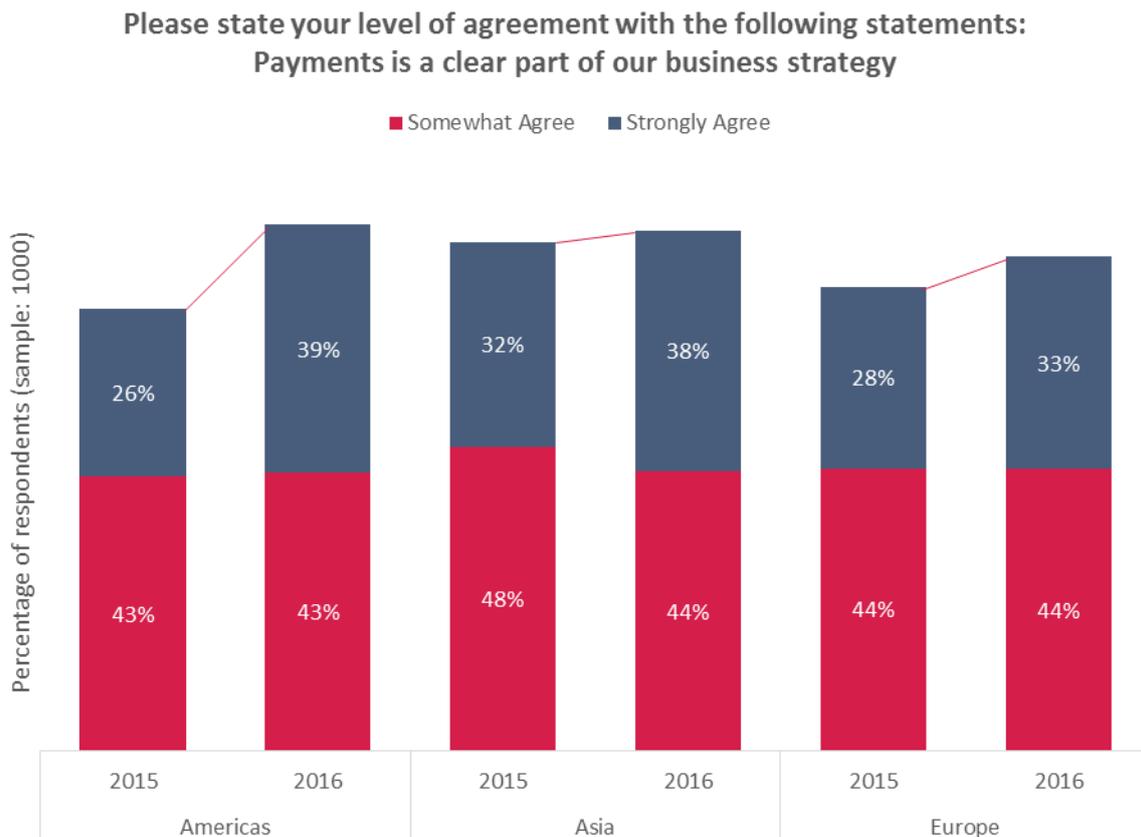
### Payments are increasingly seen as a clear part of merchant business strategies

While merchants and retailers have always had a high level of interest in consumer payments, payments is a growing priority for them across all categories and regions. Merchants globally face a number of challenges brought about by economic and technological changes, and over three quarters of global merchants increasingly perceive payments as a clear part of their business strategy.

Attitudes to the importance of payments is also strengthening. Year-on-Year comparisons indicate that in every region and business category a growing share of respondents

report they ‘strongly agree’ that payments are a clear part of their business strategy, growing by well over 10% between 2015 and 2016 in the Americas alone. Payments are no longer a means to an end for accepting money and finalizing a transaction in the purchase process. It is rather, as shown in the following analysis, a critical component in creating new ways for merchants to engage with their customers and a driver of consumer loyalty and satisfaction. With the broader shifts happening in the merchant, retail and payments space, these attitudes are not likely to weaken anytime soon.

**Figure 1: Payments is increasingly important to retailers in all regions**



Source: 2016 Ovum Global Payments Insight Survey

## Merchant investment in payments is high

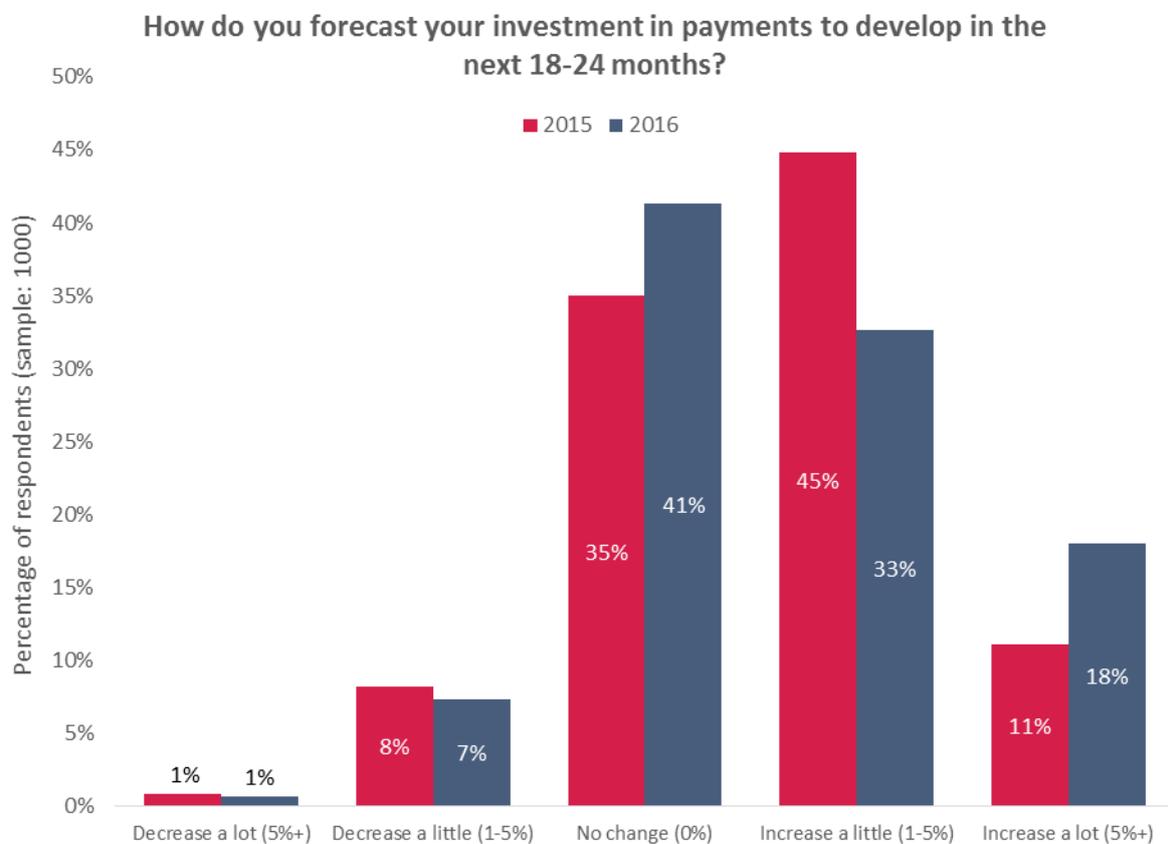
Investment in payments has been high in recent years, and little indication of a decline in investment is evident in the near term. In 2015 a staggering 91% of respondents reported they planned to increase or maintain their investment in payments over the next 18-24 months, while 92% reported the same in 2016.

Overall outright increases in spending show a slight slowdown, with 56% reporting some increase in 2015, compared to 51% in 2016. However, those who reported they would

increase spending by a lot, grew to reach 18% in 2016. This growth indicates that nearly one in five merchants globally is significantly increasing their payments investment.

Because of the critical nature of payments, only 8% reported any expected decrease in payments spending in 2016. This figure continues to decrease, despite the sustained high levels of investment in recent years suggesting that merchants and retailers do not yet have the need to lower investment.

**Figure 2: There is no decline in overall levels of retailer investment in payments**



Source: 2016 Ovum Global Payments Insight Survey

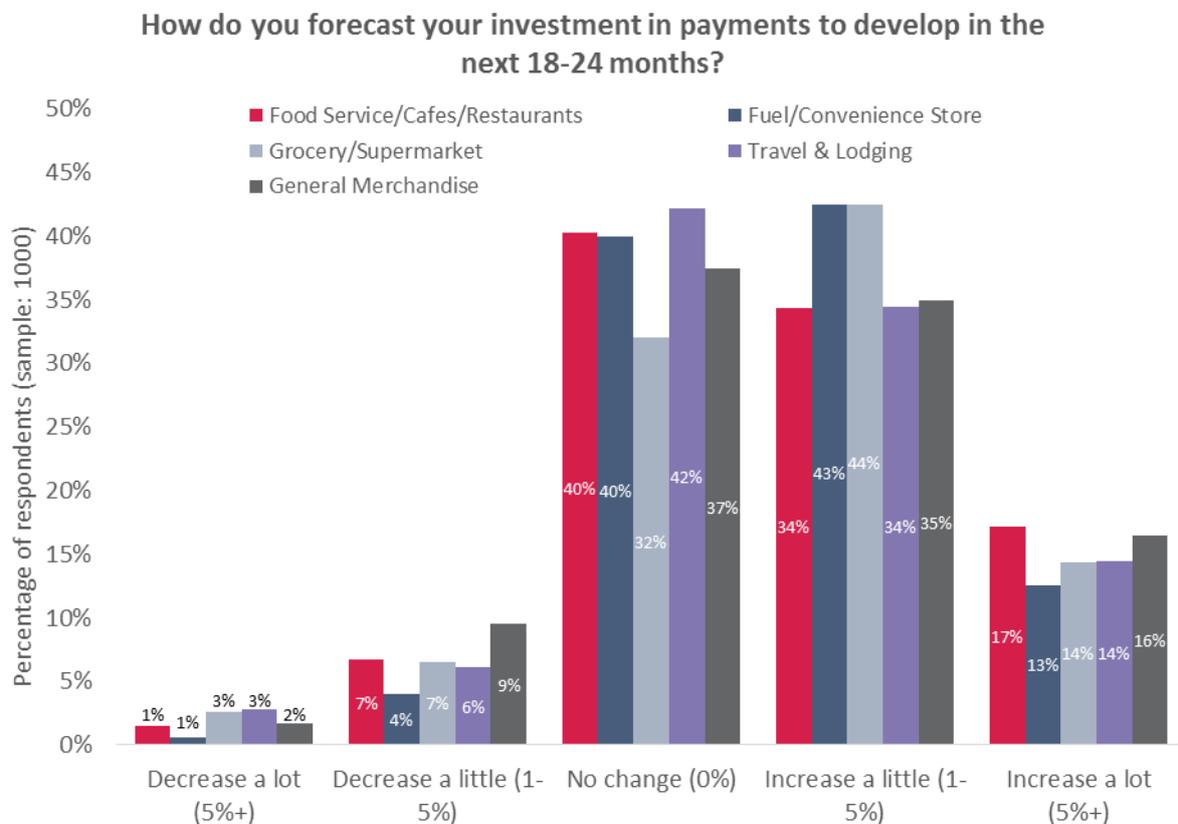
## All merchant sectors show high levels of payments investment

Across all categories, 89% to 95% of merchants and retailers are increasing or maintaining their spending on payments. Those segments with the most to benefit from changing the checkout process in-store, show the highest level of expected investment, notably grocery/supermarkets and fuel/convenience stores with 59% and 55% respectively. This is likely aided by the mandated move towards EMV, and merchants improving their in-store capabilities at the same time. In these instances, improving payments capabilities

profoundly impact the retail experience and helps to attract laggard digital consumers.

In categories where payments has less immediate impact on the overall retail experience, such as travel and lodging (consumers generally don't choose hotels based on the speed of checking in), investment levels nonetheless remain strong. Only 11% of travel and lodging retailers expect to decrease their investment in payments, a figure likely impacted by recent levels of already high investment.

**Figure 3: The pattern of investment in payments is consistent across retailer categories**



Source: 2016 Ovum Global Payments Insight Survey

## Merchant priorities in payments are multifaceted

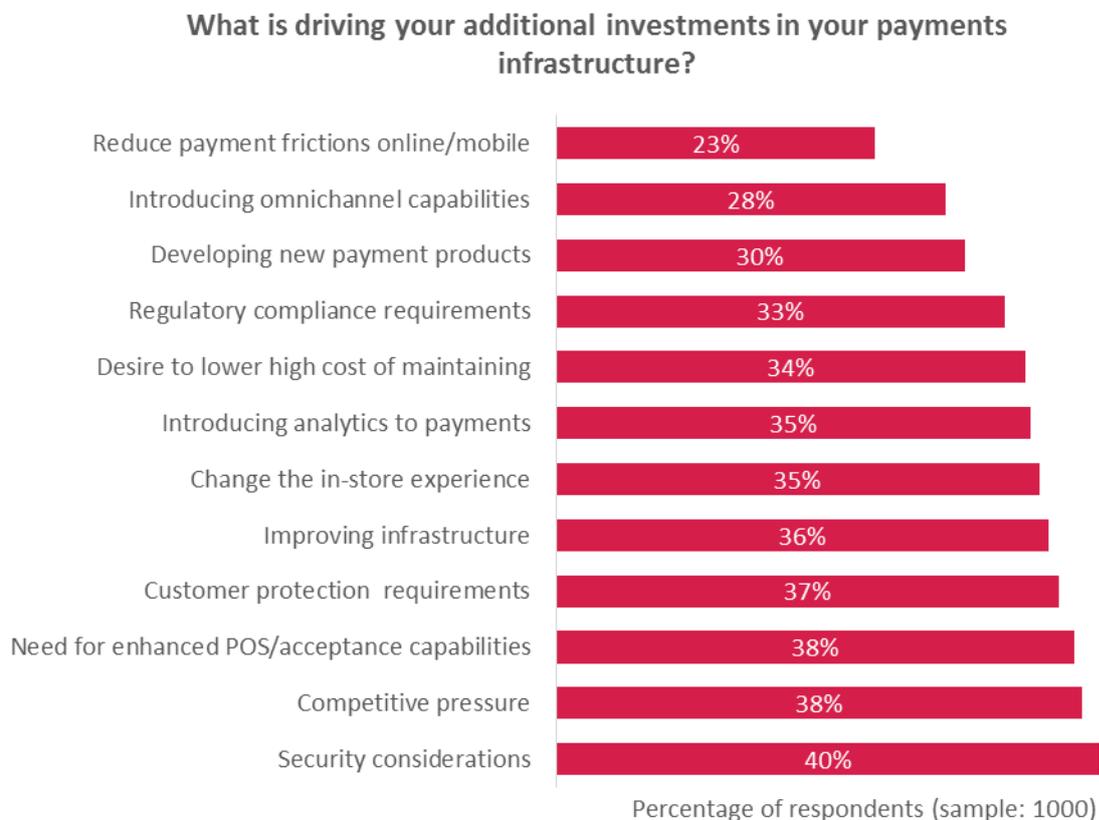
### Merchants and retailers face growing pressure on payments

The increase in merchants' payment spending is driven by a large number of factors, many of which ultimately reinforce each other. It should come as no surprise that in light of the high profile security breaches among retailers in recent years, 40% of retailers cited security as the key investment driver. Many of these security considerations will be further underpinned by regulatory requirements.

Competitive pressure, however, is also a critical driver, cited by 38% of merchants,

followed closely by the need for enhancing POS capabilities, customer protection and infrastructure improvement - all which scored above 35%. This disparate mix of key drivers highlights the multiple issues retailers face that all culminate with payments, ranging from customer engagement, the broader retail market, and the risks of fraud inherent in many new consumer facing technologies. Payments has truly expanded far beyond a simple purchase transaction to influencing all of a retailer's sales and fulfillment channels.

**Figure 4: Both security and competitive pressures underpin retailer payments investment**



Source: 2016 Ovum Global Payments Insight Survey

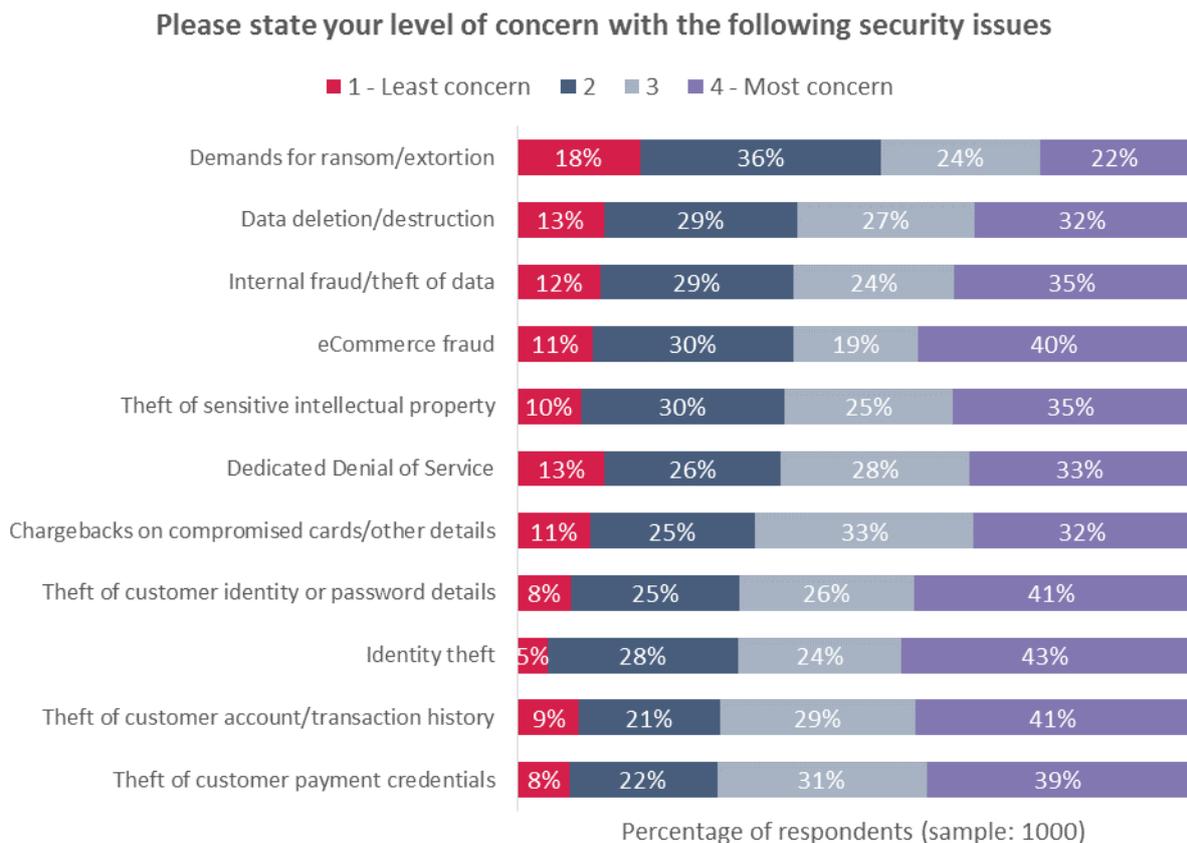
## Security is underpinned by consumer needs

While merchant's face a mixture of pressures driving their investment in payments, most of these drivers are ultimately underpinned by consumers' needs. For instance, while security is a top concern, merchants are primarily focused on protecting sensitive consumer transaction data.

The primary security concerns include theft of consumer payment credentials (70%), theft of consumer account/transaction history (70%) and identity theft (67%). On the other hand, security issues that have minimal impact on consumers are a lower concern including demands for ransom/extortion (46%), data deletion/destruction (58%) and internal fraud/theft of data (59%).

Security will always be a critical consideration for merchants, and the changing nature of technology means the challenges and solutions facing retailers are continually evolving. The US push into EMV is likely to drive up eCommerce and card not present fraud, much as it has in other EMV regions. New technologies such as point to point encryption (P2PE) and tokenization, are creating new opportunities to secure sensitive consumer data and limit retailer exposure to risk. Regardless of how fraud develops, protecting the consumer will remain the top priority.

**Figure 5: Protecting the consumer is retailers top security priority**



Source: 2016 Ovum Global Payments Insight Survey

## Merchant expectations of payments are also rising

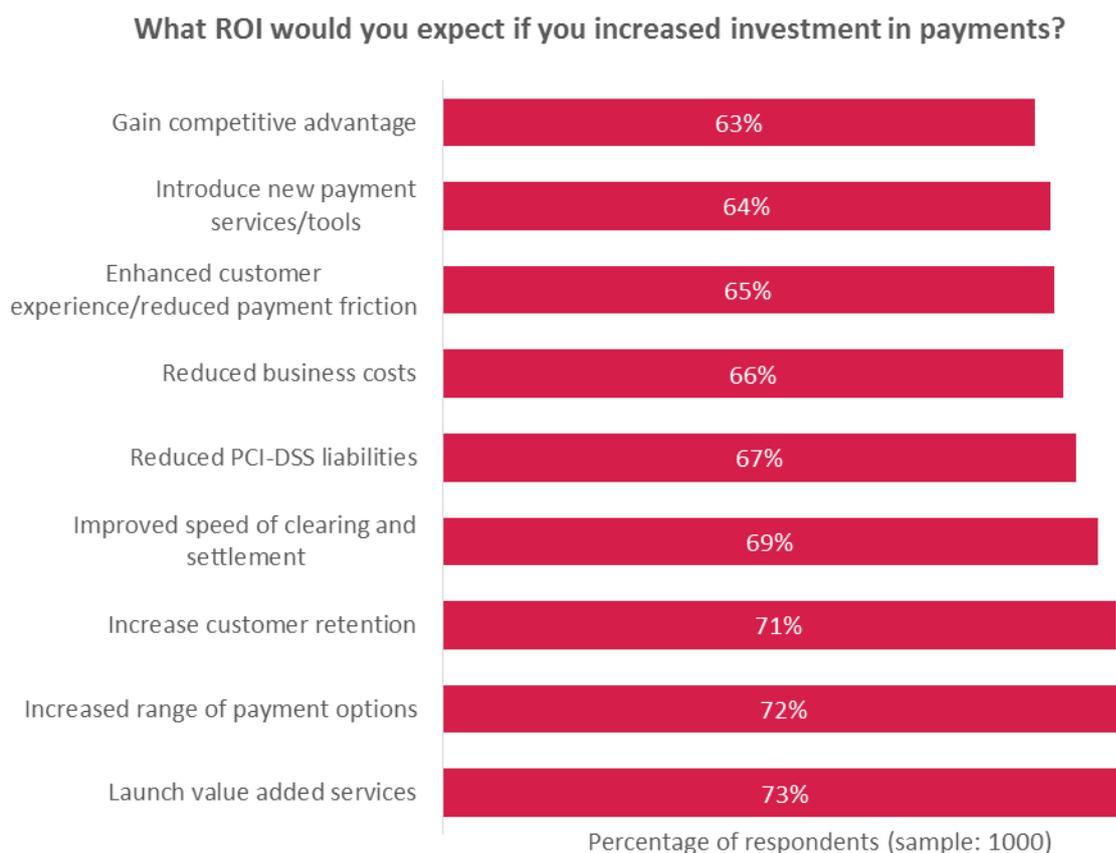
With the growing focus on payments by retailers globally, also comes rising expectations in of what payments can achieve for them, including in terms of omnichannel capabilities. This is understandable given the significant levels of continued investment, while also signaling the challenges faced by existing payment providers.

When surveyed in 2016 on what returns on investment (ROI) merchants would expect if they increased their investment in payments, nearly three quarters (73%) chose launching value added services, followed by increasing the range of payment options (72%) and improving customer retention (71%).

However, even the lowest scoring metric, gaining a competitive advantage was chosen by nearly two out of three (63%). The gaps between these metrics is low, highlighting the increasingly complex expectations of merchants.

In comparison the 2015 survey showed a much larger gap between ROI goals. The highest expected ROI, an enhanced customer experience (50%), held a five point gap between the next highest scoring ROI, gaining a competitive advantage (45%). As the importance of payments continues to accelerate among merchants, expectations will also become more demanding.

**Figure 6: Retailers expect an increasing variety of returns on their payments investment**



Source: 2016 Ovum Global Payments Insight Survey

## Merchant demands are surprisingly consistent across sectors

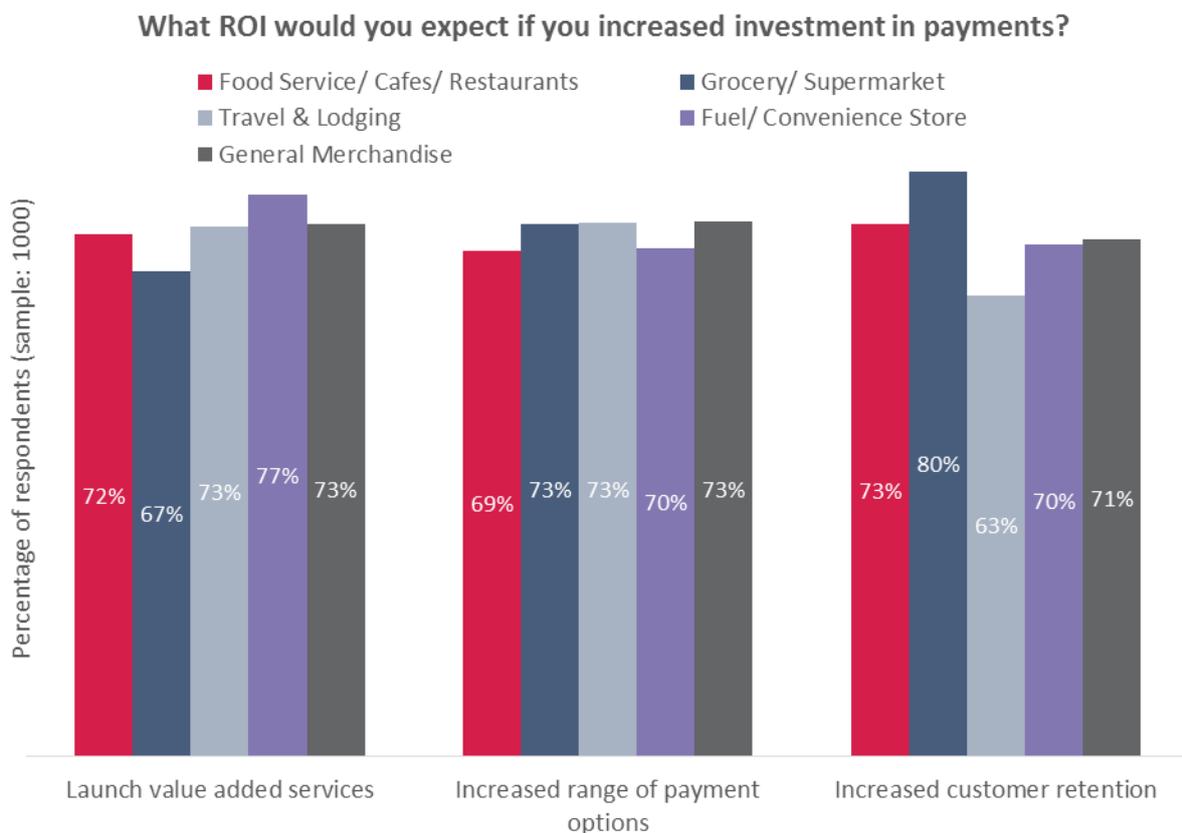
The increasing range of ROI's expected by merchants is not confined to any single category or size of player. Across all five categories surveyed in 2016, all of them listed launching value added services, an increased range of payments options, and increasing customer retention as their top priorities.

In 2015, enhancing the customer experience was merchant's top expected ROI while in 2016 the customer experience failed to make the top three ROI's. However, the customer experience focus did not decline and even increased to 65%. It's likely that merchants are more concerned with concrete methods

of enhancing the customer experience, such as value added services, and increasing the range of payment options.

Variations in expected ROIs tying into the specific needs of each merchant business category will continue to shift over time. Grocery/supermarket for instance place a particularly high priority on customer retention (80%). Given the elastic nature of consumer loyalty to supermarkets, and the growing threat of small scale convenience stores in many regions this priority is understandable.

**Figure 7: Merchants expect an increasing variety of returns on their payments investment**



Source: 2016 Ovum Global Payments Insight Survey

# Merchants seek to drive transactions and are open to working with whoever can enable this

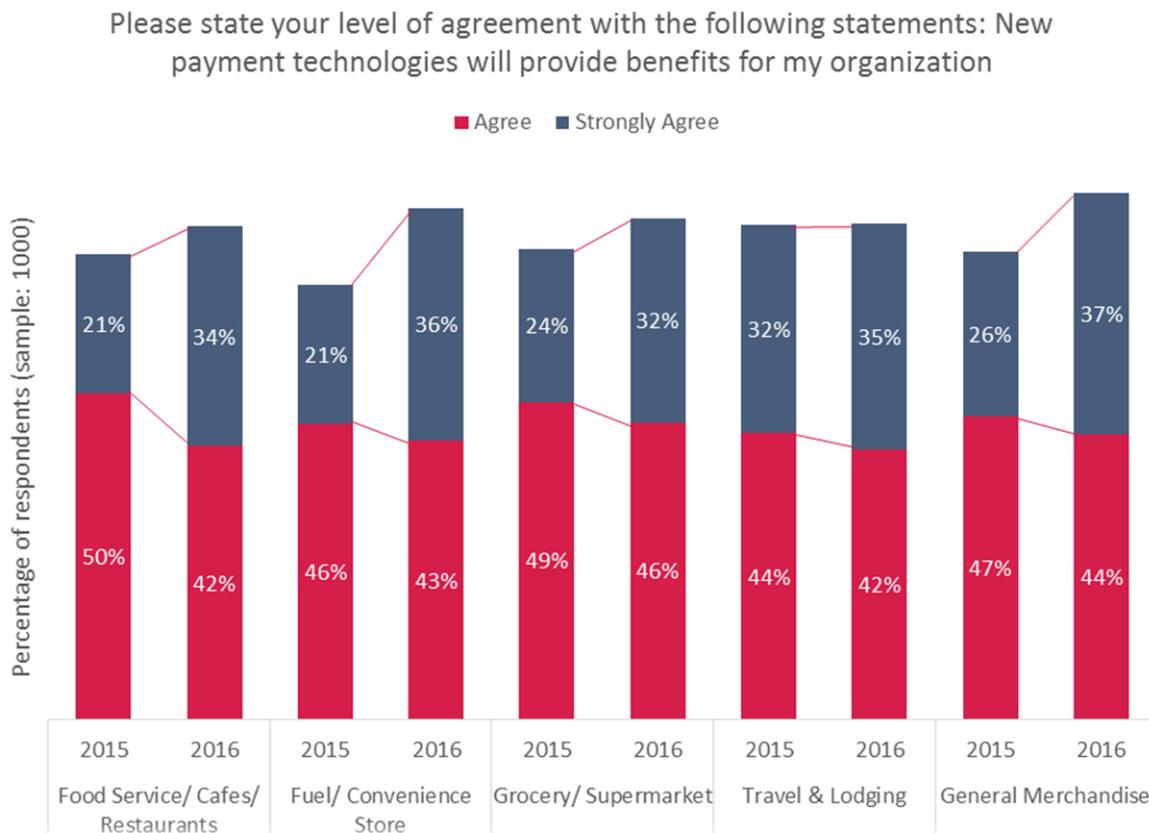
## The benefits of new payment technologies are increasingly clear

Not only do merchants and retailers view payments as an important part of their business, but they are also increasingly bullish on the benefits that new payment technologies offer. Between 2015 and 2016, all surveyed categories saw an increase in the share of merchants who believe new payments technology will provide benefits to their organization. Over three quarters now feel new payment technologies are beneficial, with general merchandise showing the most agreement (81%), while Fuel/Convenience

stores saw a 12% year-on-year increase in agreement benefits.

At the same time, all categories also saw an increase in the proportion of retailers who strongly agree that new payment technologies are beneficial, likely fueled by a greater understanding of what is possible with new technologies, and greater familiarity with some of the products and tools on the market. Fuel/Convenience store saw the greatest increase in strong agreement (15%) followed by the Food Service space (13%).

**Figure 8: Most retailers across all verticals think new payment technologies will benefit them**



Source: 2016 Ovum Global Payments Insight Survey

## Merchants are interested in technologies which drive transactions through multiple channels

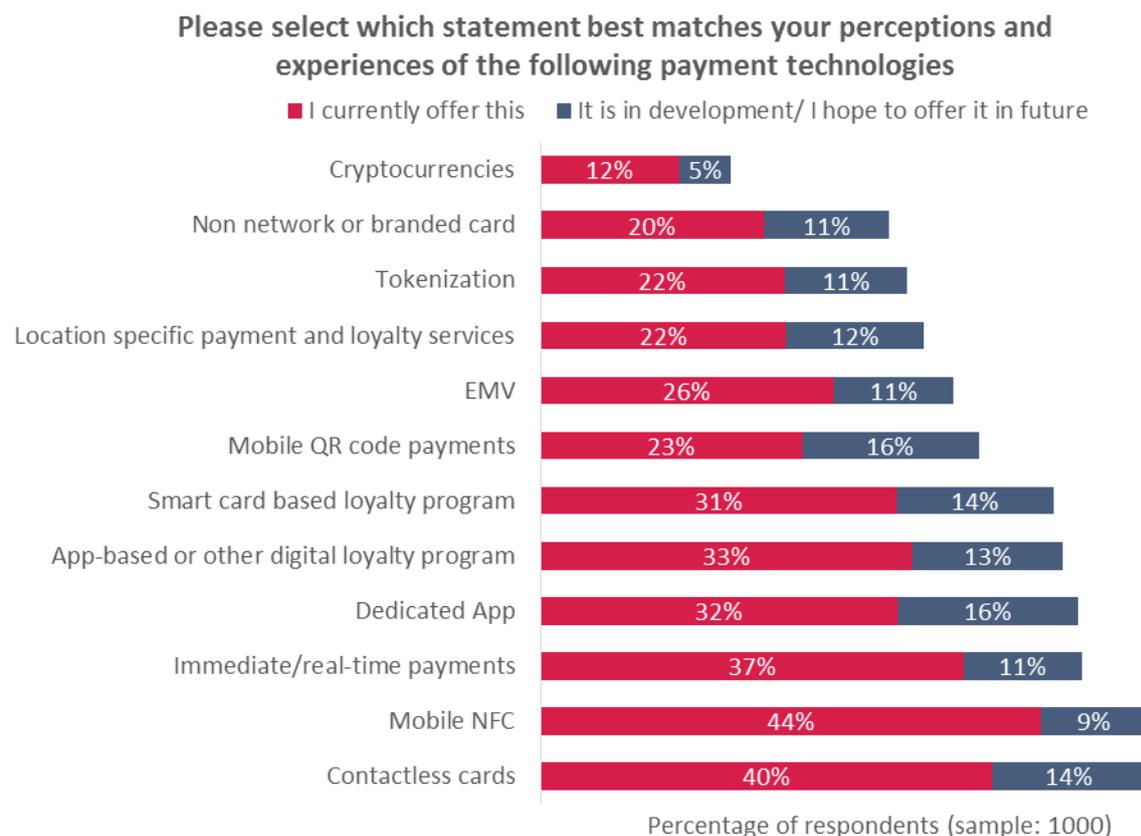
The interest in new payment technologies by merchants and retailers is reflective of the shifts happening amongst their customer base. Consumers everywhere are increasingly becoming ‘anytime, anywhere’ shoppers, increasingly connected to their devices with major repercussions on their shopping drivers and behaviors. Ultimately, this means customers are becoming increasingly slippery and difficult to hold onto, meaning merchants need to adapt to new strategies and a new level of consumer focus.

While the ‘anytime, anywhere’ consumer poses retention challenges, this new found level of connectivity also creates enormous opportunities in reaching out to new customers and expanding merchant reach in an omnichannel world. In a digital world, it is

easier than ever to steal consumers from competitors, creating new needs for cross region, and even cross border commerce and payment capabilities.

When asked which emerging payment technologies merchants currently offer, have in development or hope to offer in the future, those technologies which can create deeper engagement and serve as a means of driving transactions, across channels show the most traction with retailers. This includes technology for improving the in-store experience, like contactless cards and NFC, alongside new channels such as dedicated apps. Immediate payments likewise help to improve liquidity, while providing an enhanced customer experience.

**Figure 9: Mobile based payments engagement is the top interest for retailers**



Source: 2016 Ovum Global Payments Insight Survey

## Merchants are increasingly willing to work with non-bank players

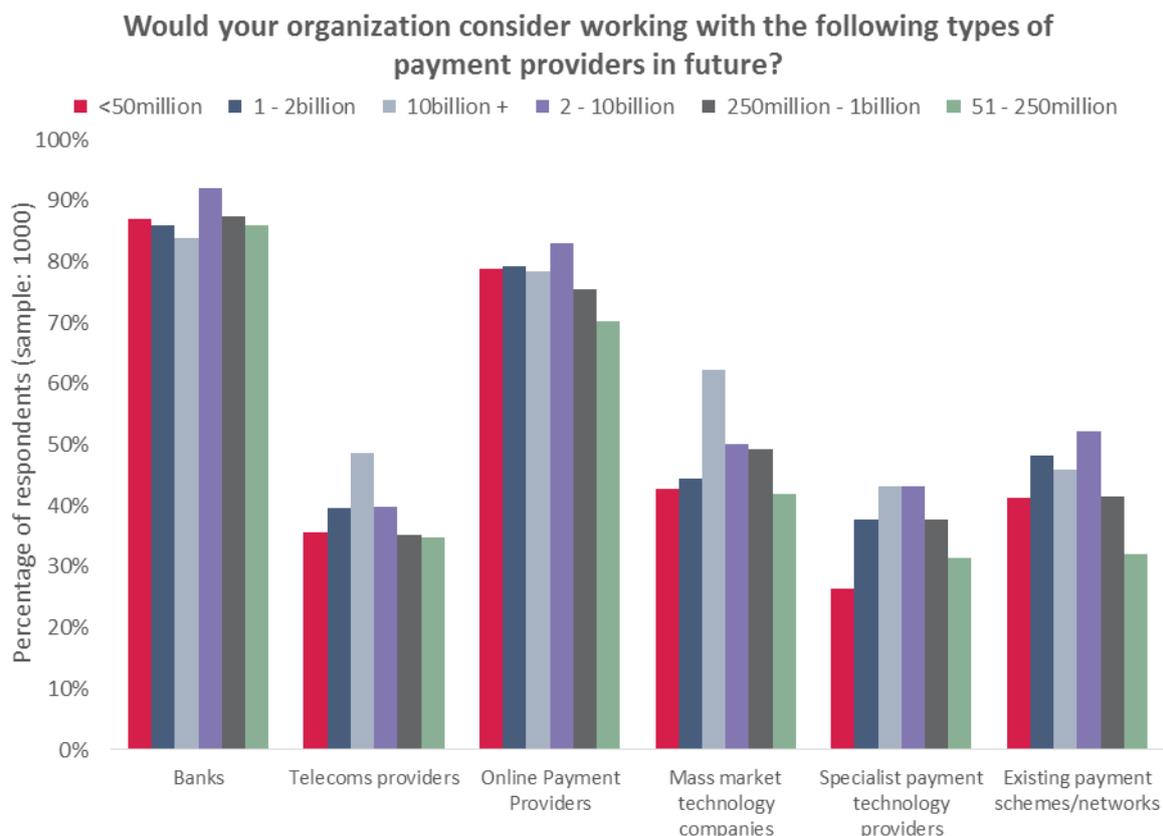
With merchant payment strategies shifting, these changes are now filtering through to their choice of partners for broader payments processing. Banks still holding a dominant positioning, are seen as the primary provider of payment services by an average 87% of respondents. However, other payment provider categories are increasingly gaining traction, including most notably online payment providers with an average 76% of merchants willing to work with them in future.

This increased willingness to work with organizations other than banks is particularly

important for smaller scale merchants who are more likely to work with payment service providers, value added resellers and ISOs. Given their relative agility compared to large scale merchants, and their need for support in launching new payment technologies, they will be the most likely impacted by this shift in partnership attitudes.

However, the willingness to work with non-bank payment providers is equally high among larger scale merchants. While their more complex infrastructure needs will likely keep them working with existing partners in the near term, this could potentially change.

**Figure 10: Banks are still seen as the best placed provider but online players are gaining ground**



Source: 2016 Ovum Global Payments Insight Survey

## Startups are gaining credibility in many payment technologies

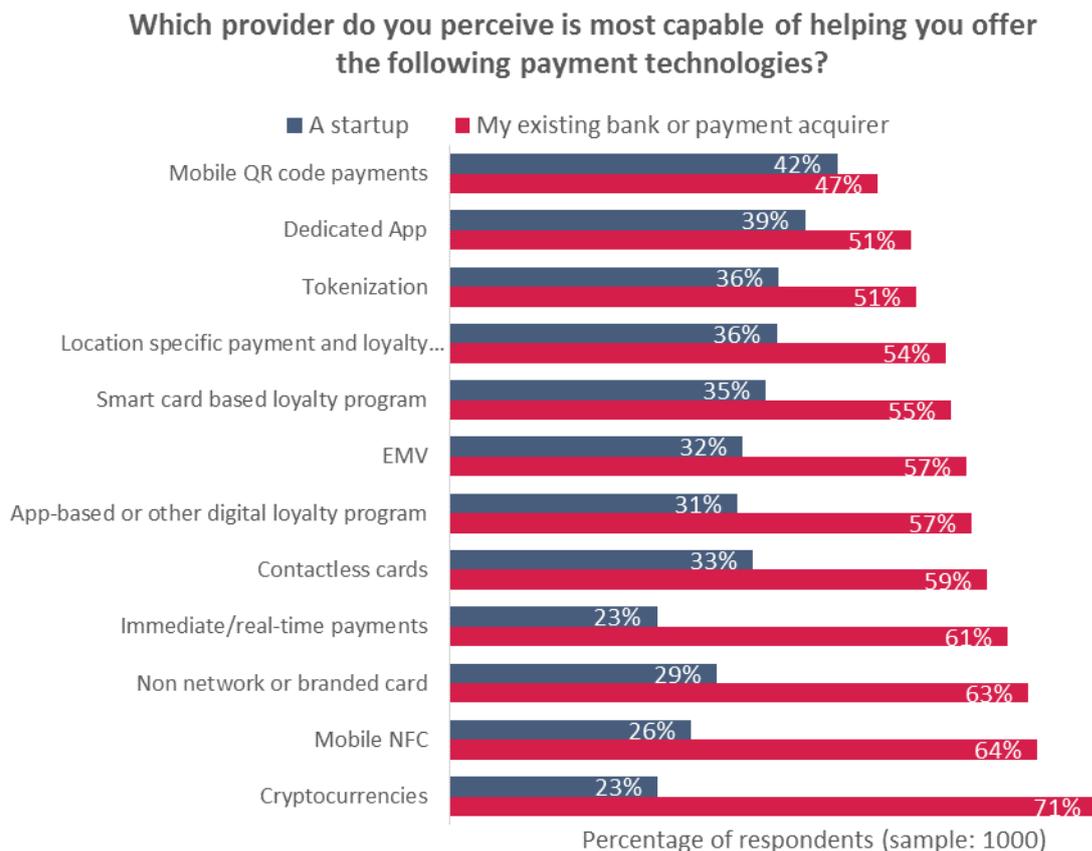
When asked who was best capable of offering a range of specific new payment technologies the market was again dominated by retail banks, however startups also hold a surprisingly strong showing. For some more complex technologies, such as cryptocurrencies and mobile NFC capabilities, existing bank providers were seen as the most capable by 71% and 64% of merchants respectively.

Startups, an area with more direct impact on consumer engagement, held a much stronger positioning. Startups were seen by merchants as the most capable providers of mobile QR codes, dedicated apps and tokenization by 42%, 39% and 36% respectively.

While banks currently hold a very strong perception as the most capable providers of nearly all emerging payment technologies, the strong showing by startups suggests that many merchants remain underwhelmed by banks payment capabilities, and over time may become more likely to work with non-traditional players.

With the fintech startup space remaining white hot, and merchants showing a strong willingness to collaborate, this is likely to help fuel further payments innovation in the near term.

**Figure 11: Start-ups hold a growing position in customer engagement related payments technology**



Source: 2016 Ovum Global Payments Insight Survey

# Methodology

For its 2016 Global Payments Insight Survey Ovum, in conjunction with ACI Worldwide, created a 27 point questionnaire to understand how the current and future landscape of the payments industry is evolving.

The study examines a range of themes, including:

- Investment drivers and focus areas for 2016/17
- Role of payments in broader strategic objectives
- Attitudes to newer opportunities, such as immediate payments and blockchain
- Payments IT spending plans and expected ROI
- Preferred partners for delivering new services

The research focuses on four different industry verticals and a total of 14 sub-industry verticals. The lead categories are as follows:

- Billing organizations
- Retail banking
- Retailers
- Transaction banking

The fieldwork was conducted with senior executives responsible for payments strategy and/or payments IT strategy in each business, and was in the field from December 2015 - February 2016. In total, 1,675 executives were interviewed, across 14 industry sub-verticals in 18 countries globally.

This report focuses on merchants and retailers. Those interested in the research on retail banking, billing organizations, or transaction banking are advised to visit [www.aciworldwide.com/paymentsinsight](http://www.aciworldwide.com/paymentsinsight) for further information.

Retail Respondent Breakdown	
<i>Total Respondents</i>	<b>1000</b>
Respondents by Region	
<i>Americas</i>	<b>37.3%</b>
<i>EMEA</i>	<b>31.1%</b>
<i>Asia Pacific</i>	<b>31.6%</b>
Sub-verticals surveyed	
Retailers	
<i>General merchandise (includes fashion, electronics, health &amp; beauty, FMCG, etc.)</i>	
<i>Travel &amp; lodging</i>	
<i>Fuel/convenience stores</i>	
<i>Grocery/supermarket</i>	
<i>Food service/cafes/restaurants</i>	
Example Respondent Titles	
<b>Director, Global Corporate Payments, Chief Operations Officer, Finance Director, Revenue Manager, Owner, etc.</b>	

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## Ovum Consulting

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