

2017 Global Payments Insight Survey: Merchants and Retailers

Customer experience driving payments investment

Catalyst

Payment players need to rethink roles and relationships

The payments market is changing. Across the value chain, organizations are investing in technology as they try to adjust to a shifting market. Both existing and new players are now creating new payments models and in the process upending existing business paradigms. Market participants across the payments value chain now have to create new strategies to address the changes occurring and seize the opportunity these payment shifts are bringing.

Critical to forming an effective payments strategy is understanding how the forces at play in the payments market affect all corners of the value chain. Organizations of all types must understand how these changes fit in with existing payments capabilities and business priorities.

Since 2015, technology analyst house Ovum, in conjunction with ACI Worldwide, has

conducted the annual Ovum Global Payments Insight Survey. This global survey of merchants, retail banks 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 investment and development activity.

This merchant global overview focused report highlights some of the key findings from the third year of this research. As one part of a four-part series based on Ovum's 2017 survey, the report provides an explanation of how the views and perspectives of the different players in the ecosystem contrast. Those interested in the reports focusing on a global overview, retail banking and billing organizations should visit www.aciworldwide.com/paymentsinsight for further information.

Summary

Merchants seek new ways to grow

Key insights of this research include:

- New and alternative payment tools now account for 10% of global merchant transactions.
- Payments investment is high in all sectors, with 58% of travel and lodging companies reporting an increase in investment levels.
- 89% of merchants expect an enhanced customer experience when they invest in their payments capabilities.
- Despite the focus on the customer experience, 82% of merchants hold back on investment due to security concerns.
- 84% of US merchants report EMV has lowered their fraud costs.
- While 52% of merchants say their CNP losses are growing, 70% say they are satisfied with their CNP fraud prevention tools.

The role of payments within the merchant environment and how payments technology is seen by merchants themselves is changing rapidly. The on-going shift to digital consumerism has had a huge impact on the way merchants operate, forcing them to find new and better ways to engage with their customers and cater for their demands. Merchants no longer consider payments to be purely transactional, but rather as a key

means of improving customer engagement, meeting consumers' expectations, complying with ever-changing compliance requirements, and reducing operating costs.

Even with the pressures merchants and retailers face, most are optimistic about new payment technologies and see these as a means to both improve the customer experience and help streamline their infrastructure.

This optimism in payments is helping to fuel interest in emerging technology areas such as open API's and third party partnerships, and the development of merchants' omnichannel capabilities.

Underpinning this is a continued need for strong security. The success of EMV in lowering card present fraud however risks leading to complacency when it comes to card not present fraud. Merchants will need to strike a balance between security and customer convenience.

The path to payments modernization and development is in many ways becoming less clear for merchants, however the rewards and benefits are only increasing.

Recommendations

The forces shaping the payments market today are now beyond the control of any single organization (or indeed technology). However, enterprises across the merchant and retailer landscape can take steps that will help them better prepare for – and respond to – these shifts to ensure that they make the most of the opportunities presented by global payments transformation.

These steps include:

- **Improving legacy infrastructure is critical to enable the flexibility needed for payments innovation.** For merchants in particular there is no end state to payments modernization and competitive pressures on engaging with customers is only getting stronger. Merchants need to be able to adapt quickly to today's market. Relying on legacy payments infrastructure will only become increasingly less cost effective.
- **A go-it-alone strategy when it comes to developing payments capabilities is no longer tenable in today's environment for merchants.** The need for strong payment partnerships now extends into the wider innovation space and merchants across all sectors should work actively with partners to help drive innovation across their payments infrastructure and front end services. With many merchant sectors operating on already tight margins, working with partners who understand their market verticals, and have an emphasis on easy integration processes will prove critical.
- **New delivery approaches can open new opportunities and counter emerging threats.** Enabling omnichannel capabilities will be a key strategy for merchants, improving the customer experience while simultaneously providing a single view of the customer and in theory creating better back office efficiencies. Open API's likewise can create new ways to partner with third party partners, including in the financial services space to reach new customers and create new revenue streams.
- **Security remains paramount, and CNP fraud cannot be ignored.** Merchants are at risk of becoming complacent, particularly after the success of EMV in combatting card present fraud. Merchants however need to strike a balance in ensuring security and not hindering transactions. Smarter CNP tools, which can work in a dynamic and multilayered fashion will prove essential with today's increasingly fickle consumers.

Traditional tools dominate but payments modernization runs high among merchants

New payment tools are starting to make inroads

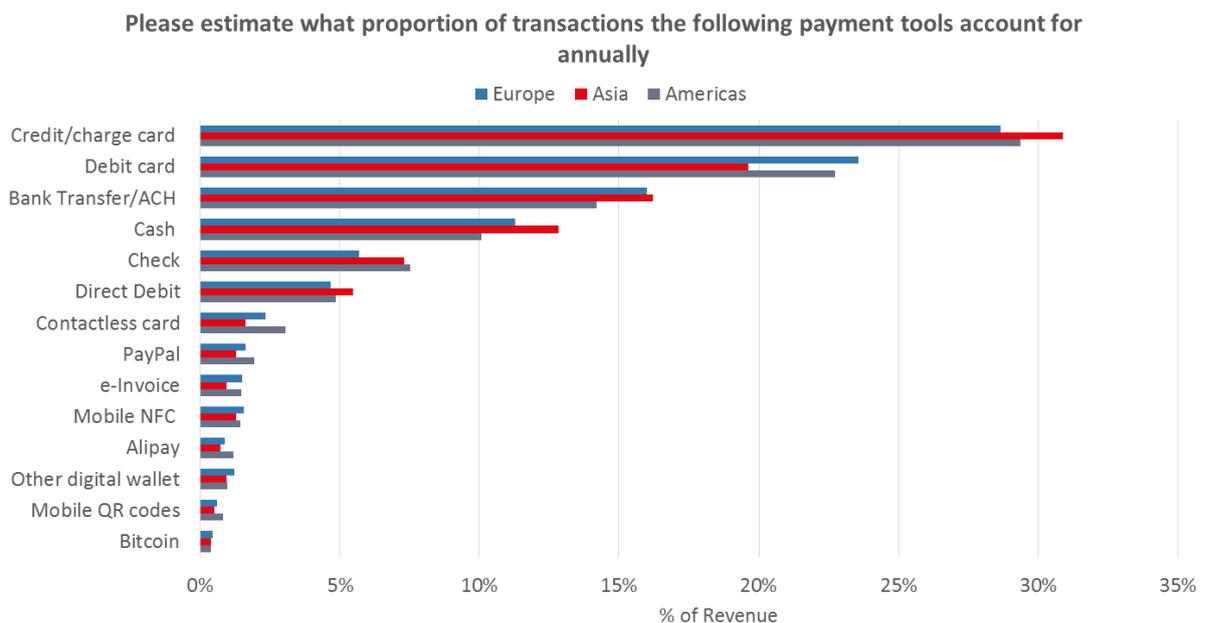
Across much of the world, cards continue to dominate the payments market for retailers and merchants ranging from 52% of payments in Asia to 55% in the Americas. Consumer card habits however are changing. For instance contactless cards now account for near 2% of transactions in Asia and 3% in the Americas as high sales-volume merchants embrace quick and convenient means of payment.

Expanding relatively quickly, Mobile NFC payments is another increasingly popular tool, which holds a modest position in the overall payment space accounting for roughly 1.5% of transactions. Mobile QR code payments have generally proven much less popular than NFC,

partly through consumer unfamiliarity, a weaker customer experience and low acceptance in several key markets.

Cumulatively, new and alternative payment methods account for 10% of transactions globally and have now surpassed cash usage in the Americas (11% vs. 10%). It is unlikely that any single tool will supplant cards anytime soon, but the payments mix is becoming more complicated. Merchants and retailers require traditional payments tools, however they also increasingly need the flexibility and capability to accept a growing variety of new payment methods.

Figure 1: Cards continue to dominate over half of merchants' payment streams



Source: 2017 Ovum Global Payments Insight Survey

The majority of merchants see payments as a core source of benefits.

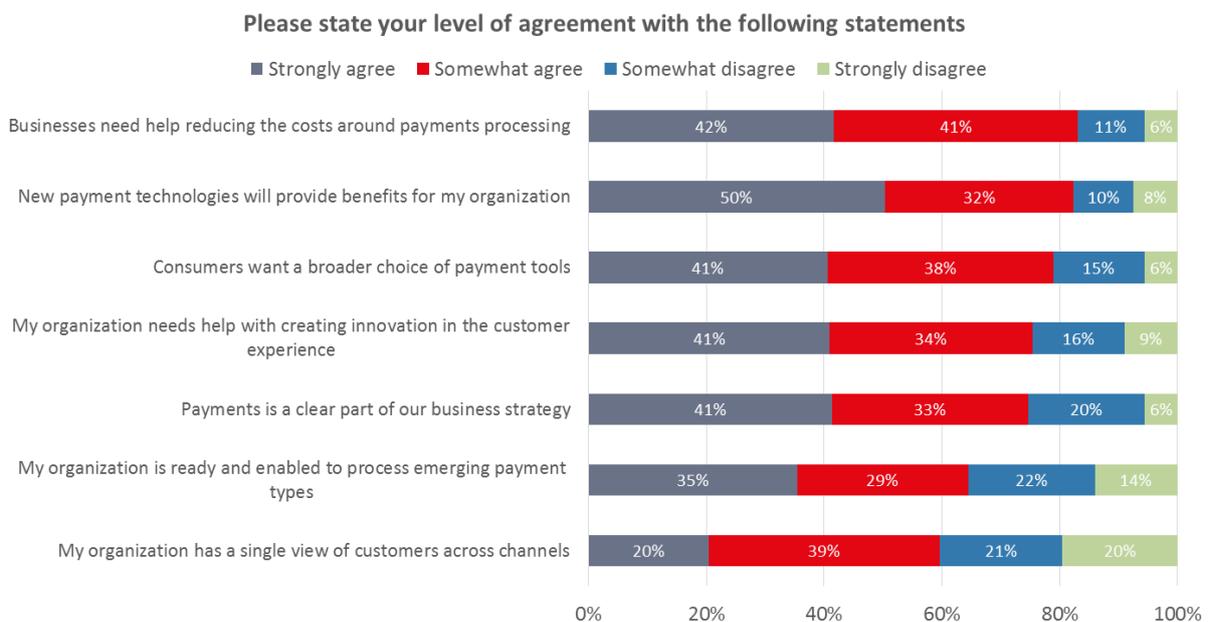
There is near-universal agreement among merchants that new payments technology is beneficial for their businesses, with half agreeing strongly this is the case. This reflects a sustained shift from seeing payments as purely transactional to being part of the overall customer experience, as well as a differentiator between competitors. 25% of merchants remain overly cautious about payments, but the majority report that payments are a clear part of their business strategy.

While merchants generally feel that consumers appreciate having a range of available payment options and wish to offer new payment types, not all are confident

about their ability to do so. This reflects the breadth of new options now available, and the increasing complexity of payments processing systems. Less than two-thirds of merchants currently believe that they have a single view of their customers across channels, further highlighting the growing complexity of the merchant environment.

While the benefits of payments are well regarded, 83% of merchants also strongly believe they need help reducing their costs around payments processing. The challenge merchants now face is figuring out how to lower their costs while simultaneously increasing their capabilities.

Figure 2: Over 80% of merchants see payments investments as a source of business benefits



Source: 2017 Ovum Global Payments Insight Survey

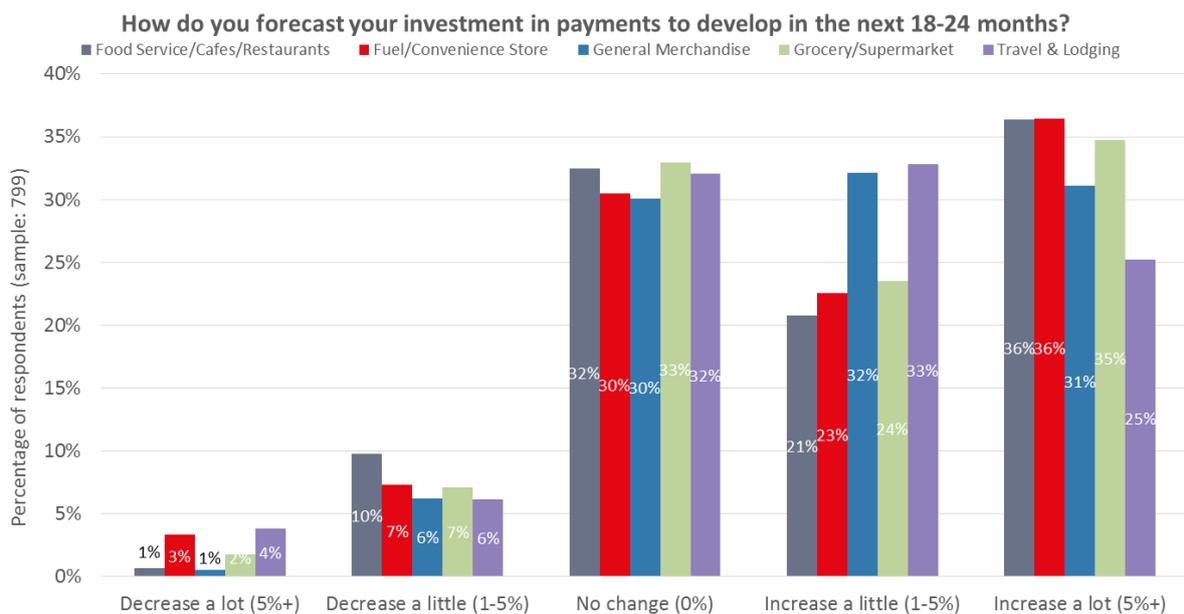
Merchants continue to invest more in their payment capabilities

Since the release of Ovum’s first Global Payments Insight Survey in 2015, there has been steady growth in merchants investing in their payment capabilities. 59% of merchants across all categories now state that they plan to increase their payments investments during the next 18-24 months, against 50% in 2015. This uniform shift across geographies is particularly pronounced in the UK where over 68% of merchants are planning investment increases. Existing pressure for merchants to maintain spending and keep up with their rivals is evidenced with 82% seeing payments investment as a way of gaining a competitive advantage.

The biggest change seen in the 2017 survey is that more merchants are reporting increases of over 5%, compared to a previous focus on smaller 1-5% increases. Businesses dealing with high volumes and a focus on speed, such as supermarkets, are seeing the biggest shift rate of increase in their investment.

Even in sectors where speed is less critical to the overall customer experience, overall rates of investment are extremely high, with 58% of travel & lodging firms increasing their investment. Tellingly very few merchants and retailers report a decrease in their payments investment levels.

Figure 3: Investment is generally being increased across all retailer sub-segments



Source: 2017 Ovum Global Payments Insight Survey

Customer experience is driving interest in digital and omnichannel capabilities

Improving the customer experience is seen as a competitive differentiator among merchants

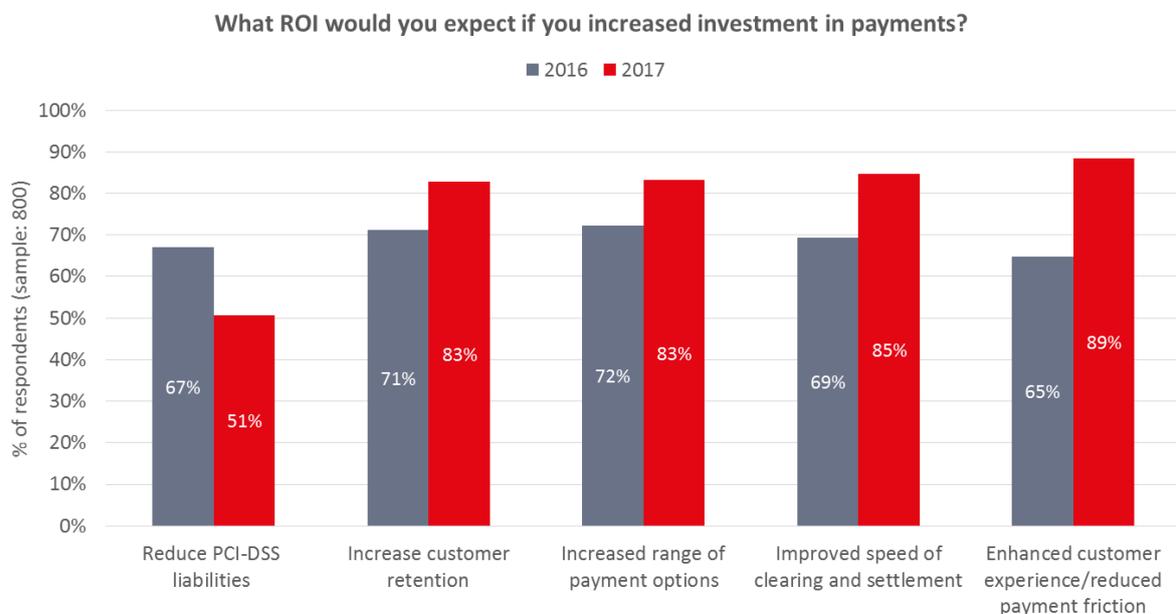
Over the past year there has been a clear shift among merchants in expected returns on investment (ROIs) from payments investments. Almost 90% report they expect an improved customer experience from their investment, up 24% since 2016. These shifts correlate with a significant rise in those merchants looking for a competitive advantage from their payments capabilities.

Expected ROIs include both front and back office capabilities that extend beyond the customer experience. Likely buoyed by the rising tide of global Immediate Payment

initiatives, 85% of merchants see improved speed of clearing and settlement as a clear ROI on their payments investment.

While most categories saw an increase in 2017, there was a notable 16% drop in merchants looking for their investment to reduce their PCI-DSS liabilities. One of the most likely factors behind this drop is the smaller changes in standards since the leap to PCI 3.0 in 2015, with merchants now feeling more comfortable about where they stand in relation to the standards.

Figure 4: Merchants are thinking more about the customer when making investments



Source: 2017 Ovum Global Payments Insight Survey

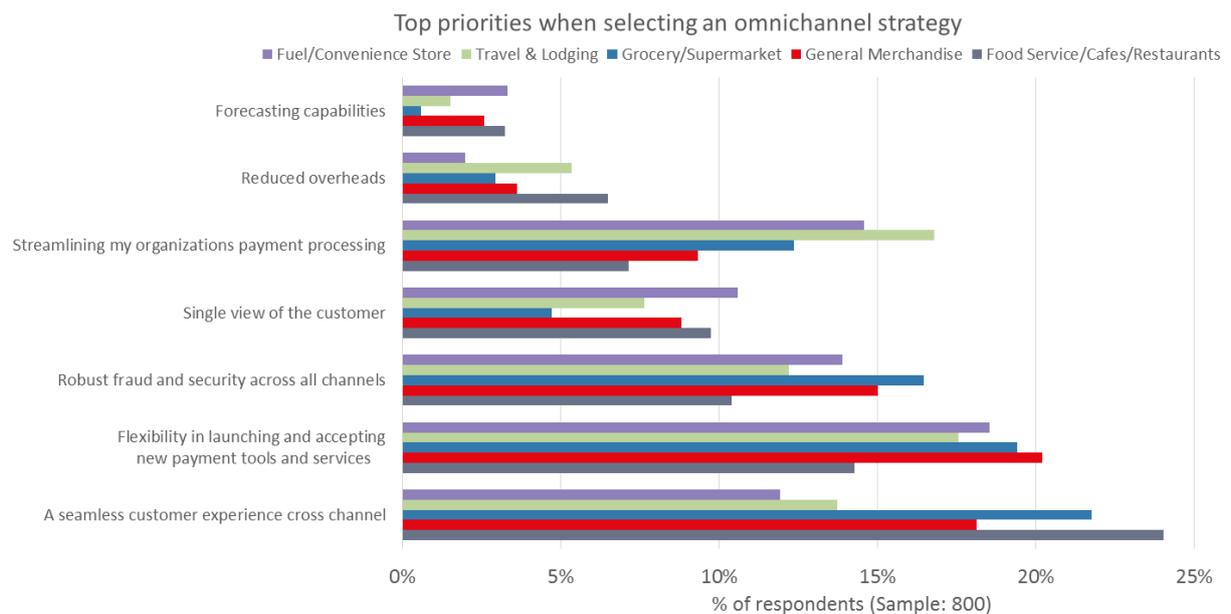
Improving omnichannel capabilities will enhance speed to market and lower payment costs

The primary drivers behind developing omnichannel capabilities are associated with the desire for significantly enhanced flexibility, with merchants accepting new payment tools as part of a seamless customer experience. In line with ROI expectations, this highlights the current expectation among merchants for payments investments to improve their overall customer experience, while also reducing their internal costs. Greater flexibility will let merchants do this by experimenting with new products and services more easily and at a lower cost.

Understandably, the top omnichannel priorities vary by merchant segment. A single view of the customer is less relevant for the grocery/supermarket sector, while fuel/convenience stores have significantly less need for a consistent cross channel experience.

The range of these priorities, incorporating both front end and back end functionalities highlights what is likely to be a significant undertaking for most merchant organizations. Achieving these priorities will have a significant impact on merchants overall technology architecture.

Figure 5: Flexibility to enable new payment method acceptance is the key omni-channel driver



Source: 2017 Ovum Global Payments Insight Survey

Security is a top concern, but merchants may be losing sight of card not present (CNP) fraud risk

Merchants feel EMV has had a notable impact on fraud

One of the clearest messages from the 2017 survey has been the positive impact EMV has had upon fraud in the US. 84% of American merchants state that it has cut their in-store fraud losses in some capacity, with well over half agreeing strongly. With neighboring Canada having seen 70% cuts in card fraud due to EMV in recent years, the strong positive result from the US is not surprising. This result highlights that most merchants appreciate and can see the benefits of EMV.

While EMV has been a positive story, complacency among merchants about the risk posed by CNP fraud is evident with over 70% globally indicating their satisfaction with their existing CNP prevention tools (reaching 79% in the Travel & Lodging sector). This is despite over 50% of those same respondents stating

that their CNP losses are growing, and there is double-digit growth in CNP fraud in many leading e-commerce markets. Together this suggests that many merchants either do not fully appreciate the growing risk posed by CNP or they are willing to accept a higher level of losses in return for avoiding shopping cart abandonment.

Mobile channels are increasingly important for merchants, but with increasing volumes of sales comes a greater potential risk of mobile fraud. Interestingly enough, the results show that a majority of merchants feel that mobile presents more of a risk to them than mainstream online channels. As such they are likely to be a greater focus for security investment in the near term.

Figure 6: EMV has proven effective, but CNP protection satisfaction is unusually high



Source: 2017 Ovum Global Payments Insight Survey

Protecting both the business and customers are key drivers of infrastructure investment

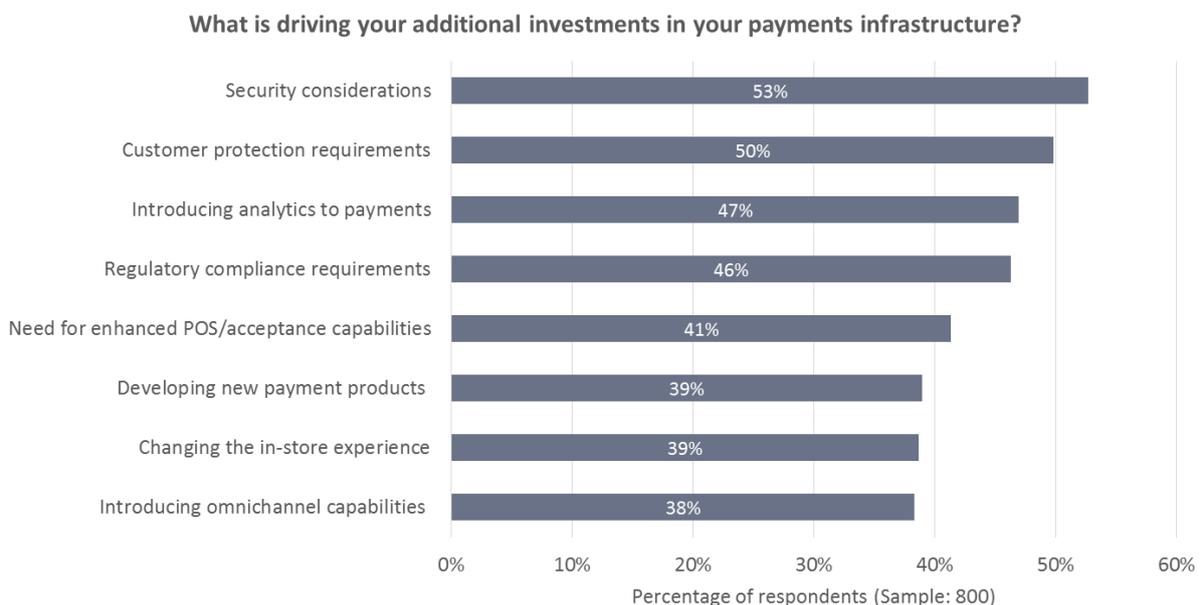
In line with previous years' surveys, merchants continue to be primarily driven by security concerns when investing in their payments infrastructure. This includes requirements to protect their customers. The focus on security is growing with 53% of merchants quoting security as behind additional payments infrastructure investments, up from 40% in 2016. Changes in regulatory requirements are also likely to ensure that compliance remains a key investment driver, in line with recent years.

Another area of growing interest, up from 35% to 47% this year, is the introduction of analytics into payments, with merchants clearly seeing the benefits of data-driven insights for improving their business operations.

By gaining a detailed understanding of consumer behavior and preferences using those analytics capabilities, merchants see it as a key opportunity to drive targeted sales campaigns. Similarly, analytics can yield benefits across wide parts of the business, such as improved inventory management and other back office functions.

This all fits with the shift towards an omnichannel environment, where understanding how consumers use online, mobile, and in-store channels drives merchant decisions in designing those sales environments and meeting customer demands.

Figure 7: Security and customer protection are significant drivers of infrastructure spending



Source: 2017 Ovum Global Payments Insight Survey

Security and regulatory concerns are still the biggest hindrances to payments development

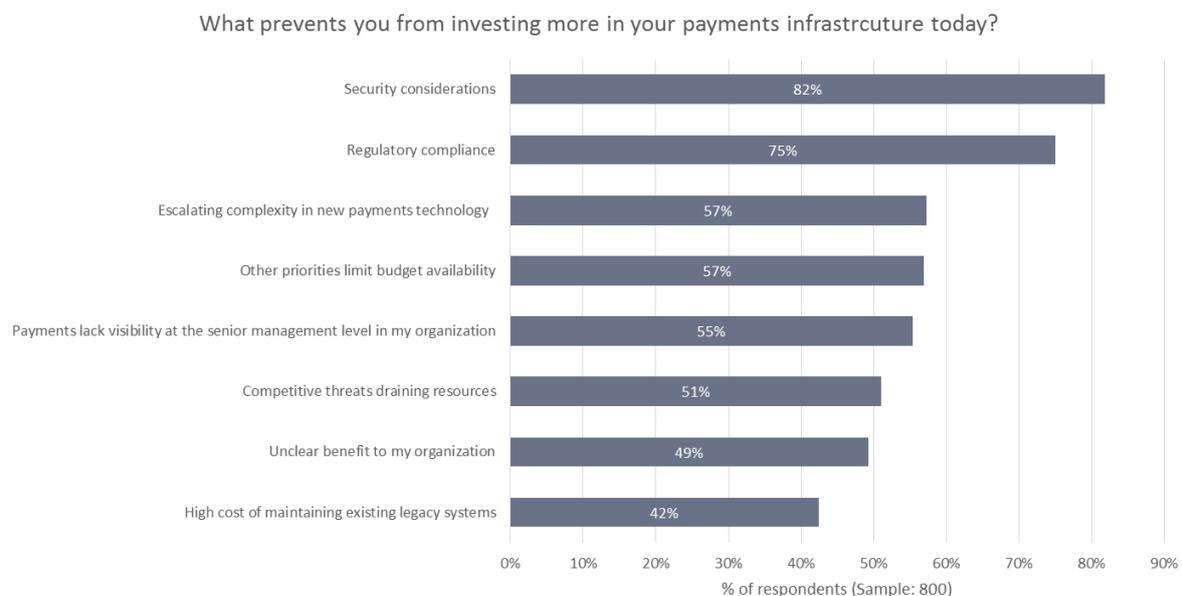
Not only do security and compliance play an important role in driving investments in payments infrastructure, but they are also the primary restrictors on making those investments, with over three-quarters of respondents listing the two factors as a hindrance.

Business owners, feeling their companies are open to security attacks, are concerned about the risk involved in moving across to new systems and new technologies. There is also likely to be a link to the 57% of merchants who stated that the growing complexity of payments technology is holding back investments. Being unable to understand a system will not leave merchants comfortable about its security implications, highlighting

the importance of modernized payment platforms that reduce the complexity of the overall payment system and the need for merchants to work closely with their technology partners.

There are also concerns over how regulators may approach those new technologies or payment methods. This may drive a further shift towards cloud-based service platforms, with the vendor ensuring up-to-date compliance across the relevant markets and ensuring less of a burden for the merchant attempting to do so in-house. 53% of merchants already feel it likely that they will move to a cloud / SaaS based payments infrastructure model.

Figure 8: Over 80% of merchants hold back infrastructure spending due to security concerns



Source: 2017 Ovum Global Payments Insight Survey

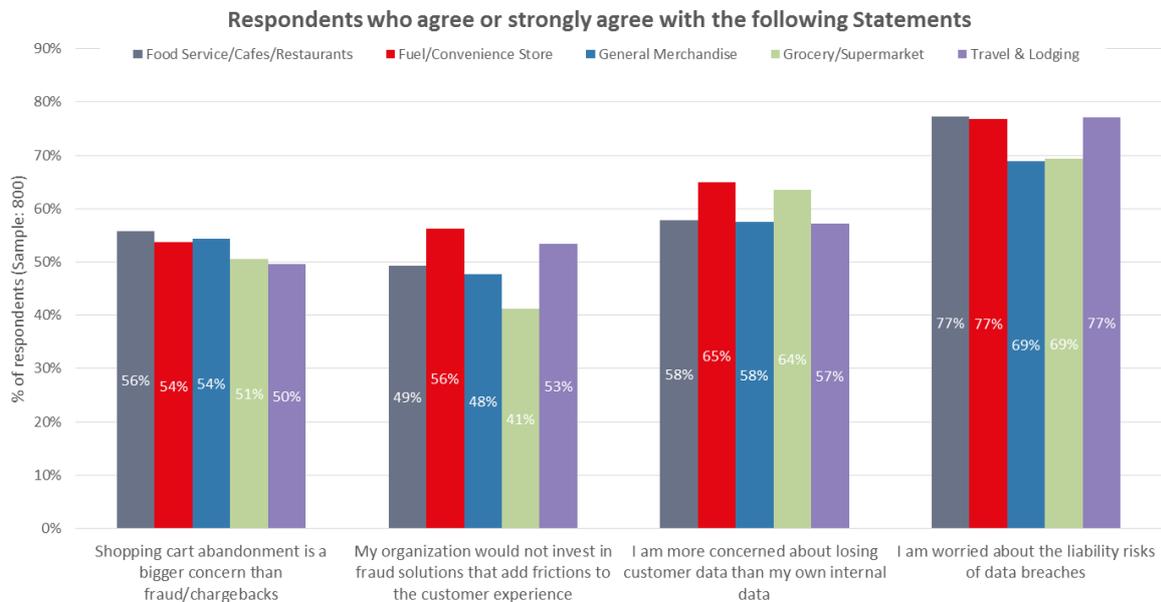
Data breaches still a key area of concern among merchants

Among merchants' wider concerns about their approach to business security, data security polls particularly highly, particularly the risk of losing customer data. 74% of merchants, for example, state that they are worried about liability in the event of data breaches, with over 77% of those in the food service, fuel & convenience and travel segments particularly concerned. This has no doubt been driven by the number of internationally high profile incidents in recent years, where merchants have been hacked and lost significant quantities of customer data, causing PR damage to their brands.

Over half of merchants are more concerned about shopping cart abandonment than they are about fraud and chargebacks, despite security being a key priority in their investment behavior.

This highlights the concern among merchants and retailers about balancing the need for security with convenience. There is a strong desire therefore, for secure platforms that are quick and simple enough to not deter customers from completing their purchase. Merchants need to find ways to protect sensitive customer data without placing added burdens on the check-out process.

Figure 9: Liability for the loss of customer data is a significant concern among merchants



Source: 2017 Ovum Global Payments Insight Survey

Methodology

For the 2017 Ovum Global Payment Information Survey, ACI and Ovum created a 23 point questionnaire, looking at the following for key payment players:

- Significant aspects of existing payments infrastructure
- Forecasts for spending
- Areas for investment
- Perceptions of where payments fit within their broader strategic objectives

This digital survey was then sent to key payments decision makers globally in December - January 2016/17, providing a snapshot of payment perceptions amongst financial institutions, merchant retailers scheduled payment-taking organizations such as higher education, consumer finance and insurance.

Overall, this included a total 1,475 executive respondents across 13 industry sub verticals in 18 key global markets, resulting in over 197,000 separate data points on perceptions and expectations of payments amongst critical payment enablers globally.

This global perspective focuses on the overall survey findings. Those interested in finding out more detail about the billing organization, retailer and financial institution findings are advised to visit

<https://www.aciworldwide.com/merchantinsights> for further information.

| Respondent Breakdown | |
|---|-------|
| Total Respondents | 800 |
| Respondents by Region | |
| Americas | 33.4% |
| EMEA | 33.3% |
| Asia Pacific | 33.3% |
| Sub-verticals surveyed | |
| Retailers | |
| <i>General merchandise (includes fashion, electronics, health & beauty, FMCG, etc.)</i> | |
| <i>Travel & lodging</i> | |
| <i>Fuel/convenience stores</i> | |
| <i>Grocery/supermarket</i> | |
| <i>Food service/cafes/restaurants</i> | |
| Example Respondent Titles | |
| Director, Global Corporate Payments, Chief Operations Officer, Finance Director, Revenue Manager, Owner, etc. | |

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