

2018 Global Payments Insight Survey: Merchants

Catalyst

To succeed in a rapidly changing environment, merchants need to invest in the foundations for future innovation

The payments market is changing, and with it the operating environment for enterprises in all industries. Across the value chain, organizations are investing in new technology as they adjust to shifting market conditions and consumer expectations. For many, these investments are necessary to respond to short-term changes, but in many cases, these decisions also form part of longer-term digital transformation plans. The decisions that are made in the coming years will be huge determinants of both the shape of future value chains and the businesses that participate in them.

Investments in payments technology and services have become integral to both these short- and long-term plans. The need to support changing consumer preferences to transact via digital channels remains a major driver of change, particularly because of the increasing expectation that payment services will become a deeply embedded and largely invisible part of the digital customer experiences of tomorrow.

This creates its own challenges of course, particularly in delivering on customer expectations while still managing to invest in the necessary back- and middle-office improvements. For many organizations, these

investments will be key components of the underlying infrastructure needed to deliver the next wave of organizational change and customer-facing innovation.

To understand the evolution of the landscape, technology analyst house Ovum, in conjunction with ACI Worldwide, has conducted its annual Ovum Global Payments Insight Survey. First run in 2015, 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 their payment services and how these are shaping their investment and development activity for the year ahead.

This report focuses on merchants, and highlights some of the key findings from the fourth year of this research. It provides an analysis of the views and plans of this part of the value chain, as well as a sense of how these perspectives have changed over time. It is one part of a four-part series based on Ovum's 2018 survey. Those interested in the reports focusing on retail banks, billing organizations, and a broader market overview should visit

<https://www.aciworldwide.com/lp/payments-insight-2018> for further information.

Summary

Merchants are facing a number of important challenges, but they boil down to one central issue: how to succeed in today's highly complex operating environment while also investing for the future.

Indeed, the need to deliver on growing expectations around the user experience, and to do so in an increasingly competitive environment, will see merchants continue to invest heavily in payments technology in 2018.

This report examines these issues, drawing on the results of Ovum's 2018 Payments Insight Survey. Key findings include the following:

- 50% of merchants will increase their IT spending on payments and related projects, with 21% growing budgets by 5% or more on the prior year.
- Growth will be strongest in the Americas, with 59% of merchants increasing their investment.
- Digital goods businesses will see the most rapid budget growth, with 60% increasing spending, followed by those in the hospitality sector (58%).

2018 will see many merchants prioritize projects to increase their operating efficiency, but there will remain a strong focus on product and service enhancement.

- Improving the integration between payment and other systems (such as ERP) is a top priority for 12% of merchants and a top-three priority for 29%.
- Innovation remains a core objective, with 36% of retailers in particular highlighting enhancements to their payment acceptance capabilities as a leading IT priority.

- Addressing fraud and data security risk is also high on the agenda. Indeed, 61% of merchants believe they are at a greater risk of a data security breach than in 2017.

The rollout of new real-time payment (RTP) infrastructure in 2017, most notably in the US, Australia, and the SEPA zone, has driven a marked change in attitudes.

Where it was perhaps seen as a financial plumbing issue, it is now more widely viewed as the key to delivering a series of operational benefits.

- 78% of merchants now believe RTP will deliver improvements in this area, up from 59% in 2017.
- Potentially more significant, given the focus this year on delivering operating efficiencies, 78% believe that RTP can help them lower costs.
- 65% are interested in accepting real-time payments, up from 57% a year ago. Merchants in the hospitality sector (68%) are particularly keen.

While merchants expect to enjoy benefits from real-time payments in the near term, a longer-term impact is also expected:

- 77% hold the view that immediate payments will replace the use of payment cards over time.
- Merchants in the Netherlands expect the biggest change, with every company interviewed by Ovum holding this view.
- Argentina, Belgium, and Germany all also score highly, and each sees relatively low levels of credit card use. However, most surprising are the expectations of merchants in the US (77%).

Recommendations

Despite the global nature of the factors driving change in the industry, the impact on individual merchants will depend on their specific market challenges, existing technology stack, wider business strategy, and development roadmap.

Nevertheless, the findings in this study highlight some important steps that all merchants – regardless of their particular area of business – should consider to ensure that they are prepared to meet today's challenges and take advantage of the opportunities for the future.

- **Merchants should view their core payments infrastructure as the foundation for future customer-facing innovation, and invest accordingly.** The pace of change in the payments industry is rapid, and merchants must continue to develop their core infrastructure in order to remain competitive. Ensuring that the middle and back office are modernized will become increasingly important in laying the foundation for greater agility and innovation in future product development. This is particularly relevant for those that have made recent investments in a number of point solutions and other new service enablers for customers.
- **Ensure that you plan for, and take advantage of, the benefits of real-time payments infrastructure.** As experience is now showing, real-time payments brings a number of direct operational benefits to merchants as well as enabling customer service enhancements in specific use cases. Ensure that you are aware of these opportunities and have the infrastructure to take advantage of them. For some, this may involve updating or changing development roadmaps, while others will need to look to their banking and/or acquiring partners to unlock these benefits.
- **Ensure that investments in security enhance the customer experience.** The growing risk of fraud and customer data breaches means that security remains high on the investment agenda for many merchants. When making investments in new solutions and capabilities, every opportunity should be taken to use more sophisticated authentication and monitoring technology to continue to improve the balance between fraud risk and a friction-free user experience.

Delivering greater efficiency, alongside innovation, will drive the IT agenda for merchants in 2018

Merchants in all sectors will increase their IT spending on payments-related projects in 2018

The need to deliver on growing expectations around the user experience, and to do so in an increasingly competitive environment, will see merchants continue to invest heavily in payments technology in 2018.

At a global level, 50% of merchants will increase their IT spending on payments and related projects, with 21% growing budgets by 5% or more on the prior year.

While 2018 will see fewer merchants growing their budgets than in 2017, this nevertheless represents sustained year-on-year growth for many, reflecting the critical role that payment services play in delivering enhancements to the customer experience. Indeed, only 6% of merchants plan to reduce their spending on

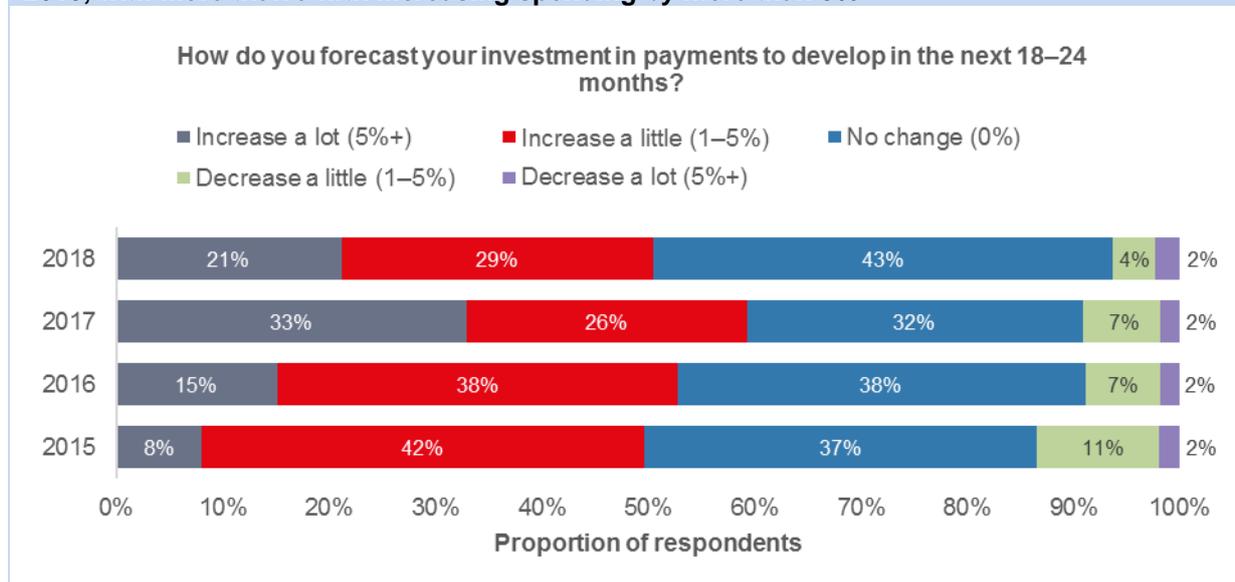
payments technology. In many cases, this is due to M&A or the completion of projects.

The digital goods sector will experience the most rapid budget growth, with 60% increasing spending, followed by hospitality businesses (58%).

At a regional level, growth will be strongest in the Americas, with 59% of merchants increasing their investment and over a quarter increasing spending by 5% or more.

Across all markets, the continued growth in the use of digital channels in the customer journey and the rapid consumer adoption of new retail payment services remain the major drivers of activity.

Figure 1: Half of all merchants plan to increase their investment in payments technology in 2018, with more than a fifth increasing spending by more than 5%



Source: 2018 Ovum Global Payments Insight Survey

Responding to rising costs has made delivering greater operational efficiency the leading driver of investment activity

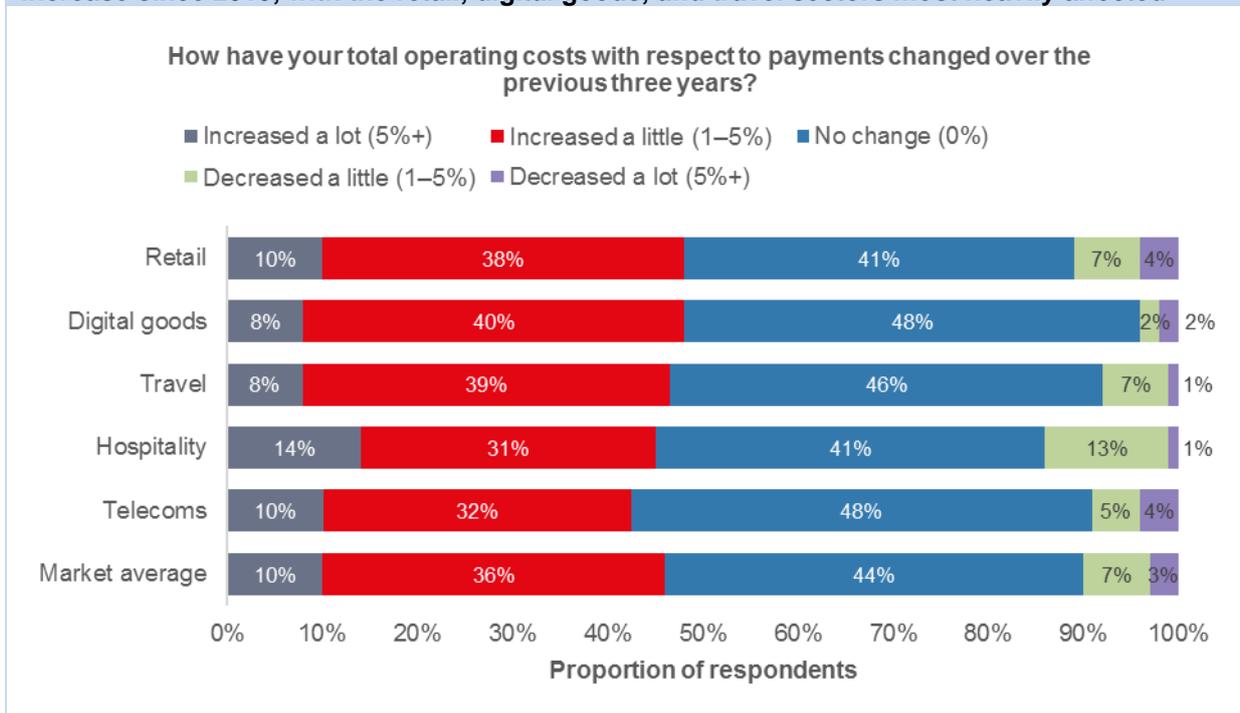
Over recent years, merchants have had to respond to a large number of changes in their operating environment, including shifting consumer channel and purchasing preferences, PCI compliance, and equally rapid changes in the payment landscape.

Delivering enhancements to the customer experience, through investments in areas such as wider payment tool acceptance, loyalty offerings, and greater cross-channel integration, has been the primary focus of merchant IT investment for several years. While the need to invest in the user experience remains a priority, many merchants are planning to invest more heavily on improvements in the middle and back office in 2018, in order to deliver operational efficiency gains.

For some, this simplification is a necessary step, following a period in which rapid investments in the customer experience have resulted in greater complexity and strain on back-office systems. At the same time, others have recognized that payments systems modernization can hold the key to unlocking a new wave of service enhancements.

Cost pressures certainly remain an issue for merchants. Across all sectors, 46% reported that the costs of their payment operations had increased over the previous three years, with only 10% reporting a decline. This is an increase from 2017, when 38% reported growth. While this has been evenly felt across individual sectors, retail, travel, and digital goods businesses have seen cost growth ahead of those in telecoms and hospitality.

Figure 2: At a global level, 46% of merchants have seen their payment operating costs increase since 2015, with the retail, digital goods, and travel sectors most heavily affected



Source: 2018 Ovum Global Payments Insight Survey

As a consequence of these pressures, 2018 will see many merchants prioritize projects to increase their operating efficiency. While cost reduction will be a necessary outcome for many, it should be remembered that middle- and back-office infrastructure enhancements can also have a direct impact on the customer experience, bringing potential for greater customer personalization through better data aggregation, for example.

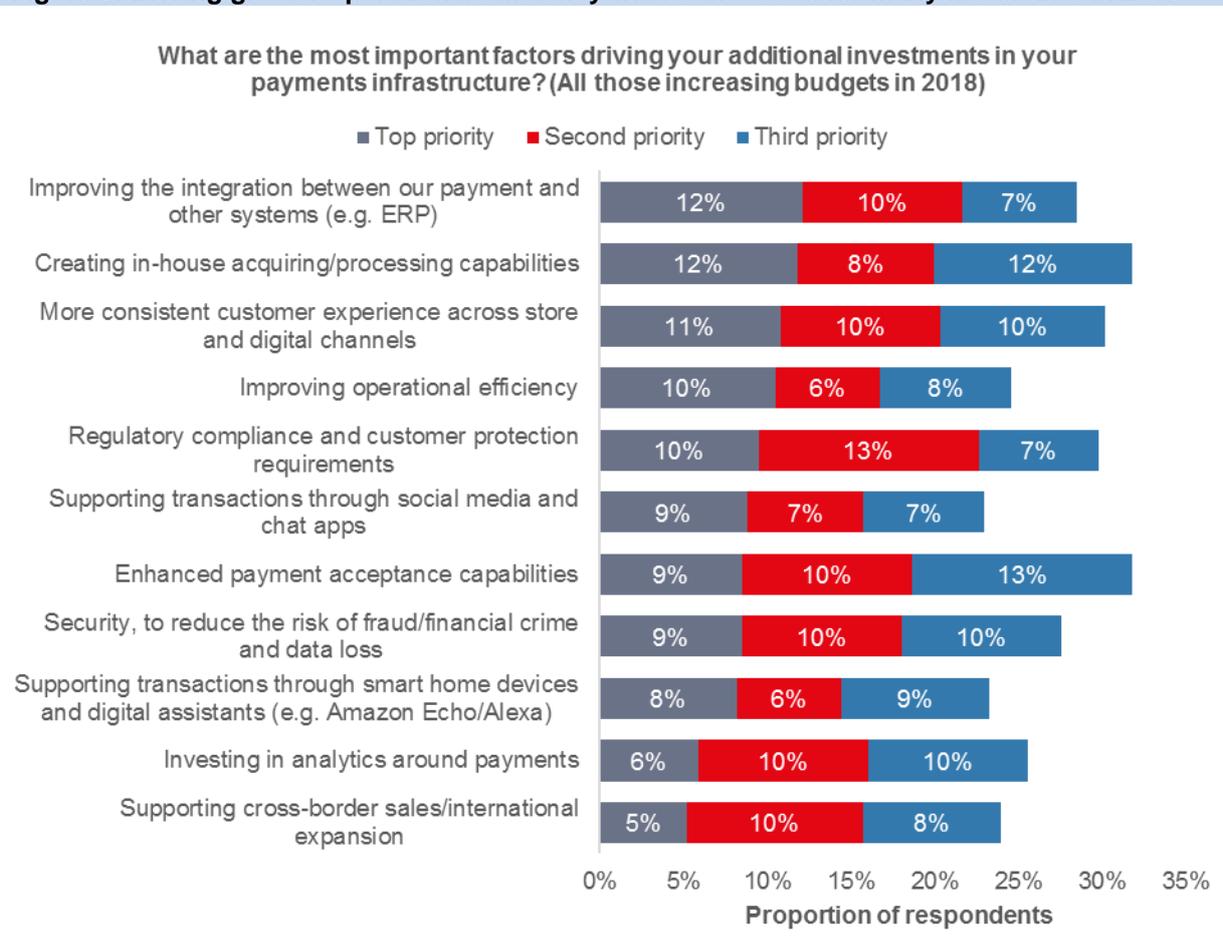
Across all sectors, the biggest single driver of investment growth is the need to improve the integration between payment and other systems (such as ERP). This is a top priority for 12% of merchants and a top-three priority for 29%. Perhaps unsurprisingly, given the nature of the business, this is the biggest area of focus for 16% of retailers.

Also important is the emphasis on bringing payment processing and acquiring services in-house. This is the leading project for 12%, and a top-three focus area for 32%. The travel vertical is most focused here, with 22% making this their biggest investment priority.

Nevertheless, there remains a strong emphasis on innovation, with 36% of retailers highlighting enhancements to their payment acceptance capabilities as a leading IT priority. In the telecoms sector, 38% plan to prioritize investments to improve the consistency of their cross-channel experience.

The level of interest in leveraging social media and chat apps as a channel (a focus area for 23%), as well as smart home devices (also 23%) is notable, and points to the future impact that these emerging channels will have.

Figure 3: Driving greater operational efficiency will be the focus for many merchants in 2018



Source: 2018 Ovum Global Payments Insight Survey

Over one in five merchants report that they have suffered a data breach in the previous year

Data security is high on the agenda for merchants, and remains an important driver of investment and enhancement projects around core payment infrastructure.

In many cases, this is driven by recent experiences of fraud or data breach, with 61% of merchants believing they are at a greater risk of a data security breach than a year ago, and 22% stating that they had experienced theft of payment data in the same timeframe.

The impact has been most keenly felt in Europe, where over a quarter (26%) of merchants say they have experienced data theft. At sector level, the hospitality sector has been the most heavily affected, with 29% of companies having been impacted.

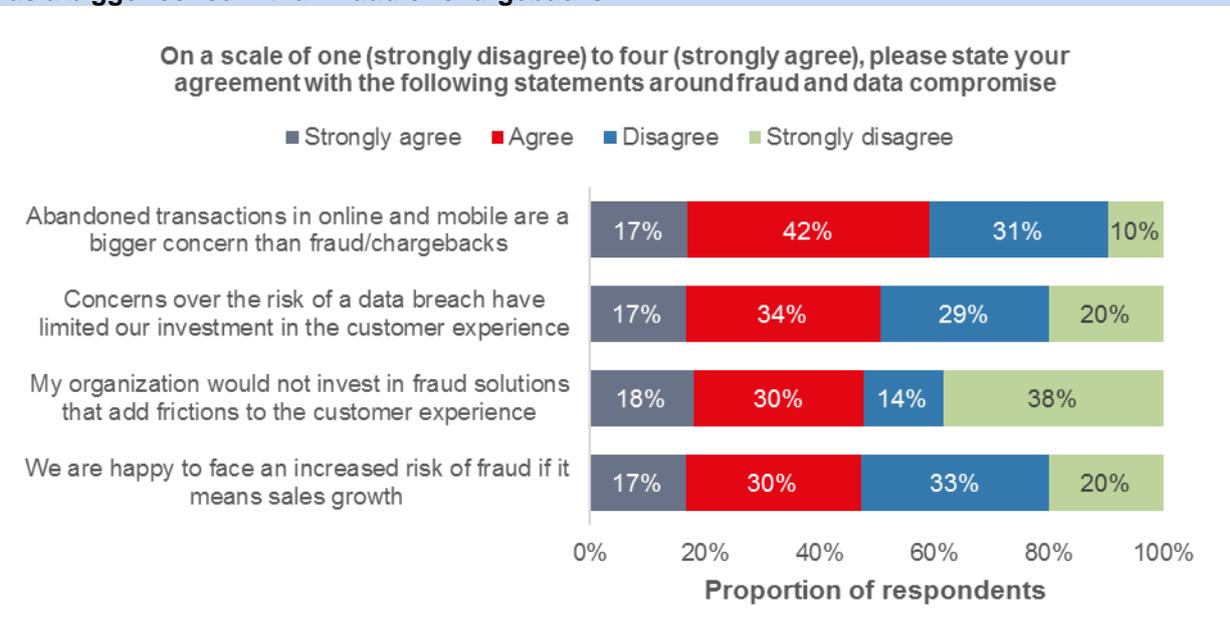
Nevertheless, managing fraud risk remains a fact of life for merchants and, while lowering exposure remains an important priority, there remain those that view losses and chargebacks as a cost of doing business.

Across all sectors, 59% of merchants see abandoned baskets as a bigger concern than fraud losses or chargebacks, with the retail and digital goods sectors (both 64%) most sanguine about the realities of fraud risk.

However, the need to manage fraud and protect customer data remains a serious issue and continues to be a barrier to innovation. Indeed, 51% of merchants report that these concerns have limited their investment in the customer experience, rising to 55% in the Americas.

Interestingly, the industry is split when it comes to managing the trade-off between implementing security solutions and the impact on consumers. Across all sectors, 48% say that they would not invest in fraud solutions that add friction, with retailers (54%) most keen to avoid reducing the quality of the user experience.

Figure 4: Across all sectors, 59% of merchants view abandoned baskets in digital commerce as a bigger concern than fraud or chargebacks



Source: 2018 Ovum Global Payments Insight Survey

Those merchants that have already modernized their payment architecture are enjoying the benefits

Delivering greater operating efficiencies is a clear priority for merchants, and implementing modern vendor solutions is becoming an increasingly effective way to achieve these objectives.

In addition to the direct cost benefits from payment infrastructure modernization (such as the replacement of duplicate systems and those requiring manual processes to support), improvements in adjacent areas such as reporting, compliance, and fraud detection can also be delivered.

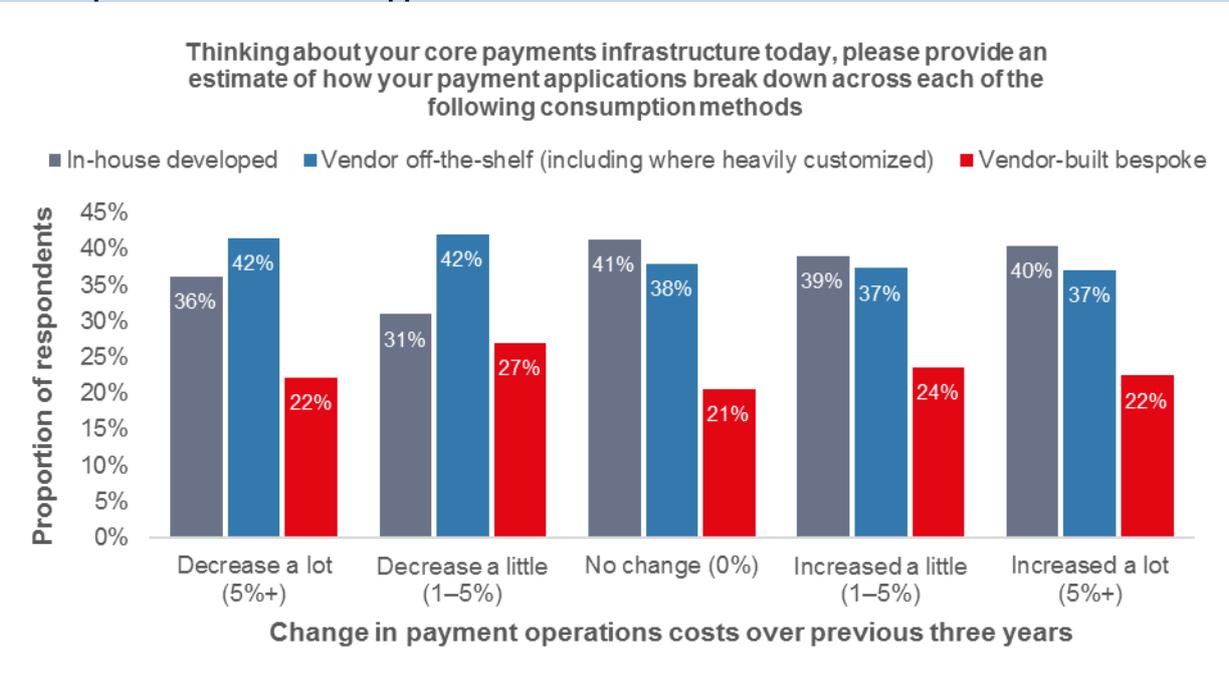
Those merchants that have seen reductions in their operating costs report the highest proportion of off-the-shelf vendor software in their core payment infrastructure. Indeed, of those who have seen costs fall by 5% or more over the past three years, off-the-shelf vendor solutions (including where customized)

account for 42% of core payment applications, compared to 36% that are in-house developed. The trend is reversed among those that have seen operating costs increase, with those that have experienced growth in costs of 5% or more reporting 40% of in-house applications and 37% off-the-shelf.

While this analysis shows only part of the full picture, it nevertheless highlights the benefits that are being felt by those merchants that have made the investment to modernize their payments infrastructure, particularly those that have implemented off-the-shelf solutions.

This highlights both the opportunities for those organizations yet to undertake significant modernization projects and the potential this creates for those that have made these investments to focus on delivering enhancements to the customer experience.

Figure 5: Merchants that have seen their payments operating costs fall run fewer in-house-developed and more vendor applications than those that have seen costs rise



Source: 2018 Ovum Global Payments Insight Survey

Taking advantage of real-time payments and open banking has become a high priority for merchants

Merchants are now considerably more positive about the opportunities of immediate payments than they were a year ago

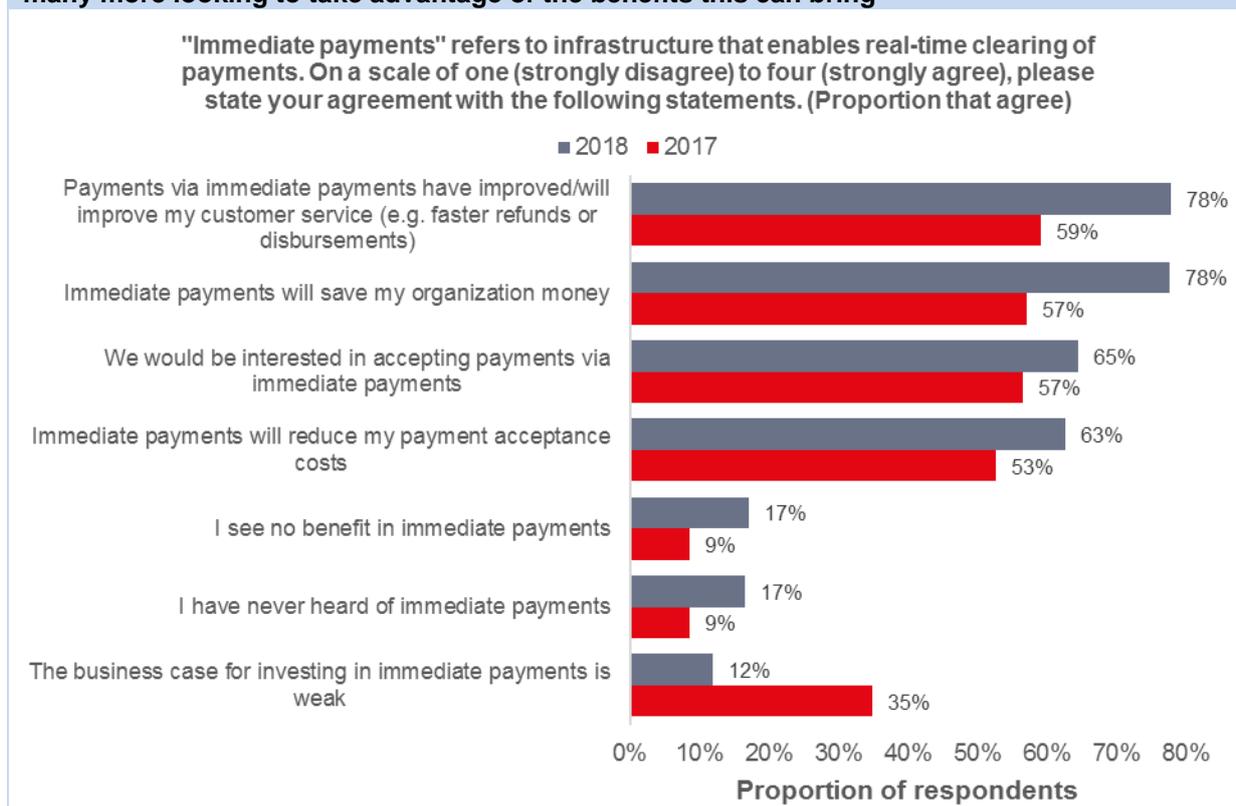
The steady progress in the global rollout of real-time payments (RTP) infrastructure, most notably the launches in the US, Australia, and the SEPA zone at the end of 2017, has driven a marked shift in merchant attitudes. Where it was perhaps seen as a financial plumbing issue, it is now more widely viewed as the key to delivering a series of operational benefits.

Of most interest is the potential for RTP to enhance customer service, particularly around refunds and disbursements. Across all markets, 78% of merchants now believe RTP will deliver improvements in this area, up from 59% in 2017.

Potentially more significant, given the focus this year on delivering operating efficiencies, 78% believe that RTP can help them lower costs. This has also changed sharply since 2017, when 57% held that view.

Clearly, awareness of the benefits of real-time payments is growing, and it is therefore no surprise that interest in accepting payments from customers via RTP is also increasing. Across all sectors, 65% report that they would be interested in accepting real-time payments, up from 57% a year ago. Merchants in the hospitality sector (68%) are particularly keen to have this capability.

Figure 6: Merchant attitudes to real-time payments have changed markedly since 2017, with many more looking to take advantage of the benefits this can bring



Source: 2018 Ovum Global Payments Insight Survey

The ability of real-time payments to enhance the customer experience is a clear attraction to merchants

The potential for real-time payments infrastructure to improve the customer experience, particularly in time-sensitive areas such as refunds and disbursements, is something that many merchants see as a clear potential benefit.

The ability to deliver payments back to customers in real time has advantages in several areas, not least in improving the process around reverse logistics in digital commerce, for example. Compared to pushing payments back through the card networks, there should also be important cost efficiencies that can be gained.

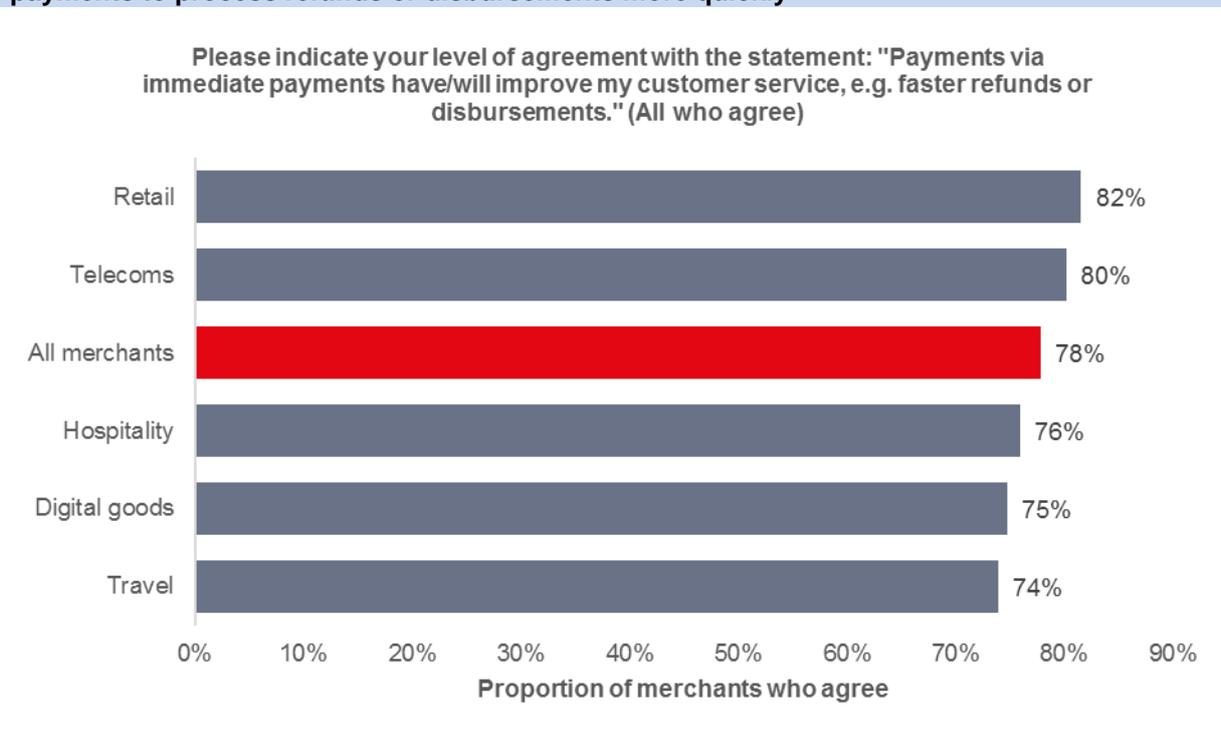
Given this, it is unsurprising to see that businesses in the retail and telecoms verticals – areas in which refunds can be particularly sensitive and costly – are the most positive,

with 82% of retailers and 80% of telecoms companies seeing the potential to leverage real-time payments to deliver enhancements to their customer experience.

At a regional level, it is merchants in Asia that are the most positive, with 82% having this view. This is led by those in India, Malaysia, and Thailand, where over 90% of merchants are seeing, or expect to see, benefits from real-time payments.

The US lags slightly behind the global average, which no doubt reflects the fact that real-time infrastructure has only recently gone live in that market. Nevertheless, the size and maturity of the US market makes this a potentially large opportunity for acquirers and processors to target.

Figure 7: The retail and telecoms sectors are particularly interested in using immediate payments to process refunds or disbursements more quickly



Source: 2018 Ovum Global Payments Insight Survey

There is also widespread agreement on the potential for immediate payments to lower costs

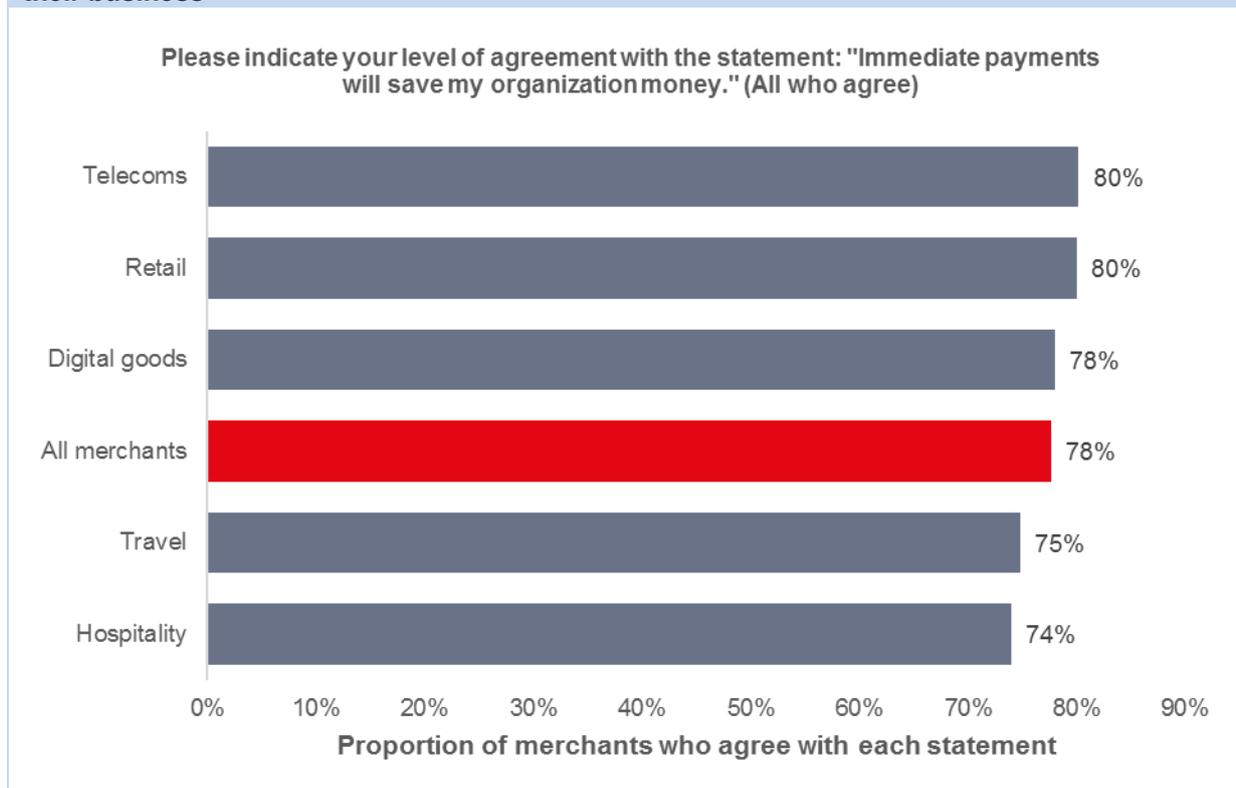
In addition to the customer service benefits that merchants are seeing or expect to see from real-time payments, there is also a strong focus on the opportunities to reduce costs.

There are many different areas in which real-time payments can deliver cost benefits for a business in any sector. Across the supply chain, for example, RTP can enable greater efficiency in liquidity management as well as the opportunity to negotiate more favorable terms with suppliers. A further example is in payments for short-term or temporary workers.

Given this, it is not surprising to see the largest merchants (those with revenues of \$5bn and upward) also seeing greater benefits from real-time payments. At a global level, 81% of large merchants expect (or experience) cost savings from RTP, with those in the telecoms (87%) and retail (86%) sectors most positive.

At a regional level, merchants in Asia (80%) and the Americas (78%) have a slightly more positive view than those in Europe (76%), but it is clear that there is broad global agreement on the cost-saving benefits of real-time payments.

Figure 8: Close to four in five merchants expect real-time payments to deliver cost savings to their business



Source: 2018 Ovum Global Payments Insight Survey

In the longer term, there is the expectation that immediate payments will come to replace plastic cards

While merchants expect to enjoy benefits from real-time payments in the near term, the longer-term impact is expected to be transformative for the retail payments landscape. At a global level, 77% hold the view that immediate payments will replace the use of payment cards over time.

While it must be remembered that this is something of an open-ended and long-term view, the concept of a large share of retail payment volumes moving to real-time payment rails is widely discussed in the industry today.

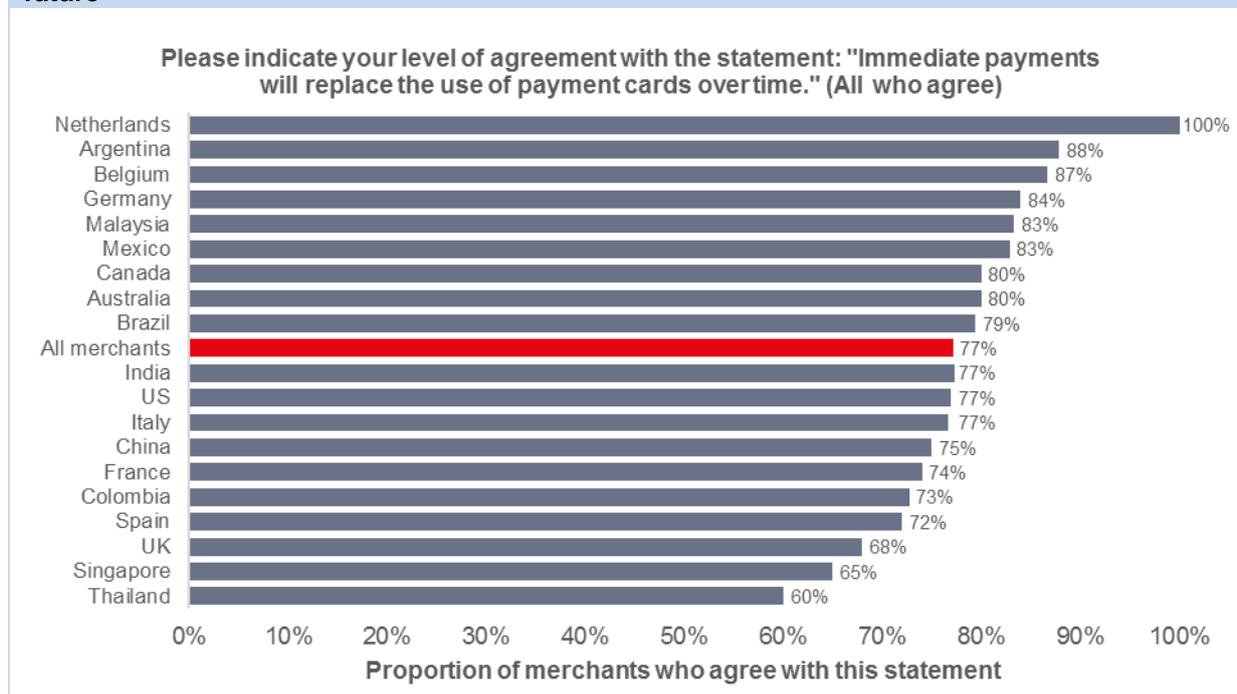
The potential for merchants to reduce card acceptance costs, and particularly chargebacks in e-commerce, makes this a potentially attractive proposition. While the payment services needed to make this happen do not have anything like the ubiquity of

payment cards, the success of online banking ePayment (OBeP) schemes such as iDeal in the Netherlands, and the developments taking place around QR code technology in Asia in particular, highlight the fact that there are proven technology solutions available.

There is little difference in the view on this topic at sector level, but there are wide differences by country. The Netherlands is the most emphatic, with 100% of merchants holding this view – perhaps not surprising given the success of iDeal.

Argentina, Belgium, and Germany all also score highly, and each sees relatively low levels of credit card use. However, most surprising is the US (77%), given the reliance on plastic cards in the market.

Figure 9: Many merchants expect real-time payments to eat into payment card volumes in the future



Source: 2018 Ovum Global Payments Insight Survey

Appendix

Methodology

For the 2018 Ovum Global Payments Insight Survey, Ovum and ACI Worldwide partnered to run a 22-question survey across a global panel of respondents, with a focus on retail banks, billing organizations, and merchants.

The aim of the survey was to understand the current attitudes, business objectives, and operational pain points facing each respondent company, in turn creating a unique viewpoint on the role that investments in payments technology will play in underpinning both the immediate and future objectives of each institution.

The main topics of focus for the survey include:

- IT investment plans around payment services
- Core business objectives and priorities
- Attitudes toward fraud and security
- Payment systems architecture
- Plans and experiences around both open banking and real-time payments

Fieldwork ran between December 2017 and January 2018, providing a clear insight into current thinking in the industry across financial institutions, merchants, and billing organizations such as higher education, consumer finance, and insurance.

This included a total 1,032 executive respondents across 13 industry sub-verticals in 19 countries, resulting in over 225,000 separate data points on current perceptions and investment plans around payments technology on a global basis.

This paper focuses on the survey findings for merchants. Those interested in finding out more detail about the global overview, retail bank, and billing organization findings are advised to visit

<https://www.aciworldwide.com/lp/payments-insight-2018> for further information.

In addition, any readers who would like to access the findings from Ovum's 2017 Payment Insight Survey on merchants can find that report [here](#).

Respondent breakdown	
Total respondents	604
Respondents by region	
Americas	250
Europe	104
Asia	250
Respondents by size (revenue)	
\$10bn+	51
\$5bn–\$10bn	30
\$2bn–\$5bn	85
\$1bn–\$2bn	87
\$250m–\$1bn	351
Respondents by vertical	
Digital goods	91
Hospitality	104
Retail	190
Telecoms	96
Travel	123
Example respondent job titles	
CIO, IT Director, Global Head of Payments, Head of Operations, Head of Retail	

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We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum's consulting team may be able to help you. For more information about Ovum's consulting capabilities, please contact us directly at consulting@ovum.com.

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