

A woman in a white lab coat is shown in profile, looking down at a tablet device she is holding. The image is overlaid with a dark blue semi-transparent filter.

# Next-Gen Payment Trends

WILL THE PANDEMIC  
ACCELERATE CONTACTLESS  
AND CASHIERLESS OPTIONS?

## NEXT-GEN PAYMENT TRENDS: WILL THE PANDEMIC ACCELERATE CONTACTLESS AND CASHIERLESS OPTIONS?

Payment is one of the most enduring sources of retail friction: even a pleasant shopping experience can quickly sour if the final moments of the transaction end up as a source of frustration. Providing the best experience possible means meeting customers on two fronts: making checkout as frictionless as possible, and ensuring shoppers can use whatever payment methods they prefer.

Cost to a retailer is one consideration — both in terms of the initial investment needed to set up new systems and the ongoing fees charged by payment providers — but like most aspects of retailing, enhancing the customer experience is paramount. To accomplish this, retailers need to understand which methods shoppers are using, and why, to ensure their needs are being met both in stores and on the web site and other digital channels.

“Payment cost is important, but probably just as, if not more, important is what it does to my conversion,” said Zil Bareisis, Head of Retail Banking at [Celent](#). “Does the system lead to more sales for me? It can be the fact that everybody has it, so all the consumers want to use it and it’s therefore definitionally accepted. Or it can be **just so slick and easy to use that customers know how that transaction goes through**, as opposed to another method where they get lost in the weeds and never come out.”

Customer expectations for payment options are slowly but surely changing, with several key formats and options entering the limelight:

- **Contactless Payments:** Credit and debit cards aren’t going anywhere, but shoppers are showing increased interest in digital wallets and other mobile options, which combine convenience, security and potential loyalty benefits for retailers;
- **Cashierless Checkout:** These tools are still finding their feet, but the best way to eliminate checkout friction is to eliminate checkout altogether — and they have data collection benefits for retailers beyond eliminating the checkout queue;
- **Alternative Payments:** No-interest financing plans and similar options can help shoppers make purchases they would otherwise put off, but retailers need to make sure such plans are a fit for their particular operations; and
- **Next-Gen Solutions:** Technology like biometrics can improve security and drive even more efficiency at checkout, and the lingering impact of the COVID-19 outbreak could push these options into the mainstream.

## THE COVID-19 CRISIS THRUSTS CONTACTLESS INTO THE SPOTLIGHT

Payment technology is developing along a number of fronts, but contactless solutions in particular may see a rapid rise in adoption as the industry emerges from the coronavirus pandemic. Shoppers will have spent months isolating themselves, and many will not be eager to touch devices that hundreds of other people have previously used once they return to stores.

While it's too early to say which options will gain the most traction in a post-COVID-19 world, several technologies already have a head start:

- **Contactless Payments:** Tools like mobile wallets and one-tap credit cards let shoppers check out at the POS as they normally would, but minimize their exposure to terminals that have been used by others;
- **Cashierless Stores:** Technologies like those [used in Amazon Go](#) shops can minimize shoppers' exposure to workers and also restrict the number of people allowed inside at once to enforce social distancing standards; and
- **Mobile Scanning:** Scan and go technology has been used by some retailers for years, but modern implementations let shoppers use their own phones as the scanner — eliminating the need for shared public devices.

# Proprietary Digital Wallets Can Be Loyalty Drivers, But Third-Party Platforms Offer Simplicity

Digital wallets are going mainstream, and with good reason: they let shoppers pay using their smartphones (something they had on hand anyway) and provide benefits for retailers such as loyalty program integration. However, a key question remains: should retailers develop their own digital wallets, or is the low cost of accepting widely used platforms such as Apple Pay and Google Pay a better option?

**Starbucks** is the poster child for a proprietary digital wallet: by combining loyalty and frictionless payment in one convenient place, Starbucks racked up **25.2 million** users in the U.S. (representing **39.4%** of proximity mobile payment users) as of October 2019, according to **eMarketer**. While the upfront cost of developing such a system is higher, a “closed” payment system gives retailers additional touch points with shoppers and access to more behavior data, among other advantages.

“The benefits of a combined system would be to own the entire context of the user experience, from browsing to shopping to buying,” said Zachary Aron, Leader of the Payments Group in the Banking and Capital Market Sector at Deloitte in an interview with *Retail TouchPoints*. “It also enables a retailer to offer a **tailored user experience and connect with the consumer even when they are not in the physical environment**. Additionally, the retailer has the potential to offer a further differentiated loyalty/buying experience.”

However, even retailers without the resources or desire to develop their own solutions can benefit from third-party digital payment options. Apple Pay alone has an estimated **30.3 million** users (representing **47.3%** of proximity mobile payment users), while Google Pay has **12.1 million** and Samsung Pay has **10.8 million**, according to eMarketer. This technology will only become more common, and most retailers are already equipped to accept it, whether they realize it or not.

“Sometimes retailers think that accepting some of these digital wallets, like Apple Pay or Google Pay, requires you to have something new and different,” said Bareisis. “Basically, **all you need is essentially contactless card acceptance capabilities**.” He added that the EMV regulations that went into place a few years ago mean most terminals can now accept contactless transactions, and that “a lot of issuers are now using contactless cards.”

## MOBILE PAYMENTS ON THE RISE IN THE U.S., PARTICULARLY AMONG YOUNGER SHOPPERS

- **2019 Proximity Mobile Payment Spending:** \$98.9 million (up 41.6% year-over-year)
- **Projected 2020 Proximity Mobile Payment Spending:** \$130.4 million (up 31.8% year-over-year)
- **2019 Average Mobile Payment Spend Per User:** \$1,545
- **Mobile Payment Users, Ages 25 to 34:** 21.2 million, accounting for nearly 50% of the demographic’s smartphone users

Source: eMarketer

# Cashierless Is About More Than Reducing Friction — It's A Treasure Trove Of Data

Cashierless store technology is slowly but surely advancing. Current options range from Amazon marketing its “Just Walk Out” technology to other retailers, as well as companies like **7-Eleven** experimenting with their own **proprietary options**. The avid interest in cashierless tech is unsurprising, as it represents what may be the holy grail of frictionless checkout.

However, cashierless stores currently present some serious challenges. The price tag on the necessary equipment and the current limitations of the solutions restrict the size of stores that can feasibly operate with these systems. Additionally, greatly reducing the number of associates in a store saves on labor but creates new loss prevention concerns. How and what payments will be accepted have become concerns as well — but the benefits of walk-in, walk-out shopping mean cashierless tech will only become more attractive as costs fall and best practices emerge.

There's a potential hurdle to the growth of cashierless stores: mandates to accept cash. “One of the biggest challenges is that cash is a viable option for purchasing,” said Aron. “Several municipalities have also passed regulations requiring merchants to accept cash as an option, especially as some demographics see this as their preferred method. However, one of the biggest benefits is that [cashierless technology] frees up retail space for additional merchandise and to offer a more personalized shopping experience.”

The advantages of cashierless stores don't end on the customer-facing side. The large number of sensors and cameras used in these solutions can turn shops into powerful data-gathering operations for both the retailers using them and the solution providers that get “field tests” of what is still developing technology.

“Another key factor that nobody really talks about is data collection — the ability to track the habits of customers,” said John Pistone, Executive Director, Strategy and Business Development at **Toshiba Global Commerce Solutions**. “If you look at Amazon, they want to sell this to other retailers, and that is a pure data play. Having more data helps them make their systems better, and now they know exactly what their competitors are selling. A retailer now can collect this data and they can create some insights, see how customers flow through the store and so on.”

# Alternative Payments Are Attractive To Younger Shoppers

Alternative payments such as deferred payment plans are gaining popularity, particularly among younger shoppers, and retailers need to take note of this trend. Deloitte's Aron pointed out some of these solutions' benefits:

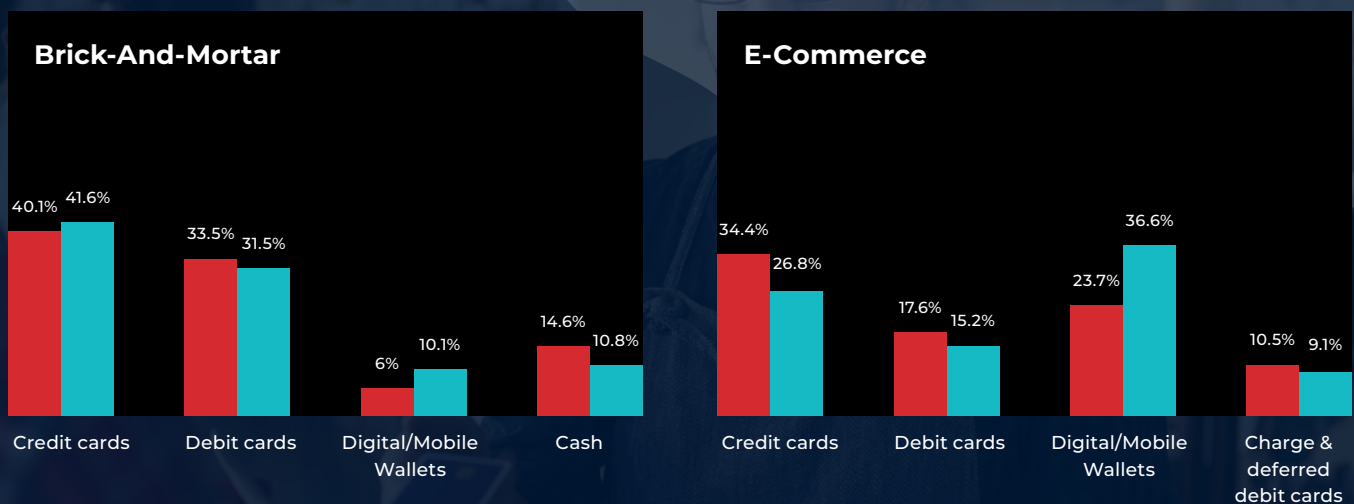
- They appeal to shoppers who are either more averse to traditional credit products or **have not been able to qualify for those products**;
- They can enable **faster decision-making on purchases at the point of sale** by making larger baskets more affordable; and
- They open up options for **mobile/online enrollment** that may not be available through traditional channels.

Retailers interested in these options should look at their primary customer demographics, typical transaction size and potential for driving recurring businesses, according to Aron. As with any system there are fees associated with these programs, but in general the delayed payment providers take on the risk of making what amount to short-term interest-free loans. Additionally, retailers are finding that they can be a powerful sales driver under the right circumstances.

"I read a statistic that said **33%** of Millennials would rather bank with a trusted retailer than a financial institution," said Pistone. "They would rather keep their money in a Starbucks wallet than keep it at Bank of America, because Bank of America often doesn't pay interest anymore."

## NORTH AMERICAN PAYMENT TRENDS, 2019 VS. 2023

2019 2023



# COVID-19 May Accelerate Contactless Adoption

The coronavirus pandemic could spark increased interest in contactless payments like digital wallets and cashierless stores, as people try to avoid touching devices others have used. Several credit card companies have already stopped requiring signatures on almost all card purchases, no matter the dollar amount, according to [The Wall Street Journal](#). Similarly, shoppers can now make larger contactless purchases in many parts of Europe.

“One of the immediate effects is that, where it’s still possible to shop physically, I think people are flocking to more electronic ways of doing it,” said Bareisis. “Many countries in Europe have raised the contactless limits so that you can do more with just tapping your card rather than touching the terminal. You don’t even have to type in your zip code, so that you minimize the contact with equipment that might have been used by multiple people.”

Technologies such as biometrics may have been metaphorically waiting in the wings for many years, but changing behavior could be the impetus retailers need to try them out on a larger scale. Amazon was reportedly experimenting with letting shoppers check out through contactless hand scanners at **Whole Foods**, and similar options would let shoppers use their own devices rather than a shared terminal.

“People are going to say, ‘Hey, I don’t want to touch that PIN pad anymore,’” said Pistone. “Think about what’s going on right now. People don’t even want to be in the store, so anything contactless is going to be seen as a positive. Or, perhaps you can go another way and say, ‘I’m going to send something to your phone,’ and you can authorize with a thumbprint on your personal device. That eliminates the need for a shared biometric reader.”

Even if the immediate desire for contactless methods fades, convenience will be the defining characteristic of next-generation checkout tools. Both Deloitte and Celent shared two important considerations for retailers:

- **Is it what shoppers want?** Any system adopted by retailers should be as fast and seamless as possible, but it should also match shoppers’ demands — for example, a retailer with an older customer base is less likely to benefit from a mobile-focused checkout tool.
- **Is it secure?** Shoppers across generations want to know their identity and payment information is secure, which is a particularly important consideration for retailers that want to develop their own digital wallets or payment plans.

Regardless of which technologies take off and which are left behind, retailers must adopt their next payment tools with both cost and convenience in mind. Even a great solution may fall flat if it eats into the bottom line or doesn’t simplify the checkout experience, so retailers should weigh their options and act accordingly.

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