

PAYMENTS TECH GUIDE:

HOW TO KEEP UP
WITH DEMANDS
FOR CONVENIENCE,
CONTACTLESS
AND BNPL

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TECH GUIDE



INTRODUCTION

Physical currency is in no way obsolete, but cash as a payment method appears to be on its last legs: an estimated **28%** of U.S. transactions were cash-based in 2020, compared to **51%** in 2010, according to [The McKinsey 2020 Global Payments Report](#). Credit card use is holding steady for now, but the future lies in a range of tech-enabled options ranging from digital wallets to store-based credit lines. While shoppers have been headed down this path for years, this payments shift is another case where the pandemic accelerated the pace of adoption.

"I think it's really straightforward: if you look at any technology, in general the biggest hurdle is getting people to think about a different way of treating something," said Jay Klauminzer, CEO of [Raise](#) and former Associate Principal at [McKinsey & Company](#). "I think in the case of payments, all demographics wanted to avoid paying cash or using the terminal, so they started to use their **Apple Pay** and other wallet apps. Once they noticed how quick they are, how easy they are and how rewarding most of them are, **we reached the point where the trials have happened and most people are never looking back.**"

With digital wallets finally hitting the mainstream, now is the time for retailers to put these and other new technologies front and center, or risk being left behind. This *Retail TouchPoints* Tech Guide will look at the many factors merchants must consider to ensure they implement the right payment systems for their needs, including:

- **As always, convenience is king:** The POS is the customer's last experience on any given trip, so any friction or delays felt here will be magnified — and implementing the right payment procedures can increase comfort and speed up the checkout process;
- **Security is still top of mind:** Shoppers are eager to try out modern payment methods, but they need reassurance that their information is being kept just as safe under the new technology, while retailers still need to keep fraud potential to a minimum;
- **Match the payment method to the purchase:** Payment methods like buy now, pay later (BNPL) and loyalty app-based payments can enhance convenience and grow basket sizes, but only if they match the size and nature of the purchase; and
- **Omnichannel is everywhere, including payments:** The blurred line between online and in-store shopping is reaching payments as well, and retailers that can share customers' preferences cross-channel will be positioned to deliver incredible convenience.

CONVENIENCE IS CRITICAL, BUT ITS MEANING IS ALWAYS CHANGING

Safety may have been the catalyst, but their convenience means contactless payments are here to stay: **65%** of global consumers would prefer to use contactless payments as much as, or more than, they are currently in the post-vaccine environment, according to the [Visa Back to Business Study](#). In comparison, just **16%** of shoppers say they would revert to their old payment habits once a vaccine becomes widely available.

Something to keep in mind when perfecting a POS strategy is that the definition of convenience is a moving target. While this always comes down to helping shoppers check out as quickly and easily as possible, their expectations are always evolving alongside payment providers' capabilities. Right now this means contactless, but preferences can and will change in the future.

"All the major credit card companies have contactless cards where you hold up your card to the reader but don't have to touch it — I think that's the first wave," said Klauminzer. "The second wave has already started, where people are taking out their phones and paying with them, so they don't need their wallets. **I think the next wave is going to be years down the line, and it's all about being entirely frictionless.** It will be something where you walk in and walk out, and they know exactly who you are."

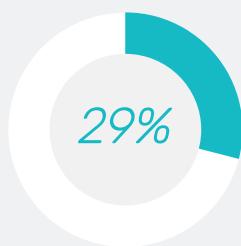
Retailers need to keep their fingers on the pulse of not just their customers, but the payments industry as a whole. Being ready to implement the latest and most efficient payment options ahead of your competitors can simultaneously drive convenience and ensure that the early adopters among your customers are getting the exact experience they want.

EDUCATION IS IMPORTANT FOR PAYMENT ADOPTION

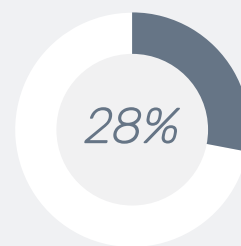
Shoppers are embracing contactless payment methods, but many are still unsure about how to use the new technology — even its applications with traditional credit cards, according to data from American Express. Some points where retailers may be able to help with education (and therefore adoption) include:



34% of shoppers didn't know how to tell if a card was contactless capable;



29% said they didn't know how to use a contactless capable card; and



28% said they didn't know where to use a contactless capable card.

Source: [The U.S. Payments Forum](#)



NEW PAYMENT METHODS CALL FOR NEW SECURITY MEASURES

New payment options are exciting, but they must be matched with equivalent improvements to security standards. Shoppers are comfortable with the protections a credit card offers, but not everyone will understand the safety procedures protecting a digital wallet. Assuaging fear is particularly important with ecommerce: more than four in five (**82%**) customers are now taking additional steps to protect themselves from fraud due to increased online shopping, according to Visa.

“Retailers want to ensure that they’re working off of a trusted framework,” said Jason Bohrer, Executive Director of the U.S. Payments Forum in an interview with *Retail TouchPoints*. “I think what has been established with the transition to EMV is that a lot of it is probably taken for granted today [by consumers]. However, I know for people within the space that [security] will continue to be a focus point. A lot of fraud has been combated at the POS terminal through this EMV transition, but there are still opportunities to try and decrease that as we look at online fraud.”

Bohrer pointed out two modern security tools that should be in place to help ensure the safety of payment data across channels:

- **3D Secure:** This measure requires customers to complete an additional verification step with their card issuer when making a payment. Typically this involves going to an authentication page on the bank’s website and entering a password associated with the card or a code sent to the shopper’s phone.
- **Tokenization:** The process adds another layer of security by taking vulnerable payment information and replacing it with an algorithmically generated number called a token. This keeps the customer’s actual data safe while the token is transferred to its end point, where the data can be unencrypted with the right key.



ALTERNATIVE PAYMENTS ARE GREAT, BUT NOT FOR EVERY TRANSACTION

Alternative payment methods have been garnering interest for a number of reasons, including the financial strains caused by COVID-19. BNPL usage alone rose **78%** in 2020 to account for **1.6%** of ecommerce spend, according to **data from FIS**. While this represents a significant increase on a percentage basis, BNPL remains a small piece of the pie overall, and with good reason: it's mainly attractive for large purchases.

"Consumers only have so much to spend," said Klauminzer. **"They're not going to make too many purchases with BNPL if it would otherwise drive up their credit debt."** I think, at least in the shorter term, it's mainly going to get people to buy a **Peloton** or one of those bigger purchases they otherwise wouldn't want to put on their credit card."

That's not to say BNPL will forever be relegated to furniture, high-end electronics or other big-ticket items. In particular, among at least one demographic BNPL is more likely to drive basket size increases, and that's millennials. Klauminzer noted that this generation's demand for instant gratification means they often want to make purchases that are just one or two paychecks away from affordability, so interest-free financing becomes quite attractive.

Another attractive option is tying payment preferences into a loyalty program, as **Starbucks** does. This can build loyalty and boost convenience to an incredible degree, but getting an app onto a customer's phone in the first place is a tall order. In order to succeed, the loyalty program needs to be something that will be accessed almost daily, and it also should provide benefits above and beyond a normal rewards program.

"It's going to come down to how retailers can get something similar when it comes to programs," said Bohrer. "The more creative they can get with the rewards they offer to their customers through this program, the more traction that they'll get, potentially, with their own individual apps."



MOBILE PAYMENTS ARE THE FIRST STEP TOWARD AN OMNICHANNEL FUTURE

The holy grail of retail payments is a seamless connection between online and in-store methods, with retailers saving shoppers' data across multiple touch points so that they can check out seamlessly no matter where or how they shop. This may be the crowning achievement that enables true frictionless checkout, and it can improve the traditional checkout experience as well. Mobile may serve as the intermediate step, letting shoppers save their preferences on their phones, where they can be retrieved with the scan of a QR code.

It's also possible that the connection between ecommerce and brick-and-mortar purchases takes another path altogether. Digital wallets are gaining ground across all channels, meaning shoppers take their payment information with them as they go. This could save retailers some work, but that doesn't mean they can afford to ignore the groundwork that will be necessary if the technology follows a different path — and if the frictionless store of the future doesn't even require a phone, as demonstrated with **Amazon's Just Walk Out tech**, some retailers may find themselves hopelessly far behind.

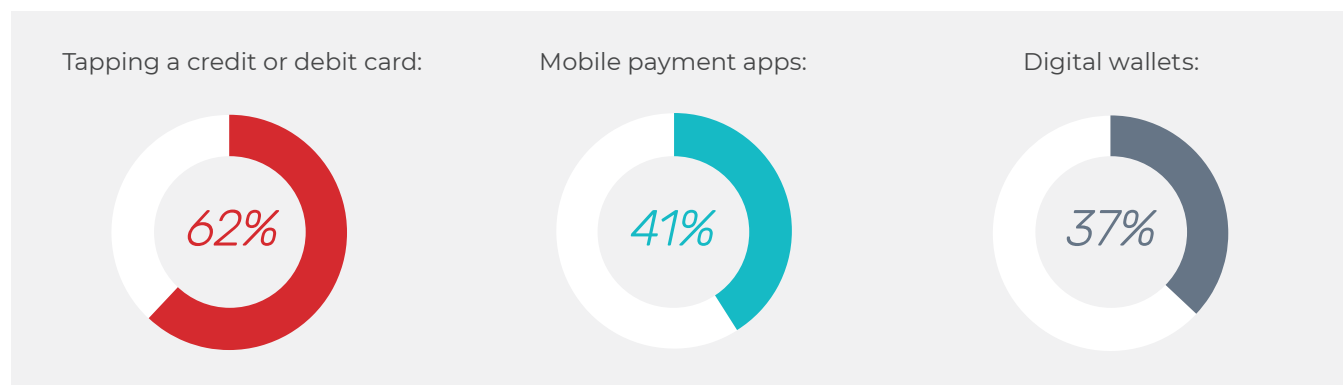
The key, no matter how payments evolve, is to make sure you're offering shoppers the right solutions for their needs. There are many ways that payments could change in the future, and no way for anyone to predict which trends will take off, so in the meantime retailers need to keep an eye on all the possibilities and determine which ones are most appealing to their customers.

"There's a lot of data available at their fingertips through the POS information they have in-store and online," said Bohrer. **"It's really a matter of taking the time and putting the energy forth to analyze the data,** and figuring out what trends are resonating with the consumer, and then just adapting from there."

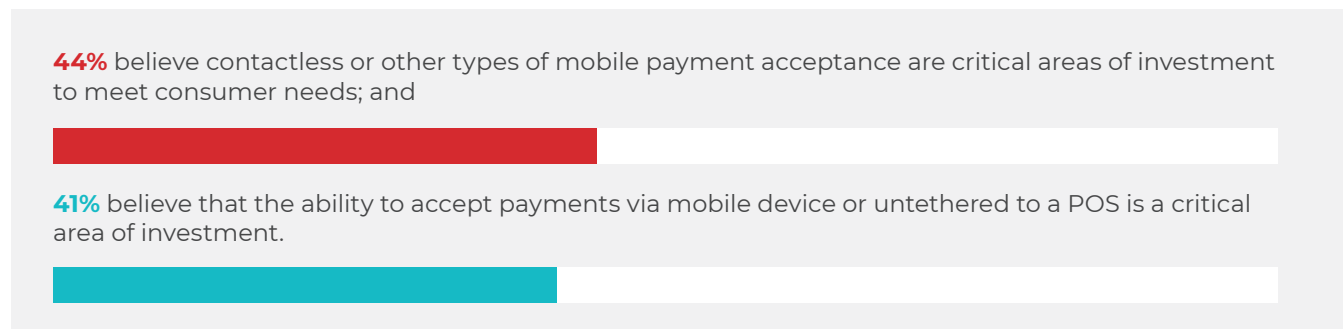


DIGITAL PAYMENTS ARE FINDING A HOME AT THE POS

More than four out of five (**85%**) of shoppers expect retailers to have digital payment options available at physical POS. The most popular options include:



Small businesses are listening to consumers' needs and rising to the task:



Source: Visa Back to Business Study

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