Retail Systems

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E-commerce in-depth

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The evolution of alternative payments

Technology is racing to keep up with customer demand for speed and simplicity at the checkout, with competition driving innovation in the sector

The ways shoppers can pay have evolved significantly in the last few years, from contactless cards and mobile wallets, to new forms of financing and flexibility at checkout; but where does the industry go from here?

As more technology providers work with retailers to upgrade their systems in-store and online, consumer expectations continue to rise around using their data to improve personalisation of offers and payment options.

Demographic differences

Analysis from consumer perception research service YouGov BrandIndex in July revealed that 37 per cent of Generation Z's (those aged 16-24) think access to online shopping has made them more impatient while shopping in-store, while 41 per cent of those aged under 40 prefer to shop online rather than in-store, due to a combination of convenience (81 per cent), cost (63 per cent), lack of queues (64 per cent) and choice (61 per cent).

In 2017, card payments overtook cash as the most frequently used payment method in the UK, but the study found that over 31 per cent of British consumers would prefer to use alternative methods of payment, including fingerprint scanning (26 per cent), retina scanning (16 per cent) and embedded microchip payments (nine per cent).

Although technology may be a cause of the rising level of impatience, it also looks to be the solution, as 46 per cent of Gen Zs feeling that 'smart' tech within in-store would improve their experience.

A survey commissioned by RetailEXPO in January, and carried out by OnePoll among 2,000 UK consumers, also found that with queues remaining the biggest in-store issue for over half (53 per cent) of shoppers, a quarter (23 per cent) of consumers demanded in-store payment technologies replicate 'one-click' online checkout.

Self-checkout or scan and go capabilities, where consumers automatically paid for scanned items as they leave the store, were the most popular alternatives that would improve customer experience for 52 per cent of shoppers.

Choice of payment methods also proved a key consideration, with 42 per cent of consumers now wanting retailers to accept mobile wallet options or digital currencies, such as Bitcoin.

But while appetite for new payment methods is growing, the affinity for card transactions isn't shifting. Even if mobile payments were more widely accepted, 46 per cent of shoppers would still use bank cards.

The research suggested this may be due to ongoing security concerns around mobile payments, such as ApplePay or SamsungPay, with 61 per cent of respondents saying they are still worried about fraud.

The mobile future

Despite this, GlobalData market analysis in May predicted that the mobile channel will account for over 40 per cent of online expenditure by 2024, with spend increasing by £17.1 billion over the next five years to reach £33.2 billion by 2024.

Sofie Willmott, senior retail analyst at the consultancy, commented: "Retailer investment in mobile-optimised sites and apps, alongside advancements in technology and the surge in social commerce will all contribute to significant mobile growth over the next few years."

The report found that 80.2 per cent of online shoppers under 35 have purchased using their smartphone, encouraged by key players such as Amazon, ASOS and H&M enhancing their browsing experience with things like wish lists and visual search, alongside seamless purchase options.

Andrew Westbrook, head of retail at audit, tax and consulting firm RSM, agreed: "There's been rapid growth in mobile payments adoption – I think Visa data recently put the figure at over 90 per cent of Millennials using their phones to pay for things."

He explained that many retailers have been able to build up cash on their balance sheets, and much of that has been spent on technology projects in recent years.

Slow takeup

Andy Mulcahy, strategy and insights director at IMRG, said that while there is a growing range of options available - with some being marketed quite prominently - he was not sure whether they have reached the point where uptake is significant.

"We recently looked at the split of payment revenue by method for a group of retailers and the three dominant methods are Visa, MasterCard and PayPal.

"With the odd exception, none of the other methods were accounting for notable shares of the revenue," he continued. "There is one caveat to that; not many of the retailers could provide the full 100 per cent view of the split, so there was generally a percentage of sales where they don't have visibility of the method used."

Mulcahy opined that while people always say they want options and choice, in reality they tend to stick to what they know and like.

"I can't see why anyone would want to pay alternating between five different methods, so it isn't about giving people endless choice, more just understanding what their preferences are and personalising the experience so they don't have to make the selection each time."

Retail spend is expected to increase by $6 trillion globally between 2018 and 2023 - taking total spend to $30 trillion - with growth driven by a combination of alternative payment mechanisms and online spend.

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This is according to Juniper Research, which noted that stakeholders face a host of competitive and regulatory challenges if they are to take full advantage of the opportunity. The market is led by Klarna, which has cemented itself as the fastest-growing alternative payment option in the UK and is currently the largest privately owned FinTech in Europe, valued at $5.5 billion.

Reducing friction at the checkout remains a key hurdle, with online cart abandonment rates high, while in many markets in-store spend will plateau or even decline; increasing the likelihood that major retail chains may have to scale back their physical presence even further.

Juniper suggested that cart abandonment rates can be reduced by a combination of measures, including implementation of card-on-file, one-click payment solutions, as well as ensuring that both popular local payment currencies and checkout procedures are on offer.

SCA delay

In August, the Financial Conduct Authority finally confirmed that with a month to go until implementation of the Strong Customer Authentication (SCA) rules, an 18-month extension had been agreed to let retailers, payments providers and card issuers prepare for the wide-reaching changes.

Part of the second Payment Services Directive (PSD2) regulations being implemented across the European Union, SCA is defined as security authentication based on two or more elements - knowledge (something only the user knows), possession (something only the user possesses) and inherence (something the user is) - that are independent, so that the breach of one does not compromise the reliability of the others, to protect the confidentiality of payment data.

A report in July from the Emerging Payments Association, which spoke to 13 major UK issuers, found that 58 per cent thought too much friction was being imposed on the payments experience by the new regulations.

Once implemented, issuers predicted that in the short term the number of transactions declined will increase from today's three per cent to between 20 and 30 per cent, while the number of authorisation requests is expected to range between a third and half of all online transactions, meaning increased friction and abandoned baskets for e-commerce sites.

Mulcahy commented that the SCA delay is welcome, "as times are very tough in retail at the moment and the last thing they need is a drop in conversion as people get confused at the checkout".

However, he continued that as retailers are heading into the peak period, "this extension may just lead to another period where nothing really happens then it's a panicked rush as we approach the next deadline".

Why ROE - return on experience - is the new ROI for retailers

Luke Griffiths, general manager at Klarna UK

Customer loyalty isn't what it used to be. Gone are the days when it centred on providing shoppers with a rewards system where they could collect loyalty points. Today's conscious consumers are loyal to brands who can offer a deeper connection and understand how they want to shop.

Our latest research - a survey of over 2,000 shoppers and 250 retail decision-makers - shows shoppers crave things like human engagement, brand values they can align with and flexible payment options. What's more, a third of consumers told us that shopping isn't as fun as it used to be, while 36 per cent felt that what they've gained in convenience, they've lost in experience.

And with 40 per cent revealing that just one bad encounter would stop them returning to a brand, the role of experience has never been more important for retailers to get right. This demand for perfection is being felt by retailers of all sizes – with three quarters saying that they have to work harder to retain customers and 41 per cent recognising that loyalty is no longer driven solely by rewards and discounts.

But what should retailers focus on to secure customer loyalty in a competitive retail environment and ensure shoppers keep coming back for more?

Prioritise personalisation

Personalisation can be simple or complex, but one thing's certain: shoppers like to feel special. So to engage customers, retailers must do more than simply recommend the latest must-have jeans. From sending personalised emails based on customer activity and only showing size-specific products online, to offering the payment or delivery options that customers love best – the opportunities are big.

Retailers need to remember the fine line between being personal (which is experience-enhancing) and too personal (which can be overwhelming). For instance, while a quarter of shoppers value a personalised checkout - especially when a brand remembers their previous payment methods - 41 per cent don't want brands to bombard them at every stage of their shopping experience.

With this in mind, it's key that retailers take a detailed look at what's working for their customers and adapt their offer accordingly. Why? Because retailers with a thoughtful, innovative approach to online shopping can deliver on the consumer desire for personalisation alongside increasing engagement and winning customer loyalty.

Let them try before they buy

Payments have become a key differentiator in customer experience with shoppers increasingly demanding a flexible, fast and seamless transaction. A quarter of consumers say flexible payment options would encourage them to shop again, while 22 per cent say flexible payment options would make them more likely to buy more with a brand.

We know that success depends on making the checkout as seamless and pain-free as possible.

Giving shoppers the option to either pay in interest free instalments or letting them see their purchases before they buy, is proven to increase conversion, overall sales and loyalty for retailers.

Shoppers love the financial control it gives them without needing to sign-up to a longer-term commitment. And for fashion fans that don't want to miss out on trending, must-have items – they can buy them immediately without having to pay upfront. It's this choice and control that will help boost overall experience and keep customers coming back – especially as a third say a long and awkward checkout process makes them disloyal.

Remember: one size doesn't fit all

Last but not least, retailers must understand that their customers aren't all the same.

Their needs and priorities differ according to age, gender and preference. By taking a closer look at our research, we can see that Millennial and Generation Z shoppers care less about value for money where drivers of loyalty are concerned (50 per cent), than 45-55 year olds (65 per cent). What Millennial shoppers value more are things like flexible payments options (30 per cent) and brand image (20 per cent). This highlights the importance of getting to know your customers better in order to give them the personalised shopping experience they crave.

To sum up: experience is the new loyalty, however this doesn't have to be complex or costly to be ground-breaking.

Today's consumers want to align themselves with brands that can offer them a deeper connection and understand how they want to shop — whether that is payment options that fit with their lifestyle or greater personalisation. In the battleground for today's consumer, it's the retailers that put experience first who will secure their customers' trust and loyalty and come out ahead of competitors.