PAYMENTS IN RETAIL: RINGING UP THE CHANGES

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FOREWORD

The retail world is undergoing rapid shifts as customers change their habits and simultaneously, brands and companies rethink how they service them. Cutting edge technology has the potential to change every element of the instore and online experience, and retailers are faced with an unprecedented myriad of choices about how they choose to take payments. This report considers the opportunities and challenges ahead for retailers as these transactional shifts get underway. As one of the world's largest card payment processors, we are committed to helping our customers navigate the complex and changing world of new payment methods, to help them grow their business and find the solutions that are right for them. Our research is designed to shine a light on the likely evolution of the market, so that retailers can futureproof their businesses by putting the right technology in place today. We hope that you find this insight helpful.

Chris Davies
Managing Director
Global Payments

A DECADE IN RETAIL

The past decade has brought unprecedented change to the retail world. Most significantly, the rise of online has turned traditional customer shopping habits on their head, generating intense competition for bricks and mortar retailers by lowering costs and decreasing high street footfall – but simultaneously creating huge opportunities for new and existing market participants.

Against this backdrop, the way retailers take payments has also been shifting, both in line with changing consumer habits and emerging payments technologies. Indeed, the way customers pay could play an underrated role in the future fortunes of major retail brands, particularly as they come to leverage technological innovations in ways to pay.

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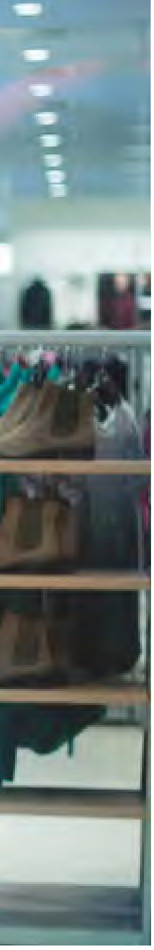
Broadly, customers are increasing their use of plastic and decreasing their use of cash. According to our data, there was a significant increase in UK card spend between 2012 and 2013 of £1.6bn. This has been corroborated by a study from the British Retail Consortium (BRC), which showed that the usage of cash has decreased by 14% over the past five years. In 2013, only £27.60 in every £100 spent at retail outlets was paid in cash.



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Increasing use in Conta

Average transaction values for cards are also falling, likely due to the introduction of Contactless payments. According to our data, average transaction values for card payments in retail stores has decreased by 85p, which can be attributed to the increasing use in Contactless for purchases. Contactless is gaining pace as customers become more comfortable with the payment method. Another finding from the BRC study was that during 2013, the number of manned terminals with the functionality to accept Contactless reached 35.3%, a 53.3% increase on the previous year. This greater availability, if it is supported by an increased educational effort from retailers, has the potential to continue the momentum for in-store use of Contactless. Overall, the increase in the number of card transactions in retail stores between 2012 and 2013 was 12 million, according to our data, and the amount spent rose £275 million.

The explosion in online shopping has also figured in the rising use of cards. Our data showed that the average transaction values in e-commerce rose £7.27 between 2012 and 2013. Unsurprisingly, mail and telephone orders are dropping as the popularity of the online channel grows – average transaction values fell £2.34, as did overall volume. Retailers are paying increasing attention to every aspect of their e-commerce offering – in particular integrating payment portals into their sites to enable customers to pay quickly and securely, reducing the chances of abandoned baskets.

The security issue has risen to the forefront of consumer minds in recent years as cyber criminals develop increasingly advanced methods to steal cardholder data in large volumes which is processed online or through terminals. Target, the US retailer, suffered a high profile breach of up to 70 million of its customers' data in December 2013, which continues to affect its brand reputation and share price. This has put both customers and major retailers on high alert around protecting their data, with cardholders seeking reassurance from the companies they transact with, especially online, that their details are safe.

With a few notable exceptions (principally low cost, high volume retailers) most brands have established an ecommerce portal to meet consumer appetite for omnichannel shopping, as well as attract additional revenue with minimal overheads. We no longer see a divide between "face-to-face" and "online" customers – virtually all of the merchants we work with have some form of e-commerce offering in addition to a physical store, and we are seeing growing numbers of online-only merchants of all sizes.

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Where these two are increasingly converging is with the development of sophisticated instore retail technology connected with online offerings. So, for example, a tablet can be used in a fitting room to show the customer matching accessories, alternative colours or other sizes. With the integration of payment technology, the tablet becomes a terminal, allowing the customer to order directly for home delivery for example, or where items are out of stock in store. This presents exciting opportunities for retailers to increase sales and reduce queues associated with traditional desk-based terminals. In recent years, we have increasingly seen forward-looking fashion retailers integrate tablets into their flagship stores to showcase more of their range and facilitate payment and delivery. This has the potential to transform the customer experience instore. Tablet terminals can be placed at stages throughout the store to maximise sales, and in time we may even see them replace traditional desk-based terminals entirely, thanks to their flexibility and interactivity.

As the technology becomes more affordable and ubiquitous, this is bound to become more widely-used – equally, the use of tablets is intuitive among the up and coming generation of younger shoppers.

However in regards to using mobiles and tablets to pay, uncertainty persists around compliance with the Payment Card Industry Data Security Standard (PCI DSS), a set of rules designed to ensure that all companies that process, store or transmit credit card information do so securely.

Depending on how the retailer uses the mobile device instore, either as a device for taking payment or as an access point to their website to take orders, there are issues around the level of compliance and security of the cardholders' details.

At the moment there are no hard and fast Schemes rules around the growing trend of e-commerce transactions in a face to face environment, however they will catch up. And the pertinent issue to keep in mind is that these transactions mean you are broadening your scope for PCI Compliance. You may also be at higher risk of chargebacks due to the PIN not being entered for such a transaction, as well as the potential to be paying higher interchange rates due to the purchase taking place as an e-commerce transaction.

If retailers are to take full advantage of the huge opportunities presented by mobile and e-commerce, these issues will need to be resolved.

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The younger demographic is not the only growing customer segment in the retail environment. Growing globalisation has driven a strong rise in the number of international visitors coming to and spending money in the UK. In tandem, e-commerce creates an opportunity for retailers to sell their products to a huge international customer base for the first time.

What has been fundamental to this process is the technology that enables retailers to accept international cards. Many different geographic regions run their own domestic card networks, such as Discover in the US, and China's UnionPay which have historically not been accepted in the UK. However, with improving partnerships between card networks and the development of new terminal technology, international visitors are increasingly able to use their cards in the UK.

This has been extremely profitable news for retailers as these visitors are spending a significant amount on their domestic cards. Our data shows that between 2012 and 2013, there was a 13.2% increase in the number of sales on international cards and an increase of 16.7% in spending. For European cards, the number was 26.7%, and spending grew by 16%. By contrast, UK sales grew by only 3.7%.

This gives an indication of where retailers may wish to focus efforts to capture a share of growing international spend. Positioning themselves to accept the greatest number of cards possible is one way to achieve this. A panoply of card types can now be accepted here in the UK, from China Union Pay to India's RuPay. In addition, recent developments in terminal technology are facilitating payment for international visitors. For example, dynamic currency conversion (DCC) allows cardholders the choice to pay in their domestic currency, displaying what their card will be charged on the terminal. Tax free shopping also allows them to identify tax amounts for rebate directly at the terminal. Such innovations are likely to increase to cater to the needs of the growing contingent of international visitors with money to spend on British brands.

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While accepting as many cards as possible is generally positive news for retailers, for many merchants, the interchange fees set by issuing banks remain a concern. The European Union's intention to cap fees has been welcomed by many retailers who argue that it is unfair for them to absorb the higher costs involved with premium cards for example, and that the costs imposed have for too long remained prohibitively expensive.

As both online and traditional retail outlets continue to benefit from the ongoing economic recovery, the technology they choose to accept payments will play an interesting role in how they engage with their customers. While 2015 could be the year that emerging technologies come to the fore for major brands, creating exciting opportunities, there will also need to be caution around protecting consumer data and management of EU regulatory uncertainty.

ABOUT GLOBAL PAYMENTS

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Global Payments, a Fortune 1000 company, is one of the largest card payment processors in the world, with offices across the UK, America, Canada, Asia Pacific and Europe. We work with companies of all sizes, from large multi-nationals to owner-managed businesses to maximise sales through payment card processing. Our focus in the UK is on meeting the needs of customers with up-to-date card processing technology, whether face to face, online or over the phone. We support our customers to attract the growing overseas market with a range of services including international card acceptance, enabling visitors to pay in their own currency and tax free shopping.

If you would like to learn more about how Global Payments can help your business, please contact us on **0800 731 8921*** or visit **www.globalpaymentsinc.co.uk** for more information about the company and its services.

*Lines are open Monday to Friday, 9am to 5pm excluding Bank Holidays

Global Payments is HSBC Bank plc's preferred supplier for card processing in the UK.

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