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REMOVING
FRICTION
— AT THE —
CHECKOUT:

How Payment Experiences
Influence Consumer Choice

Removing Friction at the Checkout: How Payment Experiences Influence Consumer Choice reveals the impact of consumer payment options on the quality of customer experience and shopper loyalty. The study is based on a census-balanced survey of 2,139 adult consumers carried out between July 13 and July 21, 2021.

FRICION AT THE CHECKOUT

CHECKOUT
CONVERSION
INDEX

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ACKNOWLEDGMENT

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INTRODUCTION

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Today's consumers have shifted many of their shopping activities to the digital space, motivated by a desire to exert more control over their customer experience.

For these empowered consumers, every digital touchpoint represents an aspect of customer experience: a single negative payment incident, whether a lack of payment options or a false decline, could potentially end a sales relationship. The digital shift that accelerated during the first few months of the pandemic made consumer-focused payments innovations a priority for many retailers. Facing steep competition in convenience and ease of use in a crowded digital space, both online merchants and brick-and-mortar sellers endeavored to keep consumers engaged and loyal with features that addressed common shopping pain points, including guarantees and streamlined refund processes.

As consumers return to stores, however, many merchants have regressed in maintaining feature-rich customer experiences. PYMNTS data shows that retailers have become less, rather than more, efficient at anticipating and meeting customer demand for better

payment processes, even as consumers enter the high stakes holiday shopping season.

In *Removing Friction at Checkout: How Payment Experiences Influence Consumer Choice*, a collaboration with Checkout.com, we examine research findings from an anonymous shopping simulation of 510 leading merchants with annual sales ranging from less than \$50 million to more than \$1 billion and data from the Checkout Conversion Index. This quarterly index looks at merchants' abilities to provide their customers with seamless checkout experiences on mobile and online channels. The Q2 2021 Checkout Conversion Index is based on a survey of a census balanced sample of 2,139 United States consumers between July 6 and July 13, 2021. Our findings reveal an increase of friction in key areas of customer experience along with a marked decrease in post-sale features such as free shipping.

How the 2021 Checkout Index determines merchant performance

The Checkout Conversion Index — which evaluates a benchmark PYMNTS developed in 2016 assessing a group of merchants that represents 70 percent of non-Amazon online sales — measures the degree to which friction exists in the online path to purchase.

The Checkout Index uses a proprietary scoring system to assign values to specific customer experience features that remove or add friction from the online checkout process for consumers. Top performing businesses (with the highest index scores) have succeeded in eliminating most of the barriers to a seamless checkout experience — their customers find little or no friction as they browse, select items and complete their purchases. For example, top-performing merchants on the index offer consumers a wider variety of payment methods at checkout than the merchants with the lowest scores on the index. They also provide other features that made them rank at the top that customers value and that reduce friction at checkout, such as a smoother and faster checkout experience, features related to shopping convenience and others related to comfort and trust. Movement on the index (an increase or decrease in a score for a merchant segment) indicates an increase or decrease in the amount of friction that consumers encountered on the way to checkout — when a score rises for a merchant category, it indicates that key customer experiences have been implemented (or conversely, removed).

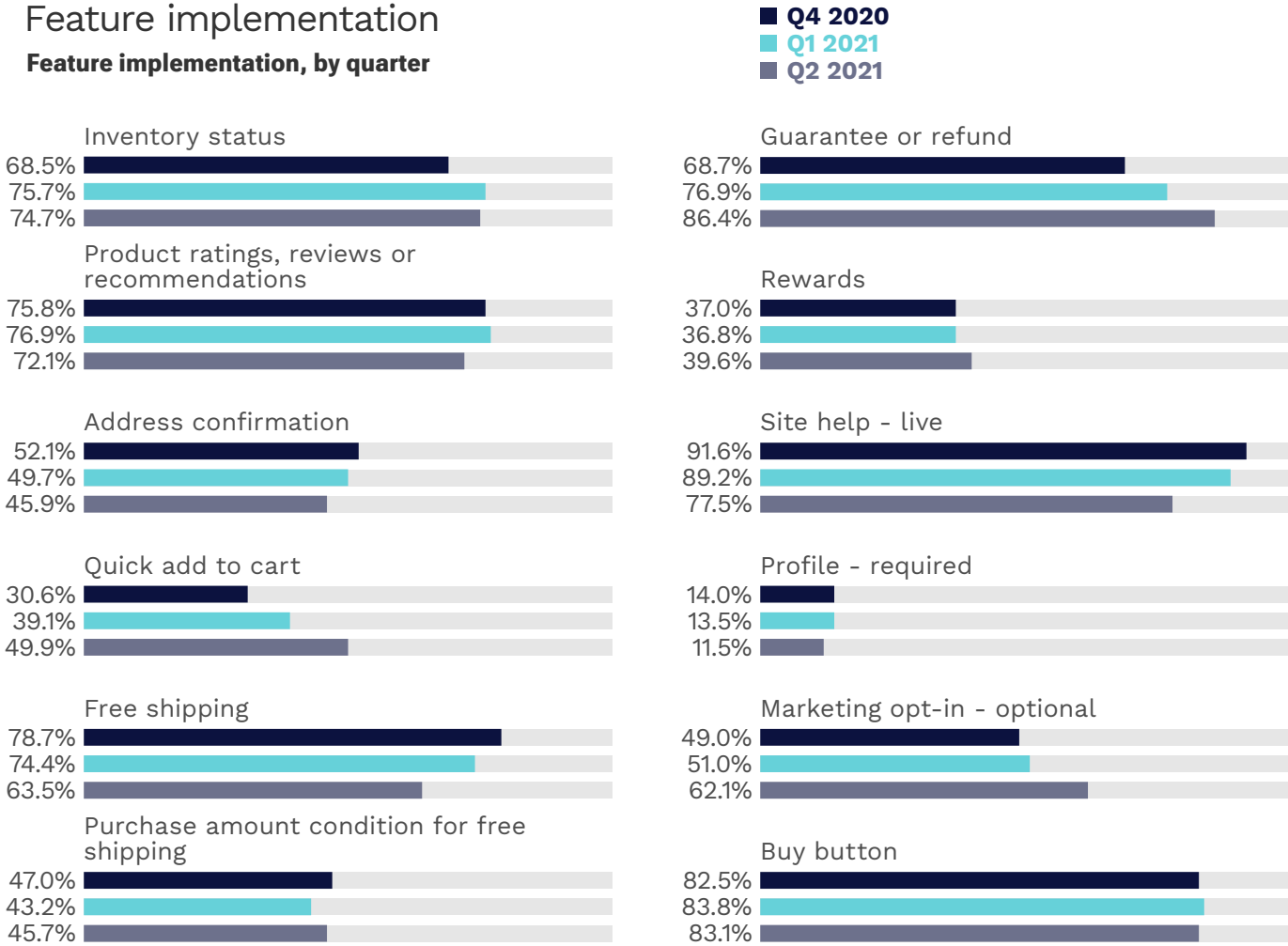


SECTION I

Friction at the checkout has increased: merchants have curtailed some of the key features customers want, such as free shipping.

Although the slight overall Index score decrease of 1.1 percent — from 59.5 in Q1 2021 to 58.9 in Q2 2021 — reflects a minor increase in the friction consumers experienced when checking out, it represents a meaningful change in how retailers are prioritizing customer experience. A decrease in free shipping offered by merchants added to checkout friction. PYMNTS research found that 63 percent of merchants offered free shipping in Q2 2021, compared to 74 percent in Q1.

FIGURE 1:
Feature implementation
Feature implementation, by quarter

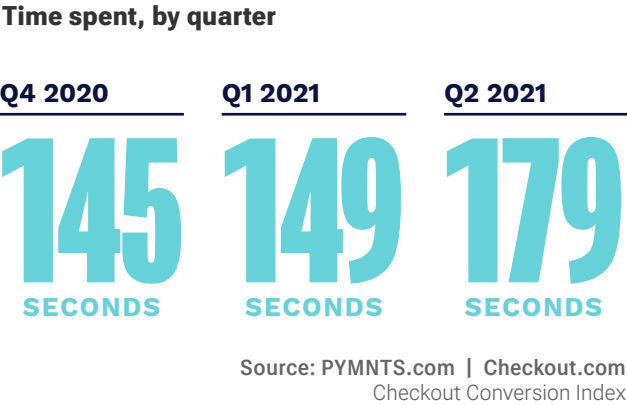


Source: PYMNTS.com | Checkout.com
Checkout Conversion Index

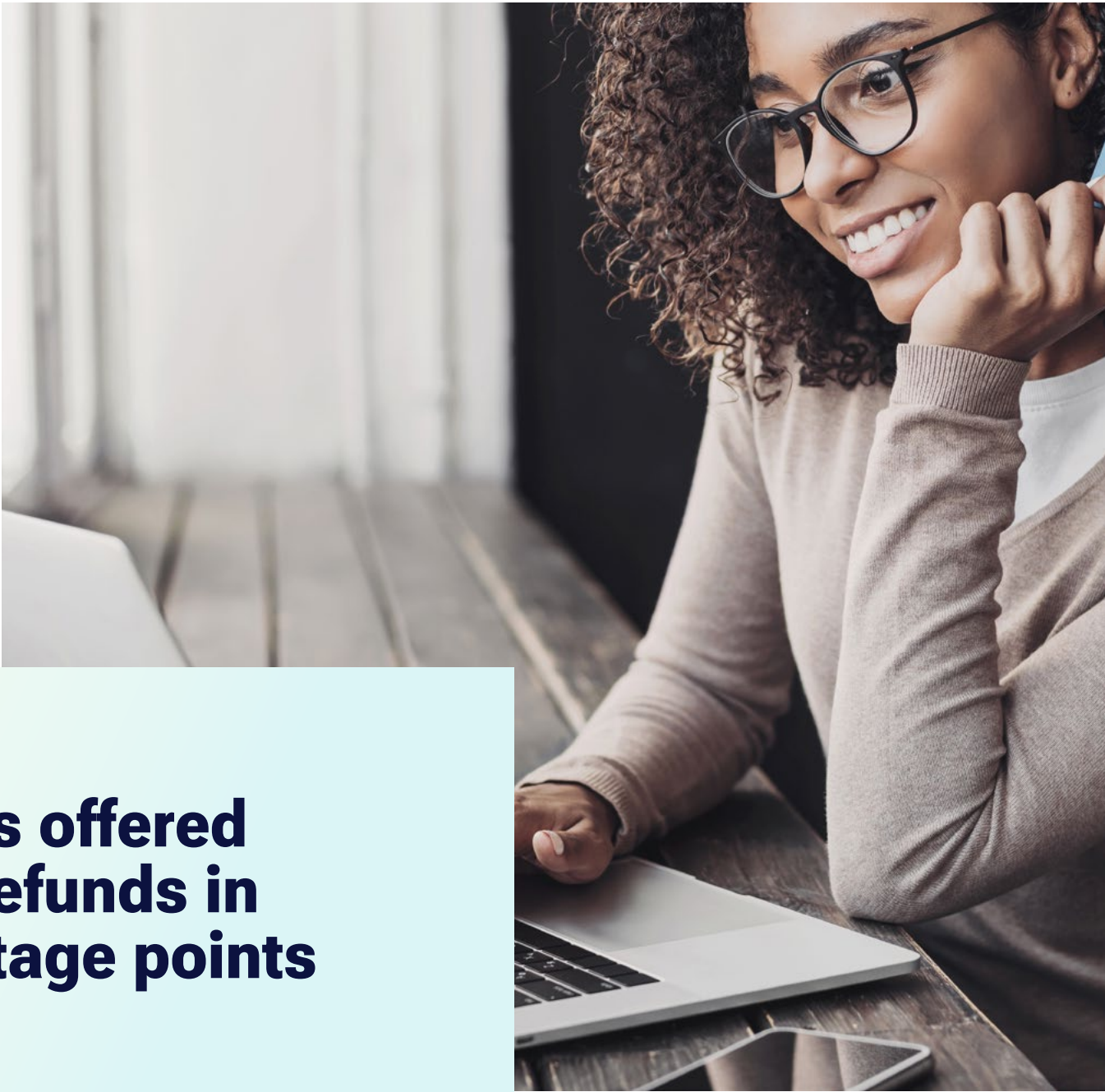
The number of merchants now offering guarantees and refunds to customers grew significantly in Q2. Our research found that 86 percent of surveyed merchants offered guarantees and refunds in Q2, almost 10 percentage points more than in Q1 and 18 percentage points more than in Q4 2020. PYMNTS research found that some features designed to limit friction were adopted by more merchants, despite an overall increase in checkout friction per our index. The second quarter saw the housewares and home furnishings sector increase six percentage points on our index.

Consumers are also spending a significantly longer time shopping before entering checkout. The total shopping time spent per consumer has risen from 145 seconds in 2020 to 179 seconds in Q2, an increase of 24 percent. More time shopping may suggest that consumers have less patience for friction at checkout in the future, as they are spending more time before reaching the payment process. This, in turn, could make limiting friction even more important for customer loyalty as well as for higher conversion rates at checkout in the future.

FIGURE 2:
Consumer Time Spent Before Purchase



86% of merchants offered guarantees and refunds in Q2, up 18 percentage points from Q4 2020.

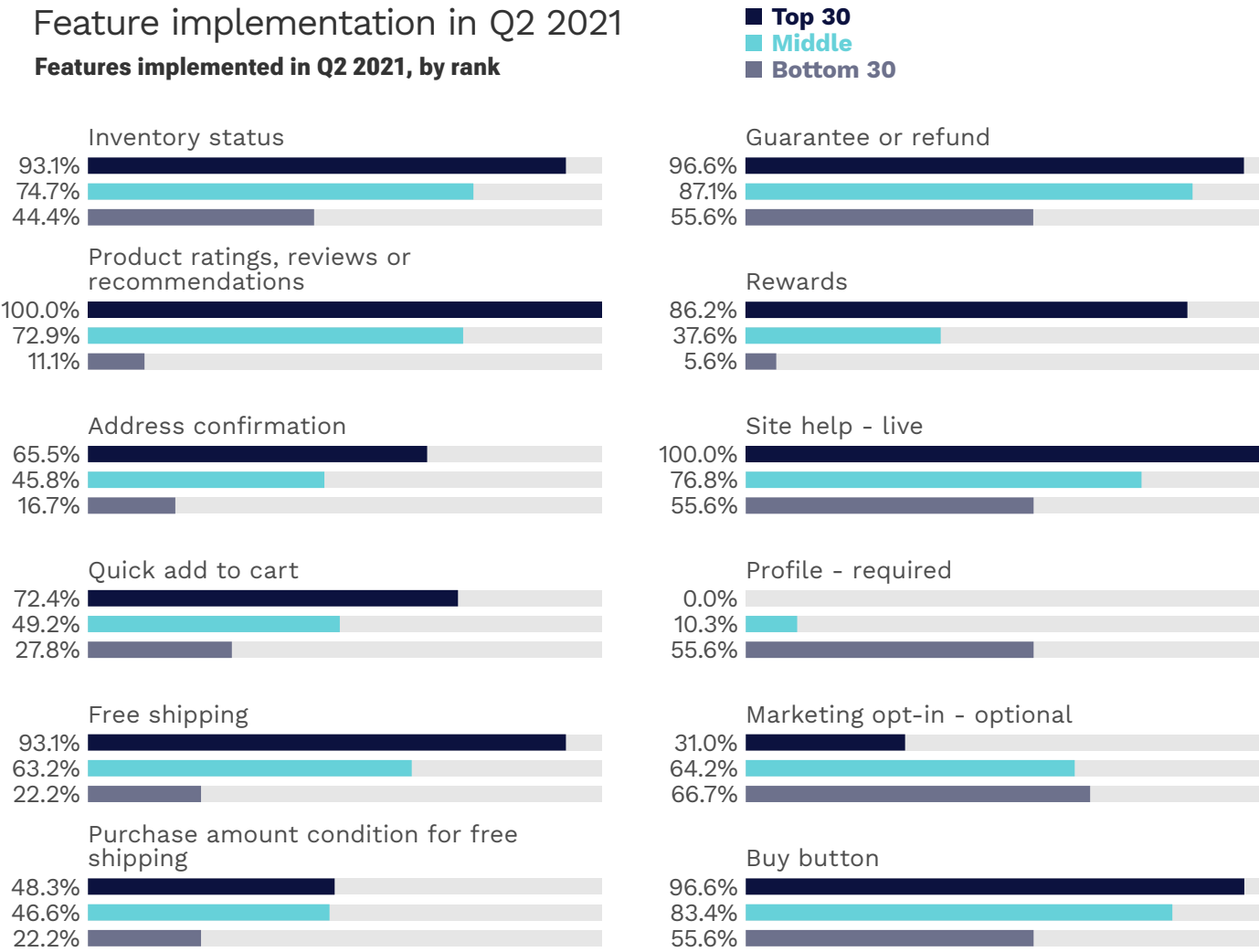


SECTION II

Bottom- and middle-performing merchants narrowed the Index score gap between themselves and top-performing merchants during Q2.

Middle- and bottom-performing merchants continued to increase the number of payment methods they accepted, outperforming top-ranked merchants in this area on our index's assessment of payment friction. Optional marketing opt-in was the most common feature in Q2 among bottom-performing merchants (67 percent). Overall, the average number of payments supported increased for middle-performing merchants (13 percent) and bottom-performing merchants (18 percent) in Q2.

FIGURE 3:
Feature implementation in Q2 2021
Features implemented in Q2 2021, by rank



Source: PYMNTS.com | Checkout.com
Checkout Conversion Index

FIGURE 4:
Total number of payment methods offered

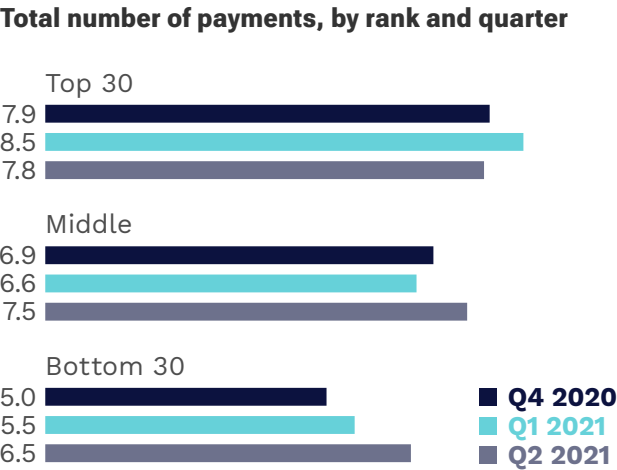
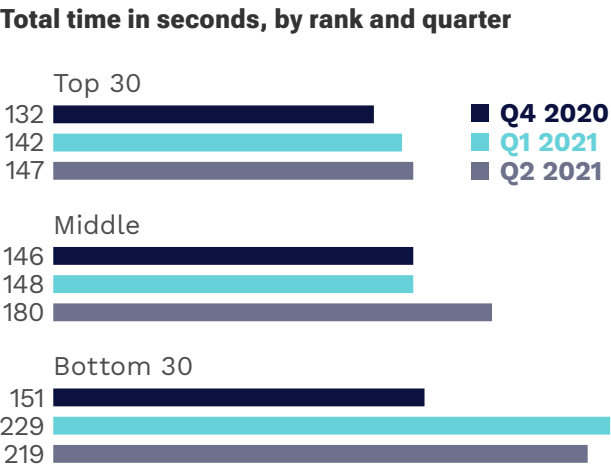


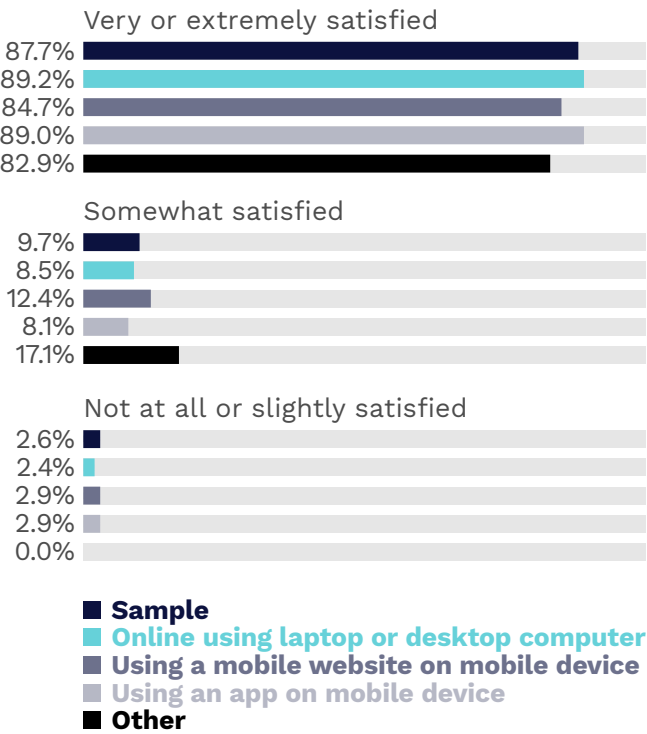
FIGURE 5:
Total time spent shopping before checkout completion



Source: PYMNTS.com | Checkout.com
Checkout Conversion Index

FIGURE 6:
Consumer satisfaction with purchase

Overall satisfaction with last digital purchase, by purchase method



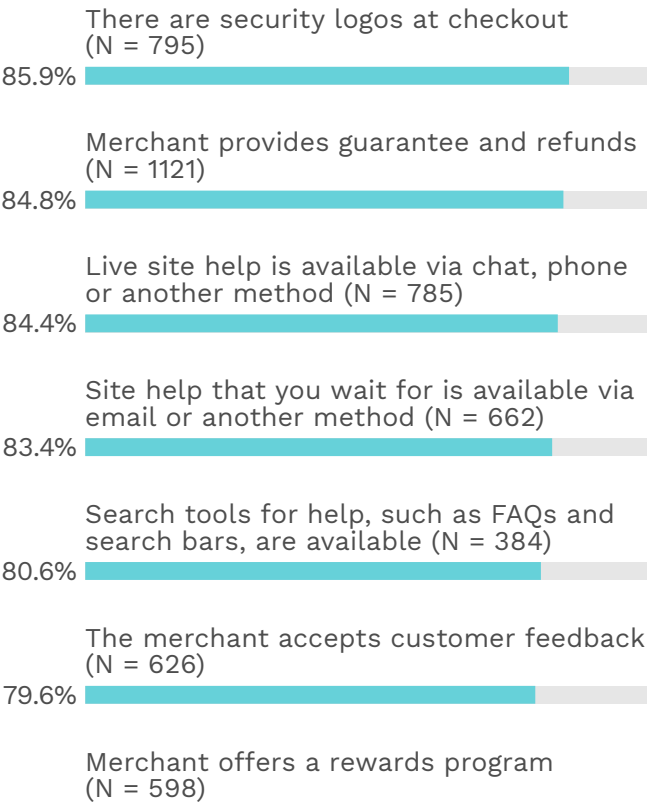
PYMNTS research found that 88 percent of online shoppers said they were “very” or “extremely” satisfied with their last online purchase experience. Security was a top concern for consumers. Our data revealed that 42 percent of online shoppers reported that seeing a security logo during checkout made them feel more secure purchasing online. Consumers also cited the availability of guarantees and refunds (42 percent) and self-help options, such as FAQs and search bars (38 percent), as key elements of a frictionless shopping experience.

FIGURE 7:
Satisfaction with digital shopping features

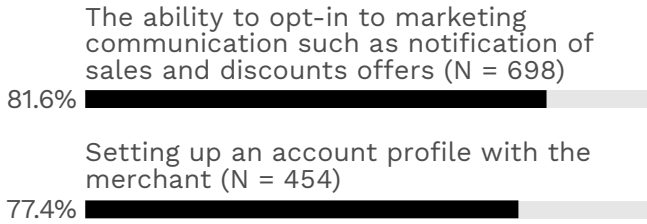
Share of consumers who are "very" or "extremely" satisfied with the digital shopping features they used for their most recent online shopping experience



Security



Consumer-merchant relationship

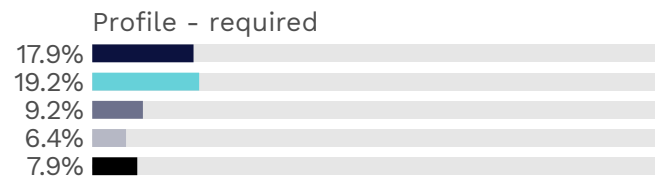
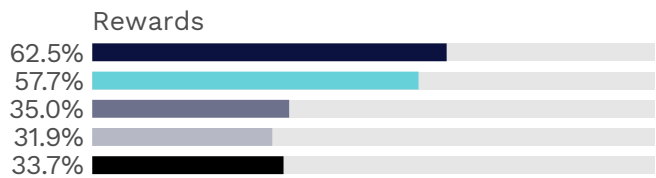
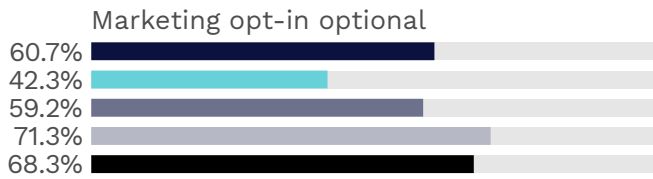
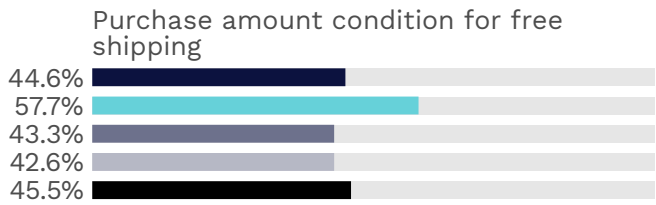
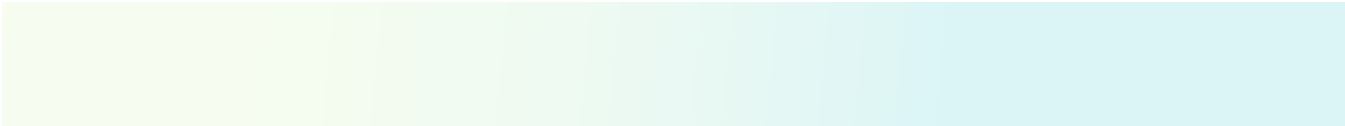
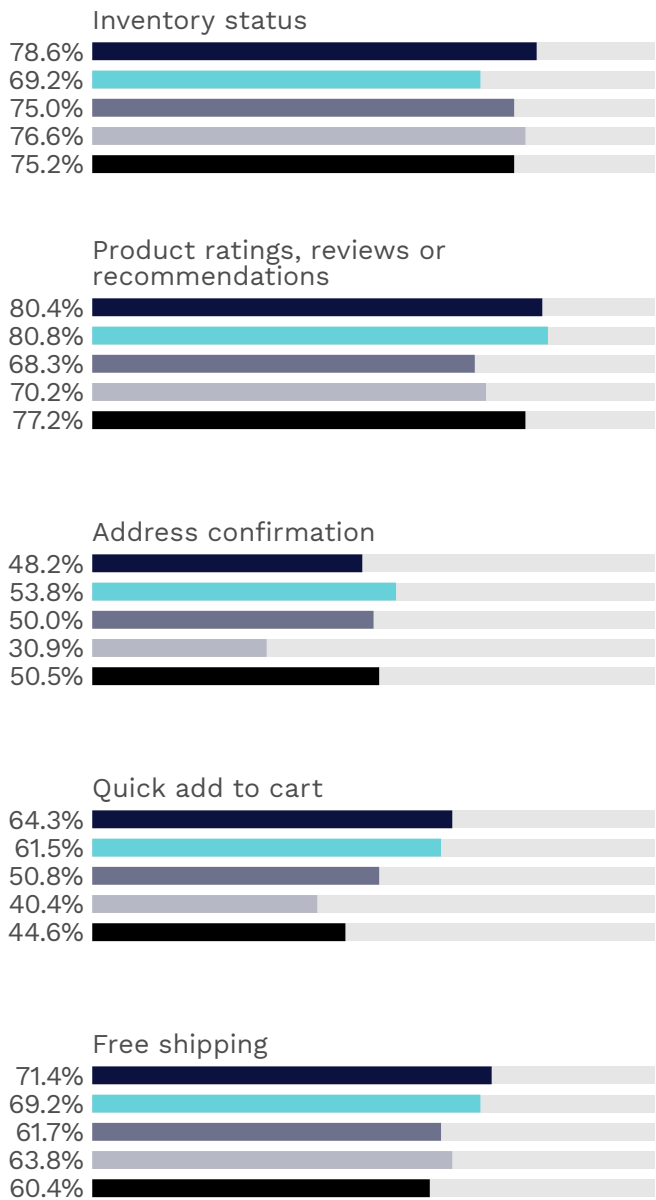


Source: PYMNTS.com | Checkout.com
Checkout Conversion Index

Shoppers with larger retailers tend to experience less overall friction when shopping online. PYMNTS research found that larger merchants are more likely to offer features such as inventory status, free shipping, product rating and reviews, than their smallest peers. Medium-sized merchants offer guarantees and refunds (89 percent) at the same rate as the largest retailers (89 percent) and do better than larger merchants on address confirmation features (50 percent versus 48 percent, respectively). Yet, they fall behind significantly with rewards (35 percent versus 63 percent, respectively).

FIGURE 8:
Feature implementation in Q2 2021

Feature implementation, by merchant size



■ Large
■ Medium-large
■ Medium
■ Small-medium
■ Small

Source: PYMNTS.com | Checkout.com
Checkout Conversion Index

SECTION III

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Consumers expect a wide range of payment options when shopping online.

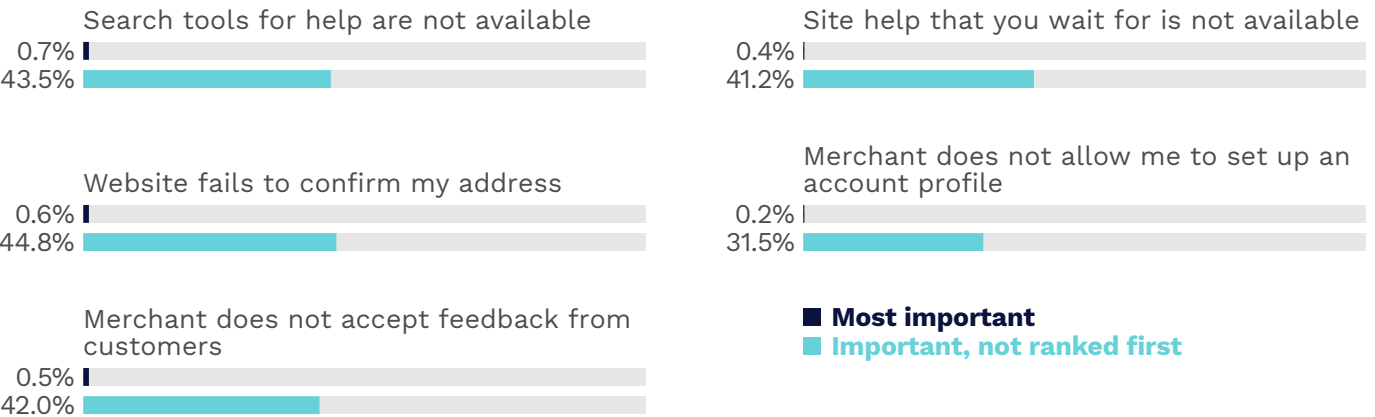
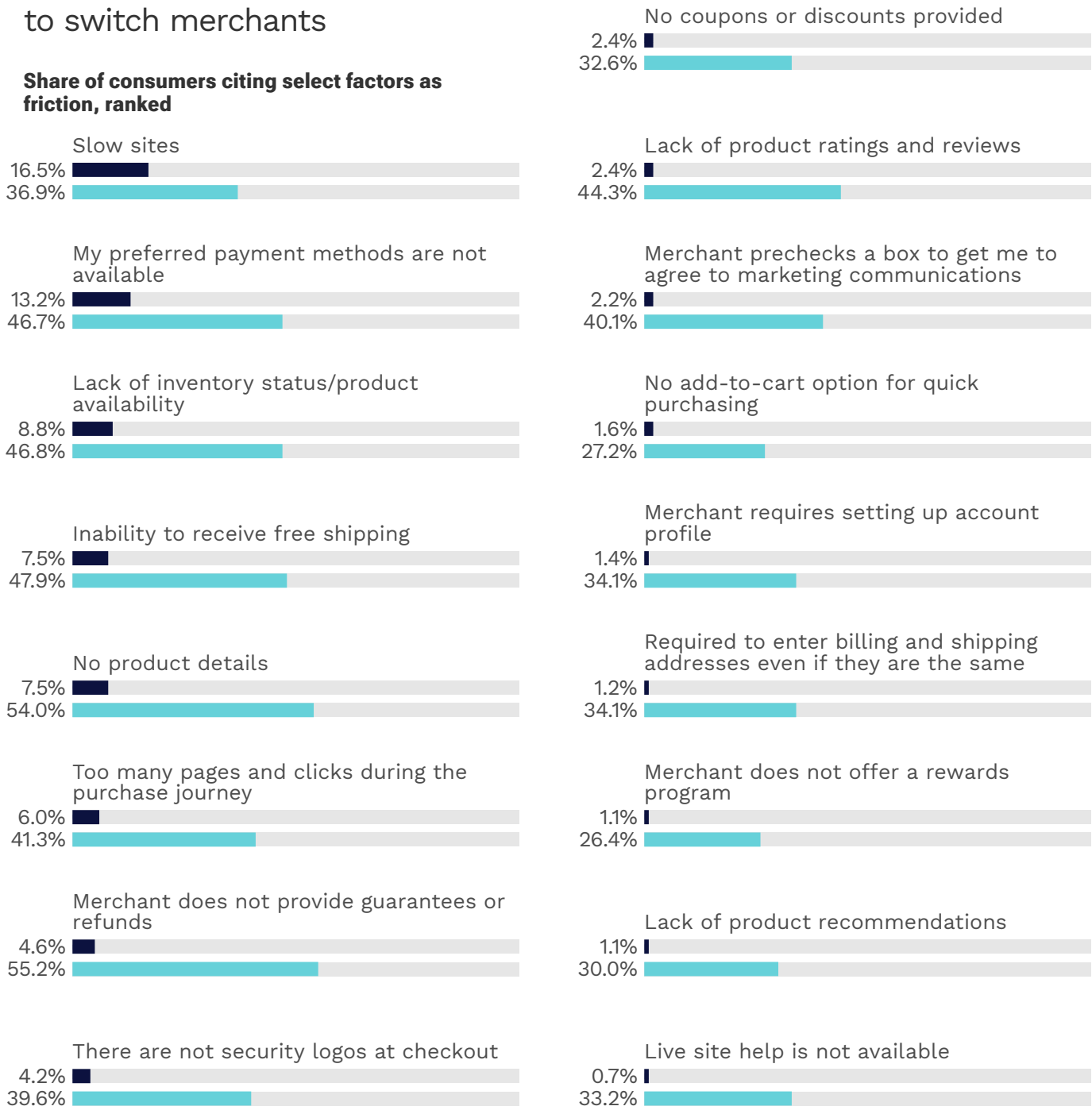
Merchants who offer more options — such as buy buttons or BNPL options — can increase consumer satisfaction. PYMNTS research found that consumers consider missing payments options as friction. Lack of preferred payment methods is a leading reason consumers abandon carts and move to competitor merchants. Among survey respondents, 13 percent of online shoppers said lack of payments options is the most important factor driving them to switch to a competitor’s

site. The top-cited factor was general site slowness, cited by 16 percent. Leading merchants tend to offer consumers more payment choices. We found that top merchants offer 7.8 payment methods on average, and bottom-tier merchants offer 6.5 payment methods on average. Nearly all (97 percent) top merchants offer buy buttons, while just 56 percent of bottom merchants do so.



FIGURE 9:
Factors that can drive consumers to switch merchants

Share of consumers citing select factors as friction, ranked



■ Most important
■ Important, not ranked first

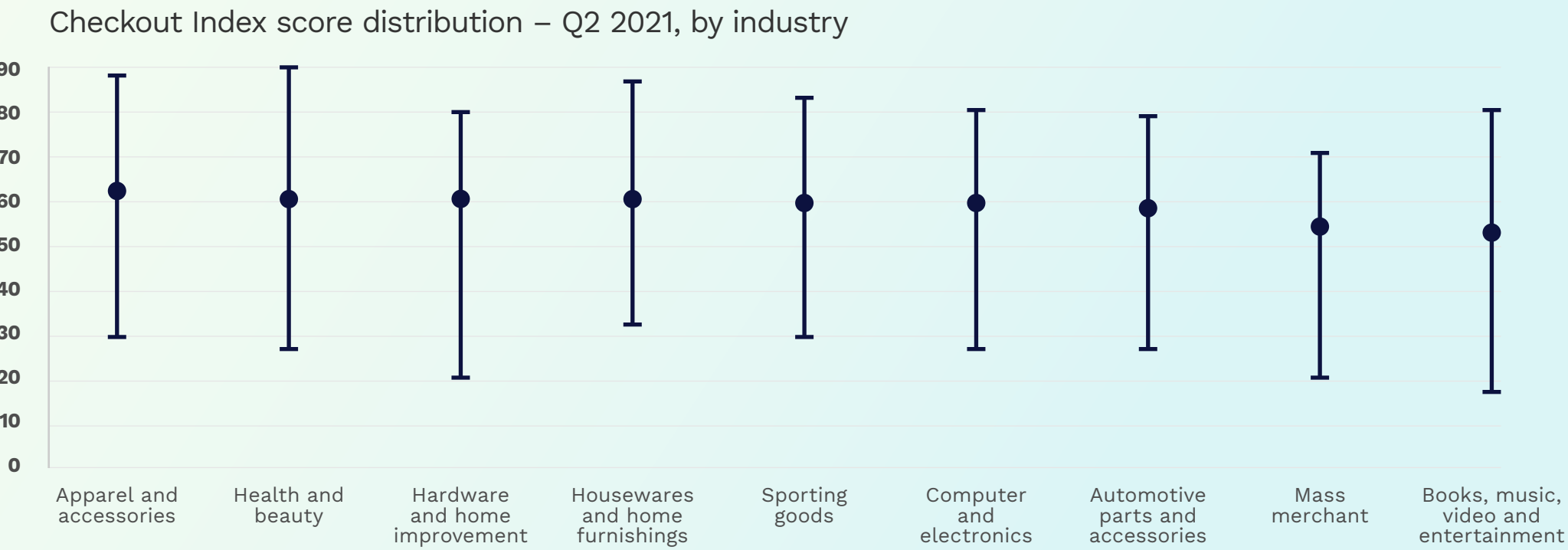
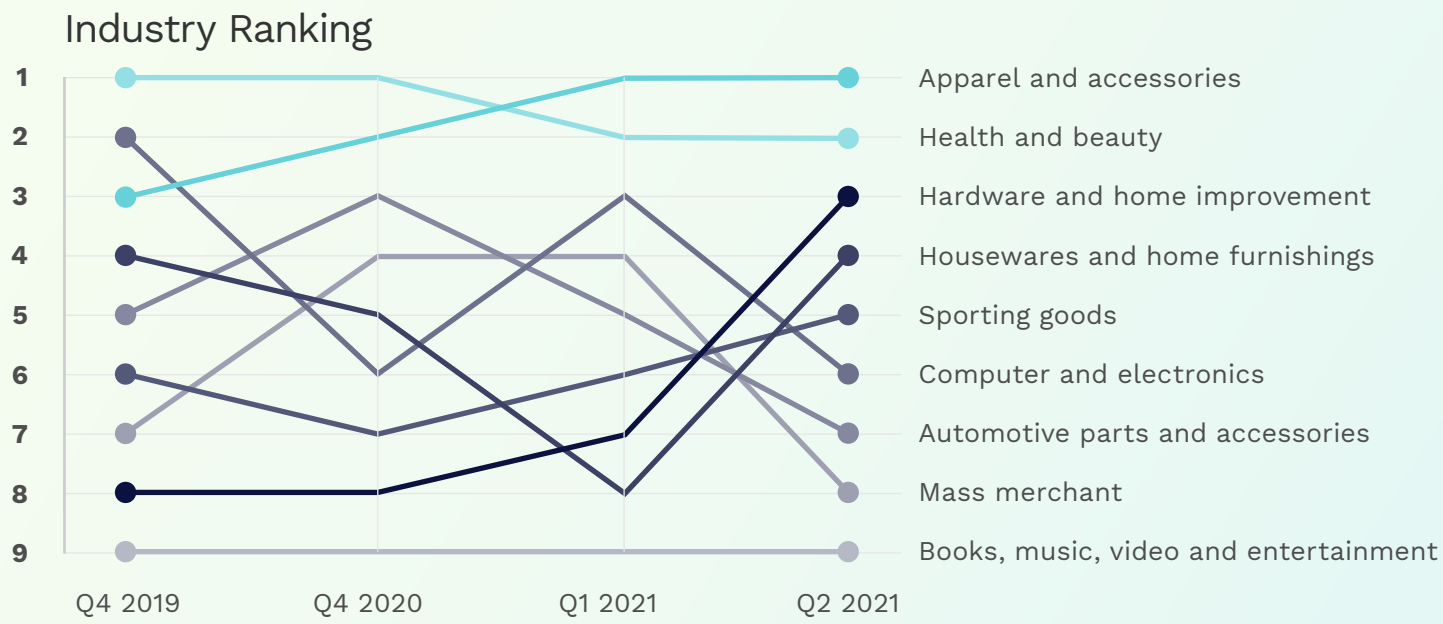
Source: PYMNTS.com | Checkout.com
Checkout Conversion Index

Consumers' Preferred Payment Methods: 2021 Findings

Credit cards and debit cards are the most popular payment methods when shopping online. PYMNTS found that the majority (62 percent) of debit or credit card users let the merchant store their card information on file for convenience. Approximately 43 percent of online shoppers use a credit card to pay for

purchases, especially baby boomers and seniors and financially secure consumers (both at 52 percent). The second most popular payment method was debit, used by 37 percent of online shoppers, with Generation Z consumers (64 percent) and those living paycheck-to-paycheck struggling to pay their monthly bills (54 percent) using debit most frequently. PYMNTS research showed that PayPal (20 percent) came in at a distant third as a payment choice by online shoppers, with nearly one-third of millennials and bridge millennials paying this way.

Hardware and home improvement merchants are among the top three performing market segments. Auto parts and accessories merchants have been losing ground in their efforts to remove friction from shopping experiences.



Source: PYMNTS.com | Checkout.com
Checkout Conversion Index

SECTION IV

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Consumers are shopping for better customer experience features (like free shipping) and better priced products: 29 percent of consumers abandon their carts at least once per week, many in search of both.

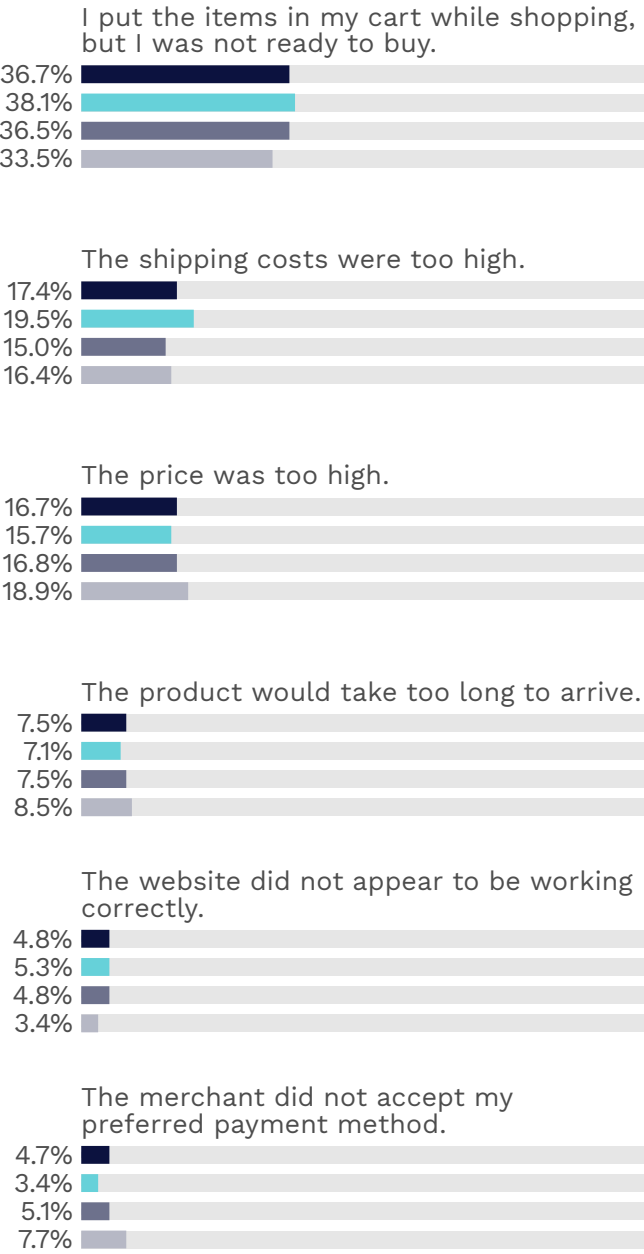
PYMNTS researchers found that 86 percent of online shoppers have abandoned a shopping cart at least once, and 67 percent of them have returned to it and completed the purchase at least once in the past 12 months. Our data showed that 37 percent of consumers who abandon shopping carts said the most important reason for doing

so was not being ready to make the purchase. PYMNTS also found that affordable pricing and free shipping offers motivate customers to complete their purchases. Among online shoppers who abandoned their carts, 17 percent said they did so mainly because shipping costs were too high, and 17 percent cited high prices. The top-cited reason for consumers returning to complete an abandoned shopping cart was finding a better price (31 percent), followed by finding no alternative to purchase the item (19 percent).



FIGURE 10:
Reasons for cart abandonment

Most important reason for abandoning online shopping carts, by financial lifestyle



17% of consumers who abandon carts do so because shipping costs are too high.



Source: PYMNTS.com | Checkout.com
Checkout Conversion Index

SECTION V

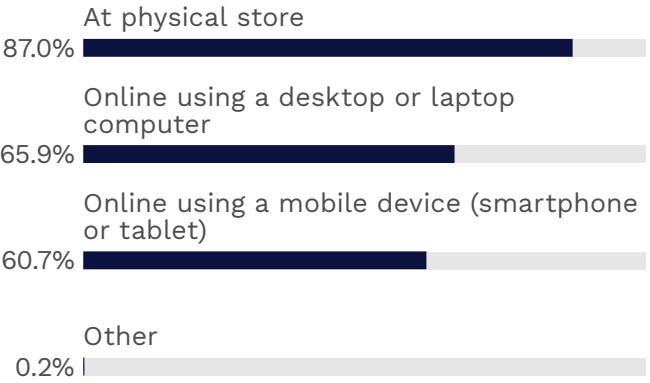
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Consumers are shopping digitally more than ever and mobile shoppers lead the way in shopping frequency.

PYMNTS research found that 51 percent of consumers are online shopping more using their computers (desktop or laptop), and 37 percent have been using their mobile devices (smartphone or tablet) more since the health crisis began. Our data showed that 9 percent of consumers who shop online using their mobile devices do so daily (compared with 7 percent of those who shop on their computers).

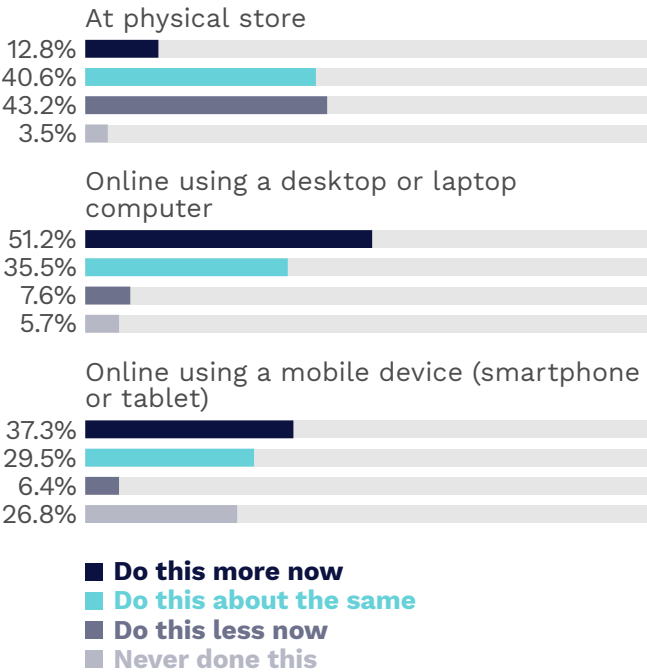
FIGURE 11:
Retail shopping and the digital shift

11A: Share of consumers who have purchased retail items in select ways during the last year

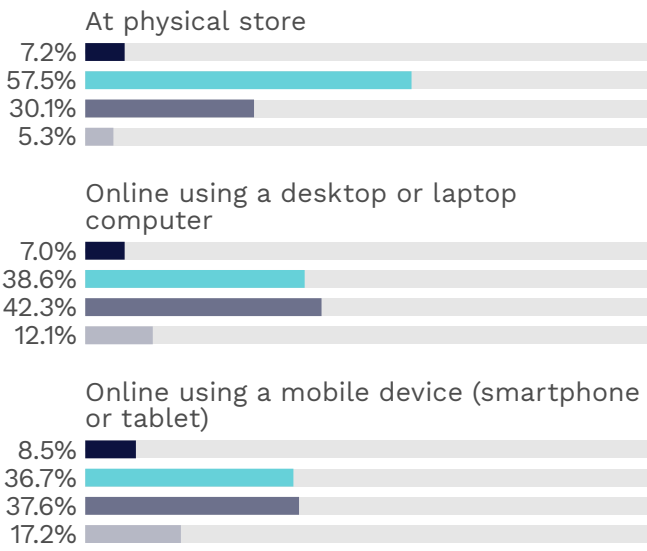


Daily
At least once a week
At least once a month
Less than monthly

11B: Changes in retail shopping activities in response to the pandemic



11C: Frequency of retail purchases in a typical month by shoppers in select channels



CONCLUSION

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This year, leading merchants put more effort into implementing customer favorite shopping features such as free shipping. Lower performing retailers cut back on customer experience at a time when consumers are spending more time online before they pay for their purchase and are willing to switch merchants when friction interrupts their digital shopping journeys. Some industries, such as hardware and home improvement, increased their focus on consumer satisfaction by adopting features customers demand. Meanwhile, auto parts and accessories, for example, allowed friction to reemerge as a potential barrier to customer loyalty. Heading into the holiday season, retailers will have to reevaluate their priorities as consumers shop for bargains and customer experiences in tandem.

ABOUT THE CHECKOUT CONVERSION INDEX

The Checkout Conversion Index takes a sector-by-sector look at merchants' abilities to provide their customers with seamless checkout experiences on both mobile and online channels. It evaluates a benchmark PYMNTS first created in 2016 for a group of leading retailers, encompassing 70 percent of non-Amazon online sales in the U.S. The Checkout Conversion Index uses a proprietary analytical framework to measure the degree to which friction exists in the online path to purchase. This report assesses the presence of 90 key features that we have found to be related to checkout conversion performance on mobile and online sites. The Checkout

Conversion Index has become an indispensable guide for brands and merchants seeking to determine how customer experience impacts retail performance online.

A score increase in our Index reflects an improved user experience for consumers that leads to more frictionless conversions. The 2021 Index score for all retailers decreased by 1.1 percent, from 59.5 in Q1 2021 to 58.9 in Q2 2021. This means most merchants have slightly reversed their previous efforts to remove friction from their online checkout processes. A score of 100 indicates that a retailer has eliminated friction from the consumer checkout process. The average score for the top 30 retailers was 80.9, with middle and bottom scorers earning 58.6 and 28.3, respectively. The average Index score encompassing all retailers was 58.9. This overall decrease in Index score (1.1 percent) reflects findings that show some medium-to-large merchants have moved away from offering customer experience features that streamline checkout experiences. These merchants represent a score decrease of 5.6 percent, significantly higher than that of the largest merchants (1.7 percent decrease). As consumers return to physical stores and offline revenue rises, some merchants are reducing customer experience features — such as free shipping — that present added costs at the risk of making it more challenging for consumers to order and pay effortlessly.

ABOUT

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PYMNTS.com is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations at the cutting edge of this new world.

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