Navigating Big Retail's Digital Shift: The New Payments Strategy Evolution, a PYMNTS and ACI Worldwide collaboration, examines the choices retailers are making to accommodate consumers' evolving shopping preferences. The playbook is based on a survey of 151 retailers in the U.S. and 149 retailers in the U.K. with at least 50 store locations representing the new or used automotive sales, pharmacy and convenience retail, grocery retail and general retail segments conducted between June 1 and June 21.

■ DECEMBER 2022

NAVIGATING BIG RETAIL'S DIGITAL SHIFT

THE NEW PAYMENTS STRATEGY EVOLUTION

PYMNTS | ACI Worldwide

NAVIGATING BIG RETAIL'S DIGITAL SHIFT

THE NEW PAYMENTS
STRATEGY EVOLUTION

PYMNTS | **ACI** Worldwide

TABLE OF CONTENTS

INTRODUCTION

Big retail is experiencing a paradigm shift. Last year, a PYMNTS and ACI survey found that 66% of online grocery shoppers used digital channels because they found it easier and more convenient than shopping in-store.[1] The onus is on retailers to make physical shopping as easy and convenient as eCommerce.

According to 2022 PYMNTS research, United Kingdom and United States retailers see the quality of customers' digital payments experiences as a deciding factor in their long-term growth. Many retailers feel that the digital tools they currently use leave them ill-equipped to meet the minimum experience standards. In addition, as most surveyed retailers see modernization as key to survival, they are looking to remove friction and offer more checkout options for both online and in-store shopping.

This playbook will examine how U.S. and U.K. retailers can leverage digital payments to build deeper connections with shoppers by customizing their shopping and payment experiences.

[1] What Consumers Expect From Their Grocery Shopping Experiences. PYMNTS. 2021. **https://www.pymnts.com/study/grocery-ecommerce-loyalty-rewards-mobile-digital-contactless/**. Accessed November 2022.

BIG RETAIL'S PAYMENTS SHIFT: CONFIGURING THE MECHANICS OF INNOVATION

ntroducing new and better payment choices for consumers — such as scan-and-go options — is the foundational innovation strategy for the largest U.K. and U.S. retailers, helping to reduce customer loss during checkout.

Larger retailers are modernizing the customer experience by implementing expanded in-store payment choices. Our research shows that 65% of non-grocery retailers are adding payment methods, along with 55% of grocery retailers and 56% of convenience stores. We found that 56% of U.S. retailers with annual revenues between $1B and $5B are adding payment methods, and 53% of those with revenues of more than $5B are also doing so. In the U.K., 75% of retailers with annual revenues of more than £5B are adding new payment methods, along with 76% of those with revenues between £1B and £5B.

Offering the right array of payment choices is key to customer retention and business growth. Our survey found that 89% of executives saw having multiple digital payment options as necessary for consumers — and choice is much more than a "nice-to-have" for shoppers.[2] Consumers may need to shift payment methods according to personal financial circumstances or fluctuating interest rates. As retailers face stiff competition from online stores and other competitors, allowing consumers to choose how they pay is crucial to maintaining their loyalty.

[2] Costs Often Sideline Bill Payment Transformation in Consumer Finance. PYMNTS. 2022. **https://www.pymnts.com/ digital-payments/2022/costs-often-sideline-bill-payment-transformation-in-consumer-finance/**. Accessed November 2022.

Retailers seeking to implement new features must focus on utility, context and value-add for consumers.
A recent survey found that 34% of grocery shoppers may shift to shopping online for products they usually purchase in-store based on convenience.[3] This potential shift makes it essential for retailers to remove friction from in-store purchasing at critical touchpoints, such as checkout and inventory checks.

[3] What Consumers Expect From Their Grocery Shopping Experiences. PYMNTS. 2021. **https://www.pymnts.com/study/grocery-ecommerce-loyalty-rewards-mobile-digital-contactless/**. Accessed November 2022.

THE TOP FIVE PAYMENT CHOICES RETAILERS PLAN TO IMPLEMENT — AND WHY THEY MATTER TO CONSUMERS

Retailers are launching new tools to keep consumers engaged, with each tool offering specific benefits and risks. Retailers top choices for implementation are real-time payments, scan and go, prepaid cards, cryptocurrency and digital wallets.
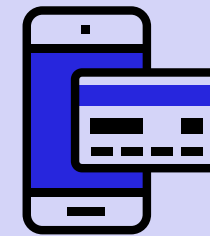
Real-time payments make it simple for consumers to pay or receive refunds. They also streamline other tech features, such as scan and go, that allow consumers to pay for items instantly and avoid waiting in lines.
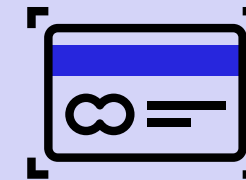
Consumers who do not have conventional credit or debit cards or avoid using these payment methods will often favor prepaid cards. Acceptance of prepaid cards broadens retailers' ability to reach unbanked and underbanked consumers.
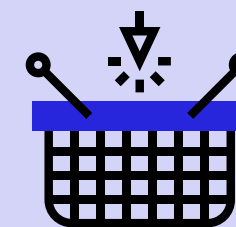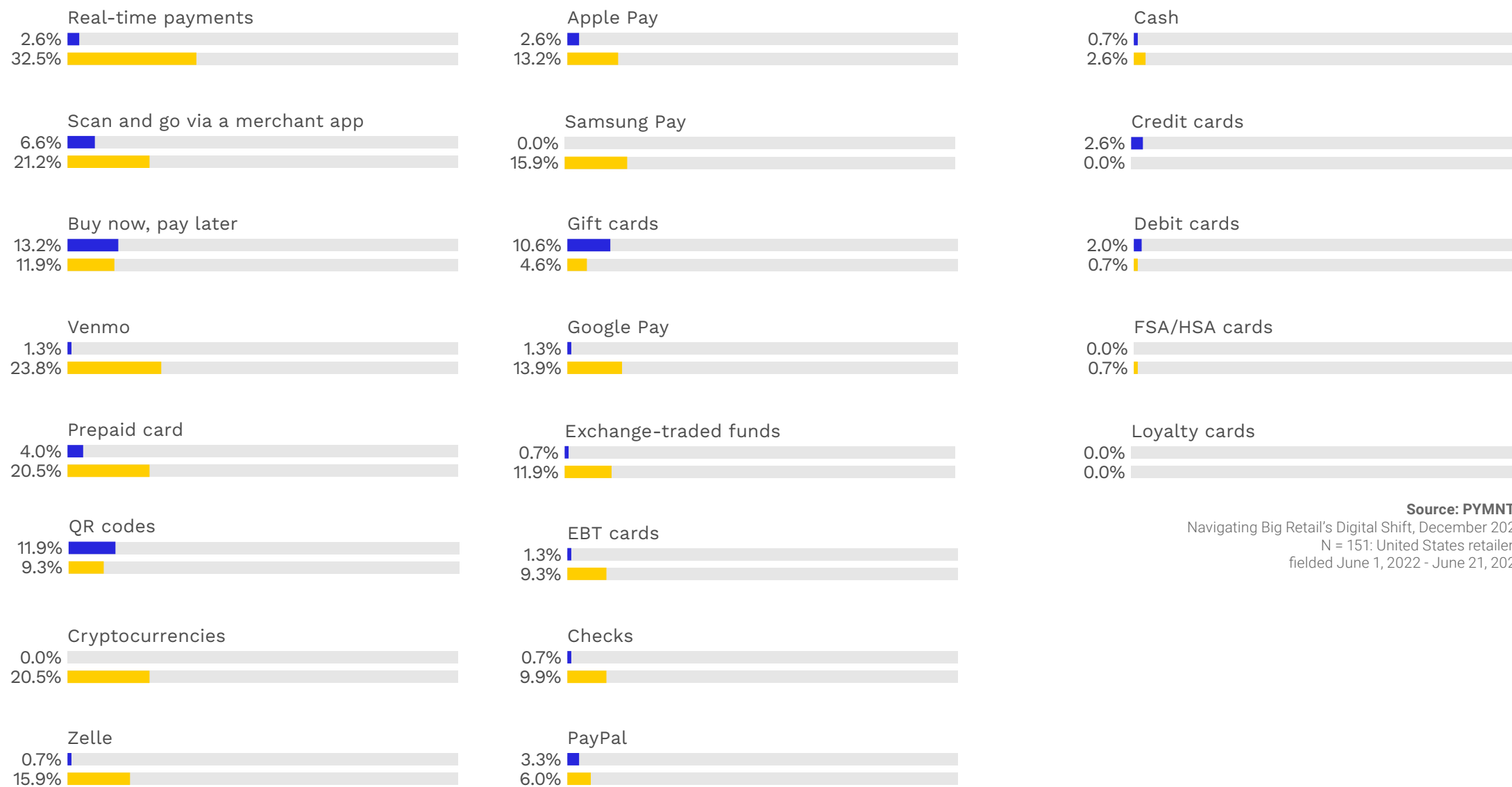

Acceptance of digital and mobile wallet payments allows consumers to exercise payment choice at checkout, as consumers can choose from an array of options to fund their wallets.

ACI Worldwide

Payments innovation

Share of U.S. retailers planning to improve or add select payment methods in the next three years

■ Improve
■ Plan to add

Real-time payments
2.6%
32.5%

Scan and go via a merchant app
6.6%
21.2%

Buy now, pay later
13.2%
11.9%

Venmo
1.3%
23.8%

Prepaid card
4.0%
20.5%

QR codes
11.9%
9.3%

Cryptocurrencies
0.0%
20.5%

Zelle
0.7%
15.9%

Apple Pay
2.6%
13.2%

Samsung Pay
0.0%
15.9%

Gift cards
10.6%
4.6%

Google Pay
1.3%
13.9%

Exchange-traded funds
0.7%
11.9%

EBT cards
1.3%
9.3%

Checks
0.7%
9.9%

PayPal
3.3%
6.0%

Cash
0.7%
2.6%

Credit cards
2.6%
0.0%

Debit cards
2.0%
0.7%

FSA/HSA cards
0.0%
0.7%

Loyalty cards
0.0%
0.0%

Source: PYMNTS
Navigating Big Retail's Digital Shift, December 2022
N = 151: United States retailers,
fielded June 1, 2022 - June 21, 2022

Retailers are prioritizing real-time payments as an innovation launchpad. Currently, 52% of U.S. retailers and 56% of U.K. retailers accept real-time payments or plan to do so in the next three years. Real-time payments are a powerful innovation tool for an improved in-store customer experience.
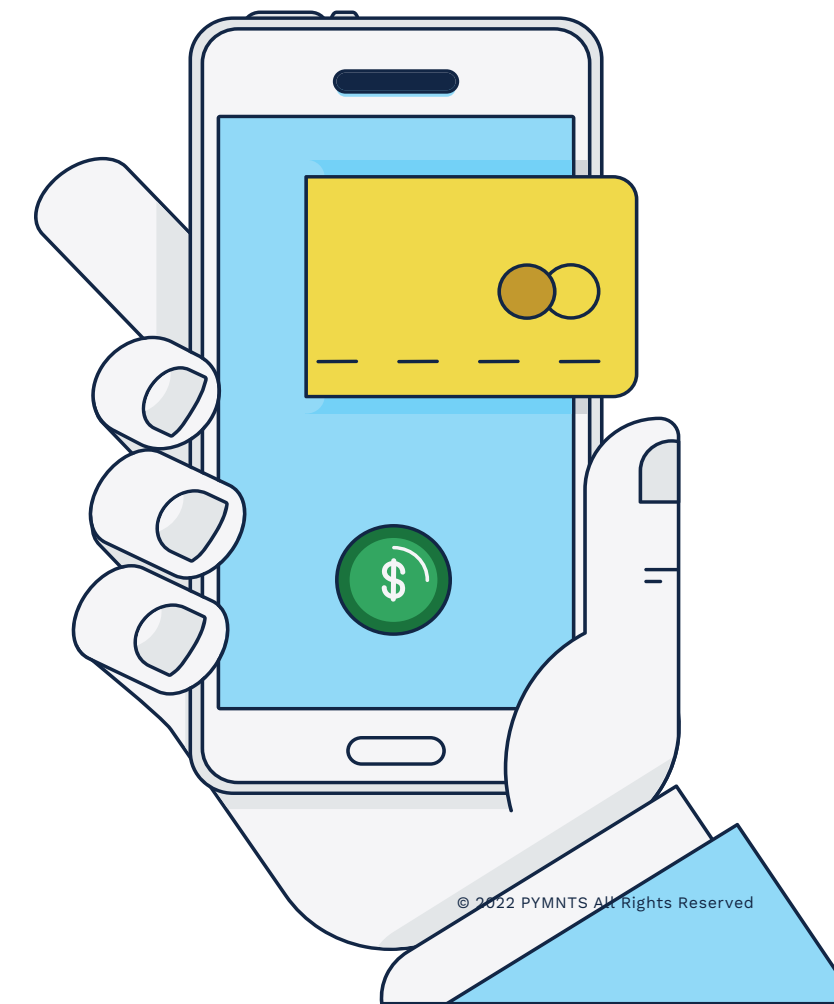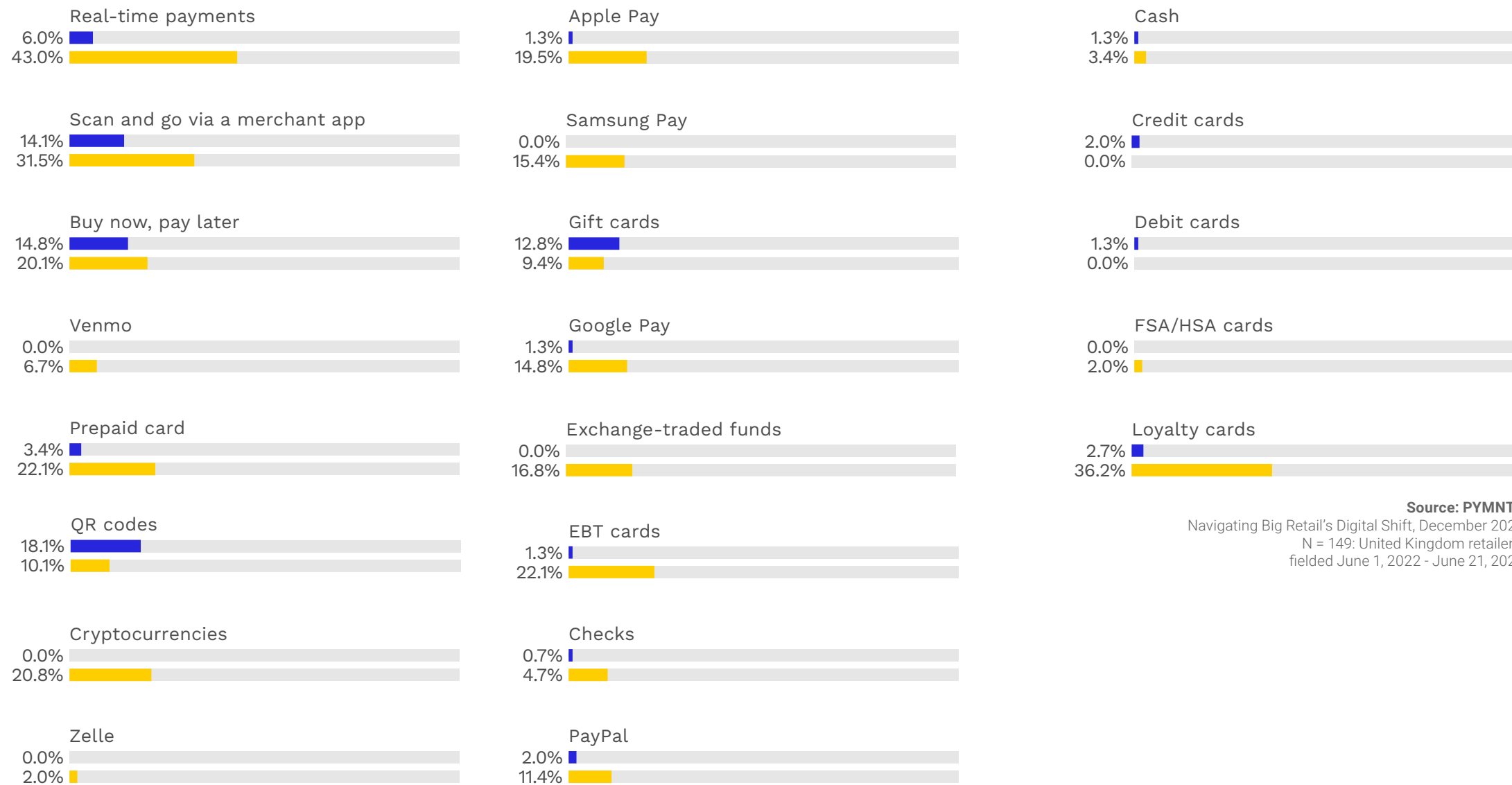
Payments innovation

Share of U.K. retailers planning to improve or add select payment methods in the next three years

■ **Improve**
■ **Plan to add**

Real-time payments
6.0%
43.0%

Scan and go via a merchant app
14.1%
31.5%

Buy now, pay later
14.8%
20.1%

Venmo
0.0%
6.7%

Prepaid card
3.4%
22.1%

QR codes
18.1%
10.1%

Cryptocurrencies
0.0%
20.8%

Zelle
0.0%
2.0%

Apple Pay
1.3%
19.5%

Samsung Pay
0.0%
15.4%

Gift cards
12.8%
9.4%

Google Pay
1.3%
14.8%

Exchange-traded funds
0.0%
16.8%

EBT cards
1.3%
22.1%

Checks
0.7%
4.7%

PayPal
2.0%
11.4%

Cash
1.3%
3.4%

Credit cards
2.0%
0.0%

Debit cards
1.3%
0.0%

FSA/HSA cards
0.0%
2.0%

Loyalty cards
2.7%
36.2%

43%

of retailers in the United Kingdom plan to **improve or add real-time payments** in the next three years.

RETAIL 3.0:
HOW MERCHANTS ARE USING DIGITAL PAYMENTS TO MODERNIZE CUSTOMER EXPERIENCES

More than 66% of retailers are shifting resources toward more convenient payment options and a broader range of payment choices. Thirty percent of U.S. retailers and 37% of U.K. retailers believe they lack the right mix of digital tools to meet their customers' experience requirements.

Our research revealed the following:

Retailers are turning to customer payment data for guidance on modernizing in-store experiences. Most retailers surveyed have leveraged or plan to use omnichannel customer data, including purchasing trends, to gain further insights on improving customer experiences.

Retailers believe convenience and frictionless digital payments are essential to retaining customers. Key features include access to mobile shopping apps, at 81%, and alternative payment methods, at 76%.

Omnichannel customer data can be translated into a clear plan to improve in-store payment experiences. This data offers strong directives on consumer preferences based on spending patterns. Retailers should look at three key areas:

- Removing in-store shopping friction (via "scan and go" through a merchant app)

- Limiting checkout complexity (via better payment choices)

- Creating a mobile-first in-store experience (via real-time payments)

Retailers seeking to initiate an innovation plan should start with a self-audit of their customers' current user experiences. Here are some questions to get started:

01

Are current user experience features or tools fit for purpose?

Examine "first-touch" customer experiences to pinpoint unnecessary wait times for customer service and complex or lengthy onboarding processes to use self-service kiosks or other convenience-focused shopping tools. Extended wait times or a steep learning curve will frustrate and perhaps alienate customers.

02

Are the technologies used to limit checkout friction able to scale seamlessly?

Most retailers are developing new ways to access omnichannel customer data. While retailers can use this data to gain insights into customer product and service preferences, it is also essential for retailers seeking to identify areas where they might remove payments friction.

03

Is the user experience strategy focused on delivering continuous value to customers throughout the shopping journey?

The frustrations that may mount during an unsatisfactory in-store shopping journey can make any improvements irrelevant. Ensure that checkouts are friction-free by consistently testing in-store shopping tools, such as self-service inventory checks or apps, for technical issues or unnecessary complexity.
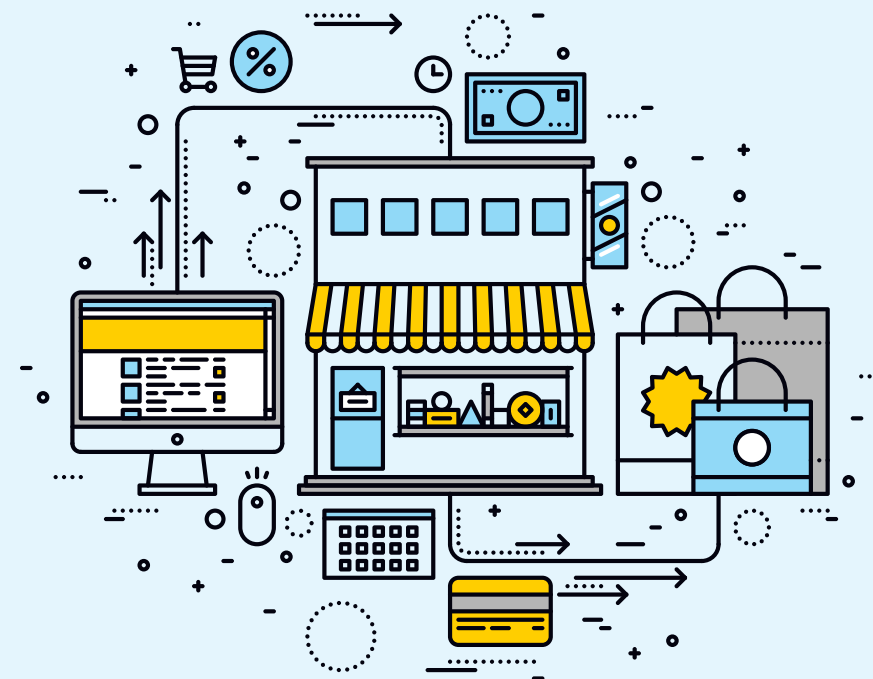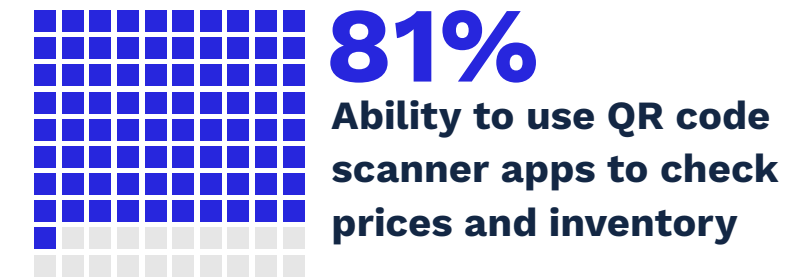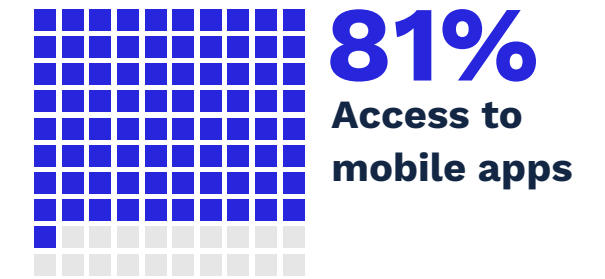
HOW TO FIND OUT WHAT IN-STORE SHOPPING FEATURES CONSUMERS WANT AND NEED

Our research shows that retailers are looking to customer data to glean insights into the user experiences consumers prefer. But in addition to needs — such as frictionless payments and practical conveniences — consumers also have "wants," including the ability to shop using QR codes or pay with various mobile wallets.[4] A recent survey of retailers revealed that 70% of executives believe that preferences for specific conveniences may lead consumers to favor one merchant over another.[5] According to the survey, retailers believe that consumer loyalty is highly dependent on these key features in-store:[6]

[4] ACI's 2022 Commerce Innovation Hotlist. PYMNTS. 2022. **https://www.pymnts.com/pymnts-post/opinion/2022/acis-2022-commerce-innovation-hotlist/**. Accessed November 2022.

[5] Half of 'Big Retail' Thinks Consumer Digital Experience Could Be Better. PYMNTS. 2022. **https://www.pymnts.com/news/retail/2022/half-big-retail-thinks-consumer-digital-experience-could-be-better/**. Accessed November 2022.

[6] 3 Ways Big Retail is Trying to Overcome Hybrid Shopping Experience Gap. PYMNTS. 2022. **https://www.pymnts.com/news/retail/2022/3-ways-big-retail-is-trying-to-overcome-hybrid-shopping-experience-gap/**. Accessed November 2022.

81%
Access to mobile apps

81%
Ability to use QR code scanner apps to check prices and inventory

77%
Digital rewards and coupons

76%
Choice of alternative payment methods

51%
Availability of self-service kiosks
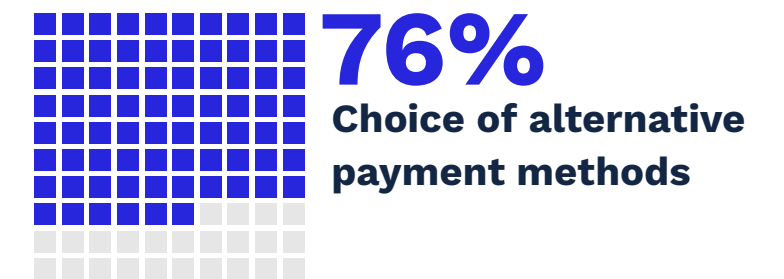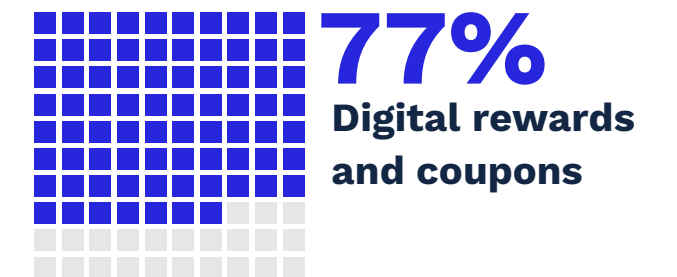
Source: PYMNTS
Navigating Big Retail's Digital Shift, December 2022
N = 300: Complete responses,
fielded June 1, 2022 - June 21, 2022

These tools, per retailer insights, are not "nice-to-haves" — they are user experience necessities that influence consumers' loyalty to one merchant over another. However, individual retailers may find that their customers have different needs. Here are three questions to ask to determine which in-store shopping features are the most important to consumers and where to focus innovation efforts:

How are customers currently shopping in-store?

Customer payments data and customer service feedback can provide clues to the types of payments consumers prefer and the issues they encounter. Retailers must focus innovation efforts on the key frictions customers face, particularly recurring frictions and those that elicit continued feedback from loyal shoppers.

Are customers ready for more advanced technical features?

Consumers may not be ready to use advanced features such as scan and go on day one. Onboarding processes should be simple and swift. Technical innovation should respond to a demonstrable need, such as shorter lines or better payments choice. Prioritize features that consumers can use right away that match their articulated user experience needs.

How can user experiences be leveled up equitably?

Mobile wallet shoppers and those who pay in cash should enjoy similar ease at checkout. A payments innovation strategy that leverages mobile apps and QR code payments caters to those who can pay swiftly, allowing those paying with cash to reach checkout faster.

PYMNTS | ACI Worldwide

A QUICK-START GUIDE TO INNOVATION

Retailers may find that launching a user experience improvement initiative presents multiple constraints. Organizations may face numerous barriers in implementing new technologies due to entrenched processes, limited staff, inadequate training resources or a steep learning curve. Retailers with legacy technologies may lack the ability to accept and manage new payment types, which is critical to developing new tools. In this case, it may be helpful for retailers to consider a third-party solution. Here are some questions to ask to evaluate this option:

The Innovation Audit: Is it time for a third-party solution?

- Are digital and in-store check-out and shopping experiences primarily frictionless?

- Are payment options available according to shopping context (in-store or online) and consumer preferences?

- Are there operational barriers to better payments experiences that new technologies could solve?

- Are security and data management concerns limiting your organization's ability to innovate?

- Can the organization easily adjust to changes in how consumers shop in-store and online?

- Can the payments experience be further streamlined with innovations such as inventory checks, smart carts and cashierless shopping?

- Is the payments system future-proof? Payment processes should account for occurrences like inflation, which require the ability to dynamically change prices and regulations that may alter data handling standards.

If your organization is unable to answer "Yes" to most of these questions, it may be wise to investigate a third-party tech solution that can manage innovation at scale.

WHAT TO LOOK FOR IN A PAYMENTS TECHNOLOGY SOLUTION

Retailers should look for a tech solution that optimizes the user experience, manages compliance, monitors fraud risk and enhances security through a single system. Payments orchestration solutions integrate all payments processes through a single management tool. This integration allows merchants to gain visibility over payments, user experience and risk and to customize solutions for potential bottlenecks long before friction or payments disruption occurs.

Some benefits of payments orchestration for retailers may include:

- Swift connection to multiple payment services

- Automatically optimized routing rules/decisioning to lower transaction costs and wait times

- Automated, robust fraud prevention processes integrated with new payments features

- Consistent user experiences at each touchpoint

- Centralized access to payments data

CONCLUSION

Retailers are using all their resources — from customer payments data to mobile apps — to boost customer loyalty and remove friction from shopping experiences. However, as retailers attempt to integrate innovations, they may face limitations in the scale of their improvements based on their existing resources. A third-party solution can streamline innovation processes and help retailers maintain and scale their competitive advantage.

PYMNTS | ACI Worldwide

ABOUT

We are interested in your feedback on this report. If you have questions or comments, or if you would like to subscribe to this report, please email us at **feedback@pymnts.com**.