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A white paper produced by Ingenico
In association with Edgar, Dunn & Company

The Future of Payment Acceptance

How digital payments are changing the consumer-merchant relationship.

March 2024

Editorial

I am convinced that the single most important thing a company can do to succeed is to listen to its customers. It is through listening to its customers over 40 years – closely, deeply, intently – that Ingenico has achieved its unique position and became a global leader in payments.

And to maintain that position, to fulfill our mission of moving commerce forward in a fast-moving market, I know that listening to our customers will continue to be critical to our success. And not just to listen, but to hear what our customers are saying about the challenges they face and the strategies they are adopting to meet those challenges.

In our commitment to listening, we commissioned Edgar, Dunn & Company to engage with a broad spectrum of our clients and merchants worldwide. We tasked them with looking beyond the immediate concerns, exploring the challenges and opportunities that lie ahead for merchants and their payment partners in the short and medium term. And, from what they heard, to identify where they believe resources should best be deployed to achieve maximum impact.

Industries are often characterized by their relationship with time. Product development in the automotive sector may span several years, reflecting complex engineering and safety requirements; for an AI startup the agility to adapt quickly to technological advancements and market expectations is what matters most. Despite these differences, both sectors share the need for balancing immediate actions with long-term goals. Similarly, the payments industry must enhance its agility to keep pace with changing consumer behaviors, without compromising on security and the long-term inclusivity of digital payment solutions.

Laurent Blanchard
Chief Executive Officer
Ingenico

It is a difficult balancing act. This white paper sets out what some of those behaviors are and how to respond to them and looks to what both the short and long-term realities of payments may be. As a key stakeholder in the payments industry, Ingenico has a responsibility to help understand and shape the future. This paper contributes to that aim, and I hope that you find it useful.

Laurent Blanchard

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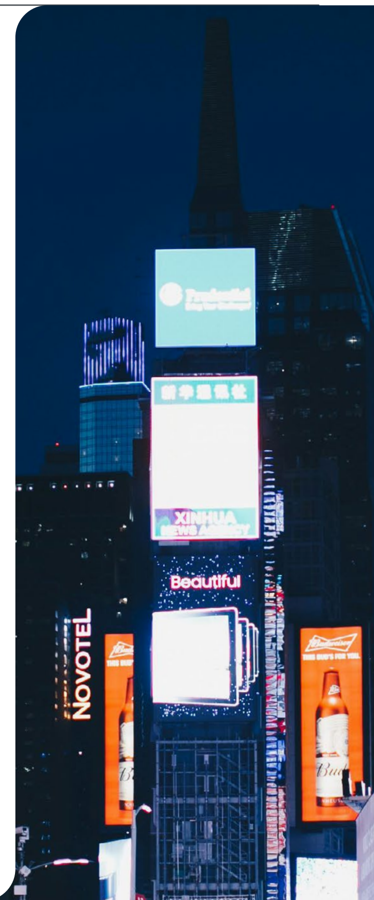


Executive Summary

Merchants need to renew their value propositions

Merchants are grappling with a significant transformation in how they do business driven by disruptive trends that are challenging the alignment of their current value propositions with changing consumer demands.

Retail business models have traditionally taken a product or store-centric approach founded on scale, scope, and efficiency. However, as consumer expectations continue to evolve, reflecting emerging and sometimes conflicting needs, merchants are increasingly needing to renew their value propositions to meet changing demands and expectations.

11%
online sales

89%
offline sales

According to Edgar, Dunn & Company (EDC), online retail sales accounted for 11% of global retail sales in 2022. This means that approximately 89% of retail sales remained offline, but it is a figure that continues to grow.

According to Edgar, Dunn & Company (EDC), online retail sales accounted for 11% of global retail sales in 2022. This means that approximately 89% of retail sales remained offline, but it is a figure that continues to grow. With the declining share of offline retail sales – which will nonetheless remain the dominant mode of retail commerce for many years to come – it is more imperative than ever for merchants to enhance and differentiate the in-store shopping experience for their consumers. Offline can benefit from the shift to online with new opportunities for customer engagement emerging in trends that are visible in the broader business landscape and adjacent areas such as technology, social media and omnichannel services.

Exponential growth in consumer options

The proliferation of both physical and digital retail spaces, in parallel with globalised supply chains, has driven exponential growth in consumer options, price transparency, and availability. While consumer choice was once limited to a handful of brands in a few stores, today they have an array of purchasing choices across a much wider range of products and channels. Consumer expectations for seamless, personalised and ultra-convenient shopping solutions can sometimes be in conflict with the ability of merchants to deliver solutions that address diverse aspects of consumer lifestyles. Omnichannel strategies now provide a unified commerce proposition for merchants with a wealth of data on customer behaviour and preferences which can be used to personalise marketing initiatives, optimise inventory management, and make well-informed business decisions. Customers are already seamlessly shopping and interacting with brands across a diverse range of channels. Unified commerce offers a consistent and integrated experience for consumers who now expect convenience and continuity at every interaction point.

How is the industry responding to the evolving retail sector?

EDC conducted a series of in-depth interviews with over 20 different businesses operating within the payment acceptance and processing ecosystem. The aim was to explore how the industry is responding to the evolving retail sector. This paper establishes a "merchant management framework", consisting of five key pillars. These pillars, i.e. merchant portfolio management, omnichannel customer journey design, proposition partnerships, real-time performance analytics and innovative payments, outline the areas that Payment Service Providers (PSPs) should focus on to optimise their support for merchants in addressing the rising complexities of payment acceptance in the future.

In summary,

the payment industry that serves retail merchants must adapt in response to a dynamic landscape by prioritising the customer payment experience through the delivery of personalised and immersive experiences. The adoption of unified commerce strategies enables merchants to adjust to shifts in consumer behaviour, particularly the increasing use of mobile devices and changing shopping patterns. In today's digital age, consumers expect a seamless shopping experience across various channels. Merchants that successfully meet these expectations, in collaboration with their PSPs, are more likely to thrive.

Purpose

The purpose of this white paper, the conclusions of which were presented at Ingenico's annual Paytech event held in Madrid in January 2024, is to provide Ingenico's clients with actionable strategies to address the challenges of complex payment acceptance requirements and leverage opportunities within the evolving commerce and payments ecosystem.

Geographic Scope

EDC contends that a significant portion of innovation in retailing and payment acceptance, along with thought leadership, is emerging and being predominantly tested in mature retail markets, such as North America, Europe, and Australia. At the same time, it has to be recognised that digital payments and technological innovation originating in Asia are leapfrogging the traditional paradigms observed in mature payment markets. The objective of this paper is to capture and consider the perspectives and insights of Ingenico clients located in North America, EMEA and Australia through primary research and secondary research in Asia and Latin America, exploring the potential adoption of new retailing and payment processing models in the West.

Research Methodology

This Paytech white paper is based on primary research interviews, quantitative data analysis, and secondary research. The research methodology included preparation for the in-market interviews by identifying a target audience including PSPs and players serving retail merchants. Collaboratively developed with Ingenico, a set of interview questions guided over 20 in-depth interviews conducted during October and November 2023. The focus of the in-market interviews was on industry players supporting retail merchants. A smaller number of additional telephone interviews were conducted directly with merchants to maintain a balanced perspective from the demand side.

The interview findings were analysed by transcribing the interviews, highlighting key themes and patterns, and using quantitative data analysis to identify trends and correlations. EDC conducted quantitative data analysis by cleaning, preparing the data, and performing appropriate statistical analyses, to interpret the results. To validate the interview outcomes, thorough secondary research was undertaken. This involved delving into existing research, industry publications, and relevant news coverage.

This Paytech white paper presents the findings, discusses the implications, draws conclusions, and provides recommendations.

The Merchant's Perspective

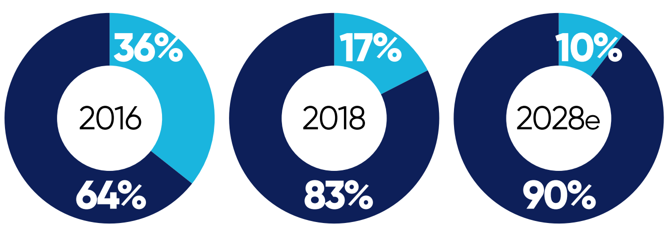
While the retail landscape has constantly evolved over the past two centuries, with an acceleration in recent years, this evolution is set to accelerate even further to meet the needs of the modern, digitally connected consumer.

Retail is adapting to the widespread adoption of digital payments, with merchants leveraging their brands to engage connected customers and create innovative shopping experiences. The digitalisation of the retail point-of-interaction is blurring the lines between virtual and physical worlds, paving the way for an immersive, digitally driven retail experience where payment acceptance is seamless and effortless.

Despite their ubiquity, brick-and-mortar merchants face numerous challenges in accepting digital payments. While the availability of digital payment options is as crucial as stocking merchandise, merchants face a plethora of complexities, including dealing with incompatible Point of Sale (POS) device standards and diverse transaction protocols, the need to accept a wider range of payment methods, and ensuring compliance with a myriad of international and domestic regulations. Additionally, challenges such as risk management, transaction processing costs, and the deployment and maintenance of POS devices pose significant hurdles.

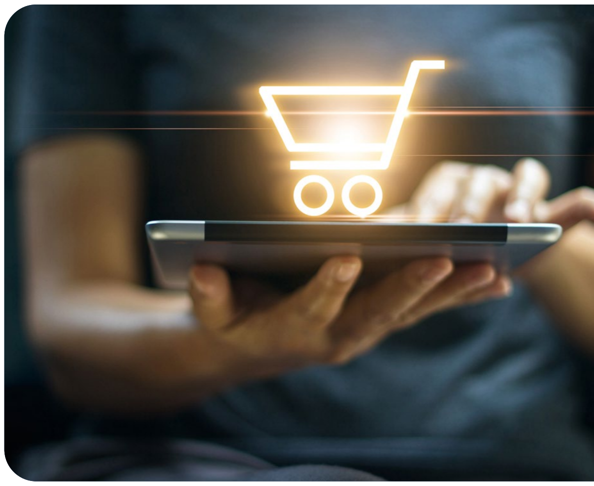
Merchants face numerous challenges in accepting digital payments

Cash vs. **Digital** Payment



Six Interview Themes

01 General Market Trends
02 Enhanced Customer Engagement
03 Reduce Costs & Complexity
04 Create New Revenue Opportunities
05 Implement New Technologies
06 Leverage Data Analytics

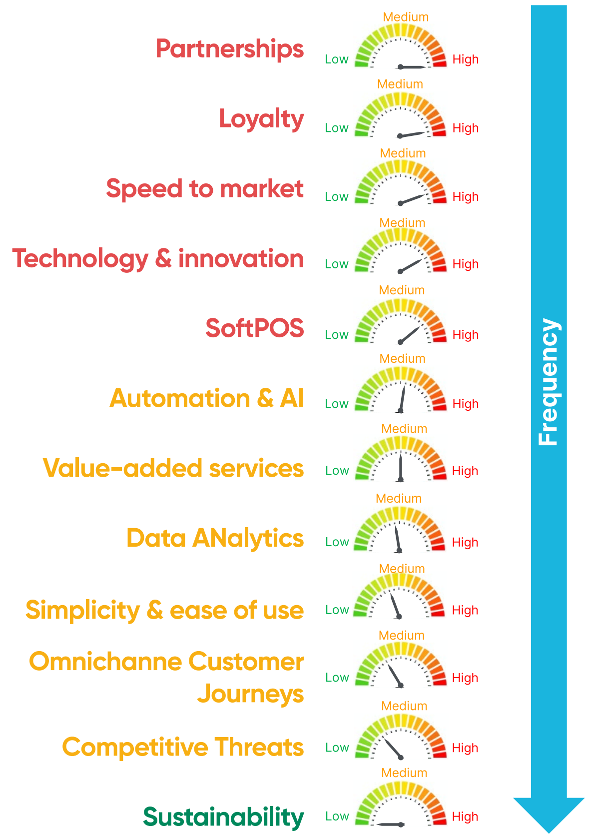


The interview participants, from the global retail payments space, included business leaders, payment experts and representatives drawn from Ingenico's client list. They were engaged with questions spanning across six interview themes.

EDC reached out to over 20 payment service businesses servicing merchants around the world. In exploring their observations concerning in-store payment acceptance and in understanding their expectations for the next 3 to 5 years the goal was to help EDC predict how these will play out in the near to medium term and, ultimately, how they will affect us all, as consumers, tomorrow.

Prioritisation of the main discussion topics

The main discussion topics emerged from the key interview themes can be summarised and prioritised based on the number of times the interviews participants highlighted them. See on the right.

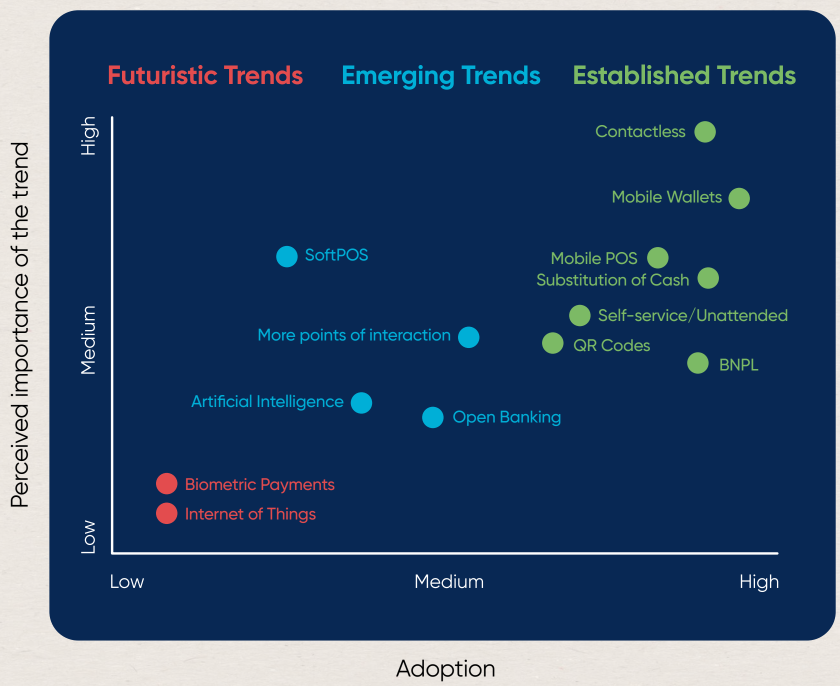


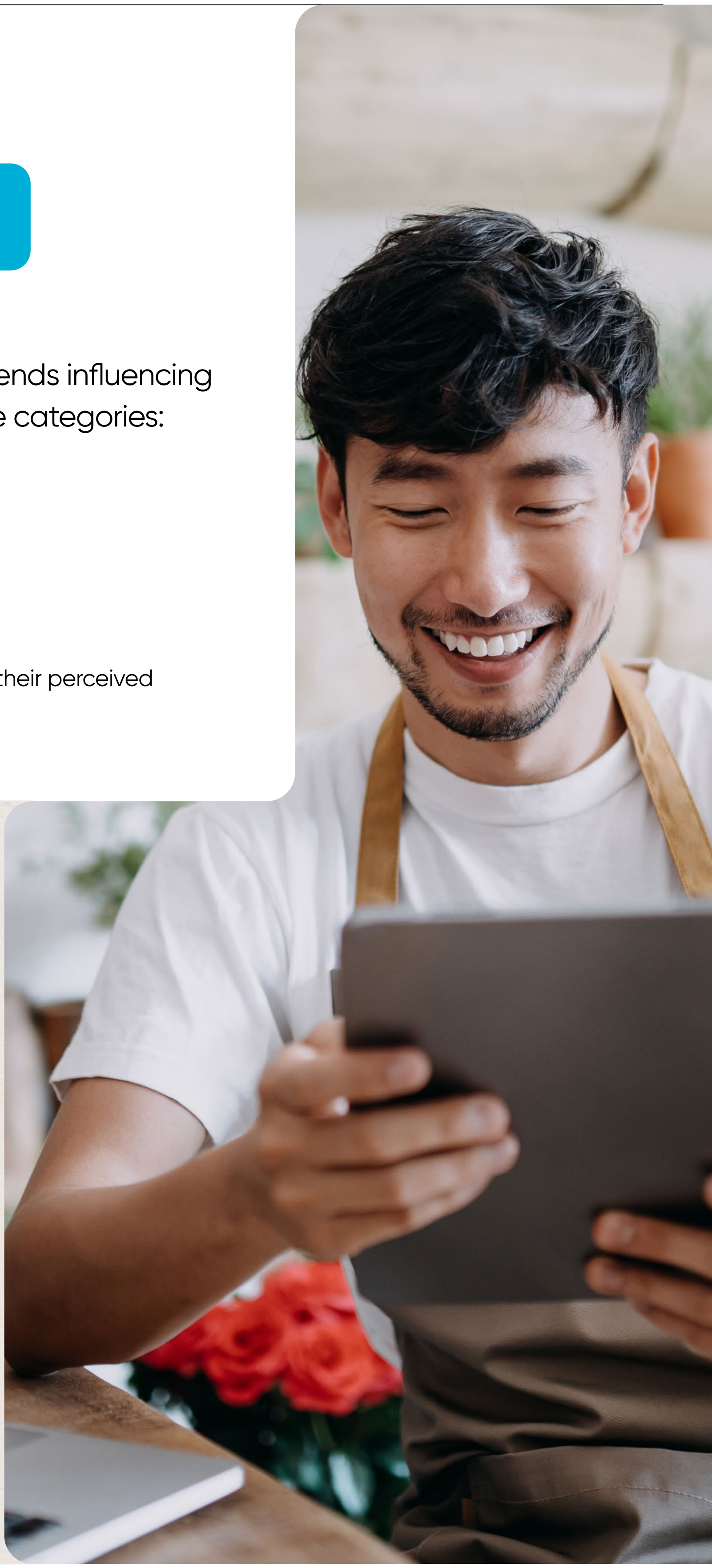
General market trends

The interview participants highlighted the main market trends influencing the payment acceptance landscape, classified into three categories:

Established trends, which are already in use;
Emerging trends, representing the next wave of innovation;
Futuristic trends, indicating cutting-edge technologies that still Require further development.

The extent to which merchants in the market adopted these trends and their perceived importance is illustrated in the figure below.





Enhanced Customer Engagement

Customer engagement is enhanced through a combination of in-store and online experiences via digital loyalty, reward programs and discounting.

Building emotional loyalty between brands and customers continues to increase in importance.

The use of advanced technologies such as virtual reality (VR) and augmented reality (AR) is actively contributing to improved customer experiences. EDC has seen this work well in the pre-purchase customer journeys, specifically during the product or service discovery phase, across both in-store and online platforms.

A physical store often faces difficulty in linking customers to specific past transactions – especially when transactions involve cash or a payment card - due to the frequent switch between devices and channels during shopping. To overcome this hurdle, many merchants promote the use of e-wallets, store apps, loyalty cards, store cards or request shoppers to provide identifying information, such as an email address at the point of interaction. New tokenisation technologies will also address some of the linkages between devices, channels and consumers. In contrast, online or mobile transactions facilitate the automatic collection of customer information to ship the goods. There has been a diverse set of tools to collect customer data across various channels. Moreover, merchants are increasingly investing in omnichannel analytics solutions which allow merchants to track customers across all channels and devices, providing a holistic view of the customer journey.

> Unified commerce is a strategy that integrates all of the merchants' sales channels, including online, in-store, and mobile platforms.

PSPs adopting an unified commerce strategy can leverage customers' payment methods usage to identify and provide loyalty or marketing offers at the time of purchase. Additionally, merchants can use e-wallets or a store app to store customers' personal and payment information. E-wallets that connect various sales channels contribute to a consistent customer experience, streamline payment processes, and encourage repeat sales.

Building lasting customer relationships through loyalty is a strategy that is achievable but requires investment. Launching a customer loyalty program can serve as a strategic initiative to increase revenue. A straightforward approach would see a coffee shop rewarding customers with a free cup of coffee on their tenth purchase, and this can be impactful. At the other end of the scale, collecting customer data, such as an email address, informing shoppers about ongoing sales based on their past behaviour, and providing them with special incentives that reward desired behaviour can also impact revenues significantly. This trade-off, between a simple – or simplistic – approach that requires little investment, but whose impact is also necessarily limited, and a more sophisticated, data-rich approach with the intendant integration and deployment that goes with it is a challenge that many interview participants are wrestling with.

> Customers browsing in store as well as online will tend to spend, on average, three times more than 'single-channel' customers.

Merchants are investing substantially in unified commerce technologies and designing new customer experiences. By deploying advanced technologies and refining processes, they aim to integrate their sales channels, ultimately enhancing the overall customer experience. While unified commerce retailing is still evolving, it is increasingly evident that it represents the future of retail.

Reduce Costs & Complexity

Our research has shown that merchants prioritise cost optimisation when selecting digital payment acceptance solutions, seeking affordability and efficiency. Conscious of the varied fees associated with different digital payment methods, they make informed decisions to optimise cost-effectiveness for their business and adopt a prudent approach.

61% of the interview participants reported they were not satisfied with the current level of automation implemented within their operations.

In addition to cost considerations, merchants want payment acceptance solutions that minimise training time for sales associates and streamline the payment process, including refunds and returns. The deployment, configuration, and security key management of POS devices can be complex, sometimes requiring the involvement of several third-party specialist companies.

For small businesses with limited resources, outsourcing payment acceptance and processing to trusted partners can enable them to redirect time and resources towards core business operations. The integration of self-checkout POS kiosks can also reduce customer wait times and optimise staffing levels, providing a cost-effective solution to streamline payment acceptance.

On the other hand, PSPs want to minimise labour costs by minimising manual intervention. They are leveraging automation, Artificial Intelligence (AI), and machine learning to enhance the efficiency of merchant onboarding processes. Automation of the onboarding process can significantly reduce the time and effort required to get merchants up and running.

Many participants described ongoing digitalisation initiatives focused on using electronic forms, data validation tools, and automated approvals processes to streamline

the capture and sharing of merchant data across their different operational units and associated systems essential for supporting merchants. Interview participants widely acknowledged their effectiveness in expediting the launch of new products and services. The interview findings endorsed the efficiency of specific approaches, particularly agile development, and strategic partnerships, in streamlining the development and rollout of innovative solutions. Furthermore, promoting a culture of experimentation and learning from mistakes emerged as key activities supporting the need for speed when launching new offerings. Teams were encouraged to take calculated

> "We are implementing chatbot and customer service tools for consumers' questions and some predictive tools, to identify trends. However, all of this is still early stage."
>
> **North American Acquiring Bank**

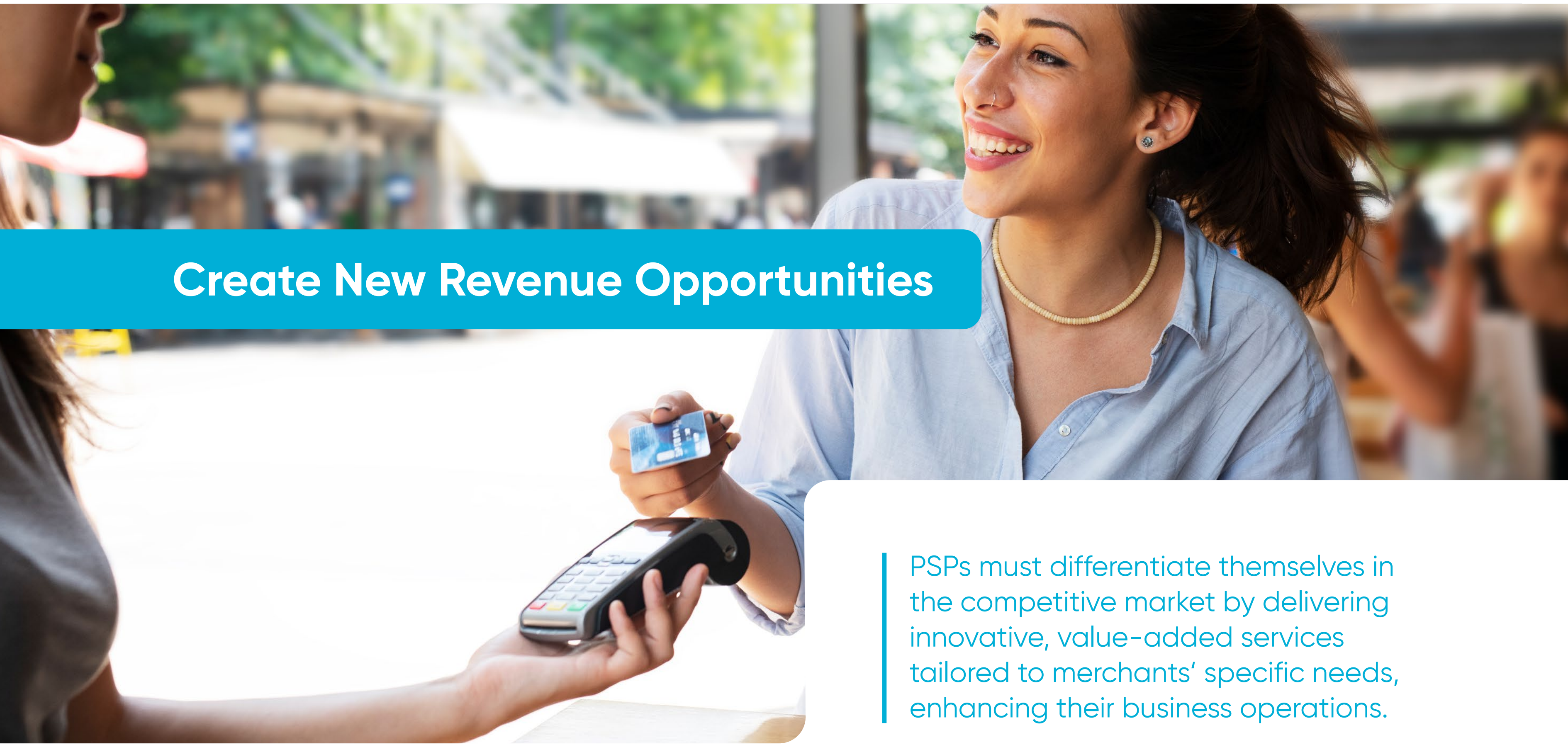
risks and explore novel approaches, facilitating rapid adaptation and continuous improvement.

Automating customer service tasks can improve response times and reduce costs. This can be achieved through the implementation of chatbots, virtual assistants, and self-service portals. The use of automation by PSPs is a trend that is likely to continue in the years to come. As automation technology evolves, EDC expects to see increasingly innovative ways in which PSPs leverage automation to improve their processes and services for merchants.

To further optimise Total Cost of Ownership, remote diagnostics and repairs will increasingly be the norm, driven by the adoption of Android terminals. Employing energy-efficient CPUs that enter sleep mode during off-peak hours contributes to increase optimisation. Additionally, investing in durable terminals designed to withstand the demands of the retail environment can extend their lifespan and minimise maintenance costs. This approach to Total Cost of Ownership, which has obviously been in place for many years, will need to adapt to the new paradigm that Android brings, and the metrics and assumptions used to drive modelling in the past will require updating in the light of these changes.

It is expected that POS devices will evolve into comprehensive solutions seamlessly integrating payment acceptance, inventory management, CRM, and reporting functionalities. This evolution eliminates the need for merchants to manage multiple systems. Android has paved the way for such possibilities. Third-party partners can provide an increasingly wide range of management services, and handle key generation, distribution, storage, and other aspects which had often been done in-house, thus freeing up merchants' time and resources. POS devices should seamlessly integrate with merchants' existing back-office systems, accounting software, and business applications, streamlining data sharing and eliminating the need for manual data entry. PSPs can offer merchants self-checkout kiosks, empowering customers to independently scan and pay for items, reducing costs and improving checkout efficiency.

Plug-and-play POS devices should be delivered to merchants and work instantly as they are unpacked. Empowering merchants with self-service account management through an intuitive merchant portal is key. The challenge facing PSPs is to meet the 'Apple Standard' of automation and merchant experience. A challenge that is almost directly proportional to two factors: the degree of legacy systems that need to be brought together to deliver that experience, and the degree of regulation to which they are subjected. In both of these areas, traditional bank acquirers can often start with structural deficits that require creativity, if not ingenuity, to overcome.



Create New Revenue Opportunities

PSPs must differentiate themselves in the competitive market by delivering innovative, value-added services tailored to merchants' specific needs, enhancing their business operations.

Loyalty programs foster customer retention by rewarding repeat purchases through discounts, points, or exclusive perks. Merchants can generate additional revenue by selling closed-loop gift cards at a premium or benefiting from breakage.

74% of interview participants emphasised the significance of partnerships in the provision of both payment and non-payment processing services.

PSPs offer a range of solutions, including co-branded store cards, Buy Now, Pay Later (BNPL) options, and loyalty programs, to help merchants diversify their revenue streams. These options enable PSPs to retain merchants who seek innovative solutions to engage and retain consumers. Access to financing can significantly improve cash flow, enabling merchants to navigate challenging periods, invest in new equipment, or replenish stock. This offer served as a differentiator for incumbent acquirers, leveraging it as an advantage over more digital-savvy challenger PSPs and in the process generating revenue and merchant stickiness. The proposition was appealing to merchants as, assuming they had a solid performance track record, they could be issued with up to 150% of average monthly revenue in advance.

It is worth noting that these methods of generating additional revenue (or financing) may not be applicable across all types and sizes of merchants. Large enterprise merchants typically develop their own programs or collaborate with specialist providers to ensure they are providing a bespoke solution. Similarly, smaller merchants may find that only specific revenue-enhancing opportunities are realistic for their scale and scope.

Payment providers can offer a wide range of payment solutions for consumers tailor-made for merchants – these are either delivered by the provider or offered through strategic partnerships and third-party specialist companies.

Implement New Technologies

As payment acceptance technology continues to evolve rapidly, merchants face an ongoing challenge to stay ahead of the curve and meet the ever-changing needs of their customers.

QR codes in retail have the potential to redefine the future of retails, offering seamless and personalised shopping experiences.

To thrive in this competitive environment, merchants must proactively embrace new technologies, understand customer preferences, and optimise their payment acceptance processes. The payment card reader, whether it's a magnetic stripe reader, EMV chip reader, or contactless reader, securely reads card data and transmits it to the POS terminal for processing. Secure communication networks, such as Ethernet or wireless networks, connect the POS terminal to the payment gateway and the broader payment processing network.

It is the interaction of these hardware, software, and network components that enables merchants to accept payments securely and efficiently, providing a seamless payment experience for their customers, and, crucially, a guarantee for the merchant that the payment is authenticated and that it will receive settlement for the transaction that has just occurred. While the POS device may be the visible tip of the iceberg, the underlying technological infrastructure plays a crucial role in supporting the payment acceptance process and ensuring the security and integrity of financial transactions. It is this confidence that a POS device processed transaction generates, in combination with the brand guarantees from the issuer and acquirer that has contributed to the digitalisation of payments over the last decades.

The form the POS terminal takes may convey a sense of technical sophistication, representing the future of payment acceptance, and, while the initial impression matters and the aesthetics of a POS device can contribute to a positive customer experience, it is crucial to consider the broader aspects of payment acceptance technology. Smaller merchants may prioritise aesthetics, seeing these elements as directly influencing customer perception and brand image but larger enterprise merchants typically approach POS device selection with a more comprehensive mindset, recognising that functionality, security, and seamless integration with existing systems are paramount. In our interviews they acknowledge the critical role the POS device plays in business operations, understanding that its performance and reliability directly impact their bottom line.

Most of the interview participants highlighted the importance of QR codes. They represent a crossroads of payment and non-payment applications. QR codes offer a seamless and convenient way for customers to access information or interact with a business. Through a simple scan, customers can swiftly access menus, product details, promotions, or loyalty programs. This can lead to increased customer engagement, informed purchasing decisions, and a more personalised shopping experience. Additionally, QR codes enable consumers to make payments in situ via their mobile device, using pre-saved payment methods. Recognised as a future-proof technology, QR codes are likely to remain relevant as mobile technology continues to evolve. Their simplicity, versatility, and ease of use position them as sustainable and scalable tools suitable for businesses of all sizes. QR codes are poised to play an even more prominent role in the future of commerce, particularly in developing markets like Africa, LATAM and Southeast Asia. It is nonetheless important, for all those involved in processing payments, to ensure that the historical confidence that merchants place in their POS is not undermined by the acceptance of fewer payment methods which may offer fewer guarantees than traditional scheme payments.

When looking at technical innovations, not surprisingly SoftPOS emerged as a hot topic amongst the interview participants. This solution has the potential to capture a share of the demand for both mPOS and traditional POS. Initially targeting the mPOS segment, i.e., Square and SumUp dongle-type card readers, SoftPOS aligns with the usage conditions of mPOS, making it an appealing alternative for businesses and consumers. As mPOS relies on smartphones, SoftPOS can easily replace it without disrupting merchants' habits or the consumer experience. Hence, the growth of the mPOS market presents an opportunity for the further expansion of the SoftPOS market. In addition, SoftPOS can also target the traditional POS segment. Some merchants currently use traditional POS systems due to the lack of alternatives, and SoftPOS may offer a more tailored solution to their needs. Many merchants already use Android-based tablets and PDA-type devices for inventory management and business operations, making these existing devices easily adaptable for payment acceptance with SoftPOS technology.

> SoftPOS is not expected to revolutionise the acceptance of payments, but it will empower merchants to streamline their operations and enhance customer experiences through simplicity.

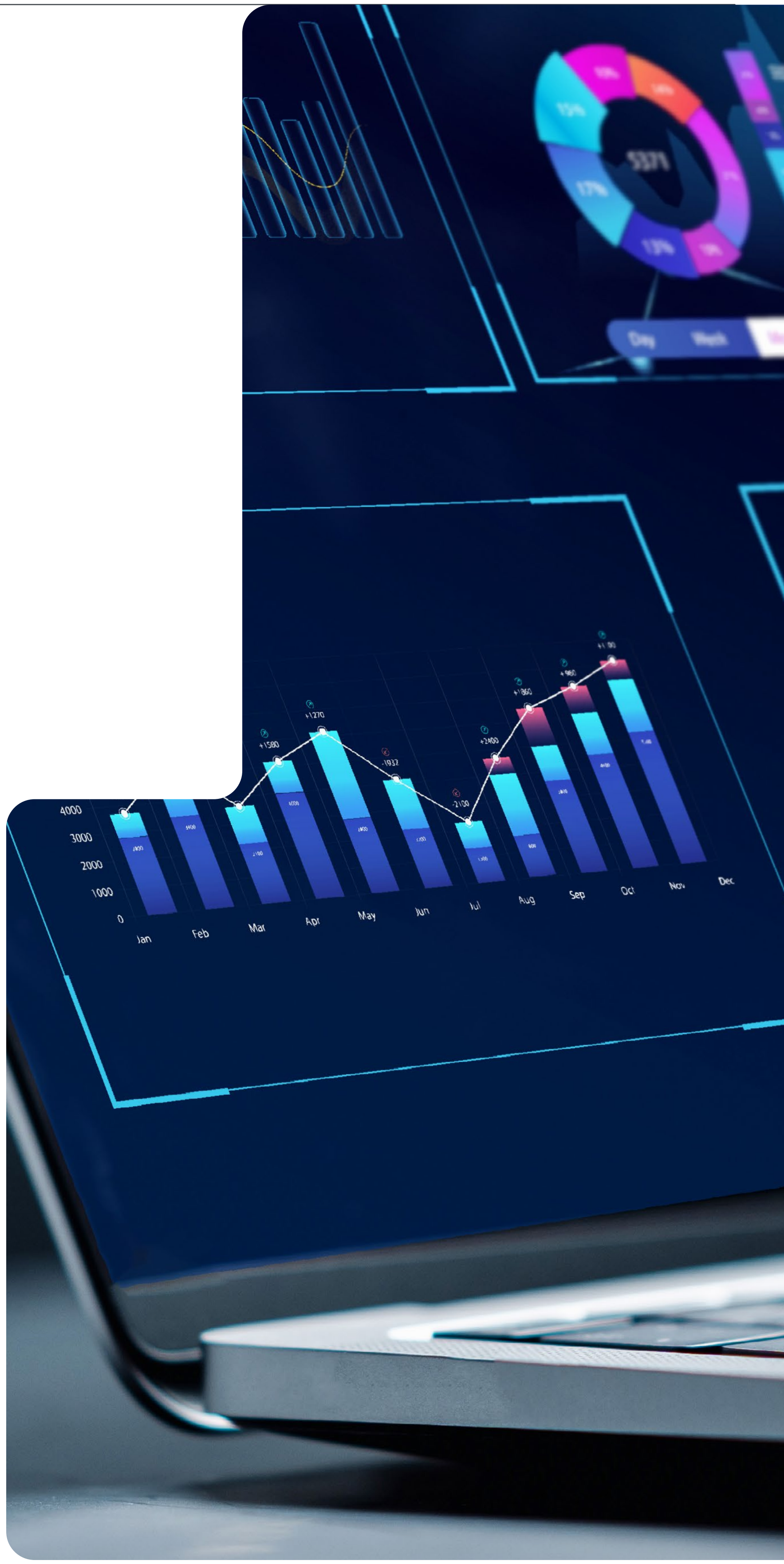
Most of the interview participants described SoftPOS as complementary to traditional standalone and integrated POS devices, suggesting that SoftPOS is unlikely to fully replace traditional POS devices. This is particularly true considering the enhanced functionality and broader support for non-payment applications offered by Android-based POS devices. The most likely use case for SoftPOS among medium to larger enterprise merchants was identified as queue-busting. In contrast, small and micro-merchants, being cost-sensitive, would only switch to SoftPOS if the associated merchant fees are significantly lower than their current mPOS solutions.

> "Self-service is rapidly transforming the retail landscape, empowering consumers to take control of their shopping experience while driving operational efficiency and cost savings for merchants."
>
> **Australian Acquiring Bank**

Many consumers have become accustomed to using self-service options during the pandemic. Self-service options can help merchants reduce costs, occupy less floor space, improve efficiency, and provide a better customer experience. For example, self-checkout kiosks can help merchants to reduce the number of cashiers they need to hire, and they can also help merchants to collect data about the consumer.

Self-service in retail is expected to continue growing in the coming years; however, self-service solutions must seamlessly integrate with existing POS systems. Many of the interview participants believe SoftPOS could be a solution.

Leverage Data Analytics

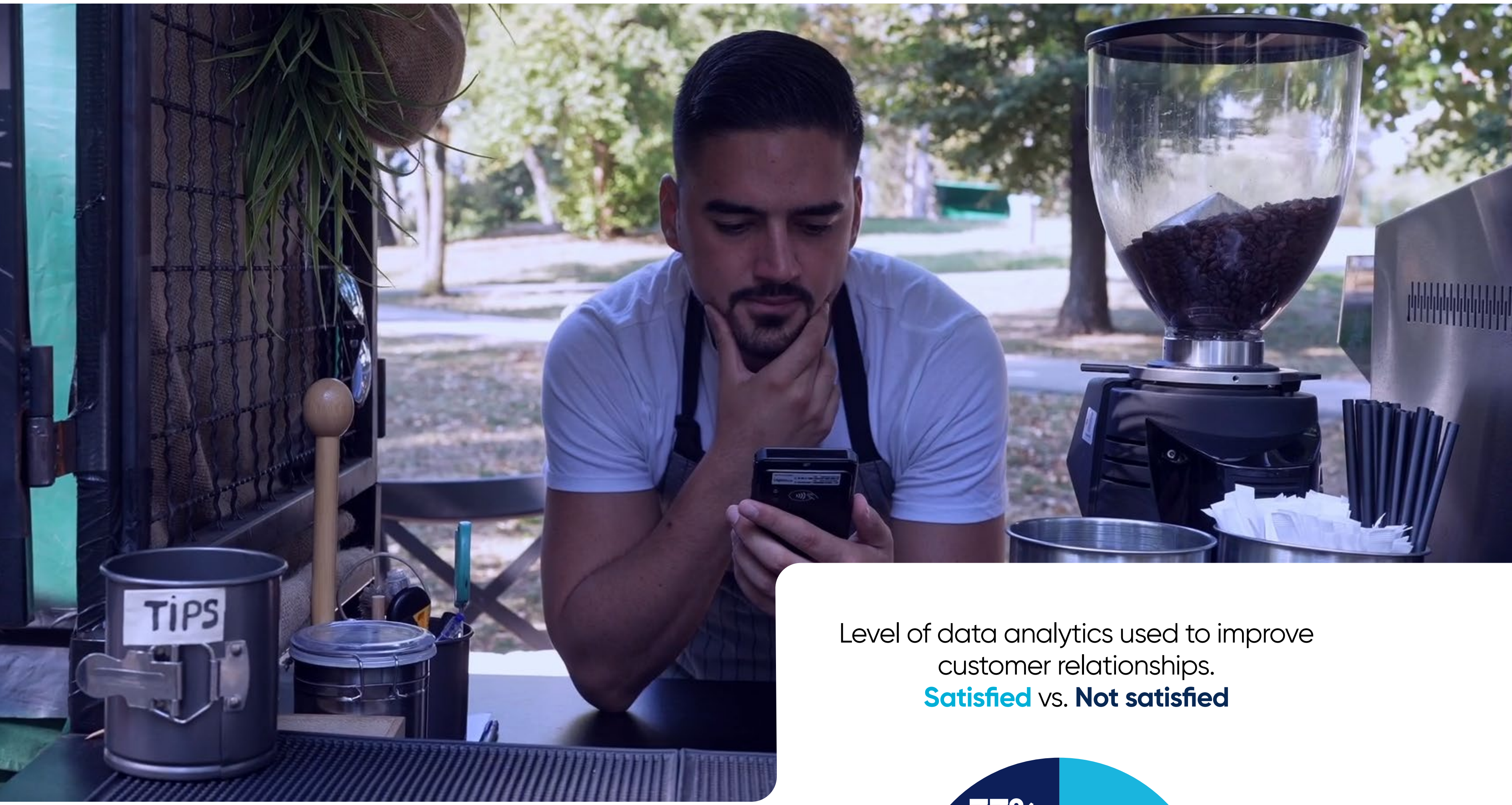


Merchants aim to increase sales, support more channels, encourage footfall, generate repeat business, engage customers, and increase basket size: merchant data analytics focus on monitoring and tracking all these key performance indicators (KPIs).

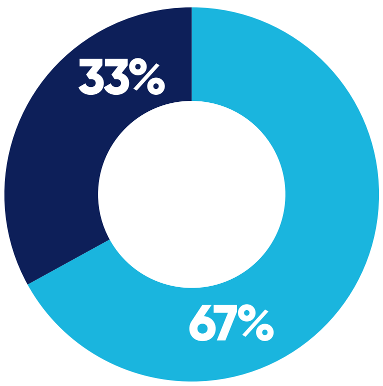
The proverb "Knowledge is Power" emphasises the importance of knowledge in conquering the world. For merchants, data serves as their knowledge. The systematic process of capturing, organising, and communicating payment processing data enable others to make informed decisions. Staying ahead is all about staying informed. Consumer behaviour, spending patterns and payment preferences offer valuable insights for merchants. PSPs can provide this knowledge to merchants, helping them stay ahead.

Data analytics helps enable merchants to personalise recommendations, streamline checkout processes, and engage customers regardless of the point of interaction. Merchants can collect data about their payment processing activity and use this data to make informed business decisions. For example, merchants can use data to identify their most profitable customers, develop targeted marketing campaigns, and optimize their pricing strategies.

Payment providers must empower their merchants to drive sales growth through predictive data analytics. By leveraging AI to identify trends, patterns, and insights in transaction data, payment providers can deliver valuable insights to merchants through dashboards and performance benchmarking tools. This data-driven approach not only enhances merchants' decision-making but also creates monetization opportunities, while also providing essential hygiene factors for merchants to optimize their KPIs.



Level of data analytics used to improve customer relationships.
Satisfied vs. **Not satisfied**



The monetisation of data analytics by payment services providers is a topic fiercely debated amongst interview participants. While the effectiveness of using data analytics to retain merchants and mitigate churn was universally acknowledged, the question of whether to monetise these services remain contentious. Small and micro-merchants are likely to find value in a basic performance metrics dashboard accessible through a web portal, as they prioritise features directly addressing their business needs and enhancing operations. On the other end of the scale, larger merchants invest time and resources in better understanding their customers' behaviour, enabling them to make informed decisions about product development, pricing, and marketing. This can lead to happier customers more likely to make repeat purchases.

Not all types of merchant churn can be avoided. Predicting the likelihood of merchant failures stemming from economic instability or cash flow mismanagement emerged as a common challenge amongst interview participants.

The question arises: can PSPs support larger merchants in their specific data analysis requirements? Providing large enterprise merchants with access to previously unavailable payment-related data can be a powerful differentiator that strengthens merchant loyalty and enhances negotiation leverage during acquiring or payment processing contract renewals.

Strategies For The Future

The size and vertical of a merchant carry significant implications for PSPs, impacting everything from on-boarding to servicing. For large and mega merchants, payment providers can no longer rely solely on key account ownership.

> A fresh perspective is crucial to enhance merchant service delivery.

The customary visualisation of merchants can be illustrated in the Figure on your right. All interview participants reported segmenting the market by merchant size tiers, ranging from Tier One, comprising large and mega merchants, to Tier 5 micro-merchants.

This categorisation has, in the past, helped payment processors, ISO, ISVs, acquirers, and other industry players understand the scale and complexity of merchant operations, enabling them to tailor services and solutions accordingly. While this categorisation remains relevant, EDC believes a new perspective is now necessary to serve merchants more effectively.

Merchant Management Framework

The new "merchant management framework" will have a fresh focus on meeting the specific needs of merchants, designed according to their size and vertical.

This updated approach will be applicable to every type of PSPs, including ISOs, ISVs, PayFacs and Acquirers.

The Merchant Management Framework is built upon five key pillars as shown in the Figure below.

For Tier Four and Tier Five small and micro merchants, there is a plethora of ISVs and Fintech companies, offering a long list of value-added services. This has effectively enabled these cost-conscious merchants with straight-forward requirements to be served by 'basic' payment processors and prioritise cost-effective solutions. They can consolidate their business needs with a narrower set of providers, and in some cases just one single provider. A simple "one-stop" proposition is what is required, though there is room for a vertical approach here. Segmentation of this market at Tier Four level may make sense in some markets, depending on market maturity and competition.

On the other end of the scale, Tier One merchants are typically operating on an international or national/regional basis. They often have complex payment processing needs, managing multiple retail brands or subsidiaries, and require robust enterprise payment acceptance solutions capable of handling high transaction volumes. Payment providers must develop new and bespoke business propositions to retain large and mega clients within their service ecosystem. A bespoke proposition involves offering a specifically designed solution tailored to meet the unique needs and requirements of the merchant. It goes beyond simply providing a standard product or service; instead, it involves a careful understanding of the customer's specific context, retail sector or vertical, challenges, and objectives, crafting a solution that addresses those needs in a precise and customised manner.

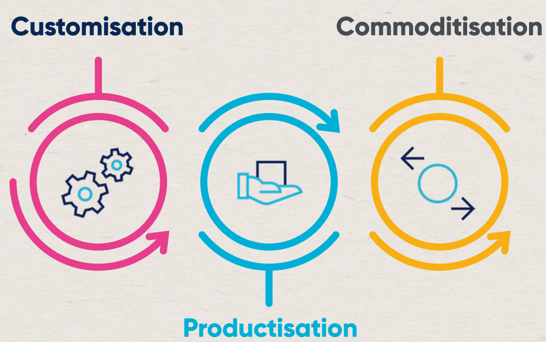
> "Our solution is very basic, equal for each vertical. Keeping it simple is crucial: small merchants look for a solution that can go live and work instantly."
>
> **European ISO**

Tier Two and Tier Three merchants are the middle market, where the potential for disintermediation of merchant relationships by ISVs and Fintech companies continues to pose a significant threat, requiring incumbent acquirers to specialise.

> "The market is changing rapidly in terms of technological innovation, and one of the challenges we are facing is that we have to move as quickly as challengers."
>
> **Australian Acquiring Bank**

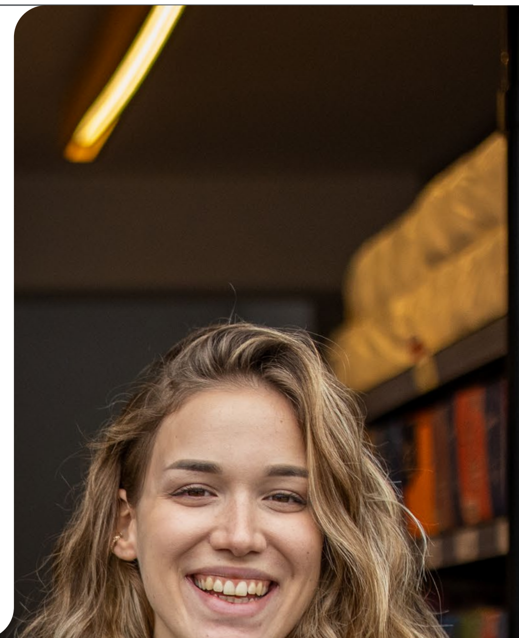
Payment providers are incorporating certain features initially present in bespoke propositions into specialist or hybrid propositions. As shown by Figure 5.0 below, this progression follows a flow from customisation, to productisation and ultimately commoditisation, where margins are lowest and competition strongest. Winners will be those who can satisfy the needs of each segment quickly, economically and effectively. This implies that their technology stacks need to mirror this triptych by being agile, efficient and feature-rich.

Flow from feature customisation to commoditisation



> "Unique technological features will become a commodity tomorrow, before becoming outdated."
>
> **North American ISO**

Merchant Portfolio Management



Effective Merchant Portfolio Management must be led by specialised Key Account Management (KAM) teams with a vertical focus, ensuring a differentiated treatment of merchants and optimised allocation of resources that fosters merchant growth and strategic alignment.

The implementation of Merchant Portfolio Management should initially focus on Tier One merchants and only once perfected in this context, can it then be deployed to Tier Two or Tier Three merchants.

Tier One merchants, representing the top echelon in terms of sales volume and market influence, demand a sophisticated and tailored approach to Merchant Portfolio Management. To effectively manage these high-value partners, it is crucial to employ dedicated KAM teams with deep expertise in the specific vertical market in which the Tier One merchant operates. Interview participants provided various examples of Merchant Portfolio Management that included people and processes supporting a product proposition designed and built specifically for individual merchant clients. One interviewee detailed a dedicated deployment team responsible for distributing POS devices to facilitate a rapid rollout of multiple new store openings. Another interviewee mentioned a specialised team of experts with specific knowledge and experience addressing challenges faced by merchants in the service sector, particularly those supporting healthcare professionals.

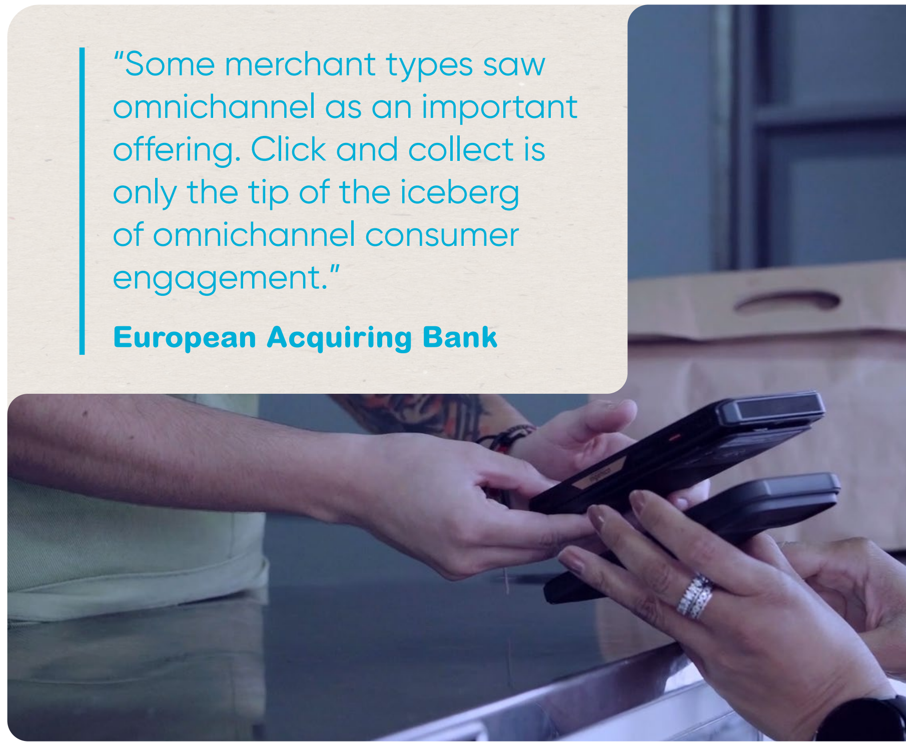
Omnichannel Customer Journey Design

In today's omnichannel landscape, achieving a seamless and consistent customer journey is crucial for business success. However, due to the diverse nature of customer interactions across various channels and different retail verticals, there is no single, standardised omnichannel journey.

Omnichannel for a grocery supermarket is very different from omnichannel for a fashion store. Therefore, PSPs must adopt a collaborative approach with merchants to design customer journeys that are tailored to their specific needs and preferences. This involves centralising customer data from all channels to gain a holistic understanding of customer behaviour. This understanding should facilitate easy channel switching, enabling customers to move effortlessly between touchpoints and supporting a variety of customer interactions across channels to provide a consistent and engaging experience.

Based on the interview participants' feedback, it is apparent there is an absence of standardised omnichannel journeys. Therefore, PSPs that can effectively adapt and learn from their merchants will be well-positioned to develop more standardised omnichannel experiences that cater to the needs of multiple merchants. This ability to adapt and learn will be crucial for PSPs to thrive in the evolving retail landscape, where seamless omnichannel experiences are becoming increasingly essential for customer satisfaction and business success.

This lack of standardisation poses a challenge for PSPs, making it difficult to develop generic unified commerce solutions to address omnichannel customer behaviours that can be easily implemented across a wide range of merchants.



> "Some merchant types saw omnichannel as an important offering. Click and collect is only the tip of the iceberg of omnichannel consumer engagement."
>
> **European Acquiring Bank**

However, PSPs that can effectively collaborate with their merchants and gather insights from their omnichannel experiences will be able to identify common patterns and pain points. This knowledge can then be used to develop more standardised unified commerce solutions that address the needs of a broader range of merchants.

By embracing a data-driven approach and continuously learning from their merchants, PSPs can play a pivotal role in shaping the future of unified commerce. Exchanging data with logistics and parcel couriers and serving as the centralised information hub for all payment-related activities for the merchant will help support omnichannel experiences. This can empower merchants to create seamless and consistent customer experiences across all touchpoints, regardless of the specific vertical or product category. Such an approach will create client stickiness and a more integrated offering.

Proposition Partnerships

Interview participants highlighted the increasing prevalence of partnerships among PSPs. Partnerships that not only enhance the proposition but also leverage expertise, resources, and merchant relationships were significant trends that interview participants described in detail.

PSPs are increasingly collaborating with third-party experts, such as ISVs, to gain access to specialised knowledge and skills in areas such as specific retail verticals, non-payment services, fraud prevention, data analytics and loyalty. This allows PSPs to offer more comprehensive and tailored solutions to their merchants.

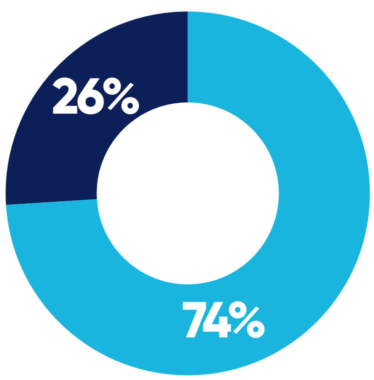
Some of the interview participants discussed partnerships that enabled them to leverage the resources and infrastructure of their partners, reducing the need for costly investments in internal development and maintenance. This approach allowed PSPs to focus on their core competencies and achieve greater operational efficiency. Furthermore, PSPs are forming partnerships with other businesses that have established merchant relationships, such as ISOs, ISVs, and technology providers. This strategy enables PSPs to reach a wider network of merchants and expand their customer base.

Partnerships foster collaboration and knowledge sharing, leading to faster innovation cycles and the development of cutting-edge payment solutions. This allows PSPs to stay ahead of the curve, meet the evolving needs of their merchants, and access emerging technologies and trends through an ecosystem of partners.

63%

of interview participants scored technology and innovation as important or highly important.

Partnerships - Level of Importance
Highly important vs. **not important**



Performance Analytics

All merchants require performance analytics, but not all of them will need the same type of analytics. Most interview participants did not have high expectations of making money directly from analytics. Implementing and maintaining an analytics infrastructure requires significant investments in technology, personnel, and data management. Balancing these costs with the indirect benefits of analytics can be a complex task.

During the interviews, data analytics initiatives that generated insights directly applicable to improving business processes, increasing revenue, or reducing costs for merchants were extensively discussed. It was noted that monetising data analytics was almost impossible. This is an interesting finding because although the value of data is recognised, its pricing is conflagrated into other features and benefits. Overcoming the challenge of non-monetised data analytics will come from demonstrating its value through tangible benefits and aligning analytics initiatives with strategic business objectives. The type and sophistication of data analytics that payment providers were able to share with merchants varied significantly based on the size of the merchant. A small merchant will be satisfied with basic sales performance data, an end-of-day dashboard, and a comparison with the previous day's sales, the previous week, the previous month, or the previous year. Conversely, a large merchant will require something more sophisticated.

Several interview participants described the need, especially for their largest merchants, to have a bespoke data analysis proposition. This includes predictive modelling, for example, analysing consumer transaction behaviour by measuring sales performance, chargebacks, refunds, and returns. Benchmarking data with similar merchants in the same vertical was also highlighted. Additionally, other interview participants discussed predictive maintenance technology that used data from the POS device to predict battery life and count the number of card dips, notifying the merchant when a device may require a swap-out or immediate charging. More generally, the sharing of data analytics with device manufacturers and terminal estate managers, can improve the merchant experience and enable PSPs to achieve greater customer stickiness.

Another aspect of performance analytics involves tracking employee productivity, sales performance, and customer satisfaction to identify training needs, improve employee engagement, and optimise staffing schedules. In the hospitality industry payment providers are exploring the frequency of transactions through differently located POS devices across the business in order to load balance staff in the restaurant or bar or to help locate fixed POS devices compared to the mobile devices being used for pay-at-table services. In another example, analytics includes tracking the number of transactions processed per employee by hour, shift, or day. This can help identify areas where employees may need additional training or support. Analysis of sales data also helped identify cross-selling and upselling opportunities for the merchant, enabling employees to increase their average order value. Obtaining these in-depth insights is a challenging task, and interview respondents consistently highlighted the need for strong partnerships with Tier One merchants to develop solutions that are relevant and valuable to them.

> "Data analytics differentiates between large and small companies: corporates are willing to commit to a contract. Small companies have no willingness to pay, but they prefer to have a simple solution."
>
> **European Acquiring Bank**

Innovative Payments

The retail payments landscape is undergoing a rapid transformation driven by continuous technological advancements and emerging innovations.

All interviewees described a dynamic environment that poses a significant challenge for both merchants and PSPs to keep pace with the ever-evolving landscape. There are new payment methods, new in-store technologies, new consumer points of interaction, new acceptance channels and evolving omnichannel customer journeys. No single merchant or PSP can effectively navigate this complex landscape alone. Consequently, collaboration and strategic partnerships are becoming increasingly crucial for success in this competitive market. The need for a partnership ecosystem has already been emphasised, and this is essential to foster innovation and accelerate the development of new payment models and methods.

Moving forward, PSPs must adopt a proactive and forward-thinking approach to stay ahead of the curve. By embracing innovation, fostering collaboration, and prioritising merchant needs, PSPs can position themselves as trusted partners for merchants, navigating the complexities of the retail payments landscape together.

While no interviewee had a definitive application of AI, it was a consistent theme in the interviews. It is noted that AI can enable PSPs to personalise payment options based on individual customer preferences, purchase history, and real-time context. This includes offering alternative payment methods, such as BNPL options or targeted offers to consumers, at the POS. Can anyone deliver this today? It depends. What is clear based on the interviews is that innovative PSPs prioritise understanding and addressing the needs of their largest merchants. They actively seek feedback, analyse transaction behaviour, and identify pain points to develop solutions that create real value for the merchant. The leading PSPs will foster a culture of collaboration and open innovation in technology. They partner with merchants, technology providers, and best-in-class specialist solution providers to explore new ideas and develop disruptive solutions.

Conclusion

In conclusion, as merchants renew their value propositions the PSPs servicing them will need to adapt accordingly and continually align their strategies with those of their clients. Leveraging innovative and agile solutions that enable them to deliver what their clients want, and fast, will be critical. By shifting to a more merchant-driven approach, by fostering collaborative innovation, Payment Providers will be better equipped to navigate the changing complexities of the retail landscape and drive sustainable growth for all stakeholders.

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