Convergence & Opportunity
in the Payments Industry

Merchant Warehouse provides insight into an ever-changing payments landscape.

INTRODUCTION

The tipping point is rapidly approaching for the retail point of sale. The fast pace of innovation in payment solutions, coupled with increased consumer expectations of speed and convenience will meet head on with the merchant's need for flexible, highly secure and comprehensive payment processing solutions that optimize critical space at the point of sale and provide customers with more value and an optimal purchasing experience.

We have already begun to see a rapid proliferation of new payment types at the point of sale across all five merchant tiers. The traditional methods, such as cash, credit and debit cards are being augmented by new offerings including QR / retailer-specific eWallets, NFC (near field communication) and EMV (Europay MasterCard Visa), mobile couponing and merchant aggregators like PayPal and Google's MobileWallet. Currently, the vast majority of merchants require multiple devices and systemsto process the various payment options, but this is neither feasible nor affordable for merchants. The need for payment convergence is the obvious imperative.

For value-added resellers and POS (Point of Sale) Developers looking to provide greater value to their merchant customers, this rapidly evolving market dynamic offers a unique opportunity as the payment solutions, technology platforms and payment processors are all coming together to offer unparalleled convenience and simplicity in new payment solutions. "This is an opportunity that crosses boundaries in terms of the merchant, reseller, or ISV size." notes Dan Dufault, vice president of marketing at Merchant Warehouse, "The opportunity for all participants in the 'POS ecosystem' — merchants, consumers, payments solutions providers, POS developers, Value Added Resellers and issuers — is immediate and the perceived availability of additional value is clear."

TECHNOLOGY ADVANCING PAYMENT POSSIBILITIES

While the promise of greater POS flexibility and faster payment processing is nothing new, important advances in the last few years have made it more realistic for all merchants, regardless of size. Cloud-based architecture and related technologies are key drivers of mobile and integrated retail POS solutions. According to the "Third Annual Small and Medium Business Technology Adoptions Study" released recently by IT trade association CompTIA, "cloud computing and mobility" show the highest planned adoption rates of any information technology.

Concerns over bandwidth, security, latency, cost and data access have all been resolved and intense competition among cloud computing providers suggests that these problems are truly a relic of the past. As a result, merchants now have access to multiple solutions that are either PCI (Payment Card Industry) Council compliant or secure and outside of PCI scope.

WHAT WOULD PAYMENT CONVERGENCE LOOK LIKE?

Imagine this scenario: A customer isat the mall and has the choice of two stores to purchase a new flat screen HDTV. The customer has joined the loyalty programs for both stores, and both stores previously sent an email with a 20 percent off coupon, but the customer doesn't have the coupon or a loyalty card with them physically — only a smartphone.

Does the customer go to store A, where he can ask a clerk to look uphis loyalty account information and lobby with the clerk to get the discount and add the purchase to the loyalty program?

Or, does the customer go to store B where a simple wave of the smartphone by the NFC (Near Field Communication) reader, recognizes the customer, applies the discount and credits the loyalty program and suggests complimentary products and/or services available at that store based on the customer's prior / current purchases?

The answer is easy for the customer. Payment convergence means faster, simpler and far higher-value transactions for both the merchant and the customer. Online and big box retailers have differentiated themselves very effectively over the last several years with the ability to offer a high-value POS and shopping experience that is tailored to the customer. Convergence at the retail POS will extend this same level of value beyond online retailers. It is that simple.

At the same time, payment options and multi-tender transactions are also multiplying rapidly. For most customers, credit and debit cards will remain the primary payment option, but more and more consumers are embracing an array of faster and more secure payment types. Retailer-specific QR wallet options like that launched by Starbucks this past year are being adopted by consumers at exponential rates. Starbucks acknowledges that more than 5 percent of franchise-wide transactions are now done via their mobile QR eWallet. Additionally, QR-based solutions for payment and gift & loyalty programs are also seeing exponential growth by providers such as LevelUp, who now have more than 1,300 active merchants across a dozen U.S. cities. Further enabling convergence is the onset of new device technologies including NFC and EMV. NFC (Near Field Communication) chips are embedded in mobile phones and transmit radio transmissions (13.56 MHz) that allow them to operate as either a payment conduit (formerly a card) or a reader. EMV (Europay MasterCard Visa), another chip-based solution is embedded in a MasterCard or Visa smart card. There are more than 1.3 billion EMV compliant chip-based payment cards in use worldwide today.

Enter online gift, loyalty and couponing. When Groupon's initial public offering netted $13 billion last year, second only to Google, it truly ushered in a new era for mobile couponing. The total redemption value of mobile coupons will exceed $43 billion globally by 2016 according to Juniper Research. Some 65 percent of respondents to a survey from Pew Internet & American Life Project reported that theythink most people will have fully adopted a mobile wallet like PayPal and Google's Mobile Wallet by 2020. At the same time, many retailers are focusing on expanding their own gift and loyalty card programs, with nearly half of the respondents to RIS News' "Store Systems Study 2012" reporting that they plan to offer coupons by NFC or RFID loyalty cards. The integration and convergence of these offer types at the merchant level has begun and the race to drive this value through to the customer is on.

The urgency building in the market around this new 'opportunity value' has yielded dramatic advances in POS payment-related technologies and security. Flexible solutions exist across merchant tiers that can handle a myriad of payment types —both physical and virtual. As new payment types and offers emerge, merchants will require seamless integration, updates and security with zero business disruption.

While retailers are essentially responsible for data security throughout their enterprises, they can now make use of compliance enabling technologies that make it both cheaper and easier to maintain compliance. While some payment security standards have been established by PCI, there are payment solutions that are outside of PCI's scope and are reliably secure. In either case, cloud-architected, integrated security solutions offer merchants and their customers the best real-time defense against ever-morphing security threats. Importantly, security considerations will protect both merchants and customers. The implementation and regular maintenance of secure networks can offer locked-down protection and the ability to update security over the network means merchants will remain protected evenas new threats are discovered.

ENGAGING CUSTOMERS, ENACTING TRANSACTIONS, ANYTIME, ANYWHERE.

Groupon has shown the retail world thatcustomers are quite happy to purchase before they even enter the store or restaurant. Mobile solutions now allow customers a powerful new array of tools to purchase at their convenience, and retailers can take advantage of these technologies as easily as companies like Groupon.

Customers find QR codes in a variety of places, whether in the pages of a magazine or newspaper advertisement, on a billboard, or in the store itself. When a customer scans the QR code with a smartphone they are brought to a specific webpage. The page can offer product information, but innovative merchants now are using QR codes to offer coupons, loyalty program benefits, and ultimately to make the purchase. The benefit is that QR codes engage customers immediately when they are ready to shop or to buy, and provide an extra incentive for purchase. The codes can also be used to provide one-touch purchasing anywhere in the store, so that customers experience greater value and merchants build greater customer loyalty.

"This is an opportunity to experience a far higher value transaction at the merchant counter," explains Dan Dufault, vice president of marketing at Merchant Warehouse, "this will condition a new buying paradigm. Consumers are beginning to expect a buying experience that leverages the availability of payment types, the merchant programs they participate in and the purchases they ultimately make. Preference and buying decisions will increasingly be driven by these dynamics."

The final step in this process will be at the payment gateway and not the terminal. Right now most processing is handled by older "legacy" protocols. In very short order, new gateways will be available that will be able to handle multitudes of payment options. Ideally, a one-time migration will set up the VAR and the merchant to be ready for all current and future payment types. Instead of developing a single protocol for each payment option and requiring new hardware and softwareupdates at the point of sale, these new gateway-centric solutions will offer a higher-level approach to payment processing-handling all the transaction processing at the gateway and not the terminal. Merchants will be able to accept new payment types immediately via a seamless online software update.

CONSUMER DRIVEN RETAIL CHANGE

Consumer adoption of smartphones is a primary driver of change in payments. According to ComScore one out of every three people in the United States (101.3 million) own a smartphone. The market is largely controlled by Google's Android operating system (49 percent) and Apple's IOS (30 percent). And mobile access to the Internet is expected to exceed laptop/PC access this year. According to eMarketer.com, 38 percent of respondents already express a preference for using their phone for retail commerce.

Consumers have not shown a preference for any single payment solution, raising the risks for merchants betting on a specific platform. Merchants that can serve customers regardless of their payment preference, however have a unique opportunity to capture new customers precisely at the point where access to a payment solution may be most influential. While consumers have grown accustomed to a certain degree of flexibility while shopping online, they will increasingly demand that same flexibility, choice and value at retail locations, coupled, of course, with superior customer service.

Clearly, customers have embraced loyalty programs across multiple market segments. According to an AC Nielsen survey, over 60 percent of U.S. households said that loyalty card programs were important in their shopping decisions. A report from Juniper Research argued that mobile couponing would grow from a projected $5.6 billion in 2011 to more than $40 billion globally by 2015. Customers are also embracing QR codes, though in more limited fashion: According to Forrester Research, 5 percent of US adults have scanned QR codes in 2011. That represents 500 percent growth in a year, and among smartphone owners the adoption rate is 15 percent. These customers most often expect QR codes to offer product information or a coupon.

BUSINESS CASE FOR CONVERGENCE

Currently merchants have access to secure, stable, and reliable payment technologies, but they have had little incentive to upgrade. That is quickly changing. The mobile devices that customers bring into stores are the leading edge of innovation and are beginning to put pressure on merchants. Customers that can purchase a product from an online retailer with one click, expect the same simplicity and speed of service from brick-andmortar merchants as well.

Providing the customer with a seamless payment experience carries many benefits for the merchant. First and foremost, it creates more elegant high-tech counter-space, where a single reader can handle credit, debit, NFC, EMV, gift and loyalty cards, as well as mobile coupling, PayPal and mobile wallets. Software updates promise to include new mobile payment solutions without the need for new or additional hardware, taking the mystery out of determining which payment solutions will take off and which will crash and burn. With the ability to make real time updates to software systems, instead of a clutter of multiple readers, merchants can have a single piece of hardware, simplifying maintenance, and even more importantly, training. Lowering maintenance and training costs will make it a simple choice for merchants.

Today, resellers and ISVs are in a unique position. Unlike many technology innovations of the recent past, the convergence of payment possibilities offers an opportunity regardless of the size of the merchant, the reseller, or the ISV. Solutions are open and available to the most technologically advanced companies, as well as companies that are ready for a more significant technology upgrade. VARs and ISVs that recognize the opportunity will be able to help their current customer base as well as expand their reach to new merchants that are interested in developing a competitive advantage.

The ultimate beneficiary, undoubtedly, will be the consumer. With the advent of online retailing, customers choose a brick-and-mortar store for providing the best overall customer experience. More recently, consumers moved online as speed, selection and price gave online retailers a competitive advantage. Now, if customers can get the same speed and convenience, coupled with better service and the immediate gratification of walking out of the store with the product in hand, the balance may again shift. It will not matter which mobile device they have, what kind of cards they carry, or how they want to pay: Merchants will be able to offer value and an optimal experience to every customer. Payment convergence takes the thinking and planning out of the purchase decision. And, with integration of loyalty programs and mobile couponing, customers can be assured they are getting the best deal available. Fundamentally, this convergence allows a reshaping and rebalancing of the merchant/consumer relationship. Consumers with a new buying power can finally choose where, when and how to making their purchases based on who provides the best customer experience.

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CONCLUSION

Converging payment solutions equally benefit VARs, merchants and consumers. For companies that migrate to these new payment gateways and adopt converged solutions there are no losers, just greater value for their customers. There are no new complex technologies for customers or merchants to learn, but rather a seamless solution implemented by VARs that allow customers to get what they want and merchants to sell what they need securely, confidently and speedily.

Technology innovation in this sphere will drive VARs towards convergence whether by choice (now) or not (soon). The choices are whether they will embrace the opportunity to gain a competitive advantage for themselves and their merchant customers and whether they will be able to deliver an improved customer experience to an emerging consumer base that has already adopted the mobile value proposition.