TURN PAYMENTS INTO A CX DIFFERENTIATOR WITH BNPL, DIGITAL WALLETS AND BETTER ORCHESTRATION

retail TouchPoints®

SPECIAL REPORT

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INTRODUCTION

The seamless nature of digital commerce has inspired consumers to expect more from the payment experience everywhere they shop — online, in-store and even via social channels. But although brands have invested heavily in functions like product discovery, merchandising and on-site personalization, consumers largely face the same old headaches when they are finally ready to make a purchase.

"Too many friction points all along the customer journey is a big pain point for consumers, and certainly the checkout or transaction moment plays a part in that friction," said Margot Juros, Research Director for Retail Technology Strategies at market intelligence and advisory firm **IDC** in an interview with *Retail TouchPoints*. "**Customers today expect to be able to shop where and when they want and use the payment method they want**."

As a result, consumers are increasingly turning to digital payment methods designed to make the process faster and easier, and many of these new offerings are benefiting retailers as well. For example, research from **Cornell University** found that adding **"one-click checkout"** leads online shoppers to spend an average of **28.5%** more compared to their previous buying levels.

“The COVID-19 pandemic really shifted consumers’ approach to purchasing in terms of the payment methods they use and how often they visit in person,” said Sam Gazeley, Digital Payment Technologies Industry Analyst at the global technology intelligence firm **ABI Research** in an interview with *Retail TouchPoints*. “So **even though customers are making more purchases online and using delivery services more often, stores shouldn't become a relic of the past**. Whether it's in-store or online, the customer expects a seamless experience across all touch points. The most important concepts here are **convenience** and **choice** — **customers want to choose how they pay for products and services and spend the least amount of time possible doing it**.”

In fact, more than **15%** of shoppers say they will literally **abandon a retailer and shop elsewhere if a merchant only has limited payment and financing choices available**, according to a recent **IDC study**. In short, now is the time for brands and retailers to embrace the new CX battleground — the payment experience. This will include:

- The introduction of new financing options like **buy now, pay later**, which are increasingly impacting consumers’ brand preferences;
- Consideration of new payment technology such as **mobile wallets**, **biometric-based verification** and **digital currencies** (in particular those backed by central banks); and
- **New software solutions that help orchestrate all the varied payment solutions** retailers now find themselves incorporating across different payment processors, new payment types and the various payment “rail systems” like ACH and the newly launched FedNow.

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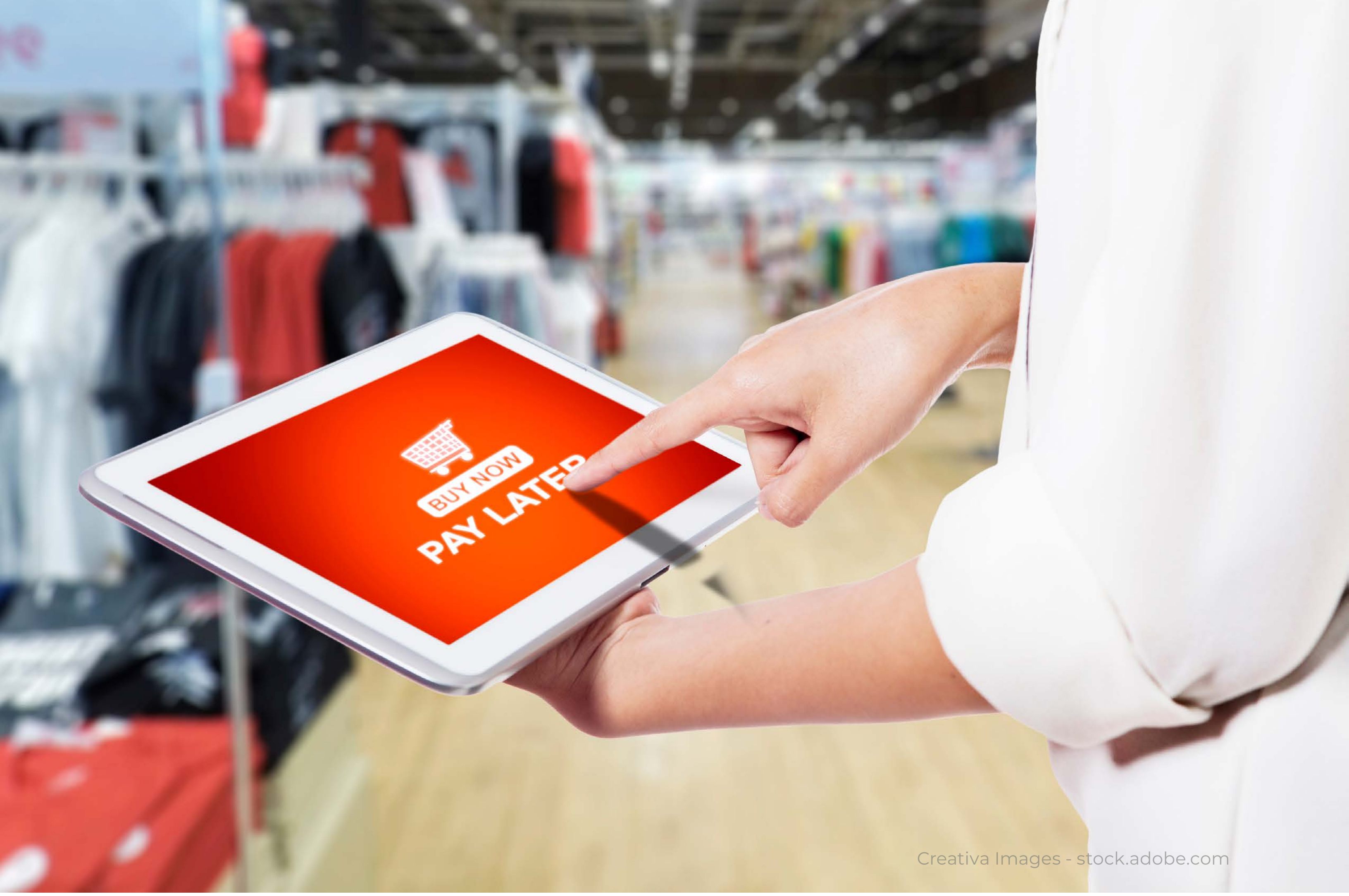
— Sam Gazeley, ABI Research



BNPL HAS BECOME UBIQUITOUS (AT LEAST IN THE U.S.)

One of the fastest-growing newcomers to the world of payments in recent years has been **buy now, pay later (BNPL)**. In fact, **60%** of consumers have used an installment payment option in the past 12 months, according to a recent survey by **PYMNTS Intelligence**. And while the biggest segment of those shoppers (**40%**) used BNPL to buy **clothing and accessories**, the financing option also has a significant amount of uptake in another, more surprising category: **grocery** (accounting for **34%** of those who had used installment financing in the last 12 months).

BNPL is becoming a ubiquitous part of the payment experience, especially in the U.S., and is expected to account for **$1 trillion** in global ecommerce spending by 2026, according to **Juniper Research**. And the popularity of BNPL is being bolstered even further by today's economic climate: "With the current squeeze on spending and concerns about the cost of living, we're seeing a lot more demand for buy now, pay later agreements, essentially **giving consumers a way of purchasing on credit without interest or charges on the amount borrowed**, providing they keep to the agreement," said Gazeley.

"People want more control over their spend," said Carol Hargrave, Senior Director for Commerce Product Marketing at **PayPal** in an interview with *Retail TouchPoints*. "They like the security of knowing that once that loan is done, they don't have to think about it anymore because BNPL solutions are closed-end loans. **Consumers have always used many different products to manage their spending, and BNPL is just another tool that consumers are using to feel more in control**."

While multiple generations are using BNPL, the biggest adoption is coming from younger consumers, in particular Gen Z and millennials, according to Hargrave. In fact, **28% of Gen Z and millennials said they will actually abandon a purchase if BNPL isn't available**, according to **PYMNTS Intelligence**.

“Younger generations tend to be more open to new styles of credit,” explained Hargrave. “They are digitally native, they shop more online, and they weren't habituated into traditional credit like Gen X or Boomers. Also Gen Z and millennials lived through the 2008 crash. They saw how credit impacted their parents and are looking for ways to avoid the kind of debt that they saw impact their families.”

BNPL also offers retailers some pretty significant benefits, according to the PayPal study*, including **cart size increases of as much as 55%**. “It definitely helps merchants in all of the areas that they're concerned about, including **conversion**, **AOV**, **transaction volume**, etc.,” said Hargrave.

But while BNPL might be table stakes in the U.S., uptake hasn’t been quite as swift in other parts of the world, a fact that multinational retailers should keep in mind. “**Retailers also have to consider societal attitudes toward things like financing**,” Gazeley cautioned. “Whether we’re talking about credit cards or BNPL, some countries are very resistant to that kind of approach. Germany, for example, has had a historical aversion to credit card usage and the associated risk that comes with that.

“The majority of our conversations around BNPL schemes are originating from the U.S., certainly more heavily than Europe or Asia Pacific,” Gazeley added. “In Latin America there is some growth as well, but Europe tends to be quite ambivalent at the moment to this idea.”

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* Globally, Pay Later AOVs for large enterprise retailers are 55% higher than standard PayPal AOVs for large enterprise retailers (internal data analysis of 781 large enterprise retailers with PayPal Pay Later messaging from Jan. 1, 2022-Dec. 31, 2022. Data inclusive of PayPal Pay Later product use across seven markets. Large enterprise defined as >$10 million in online commerce payment volume in ES, FR, IT; >$20 million in online commerce payment volume in DE; >$25 million in online commerce payment volume in the UK; >$60M in online commerce payment volume in the U.S.; and >$15 million in online commerce payment volume in AU.)

KEYS TO BNPL SUCCESS

Q&A with Carol Hargrave, Senior Director of Commerce Product Marketing at PayPal

Retail TouchPoints (RTP): What tips do you have for merchants to make their buy now, pay later (BNPL) offering a success?

Carol Hargrave: The merchants that are most successful with PayPal Pay Later are messaging about BNPL options upstream of checkout, so on the product page and even the homepage. Data shows that consumers drop off if they do not see a BNPL option, so you want to tell them early in the shopping journey that it is available. Our data shows that showing BNPL options across the buyer journey drives AOV lifts and sales conversion[1]. Instead of just buying the shoes, they might buy the shoes and the socks to go with them or two pairs of shoes.

RTP: Are there any risks that retailers should be aware of in offering BNPL to their customers?

Hargrave: At this point there is so much data showing how important it is for consumers, even in driving brand preference, I think the risk is not offering BNPL. It is almost a no-brainer. Consumers are demanding it, looking for it, talking about it and using it repeatedly. PayPal Pay Later has a 67% repeat customer rate[2].

One of the worries we hear often from merchants is [that BNPL] is going to impact their private-label credit card. I get it, those relationships are important for merchants, and it is a big revenue source. But the good news is that [the introduction of] BNPL does not really impact private-label credit card share. If a consumer is loyal to the brand, they are going to use the private label credit card and BNPL really does not impact that. In fact, BNPL customers have plenty of credit cards. It's not like these are people that are not credit-worthy or need credit. They are choosing BNPL because it fits with the needs they have.

What BNPL does do is bring new customers to the merchant; it engages a different customer than that loyal private-label set. So, retailers retain all of those private-label customers and get more customers with higher conversion, AOV and total spend.

RTP: How can retailers go about finding the best BNPL partner for their business?

Hargrave: I think especially now, in this macroeconomic environment and with the uncertainty we are living with, the most important thing merchants need to think about is trust. Is it a brand that consumers recognize and trust? Are they willing to finalize their purchase with a payment method on the merchant's site?

Longevity is also important, because it means that a company has weathered some of these financial storms in the past and knows how to manage through volatility. The other thing is, having enough data to be able to underwrite at a broad, responsible level. That is something that PayPal is well-known for. All these things are important for merchants to consider because they are putting their reputation in the hands of their partner.

[1] Globally, Pay Later AOVs for large enterprise retailers are 55% higher than standard PayPal AOVs for large enterprise retailers (internal data analysis of 781 large enterprise retailers with PayPal Pay Later messaging from Jan. 1, 2022-Dec. 31, 2022. Data inclusive of PayPal Pay Later product use across seven markets. Large enterprise defined as >$10 million in online commerce payment volume in ES, FR, IT; >$20 million in online commerce payment volume in DE; >$25 million in online commerce payment volume in the UK; >$60M in online commerce payment volume in the U.S.; and >$15 million in online commerce payment volume in AU.)

[2] Based on PayPal internal data from Jan 2022- Dec 2022.
*Repeat Users - who have taken out more than 1 loan.

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THE NEXT GENERATION OF PAYMENTS – MOBILE WALLETS, BIOMETRICS AND DIGITAL CURRENCIES

Consumers have been ditching cash for years: In less than a decade the share of Americans who go “cashless” in a typical week has increased by double digits, according to a **Pew Research Center survey**. Today, approximately **41%** of Americans say *none* of their purchases in a typical week are paid for using cash, up from **29%** in 2018 and **24%** in 2015. **This shift is driving retailers to introduce an array of new smart payment options**, from mobile wallets like Apple Pay and Google Pay to tap functionality on credit cards and even biometric-based payment verification.

“Mobile wallets, digital wallets and app-based approaches all come with different benefits, and **being able to process these kinds of payments will give a lot of retailers access to new potential customers and the opportunity to increase their margins**,” said Gazeley. “Of course you need to have the payment processing capabilities in place to deal with these, and potentially other new payment options as they come onstream, in order to keep up to date on the customer choices that are available.”

Digital wallet tap-to-pay in particular has seen a huge jump in consumer adoption in recent years, allowing customers to pay by simply tapping their smartphone against a POS terminal, or even another smartphone, at retailers that have instituted mobile POS. In North America, mobile wallet transactions, primarily made via Apple Pay and Google Pay, topped **$600 billion** in 2021, according to **Statista**, and mobile wallet purchasing volume is projected to exceed **$1 trillion** by 2025. And ABI Research expects that a staggering **5.6 billion** people globally will **use mobile wallets** by 2027.

But, as the **Consumer Financial Protection Bureau (CFPB)** has pointed out, Big Tech has a bit of a stranglehold on the mobile wallet tap-to-pay market at the moment, with **Google** and **Apple** controlling much of the hardware needed to facilitate these frictionless transactions. Mobile phone tap-to-pay requires the near-field communication (NFC) technology built into Apple’s iPhone and Google’s Android phones. For its part, Apple only allows its own mobile wallet to access to the NFC capabilities, meaning that other payment apps like **PayPal**, **Venmo** and **Cash App** cannot use the functionality. (It’s worth noting that Google does not currently restrict app-makers’ access to its devices’ NFC capabilities.)

One workaround for other payment services is **QR code-based mobile payments.** PayPal has seen good success in **trials of this tech** with retailers like **Giant Eagle**, where the introduction of QR-code payments via the PayPal and Venmo apps vastly reduced time-through-checkout, a key competitive differentiator in the grocery sector.

Another payment feature slowing trickling into stores is the use of **biometrics** in the form of fingerprint, face or palm scans. ABI Research **expects** **1 million** biometric cards to be shipped by 2024, with as many as **37.2 million** entering circulation by 2028. However, Gazeley did point out that the integration of biometric technology into cards is "maybe a bit less of an opportunity in the U.S. because it's essentially technology to replace PIN [codes], and PIN isn't really used in the U.S. as much," he said. "Still, as the price of the biometric payment cards decreases and developments continue for the biometric enrollment — that is, how to get the end user's fingerprint on the card — we do envisage this becoming a compelling technology to reduce PIN-related fraud as well."

Even if U.S. consumers are less likely to find biometrics-based credit cards compelling, they are certainly still being exposed to other biometric payment options, with **Amazon's One palm reader** rolling out **across Whole Foods** stores and **other retail venues**, and major payment providers **like Mastercard** investing in **biometric checkout solutions** for retailers.

By 2027, as many as **5.6 billion** people globally will **use mobile wallets**, estimates ABI Research.

With all these payment technologies emerging, it might come as good news that there's one area where retailers can safely adopt a "wait and see" attitude — cryptocurrencies. Despite moves by major merchants like **Starbucks**, **Whole Foods** and **The Home Depot** to begin accepting crypto, it's not necessarily urgent for others to follow suit. "In the last few years crypto has proven to be quite turbulent," said Gazeley. "**We don't really see crypto kicking off massively on the retail side of things**.

"However, one thing that we do see moving forward are **Central Bank Digital Currencies (CBDCs)**," Gazeley added. "With cash usage rapidly declining and a growing interest in privately issued digital assets, this is signaling quite a bit of competition for central banks as the provider of monetary value. So we see a lot of central banks looking to establish greater local control over what are increasingly global payment systems, and that's where CBDCs come into play. **They differ from other forms of digital coins in that they are directly backed by central bank deposits, government pledges or high-value commodities**. There are some things that need to be worked on in terms of power consumption, regulation, how this is going to work alongside other forms of currency, but there is certainly [potential] as a significant number of major economies, banks and governments at least attempt to launch a pilot for this."

In fact, research from the **Atlantic Council** found that **130** countries, representing **98%** of the global economy, are now at least considering creating digital versions of their currencies, although progress on the development of a "digital dollar" in the U.S. has largely stalled.

OVER AND ABOVE IT ALL (AND MAYBE MOST IMPORTANT) — ORCHESTRATION

The pipes and rails are never the sexy part of any system but they are often the most important, and the same holds true in the world of payments. When it comes to the "pipes" for electronic payments, this year has seen an exciting advancement in the form of **real-time payments (RTP)**. In July 2023, the U.S. Federal Reserve Bank launched its own RTP network, called **FedNow**.

"FedNow enables bank payments to happen instantly," said Rikhil Bajaj, Principal at payment tech investment firm **Tarsadia Investments** in an interview with *Retail TouchPoints*. "But not only are they happening instantly, it's good funds. There's no risk to that transaction; it's essentially the same as handing over a dollar to someone in person. With ACH [the dominant electronic banking network used today] you have settlement risks, you have latency. **FedNow is an instant, good funds model that can actually happen at potentially an even lower cost than ACH**."

However, adoption of FedNow among U.S. banks is still low. "The challenge with FedNow [at the moment] is that only something like **50** banks currently accept it, so the idea that a large merchant like **Walmart** can flip a button and accept FedNow is crazy," said Bajaj. "What you need is an intelligent software layer that sits in between Walmart and FedNow and determines [in which] situations using FedNow makes sense because the bank accepts it, and in which situations using ACH or **Visa Direct** or **Mastercard Send** makes sense."

In fact, **software that helps to orchestrate the interplay of the increasingly diverse set of payment systems and applications merchants use today is quickly becoming a necessity**. "[Retailers] have a lot of different payment processors that they have to work with, because not every processor solves every problem," explained Bajaj. "Plus you now have digital wallets and BNPL and this huge proliferation of alternative payment types, and in parallel, fraud and chargebacks continue to grow. Then there's new payment rails emerging like FedNow."

To say that payments are getting complicated might be an understatement, but Bajaj said that he believes the solution is simple: “You have all these different payment vendors, payment rails and payment types that you're managing, so you need to have some kind of **software layer that sits in between that and conducts three key functions**,” he said. “One function is **bundling**, to route transactions intelligently without the need to onboard **40, 50, 100** different payment vendors. The second is **analytics** so you can optimize for payments performance. And the third is **vendor interoperability**, software that enables all these different offerings to work together.”

Finding the right set of software solutions to help manage all of this can make huge differences to a retailers' business, not just in terms of customer experience but also for **fraud reduction, cost optimization**, ease of entry into new markets through **cross-border coordination, increased payment acceptance rates** (and a reduction in false rejections) and more.

“The lower pricing power and requirement to achieve digital transformation, coupled with a lot of new-to-market competitors using different, dynamic business models, is creating something of a perfect storm for retailers,” said Gazeley. “And then when you add in things like the constant threat of fraud, chargebacks and disputes, there's no real shortage of pressures at the moment. **Even having the perfect payment setup can't solve all of these challenges to profitability**. **I think it's about taking a big step forward by optimizing payment systems**. Besides enabling payment alternatives with lower transaction costs, retailers are going to want to ensure that any providers they work with offer effective fraud protection schemes as well as streamline chargeback dispute handling processes and things like that.”

LEARN MORE...

PayPal has remained at the forefront of the digital payment revolution for more than 20 years. By leveraging technology to make financial services and commerce more convenient, affordable, and secure, the PayPal platform is empowering hundreds of millions of consumers and merchants in more than 200 markets to join and thrive in the global economy.

For more information, visit **https://www.paypal.com**.

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