Payfirma

2017

The Year Ahead in Payments

As we begin 2017, it's an apt time to look at what's in store for buyers, sellers, and everyone in between. It's going to be an exciting time in payments, with five key areas making great strides in the year ahead. The concept of multi- and omni-channel will continue to rise to ubiquity, as will truly friction-free commerce. There will be continued collaboration between legacy incumbents and young startups. The checkout process will become increasingly self-serve and "invisible" and finally, small businesses will follow in the footsteps of the Fortune 100, adopting technologies that will level the playing field of consumer buying experiences. Beyond 2017, we'll see more creative deployments of verification and authentication; however, wearable technology and cryptocurrency will take a backseat for the time being.

Faithfully,

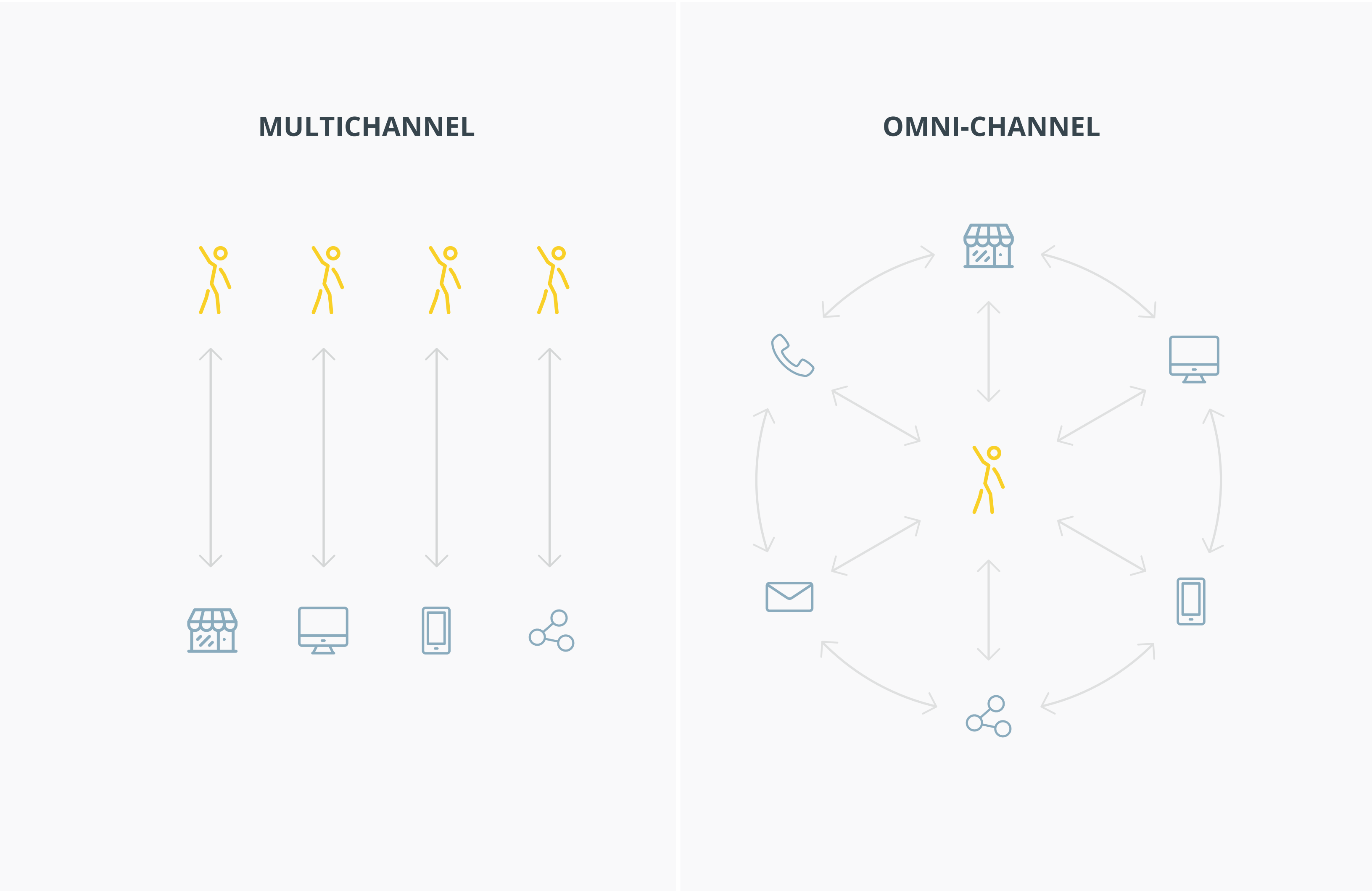
Michael Gokturk
Founder & CEO
Payfirma

01 | Continued Evolution of Multi- & Omni-Channel

MULTICHANNEL means accepting payments through a variety of channels. eCommerce is burgeoning; worldwide retail eCommerce sales are expected to reach $1.915 trillion this year. But while eCommerce is thriving, many consumers still prefer a more tangible shopping experience, leading eCommerce businesses to open brick-and-mortar locations. This trend has been particularly popular with retail businesses – including Birchbox, Coastal Contacts, Amazon, ShoeMe, and Warby Parker to name a few.

In 2017, we'll continue to see more multichannel selling. An SAP survey revealed that with a multichannel strategy, 74% of businesses increased sales, 64% increased consumer loyalty and acquisition, and 57% reported better customer service.

As online companies expand into physical locations, eCommerce remains just as important – specifically mobile eCommerce, which is growing at an exponential rate. According to Gartner, revenue from mobile eCommerce will equal 50% of all digital commerce by 2017.



When eCommerce first emerged, consumers were worried about security and providing personal information online. It's taken years and countless security improvements for eCommerce to go mainstream, and it's now paved the way for what has been a far faster acceptance of mobile eCommerce. To put things in perspective, mobile eCommerce adoption has grown at three times the rate that traditional eCommerce did. However, for all the innovation around mobile eCommerce, there continues to be friction. Many merchants still have not optimized the checkout process for mobile devices.

2017 won't just be about the evolution of multichannel, but will also see a greater emphasis on omni-channel payment processing.

OMNI-CHANNEL means that channels are synonymous, unified, and integrated. The evolution of omni-channel is borne out of today's consumer habits. The modern shopper moves fluidly across multiple channels and expects that journey to be seamless; eight out of 10 consumers now use a computer, smartphone, tablet, or in-store technology while shopping. Forrester predicts that cross-channel retail sales will reach $1.8 trillion in the US by 2017.

Research has shown that omni-channel consumers are more valuable. Compared to single-channel consumers, omni-channel consumers

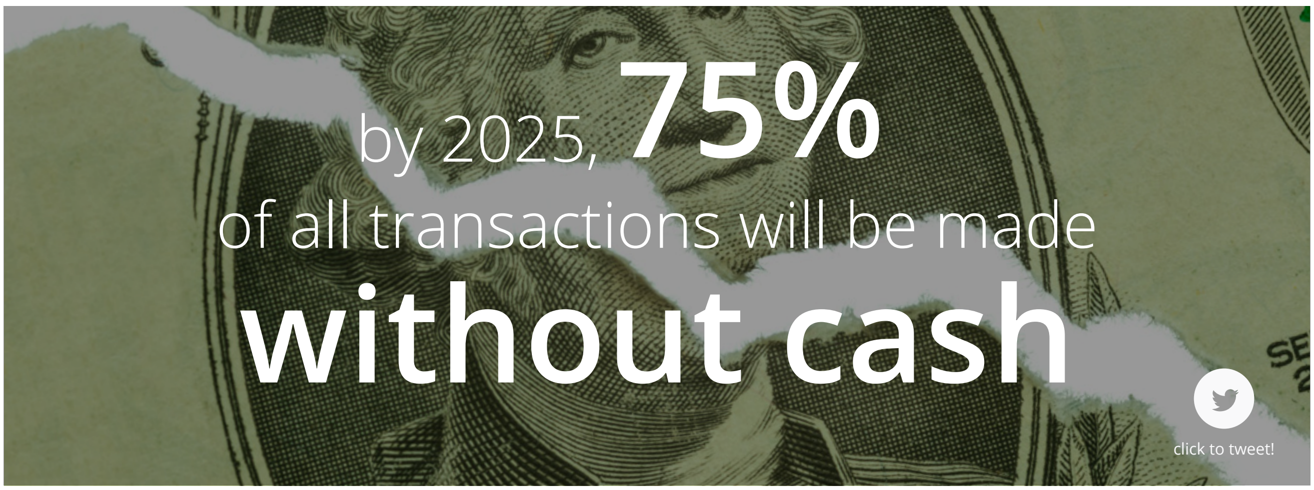
- spend an average of 4% more in-store and 10% more online.
- spend 9% more when they use four or more channels.
- spend 13% more in-store when they conduct initial online research.
- have 23% more repeat shopping trips.
- are more likely to recommend to family and friends.

Companies like Nordstrom and Rent the Runway are already moving towards true omni-channel selling by merging the offline and online experience and leveraging data from one channel to sell on another. As we move into 2017, more and more businesses will continue to blur online and offline to create a convenient and cohesive experience for the modern shopper.

02 Friction-Free Future

Not just a buzzword, friction-free payments is the future. While there have been significant improvements, friction still exists at the point of checkout. In 2017, we'll see that friction continue to diminish across all channels.

DECLINE IN THE USE OF CASH is a large contributor to frictionless commerce. Society as a whole is using less of the physical monetary medium, and more businesses are adapting by accepting credit and debit cards. Businesses that didn't accept credit cards a few years ago are now embracing the change to speed up the payments cycle and maintain or grow their customer base. Now you can even pay your rent, taxes, and monthly bills via credit cards. It's predicted that by 2025, 75% of all transactions will be made without cash. Mobile payment applications and mobile banking are increasing in popularity, which is indicative of consumers' willingness to use smart devices and cards.



MOBILE PAYMENT companies are continuously finding ways to further eliminate friction from transactions. Apple Pay automatically detects NFC readers, eliminating the need to open the app to complete the transaction.

The advent of Apple Pay and other mobile wallets contributed to the growth in mobile payments overall, but EMV adoption is dismally low in the U.S. Many small businesses don't see the value of EMV because they don't think they're susceptible to fraud, and consumers are resistant to Chip and PIN because of the perception that it's slow. Merchant education and a push for Tap and Pay payments will aid the adoption of mobile payments in 2017.

CONTEXTUAL COMMERCE is the idea of meeting the consumer where and when they have interest and intent to purchase. Contextual commerce happens within a relevant environment, in context if you will – whether that's a social media app, a recipe page, or even a news article. The possibilities are endless. There are already iterations of it, but the idea of contextual commerce will continue to evolve. Facebook, Twitter, and Pinterest all released buy buttons in the last year, and while none of them gained widespread adoption, it represents the continued interest in social and contextual commerce.

The second iteration of buy buttons come in the form of shoppable tags on Instagram photos. Consumers tap the photo for tags as they normally do, but instead of the brand handle, consumers will be able to see product information like price, description, additional photos, and a "Shop Now" button. This new feature reduces some of the friction that brands run into when selling on Instagram as the social media platform doesn't allow links in posts and only one URL in the profile.

We'll also see evolving iterations of virtual reality within the shopping experience in 2017. Imagine dressing a model with your specifications online and then instantly buying the look in one click or watching a fashion show and clicking a button to "shop the runway".

AMAZON is a pioneer in the pursuit of a frictionless future. The retail behemoth makes it extremely easy to purchase on Amazon. They have Amazon 1-click, Amazon Dash (for re-ordering), and they've just announced Amazon Go. A new grocery store concept of the grab-and-go variety, Amazon Go uses sensors and cameras to eradicate the checkout line altogether. The program is still in beta but has the ability to change the paradigm of traditional in-store shopping completely.

03 Continued Collaboration Between Incumbents & Startups

In 2017, legacy financial institutions and up-and-coming Fintechs will continue to collaborate to bring innovative payment technology to market. According to the UBS bank management survey of 61 big banks, 38% have a partnership in place, and this number will only continue to rise in the upcoming year. Six in 10 global banks are open to partnering with financial technology firms. 34% are open to a collaboration with a Fintech company. Investment in Fintech grew from $1.8 billion in 2010 to $19 billion in 2015.

There's already been major partnerships between the incumbents and startups: CIBC and Payfirma, Barclay with Techstars, JP Morgan and On Deck Capital, RBC and Wave, Scotiabank and Digital Factory, Scotiabank and Kabbage, BMO and the Next Big Idea in Fintech, and InnovateFinance.

Fintech companies have often been described as disruptive, and while they certainly are, the word has carried negative connotations. They're not disruptive in the sense that they are trying to usurp traditional banks; they are disruptive in that together with incumbent institutions, they will collaborate to change and improve the space. They are complementary rather than competitive.

Banks have capital, reputation, regulatory experience, and customer trust. Fintech startups possess the ability to build great customer experiences, are unencumbered by legacy processes, and have research capabilities that facilitate innovative and agile approaches.

Consider the changing environment. Consumer habits are evolving, and processes are becoming more "invisible", convenient, and friction-free. Banks need to adapt and cater to their customers who are tech-savvy clients who want lower fees, more transparency, and fast, intuitive online and mobile interfaces. Financial institutions are recognizing this; however, due to legacy infrastructure and a web of regulations, banks can't move fast enough to offer value-added products and services to their customers. In order for banks to innovate and diversify, they need the agility of startups to execute. Rather than making a power play for a complete monopoly, incumbent institutions and agile startups will continue to work together to disrupt the space and together, respond to the habits and expectations of the modern consumer. These partnerships allow Fintech startups to continue as innovators while leveraging the trust, authority, and channels of the big banks.

In 2017 and onwards, there will be record-setting acquisitions as legacy institution programs move out of pilot and into priority with the help of startups.

04 More Counterless & Self-Checkout

From theaters and hotels to airports and restaurants, businesses across the board are responding to changing consumer habits and adopting self-service checkout; the dynamic is changing between merchants and consumers.

In a society where speed is paramount, self-checkout stations are becoming increasingly popular; by 2021, there will be 325,000 self-checkout units globaly. Technavio reports that global self-checkout terminal market's revenues are expected to hit $2.19 billion by 2019, and a report by Retale says 85% of shoppers have used a self-service checkout kiosk, and the number goes up to 91% among millennials.

In addition to speed, modern consumers are also enjoying the privacy and control that self-checkouts provide. 55% used self-checkout because there was no line, 13% because they preferred to keep their transactions and financial information private, and 20% of millennials use self-service kiosks to avoid any sort of interaction with a cashier. The latter is a leading indicator of the trend towards more automation in the checkout experience.

Self-checkouts are not without limitations (technical glitches, theft, user education, etc.), but despite those challenges, 49% would like to see more kiosks at every retail location to help streamline the checkout process. While it's currently not prevalent in smaller stores (yet), the number of self-checkouts will continue to increase in 2017 and beyond – especially as technologies emerge that mitigate the risks.

05 Small Businesses Will Adopt Big-Box Consumer Trends

Small businesses will continue to increase consumer engagement – and they'll do this by adopting and adapting big-box consumer trends. Large corporations and companies have the resources to create new technologies in response to consumer trends. These technologies trickle down to small businesses with the help of intermediary startups.

Big-box consumer trends that small businesses will start to adopt in 2017:

LOYALTY SCHEMES. Toronto start-up Drop offers a Starbucks-like loyalty scheme for small-scale businesses.

SAME-DAY SHIPPING. Companies will follow in the footsteps of retail giants like Amazon and offer same-day shipping. More and more shipping technologies and intermediaries like Shyp are emerging to help facilitate shipping for small businesses.

MOBILE PAYMENTS. Small businesses will begin to cater to the millennial demographic via mobile devices – mobile payments, apps, loyalty programs, etc. This trend will become increasingly popular with the rise of mobile payments and the EMV mandate in the U.S., prompting small businesses to update their traditional terminals.

MULTICHANNEL. Multichannel will continue to evolve and define 2017, and small businesses are not exempt. They will also adopt multichannel selling to reach customers when and where they're browsing.

In the coming year, smaller merchants will be able to offer the same experiences previously available only at Starbucks, Apple, Uber, and Amazon.

What’s On The Horizon & Back Burner

ON THE HORIZON. 2017 will see the emergence of alternative validation processes. Fingerprint validation flourished in 2016 with Apple Pay, and in an effort to improve the authentication process and payment security, companies and banks alike will continue to experiment with new ways of authentication.

Voice

HSBC introduced fingerprint and voice recognition verification services to their 15 million customers. Barclays is also exploring voice identification. SayPay uses its voice-token technology to process transactions via a mobile app. Amazon's Alexa integrated with Capital One to allow customers to check their balances and pay their bills.

Selfie

HSBC, Apple, Samsung, Google, and Alibaba are all exploring facial recognition technology. HSBC now wants to let business customers use selfie verification to conduct identity checks to open new accounts on their mobile app. The app utilizes facial tracking technology which matches specific parts of a customer's face to photos used in official documents like driver's licenses or passports. Earlier this year, Google also jumped on the photo verification bandwagon with their beta program Google Hands Free – a payment method that uses an in-store camera to confirm your identity.

MasterCard recently launched Identity Check Mobile for online purchases. It's a biometric authentication app which asks the customer to take a selfie or use their fingerprint in lieu of a PIN. Results of the pilot program revealed that 86% of participants found it easier than password authentication.

THE BACK BURNER. While there are many areas of payments that will advance in 2017, there are certain initiatives that will sit on the back burner - specifically cryptocurrency and wearable technology.

Cryptocurrency will take a backseat to security

In 2017, banks and other financial institutions will be investing more in commerce security and fraud prevention than cryptocurrency. There have been many developments and a lot of buzz around cryptocurrency, but it's not at the point where customers understand it, see the value, or want to use it.

Security is an important issue for consumers; roughly 74% chose security and fraud protection as their top priority, while 26% selected rewards. Companies will do well to ensure the protection of their customers' data and in 2017, we'll see companies investing more in security.

Mobile will continue to rule over wearable tech

There have been some interesting developments in wearable payment technology in the form of rings, bands, and jackets. However, mobile devices will continue to rule in the foreseeable future. While technically not a wearable technology, modern society is heavily dependent on mobile devices. With most wearable technology, you still have to connect via Bluetooth to your mobile device, so it's redundant to embed it in wearable pieces.

That's not to say that wearable tech won't thrive down the line, but for the time being, mobile will continue to rule. That said, there are strong cases where wearable devices are poised for success. Major music festivals like Lollapalooza and Mysteryland and companies like Disney have implemented wearable payment bands successfully. But for all the mobile payment popularity, it's still not ubiquitous; there are still many businesses that have not upgraded to NFC-enabled terminals. Mobile payments via mobile devices will continue to grow before wearable technology becomes mainstream.

Payfirma

ABOUT PAYFIRMA

Payfirma is an award-winning payments company that helps businesses accept credit and debit cards online, in-stores, and on mobile devices. Over 8,000 businesses across North America use Payfirma's payment tools to get paid easily and keep all transaction data in one, simple place. When businesses use data to make decisions about customers, products, and employees, they run smarter, more successful companies.

Contact our team today to see if Payfirma is the right fit for your business **+1.800.747.6883**

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