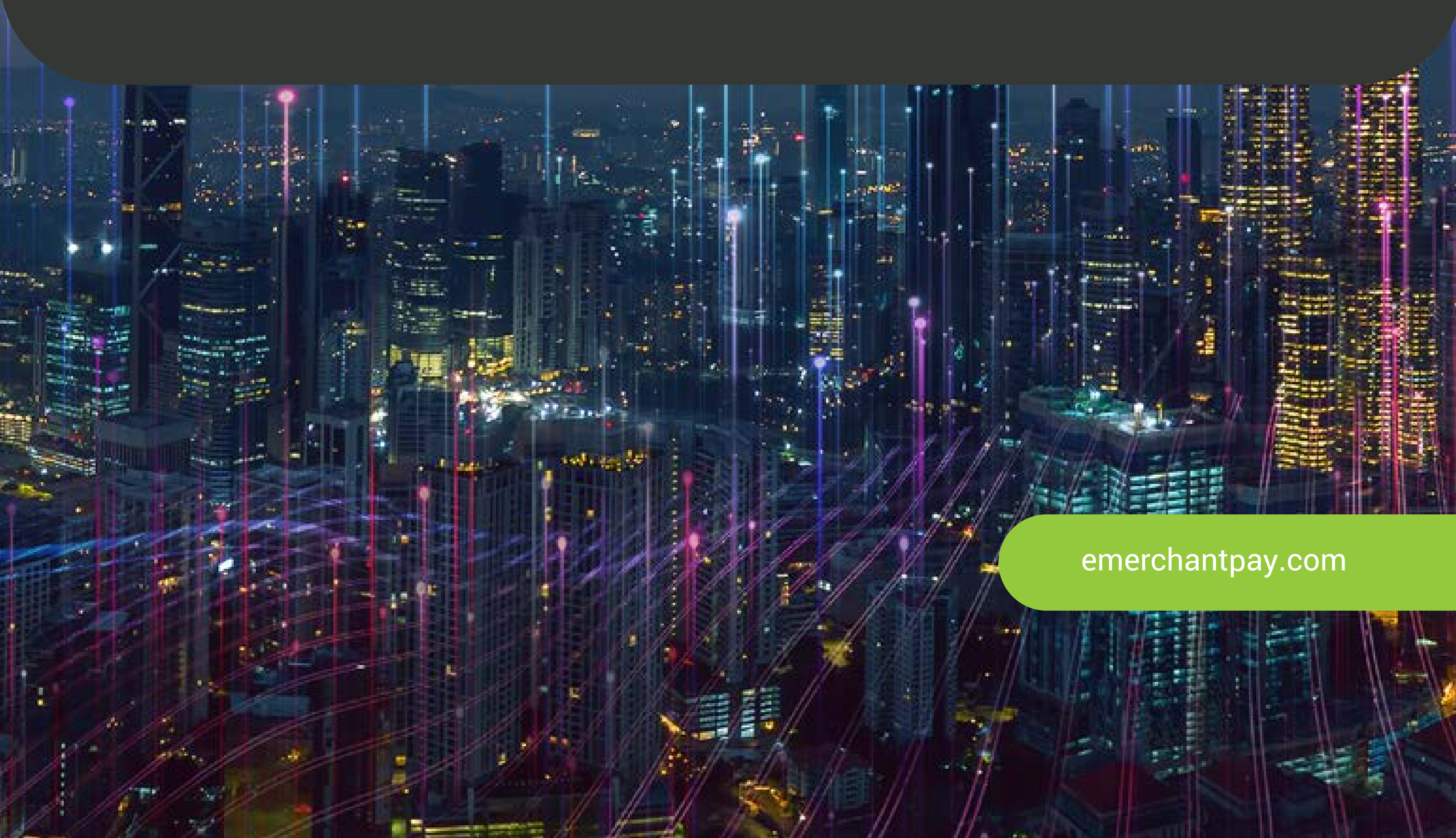
The Great Payments Transformation

Too much revenue is being lost needlessly through inefficient payments; it’s time for change.



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Foreword

Much has been made of the wave of digital disruption sweeping across businesses. It's not uncommon to read about the "new normals", revolutions and transformations tearing their way through industries since the onset of the pandemic.

While many of these headlines are sensationalised, the payments sector has been undergoing truly seismic changes, in line with evolving customer demands. Over the past two years we've all made adjustments to how we shop and pay. We buy more online than ever before[1], favour contactless and digital payments[2] and avoid cash[3]. Many have even invested in emerging cryptocurrencies for the first time[4].

As such, merchants need to adjust their payment strategies to meet the needs of the modern consumer. We undertook extensive research which shows that many payment leaders across online retail, travel, airlines, hospitality and gambling in the UK and Germany are aware of the need to improve their payments strategies to realise financial opportunities. But also, significantly, it also uncovered that organisations are seeing substantial losses as a result of unoptimised payment strategies.

At this time of continuing economic uncertainty for merchants and consumers alike, it is imperative that businesses safeguard revenue. This is perhaps why so many respondents noted the urgency of making changes to their payments strategies to avoid losing revenue and customers. Notably, more than half (57%) across the industries we surveyed plan to make improvements within the year. Yet despite the importance, a large proportion highlighted barriers to change.

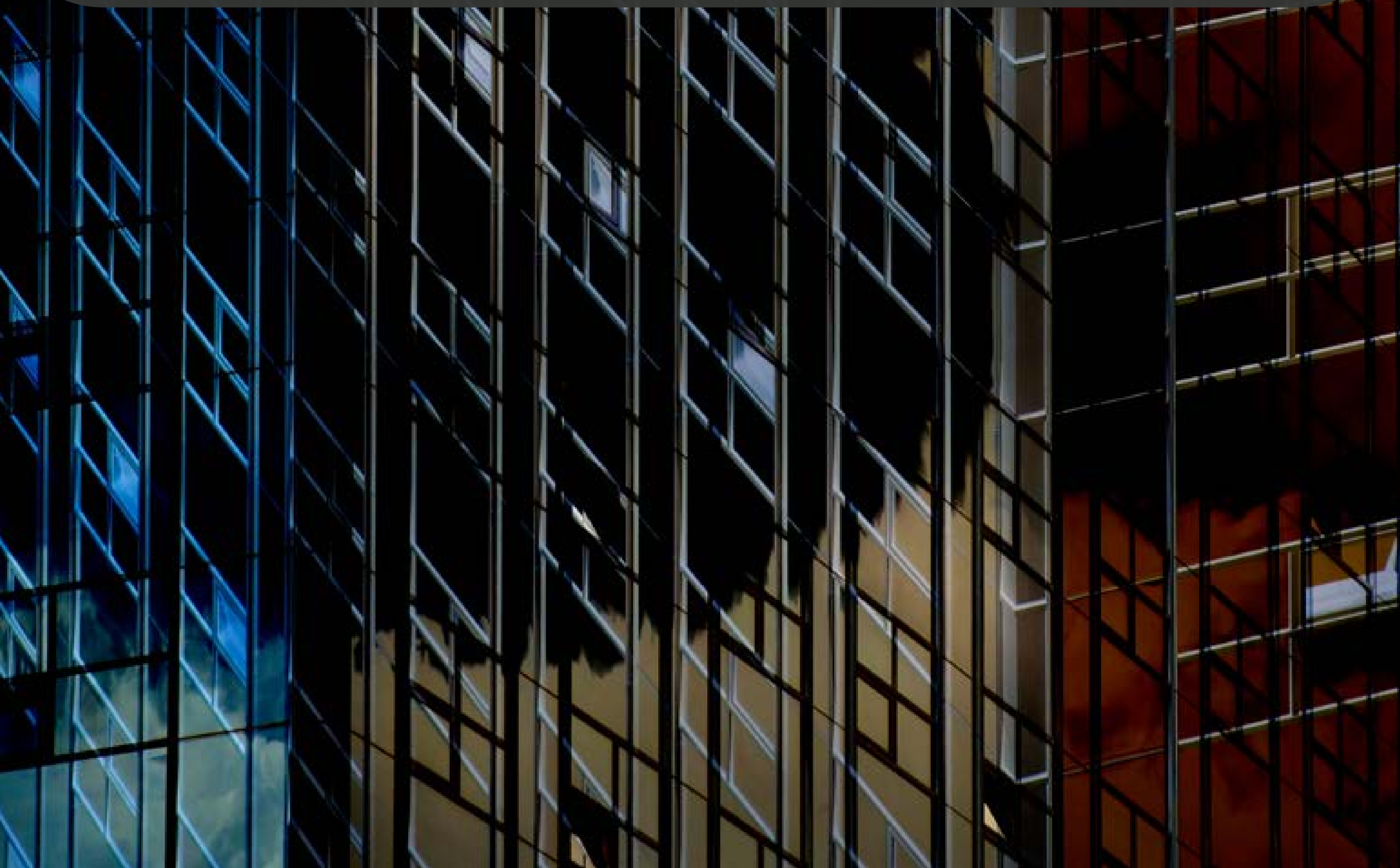
Payments leaders are faced with significant challenges; ever-changing regulations, new fraud and risk threats, emerging payment methods, complex and disjointed payment systems that work in silos, and the list goes on. All these areas, on top of day to day requirements to ensure optimised processes and systems, add greater pressure on payment professionals to drive innovation, improve performance and increase profitability.

When the stakes are so high, it is essential that payments are prioritised by all businesses from the top down, not just by payments leaders. Our aim for this research is to help payments leaders demonstrate the significance of payments transformation to the wider organisation, identify blockers to payment optimisation and benchmark their payment performance against competitors. Each and every business, regardless of sector or size, must become part of the Great Payments Transformation, or risk being left behind.

At emerchantpay, we are committed to delivering commercial value to organisations across industries by acting as an extension to their payments team and ensuring they are armed with the payment technology, insights and data they need to excel. We look forward to discussing the findings of our research with businesses across the globe that are looking to raise their performance to the calibre required by today's digital economy.

Jonas Reynisson, CEO at emerchantpay

The problem with data



Roadblocks to high payments performance

Every organisation knows the importance of data insights, but not all data is working as hard as it could for merchants.

Our research shows that although the majority of payments professionals are content with their data strategy, more than a third (36%) see a lack of data as a barrier to investing more in optimising their payments. This is a vicious circle: while merchants aren't looking to massively overhaul how they use data, they don't have the right KPIs to make informed strategic decisions and demonstrate the ROI that would derive from investing in solutions which help drive data insights.

The development of data-driven payment strategies varies between countries. In the UK, more than 1 in 3 respondents (37%) said their use of data to inform strategy has room for improvement. More precisely, nearly a quarter (26%) said that it is still developing with some room for improvement, while 11% said it has much room for improvement. Just over 1 in 5 (17%) rated their data use excellent with no room for improvement. In comparison, 38% of German merchants said that their data strategy could be improved, with 27% of businesses 'developing' their strategy. Over 1 in 10 described their strategy as 'limited' (11%).

The landscape is equally varied among sectors. Retail is the industry with the most room for improvement, with 50% of respondents across regions saying that their strategy has room for improvement. More precisely, 33% said that their use of data is developing, while 17% acknowledged that it has much room for improvement.

In comparison, 18% in travel, 15% in airlines, 15% in gambling and just 6% in hospitality saying their strategy is developing or has much room for improvement. In fact, in gambling, airlines and hospitality, no respondents said there was much room for improvement.

More than 1 in 3 payment leaders in the UK believe that their use of data has room for improvement.

Data and insight are absolutely critical to arm payments leaders with the information they need to persuade senior leaders of the value of payments performance. Payments teams that aren’t collecting, analysing and utilising the payment insights available to make smarter, faster decisions across all areas of payments are missing out on a huge opportunity to drive performance and revenue. With the right level of strategic advisory from their payment provider, a data-driven business case, and a commitment to demonstrate the value of payments at a commercial level, payments leaders will be well-placed to reap the benefits of payments performance.

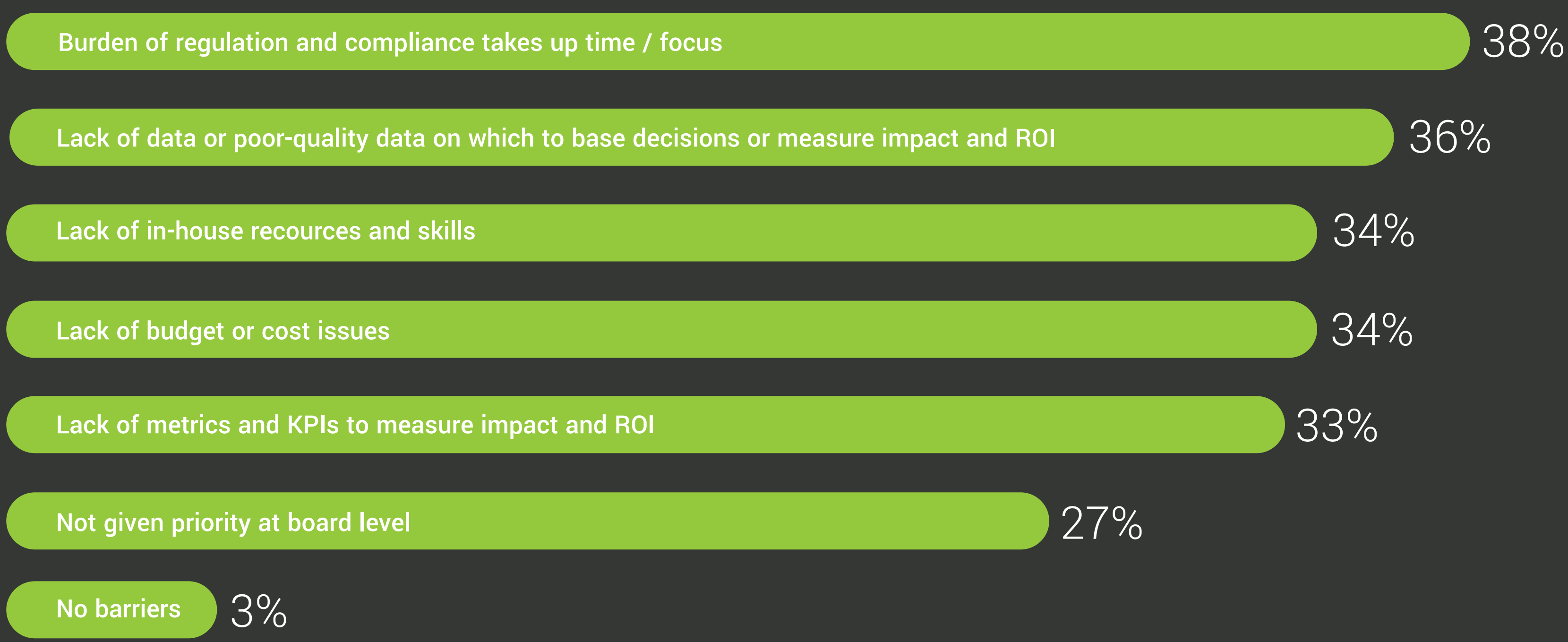
Barriers in the way

There are a number of barriers to improving the use of payment data. Chief among these are regulation and compliance burdens that take up a lot of resources and focus; 38% all respondents cited this as the main barrier to investing in optimising payments solutions.

However, more than a third (36%) of participants from the UK and Germany cited a lack of data or access only to poor quality data, as a barrier to further investment in the optimisation of payments performance. Particularly in Germany, compliance and regulation (43%) and lack of payment data (39%) are the top barriers to payment performance optimisation. In the UK by contrast, these numbers fall to 37% and 35% respectively.

Companies across turnover brackets appear to be struggling with utilising data according to our research. Only 30% of companies with £100 million+ turnover said they have a lack of or poor-quality data on which to base decisions to measure impact and ROI is a barrier to payments performance. By comparison, this number soars to 39% for companies with turnover between £1 million - £9.99 million.

Barriers to investing in payments performance across countries



Barriers to investing in payments performance by industry breakdown

Barrier	Airlines	Gambling	Hospitality	Online retail	Travel
Burden of regulation and compliance takes up time / focus	43%	36%	54%	35%	41%
Lack of data or poor-quality data on which to base decisions or measure impact and ROI	35%	33%	38%	36%	38%
Lack of in-house resources and skills	40%	27%	33%	33%	46%
Lack of budget or cost issues	42%	38%	26%	33%	39%
Lack of metrics and KPIs to measure impact and ROI	32%	26%	39%	34%	29%
Not given priority at board level	22%	18%	24%	30%	18%
No barriers	4%	25%	0%	0%	5%

42% of payment leaders in gambling said that finding the right payments talent is a top concern regarding payments performance.

Across the board, a lack of in-house resources and skills (34%) and a lack of budget or cost issues (34%) were also holding back investment, with a further third (33%) citing a lack of data and KPIs to measure impact and ROI. In light of this, it is perhaps unsurprising that more than one third (36%) of respondents said implementing new payment methods is one of their top concerns about payments performance in 2022, as they do not feel they have the talent and business case to justify implementing new payment methods to improve payments performance. When asked what their organisation could be doing better to optimise payments performance, 32% said analysing payment data to understand customer journey/pitfalls e.g. decline codes.

In short, there is clearly an appetite to improve payment strategy using data. Merchants recognise that in today's digital world, robust data analysis can help merchants to optimise their commerce and wider business strategies, helping them to carve out an advantage over the competition. However, merchants need support navigating evolving compliance and regulation and recruiting the right talent to do so.

32% of payment leaders acknowledge that they could improve their analysis of payment data to understand pitfalls, such as decline codes.

A shortage in talent is particularly pertinent for gambling organisations; 42% of payment leaders in gambling said that finding the right payments talent is a top concern regarding payments performance, making it the biggest concern for this industry in 2022. This could be because there are a number of challenges that are unique to this industry, including licensing intricacies across regions, shifting jurisdictions, demanding payment regulations and complex day to day requirements that require specialist skills and expertise. However, it is important that payment leaders in gambling do have the right talent, if they are to move the needle on optimising their strategies, with over a quarter (27%) citing "a lack of in-house resource and skills" as a barrier to investing more in payments performance.

> Performance is a concern for organisations and must be amended. Required improvements should be prioritised, seeking the help of a payment service provider that offers strategic advisory and tailored support. With the right level of support from their payment providers, a robust business case built on hard payment data, and a real commitment to demonstrate the value of payments at a commercial level, businesses, large and small, can ensure that their teams are able to demystify payments performance.

Change is needed to avoid revenue loss and realise opportunities

Businesses are losing revenue due to dysfunctional payment systems

Businesses are haemorrhaging potential revenue due to the shortcomings in their payments gateway, with 91% of organisations reporting lost revenues. However, by implementing improvements, the majority of merchants expect to see a 7-10% uplift in revenue. Our research highlights that they plan to make adjustments in 2022, suggesting we could see a year of digital payments transformation across the board extending into 2023.

Alarmingly, the situation has worsened considerably over the last two years. In our 2019 Performance Pulse, 59% of leaders said that their organisation was losing revenue as a result of shortcomings in their payment systems.

Too many businesses are losing revenue due to shortcomings in the payments process. This must be rectified as a matter of urgency. Payments are no longer about 'keeping the lights on', but a key strategic, business-focused imperative, where performance is clearly aligned to overall business goals and KPIs.

Sliding revenue

Overall, more than one in three organisations (36%) say that 11-25% of their revenue is being lost due to shortcomings in their payment gateway, with over half (55%) losing 10% of revenue. Hospitality is experiencing the greatest losses, with nearly half (46%) reporting an estimated 11-25% losses due to inefficiencies.

Germany estimates smaller levels of losses than the UK when it comes to revenue lost due to inefficiencies. 29% of German participants said 11-25% of their revenue is being lost due to shortcomings in their payment gateway compared to 38% in the UK. However, 62% of German merchants say up to 10% is being lost compared to 53% in the UK.

Bigger businesses are not necessarily on the safe side, either. 39% of businesses with a £100m+ turnover say that 11-25% of their revenue is being lost due to shortcomings in their payment gateway, while 54% say up to 10% is being lost. For smaller businesses (with a turnover of £1-£9.9m), 32% say that 11-25% of their turnover is lost.

These shortcomings in the payment gateway have a huge knock-on impact. Even in the best-case scenario - in which businesses only experience the lowest amount of loss - this still means 54% of the largest merchants by turnover (£100m+) are losing a minimum of £1m (1% lost revenue) a year, and 39% are losing a minimum of £11million (11% lost revenue).

In the UK, 41% of businesses with £100m+ turnover said they're losing between 11-25% turnover. If we take a midpoint of 18%, that would equate to £18m in potential losses for these businesses.

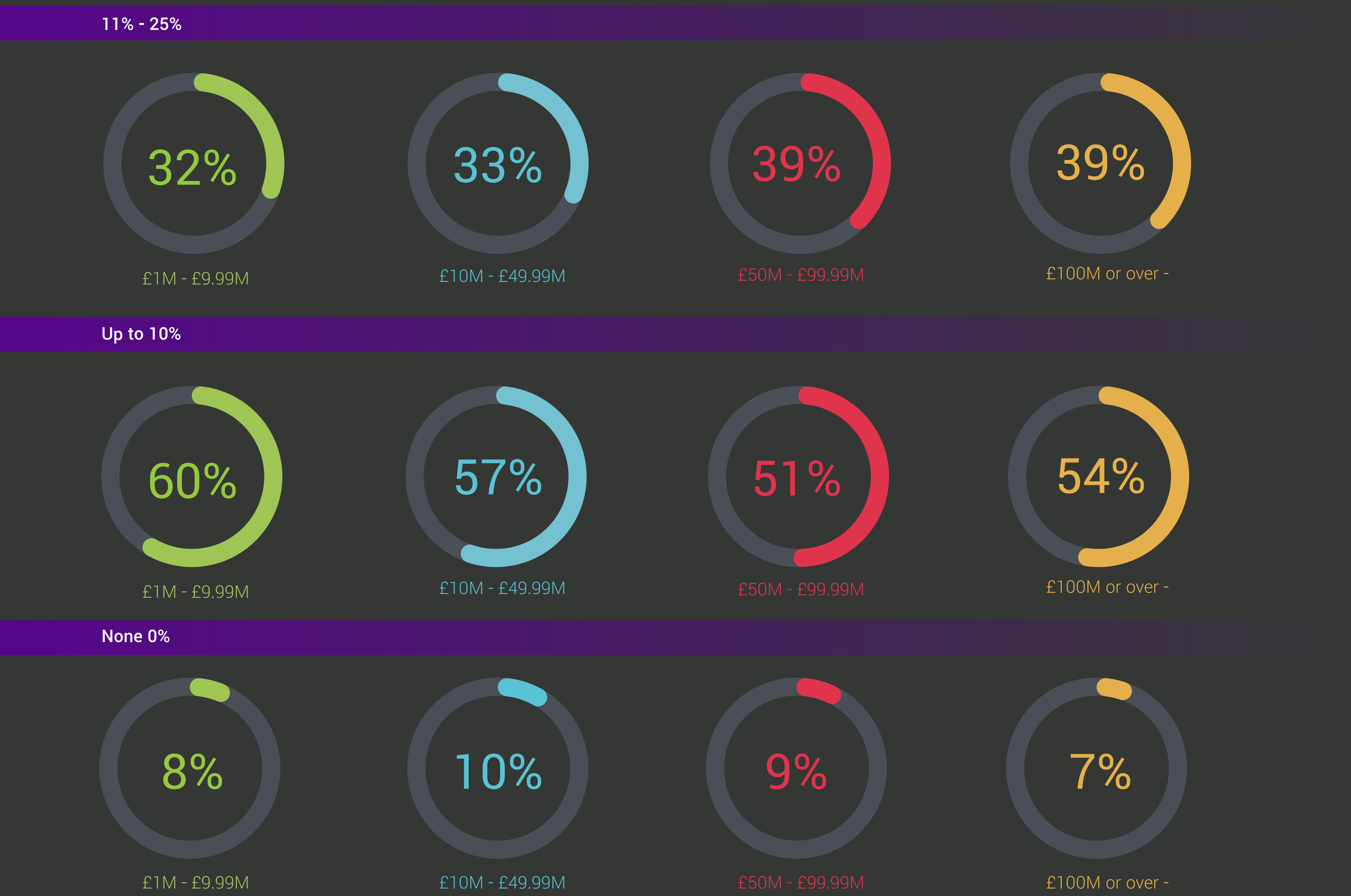
91%

of organisations across industries are losing significant revenue because of inefficient payment systems.

9%

(Less than 1 out of 10) of organisations estimate they are not losing any revenue due to shortcomings with their payment gateway.

Proportion of lost revenue due to shortcomings with payment gateway by company size



According to the ONS, there are 9,085 UK businesses with a turnover of £50m+[5]. 52% of our UK participants fell into this category, so if we assume potential losses of around £9m average per business, that could mean a potential loss of £42.5 billion overall in the UK alone.

Transformation must be high on the agenda

All participants said they need to make changes to their payments strategy to avoid losing revenue and customers, and 63% said that this would be a strategic priority for 2022. However, the UK market feels it needs to move faster, with more than a quarter (27%) saying they must do so in H1 2022, compared to just 8% in Germany.

At present, over a fifth of businesses (21%) are not satisfied with their payment service provider (PSP). However, over half (52%) are satisfied but open to changing. This suggests that as the payments ecosystem develops and changes, payment leaders may be watching developments within the payments market to ensure they partner with the best provider for their needs. To this end, optimising payments performance is of paramount importance to prove the positive impact that payments can have for the wider business. Starting small and scaling up can help businesses that haven't tapped into optimising their payment performance yet to yield tangible results, and the right payment partner will enable them to achieve just that.

The three main factors organisations look for when choosing a payment service provider

1. Range of global payment options
2. Payment routing capabilities
3. Integration options

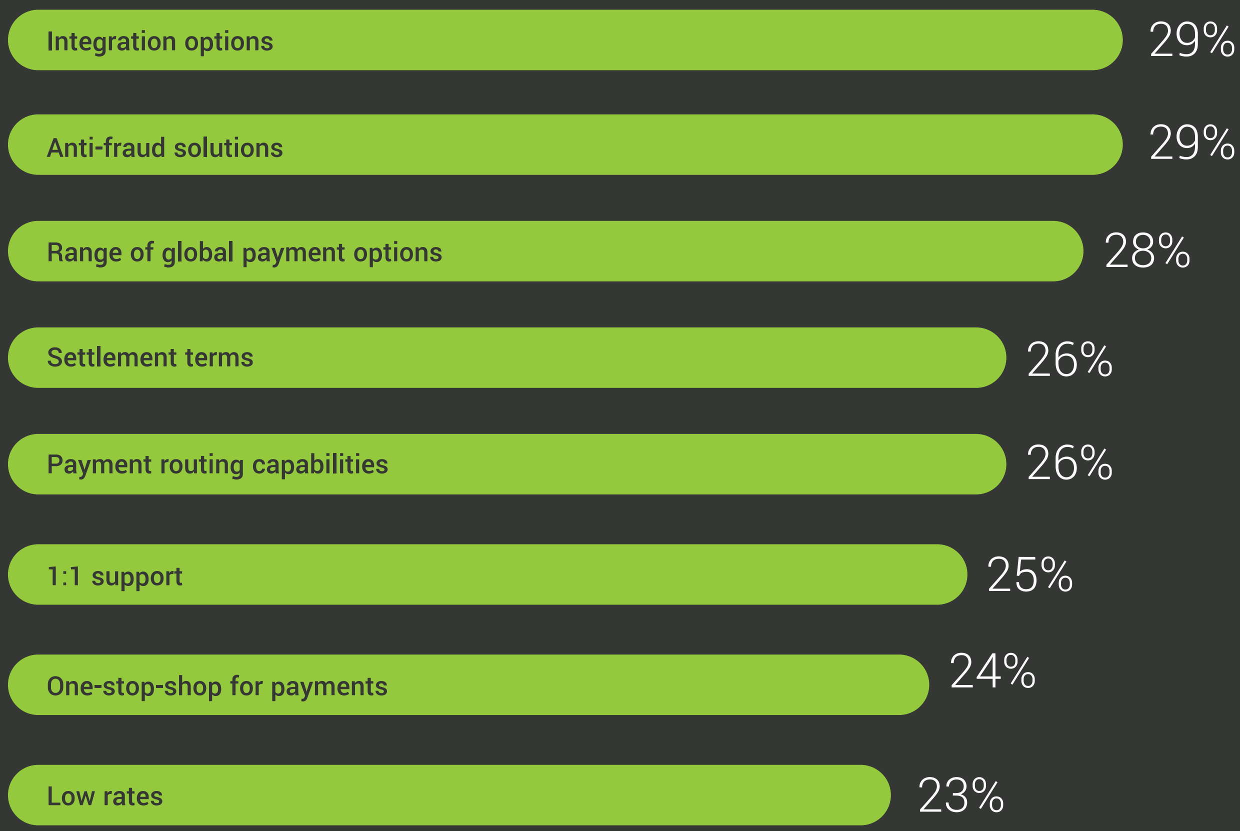
UK

1. Settlement terms
2. Anti-fraud solutions
3. Payment routing capabilities

Germany

Our research suggests that being a one-stop-shop alone is not a prerequisite for merchants looking for a payment service provider. Instead, merchants want to see demonstrable expertise, and are looking for specific services from their payment service provider, namely a range of global payment methods, payment routing capabilities and integration options. Interestingly, costs are the lowest priority when selecting a provider, suggesting merchants are looking for quality service providers, rather than the cheapest. namely a range of global payment methods, payment routing capabilities and integration options. Interestingly, costs are the lowest priority when selecting a provider, suggesting merchants are looking for quality service providers, rather than the cheapest.

Main factors when selecting a PSP for online retail across countries



Online retail sees a much more even distribution of key factors that are considered when selecting a PSP. The interest in global payment options and payment routing capabilities tallies with the boom in online commerce and cross-border eCommerce. According to McKinsey, eCommerce growth grew almost fivefold in the UK in 2020 and more than doubled in Germany[6].

> The right payment service provider can drive positive business impact for most businesses. By identifying areas of optimisation within the current payments infrastructure small, incremental wins can be made, allowing payment leaders to demonstrate the importance of investing in payments to the wider business. What will continue to drive the importance of payments strategy is the ability to dedicate resources to monitor, analyse and interpret payment data, all whilst addressing areas such as analysing decline reason codes to improve acceptance rates and tackle fraud.

If respondents are able to implement all required updates to optimise their payments strategy, the majority (53%) expect an uplift of 4-6% in revenue, with a further quarter (25%) expecting 7-10% uplift.

73% of travel merchants across the UK and Germany expect a 4-6% uplift in revenue in two years' time. This number drops to 66% for airlines, 59% for gambling businesses, 51% for hospitality and just 48% for online retail. Hospitality businesses have the highest expectations, with 36% of organisations expecting to see a 7-10% revenue uplift, surpassing all other sectors in the same bracket.

5% increase in revenue would equate to around **£50,000** for a £1m business, scaling up to around **£5m** for a £100m business.

It's clear that we will see big changes being made by merchants over the next two years and with good reason. Customer demands are continuously evolving, and payments is no exception. In today's competitive commerce landscape, payments can act as a differentiating factor, so improvement must be made to avoid losses and realise opportunities.

This research shows that too many organisations are missing out on potential revenue. Offering consumers the fastest, easiest, most streamlined and personalised payment experiences should work hand in hand with identifying gaps and areas of improvement within the payment journey. With a genuine commitment to ensure that current payment processes are fully optimised, payment leaders will be able to deliver the maximum value to their organisation. It's time for payment leaders to put payments performance at the driver's seat.

Drivers for change over coming years

What's in store for payment leaders in the years ahead

A combination of new payment methods, shifting regulations and changing consumer demand will encourage merchants to evaluate their current payments strategy. The fact that 69% are either not satisfied or open to changing payment service providers shows that payment leaders have recognised the need for a provider that will dedicate the time and resources to understand their unique business model and needs, with functionality and capabilities overriding low cost as a key factor influencing choice.

More than a third (36%) said implementing new payment methods is a top concern for 2022, with a further 37% saying they're driven by keeping momentum with changing customer demands/expectations on payment preferences. 34% say that finding the right payments talent is a top concern for the coming year.

In addition, payments performance is at the front of mind for merchants, with 80% saying regular performance reviews are crucial as an area of customer support from their payment service provider.

> 40% of organisations acknowledge that they need to make improvements to their payment strategy to avoid losing revenue by the end of 2022.

This figure rises to

56% for hospitality

46% for airlines

41% for travel

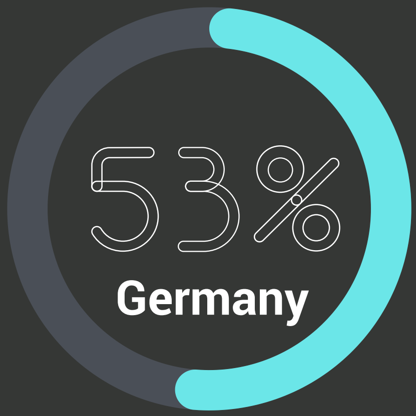
with lower but significant figures within

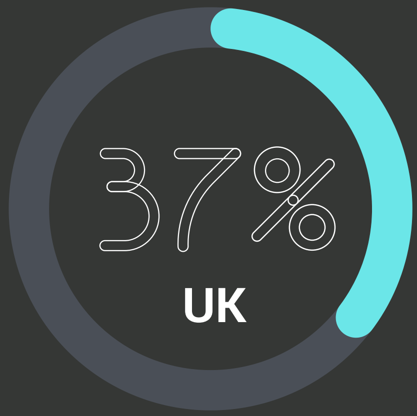
38% for online retail

34% for gambling

The majority of respondents (40%) said that they would need to make these improvements by the end of 2022 (in the next 7-12 months) to avoid losing customers and revenue. 29% said they would need to take similar action in the next 13-23 months, while nearly a quarter (23%) in the next six months. It's evident that organisations acknowledge the need for change to keep up with demand – driven by consumers and the industry alike.

Merchants under great pressure to adjust their payment strategy by the end of 2022





In terms of geography comparison, merchants in Germany look under more pressure to change their payment strategy, as 53% stated that they need to make improvements by the end of 2022 to retain customers and revenue. In the UK, this figure is lower at 37%.

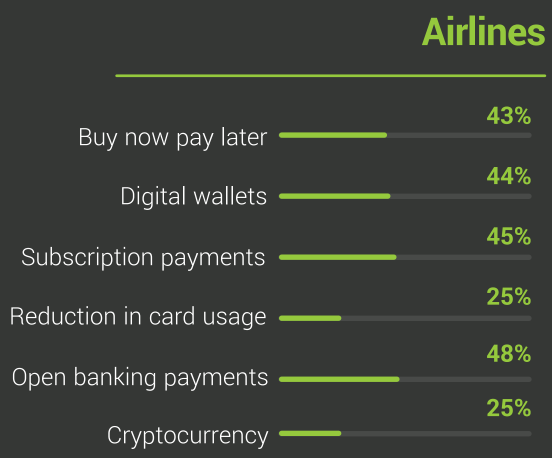
New ways to pay are emerging

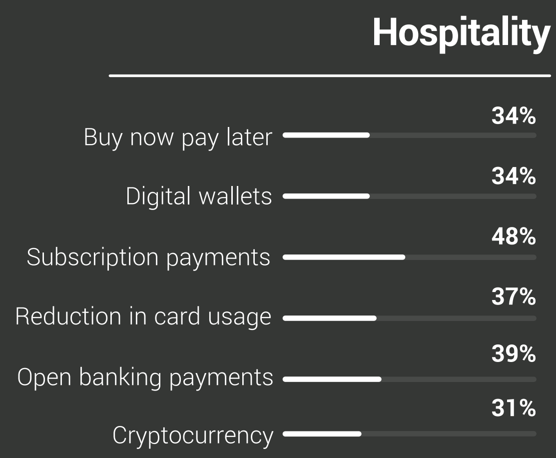
Our research uncovered interesting differences between the UK and Germany in terms of opinion on which emerging consumer trends are predicted to have the biggest impact on merchants' businesses. The UK favours digital wallets (39%) as a game changer, compared to subscription payments for Germany (41%).

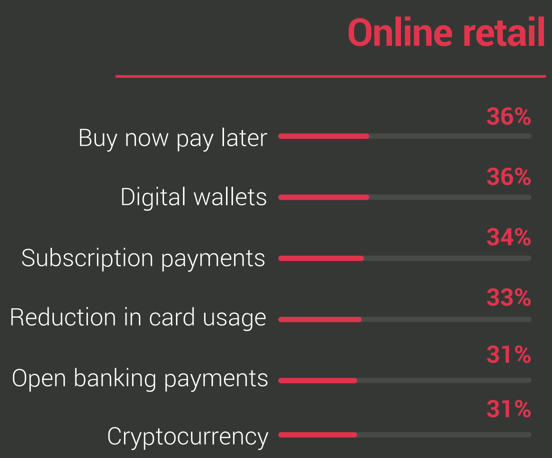
Focusing on digital wallets in the UK aligns with consumer attitudes; our UK consumer *New World, One Market* report in 2021 found that this was a large growth area over the next five years and by 2026, digital wallets could account for more than £11billion in online spending. From a vertical standpoint, more than half (59%) of gambling merchants across the regions think that digital wallets are the top payment trend to watch.

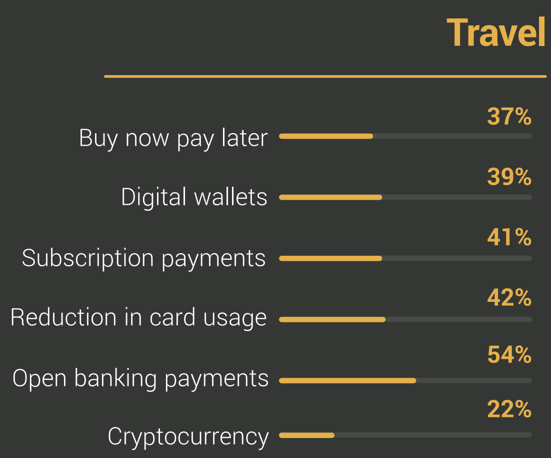
Trends also cited as ones to watch across both regions were open banking (37%) and Buy Now Pay Later (BNPL) (36%). The travel and airlines sectors in particular are expecting open banking to emerge over the next 12 months, with 54% of travel companies and 48% of airlines executives saying it was one of their top three trends to have an impact on their sector. 43% of airlines executives selected BNPL as one of their top three payment trends to impact their industry, compared to only 36% for online retail executives. The top trends cited by hospitality businesses were subscription payments (48%), followed by open banking (39%).

Top emerging payment methods for organisations across industries









Awareness of a shift in consumer payment methods could be driving payment leaders' prioritisation of functionality in a payment service provider. Just under a third (30%) cited integration options and anti-fraud solutions (29%) as a key factor when choosing a payment service provider. Offering a range of global payments options (32%), settlement terms (28%) and payment routing capabilities (32%) were also priorities. Interestingly, low rates were the least popular response (22%), suggesting merchants are willing to invest in a payment service provider that primarily delivers against their needs.

82% of merchants across the UK and Germany reported that one to one support from their account manager is important. A one-to-one relationship ascertains a more tailored and personable approach, in which the payment service provider takes time to understand the merchant, their business model and unique business needs. In turn, the merchant benefits from a tailored payments solution that facilitates sustainable growth.

It’s time for the Great Payments Transformation

A new dawn for payments

Improving payments strategies can deliver huge commercial benefits to businesses, helping to boost profit margins. However, before setting out to materialise optimisation initiatives, payment leaders are required to align with the wider business about the need to invest in payments transformation. To achieve this, it's crucial to demonstrate the negative impact of poor payment performance, both on customer experience and the bottom line, and the untapped opportunity that comes with optimised payment strategies to drive revenue, conversions and brand loyalty.

> Customer demands are driving an appetite for change in strategy. However, changing regulation and compliance, lack of high-quality data and shortage of in-house skills are acting as a barrier to implementation. Payment service providers are invaluable in helping merchants to navigate these blockers so they can create strategies that are optimised to local payment preferences.

Equally, the very best payment service providers will continue to offer 1:1 support and strategic advisory services, enabling merchants to navigate and solve many of the challenges highlighted in The Great Payments Transformation. In turn, merchants can invest more time in what really matters for their business, away from finessing operations.

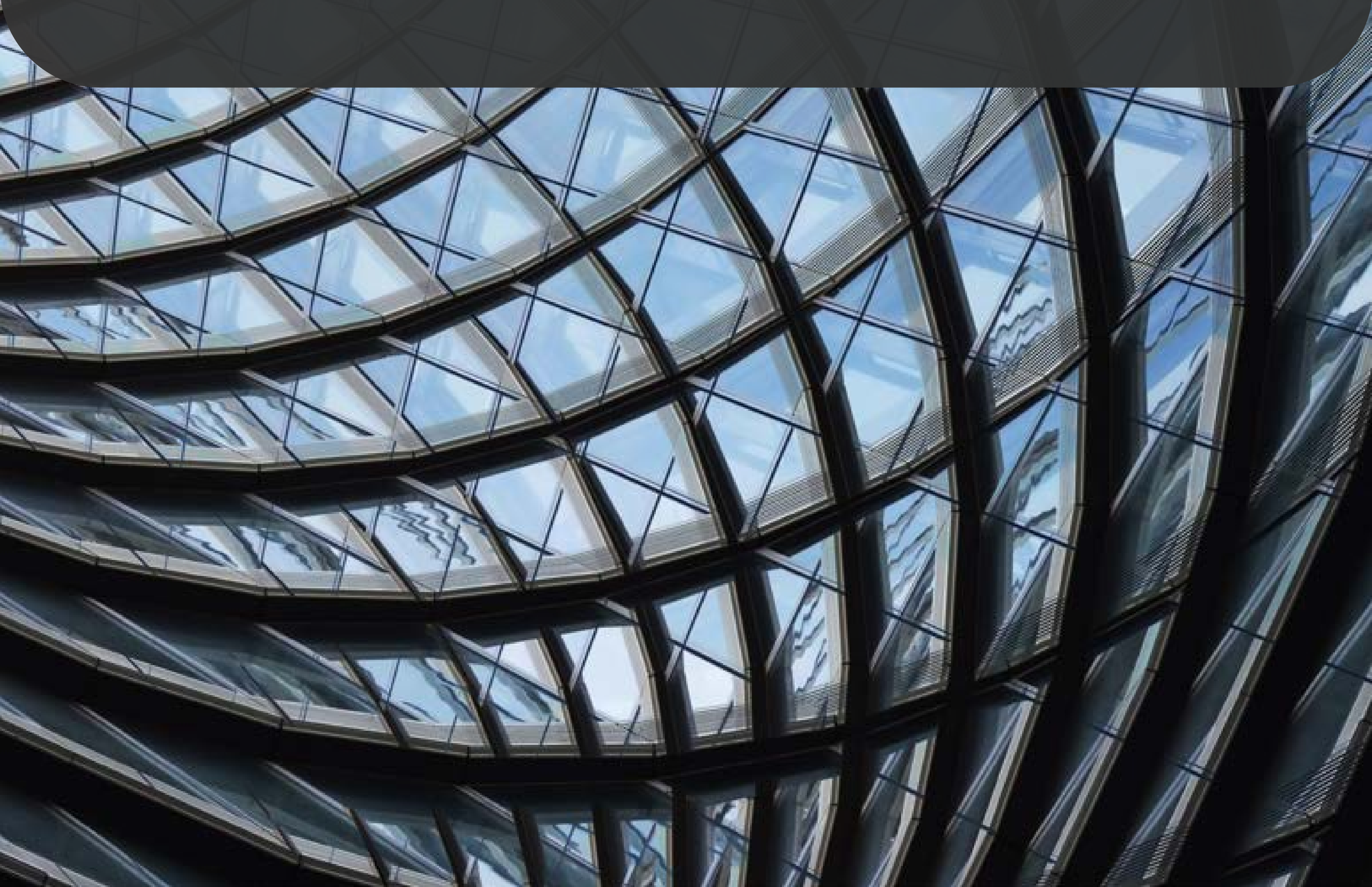
In today's modern market, taking the time and investment to identify the right provider is critical for merchants looking to grow and scale globally. For too long, revenue and opportunity have been swallowed by inefficiencies in outdated payments strategies and systems.

> The best way for payments leaders to secure the investment and support needed to address performance issues is by building a strong business case. This includes demonstrating clear proof of concept to drive business results; agility to grow with the business and respond to regulatory changes; and the ability to demonstrate impact in terms of business outcomes such as revenue and profit.

As the research has shown, many of these professionals currently do not have access to the tools, skills, data and insight needed to develop such a plan. This is where a strategic payments partner can add value and strengthen payment leaders' business case with hard data and evidence to demonstrate why it pays to invest in optimised payment processes. It's time for an upgrade. The Great Payments Transformation is more essential than ever, and we believe it represents a key success factor for organisations going forward.

Methodology

The research was conducted by Censuswide, with 954 Managing Director, Payment Manager, Finance Director, Heads of Payments in company with a turnover of £1 million to £10 million (25% of sample), £10 million to £50 million (25% of sample), £50 million to £100 million (25% of sample), £100 million or more (25% of sample) in the following industries: gambling, travel, airlines, online retail, hospitality in Germany and the UK. Quotas were applied across all industries to ensure a minimum number of completes per industry. The fieldwork took place between 30.12.2021 - 07.02.2022. Censuswide abide by and employ members of the Market Research Society which is based on the ESOMAR principles.



About emerchantpay

emerchantpay is a leading global payment service provider for online, mobile, in-store and over the phone payments. We work with businesses of all sizes, across various industries, to create bespoke solutions and strategies that help them increase their payment systems' efficiency and profitability. Our global payments solution is available through a simple integration, offering a wealth of features, including global acquiring, alternative payment methods, advanced fraud management and performance optimisation. With cutting-edge technology and a unique customer-centric approach, we empower businesses to design seamless and engaging payment experiences for their consumers.

Find out how emerchantpay can help you

Optimise your payment strategy today

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