CNP RESEARCH

2016 Omnichannel Payments Survey:

Connecting The Last Mile of Omnichannel

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2016 Omnichannel Payments Survey:

Executive Summary

Our online survey asked 226 merchants comprising nearly 20 retail verticals a series of questions about omnichannel commerce. For the purposes of this survey, we defined the term "omnichannel" as: A multichannel approach that provides the customer with a seamless shopping experience whether the customer is shopping online, from a desktop or mobile device, mobile app, by telephone or in a retail store. An omnichannel approach enables the customer to move seamlessly across multiple channels with a consistent retail and brand experience and supports a consistent, low-friction checkout to drive revenue.

We asked about their current capabilities, their technological challenges and their plans around omnichannel strategy and the payments technology infrastructure they would bring to bear. Several key themes emerged from their responses that tell a compelling story about a new way to sell.

1. **Positioning** – At this stage, all merchants acknowledge that a migration to an omnichannel model is coming to match the seismic shift in consumer shopping preferences, but the landscape remains fragmented. Everyone agrees an omnichannel strategy is important and most companies are taking their first steps, but uncertainty around priorities, costs and simply who is in charge are confounding adoption.
2. **Reimagining** – Those first steps are centered around creating a new role for the physical store that leverages a huge existing investment.
3. **Driving** – The early driver of omnichannel is, for most, not a fully formed strategy but a more reactive posture driven by the adoption and change in usage of smartphones by consumers.

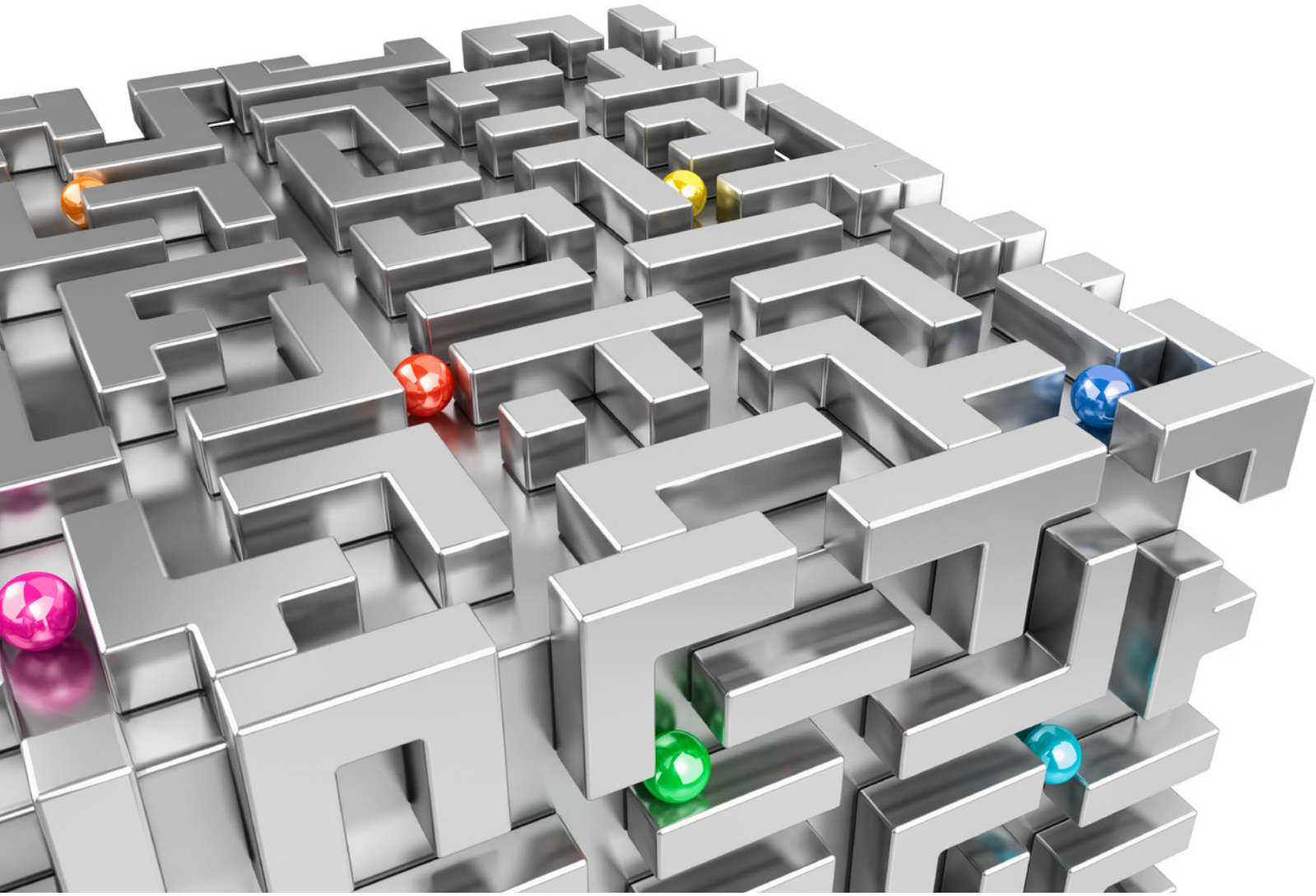
2016 Omnichannel Payments Survey:

Key Findings

- **The future is clear:** 82% of merchants think that omnichannel will be either very or somewhat important to their growth this year. That number jumped to 90% when asked how important omnichannel would be in three or more years
- **A competitive edge:** Of merchants currently offering some form of omnichannel shopping, 65% said that it made them more competitive than having a multichannel approach
- **Limited adoption:** Despite this impact, more than 43% of merchants surveyed do not offer any omnichannel capabilities and, of those that do, no one capability has more than 32% adoption
- **Lack of leadership:** Organizational confusion is apparent as marketing, e-commerce, IT and product were all named as the biggest drivers of omnichannel implementation within various companies
- **Brick-and-Mortar remains the hub of any adoption strategy:** In-store servicing options identified as the most important capabilities: 48% ranked "buy online, pick up from store" most important with 42% naming "buy online, ship from store" and 29% for "buy online, return to store"
- **Consumer shopping preferences are clear:** Online mobile payment capabilities (mobile Web and in-app) increased by 160% in the last five years while payment acceptance through other channels averaged 16% to 17% growth over the same time. This displacement has pushed traditional retailing into a landscape increasingly dominated by buyers who are driven by the belief that they can purchase what they want, when they want it, and how they want it no matter where they are – the world of omnichannel.

For billions of consumers around the world to be able to transact across all sales channels seamlessly requires retailers to think about payments and their technology infrastructure in new ways. What do they need from their technology to enable consumers to pay in that environment? How do they bring those services to them across the last mile? Although we are in the early stages of real-world adoption, these are the strategic questions facing merchants today.

POSITIONING

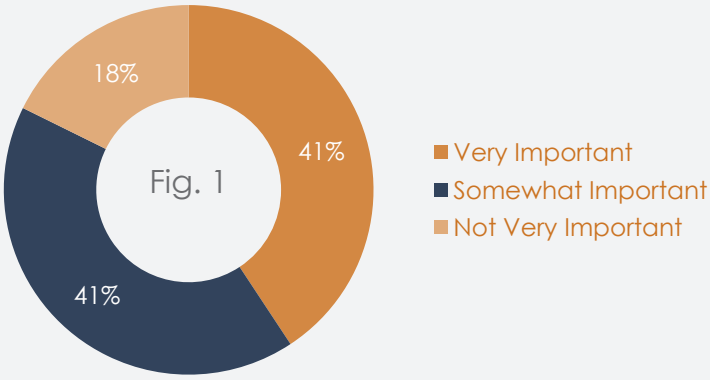


2016 Omnichannel Payments Survey:

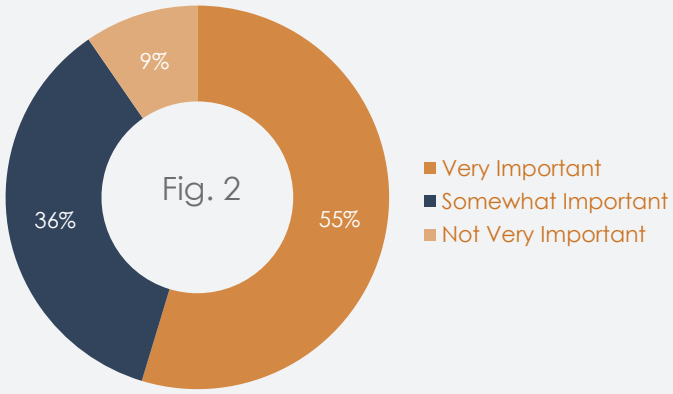
The Foundation Has Been Laid

The importance of an omnichannel strategy, even now when early adoption remains low, is unquestioned. At the time of our survey, more than 82% of merchants indicated that an omnichannel strategy was either somewhat important or very important to their growth this year. In three years, merchants expect omnichannel to be even more crucial to their business's growth, with nearly 90% identifying it as somewhat or very important. And, the number of merchants who chose very important rose from 41% when asked about omnichannel's impact on this year's growth to 58% when asked about three years hence.

How important is an omnichannel strategy to your growth this year?



How important is an omnichannel strategy to your growth plans in the next three (3) years?



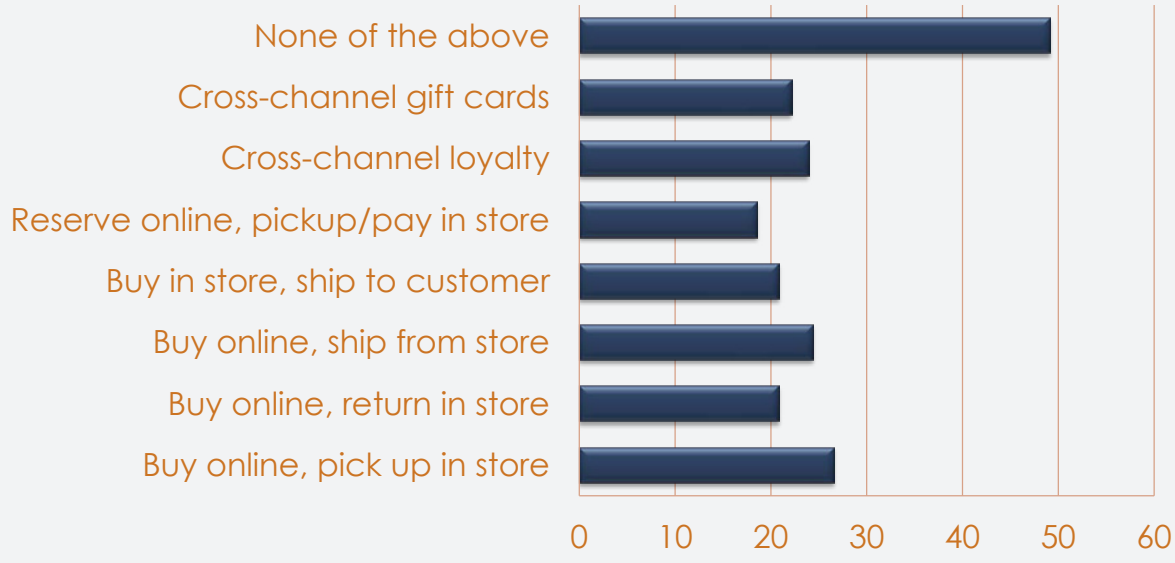
But, while merchants are nearly unanimous on omnichannel's importance, that acknowledgement has not translated to large scale adoption of fully integrated programs. More than 43% of merchants surveyed do not offer any omnichannel capabilities and, of those that do, no one capability has more than 32% adoption. Furthermore, nearly half of our respondents said they have no plans to implement any additional capability in the next 12 months.

Fig. 3

Which of these omnichannel capabilities do you currently offer?

Fig. 4

Which of these omnichannel capabilities do you plan on offering in the next 12 months?



2016 Omnichannel Payments Survey:

So, retailers have established a beachhead, but remain hesitant to invest in a comprehensive strategy—even though they have begun to offer an embryonic version of omnichannel commerce. Many are positioning themselves to act, but a fragmented landscape of strategic and supplier uncertainty plagues a significant minority. A full third of merchants don't know if their current payment platform could enable a fully implemented omnichannel strategy.

Does your current payment provider offer a platform that would enable your company to implement a comprehensive omnichannel strategy?

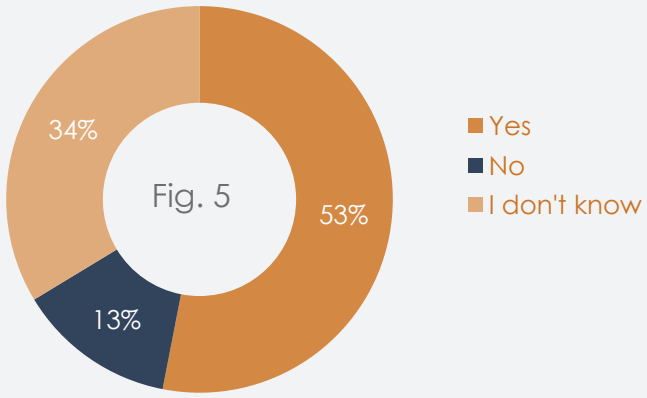


Fig. 5

Roadblocks

But, if they are positioning themselves so they can accelerate their ability to engage customers in their brand across all sales channels at some indeterminate time in the future, what is holding them back right now? According to our respondents, it's a matter of priorities, infrastructure, cost and organizational confusion.

Despite an onslaught of media stories and experts loudly proclaiming that retailers who do not implement an omnichannel strategy will be left behind, the number one reason merchants cited for not offering omnichannel capabilities in the next 12 months is it is not a priority for senior management. Nearly 41% of merchants ranked prioritization as one of the top two reasons their company is not yet engaged in omnichannel.

Fig. 6

Rank the reasons your company will not implement omnichannel capabilities in the next 12 months

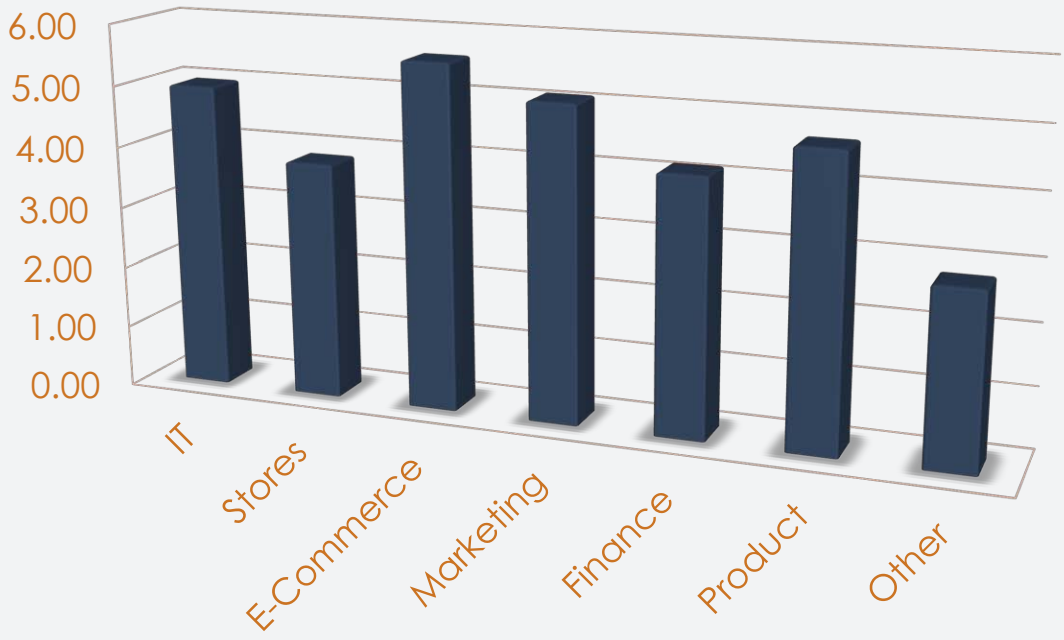
IT infrastructure challenges were also cited by 41% as one of the top two reasons for not implementing omnichannel, but only 17 percent named it as their number one reason, compared to nearly 28 percent who named management not making it a priority. Cost was cited by 35% as one of the top two reasons, with 22 percent identifying it as the biggest. Merchants are not as concerned with payment solution complexity or that they lack a single view of customer data omnichannel requires. At this point, the more prosaic concerns—a company's priorities, its current technology infrastructure, supplier choices, and cost—are a bigger problem. But the lack of clear leadership in establishing a clear set of priorities is underlying all of these factors.

Organizational Confusion

Without clear leadership, or when responsibility for company-wide initiatives is shared, implementation and execution will suffer. By definition, omnichannel seeks to break down silos within companies. As a result, there is no clear industry consensus regarding the proper way to organize. That has led to omnichannel efforts being driven by different departments in different companies. E-commerce was named as the most influential department by the most merchants (31%), but in many companies IT (37%), marketing (40%) or product (34%) were rated as having the most influence on omnichannel implementation. The result: a lack of ownership compounded by an inability to set priorities.

What department(s) are managing and/or driving an omnichannel strategy in your company?

Fig. 7



With no clear idea of who is driving omnichannel decisions within the organizational structure, the information that provides company-wide visibility into customer behavior is not where it needs to be either. Among merchants engaged in some form of omnichannel commerce, only 63 percent reported they have consolidated reporting in an omnichannel environment. Merchants clearly consider payments the most important business element they need to consider in an omnichannel environment—65% rated it the most important. Most merchants ranked reporting second (54%) and inventory third (52%).

In an omnichannel environment, which element is most important to your business?

Fig. 8

So, if merchants are not clear from an organizational standpoint about what department is driving the initiative, of course senior management's priorities are not going to be aligned in that direction. If omnichannel implementation requires large-scale changes in technology and IT isn't involved in the decision making, the case for making those changes may not be made effectively.

Many companies already have come to realize that omnichannel success will require changing their organizational structure. Nearly 35% of merchants surveyed have reorganized specifically to enable omnichannel commerce. A nearly equal 34% said some kind of reorganization will happen in the future specifically with omnichannel in mind.

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Has your company ever reorganized specifically to enable omnichannel commerce?

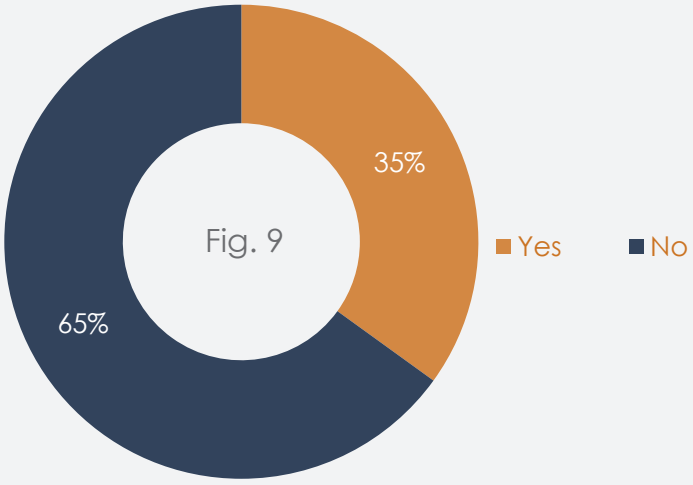

Fig. 9

Is omnichannel commerce driving any future reorganization plans?

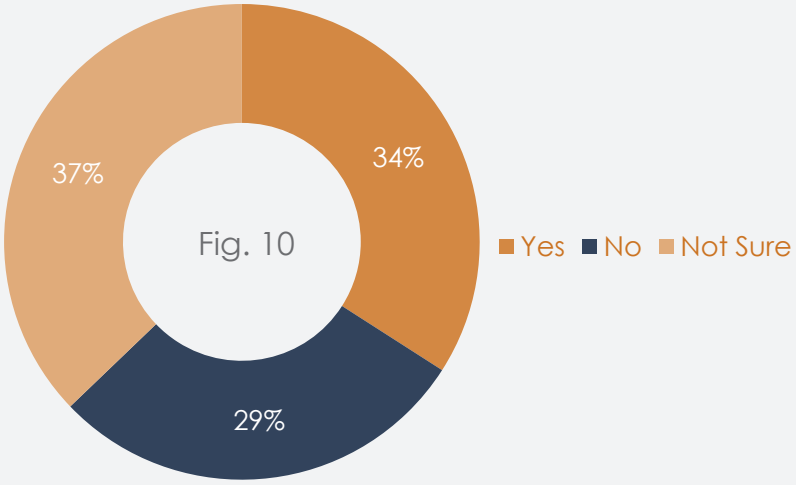

Fig. 10

While the opportunity to supercharge an omnichannel strategy from a technology perspective exists for many companies, until a proven organizational paradigm emerges, merchants may have to operate within a corporate structure ill-suited to deliver the "where I want, when I want, how I want" experiences being demanded by consumers.

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REIMAGINING

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Brick-and-Mortar as an Omnichannel Hub

So, while full omnichannel commerce remains elusive for most retailers, a significant majority of merchants surveyed have begun implementing at least some omnichannel capability (Fig. 3). Among those that have, the early results are hopeful. Nearly two-thirds (65%) indicated it has made them more competitive, while only 7% said it has not. Almost 28% said they didn't know—understandable in response to a question that might require a lot of data to answer with a high level of confidence. Overall, those who have begun transitioning to an omnichannel philosophy agree it has had a positive impact as they continue to fight for market share against competitors, which should give the many who are still sitting on the sidelines confidence to move forward with plans.

Has omnichannel made you more competitive?

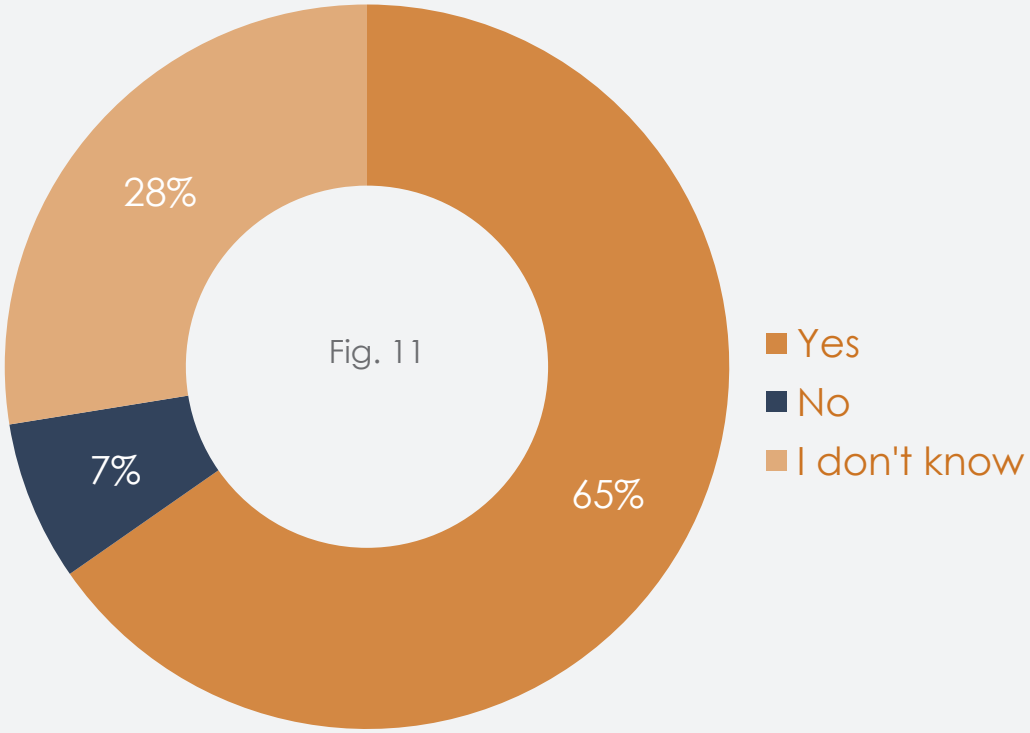


Fig. 11

2016 Omnichannel Payments Survey:

For those making the decision to engage across sales channels, the importance of the physical store as a servicing and distribution center has become apparent very quickly. Merchants ranked in-store servicing options like "buy online, pick up from store" (48%); "buy online, ship from store" (42%); and "buy online, return to store" (29%) as more important to their business than other options like cross-channel loyalty and gift cards and "buy in store, ship to customer."

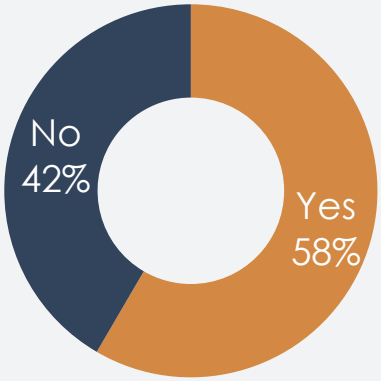
Fig. 12

In your opinion, which of these omnichannel capabilities is most important to your business?

Retailers are leveraging their considerable strengths: a familiar touchpoint with consumers, a way to reduce increased logistics costs associated with e-commerce and the fact that the overwhelming majority of retail sales still go through physical stores. While traditional storefronts remain the primary sales channel for most merchants, they are also seeking to leverage the primary capital investment they have made in every way possible. Although traditional storefronts will not be going anywhere soon, a significant challenge exists from a payments perspective for those companies that want to offer a comprehensive program offering a truly seamless experience across all sales channels. Nearly 42% of merchants polled said their current payment technology would not allow them to offer all the omnichannel options listed in Fig. 8.

Fig. 13

Does your current payment technology allow you to offer all omnichannel options?



New thinking about how companies engage their customers also can require new technology to enable that engagement. Nearly one-quarter of merchants (23%) said their omnichannel needs were driving changes to major systems and vendors, aligning with the reported adoption rates (Fig. 3).

Is omnichannel commerce driving any future changes to major systems and/or vendors?

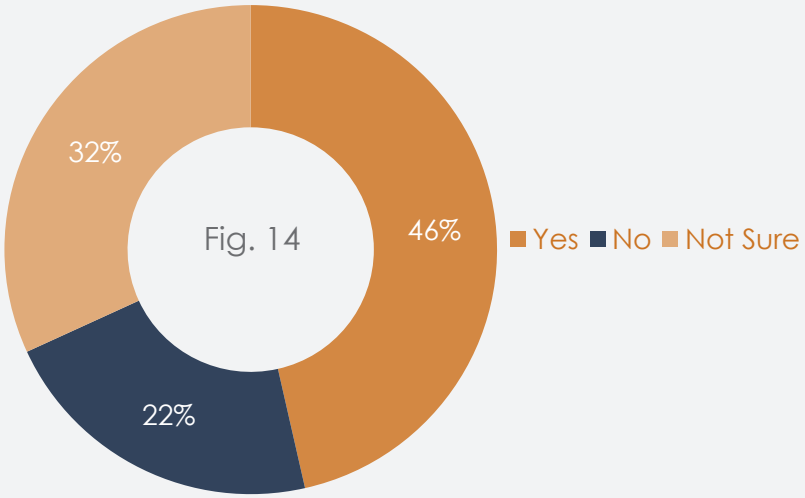


Fig. 14

Online Fraud Moves Back to Stores

Additionally, merchants reported those technology upgrades and new vendor relationships are coming mainly in the areas of payments and fraud prevention. The need to update payment systems that can integrate payment acceptance with inventory and logistics across channels seems intuitive, but the need for new fraud prevention systems might not be as clear before a merchant has engaged in omnichannel implementation.

One challenge that has emerged is that the complexity that omnichannel commerce adds to a merchant's systems is the very thing that is a fraudster's friend. For merchants reimagining the store as the logistical center of an omnichannel powerhouse, increased attention to fraud in a hybrid environment is as integral as it is inevitable.

Merchants already engaged in omnichannel reported "buy online, ship from store" has presented the biggest challenge—40% named it as the omnichannel capability that generates the most fraud. "Buy online, pick up in store" was cited as such by 24%. Part of the reason fraud may present such a stiff challenge is the current propensity of vendors to use different fraud prevention tools or vendors for different sales channels. Sixty-four percent indicated that to be the case, although 75% said they could at least track fraud rates in an omnichannel environment.

Do you use different fraud prevention tools and/or vendors for different sales channels?

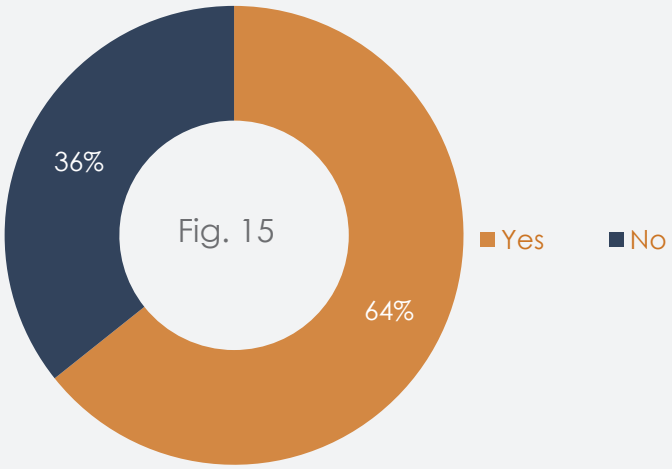


Fig. 15

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2016 Omnichannel Payments Survey:

DRIVING

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Smartphone Adoption is the Key

Merchants have seen the impact that selling through different channels can have on revenue and market share. They have always understood the power of technology and have moved steadily, if not always quickly, toward implementing new technologies to enable sales.

No technology has been more important to the sea change of omnichannel, however, than mobile. The smartphone has been the catalyst that has enabled a shift from an operational view of leveraging various sales channels (how do I allow customers to complete transactions in my store, on my Website, on the phone) to a consumer-centric philosophy (how do I enable my customers to engage with my brand whenever, wherever and however they want). It's the one touchpoint that is nearly always with the consumer, provides immediate two-way communication and enables payment, marketing, loyalty, location, personalization and more. The ubiquity of the smartphone has inverted the traditional model of retailing where consumers were driven into one channel or another into a scenario where the consumer is everywhere, all the time, and wants direct access to goods and services without regard to physical location.

And, while the mobile revolution has been predicted since shortly after the first iPhone was released in 2007, the last five years have finally seen the stunning growth in transactions the industry has been expecting for a decade. Merchants have grown their online mobile payment capabilities (mobile Web and in-app) by 160% in the last five years while payment acceptance through other channels averaged 16% to 17% growth over the same time.

Fig. 16

Through what channels did your company accept payments five years ago (or when it was founded, if more recently)?

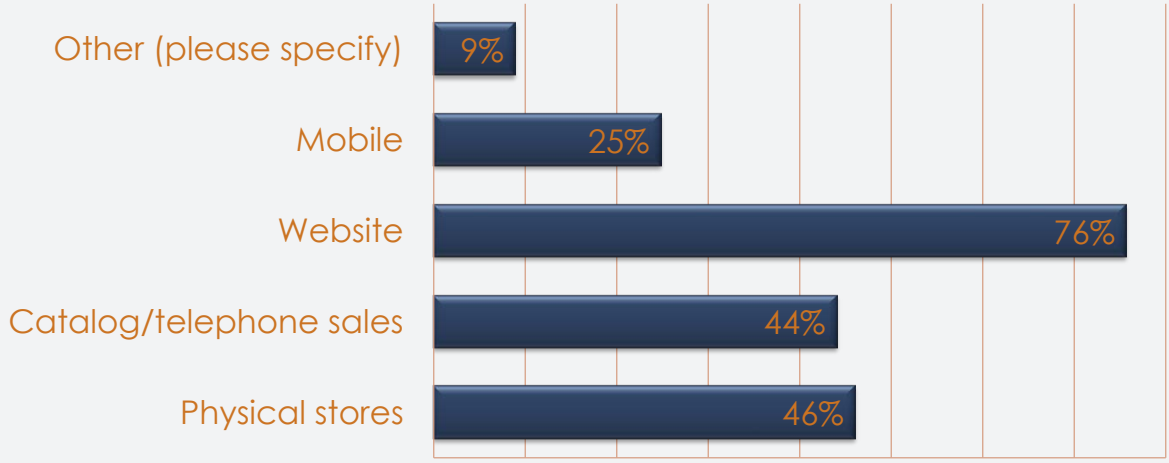


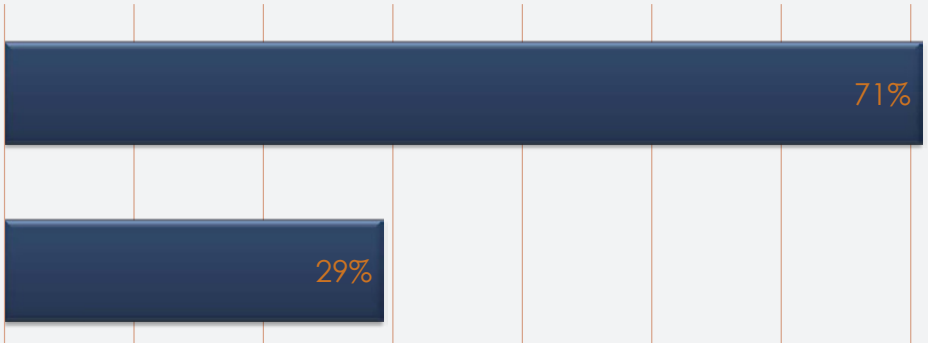
Fig. 17

Currently, through what channels does your company accept payments?

The emergence of the smartphone has made the notion of omnichannel commerce possible. But, legacy systems that predate mobile are making the transition rocky. At the time of our survey, 30% of merchants said they employ separate payments gateways for desktop/laptop, mobile Web and in-app transactions and 39% have different acquirers for e-commerce and point-of-sale. Without the ability to see consumers as they move across and in and out of channels and then provide an equally seamless and low friction payments solution means that retailers will be leaving money on the table. If you have optimized marketing that consistently draws shoppers in only for them to find they can't pay for a desired item, the promise of omnichannel falls short for the retailer and consumer alike.

Fig. 18

Do you employ separate payments gateways for desktop/laptop, mobile web, in-app transactions?



Do you employ different acquirers for e-commerce vs. point-of-sale?

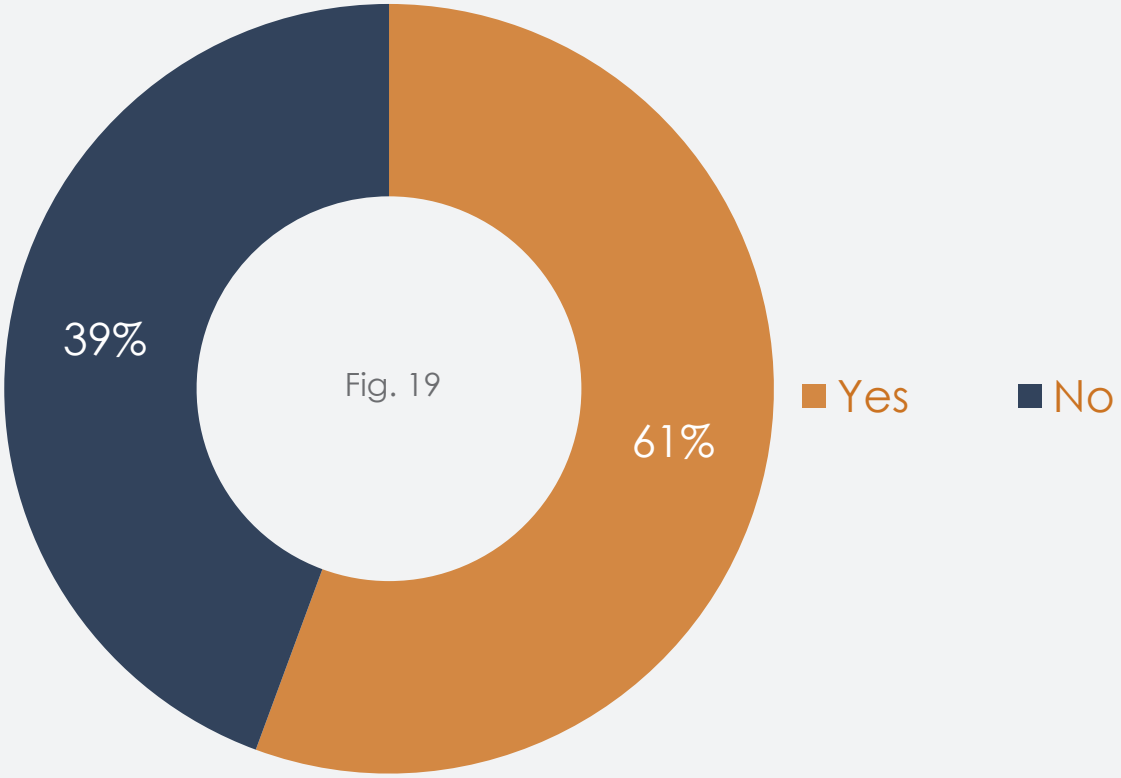


Fig. 19

Coherent, comprehensive strategies implementing an omnichannel view across entire companies are exceedingly rare, despite the hype. The addition of systems to accommodate mobile payments separate from e-commerce indicates that merchants understand the power of the smartphone as a driver of consumers, but also that, in its earliest days, many are simply reacting to the incredible significance the device has achieved for users in their everyday lives.

Conclusion

The conceptualization of omnichannel commerce as an overall strategy developed when retailers began to leverage new technology to sell in new ways, and nearly every merchant surveyed in this study acknowledged the inevitability that it will shape their company's future. But, while nine out of 10 merchants said they expect omnichannel to be important to their growth within the next three years, relatively few are engaged in it right now in a comprehensive way.

With little clarity from an organizational standpoint regarding responsibility for omnichannel initiatives, lack of buy-in from senior management has been a roadblock to making the changes necessary to facilitate truly seamless experiences for customers. The ubiquity and cultural significance of smartphones has pushed retailers to offer omnichannel capabilities, perhaps before they were ready to implement comprehensive strategies. They aren't getting there on their own. Establishing within an organization clear responsibility for driving a comprehensive omnichannel strategy is the primary factor enabling the connection of retailers over "the last mile" to the devices consumers carry with them at all times.

Many retailers ARE taking the initial steps available to them—leveraging the traditional (and enduring) strength of their physical stores to reimagine commerce. They have grasped the advantage of using an existing network of stores as distribution, fulfillment and customer service centers. But, the absence of an organizational structure makes implementing the systems necessary to connect company-wide payments and reporting difficult. The confusion and complexity of the current technological challenge also is opening the door to more fraud.

While headwinds facing full adoption are strong, the inevitability that comprehensive omnichannel programs will be required to compete has moved merchants some of the way. Relationships are being evaluated, job descriptions are being changed, new technology is being implemented. And, payments are at the center of decisions being made that will affect merchants well into the next decade.

About Vesta

Vesta Corporation is the global leader of guaranteed payment solutions for enterprise partners. The company's patented fraud protection technology is proven to increase conversion and acceptance while eliminating fraudulent transactions and merchant liability. Founded in 1995 and headquartered in Atlanta, GA, Vesta's operations span the Americas, Europe and Asia. For more information visit trustvesta.com.

About CardNotPresent.com

CardNotPresent.com, part of the RELX Group, is an independent voice generating original news, information, education and inspiration for and about the companies and people operating in the card-not-present space—one of the only sources of content focused solely on this growing segment of the payments industry. Our only product is information. Our only goal is to provide it in an unbiased manner to our subscribers. The company's media platforms include the CardNotPresent.com portal, the hub for news, information and analysis about the payments issues that most affect merchants operating in the space; the CNP Report, an e-newsletter delivering that focused information directly to your email inbox twice a week with no extraneous clutter; the CNP Expo, an annual gathering of the leading companies in the space from the smallest e-commerce Websites and technology providers to global retailers and payment processors; and the CNP Awards, an annual event honoring the products and solutions CNP merchants rely on most to increase sales. For more information, visit www.CardNotPresent.com.