5 Reasons Retailers Should Have Their Own Digital Wallet
Introduction

As online and mobile commerce channels continue to expand, and with emerging technologies and trends changing expectations of the in-store experience, brick-and-mortar retailers are being forced to re-evaluate their position, offering and approach.

Retailers must now find new and powerful ways to engage with consumers. Within this context, payments are increasingly being identified not just as a necessary process to be managed, but as an opportunity.

Indeed, 80% of merchants now see payments as a fundamental part of their business strategy, with 92% expecting to maintain or increase investment over the next 12-18 months (Source: Ovum).

As retailers and merchants expand their payments activity and investment, deploying a branded digital wallet will be a key consideration for many. In this eBook, we explore the five major reasons why this approach makes sense.
Part 1: Improve Security and Mitigate Risk

Over the past few years, the retail sector has been beset by high-profile data breaches at large merchants. Given that the average cost of a retail breach is $4 million, not including the reputational and brand damage and the ongoing impact on long-term sales, it is clear that there is an increasing consensus across retailers and merchants that security is business-critical (Source: SecurityIntelligence).

Consequently, many players are moving to take control and bring payments in-house, rather than outsource to a merchant acquirer (as is the traditional model). Indeed, a research report from Ovum highlighted that of the 80% of retailers entering payments, 40% identified security considerations as the main driver (Source: Ovum).
Addressing Security

For retailers, the theft of customer payment credentials, transaction history and identity are the main security fears. Digital wallets, however, incorporate various technologies and techniques to enhance security and mitigate risk, reducing the likelihood and impact of breaches:

**Application protection** – Code obfuscation and white box cryptographic techniques hide or obscure the code, data and algorithms.

**Device protection** – Secure elements (SE) and trusted execution environments provide hardware grade security and isolate data and applications from the operating system.

**Tokenization** – Replaces traditional primary account numbers (PAN) with unique identifiers called payment tokens to protect transaction data and mitigate fraud.

**Fraud management** – Direct access to the SE enables instant fraud detection and allows a malicious application to be blocked immediately.

**Biometric authentication** – Increases consumer confidence through an extra, more visible layer of security. Biometrics can also be deployed in concert with other authentication techniques such as passcodes.

Delivering Security, Maintaining Usability

Despite the paramount importance of security, consumers also demand simplicity and convenience. A careful balance must therefore be found between security and usability.

A modular, layered approach to security is recommended to enable retailers to select a risk profile in with their wider commercial strategy, and tailor and deploy the appropriate level of protection to meet their specific requirements.
Part 2: Minimize Transaction Fees

To process debit and credit card transactions, the payment networks levy ‘transaction fees’ on retailers. As these transaction fees can be significant, particularly for larger retailers, it makes commercial sense to implement strategies to reduce these costs.

One way to minimize transaction fees is by introducing a store-branded, closed-loop payment card. As these cards can only be used by consumers at the specific retailer, they are not subject to the interchange fees levied by the payment networks. This is called an ‘on-us’ transaction and means the cost per transaction is significantly lower.

For some retailers, however, the cost of manufacturing and issuing physical cards is prohibitive. But by digitally provisioning a store card to a digital wallet, the costs are greatly reduced.

In parallel, for retailers to see reduced interchange costs, consumers actually have to use their store card. Again, this is where the digital wallet comes to the fore as a powerful means of directly promoting and incentivizing use of a store card. For example, the retailer could push an in-app discount when using the store card to encourage adoption. This also has the effect of driving brand engagement, recognition and loyalty.
Part 3: Enhance Experience and Engagement

Physical retailers are in direct competition with ecommerce giants who promise convenience, wider choices and cheaper prices. Black Friday, a key indicator of the retail landscape in the US, saw 10 million more Americans shop online than in-store (Source: Fortune).

The assumption for some would be that ecommerce will eventually render physical retailers redundant. By 2025, however, 75% of all retail sales are predicted to still take place in-store (Source: New York Times).

The ongoing primacy of the in-store retail model is partly due to a long-term, structural trend known as the ‘experience economy’, in which consumer purchasing behavior is driven by the quality of the overall experience, rather than the nature or value of the good itself (Source: The Guardian).

Indeed, the emergence of the experience economy is demonstrated by the fact that the ecommerce giants themselves have diversified into physical stores.

For physical retailers, a digital wallet is key to delivering a powerful and engaging in-store offer to tap into the demand for the experiential economy:

Value-added Services

Value-added services such as loyalty programs, coupons and gift cards are a fundamental aspect of the in-store shopping experience. But in the US alone, there are 3.3 billion loyalty program memberships at an average of 29 memberships per household. This complexity means 58% of all loyalty program members do not actively participate (Source: Colloquy).

A digital wallet can simplify this complexity and allow both retailers and consumers to derive maximum value from value-added services.

For example, retailers can digitize credit cards, gift cards, loyalty points and coupons into a single, secure platform. By securely converting and managing various digital values, consumers can then pay with credit, points and coupons in a single transaction, controlling the ‘payment mix’ according to their requirements.
**Augmented Reality**

With the number of active virtual and augmented reality users forecast to reach 171 million by 2018, it is an increasingly popular channel through which retailers can engage the consumer by merging online and offline channels into a single, unified in-store experience (Source: Campaign Live).

For example, an augmented reality retail experience enables consumers to analyze product information, read reviews and watch demos in-store and in real time. This encourages consumers to make the purchase in-store, rather than online. Importantly, it also reduces the likelihood of a consumer using competing applications to price check. Indeed, consumers who interact with a mobile device when shopping in-store are 40% more likely to make a purchase (Source: Essential Retail).

And perhaps most importantly, augmented reality is fun and enables the ‘gamification’ of the retail experience to further drive engagement and loyalty.

**Personalized Shopping Experience**

Data has never been more powerful. By providing a digital wallet, retailers have direct access to detailed shopping data, which can be utilized to improve existing, and develop new, services.

In addition, shopping data can be intelligently deployed to deliver a hyper-personalized buying experience. It can also leverage past and predicted behavior across numerous channels to deliver smart recommendations and identify cross and up-sell opportunities to increase transaction amounts and enhance revenues.
Part 4: Streamline Checkout

Put simply, the current in-store assisted checkout experience is wholly incompatible with modern lifestyles and expectations.

The reasons are clear. 86% of consumers avoid stores with long queues (Source: MyCustomer), and 70% would be unlikely to return to a store if they were previously subjected to a long queue. In addition, 38% have abandoned a purchase due to excessive queuing times (Source: Essential Retail). This issue is particularly pertinent for retailers, as consumers are more likely to drop out of a retail queue than for any other good or service (Source: Internet Retailing). To compound the problem, assisted checkout lanes require expensive infrastructure and are labor intensive.

Self-checkout technology has emerged as retailers have looked to streamline the process. But self-checkout is more of a stopgap than an endgame as it still requires consumers to queue and staff to monitor the costly equipment.

**In-aisle Payments**

Retailers who offer a mobile wallet with Virtual Point of Sale (VPOS) capability enable consumers to checkout via an in-aisle payment, removing the requirement to queue and reducing dropout. There is also the potential to integrate ‘order ahead’ functionality to reduce waiting times at the counter.

And the benefits don’t end there. In-aisle payments lower overhead costs and reduce the number of POS terminals required. They also deliver greater operational flexibility by enabling staff to be redeployed across other functions within the store to improve the overall customer experience.
Part 5: Digitize Physical Cards and Receipts

Physical retailers are compelled to produce and distribute vast amounts of collateral, whether it be plastic store and gift cards, cardboard coupons, paper receipt or print advertising.

This activity has a huge monetary and environmental cost.

For example, in the US alone, over 250 million gallons of oil, 10 million trees and 1 billion gallons of water are required just to service annual demand for paper receipts (Source: Huffington Post).

Digital wallets offer a clear alternative to this unsustainable activity. As previously discussed, plastic store, gift and loyalty cards can be provisioned virtually with minimal costs. Also, tailored push notifications and in-app offers are far cheaper and considerably more effective than putting leaflets in the mailbox or handing out flyers. Finally, digital receipts can be stored in-app.

For retailers, a mobile wallet is a vehicle to considerably more efficient, cost-effective and sustainable future, while delivering increased consumer engagement, loyalty and insight.
Conclusion

In summary, it is apparent that a well-executed digital retail wallet deployment can deliver improved payment security, reduced operational costs and increased revenues.

The industry is recognizing these benefits and reacting accordingly. 451 Research reports that 28% of US merchants are looking to launch a branded digital wallet within six to twelve months, with a further 18% considering an implementation without a firm timeframe (Source: 451 Research).

The challenge for retailers will be to accelerate time to market and provide a seamless and enhanced experience from the outset. As market demand and consumer expectations evolve, functionality can then be upgraded to meet emerging requirements.
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