Forbes insights

Payments' Potential

How Payments Can Enhance The Customer Experience And Spur Innovation

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J.P. Morgan

The convergence of commerce and technology is transforming the way the world creates, exchanges and protects value.

In *Payments Potential: How Payments Can Enhance the Customer Experience and Spur Innovation,* Forbes and J.P. Morgan share unique findings from a survey of 300 global executives and insight into ways businesses can:

- Provide more seamless and frictionless customer experiences
- Use data insights to balance revenue optimization and fraud mitigation priorities
- Maintain a competitive edge by remaining agile and digitally empowered
- Access consumers and grow revenue in the world's most important markets

Providing insight and perspective into the technological, financial, regulatory and market forces that are redefining global commerce represents J.P. Morgan's commitment to our clients' near- and long-term success.

We see a world of opportunity and look forward to helping our clients continue to grow wallet and market share with unprecedented speed, agility and security.

With best regards,

Laura

Laura Miller
President, J.P. Morgan Merchant Services

Table Of Contents

Introduction

Customers want a multichannel experience where they can make the right payment at the right time and in the way that best suits their business or lifestyle.

Once viewed simply as a transaction, payments have evolved into an important component of the customer experience, a revenue-generating business model and a primary way of boosting efficiency. But with this new mandate come immense opportunities: Companies that understand the paradigm shift better than their peers stand to gain a competitive edge.

With customers seeking to buy what they want, from the channel they prefer, when they want—and have it delivered to their desired location—companies are being measured on their ability to provide whatever-wherever-whenever experiences.

The customer wants each of these experiences to be smooth and easy, but it's anything but for the business that needs to deliver them. In fact, to make experiences simple for their customers, companies need to take on more complexity and costs. Complexity doubles when companies try to provide their suppliers with the same experiences they provide their customers.

In a Forbes survey of more than 300 executives worldwide, just half say their company can deliver well on the overall customer experience. However, the vast majority of them agree that payments are an integral part of the customer experience.

85% of survey respondents say payment methods are important to provide the best possible customer experience

This report shares insights regarding:

- What customers are looking for in payments
- How data science can enhance security and accelerate business growth
- Ways to deal with multiple business and payment models
- The complexity of payments when expanding globally

As digital technology changes the way the world buys and pays, businesses need partners that can help them unlock more strategic value from payments—from boosting revenue and profitability to optimizing customer experiences and global cash flow—while reducing the complexity that goes with providing payments that meet customers' expectations.

What Do Consumers Want?

Having established the importance of payments to the customer experience, we must now ask: What is the payment experience that consumers—and thus businesses—are looking for?

Businesses want their end-to-end revenue cycle (payment acceptance through reconciliation and posting) to be easy to execute and manage and to be seamless.

The survey reveals that speed and ease of use are the most sought-after characteristics of payment systems. The ranking of what matters for businesses, with speed and ease on the top and fees at the bottom, confirms a huge shift in how businesses view payments. They are no longer a commodity, when what mattered most was cost, but are rather a valuable, differentiating feature of the customer experience.

Respondents chose three top characteristics of payment systems

Easy to use, quick, frictionless	45%
Allows for use on multiple channels	42%
Allows for multiple payment options	41%
Security	38%
Stability	38%
Ability to use internationally	36%
Tailored to customer preferences	36%
Low fees	25%

From One Industry To The Next, Priorities Differ

Many of the world's e-commerce companies are making the payment stage of the customer experience effectively invisible and thus painless. When payments are easy, customers are happy. They are not wasting their time on payment systems that do not work and are not emotionally stressed about spending money. Payment becomes a natural extension of "ordering" a product or service instead of being a glitch at the end of a purchase.

The ride-sharing industry revolutionized payments when a popular ride-sharing service created invisible payments and was the first ground transportation company to put the payment in the backdrop—and, in effect, make that its brand.

Although the survey found some agreement among business leaders around customer expectations, the payment experience that customers seek varies across industries. Retail, which to a large degree pioneered the idea of customer experience, is a particularly complex payment landscape. For fast-moving grocery stores, the most important factor is speed, which makes self-checkout and contactless payments a preferred solution. At the opposite end of the spectrum are luxury brands with discerning customers who may want to engage with a knowledgeable sales associate face-to-face. But part of that associate's appeal is to be able to process payments, making the transaction part of the engagement.

To create a multichannel experience, businesses need to offer the ability to process payments anywhere the customer wants to be, either physically or virtually. That can mean paying on the retailer's e-commerce site or another online outlet, such as the customer's social media feed, for example.

Payment innovation in the transportation sector can be illustrated by Shell, which is meeting the needs of drivers with a branded smartphone app that allows consumers to pay and earn/use rewards from the comfort of their vehicles at Shell-branded fuel stations in the United States. The Shell app provides numerous payment options, including the ability to link to Shell-branded credit cards, checking accounts, Chase Pay and other mobile payment systems. The Shell app makes fueling faster, easier and more rewarding by allowing customers to link their Fuel Rewards account. In addition to processing Shell's app payments, J.P. Morgan provides Shell with the opportunity to seamlessly engage more than 60 million Chase cardholders, who receive valuable offers for fuel purchases when they activate Chase Pay in the Shell app.

Perspectives On Payments

Businesses need payment solutions to be customizable and flexible based on demographics, industry, regulations, and local and global geography.

The top attribute that respondents say provides a competitive advantage is payments acceptance in all channels (69%):

"Successful adoption of new technologies or solutions requires exceptional value propositions for customers. A growing number of customers today expect to shop, pay and send money anywhere, anytime, from any device—quickly and seamlessly," according to a report from Oliver Wyman.[1]

When payments are easy and invisible:

"The best payment solution is when we remove it from the actual checkout experience," says Ryan Sparks, head of transformation and global expansion at J.P. Morgan Merchant Services.

When transaction speed doesn't meet expectations:

"People would abandon transaction when the chip cards were too slow at the beginning," says Deborah Baxley, partner at PayGility Advisors.

[1] Making Payments Work for You: How Merchants Can Optimize Payments for Growth, Oliver Wyman, 2018

Payments' Untapped Potential

Insights from payment data boost business performance

Unlocking the potential of payment data requires the ability to combine disparate acquiring and issuing data with technology and deep data-science expertise that can transform data into actionable insights. Tony Wimmer, head of data and analytics at J.P. Morgan Wholesale Payments, distinguishes between two different insights that can be gleaned from payment data: payment insights and consumer insights. Payment insights can help businesses with retaining customers as well as efficiency, while consumer insights can help with growth.

Industry-leading data scientists at J.P. Morgan have developed proprietary artificial intelligence algorithms that scan payment data for actionable opportunities. "We are taking the headache out of the day-to-day management of this payment function," says Wimmer.

For payment performance, J.P. Morgan takes a threefold approach to delivering actionable insights. First, algorithms monitor payment data to detect anomalies. Then monitored payment data is benchmarked against best-in-class performance levels. Finally, payment data is scanned for opportunities to enhance approval rates, processing costs, fraud mitigation and dispute resolution.

Attention to such detail matters. When you consider that a J.P. Morgan client like Chevron processes more than 900 million annual transactions in the United States, making sure they can optimize payments has a huge impact for them operationally and financially.

Consumer insights from payment data spur growth

While using payment data for optimization keeps the business engine running efficiently and retains customers, additional insights that can be gleaned from payment data can really rev it up.

"By connecting acquiring and issuing data, we can help merchants grow their business by delivering valuable insights into customer behaviors. Merchants can be better informed about store location decisions and which customer segments they have an opportunity to expand their reach and appeal with—relative to their peer group," says J.P. Morgan's Wimmer. "We also work with merchants to leverage payments data as an early warning system to track market share and wallet share over time."

The relevance of payment data is growing. By 2025, the market data provider Statista estimates there will be 75 billion connected devices worldwide—refrigerators that restock themselves, cars that pay for gas and tolls, and so on—that will automatically generate payments, creating an explosion of entry points into a business and generating masses of new customer and payment data.

While there is incredible potential to tap into this data, J.P. Morgan's first priority is always to safeguard the privacy of consumers and clients. "We only share insights that are derived from de-identified and highly aggregated data with no references to specific individuals or businesses," says Wimmer.

To take advantage of what payment data offers, companies must ensure that data is organized and transparent. Inefficiencies in payments, such as poor visibility into cross-border payments and challenges of reconciliation, cannot persist in a future in which digital payments are the norm.

Companies are beginning to recognize that payment data is a missed opportunity. The top characteristic they are seeking in a payment solutions provider is the ability to help them use the technology to access data and enhanced offerings.

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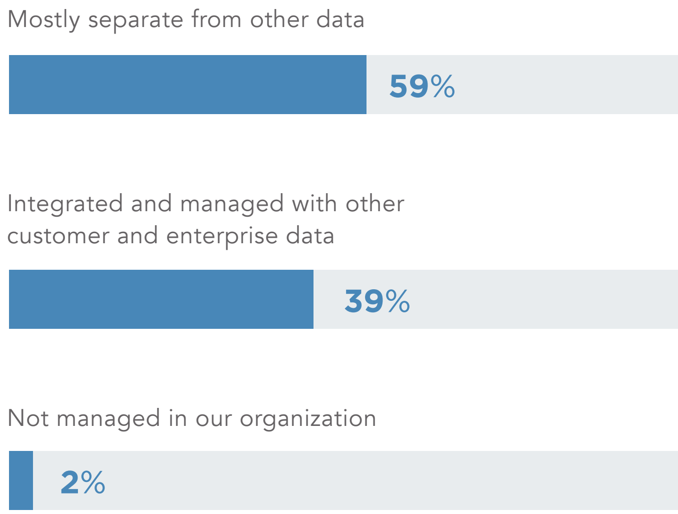
How is payment data being managed in your organization?



(Totals do not add to 100% due to rounding)

Data is referred to as the new oil—fuel that can accelerate business but only when handled carefully.

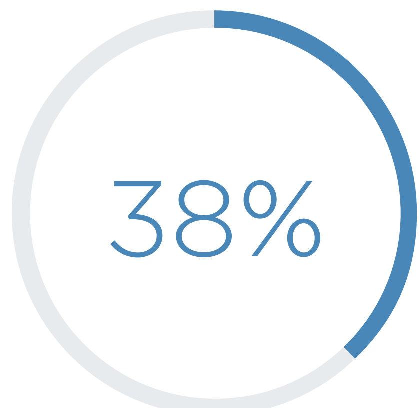
When used in a de-identified and aggregated format to meet with the highest privacy standards, payment data can provide businesses with valuable insights. Understanding payment data helps businesses balance consumers' expectations for speed and convenience with the company's need to meet high security standards.

These dual imperatives set a challenging goal for executives: to process as many transactions as possible—which requires speedy, frictionless, omnichannel solutions and multiple payment methods—without compromising security and privacy.

Financial institutions are vigilant about fraud when approving payments. The customer may have been hacked, had their card or identity stolen or not paid the bill, after all. But from a statistical point of view, transaction declines are often not warranted. Such "false positives" can lead to a one-time cart abandonment or even the permanent loss of a customer. Common false-positive scenarios include purchases made while traveling, unusually high-dollar purchases and close proximity to credit limit. Keeping false declines at bay is especially significant for businesses that rely on monthly subscription fees.

"As security has gotten stronger, false declines have grown," says Julie Fergerson, a member of the Merchant Issuer Committee at the Merchant Risk Council. "It's a really huge problem for a lot of merchants, and they're losing revenue over it."

At the heart of maintaining the right balance between payment authorization and fraud prevention is the ability to combine expertise in data science with a deep understanding of the payments industry.



Percentage of executives who said security will rank as the top trend in payments over the next three years.

The Evolutionary Bottleneck

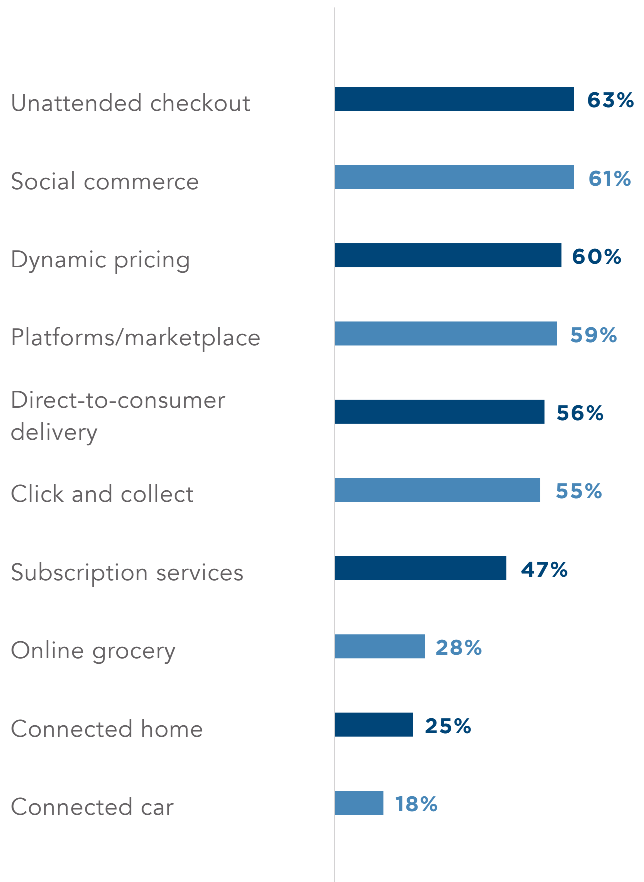
Understanding the proliferation of business models and payment methods

Advanced technologies have transformed the business world, enabling the introduction of new online and mobile business models. The adoption of new models will further explode with the broad implementation of 5G in the future.

Among the surveyed business leaders, unattended checkout is expected to be the most widely adopted new payment experience, followed by social commerce, which is the use of social networks in the context of e-commerce transactions. Ranked as the third most popular is dynamic pricing, or the practice of varying the price for a product or service to reflect changing market conditions, in particular charging a higher price at a time of greater demand.

More than half of executives surveyed are either already using most of these differentiating business models or expecting to do so within the next three years.

Business and delivery models that businesses employ or are planning to employ within three years



Disruption in business models is disrupting payments

The business world has been disrupted by the technology-driven business and delivery models. The success—even survival—of companies and whole industries depends on whether they keep up. Consider how technology has transformed how people work, shop, watch television, receive healthcare, book vacations and travel.

Platform marketplaces, such as Amazon or eBay, have by now become a ubiquitous business model, and have spurred a trend of manufacturers trying to build their own marketplaces and sell directly to their customers. The direct-to-consumer model is gaining in popularity.

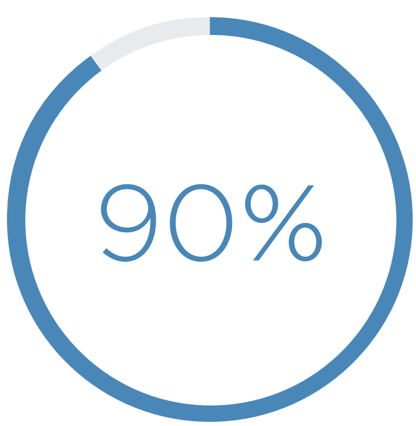
The subscription services model—considered among the most desirable by businesses, thanks to the promise of recurring revenue—is at this stage somewhat limited in uptake by surveyed companies (47%), but only because its applicability is limited by the type of industry, product or service. The administration of the subscription model also calls for different types of data, customer and billing management than the business-to-business or business-to-consumer models.

The direct-to-consumer model stands out in how it views the importance of payments. The biggest group of direct-to-consumer executives believes that payments are an integral part of the customer experience. Since this model often involves commodity items—such as razors and toothbrushes—the convenience of the payment experience helps maintain customer loyalty.

The direct-to-consumer model is making inroads in the healthcare sector as well, with the highest number of executives representing healthcare service (73%) having already employed it or planning to employ it within three years. The drivers of this business model in healthcare include consumer and payer acceptance of telemedicine and delivery-to-door services for prescriptions.

While the idea of customer experience first gained traction in the business-to-consumer sector, the business-to-business sector now also has to contend with customer expectations. Business-to-business sales are more complex as they entail bigger orders and multiple layers of financial approvals at the buyer's company. But business-to-business customers are now expecting relevant business-to-consumer features as well. For instance, some business-to-business merchants are offering one-click payment approval.

Connected commerce models, such as connected home and car, may take longer to realize their full potential, with a quarter or less of survey respondents already employing them or planning to do so within three years. However, once customers become more accustomed to voice assistants and self-driving cars, the ease and efficiency of a connected car and home will make them a more popular business and delivery model.



90% of direct-to-consumer executives believe that payments are an integral part of customer experience

Payments are transitioning from operational necessity to strategic priority

Companies cannot survive without competitive business and delivery models, which, in turn, cannot function without the right payment methods. Thus, regardless of business model, companies need to seamlessly embed relevant payment methods into the customer experience, something that a quarter of survey respondents find challenging. Among the companies surveyed, different payment methods have been proliferating in addition to new business models.

J.P. Morgan's Ryan Sparks calls the current stage of payments an "evolutionary bottleneck." Different customer habits and expectations, multiple technology-driven business models and multiple payment technologies aiming to address them have resulted in myriad payment methods. Digital wallets are the most popular and are continuing to gain in popularity. Also in vogue are mobile-first and contactless payments.

Which of the following payment methods do you currently offer? And which of these payment options are gaining in popularity among your customers?

	Currently Offer	Gaining in Popularity
Digital wallets	46%	27%
Mobile-first payments	45%	19%
Financing at checkout	43%	22%
Contactless payments	40%	23%
Mobile in-store	36%	16%
Biometric authentication	35%	15%
Unattended checkout	32%	14%
Voice commerce/ virtual assistance	30%	13%
Tokenization	30%	11%

Which of the following payment options do you currently offer? (Top five answers)

Americas:

Digital wallets	57%
Mobile-first payments (mobile payment platforms)	48%
Financing at checkout	48%
Mobile in-store	44%
Contactless payments	42%

Europe:

Mobile-first payments (mobile payment platforms)	51%
Biometric authentication	43%
Financing at checkout	43%
Contactless payments	42%
Mobile in-store	39%

Asia:

Biometric authentication	40%
Digital wallets	40%
Unattended checkout	39%
Financing at checkout	38%
Contactless payments	37%

How to rein in payment methods

A business's incoming payment flow can be fragmented when processing is managed by multiple payment providers. No wonder then that one of the top challenges that companies have with handling emerging payment options is integrating them with banking solutions.

38%

Percentage of executives who ranked the integration of payment and banking solutions as the top challenge

As businesses grow, aligning payment acceptance and cash management strategies can streamline cash flow, optimize liquidity and improve the efficiency of outbound payments. Liquidity is the fuel for payment flows, so companies need to take measures to reduce the gap between cash on hand and debt obligations.

"Every payment starts and ends with liquidity, so having the right level of liquidity in the right currency in the right location at the right time will remain critical to the success of every organization," says Martijn Stoker, head of business development, global liquidity, at J.P. Morgan.

That means companies need to align payments with their treasury and finance strategies and work with partners that can help them do so.

When deployed with an agile mindset and a flexible architecture, technology can help businesses adapt to a continuously evolving global commerce landscape.

According to Laura Miller, president of J.P. Morgan Merchant Services, "API integration and cloud accessibility will enable businesses to expand into new markets and accept new payment methods more quickly, securely and efficiently."

Going Global: Meeting Local Expectations

Global business expansion makes payments more complex. To start with, different geographies favor different types of payments for cultural and socioeconomic reasons.

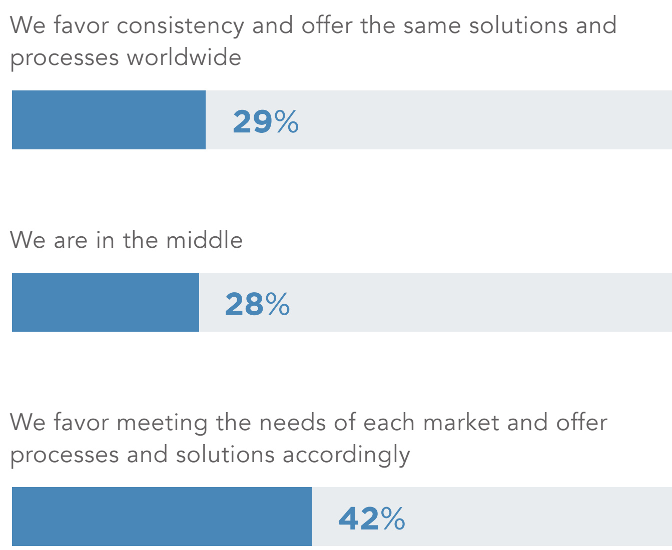
Americans prefer credit and credit card-based solutions. Many in Europe and the Middle East prefer debit cards and bank transfers. In Asia, high mobile device penetration has consumers skipping credit cards and going from cash to digital wallet payments.

What then is the optimal way for companies to offer payment methods globally? Should they try to maintain a global standard or go as local as possible? The biggest group of surveyed executives favors local options.

J.P. Morgan's Sparks says his firm is preparing global brands to offer best-in-class local payment capabilities through unified, yet highly flexible, technology.

"We believe success for our clients is founded on the ability for them to offer customers a familiar, consistent and easy-to-use payment experience wherever they do business. However, this means something different market by market," he says. "It means accepting konbini payments in Japan; it means POLI in Australia. Our commitment is to deliver an integrated payments ecosystem that solves the needs of each local market while managing differences among them for our clients across the globe."

When it comes to payment solutions, how do you balance meeting local market needs and having uniform global processes?

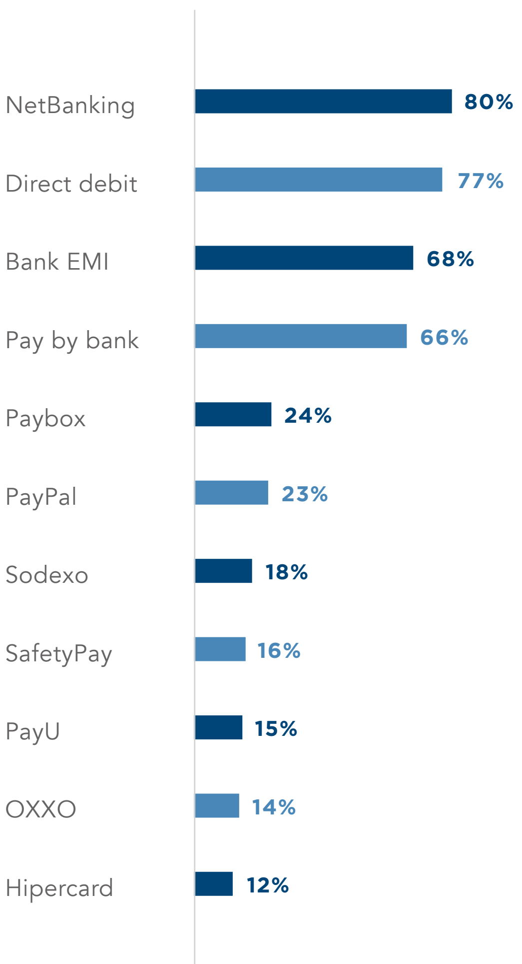


(Totals do not add to 100% due to rounding)

A uniform approach is an elusive goal in payments

There is simply too much variance in customers' expectations, technology infrastructure and regulatory environments as well as different adoption levels across regions. Companies are thus compelled to meet the local needs of each market, rather than try to impose a universal set of solutions. As a result, there are some region-specific payment options favored in the Americas, Europe and Asia.

Which of the following alternative non-local payment methods do you currently enable? (Responses with more than 10% shown)



Biggest difference by region: Which of the following alternative non-local payment methods do you currently enable?

	Americas	Europe	Asia
PayPal	42%	17%	6%
Paybox	12%	4%	60%
SafetyPay	18%	29%	2%
Sodexo	33%	14%	1%

Conclusion

Looking ahead with the right partner

Businesses need to tap into the huge potential of payments as part of the overall customer experience. They need to understand the complex landscape and the business benefits that the right payment methods can offer. Considering the complexity and fragmentation of payments, it is equally important to view payments in alignment with all other relevant functions and business lines.

The possibilities for new business models and payment options are growing with the development of advanced technologies. But with the growth of options comes the increased need to consolidate and select only the best partners. "You definitely want to work with an end-to-end provider," says Wendy Humphrey, managing director at PayGility Advisors. Businesses are recognizing the importance of a versatile partner, as more than half are planning to consolidate their payment and treasury service providers.

An effective strategic payments and working capital partner helps clients meet their challenges no matter where they are on their treasury transformation journey, deploying expertise at scale while utilizing the best available technology on a global level.

52% of executives are planning to consolidate the number of payment and treasury service providers they work with.

At the same time, security and data-privacy considerations make it more important than ever to partner with a trusted and well-established financial institution that helps companies realize the full potential of data in a privacy-compliant way. That applies to payment insights, which companies can use to optimize transaction flows—and even more so when payment data is used to generate consumer insights that help companies better understand their customer segments, expand their reach and drive brand awareness.

The survey reveals that executives are on the right track, as they will focus on working with selected partners that can deliver integrated end-to-end solutions, are innovative and trustworthy.

What will be the top trends in payments over the next three years? (Top five responses)

Methodology

J.P. Morgan surveyed 304 executives globally, including North America, Middle East, Latin America, Europe, Asia Pacific and Africa. They represented retail, financial services, healthcare, restaurants, telecommunications, transportation, travel and hospitality, and utilities industries.

More than half (54%) were C-level executives (e.g., CEO, CIO, CMO and CFO), 24% were senior executives and vice presidents, and the remaining 24% were senior directors and directors. They came from multiple functions: finance, digital transformation, payments, marketing and general management. All survey respondents came from companies with revenue of at least $100 million, including 38% from companies with sales of $1 billion or more. The survey sample included representation from the B2B, B2C, B2B2C and D2C models.

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