Top 10 payment trends to watch in 2014

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TOP 10 PAYMENT TRENDS IN 2014

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With payments, change is the new normal

The payments industry is in the midst of significant change on many fronts, and companies are finding themselves dealing with an array of new challenges. Over the past year, one of the most visible of these was security, as data breaches hit several major retailers—and made headlines for weeks.

However, as significant as those events were, the industry is contending with a range of more fundamental changes that are likely to keep reshaping the landscape for years to come. Many of these are driven by constantly evolving technology. With the mobile revolution solidly underway, events are unfolding quickly: Consumers have woven their smartphones and tablets deeply into their daily lives—and they are beginning to use them to make mobile payments, both in the store and online. The number of consumers who have used their smartphones to make in-store payments jumped to 11%, from just 2% last year. As mobile payments move ahead, the industry needs to sort out questions about standards, technologies, and what it needs to do to drive consumer adoption.

Technology also continues to bring more customer-interaction channels into the mix. This is driving the need for multi-channel capabilities. Companies need to be able to take advantage of each individual channel for relationship building while providing a good customer experience across all channels, seamlessly.

Technology comes together with security concerns to create another challenge, the rollout of EMV capabilities. Companies are trying to determine how to efficiently bring EMV on board, with a minimum of disruption—and how to balance schedules, costs, and the risks of fraud and noncompliance.

Perhaps the most important source of change is the consumer, who brings rising expectations to the world of payments. In particular, we are seeing the emergence of omniconsumers, who operate across all channels. Today, these omniconsumers are typically found in key segments—the young, the technologically proficient, the affluent. But the expectations of these omniconsumers are likely to become mainstream attitudes in the near future, crossing all demographic lines. That means the bar for superior experience and consistency in all channels will be set very high.

Altogether, these changes create a complex, moving mosaic—and it can be difficult to understand how to proceed. To help, Vantiv and Mercator Advisory Group conduct annual research into consumer attitudes about evolving payment methods. The Vantiv/Mercator Insight Series combines those consumer views with perspectives from executives representing merchants, financial institutions, and independent sales organizations (ISOs). The series is now in its third year, and once again, the most recent findings have been distilled into 10 key industry trends. These are presented in this publication.

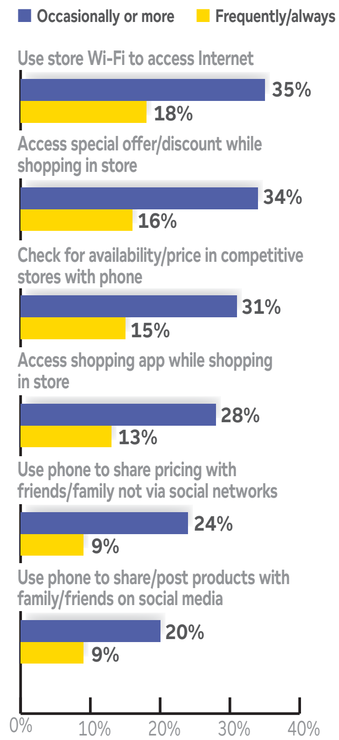
These findings provide a picture of how the industry has evolved over the past year. More important, they provide insight into the ongoing evolution of payments—and underscore the fact that change is now a given in the industry. The key is to understand its direction and move with it—or ahead of it.

1. Omnicommerce Takes Hold

Merchants work in an increasingly multichannel world, and omnicommerce—the ability to work holistically across channels—has been a discussion topic for some time. But the concept of omnicommerce is quickly becoming a reality, as merchants attempt to integrate electronic channels into their operations.

A key factor in this, of course, is the mobile revolution. Today, 66% of consumers have a tablet or smartphone, according to Vantiv/Mercator research. That number is even higher for young adults age 18 to 34 (86%) and consumers earning $100,000 or more (74%). Because of this prevalence, merchant executives made it clear in our interviews that they expect mobile and multichannel shopping to grow quickly. And in another Vantiv/Mercator study, 52% of the independent sales organizations (ISOs) that serve merchants said that they expect their clients' interest in omnicommerce to increase over the next two years, particularly among smaller merchants. "Consumers are now enabled with smart handsets, and merchants are refining their capabilities

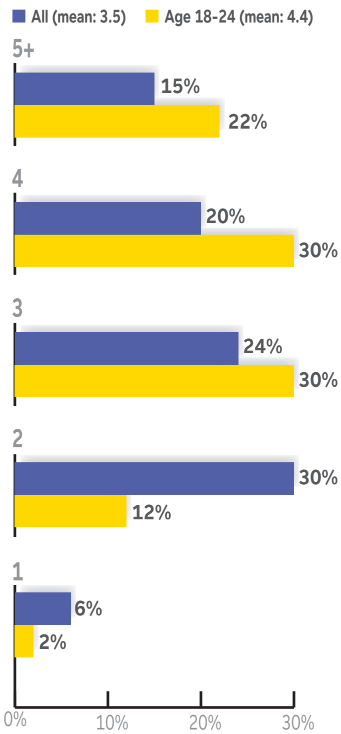
FREQUENCY OF ACTIVITY WHILE SHOPPING



MOBILE IN THE STORE

As they shop, consumers are using their phones to go online, get discounts, and share shopping information with others—blurring the traditional lines between channels.

NUMBER OF DEVICES USED AT SAME TIME



THE MULTITASKING, MULTICHANNEL CONSUMER

Many consumers find it easy to move back and forth between devices and channels—or even use several simultaneously. On average, they use 3.5 devices at one time when at home. Young consumers average 4.4.

to meet consumer interest in shopping and making purchases electronically," says Donald Boeding, president of Vantiv Merchant Services. "The findings show that the infrastructure of omnicommerce is falling into place."

Consumers interact with companies through a variety of channels—shopping online with computers, talking to service reps on the phone, and, of course, accessing information and making purchases with their mobile devices. The survey found that 9 out of 10 consumers now research and/or buy products online. When shopping for goods worth more than $50, more consumers shop and buy online now than buy in-store without doing any online research. Consumers usually use their computers to shop online, but 60% said they have used their mobile phones to do so. And 46% said they often conduct research online and then go to the store to purchase higher-value items.

When consumers visit a store, they take their mobile devices with them. Forty-eight percent have accessed store Wi-Fi systems to support in-store mobile shopping, shopping apps, and social media activities. A similar number (44%) have used devices to access special offers or discounts while shopping in a store. More than 1 in 5 use their phones to share pricing and product information with friends and family—underscoring the significant ripple effect a good or bad customer experience can have in the age of omnicommerce.

Financial institutions also need to work effectively across channels. The research found that 82% of consumers now do at least some banking online—primarily via computer (74%), but also with smartphones (26%) and tablets (15%). But that online channel is just one point of interaction. A bank customer might shop for financial services online but actually sign up for the product in question at a physical branch—especially with products such as checking, savings, and mortgages. In addition, recent Mercator research found that although most consumers still prefer to deposit checks of $50 or more with a teller, there is a growing preference for using ATMs or remote deposit via mobile device. Overall, says Ken Paterson, vice president, research, at Mercator Advisory Group, "the proliferation of mobile channels appears to stimulate ATM and self-service use, not supplant it."

2. More Omniconsumers, More Expectations

As omnicommerce becomes increasingly widespread, we are seeing the emergence of related consumer attitudes and behaviors. In particular, the research highlighted the rise of omniconsumers—those who are especially comfortable working in multiple channels and have rising expectations for a seamless customer experience across all channels. Omniconsumers often fall into the 18-34 age group, but are not all Gen Y.

Omniconsumers embrace new channels, but they continue to use existing channels, from the phone to brick-and-mortar stores and bank branches. Although online research and purchasing is now the most common way to shop, 47% of consumers will at least occasionally go to a physical store to find and buy. And smartphone and tablet owners are not abandoning traditional payments: As a group, they are more likely to own and use credit cards (76% vs. 68% average), store credit cards (49% vs. 41%), and prepaid cards (24% vs. 17%).

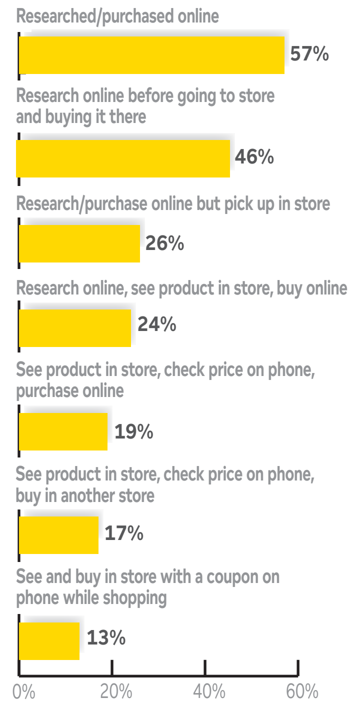
For omniconsumers, the evolution of new channels is an additive process, and they are willing to make use of all of them. This additive effect can be seen in consumers' use of electronic devices. Survey respondents said that when they are at home, they use an average of 3.5 devices at the same time, while the youngest adult consumers use an average of 4.4 devices simultaneously. This underscores their comfort with different methods of accessing information—and the challenges of reaching them. "Merchants selling online and merchants advertising over multiple media must work harder to gain and retain consumer attention," says Daniela Mielke, chief strategy and product officer at Vantiv.

Similarly, consumers are increasingly inclined to multitask across channels when in a store. More than 4 in 10 consumers are likely to consult their smartphones for comparison shopping while at a retailer, spending an average of 11 minutes on the phone to do so. Fifteen percent said that they have bought a product in a store using a coupon received on their phone. Often, this kind of in-store activity involves showrooming. For example, 19% of consumers said that they often see a product, check prices on their phone, and buy it online; 17% do so and buy it in another store; and 7% have used a mobile app to read in-store barcodes and comparison-shop online. "Considering that so many consumers are new to these mobile channels, these omniconsumer behaviors are getting established fairly quickly," says Mielke.

Younger consumers have been in the lead in adopting this omniconsumer behavior. They are more likely than older consumers to use their phones to shop (86% vs. 60% average) and to use showrooming techniques to ultimately make a purchase online (27% vs. 19%) or in another store (26% vs. 17%). But affluent consumers are also more likely to behave like omniconsumers, as are "pockets" of older consumers—including the 27% of the 65-and-older segment who use their phone to shop. In short, the omniconsumer is rapidly becoming the "typical" consumer.

All of this is making consistent customer experience across channels more

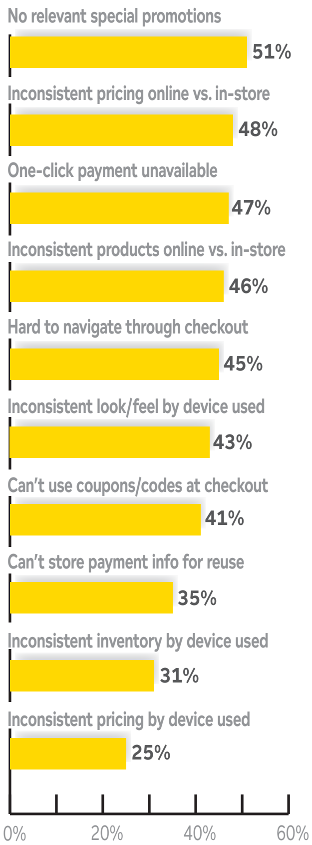
HOW DO YOU USUALLY SHOP FOR PRODUCTS $50+?



CROSS-CHANNEL CONSUMERS

A key element in omniconsumer behavior is the tendency to shift and blend channels—and more consumers are doing just that by combining mobile, online, and in-store activities.

EXPERIENCES WHEN SHOPPING ONLINE
(sometimes or more often)



E-COMMERCE CHALLENGES

Consumers report that they sometimes have difficulty shopping online—even with such basic retail functions as checking out and making payments.

and more critical. As omniconsumers shift from one retail channel to another, they expect to see the same prices and services. For their part, banks will need to provide a consistent experience for customers who can now shop for competitive financial services via their smart device while sitting in the branch lobby or meeting with a loan counselor. And across the board, customers who have a question or problem in any channel will want to be able to text, chat, or call someone and quickly get service and resolution.

However, merchants and financial institutions may not be fully delivering on that front. Consumers said that when shopping on the Web, they have run into different pricing (48%) and different products (46%) than they've seen in-store. One-fourth said that they have received inconsistent pricing when using different devices to access a site. "These findings point to a need for continued multichannel integration," says Mielke.

3. E-Commerce: Popular, with Room for Improvement

In a multichannel world, e-commerce has been around long enough to be an integral part of the mix, and it continues to grow as a vital retail channel. Consumers are accessing e-commerce sites from their computers and mobile devices, and, with activities such as showrooming, they continue to blur the lines between physical and online commerce. Retailers are contributing to the trend, using in-store tablets and kiosks that link to their e-commerce sites in order to give customers a broader selection.

For higher-value items, e-commerce is the most common way to shop, with 57% of consumers saying online shopping is their usual channel—a 2 percentage-point increase from 2013. Young consumers (60%), higher earners (63%), and college-educated consumers (61%) are all more likely to shop online.

In terms of paying for online purchases, the most common method is a debit or credit card stored with an online retailer, cited by 51% of respondents, up significantly from 39% in 2013. That was followed by PayPal (47%) and entering credit or debit account numbers (45%). A fair number of consumers—17%—said they would be more interested in using a cloud account than a payment card for online payments. But many are ambivalent on this front: More than half said that they are concerned about security with such accounts—especially young adults and smartphone and tablet owners.

In the wake of recent data breaches, confidence in using credit cards for e-commerce dropped from 49% in 2013 to 44% this year. Confidence in using debit cards online also decreased, from 40% to 34%.

Although e-commerce has been around for some time, many consumers said that they often run into difficulties when using retailers' sites. In addition to the cross-channel pricing and inventory inconsistencies mentioned earlier, 43% of consumers said that they have encountered an inconsistent "look and feel" at e-commerce sites, depending on the type of device used to access them. Young consumers were nearly twice as likely as average to cite such issues frequently or always.

Many consumers also said that they have run into problems with the fundamentals of online payments. For example, 47% cited the lack of one-click checkout functionality, and 45% said that the checkout process was sometimes difficult to navigate. Forty-one percent complained about the inability to use coupons or discount codes at checkout. And 35% cited the inability to store payment information for future use. "At this point, retailers have had a lot of experience with e-commerce, and it is somewhat surprising that many of the functions that you might think are now fairly standard are still not in place," says Bill Weingart, president of Vantiv E-Commerce Services. "And with rising expectations for a good online experience, there is a lot of consumer concern about this out there."

4. Mobile Inroads at the Point of Sale

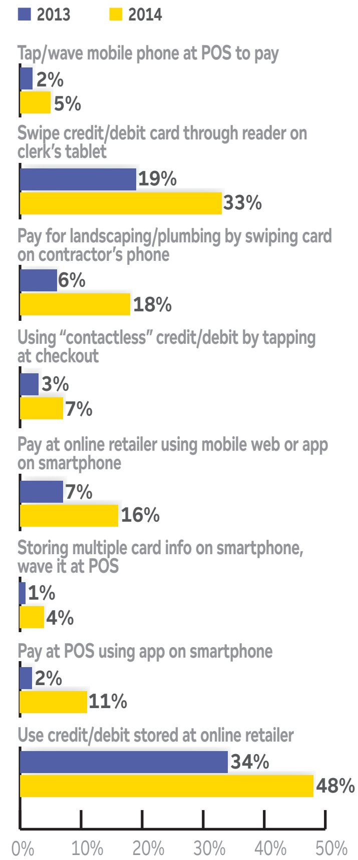
Although mobile payments are not in wide use, they are starting to have an impact on the POS experience.

Mobile payment usage increased significantly over the past year. POS tablets in particular are becoming familiar to consumers; the percentage of respondents who said that they have used tablet-based POS payments grew from 19% in 2013 to 33% this year, making it the most commonly used in-store mobile payments method. In addition, more consumers (56%) said they were aware of this method than any other mobile-based payments.

Other methods saw growth as well. Eighteen percent of consumers said that they had paid for household services such as plumbing using a device attached to a phone, up from 6% last year. Paying at a POS using an app on a smartphone rose from 2% to 11%, presumably the result of more fast-food and quick-service restaurants introducing payment apps similar to the Starbucks program. Waving a smartphone at a POS terminal remained low on the list for usage, rising from 2% to just 5%—a reflection, presumably, of the limited terminal infrastructure that has been deployed.

"Use of the phone at the point of sale is growing slowly, but we're seeing

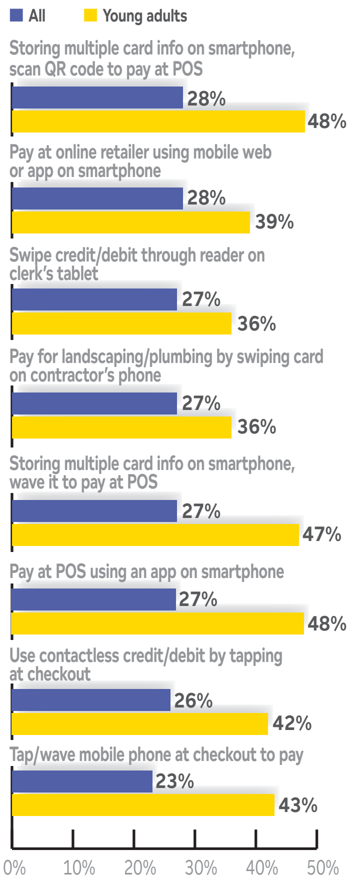
USE OF MOBILE PAYMENT TYPES



MOBILE POS ON THE RISE

The use of mobile payments in the store is still relatively low, but it has jumped significantly in the past year, led by the growing use of point-of-sale tablets.

INTEREST IN MOBILE PAYMENT TYPES



MOBILE INTEREST

In general, more than one-fourth of consumers are interested in using various mobile payment methods—and young consumers' interest is much higher than average.

some movement with QR and cloud-based accounts among early adopters," says Paterson. Overall, he says, "Although mobile payments are still not widespread, we did see a meaningful jump in usage this year."

The use of mobile devices for online payments also grew significantly. In fact, the most common mobile payment method overall was the use of stored payment data at online retailers (used by 48% of consumers, up from 34% in 2012). In addition, the practice of paying an online retailer using the mobile web or a smartphone app more than doubled in 2014, with 16% of consumers now reporting that they use this method.

Many consumers appear to be ready to begin using mobile payments or increasing their usage of such payments. The areas of highest interest are mobile payments at POS using QR codes and mobile payments at online retailers, each cited by 28%. But not far behind are swiping a card through a clerk's tablet, swiping a card on a contractor's phone, and storing multiple cards on a smartphone and waving it at the POS.

In terms of demographic segments, young adults show the greatest interest in mobile payments at the POS, with 48% saying they are interested in storing card information on their phones and paying by scanning a QR code (compared to 28% average), or using an app at POS (compared to 27% average). Higher-income earners are also more likely than average to be interested in mobile payments—especially in storing multiple payment card information and tapping and waving their phones to pay at the POS.

Consumers' willingness to use mobile payments depends on the availability of associated functions. These include getting a discount or rewards (cited by 32% of consumers), the ability to organize loyalty cards and redeem them at the POS (30%), and the ability to organize e-receipts (27%). In addition, says Paterson, "consumers thinking about mobile payments consider factors such as keeping their financial information private, protection against fraudulent use, and having no extra or hidden charges."

5. Mobile Payments: Still Unfolding

The industry has put a sizable marketing effort behind mobile payments, but surprisingly, many consumers are not aware of the various types of mobile payments that are in place or on the way.

Indeed, even though mobile payment usage increased over the past year, consumer awareness for all forms of mobile payments actually declined. The percentage of consumers who said that they know about the possibility of waving a phone at a POS terminal, for example, fell from 59% to 49%.

One possible reason for this paradox: In general, mobile payment products have been deployed in a limited fashion and concentrated in certain segments and markets, rather than implemented widely. Thus, while some consumers are using them more, “ a great many are only hearing about mobile payments in advertising, without seeing them actually being used in the stores,” says Elizabeth Rector, general manager of Merchant Services & Mobile Products at Vantiv. “In response, they may simply be paying less attention to the whole issue.”

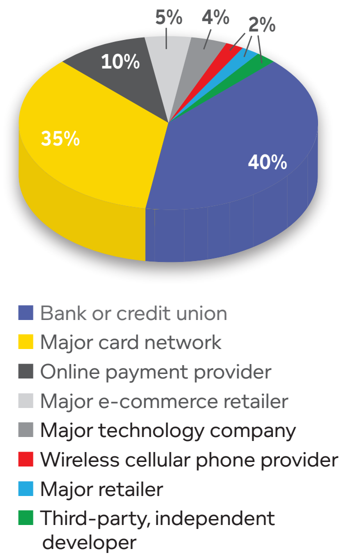
Awareness levels are not likely to remain low for long. As mobile payments are rolled out more widely, more consumers will gain experience with them. In addition, key consumer early-adopter segments that typically reflect the future of consumer attitudes—young omni-consumers, high-earning individuals, and technology owners—are much more aware than average of mobile payments. This year’s decline in awareness, then, is likely to be a temporary phenomenon.

When looking ahead, many consumers do see a bright future for mobile payments in general. Two-thirds expect mobile payments to be common within five years, and one-third expect that to be the case in two years. What’s more, the number of consumers who responded that they “never” expect to use mobile payments dropped 3 percentage points from last year, to 30%. The research also found that executives from merchants, financial institutions, and ISOs share consumers’ positive outlook for mobile payments.

Researchers also explored how consumers expect to use mobile payments. About 1 in 10 said that in five years, mobile payments will be their preferred method for making everyday purchases and for paying in restaurants. In fact, consumers seem to like the idea of using mobile technology as part of the dining experience. More than one-third are interested in using restaurants’ mobile devices to order or pay when dining; young adults and smartphone and tablet owners are most interested in doing so. And 43% of consumers in general are interested in using a restaurant’s mobile device to take a survey in return for a discount on that meal.

As consumers embrace mobile payments, they are likely to look to traditional providers—banks and card networks—for solutions. In past years, consumers have cited their confidence in these groups as wallet providers, but that dropped this year in the wake of security breaches. However, confidence in other providers, such as technology and telecommunication companies, fell as well. As a result, financial institutions and card networks still top the list. And among consumers who plan to use digital wallets, banks and credit unions are the most-preferred

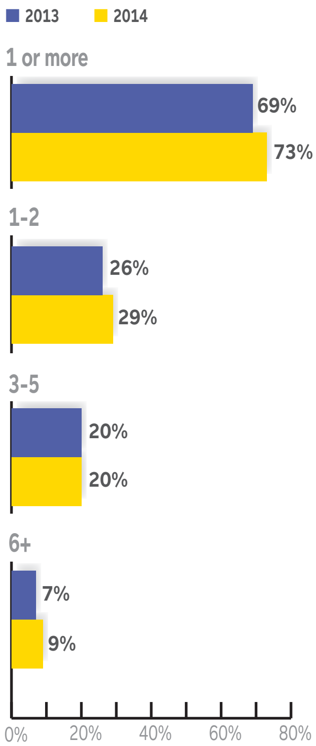
MOST PREFERRED DIGITAL WALLET PROVIDER



WHERE THEY’LL GET MOBILE WALLETS

Consumers have a wide choice of mobile wallet providers, but those who plan to use wallets are most likely to go with the traditional providers—banks and card networks.

NUMBER OF LOYALTY CARDS CARRIED



MORE LOYALTY, MORE CARDS

Consumers have a growing interest in loyalty cards. Three out of four now carry a loyalty card, and many keep several of them in their wallets.

providers, cited by 40%, followed by card networks, cited by 35%

6. Loyalty, Rewards, and the Mobile Opportunity

Consumers have a lot of cards in their wallets— and in particular, a lot of loyalty cards, whose benefits appeal to today's value-oriented, knowledgeable consumers.

This year's research found that 73% of consumers now carry loyalty cards, up from 69% last year, and a continuation of a growth trend that has been going on for some time. On average, these consumers carry 3.7 cards—again, an increase from 3.3 in 2013. High-income earners and owners of smartphones and tablets carry an average of 4.3 cards, while young adults carry 4.1. Women carry more loyalty cards than men do (4.2 vs. 3.2). And nearly 1 out of 10 consumers carry six or more loyalty cards.

For merchants and financial institutions, loyalty cards provide a way to differentiate themselves and, of course, strengthen relationships. The research shows that the benefits that come with these cards can also be an effective tool for shaping consumer payment behavior. Forty-four percent of consumers said that they would switch from their current payment method to another if it meant getting a discount on a purchase; 41% would do so to gain rewards. Smartphone and tablet owners (54%), high earners (53%) and young adults are especially open to changing methods for a discount.

These perspectives vary significantly by age group. Young adults were more likely than average to say they would switch payment types for either a discount or a reward. But 29% of consumers overall said specifically that they would not change preferred payment types to gain such benefits—and that was especially true of consumers over age 65 (37%) and over age 55 (35%).

As mobile shopping and payments continue to grow, this consumer interest in rewards, discounts, and loyalty cards creates an opportunity for merchants and financial institutions. The Vantiv/Mercator research has found that consumers do not think that mobile payments alone are compelling enough to make them switch payment methods. In essence, they don't think that waving a phone at a terminal is much better than using a plastic card. They want more functions in a mobile platform—and loyalty-based discounts and rewards can be a key one.

In fact, the research found that loyalty-card support is one of the most appealing value propositions for mobile wallets. About 3 in 10 consumers said they would be more likely to use mobile wallets if they offered rewards or made it easier to redeem rewards from loyalty programs at the point of sale. Consumers ranked those factors as being somewhat higher in importance than convenience in general and the ability to store electronic receipts—and nearly twice as important as mobile-based payments themselves.

"Consumers see more value and less risk to these mobile loyalty programs," says Rector. "They are carrying more plastic in their wallets, and they like the idea of consolidating all of that into a single mobile solution. So this is an area where merchants and financial institutions might grow program participation, and potentially influence the consumer's choice of payment type."

7. Smaller Merchants: Moving Forward

Small and medium-sized merchants face special challenges in this changing world, with the need to focus often-scarce resources on providing service today while adopting the payment technologies that will be needed in the near future.

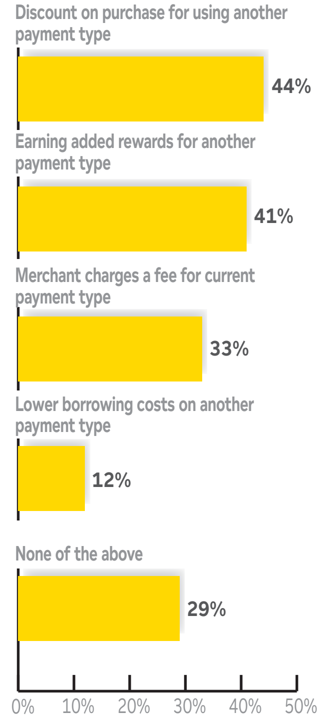
Many of these businesses, defined as having $2 million to $10 million in annual sales, are finding ways to move ahead with new technologies. The Vantiv/Mercator research found that most already conduct sales in multiple channels, and most understand and embrace the omnicommerce concept. Sixty-three percent said that omnicommerce is a company interest today, and 69% expect that interest to grow in the next two years.

Like larger companies, small merchants are dealing with the challenge of rolling out EMV, and 51% reported that they can already accept EMV cards. Among those that cannot, 56% expect to be compliant by the end of 2015.

These smaller merchants are also adopting POS tablets in earnest, with 56% now using the devices in some form. In addition to payments, the merchants value the additional functions that are enabled with tablets. The most important of these, they said, are inventory tracking, enhanced reporting, tablet weatherproofing, online ordering, industry-specific design, and time/attendance tracking.

Interestingly, these businesses have very high expectations for mobile payments adoption—higher than those of consumers. Forty-eight percent said that they believe mobile payments will be in widespread use by their customers within two years, compared to the 36% of consumers who think so. The merchants also appear to overestimate consumers' use of mobile technology in stores. Indeed, when comparing their views with those of consumers, these merchants were three to four times more likely to think activities such as

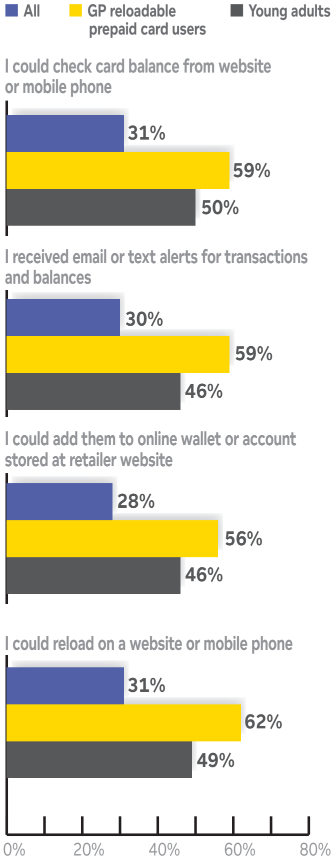
REASON FOR CHANGING CURRENT PAYMENT METHOD



THE PRICE OF LOYALTY

Many consumers say they would switch their payment method to gain a discount or reward—more than would do so to avoid higher fees.

WOULD USE PREPAID MORE OFTEN IF…



PREPAID: LOOKING FOR MORE

Consumers are using prepaid cards for a variety of purposes, but 1 in 3 would use them more if they offered services that made it easier to manage their accounts.

competitive online shopping, use of store Wi-Fi, and sharing of price information with family and friends were used "frequently" or "always."

"Their attitudes toward consumers and mobile activity may be a reflection of how much they are thinking about—and worrying about—the changes that they see coming from the growing use of this technology," says Boeding.

On the other hand, these merchants tend to underestimate the prevalence of negative consumer experiences when shopping online—one of their critical sales channels. When asked about consumers' views of factors such as inconsistent look and feel or lack of one-click checkout as a problem, the merchants were about one-third less likely than consumers to find fault with the online experience.

Overall, says Boeding, "these merchants are concerned about the future, but the question is, are they worried about the right things? More insight into the consumer perspective could help them focus resources more effectively."

8. Prepaid: Broadening Its Reach

Consumer purchases of prepaid cards have declined slightly, but more types of consumers are finding the cards useful. Fifty-seven percent of consumers said that they have bought some type of prepaid card in the past 12 months, 3 percentage points less than in 2013. But card purchases are likely to remain strong in the near future: Prepaid card buyers say they plan to continue buying cards in the coming year, and more than 2 in 5 expect to spend *more* on them this year than last year.

This year, 47% of consumers said that they have purchased a retailer-specific card, making it the most commonly used type, followed by general-purpose non-reloadable (25%) and general-purpose reloadable (16%) cards.

Who's buying these cards? The research found that 73% of tech-savvy consumers—those who own both a smartphone and tablet—purchased a prepaid card in the past year. In addition, income may be less of a factor than it once was: With general-purpose reloadable cards, there was no significant difference in the numbers of higher- and lower-earning consumers who had purchased a general-purpose reloadable card. And, says Royal Cole, president, Vantiv FI Services, "Some of the most enthusiastic prepaid users are in core omniconsumer segments, the younger consumers." Indeed, 2 out of 3 of these younger consumers bought prepaid cards in the past year. And they seem to have a solid awareness of how to use general-purpose reloadable cards and are more likely than average to have actually reloaded one of their cards.

Consumers are using prepaid cards for various reasons. Many said that the cards are helpful in managing household budgets. Others see them as offering high levels of security. Although confidence in the security of prepaid cards declined this year—presumably the result of high-profile data breaches—consumers still see them as being the most secure form of payment. With that in mind, nearly half said that prepaid cards are useful for online purchases.

A sizable number of prepaid buyers expect to use their cards in place of traditional checking and debit accounts. Twenty percent said they plan to use prepaid for purchases they would have made with a debit card, and 29% expect to use prepaid as a complete substitute for debit. More than 20% think that general-purpose reloadable cards are cheaper than debit accounts, or that using them is easier than dealing with a bank to use a debit card. Young people are most interested in making these substitutions, and men are more interested in doing so than women (24% vs. 16%, respectively). Here again, there is no significant difference in the percentages of higher- and lower-income earners who are interested in doing so. "Consumers are clearly expecting to use prepaid products at the expense of debit, and financial institutions should be thinking about how to serve those customers and contend with this shift," says Cole.

The research also shed light on what merchants and financial institutions can do to increase prepaid usage. Among all consumers, about 3 out of 10 said that they would use prepaid cards more if they could more easily check card balances via Web or phone; get alerts about transactions and balances; use them in a mobile wallet or online retailer account; or use a website or phone to reload their cards. Among consumers who already own general-purpose reloadable cards, that figure was closer to 6 out of 10. "The flat growth that we've seen in prepaid cards over the last year may be the result of consumers wanting more convenience and ease in managing their accounts," says Cole. "So there is a real business opportunity for the industry here."

9. Change in a Competitive Landscape

Vantiv/Mercator research shows that industry executives see opportunity in technology-driven change and innovation. But they are also concerned about focusing their efforts on the right things and keeping pace with those technologies—as well with evolving

EXECUTIVE VIEWS ON PREPAID CARDS

In Vantiv/Mercator interviews, many executives expressed enthusiasm for prepaid.

"We're looking to GPR cards as an alternative [to checking]. There are segments...who want it for budgeting, online purchases, and compartmentalized spending."
—Regional bank

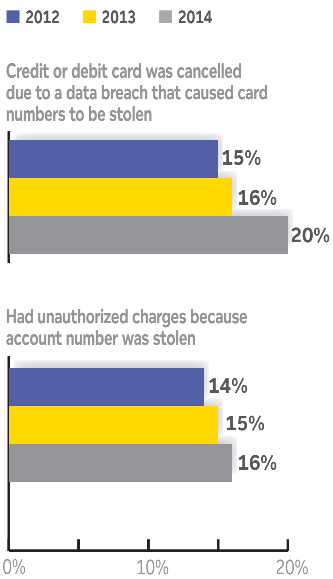
"For most of our prepaid customers now, their prepaid card is their primary card."
—Regional bank

"Our gift or cash card business is an important one, and we make sure it's reloadable."
—Large retailer

"We sell gift cards online, in our restaurants, and through third parties. We offer incentives to buy directly from us during the holidays."
—Restaurant chain

"We market them for personal use instead of debit cards or cash with our mobile app."
—Quick-serve restaurant chain

SECURITY ISSUES OCCURRED IN PAST YEARS



SECURITY ISSUES HIT HOME

A growing number of consumers report a personal experience with data theft or fraud, which is dampening consumer confidence in the security of payment methods.

competitive forces and the expectations of customers.

The research found that consumers are eager for innovation, especially in areas such as mobile and person-to-person payments. When it comes to mobile wallets, many said they would consider wallets from technology and communication vendors or e-commerce retailers. Young and affluent consumers in particular are interested in new approaches to payments. So are tech-savvy consumers: the 27% of consumers who own both smartphones and tablets are generally more likely to be early adopters of alternative payment methods.

In interviews with researchers, merchant executives made it clear that they want to invest in meeting customer expectations for innovation. At the same time, they are worried about new players moving into the mobile payment space and creating more competition for customers' attention. Financial institution executives, too, are concerned about having their mobile products lost in a sea of offerings—and how to move ahead with payment-related innovations.

ISOs face similar issues. The Vantiv/Mercator research found that they are focused on today's strong competition from other ISOs as well as the threat of significant pricing pressure. But they are also worried about new competitors, with half or more citing concerns about aggregators, specialized POS vendors, and mobile payment acceptors affecting their markets.

The ISOs' perspectives illustrate the difficulty of meeting today's needs while preparing for tomorrow's challenges. ISOs cited technology-based offerings, such as mobile card acceptance and merchant tablets, as key to growth and profits. They also said they expect mobile payments to be widely used by merchants in the next few years.

However, even the most commonly offered mobile technology from ISOs—cloud-based mobile payments—is supported by just 41% of the respondents. Just over one-third support contactless terminals, and only one-fifth support mobile wallet programs using either e-commerce or POS systems.

Similarly, a majority of ISOs said that they expect merchant interest in omnicommerce to grow in the next two years. But just one in four offer omnicommerce-related services, and only 30% say that they currently help merchants with omnicommerce.

"While they recognize the growing demand for technology-based offerings, many ISOs still lack experience in these key areas," says Matt Downs, general manager of Vantiv Integrated Partners. "Certainly, it's hard to invest in the future when you are fully occupied with competitive challenges today. But change won't stop, and it's better to lead than play catch up."

10. Coping with High-Profile Security Issue

As one might expect, security is very much on the minds of consumers following several well-publicized data breaches at major retailers. Consumers are worried—but, it appears, not as worried as one might think.

The research found that consumers' perception of the security of all card types is down significantly this year from last year. The percentage of consumers who feel secure using general-purpose credit cards in a store fell from 64% to 55%. Those who feel confident using a debit card with a PIN in a store dropped from 57% to 47%. Even prepaid cards, which consumers consider the most secure payment form, saw a decline in perceived security. Debit cards without a PIN, whether used in a store or online, are considered the least secure non-cash payment type.

At the same time, confidence in mobile payments increased slightly year over year—a trend that has been occurring for some time, as consumers become more familiar with mobile technologies. Nevertheless, consumers still consider cards to be significantly more secure than all types of emerging payment methods, including mobile payments and payments made with a dongle on a contractor's mobile device.

For many consumers, the declining trust in cards is due to firsthand experience. Sixteen percent said they had received unauthorized charges because of a stolen account number in the past year. Twenty percent reported a payment card cancelled due to a data breach. That's an increase from 16% in 2013, and a number that probably will continue to rise as retailers and financial institutions respond to security breaches.

In spite of the focus on security breaches, consumer anxiety about security has decreased since last year. Fewer consumers said they think about security when they review their statements (46% in 2014, compared to 57% in 2013). And fewer said they think about security with every transaction (38% vs. 46%). "With all the news about security, it may be that consumers have become a little numb," says Paterson. "They may also be seeing how solutions, such as zero liability and the reissuing of cards, have helped mitigate the effects of security breaches on individuals."

All of this has brought increased interest in the rollout of EMV technology. In the research, 1 in 5 consumers said that they now have a chip card. "More EMV cards are being issued, and merchants are starting to deploy and turn on EMV terminals, though still in very limited areas," says Patty Walters, SVP, Vantiv Merchant Product & Security Solutions. "And with recent data breaches, both EMV cards and terminals may be coming faster than many expect."

SECURITY BREACH EFFECTS ON BEHAVIOR

DECLINING ANXIETY

Consumers who have encountered security problems are actually less anxious about security than they were last year—a sign, perhaps, that they are accepting these risks as normal.

About Vantiv

Vantiv is one of the leading integrated payment processors in the United States. Known as Fifth Third Processing Solutions since 1971, the company, headquartered in Cincinnati, Ohio, changed its name to Vantiv in 2011, and became a public company in 2012. Vantiv's credit, debit, prepaid, and data security solutions help businesses and financial institutions of all sizes get the most out of payment activities.

Source for all charts: Vantiv/ Mercator Insights Research 2014

The question is, how prepared are consumers for this rollout? Issuers appear to be marketing the chip cards better, as fewer consumers are now unsure whether they have one (16% this year, down from 19% last year). But there is still considerable confusion. Most EMV card owners (63%) mistakenly think that their chip cards are more secure than payment cards without chips even when swiping it like any other payment card in a terminal. (Interestingly, seniors appear to have a better understanding than younger adults that this isn't so.) And 42% of EMV card owners mistakenly think their cards are more secure for online purchases. "This all suggests that there is still a lot of education that needs to be done by both issuers and merchants to help consumers understand the importance of their EMV cards," says Walters.

Conclusion

In looking at these trends, it is clear that merchants and financial institutions operate in a dynamic environment. It is also clear that these changes are not temporary. Constant change will be with us for the foreseeable future.

Technology continues to move ahead, reaching more consumers and more companies—and even small merchants and financial institutions will need to take advantage of more-sophisticated tools. Mobile payments are opening the door to new competitors. An increasingly multichannel world creates new opportunities for reaching customers. Challenges to data and payments security keep evolving—as does an already complex regulatory environment.

"Change is the new normal, and companies need to factor that into their plans," says Mielke. "That can make it difficult to know how to move forward—what new capabilities to deploy, and when and how to deploy them."

In response, many merchants and financial institutions have held back, preferring to wait until technologies, standards, and consumer attitudes reach a kind of end state. But when change is normal, there is no end state. The traditional "wait-and-see" strategy is not viable—and executives are recognizing that. This year's research uncovered a shift away from the wait-and-see mind-set and toward taking action. Many in the industry are implementing new programs, piloting new technologies, and collaborating with their ecosystems of partners to move forward.

As companies act, consumer attitudes and behaviors can provide a road map for directing and prioritizing efforts. As this year's research shows, consumers are no longer passive recipients of the industry's offerings. They are often leading the way. Understanding what they want and where they are going will be key to success.

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The omni-integration imperative: reaching the omniconsumer

vantiv®

The omni-integration imperative: reaching the omniconsumer

7:30 am:

John is awakened by the shaking of his smart wristband. Before heading to work, he sits at his home computer to shop for a new jacket. He looks at product options and reviews from other consumers and ultimately orders one online, to be picked up at a store later in the day. He then heads to the train station, where he pays his fare by waving his smartphone at a small reader. On the ride into the office, he uses his tablet to make a dinner reservation for that evening—his aunt and uncle are visiting from out of town. Walking from the train station, he purchases a cup of coffee by scanning a QR code with his phone.

Today, mobile technology is changing business for merchants and financial institutions. Consumers use their smartphones and tablets to shop, bank, and make payments—and companies are working to make the most of this fast-moving new channel.

But the mobile revolution is just one aspect of a larger trend. According to recent Vantiv/Mercator Insight Series research, mobile devices are not only opening new channels for consumer interactions, they are also changing the way that consumers behave in all channels. Consumers have embraced the multichannel world—and they expect to be able to use whatever channel they choose, and to move easily across channels whenever they want.

To meet that need, companies have been exploring omnicommerce—a holistic approach to multichannel commerce that makes the most of each individual channel while providing a consistent experience across channels. In interviews with Vantiv/Mercator researchers, merchant and financial institution executives made it clear that that they are well aware of the shift toward omnicommerce. Even among small and medium-size merchants, a majority support the omnicommerce concept: 63% said that it is a company interest today, and 69% expect that interest to grow over the next two years.

"The industry has been talking about omnicommerce, but in this year's Vantiv/Mercator research, we see that it is quickly becoming a reality," says Daniela Mielke, Vantiv's chief strategy officer. "Customers have high expectations for the omnicommerce experience, and merchants and financial institutions are working to integrate channels to deliver that experience." Setting the pace are omniconsumers, who are eager for the integration of technology and mobility—and meeting their needs is rapidly becoming critical to sustained success.

READY FOR OMNICOMMERCE?

To help develop strategies for serving omniconsumers, companies can assess their operations in three key areas:

Engaging the customer. Looking across channels, do we provide a consistent user experience, use dynamic pricing, and use social media to engage customers? Can we use data gathered across channels to make targeted recommendations and create and publish offers?

Enabling the customer. Do we support payments, loyalty, and offer redemption across channels? Is our mobile app integrated with the retail POS, and does it support enhanced in-store interactions? Do we support shopping, fulfillment, and returns consistently across channels?

Serving the customer. Can consumers see available inventory and reserve out-of-stock inventory across channels in real time? Does our POS system enable transactions anywhere in the store? Can customers use the same digital payment application across all channels? Does our customer shopping history and preference data cover all channels? Are we able to use retail outlets as online shopping fulfillment centers?

The Arrival of Omnicommerce

10:30 am:

Taking a mid-morning work break, John uses his personal tablet to buy concert tickets online with a prepaid card at a website. Still looking at his tablet, he reviews a few restaurant menus to decide what to have for lunch, and orders a takeout meal from a nearby deli to be picked up at noon. Shortly afterwards, he receives a text from his bank that the paperwork for his car loan is complete and needs to be signed. He chats online with a representative and makes an appointment to meet with a banker at 12:15.

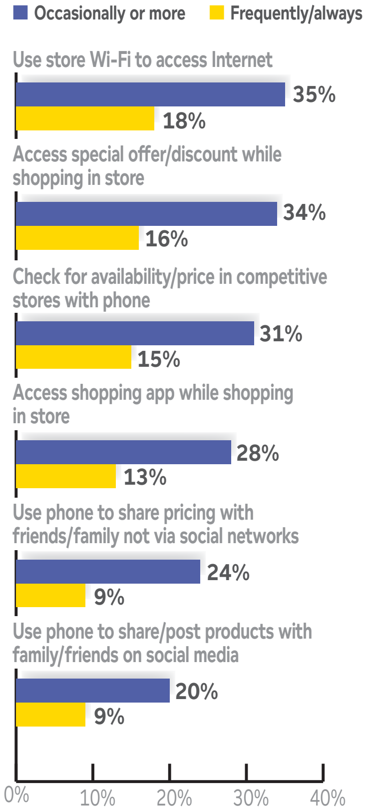
Mobile payments usage is expected to increase significantly in the next few years, but currently, relatively few consumers are actually making mobile payments. However, they have clearly embraced mobile technology. Today, 66% of consumers have a tablet or smartphone, according to the Vantiv/Mercator research. Ownership is even higher among young adults age 18 to 34 (86%) and consumers earning $100,000 or more (74%). And consumers have woven these mobile devices into many of their daily activities—including shopping and banking.

The growing mobile channel joins other online and traditional physical channels to essentially round out the infrastructure for omnicommerce. And consumers are not hesitating to use that infrastructure. They access information and make purchases via mobile devices, talk to service agents on the phone, and shop online using their computers. The Vantiv/Mercator research found that 9 out of 10 consumers now research and/or buy products online. When shopping for goods worth more than $50, more consumers shop and buy online now than buy in-store without doing any online research. Consumers usually use their computers to shop online, but 60% said they have used their mobile phones to do so. And 46% said they often conduct research online and then go to the store to purchase higher-value items.

Similar behavior can be seen in the financial services realm, as well. The research found that 82% of consumers now do at least some banking online—primarily via computer (74%), but also with smartphones (26%) and tablets (15%). However, they are by no means abandoning branches, call centers, or ATMs. For example, Mercator's research has found that those who use mobile banking are more likely to use a wider variety of channels, including depositing checks through ATMs and remote deposit via mobile device—and that is especially true for mobile device owners. So increased mobile usage actually seems to lead to both increased ATM and self-service usage. "Financial institutions are seeing the emergence of a communications-intensive segment of customers, who make frequent use of both emerging and traditional delivery channels," says Royal Cole, president of Financial Institutions Services at Vantiv.

Merchants and financial institutions alike recognize that they need to work with consumers across all of these

FREQUENCY OF ACTIVITY WHILE SHOPPING



CONNECTING IN THE STORE

When consumers go to the store, they are bringing their phones with them, and some use them to go online, get discounts, and share shopping information with others.

HOW DO YOU USUALLY SHOP FOR PRODUCTS $50+?

BLENDING CHANNELS

Omniconsumers are ready to use all channels—and often, to use them in combination. Many use a combination of online, brick and mortar, and mobile channels to determine what they want, and where to buy it at the best price.

channels simultaneously. "Customers want to keep going with their customer experience no matter which channel they are in," one regional bank executive told the researchers. "When they encounter channel 'silos,' that becomes a jarring experience and they get frustrated. They expect to do business with us no matter which channel they use."

Working Across Channels

12:00 pm:

At the bank, John quickly finishes his loan paperwork and stops at the ATM to withdraw some cash—only to discover that the deli where he's ordered lunch will let him pay by swiping his card through a reader attached to its phone. He picks up his lunch and goes back to the office. While eating at his desk, he uses a mobile app on his phone to check the balance on his prepaid card. Unsure of one transaction, he calls the bank's contact center and talks to an agent to get the problem straightened out. A co-worker drops off a check repaying a small loan. John does not want to go back to the bank, so he simply uses a remote deposit application on his phone to scan the check and put it in his account.

With the rise of omnicommerce, more consumers can be found using multiple channels as they communicate with companies. But omnicommerce is also driving fundamental changes in consumer expectations, led by the high demands of the 18 to 34-year-old omniconsumer.

As the research has found, omniconsumers are comfortable working across all channels, new and old. That is, they are quick to embrace new channels, especially mobile, but they don't' replace the old with the new. They continue to use more-traditional channels, including brick-and-mortar stores and bank branches. For example, as noted earlier, online research and purchasing is now the most common way to shop for items with a price tag of $50 or more. Nevertheless, 47% of consumers will go to a physical store and find and buy higher-value items without prior research online. In banks, said one interviewed executive, "It used to be that customers used one channel or another—they either went to the branch or they called. Now, with mobile, they use multiple channels simultaneously or sequentially." A bank customer might shop for a loan or checking account online, for example, but then sign up for the product at a physical branch.

Meanwhile, smartphone and tablet owners—who are naturally inclined toward mobile interactions—are not abandoning traditional payments. Indeed, they are more likely than consumers in general to own and use credit cards, store credit cards, and prepaid cards.

The net result is that a given omniconsumer is likely to be using multiple channels—often in a complementary manner. As one bank executive told researchers, "What mobile allows you to do is to support the 'and' channels. You start off at online banking and then finish the process on a mobile phone. Or you can use your mobile phone to enhance the experience when you're in the branch."

Understanding the Omniconsumer in the Store

5:30 pm:

After work, John walks to the store to pick up the jacket he ordered earlier. While there, he decides to buy shoes, as well. A store associate using a tablet helps him find what he wants from the store's back-room inventory. While the clerk is retrieving the item, John uses his smartphone to compare shoe prices at other retailers, online and off-line. When the associate returns, John swipes his credit card through the tablet to pay for the coat without having to go through the checkout line—and without buying the shoes. He's decided to pick those up tomorrow at a nearby store, where they are 20% less.

The blending of channels can often be seen in stores. The Vantiv/Mercator research found than 4 in 10 consumers are likely to consult their smartphones to support their shopping experience while at a retailer, spending an average of 11 minutes on the phone while in the store.

Forty percent of consumers said they have accessed shopping apps and social media activities while in stores. Forty-four percent have used devices to access special offers or discounts while shopping in a store. Fifteen percent said they have bought a product in a store using a coupon received on their phone. And omniconsumers are often collaborating when they shop: More than 1 in 5 use their phones to share pricing and product information with friends and family.

Omniconsumers are also likely to showroom as they shop. For example, 19% of consumers said they often see a product (worth $50 or more), check prices on their phone, and buy it online; 17% do so but buy it in another store. These consumers are embracing new techniques quickly, with 7% saying they often using mobile apps to read in-store barcodes and comparison-shop online. Overall, said one sporting-goods retail executive, "Consumers are coming into our stores with their smartphones and using them while they are in the stores. They check Amazon prices and can access the mobile coupons we send them via email and scan them at the register."

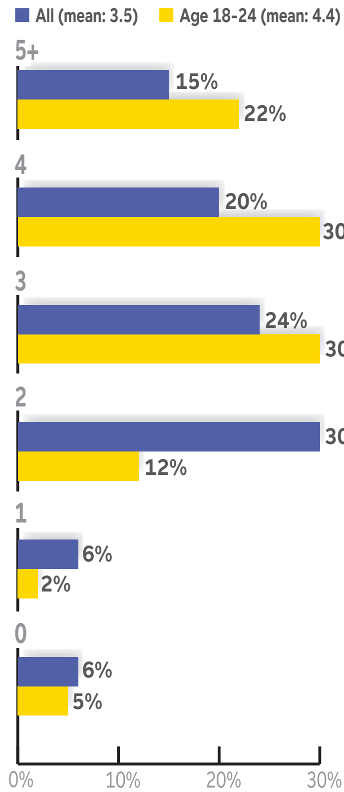
Omniconsumers: Entering the Mainstream

6:30:

Using a smartphone app, John arranges and pays for a ride to the restaurant where he is meeting his aunt and uncle. When they are done, John tries to pick up the bill, but his uncle received a half-off coupon on his phone, and they decide to split the bill. John's uncle pays using the waiter's tablet; John uses his phone to make a person-to-person payment from his checking account to his uncle's.

Omniconsumer behavior has been associated primarily with younger consum-

NUMBER OF DEVICES USED AT SAME TIME



MULTICHANNEL MULTITASKING

Consumers today are not only using more channels to interact with businesses—they are also using more devices. On average, they use 3.5 devices at one time when at home. Young consumers average 4.4.

TABLETS: AN ENTRY POINT FOR OMNICOMMERCE

Omnicommerce—and the need to serve omniconsumers—is affecting small and medium-sized merchants, as well as large ones. In a recent survey of businesses with sales of $2 million to $10 million, Vantiv/Mercator researchers found that most were multichannel operations. For example, 84% said that they use online sales channels and 76% said that they have physical store locations as well as other channels, such as telephone and mail order.

These merchants are especially interested in POS tablets—and more specifically, the multiple functions that these flexible devices can support. Eight out of 10 respondents noted the importance of tablet features that help serve in-store omniconsumers—such as online ordering, inventory, check acceptance, and loyalty program support—as well as business tools such as time and attendance tracking and daily reporting. "For many of these merchants," says Mercator's Ken Paterson, "the tablet POS represents a convergence point as they seek to support the omnicommerce experience for their customers, as well as manage their daily operations."

ers. They tend to be early adopters of new technologies and channels, and omniconsumer behavior is especially pronounced among that group. They are more likely than older consumers to use their phones to shop (86% vs. 60% average) and to use showrooming techniques to make a purchase online (27% vs. 19%) or in another store (26% vs. 17%). "For consumers on the younger end of this group, there is nothing unusual or novel about online or even mobile commerce," says Donald Boeding, president of Merchant Services for Vantiv. "To them, these channels have 'always' been there."

But omniconsumer behavior is no longer restricted to younger adults. Affluent consumers, for example, are more likely than average to be omniconsumers, and even among the 65-and-older segment, 27% of consumers use their phone to shop. "We're seeing these behaviors spread quickly beyond just the young consumers," says Boeding. "The number of consumers that think like omniconsumers appears to be growing rapidly. The omniconsumer is becoming the mainstream consumer."

That means that it will be critical to understand and meet omniconsumer expectations. For a group that moves freely and frequently across channels, a good customer experience depends largely on being consistent across channels. Omniconsumers will expect to see the same prices and services in different retail channels. They will want to hear consistent information as they shop for financial services via their smart device while meeting with a loan counselor. And when they run into problems in an automated channel, they will want to be able to text, chat, or call someone to quickly get help. "Consumers want seamless omnicommerce engagement, with increased convenience and increased gratification," says Boeding. "They have strong expectations around value, loyalty and rewards, social recommendations, and collaborative buying."

Inconsistencies in different channels can lead to delays, confusion, and frustration—and consumers are increasingly impatient with that type of experience. "The more consumers use omnicommerce, the more they expect," says Ken Paterson, vice president, research, at Mercator Advisory Group. "The rapid uptake of omnicommerce is basically creating a world of critics out there, and their expectations for a good experience are pretty high." In an age where customers have choice and control, dissatisfied omniconsumers will be quick to take their business elsewhere—and to spread the word to friends and colleagues via social media.

Evolving Multichannel Experiences

10:00 pm:

At home, John is once again sitting at his computer, making his rent payment online from his checking account. Afterwards, he watches television on his computer and sees a promotion *for a new camera he likes. He scans an onscreen QR code with his phone, which takes him to a website offering the camera. But the website does not show up well on his phone, and he can't find the promotional price, so he returns to the computer and finds the offer. But when he is in the checkout process, he has trouble completing the transaction. He is asked to re-enter his information, but he instead chooses to leave the website. He takes a moment to complain about the experience on his Facebook page.*

Delivering a consistent, seamless omnicommerce experience can be difficult. Many consumers said they often run into difficulties when using retailers' websites. Forty-three percent said they have encountered an inconsistent "look and feel" at e-commerce sites, depending on the type of device they are using.

In addition, a significant number of consumers cited problems with basic online payment functions. For example, 47% cited the lack of one-click checkout functionality, and 45% said that the checkout process was sometimes difficult to navigate. Forty-one percent complained about the inability to use coupons or discount codes at checkout. And 35% cited the inability to store their payment information for future use.

Retailers are not always aware of these negative consumer experiences, and may be underestimating the extent of such problems. When researchers asked small and medium-sized merchants about inconsistent look and feel or lack of one-click checkout functionality, the merchants were about one-third less likely than consumers to find fault with the online experience. "It seems that there is still work to be done on the integration of channels, and the addition of key functionality, in electronic channels," says Bill Weingart, president of Vantiv E-Commerce Services.

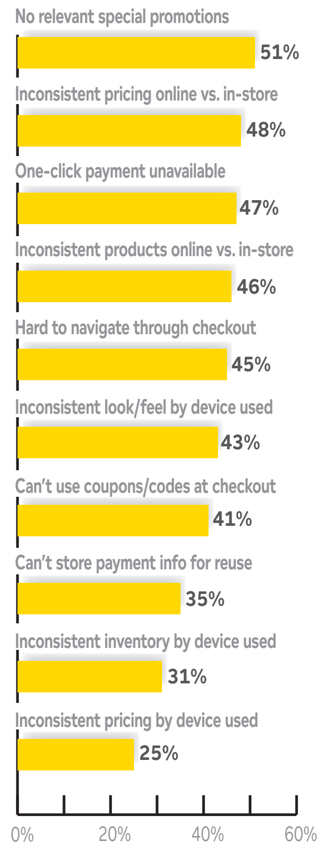
Taking Advantage of the Opportunity

10:30 pm:

John signs on to another retailer's website to purchase the camera with his credit card—a transaction that is completed flawlessly. During the process, he is asked if he would like to sign up for the retailer's credit card. It offers immediate discounts and the chance to earn loyalty points, so he accepts the offer. Later, just before going to bed, John receives an alert on his phone reminding him that his credit card bill is due—and he uses a mobile app to make the payment from his checking account. Satisfied, he turns out the light on his digital day.

"We're at a point where merchants, financial institutions, and consumers have signed on to the omnicommerce vision," says Weingart. "They can see the value of consistency and ease of navigation across channels. But the merchants and the financial institutions also see what it is going to take to get there—and it's not easy."

EXPERIENCES WHEN SHOPPING ONLINE
(sometimes or more often)



OMNICOMMERCE FRUSTRATIONS

Consumers report that they do not always encounter consistent experiences across retail channels; they even run into trouble with online basics such as checking out and making payments.

However, many also see the necessity of effectively reaching omniconsumers—and the opportunity that presents. With the "always connected" omniconsumer, merchants and financial institutions can be in contact with consumers at many times throughout the day, and at many points in the shopping and banking lifecycles. It becomes possible to reach consumers with consistent messages as they research offerings, make payments, seek service, and provide feedback—and to take advantage of a growing number of touch points to strengthen customer relationships.

With that in mind, merchants and financial institutions can explore new programs, pilot new technologies, and collaborate with their ecosystems of partners to move forward with omnicommerce. That will typically mean the continued integration of channels and the addition of new features and functions—from coupons and loyalty programs to mobile payments—designed to make shopping and banking easier for omniconsumers.

Succeeding with omnicommerce will also mean staying on top of ongoing innovation. Omniconsumers are a constantly moving target, and so too are the tools and technologies needed to serve them. Cloud technologies are making mobile payments increasingly practical, for example, while analytics are providing deeper insight into omniconsumers. Merchants are exploring ways to take advantage of geolocation and contactless payments. Banks are looking for ways to bring more features to their mobile platforms: Some are now enabling consumers to open accounts remotely, via phone, and further out, some are discussing the possible impact of wearable technology, such as smart bracelets, on payments.

What's more, many of these technologies are now coming together. "That's leading to integrated, flexible software platforms and applications being delivered as services—things that will make it easier to include new functions and provide a good omniconsumer customer experience," says Mielke.

Most merchants and financial institutions will need to move ahead gradually and prioritize their investments and efforts. But consumers are clearly ready for omnicommerce—and in many ways, they are leading the way. As companies develop strategies, the omniconsumer perspective can provide valuable insight. "You can start by understanding where your customers are with omnicommerce, where they want to go, and what will motivate them to work with you," says Mielke. "The needs and expectations of the omniconsumer can provide a good road map for the future."

About Vantiv

Vantiv, Inc. (NYSE: VNTV) is a leading, integrated payment processor differentiated by a single, proprietary technology platform. Vantiv offers a comprehensive suite of traditional and innovative payment processing and technology solutions to merchants and financial institutions of all sizes in the U.S., enabling them to address their payment processing needs through a single provider. We build strong relationships with our customers, helping them become more efficient, more secure, and more successful. Vantiv is the third-largest merchant acquirer and the largest PIN debit acquirer based on number of transactions in the U.S. For more information, visit www.vantiv.com.

Source for all charts: Vantiv/Mercator Insights Research 2014

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Serving the Smaller Merchant: Making Payments Work

vantiv®

ABOUT THE RESEARCH

The Vantiv/Mercator 2014 small and medium-size business survey is the first time that the Vantiv/Mercator Insight Series research effort has focused on this segment of the industry. In addition to these smaller merchants, the series has explored the payment-related attitudes and activities of consumers, merchant and financial institution executives, and independent sales organizations.

The small and medium-size business survey garnered responses from 538 managers who are involved in making payment-services decisions for their companies, which ranged in size from $2 million to $10 million in annual sales. Respondents represented well over a dozen consumer and business goods and services segments, including businesses such as consumer physical goods, restaurants, grocery/supermarket, pharmacies, and so on. All companies represented in this survey accept cards as a method of payment.

Nearly half the respondents (49%) were owners, CEOs/chairmen, or presidents of their companies. These respondents are more likely to make payment decisions on their own (84%) than other executives (51%). Sixty-seven percent of respondents make the payments decisions themselves, 25% share decisions, and 8% indicated that they influence decisions.

Serving the Smaller Merchant: Making Payments Work

Compared to major retail chains, smaller merchants typically don't have extensive resources to devote to new processes and technologies. But they have to compete with those larger companies to attract and retain the same consumers—and today, those consumers have high expectations for being able to do business in the channels of their choice.

Recently, Vantiv/Mercator Insight Series researchers surveyed small and medium-sized merchants (those with $2 million to $10 million in annual sales) to better understand how they are adapting to those changing customer attitudes. The findings show that most are already multichannel businesses and many recognize the growing importance of offering a seamless experience across channels. Sixty-three percent of respondents said that omnicommerce—that is, the ability to provide consistent service across channels—is a company interest today, and 69% expect that interest to grow in the next two years.

As merchants consider the demands of omnicommerce, their attention is naturally shifting to the enabling technologies that support multichannel business. As a result, the research found, their expectations and attitudes are changing. "These merchants are not only looking for one-off solutions to handle, say, payments or rewards," says Daniela Mielke, chief strategy officer at Vantiv. "Instead, they are looking for a broad array of tools that will help them run their businesses, increase revenues, and deliver a good customer experience across channels."

For the banks and independent sales organizations (ISOs) that serve those merchants, that represents a significant shift in their markets. These providers need to keep pace with that shift, and that will require them to extend their capabilities to include a growing array of technology-based offerings. While this presents challenges, the research also shows that these providers can take advantage of these trends to get closer to merchants—and hold their own in an increasingly competitive landscape.

Looking for "Omnibusiness" Technology

The Vantiv/Mercator research found that a majority of small and medium-sized businesses now operate in two or more channels. Eighty-four percent of the respondents said that they use online sales channels, and 76% said that they have physical store locations. Many reported having phone, mail-order, and sales-representative channels as well.

The merchants' emphasis on e-commerce underscores the fact that these merchants see online channels as both a customer requirement and a significant opportunity. Those channels offer relatively low barriers to entry, along with the ability to reach more customers.

The merchants' growing interest in omnicommerce reflects the interests of their customers. Consumers in general are using more channels to shop, and the Vantiv/Mercator research has pointed to the emergence of omniconsumers who take full advantage of this reality. Omniconsumers don't just adopt new channels, such as mobile; they use all channels, new and old. Thus, merchants operate in a world where e-commerce is the usual way to shop for nearly 3 out of 5 consumers, and yet nearly half of all consumers will still go to the store to purchase higher-value items. Like their larger counterparts, smaller merchants need to be present in all channels, and they need to deliver a consistent experience across channels.

With the growing use of electronic channels—and the need to integrate channels to succeed in an era of "omni-business"—smaller merchants are naturally becoming more focused on evolving technologies for payments and for serving customers. A focal point for this interest is the POS tablet; about two-thirds of these merchants say they now use tablets in their operations. Tablets provide a relatively inexpensive way to get into mobile technology. And they are familiar and easy to use for employees and consumers alike. Today, 32% of consumers own tablets, and 33% have now used POS tablets at a merchant, up from 19% last year—making it the most commonly used form of mobile payment by far.

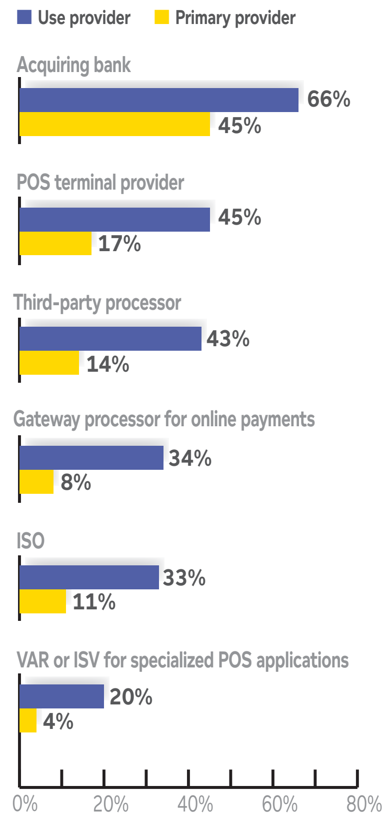
The POS tablet provides merchants with a flexible entry point into the world of omnicommerce. When asked which tablet features are important to them, the merchants essentially said that most of them are. About 8 out of 10 cited features such as online ordering, inventory, check acceptance, and loyalty program support, as well as payment acceptance. "These features can help merchants serve in-store omniconsumers, and perhaps help control showrooming by reducing the need for customers in the store to use their phones to find products and information," says Donald Boeding, president of Vantiv Merchant Services. "Tablets also help merchants meet the increasing expectations of omniconsumers for convenience and speed, and they give them a way to make the brick-and-mortar store part of the omnicommerce experience."

But the merchants clearly think other tablet features are important as well—especially business tools such as time-and-attendance tracking and daily reporting. "They are looking at functions that for big companies would involve a lot of enterprise infrastructure, expense, and complexity," says Boeding. "But with the tablet, the merchant just opens the box and has access to a variety of software capabilities. They see the tablet as a single cost-effective technology that can help them operate efficiently on a day-to-day basis."

Opportunity—and Uncertainty

For smaller merchants, then, payments and shopping-related technology is playing a bigger and bigger role. But

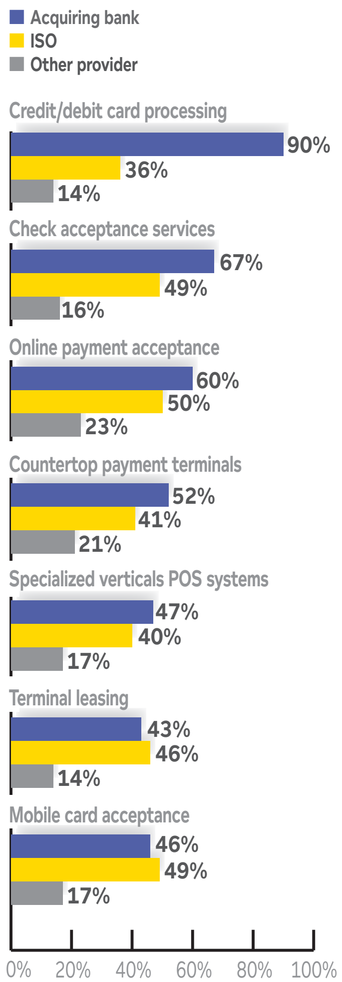
USE OF PROVIDERS FOR CARD ACCEPTANCE/PROCESSING



BANKING ON BANKS

Banks have the highest level of penetration in the small and medium-size merchant market for acceptance/payment services, but the market is relatively fragmented among various types of providers.

WHO PROVIDES WHICH SERVICES?



COMPLEMENTARY SERVICES

Banks tend to be key providers of core payments services, while ISOs tend to offer specialized and supplementary services.

there are indications that they see this as a challenge as much as an opportunity and that they are worried about their ability to take advantage of the technology. This is exacerbated by the fact that fully 48% of these merchants said that they expect mobile payments to be in widespread use by their customers within two years, an expectation that doesn't track with what consumers are saying: only 20% of consumers think they will actually be using mobile payments in that time frame.

The research found a similar mismatch in expectations related to mobile phone use in the store. The merchants believe that half of their in-store customers typically use their phones to showroom and comparison shop at competitive stores—but just 15% of consumers say they do so frequently or always. Overall, merchants are three to four times more likely than consumers to think activities such as the use of store Wi-Fi and sharing of price information with family and friends are widespread.

"What these findings indicate is that these merchants are worried and uncertain about mobile technology, so they overestimate the speed of adoption," says Ken Paterson, vice president, research operations, at Mercator Advisory Group. "They hear a lot about mobile payments, and they see some major retailers beginning to get into mobile apps. They naturally feel threatened by that."

Many are also wondering if they will be able to keep up once mobile payments do take off in earnest. "Once the big box retailers support [mobile], there will be a big rush and other retailers will have to support it too," one merchant told researchers. "If our customers pay with their mobile phones there, they will expect it at our store. But most smaller retailers are still some ways from being ready with mobile payments."

There are other indications that smaller merchants are unsure about how to leverage technology and are not entirely prepared to do so. For example, even though they see mobile payments coming quite quickly, they are nevertheless unable to identify a probable winner in the POS mobile technology race, be it NFC, QR code, cloud, or contactless terminal-based. And while they recognize the importance of a seamless customer experience, many are having trouble delivering it, especially in electronic channels. In the research, about one-half of the consumers cited problems such as inconsistent look and feel across channels and devices or lack of one-click checkout. Here, however, the mismatch is reversed: when asked about consumers' views of such factors, the merchants were about one-third less likely than consumers to find fault with the online experience.

Altogether then, smaller merchants are finding payments and customer-related technology to be central to their success with customers—but they clearly need assistance with it. Thus, they are likely to be looking for technology products and expertise from outside. The question is, who will provide that help—banks and ISOs, or some other technology-oriented provider such as an integrated software vendor (ISV) or value-added reseller (VAR)?

The Competitive Landscape

To understand how technology is likely to shape merchants' choice of providers, it is useful to look at how they relate to their providers today. In the research, 6 out of 10 merchants said that they primarily use one payment provider. Bank acquirers have the largest share of primary relationships with these merchants (45%), presumably because so many merchants also have loans and other financial ties to those institutions. Among those that rely primarily on banks for payment services, 8 out of 10 merchants said that their acquiring bank was also their primary business bank.

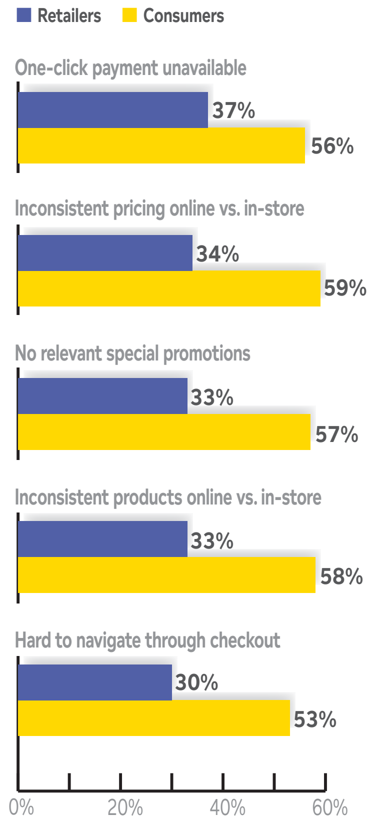
Meanwhile, just 11% percent said that they have an ISO as their primary provider. However, that figure is higher in key categories served by ISOs. For example, they have more primary relationships in industries such as convenience and drug stores and professional services and business goods firms. And their market penetration is similar to that of banks when it comes to specialized services, such as merchant vertical POS systems, terminal leasing, PCI/breach management, and EMV support. Broadly speaking, banks tend to be primary providers of core acceptance services, while ISOs often deliver supplementary services. So, for example, 90% of the merchants using banks rely on them for credit/debit card processing, compared to 36% among ISO users. But ISOs and banks have more or less the same percentage penetration among their clients (roughly, 40%-50%) when it comes to mobile wallets for e-commerce, merchant cash advance, terminal leasing, etc.

Because they are involved in multichannel selling, smaller merchants operate in a complex world, and with that complexity comes a wide choice of payment providers. While banks are most likely to be a merchant's primary payments provider, many merchants use multiple providers. Indeed, the market is fragmented across provider types, and specialists such as terminal providers (17%), gateways (8%), and VARS and ISVs (4%) hold significant market-share positions. Interestingly, 76% of the merchants use at least one provider that is not a bank or an ISO. At the same time, some ISOs now offer software solutions, putting them in direct competition with ISVs and VARs. In many cases, then, merchants appear not to understand the different value propositions in play because the lines have become so blurry.

No matter their choice of provider, the merchants rely on a variety of servicing channels to work with their primary payment providers, including phone contact with their service reps (72%), email (61%), and call centers (54%). "Payments today remains a high-touch business," says Stephanie Lusher, director of Regional Market Sales at Vantiv.

Payments is also a highly competitive

PERCEPTION OF CUSTOMER EXPERIENCE SHOPPING ONLINE



UNMET EXPECTATIONS

Consumers often run into trouble with online sales—but smaller merchants significantly underestimate how often that is a problem in this key channel.

PERCEPTION OF CUSTOMER BEHAVIOR IN STORES

MOBILE ANXIETY

Smaller merchants overestimate the amount of showrooming and other mobile usage actually taking place in their stores—a sign of their concern about mobile's impact.

business, as banks and ISOs can attest. The researchers asked merchants what might prompt them to change providers. Their responses show that they would weigh a range of factors, from issues with managing fraud, to better integration of inventory and payments, to support for mobile phone-based payments. But the top criteria were payment costs (both transaction and overall expense) and service (responsiveness and problem solving).

Nevertheless, 72% of the merchants said that it is fairly difficult to switch providers. Smaller merchants say that they are reluctant to change because of valued long-standing relationships (50%), difficult-to-break contracts (41%), and excellent service (41%). "For these reasons," says Lusher, "some merchants are resistant to change, and it takes a lot of concern about the consequences of inaction to move them."

Overall, incumbent banks and ISOs are in a relatively good position with these merchants. But with the market's growing emphasis on technology, that could change. The research shows that banks tend to appeal to smaller merchants looking for service and company-specific knowledge, while ISOs appeal especially to the price-sensitive segment of the market. To a great extent, smaller merchants don't see new technology as a strength for their traditional providers. "If a merchant is looking for someone to come in and help with multichannel challenges and information systems needs beyond payments, that doesn't necessarily line up with the banks and the ISOs," says Paterson.

Vantiv/Mercator research with ISOs, VARs, and ISVs highlights that potential gap. A majority of these providers said that they expect merchant interest in omnicommerce to grow over the next two years. But just 1 in 4 offer omnicommerce-related services, and only 30% say that they help merchants with omnicommerce. Similarly, these providers told researchers that they expect mobile payments to be important to merchants. However, the most commonly offered mobile payment type—cloud-based payments—is supported by only 41% of ISOs, VARs, and ISVs. Just 38% support contactless terminals, and 22% support POS mobile wallet programs. These findings suggest that there is still a lack of experience and skill in these key emerging technology-driven areas.

The picture is further complicated by merchants' changing expectations about what they need from technology, and what is possible. As noted above, they are beginning to look not just for payments per se, but for comprehensive business solutions. Going forward, then, payments are likely to coexist with other technologies and functions on the same platform. That in turn could give niche and specialty technology providers—with offerings for e-commerce, loyalty, and so forth—a prominent role in the eyes of the merchant. "The need for ancillary IT functions and omnicommerce could provide points of entry for new providers," says Paterson. "Over time, the merchants' relationship with providers could be defined by business technology support, as well as service and costs." And from that foothold, those providers could potentially expand into more and more offerings, including payments.

Competing on Technology

The growing emphasis on merchants' technology has the potential to change the competitive landscape. But it is by no means clear which providers will thrive in that environment. Banks and ISOs have critical strengths they bring to bear in this market. To defend their positions—and grow—they need to expand their offerings. "Things are changing, but at this point, the race is theirs to lose," says Mielke. "So they need to drive more into that technology space."

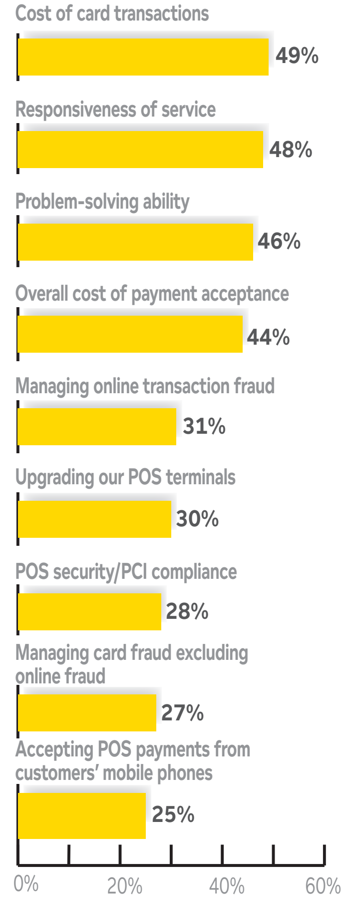
For many banks and ISOs, this will require the acquisition of new skills and, typically, collaboration with partners to bring more technology-based offerings to market. The list of possibilities is long: mobile rewards and couponing, e-commerce and omnicommerce capabilities, loyalty programs with email and text capabilities, analytics programs that provide marketing insights into customer behavior, and so on. As they continue to add functionality, they will increasingly compete with technology-oriented providers such as terminal providers, gateways, VARS, and ISVs—and lines will become even blurrier.

However, evolving technology is making it easier to provide such offerings in a streamlined, cost-effective manner that will work for smaller merchants. For example, scaled-down but still-robust versions of loyalty or rewards programs can be run without a costly enterprise technology infrastructure. And more broadly, cloud computing has the potential to put more sophisticated services within reach of smaller merchants. Providers can use the cloud to enable merchants to accept mobile payments or easily download apps for time and attendance, inventory, and so forth. The cloud also opens the door to providing merchants with the functions they need "as a service," delivered over the network for a regular fee.

The focus on technology also creates opportunities for providers to offer a broader range of services to merchants, many of which do not have the skills, time, or interest to implement and maintain technology. For example, merchants are likely to welcome assistance with the setup of new functions on tablets and the training of their employees to use those tools. The same is true of ongoing operations and maintenance services, from fraud monitoring and encryption to real-time transaction data reporting and automated terminal software upgrades.

Indeed, distinct opportunities are emerging for both ISOs and banks. To take advantage of the shift to technology, ISOs can extend their industry-focused experience to reach out to other industries that have an increasing need for specialized software with embedded payments, such as healthcare and property management. Perhaps

WHY CHANGE PRIMARY PAYMENT PROVIDER?



MOTIVATION FOR CHANGE

Smaller merchants say that it's difficult to switch payments providers—but cost and service top the list of factors that would prompt a change.

more important, they can cultivate a consultative relationship with merchants. Compared to the leasing of terminals, selling a broader set of technology-oriented offerings can lead to much deeper discussions about the merchant's business and the potential to provide more value-added offerings. All of this can help the ISO move beyond price-based competition and drive better merchant retention and stronger margins.

For their part, banks have an opportunity to differentiate themselves from other financial institutions and third-party providers, and strengthen their role as a primary provider of services to small merchants. With a broader technology-based portfolio, they can "occupy" more of the integrated platform used by merchants, and ultimately keep their brand front and center with merchants and consumers alike.

Small and medium-sized merchants represent tremendous untapped potential for financial institutions. Bundled, integrated technology-based offerings could give banks an attractive set of offerings to sell and cross-sell. With that in mind, recommends Royal Cole, president of Vantiv Financial Institution Services, "look at your technology-related payments business as a true business, not just an ancillary, 'me-too' kind of product offering. Look at it as a way to drive revenues; look at the costs involved; build a margin model; and take something to the market that will differentiate your institution from your competitors." To do so, institutions can bring together often-siloed products and programs from across the bank to create comprehensive packaged offerings for small merchants. "This is something banks should really contemplate," Cole adds. "In an era of margin erosion, low interest rates, and reduced non-interest income, it could give them a good way to do more business and increase revenues with these merchants."

No matter what providers call themselves—financial institution, ISO, ISV, or VAR—all should stay focused on delivering high-touch service while using technology to deliver more value, in more ways, to smaller merchants. Rather than simply providing commodity-like products and services, they can become partners that equip merchants to run their businesses. That can mean helping merchants improve efficiency, streamline payments, and automate tasks to reduce manual effort and paperwork. And it can mean enabling them to find, serve, and retain today's increasingly demanding omniconsumers. "By leveraging the shift to technology," says Mielke, "providers can help smaller merchants market themselves, increase customer traffic, and deliver the kind of customer experience needed to grow their businesses."

About Vantiv

Vantiv, Inc. (NYSE: VNTV) is a leading, integrated payment processor differentiated by a single, proprietary technology platform. Vantiv offers a comprehensive suite of traditional and innovative payment processing and technology solutions to merchants and financial institutions of all sizes in the U.S., enabling them to address their payment processing needs through a single provider. We build strong relationships with our customers, helping them become more efficient, more secure, and more successful. Vantiv is the third-largest merchant acquirer and the largest PIN debit acquirer based on number of transactions in the U.S. For more information, visit www.vantiv.com.

Source for all charts: Vantiv/Mercator Insights Research, 2014

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From eCommerce to Omnicommerce

vantiv

From eCommerce to Omnicommerce

HELP WANTED

As merchants dig deeper into eCommerce, they often find it can be complex and involve everything from payments and security to cross-channel integration. And Mercator research shows that this is changing what merchants want from technology and payments providers.

"Many merchants," says Mercator's Ken Paterson, "are looking for more consultative expertise to help them figure out where to go with eCommerce and provide them with forward-looking advice." That can mean helping with strategies, performance measurement, segmentation, analytic tools, and so forth. In a Vantiv/Mercator survey of webcentric retailers with sales of $2-$10 million, respondents ranked "problem solving" and "responsiveness" as more important than "total cost of payment acceptance."

Merchants also want better ways to access the technologies and skills needed to build and operate an online business. "They're looking for providers with a broad list of capabilities, such as fraud management and chargeback management," says Paterson—and they mostly want a single point of contact for getting help.

eCommerce has evolved and changed in recent years to become both more sophisticated and more powerful. And that has helped make it increasingly popular with consumers.

According to recent Vantiv/Mercator Insight Series research, eCommerce is now the most common way to research and shop for higher-value items. When it comes to items worth more than $50, for example, 57% of consumers said that they usually use the online channel to research and/or buy products—a 2 percentage-point increase from the previous year. Online shopping is especially appealing for high-value customers—such as higher earners (63%) and college-educated consumers (61%)—as well as young adult consumers (60%), a group that reflects tomorrow's mainstream consumer attitudes.

Merchants recognize that eCommerce is now a vital way to reach consumers. Online sales are growing faster than brick-and-mortar sales, so merchants are investing heavily in this area. But to succeed online, merchants have to bring traditional capabilities, such as returns and customer service, to the online world. They also have to know how to apply new technologies and techniques that can allow them to leverage customer data and quickly expand their reach into new markets.

Above all, merchants have to make eCommerce work as part of a larger omnicommerce strategy, and deliver a seamless, consistent experience across all channels. In particular, they have to link the fast-growing online channel with the brick-and-mortar channel—which still accounts for the lion's share of retail revenue—to drive sales in both channels.

The research shows that, too often, merchants are falling short in their efforts to meet online consumers' expectations. "They are focused on strengthening their eCommerce capabilities, but they also find that implementing eCommerce and integrating channels presents some pretty significant challenges," says Bill Weingart, president of eCommerce at Vantiv. "Often, they're a little overwhelmed." The key to getting past those challenges is to take a more strategic approach to understanding eCommerce—and then using that perspective to guide long-term efforts for building an effective, consumer-focused online business.

Where the growth is

Reports of online activity vary, but eMarketer estimates that retail eCommerce sales in the United States today are greater than $304 billion. That's still a small portion of the $4 trillion-plus in overall retail sales, but eCommerce is growing and is expected to account for more than $490 billion in sales by 2018.

Ongoing advances in technology will help drive that growth. For example, cloud computing makes it possible to securely store consumer payment information for online purchases, and makes it easier for vendors to provide cost-effective eCommerce capabilities to retailers. And as one might expect, the mobile revolution is playing a key role as well. Today, most consumers—8 out of 10—still tend to rely on their computers for online shopping. But 28% often use their smartphones to research products online, and 17% regularly use their devices to make online purchases. In fact, 60% of the survey respondents said that they have used their mobile phones at some point as part of the shopping experience. Young adults (ages 18-34) are more likely than average to use their smartphones to research (50%) and buy products (33%). Perhaps most telling, 86% of young adults have used their mobile phones at some point as part of the shopping experience.

Although retailers and the media have been paying a great deal of attention to mobile payments usage in stores, the use of mobile devices for payments online has also grown rapidly. The most common mobile payment method overall is now the use of stored payment data at online retailers. Use of mobile apps to pay an online retailer also more than doubled in 2014, with 16% of consumers reporting that they use this method, compared to 7% last year.

SALES IN U.S. (in $ billions)	eCommerce conducted via PC	eCommerce conducted via Web on mobile	POS sales via mobile device
2014	369.1	93.2	2.0
2015	410.8	110.7	3.3
2016	455.1	131.9	5.2
2017	501.4	156.2	7.9
2018	555.5	182.6	10.8
2019	614.4	216.9	14.8

Source: Mercator

Retailers' revenues reflect these consumer trends. According to eMarketer, overall retail sales are growing at just over 4% annually, but eCommerce sales are increasing by more than 15%. And for some retailers, online growth is even more robust. As one clothing retailer executive told the Vantiv/Mercator researchers: "Our growth rate for our eCommerce site for the past five years has been up to 40% annually, while our brick-and-mortar business has been relatively flat for the past two years. We are not adding more stores like we did in the past. The majority of our capital investment these days is in building a more robust online experience."

"Although physical stores still account for the vast majority of sales, retailers see growth and opportunity coming from eCommerce," says Weingart. "They tell us that they know they need to support eCommerce, but things are moving so fast, they're scrambling to keep up with the online channel."

THE TREND TOWARD MCOMMERCE

Consumers typically use their computers to shop online, but mobile commerce on the Web is playing a growing role—one far bigger than paying for goods at POS via a mobile device.

HOW DO YOU USUALLY SHOP FOR PRODUCTS $50+?

MIXING AND MATCHING

Consumers are most likely to shop online for higher-ticket items, but they are often combining channels—and even blending the online and brick-and-mortar worlds into a single experience.

Blending the online and offline worlds

The Vantiv/Mercator research also looked at consumers' attitudes and behaviors as they embrace eCommerce. When paying for online purchases, they are most likely to use a debit or credit card stored with an online retailer—cited by 51% of respondents, up significantly from 39% in 2013. That's a significant increase from the 39% who used this method last year. Stored data was followed by PayPal (47%) and entering credit or debit account numbers (45%).

Seventeen percent of consumers said they would be more interested in using a cloud account than a payment card for online payments.

As consumers embrace eCommerce, they are seeing it as one part of a larger shopping experience—not just shifting their shopping activity to eCommerce, but using it along with all other channels. These multichannel "omniconsumers" are quick to adopt electronic channels, but they are also very likely to keep using brick-and-mortar stores as well. Thus, while online research and purchasing is now the most common way to shop, 46% of consumers said they often conduct research online and then go to the store to purchase higher-value items. About the same number (47%) will use the very traditional approach of going to a physical store to both research and buy products.

At the same time, these omniconsumers are increasingly likely to combine their brick-and-mortar and eCommerce activity into a single experience. For example, 19% of consumers said that they often use showrooming techniques—seeing a product in a store, checking prices on their phone, and ultimately buying it online. Younger consumers are especially likely to showroom, with 27% saying they do so. And 7% of all consumers said that they have used a mobile app to read in-store barcodes and comparison-shop online.

Retailers are playing a role in driving this increased blending of physical and online shopping with their use of in-store tablets and kiosks that link to their eCommerce sites. "One-fourth of our eCommerce customers pick up in the store," one retail executive told the researchers. "Even when customers are in our store, they can search the POS terminal for inventory online and have it sent to the store for free or shipped home with a shipping charge. The connection from store to eCommerce is very valuable to us, as our customers don't have to leave our stores [without buying something] if we don't have the color or size in stock at the store."

The point is that eCommerce is by no means eliminating the brick-and-mortar store. Indeed, it is increasingly clear that the two channels can—and do—work in a complementary fashion. Even with the rapid growth of online business, "physical stores remain the foundation of retailing, evidenced by the fact that 90 percent of all retail sales are transacted in stores and 95 percent of all retail sales are captured by retailers with a brick-and-mortar presence," notes a recent report from the A.T. Kearney management consulting firm. "The store plays a crucial role in online purchases, as two-thirds of customers purchasing online use a physical store before or after the transaction. In these cases, the store makes a significant contribution to converting the sale, even though the transaction is eventually registered online."

As they operate in this world of multiple, blended channels, omniconsumers bring high levels of technological sophistication—and high expectations for convenience and a consistent, quality experience across channels. They are quickly frustrated by differences in pricing, products, and look and feel—and with eCommerce, they can quickly take their business elsewhere. Most merchants recognize this reality, and are increasingly focused on developing omnicommerce capabilities to work smoothly across channels.

"Customers want a seamless experience from one channel to another, from mobile to computer to in-store," said one home products retail executive. "We have been making a significant investment in developing the omnichannel experience over the past two years."

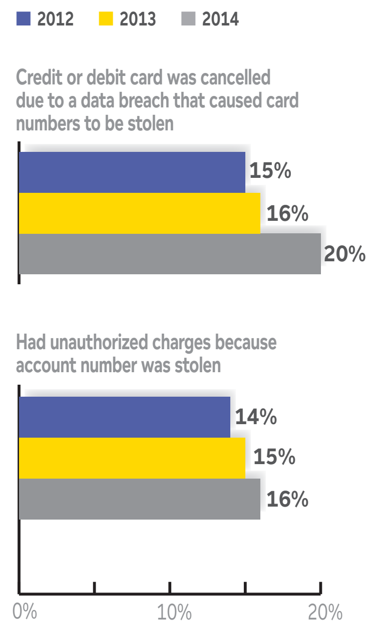
Even smaller merchants are now coping with the need to support omnicommerce. These merchants clearly operate in a multichannel world: In the Vantiv/Mercator research, 84% of those with sales of $2 million to $10 million said that they use online sales channels and 76% said that they have physical store locations—and about two-thirds said that omnicommerce is a key area of interest. Similarly, 52% of payments-focused ISOs in a recent Vantiv/Mercator survey said that they expect their merchant clients' interest in omnicommerce to grow over the next two years. "Over the years, eCommerce has brought greater speed and convenience to consumers," says Weingart. "Consumers are now expecting that same quality experience across the board, and merchants are working to deliver the right omnicommerce experience."

Understanding the eCommerce challenge

While the imperative for effective eCommerce and a good customer experience is clear, the research suggests that the way forward often isn't.

The reality is that eCommerce now calls for new capabilities and tools, compared to the traditional brick-and-mortar world—and that can be challenging for many merchants. "Simply accepting payments in an online environment requires different approaches to things like interchange, chargeback management, payments continuity, and dispute resolution," says Michele Herron, vice president for eCommerce Partner Sales at Vantiv. For example, a growing number of eCommerce retailers are moving toward subscription or installment-payment models. "Recur-

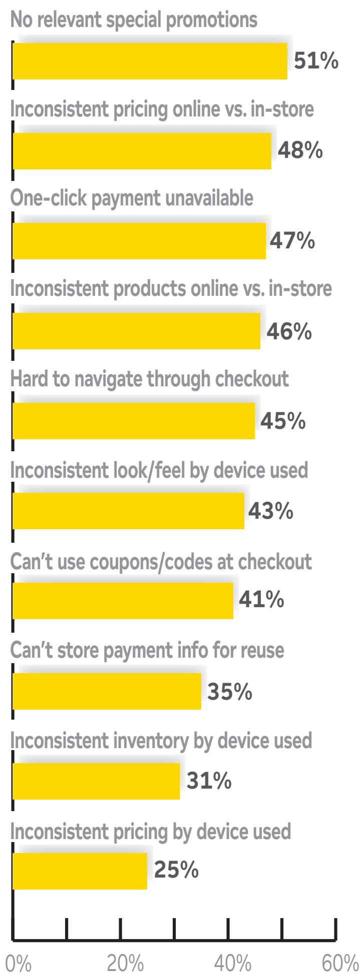
SECURITY ISSUES OCCURRED IN PAST YEARS



LOOKING FOR SECURITY

Online security is a worry for merchants—and for consumers, many of whom have now had firsthand experience with compromised financial data.

EXPERIENCES WHEN SHOPPING ONLINE
(sometimes or more often)



STICKING POINTS

Merchants sometimes struggle to deliver a seamless, frictionless online experience—and consumers are noticing.

ring billing is becoming more popular because retailers see it as a way to build a predictable revenue stream and increase sales, while also building relationships with customers and ultimately increasing customer lifetime value," says Herron. Such billing needs to be driven by sophisticated systems.

Security in the online environment also requires high levels of sophistication, and merchants see it as a vital issue. "After the high-profile breaches that took place late last year, demand from merchants for security-related solutions is much higher—even among merchants that have a relatively small percentage of card-not-present business," says Patty Walters, senior vice president, Merchant Product & Security at Vantiv. "They want EMV in their stores, and they want point-to-point encryption, advanced fraud detection capabilities, and tokenization that works across channels." At the same time, while EMV can help improve in-store, card-present security, merchants realize that it will do little to help with eCommerce security. Indeed, based on experience in other countries, they see that the rollout of EMV is likely to drive more fraud to the online world—which will only make sophisticated eCommerce security more important.

eCommerce presents new opportunities, as well—and these, too, often require new skills and technologies. For example, eCommerce produces a wealth of data about purchasing behavior, and analytics tools can help merchants mine that data for detailed financial reporting and insights, to understand customers and to provide real-time recommendations to customers online. eCommerce can also extend the merchant's reach. "If you are an eCommerce merchant, you are, by definition, a global merchant," says Greg Worch, senior vice president for eCommerce Sales at Vantiv. "By offering local currency pricing, you can achieve higher revenue by selling your goods and services into new markets and customer segments." He says that U.S. sellers looking for U.K. customers increased international sales by up to 25% simply by displaying items on their sites with prices in British pounds.

While sophisticated practices such as business intelligence and international pricing may not be relevant to every retailer, all must consider the increasing variety of devices in use by consumers. eCommerce interfaces will need to optimized for a variety of devices, such as phones, tablets, and laptops. "As customers switch from one device to another during the shopping process, differences across devices are likely to increase the incidence of shopping-cart abandonment," says Ken Paterson, vice president, research, at Mercator Advisory Group. And consumers are making full use of this proliferating array of devices. In the Vantiv/Mercator research, consumers said that they use an average of 3.5 devices at the same time when at home. Young adult consumers use an average of 4.4 devices simultaneously.

It's not just the customer-facing technologies that need to be integrated.

Merchants will also need to think about linking the back-end systems that support the fundamentals of eCommerce, such as reporting, order processing, fulfillment, and delivery. “Internal integration is as important as an integrated customer experience,” says Herron. Typically, that will mean getting different legacy systems to talk to each other and work in real time to meet the demands of eCommerce customers.

“It’s very hard to coordinate all the aspects of all the channels,” one consumer goods retail executive told the researchers. “It doesn’t sound hard, but ordering online for in-store pick up can be a real nightmare unless you know your inventory exactly, up to the minute. But many stores only balance inventory daily… so they don’t know what they’ve sold during the day. What if a customer drives all the way to the store just to find that the item he purchased is sold out? That doesn’t work.”

In short, succeeding with eCommerce in the age of the omniconsumer involves working on a lot of fronts—and it seems that merchants are often having difficulty doing that. For example, many are not taking advantage of the wealth of customer/purchasing data created in the online business. According to a Retail Touchpoints survey, just 23% regularly use real-time data to generate customer offers on a regular basis, and 30% do so infrequently.

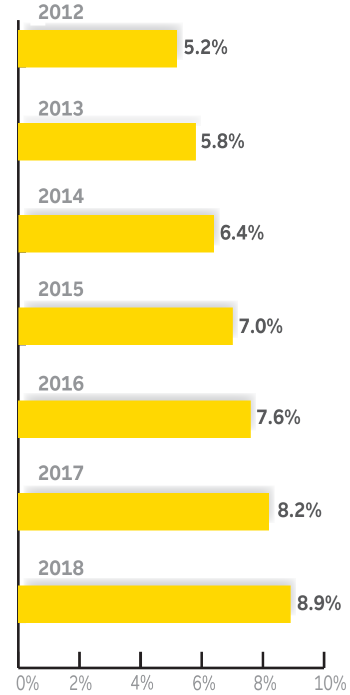
Many merchants seem to be having trouble delivering even the basics of eCommerce. In the Vantiv/Mercator research, 47% of consumers cited the lack of one-click checkout functionality, and 45% said that the checkout process was sometimes difficult to navigate. And it’s clear that today’s consumers have little patience with such snags. “We see that online, the more steps it takes from the time you see something and you know you want it to the time that you have to pay for it and fill out the info, the more likely customers are to abandon the cart,” said one discount retailer. “So we’re putting resources into that in order to improve conversion.”

Consumers cited other problems with the eCommerce experience. Forty-one percent pointed to the inability to use coupons or discount codes at checkout; 35% cited the inability to store payment information for future use; and 43% of consumers said that they have encountered an inconsistent “look and feel” at eCommerce sites, depending on the type of device used to access them. “Merchants are grappling with how to build out basic eCommerce, and at the same time make it work with all these other channels,” says Paterson. “In spite of all we hear about eCommerce, the feedback we get from merchants is they’re often just starting to make all this work.”

Think strategically, move incrementally

In essence, merchants understand the need for seamless, effective eCommerce—and omnicommerce—and they worry about falling behind the competition in the race to reach consumers

ECOMMERCE AS A PERCENTAGE OF ALL RETAIL SALES



Source: eMarketer

ECOMMERCE: ROOM TO GROW

eCommerce is growing rapidly, but brick-and-mortar sales are still dominant—meaning that retailers need to blend and leverage both channels.

online. But changing their intricate networks of systems and suppliers can be daunting. Many retailers have different vendors for each part of their supply chain, including gateways, shopping carts, subscription billing engines, call centers, and fulfillment houses.

"Merchants tell us that they see eCommerce in the omnicommerce context as a big, expensive, multi-year commitment, and knowing how to proceed can be difficult," says Paterson. However, research points to several areas where improvements have the potential to pay off sooner rather than later. For example, mastering the basics of online shopping and payments, such as streamlined checkout, is likely to reduce the numbers of consumers abandoning their carts or taking their business elsewhere. And continued integration is critical, because it is key to both the seamless upfront experience that omniconsumers demand, and to meeting their expectations for product availability, delivery, customer service, and so forth.

With the multifaceted nature of eCommerce, merchants need to draw on a variety of technologies and take a coordinated approach to those technologies. "Merchants want more than short-term, isolated solutions—but they know that they can't do it all at one time," says Paterson. However, they also can't move ahead in a blind, piecemeal, and ultimately ineffective fashion. Thus, they need to begin with a long-term strategic view of the customer experience they want to deliver and how they can deliver that experience. That, in turn, can provide a road map for moving ahead incrementally, gradually building greater and greater eCommerce sophistication under the guidance of a strategic framework. "Many retailers are tackling one channel at a time, making it consistent, and then moving on to the next issue. Others are shifting their business to an integrated provider that can redesign in a more rapid, turn-key manner," Paterson says.

At the same time, merchants will need to be flexible and ready to take advantage of new technologies and approaches as they emerge—and then keep plugging those developments into their strategic plans. And they will need to keep an eye on ever-rising customer expectations. "With eCommerce, you have the opportunity to really engineer the customer experience," says Weingart. "As merchants are finding, that can be a lot of work—but it can be key to building loyalty and profitability as eCommerce continues to grow."

About Vantiv

Vantiv, Inc. (NYSE: VNTV) is a leading, integrated payment processor differentiated by a single, proprietary technology platform. Vantiv offers a comprehensive suite of traditional and innovative payment processing and technology solutions to merchants and financial institutions of all sizes in the U.S., enabling them to address their payment processing needs through a single provider. We build strong relationships with our customers, helping them become more efficient, more secure, and more successful. Vantiv is the third-largest merchant acquirer and the largest PIN debit acquirer based on number of transactions in the U.S. For more information, visit www.vantiv.com.

Source for all charts except pages 3 and 7: Vantiv/Mercator Insights Research 2014

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