The Intersection Of Payments And Commerce In A Digital World

Merchants Must Educate And Serve Customers With Full-Featured Digital Wallets
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Executive Summary

The digital and mobile payment evolution has enhanced the way merchants engage with and reward customers: digital wallets.

A digital wallet payment is a non-cash payment that allows customers to make purchases from their smartphones or other devices by acting as an electronic wallet, digitizing payment information. Digital wallets are not just a convenient payment method for consumers; they are also a way for merchants to engage with their customers in a more meaningful way. They are, in fact, a new and powerful marketing and loyalty platform.

To better understand the role of digital and mobile payments and to unearth insights that can help merchants prepare for tomorrow’s payment strategy opportunities, JPMorgan Chase commissioned Forrester Consulting to assess the current state of digital payments from both a consumer and merchant perspective. Conducted in the fall of 2016, the studies consisted of a quantitative survey of 1,500 18+ US consumers who go online at least weekly, and a survey of 804 merchants across a variety of industries who are responsible for their company’s payment decisions.

KEY FINDINGS

› Digital wallet adoption is coming, but the road is slow and bumpy. Awareness, understanding, and adoption among consumers is low, while merchants see the need to modernize their payment technology. Merchants face a host of challenges in doing so, but should do it for the right reasons.

› Despite slow adoption, consumers like the idea of digital payments and wallets. Consumers have a more favorable perception of businesses that accept a variety of payment types. The payment types a merchant accepts affects consumers’ willingness to shop at that business. And while not familiar with all the possible features of a digital wallet, consumers expressed interest in and preference for the possibilities listed in the survey.

› Merchants will be critical to driving customer adoption. Merchants report greater knowledge with digital wallet technology than consumers. As the ones who control the checkout experience, they should educate consumers on the value of these digital payments. But to do so, they must offer integrated wallet features that are easy to use and provide clear benefits to consumers.
So, Why Haven’t Digital Wallets Taken Off?

The evolution in digital payments has resulted in the emergence of digital wallets. A digital wallet system is a platform for noncash payments that allows customers to make purchases from their smartphones or other devices by acting as an “electronic wallet,” digitizing payment information. Digital wallets have clear benefits for consumers. They reduce the need to carry cash and physical cards and remember multiple passwords and PINs; they leave an easy-to-manage digital transaction trail; they can speed up the check-out process; and they often include value-added services. Digital payment methods also offer merchants a treasure trove of data to enable personalized offers and experiences that consumers demand, such as loyalty programs. Merchants can make the payment process faster and more efficient in fast-paced environments like restaurants and retail stores.

But despite lots of interest and attention, consumers haven’t yet adopted digital wallets in droves. Results from the study and Forrester’s payments research show that digital wallet adoption among both consumers and merchants today is generally low. Just 36% of merchants in our survey report that they currently accept digital wallets, and only 16% of consumers have used them. What’s going on?

In terms of interest and attention, the study found that as the line between offline and online commerce blurs, consumers tend to prefer a variety of payment options, including digital payment channels. Of the consumers surveyed, 35% say they shop and pay for goods and services from a computer at least weekly, and approximately 30% say they use either a smartphone web browser or mobile application with the same frequency (see Figure 1). This is a natural follow-on to using smartphones in stores to compare prices, research product information and reviews, and access shopping lists, coupons, gift cards, and loyalty points.1

The survey of consumers found several factors that appear to inhibit digital wallet adoption, including:

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Figure 1

“How often do you shop for goods or services and pay for them from each of the following devices?”

(Several times a day, at least daily, or at least weekly shown)

<table>
<thead>
<tr>
<th>Device</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer</td>
<td>35%</td>
</tr>
<tr>
<td>Mobile web browser</td>
<td>30%</td>
</tr>
<tr>
<td>Mobile app</td>
<td>29%</td>
</tr>
</tbody>
</table>

Base: 1,500 18+ US consumers who go online at least weekly
Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, October 2016
Consumers in our study were fairly traditional in their payment preferences. Sixty-two percent say they prefer to pay with debit or ATM cards, 53% prefer cash, 46% prefer credit cards, and only 15% prefer digital wallets. While 69% of self-reported digital wallet users say they prefer using digital wallets (and 41% use them weekly or daily), just 4% of nonusers express interest in them.

Nonusers of digital wallets are concerned about security. Even though consumers are embracing technology in all areas of their lives, there are some technologies they are more cautious of: “banking, investing, and managing money online” was the technology they were most likely to say had to be “tried and true.” Fifty-two percent also listed “more security features” among the top two things that increase their use of mobile and digital wallets. Of those who have not used digital wallets at all, 46% cite security as a reason why.

Consumers’ awareness and understanding of digital wallets is low. Helping consumers understand digital wallets is critical. Just 38% describe themselves as informed about digital wallets and less than a third were aware of specific features other than “faster checkout.” Features with both high awareness and high appeal were “faster checkout,” “rewards points,” and “ease of use.” Features with high appeal but lower awareness include: “discounts at purchase,” “cash back/statement credits,” “more security features,” and “coupon/offers storing and redemption,” among others (see Figure 2). Offering another way to pay is not going to be enough to attract users. Merchants need to educate consumers about value-added services that extend beyond the payment moment to create opportunities for closer engagement with their customers.

Consumers don’t think merchants accept digital wallets. Nearly a quarter of respondents to the consumer survey say they don’t believe the merchants they shop at frequently accept digital wallets. Thirty-two percent of consumers cite “more acceptance locations” among the top two things that would increase their use of mobile/digital wallets the most. As digital wallets gain traction, the chances of seeing someone pay using this payment type will increase significantly. And with that, more consumers are likely to expect merchants to offer these payment options.

Relative to the types of payments they actually accept, merchants in our study estimate they’re falling short of providing the payment types they believe their customers expect. While just 36% currently accept digital payments, half believe their customers expect them to, and just 13% would describe the rate at which they’re evolving with the latest payment technologies as “cutting edge.” And merchants have their own set of challenges, such as:
› **Merchants (large and small) struggle to modernize their payment systems.** Smaller merchants (less than $20 million in annual revenue) were more likely to be challenged by upgrade costs, concerns over customer demand, and not knowing what they would need to do to get started accepting digital wallets. Larger merchants were also challenged by costs and are much more likely to be challenged by integration issues. About one-fifth of both groups cite too many competing operational priorities (see Figure 3).

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**Figure 2**

<table>
<thead>
<tr>
<th>Lower Awareness, Higher Attractiveness</th>
<th>Higher Awareness, Higher Attractiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Discounts at purchase</td>
<td>• Pay in aisle/skip the line</td>
</tr>
<tr>
<td>• Cash back/statement credits</td>
<td>• Gift card storing/redeemption</td>
</tr>
<tr>
<td>• More security features</td>
<td>• Rewards point</td>
</tr>
<tr>
<td>• Coupon/offers storing &amp; redemption</td>
<td>• Faster checkout</td>
</tr>
<tr>
<td></td>
<td>• Ease of use</td>
</tr>
<tr>
<td></td>
<td>• Convenience, less to carry</td>
</tr>
<tr>
<td></td>
<td>• Multiple payment types offered</td>
</tr>
<tr>
<td>Lower Awareness, Lower Attractiveness</td>
<td>Higher Awareness, Lower Attractiveness</td>
</tr>
<tr>
<td>• Order ahead</td>
<td>• Digital receipts</td>
</tr>
<tr>
<td>• Pay at table</td>
<td></td>
</tr>
<tr>
<td>• Notification on balances, expirations</td>
<td></td>
</tr>
<tr>
<td>• VIP experiences</td>
<td></td>
</tr>
<tr>
<td>• Sales/event notifications</td>
<td></td>
</tr>
</tbody>
</table>

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**Figure 3**

“When thinking about updating your POS or eCommerce system to offer the latest digital wallet solutions, what are the biggest barriers?”

(Select all that apply)

<table>
<thead>
<tr>
<th>Large Business ($20M+)</th>
<th>Small Business (&lt;$20M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The upgrades would be costly</td>
<td>35%</td>
</tr>
<tr>
<td>My customers aren’t asking for it</td>
<td>24%</td>
</tr>
<tr>
<td>Integration to my current system would be difficult</td>
<td>30%</td>
</tr>
</tbody>
</table>

Base: 1,186 18+ US consumers who go online at least weekly who do not describe themselves as completely unlikely to try digital wallets over the next 12 months

Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, October 2016

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Base: 804 US professionals responsible for their organization’s payments strategy

Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, October 2016

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Merchants have not taken a lead in informing their customers about digital wallet security. Digital wallets are more secure than consumers believe as there are no cards to lose or get stolen, personal information is encrypted, and other recent advances, including biometric authentication, allow for even more security. Merchants need to communicate the safeguards in place to their customers. They can also foster more trust by partnering with well-known brands: 64% of consumers told us that an association with a well-known, trusted brand would entice them to use a digital wallet.

Merchants who see digital wallets as just another payment method are missing the mark. The real potential of digital wallets lies beyond payments. Merchants can make intelligent use of data from digital wallet use and pair it with internal data to drive contextually relevant offers on mobile devices. In this way, digital wallets give merchants and marketers an intimate channel for interactive engagement, and a way to deliver on (and even exceed) their customers’ expectations.

Despite Some Caution, Consumers Like The Idea Of Digital Wallets

The challenges identified by the study are balanced by responses that indicate interest in digital wallet use. In the coming years, Forrester predicts digital wallets will take off, because savvy merchants and marketers will begin using them as platforms to engage consumers throughout the entire customer life cycle, not just the purchase phase. Those who prepare for this vision today will have access to a powerful lever they can pull to drive traffic to company websites and to the physical store tomorrow.

The timing of the digital wallet tipping point is difficult to pinpoint; however, it is coming, and has the potential to be highly disruptive. Forrester predicts that over the next two to three years, US mobile users will spend $142 billion via mobile payments, up from $52 billion spent in 2014, and as many as 20% those consumers will be using digital wallets on their smartphone. Our study’s respondents report even more bullish estimates for the next five years: 69% of merchants say they’ll be accepting the majority of their payments using a digital wallet, and 41% of consumers say they’ll be making the majority of their payments with them, an increase of 33 and 25 percentage points from current levels, respectively (see Figure 4).

Equally compelling are results from our consumer study that reveal a positive relationship between the payment options a merchant offers and consumers’ willingness to patronize that business: 83% say that payment options in general have at least some impact on their willingness to buy from a business, and nearly a quarter describe that impact as large. Digital wallet acceptance in particular also has a meaningful influence: 63% say being able to use a digital wallet has at least some effect on their willingness to buy from a business, and for nearly one-fifth of respondents, that impact is significant (see Figure 5).
Figure 4
“How do you believe you will be accepting/making the majority of your payments 5 years from now?”
(Select all that apply)

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>Merchants</th>
<th>Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit or ATM card</td>
<td>56%</td>
<td>54%</td>
</tr>
<tr>
<td>Credit card</td>
<td>69%</td>
<td>43%</td>
</tr>
<tr>
<td>Cash</td>
<td>37%</td>
<td>43%</td>
</tr>
<tr>
<td>Digital wallet</td>
<td>69%</td>
<td>41%</td>
</tr>
<tr>
<td>eCheck/ACH</td>
<td>27%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Base: 804 US professionals responsible for their organization’s payments strategy and 1,500 18+ US consumers who go online at least weekly
Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, October 2016

Figure 5
"How much impact does the type of payment a business accepts have on your willingness to buy from that business?"
"How much impact does being able to use a digital wallet with a business have on your willingness to buy from that business?"

<table>
<thead>
<tr>
<th>Impact</th>
<th>Large or very large impact</th>
<th>A little or some impact</th>
<th>No impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;How much impact does the type of payment a business accepts have on your willingness to buy from that business?&quot;</td>
<td>17%</td>
<td>24%</td>
<td>59%</td>
</tr>
<tr>
<td>&quot;How much impact does being able to use a digital wallet with a business have on your willingness to buy from that business?&quot;</td>
<td>37%</td>
<td>17%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Base: 1,500 18+ US consumers who go online at least weekly
Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, October 2016
Other factors include:

- **There is a steady increase in adoption of digital and mobile shopping.** Thirty percent of consumers are now shopping and paying for goods and services on their mobile device on a weekly basis.

- **Digital- and mobile-savvy customers are often a merchant’s most attractive customers.** Thirty-five percent of digital wallet users report annual income over $75,000. Current digital wallet users have attributes that make them ideal “mavens” for friends, relatives, and colleagues who are digital “wallflowers,” including being leaders in adopting and sharing technology and being incented by the engagement features of digital wallets (see Figure 6).

- **While they don’t know when adoption will happen, merchants and consumers see the inevitability of digital wallets.** While consumers are more cautious about how they will be paying for goods and services five years from now, both merchants and consumers believe they will see a significant increase in digital wallet adoption.

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**Figure 6**

**Profile of a digital wallet user**

- **Technology and lifestyle**
  - Technology is important to me
    - Digital wallet users (n=246): 74%
    - All others (n=1,254): 47%
  - I like to be connected at all times
    - Digital wallet users (n=246): 71%
    - All others (n=1,254): 42%
  - I like trying new applications on my mobile phone
    - Digital wallet users (n=246): 68%
    - All others (n=1,254): 34%
  - People often come to me for advice on new technology or gadgets
    - Digital wallet users (n=246): 55%
    - All others (n=1,254): 25%
  - I’m usually the first of my friends to try out a new technology
    - Digital wallet users (n=246): 55%
    - All others (n=1,254): 24%
  - I don’t like carrying cash
    - Digital wallet users (n=246): 54%
    - All others (n=1,254): 33%

- **Demographics**
  - Male: 63%
    - Digital wallet users (n=246): 48%
    - All others (n=1,254): 27%
  - 25-34 years old: 39%
    - Digital wallet users (n=246): 22%
    - All others (n=1,254): 16%
  - $75,000+ annual income: 35%
    - Digital wallet users (n=246): 16%

- **Buying behavior**
  - 41% use digital wallets weekly or daily.

- **More likely than others to be incented by:**
  - Faster check-out: 46%
    - Digital wallet users (n=246): 30%
    - All others (n=1,254): 27%
  - Ease of use: 46%
    - Digital wallet users (n=246): 25%
    - All others (n=1,254): 20%
  - Pay in aisle/skip the line: 34%
    - Digital wallet users (n=246): 20%
    - All others (n=1,254): 12%
  - VIP experiences: 30%
    - Digital wallet users (n=246): 12%

Base: 1,500 18+ US consumers who go online at least weekly
Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, October 2016
Merchants Must Lead The Way

It is clear that both consumers and merchants need to overcome barriers both real and perceived in order to take full advantage of the promise of digital wallets, both as a means of payment and as a richer, more digital way to engage with each other.

Merchants who aspire to tap into this digital payment opportunity need to overcome their customers’ adoption barriers by educating them and offering value beyond the transaction. From the data in the study and Forrester’s own research, Forrester Consulting believes merchants can help drive adoption of digital wallets in the following ways:

› **Merchants need to offer value-added services before, during, and after the payment moment.** The features that consumers find most attractive about digital wallets are ones that drive economic and experience benefits to them. The top three features that would incent consumers to use digital wallets were rewards points (36%), discounts at purchase (35%), and faster checkout (32%).

› **Helping consumers understand digital wallets will be critical:** Just 38% of consumers describe themselves as informed about them. Consumers report very low awareness for many digital wallet features – less than a third are aware of specific features other than “faster checkout.” But they find a few of these new-to-them features attractive, including discounts at purchase, cash back/statement credits, added security features, and coupon/offers storing and redemption, among others.

› **Merchants must utilize digital wallet platforms as a marketing and engagement tool.** Taking full advantage of the commerce features and data capabilities of digital wallets means merchants can better serve and engage their customers. And in the age of the customer, that could be the difference between surviving and thriving.
Key Recommendations

Growing mobile adoption and the desire for more meaningful shopping experiences among consumers create fertile ground for digital wallets to take root. To get started, merchants should consider the following:

**Give customers what they want.** Consumers want convenience, simplicity and speed, security, and value-added rewards and benefits. Merchants and their payment technology and processing partners who pay attention and offer these benefits will gain consumers’ business. Partner with digital wallet providers that can deliver this value to your business.

**Upgrade systems to accept digital payments.** The road to digital wallet adoption for merchants is potentially challenging, but over the next 12 months, most merchants will already be on their way. To stay in the game, merchants will need to upgrade their customer-facing systems to accept digital payments, including point of sale, mobile apps, and mobile websites.

**Educate employees and customers.** Merchants in our research report greater awareness of digital wallet technology than consumers, but they still feel they have things to learn. And since merchants control the checkout experience, they have the opportunity to educate consumers on the value of digital wallets. Focus messaging on communicating value-added benefits and what security safeguards are in place to protect against fraud. In addition, let consumers know the ways in which their personal data will be used to better serve them.
Appendix A: Methodology

In this study, Forrester conducted an online survey of 1,500 18+ US consumers who go online at least weekly, and a survey of 804 merchants across a variety of industries who are responsible for their company’s payment decisions. The surveys’ purpose was to better understand the role of digital and mobile payments and to unearth insights that can help merchants prepare for tomorrow’s payment strategy opportunities. Questions provided to the consumers asked about their use of technology and digital payments and their awareness of and propensity to use digital wallets. Merchants were asked about their perception of consumers’ use of digital payments and their own awareness and use of payments technology. The study began in August 2016 and was completed in October 2016.

Appendix B: Supplemental Material

RELATED FORRESTER RESEARCH


Appendix D: Endnotes