

# Powering competitive advantage through payments

Whatever your growth ambitions for 2024, payments technology will help you realise them faster.

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FREEDOM.PAY



# Foreword

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## **Melinda Roylett, Managing Director, Merchant Services, Lloyds Bank**

The way we pay has undergone rapid shifts in the past few years. Accelerated by the pandemic, technological advancements and innovative ways of using open banking, have led to the increasing adoption of contactless, digital wallet solutions and embedded finance options such as Buy Now, Pay Later. Consumers now have more choice than ever. This means that businesses also need to think about how they use the payment experience at checkout to build business growth. That's why Lloyds Bank is excited to collaborate with FT Longitude and our partner FreedomPay on this research, which addresses the payment challenges and opportunities across small and medium businesses.

Lloyds Bank offers a range of solutions to help your business navigate the opportunities available. I trust you find the insights in the report useful to help shape your payment strategy today, and into the future.



## **Christopher Kronenthal, President, FreedomPay**

Businesses in the UK are consistently adjusting to an ever-evolving payment landscape, characterised by emerging new technologies, regulatory changes, and potential risks. This report highlights the wealth of possibilities available to merchants and shows the need for consumer-centric commerce. In other words, it's now table stakes to offer smooth consumer transactions, personalised checkouts, tailored offers, and detailed data analytics. By adopting FreedomPay's world-class payment technology, merchants can have the confidence and peace of mind to deliver a seamless and secure payment environment.



# Introduction: Customers are evolving their expectations and driving a new era in payments

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2024 could hold exciting opportunities for UK businesses. With inflation slowing and the prospect of interest rate reductions to come, the pressure on consumers is finally easing off.<sup>1</sup>

Confidence has bounced back from the lows of 2023, according to the GfK Consumer Confidence Survey,<sup>2</sup> and February saw the biggest monthly rise in online sales since July 2023.<sup>3</sup>

But the results of this recovery aren't going to be shared equally between all businesses. The real winners will be the ones that build loyal customer relationships based on a secure and seamless service.

The payments experience is what will mark out these winners from the rest. It's the businesses that offer customers more choice of how to pay, with no compromise on security, that will come out on top.

It's difficult to overstate the size of the payments opportunity. As consumers start to feel confident about spending more – whether that's online or in person – businesses will have to modernise their payment systems to take advantage.

<sup>1</sup> UK inflation falls as food and eating out costs ease – BBC News

<sup>2</sup> UK consumer confidence down two points to -21 in February – GfK

<sup>3</sup> Retail sales, Great Britain: February 2024 – GOV.UK



# New research from Lloyds Bank and FreedomPay shows us what's at stake here – and how businesses can build customer loyalty by providing payments choice.

Based on a survey of 300 senior executives from UK businesses in the retail, food and beverage (F&B), and hospitality sectors, it finds that there are three ways to create a successful payments strategy:



## About this research

This report is based on a survey of 300 senior business leaders from across the UK that was carried out by FT Longitude in the first quarter of 2024.

The business leaders' organisations were split equally between the retail, food and beverage, and hospitality sectors, and between small and medium-sized enterprises (defined as having annual turnover of between £250,000 and £6.49m), mid-sized corporations (with turnover of between £6.5m and £24.99m) and larger enterprises (with turnover of £25m or more).

# 1. How to provide flawless experiences

Today's customers expect the process of paying for goods and services to be flawless – and they want to be able to pay in whatever way suits them best.

Businesses that don't give customers a smooth and painless payment experience can't expect them to come back; many customers might not even bother to complete the transaction.

Business leaders are recognising this. More than half of the senior business leaders in our research (59%) say that

providing customers with a good checkout experience is as important to competitive advantage as offering the best products. In the F&B sector, it rises to 64%.

Business leaders worry that customers will walk away if they experience problems when paying, particularly when they're online.



We spend a lot of time looking at conversion rates of our online platforms, and the more ways we can give customers to pay, the higher that conversion rate. We therefore take as many payment types as possible, with as little friction as possible.

**Alessandro Savelli, Founder and Managing Director of pasta delivery company Pasta Evangelists**



Alice Rivers-Cripps, the Founder and Creative Director of handmade jewellery brand Posh Totty Designs, agrees. “We want customers to be able to pay as quickly and efficiently as possible, without any kind of issue,” she says. “Having more options at your fingertips is brilliant for the customer, and ultimately means we get the sale that we potentially wouldn’t get without that choice.”

And even if sales do go through, customers remember any friction they experience when paying, and may go somewhere else in future because of it. Executives know this is a risk: 57% of the business leaders in our research say that a poor payments experience could push their customers towards their competitors.

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This means that many organisations now need to update their payments strategy. Two-thirds of the business leaders in our research (65%) say they’re now putting payments transformation at the heart of their customer experience strategy.

“This is a mindset shift that makes it more important than ever to find the right partners,” says Hayley Henshaw, Director of European Partnerships at FreedomPay. “The conversation around payments is always changing,” says Henshaw. “And that’s why it’s critical for a merchant and any of our partners to choose the right payment partner.”

## Payments are a crucial part of the customer experience



Payment transformation is at the heart of our customer experience strategy



Transforming the way we accept payments would help us meet our wider business objectives



A good checkout experience is as much of a competitive advantage as having the best products



A poor payment experience is enough to make a customer shop/eat/spend elsewhere in the future



Providing seamless and convenient payments options for customers is a major priority for our business

## Speed, simplicity and the digital payment future

One crucial tactic is to get ahead of customers' changing expectations and preferences, which means staying on top of trends and offering every payment type they might want to use. In our research, businesses say that contactless payments are now almost as popular with customers as traditional card payments.

In this new world, the desire, and need, of many businesses to transform is being driven by trends such as the exponential rise of digital wallets, ranked as the third-most popular payment type. Other recent research from **FreedomPay**<sup>4</sup> has found that 17% of retail, leisure and hospitality spending in the UK is currently made through digital wallets. By 2033, it predicted, this will increase to 40% – the equivalent of £210bn a year.

“I don't know any businesses that take cash only now,” says Andrew Goodacre, CEO of the British Independent Retailers Association (BIRA). “Retailers recognise that more people want to pay by card, more people want to pay using the wallets on the phone, and they have got the technology that allows them to do that.”

Buy Now, Pay Later (BNPL) options, or embedded finance solutions, allow customers to spread the cost of purchases over a period of time; these can also open up new customer segments for certain products and services. More than one in four consumers were expected to use BNPL over the Christmas period at the end of last year, according to Citizens Advice.<sup>5</sup> But to provide BNPL, the business must have regulatory expertise, which is another reason why a knowledgeable payments partner could be very valuable.

“Customers want it – particularly if it's interest free,” says Jack Sutcliffe, Co-Founder and CEO of shed manufacturer and supplier Power Sheds. “We have to become FCA-regulated, which is a process we're going through. And we have to pay the interest, which is why we've avoided it in the past. But if you look at Google data, searches to buy sheds with finance have increased massively over the last few years.”

And with new innovations such as open banking<sup>6</sup> also starting to gain traction, changes in the payment landscape show no signs of slowing down.



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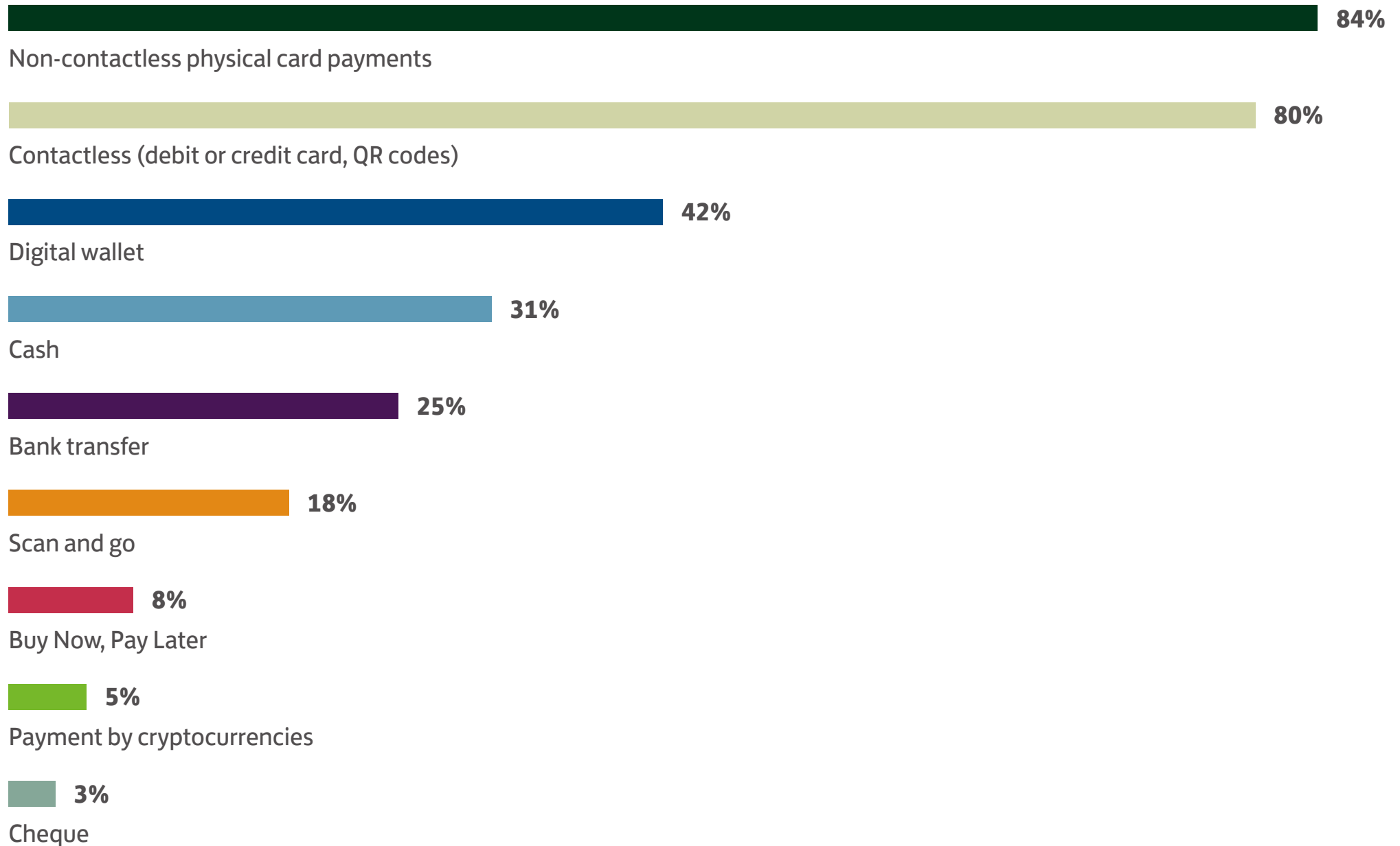
**Andrew Goodacre, CEO of the British Independent Retailers Association (BIRA)**

<sup>4</sup> UK Digital Wallet Transactions Set to Surge Ahead of All Other Payment Methods – GlobeNewswire

<sup>5</sup> 15 million people likely to use unregulated Buy Now Pay Later to help ease seasonal spending – Citizens Advice

<sup>6</sup> What is Open Banking? – Open Banking

## Payment types ranked by popularity with UK customers





## 2. How to build enduring loyalty

Modern payments technologies give businesses an edge as they seek to form stronger and more personal relationships with customers.

Both online and in-store transactions generate a wealth of data that businesses can capture through their payments infrastructure. Retailers and businesses able to draw on accurate data insights can be far more responsive to their customers' needs. Their advantage is they understand their customers better: how and why they make purchasing decisions, where their preferences lie, and what will keep them coming back. And businesses can also use this data to increase customer acquisition.

While the pandemic accelerated the rise and reliance of online payments, customers have made it clear that they prefer digital payment options. However, merchants still need to better understand their customers' intentions throughout the customer journey.



Payments themselves are just the entry point to the whole conversation. It's much more around data and loyalty, and how using that payment information can help you grow your business and really get to know your customer.

Hayley Henshaw, Director of European Partnerships at FreedomPay



“Customers who previously would have gone into a store, now might prefer to shop from the convenience of home,” adds Scott Przybyla, VP of Channel Sales for Kount, an Equifax Company. “Merchants can use data and payment details to fuel marketing initiatives that drive customers back to the business and streamline payment processes to ensure smooth, secure customer experiences.”

Many businesses now understand that payments data helps them to define their growth strategies with more precision and to make better decisions. For example, about 8 in 10 organisations say they’re using payments data to build profiles of their customers, allowing them to create tailored promotions, perks and offers. And a significant number are exploring similar opportunities in their marketing strategies and product development plans.

“With the right payments provider, there are lots of ways you can use payments and purchase data to inform marketing decisions, user experience decisions and operational decisions,” says Graham Farrugia, Chief Product Officer at Pasta Evangelists. “For example, it may be that people who spend money on certain items have a higher propensity to buy other types of items. That informs our merchandising decisions, partner conversations, and where we might go next to target new audiences.”

## Connecting the data dots – in-person and online

The value on offer here is considerable, but building payments systems that seamlessly integrate with customer relationship management (CRM) and enterprise resource planning (ERP) software isn’t always straightforward. And that’s particularly true for businesses that are trying to manage both online and in-person sales.

Business leaders are worried about the interplay between their physical and virtual sales:

- Only 27% are very confident that they offer seamless payments experiences across physical and virtual channels
- One in five (21%) say that offering a coherent omnichannel experience is one of their greatest concerns when it comes to payments acceptance

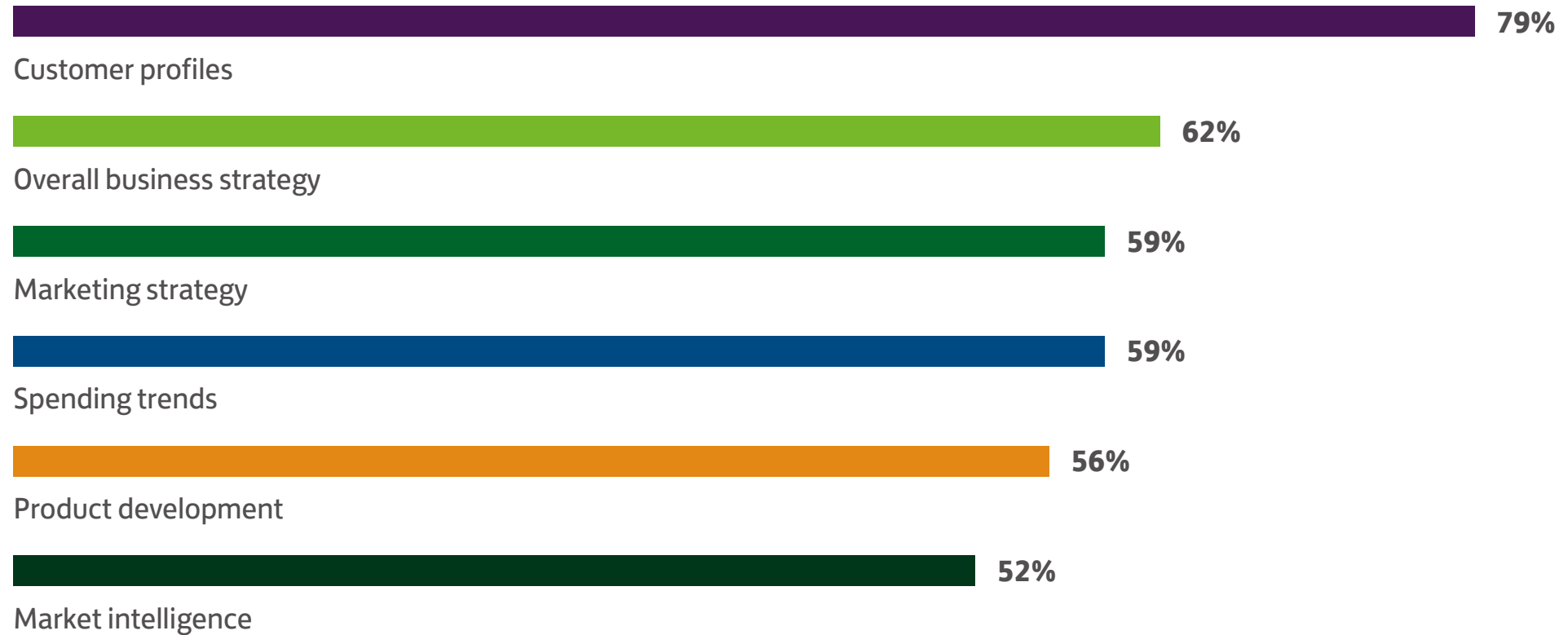
“We’ve chosen providers to offer the best integration to our website,” says Power Sheds’ Sutcliffe. “For example, one thing we’ve prioritised is that if someone’s putting through an order, they can do it within the website, whereas other acquirers make you leave the website and go to a secure payment page.”



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**Graham Farrugia, Chief Product Officer at Pasta Evangelists**

## How businesses are using payments data



### 3. How to sustain value and trust

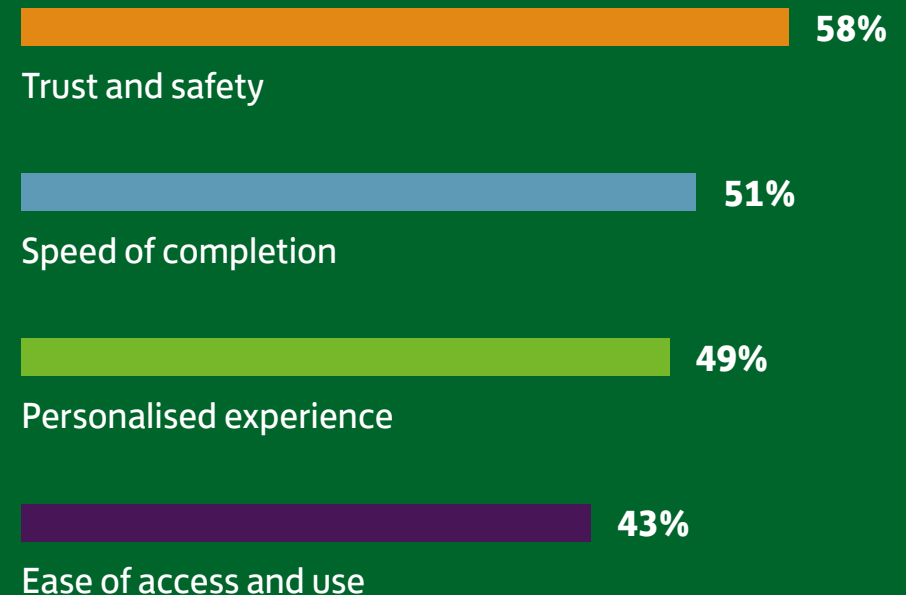
Businesses are right to focus on using payments systems to improve experience and drive loyalty. But, above all, they must make sure that every payment is reliable and secure – and that customers can see this.

Security is about more than just fraud prevention. Customers obviously expect businesses to protect them from any risk of financial loss, but they also have other concerns such as privacy.

Most businesses are focusing on these issues. In our research, business leaders say trust and safety are the factors that are most important to their customers when they make payments.

Almost three-quarters of business leaders (73%) say it's more important to get payments security right than to offer an exciting customer experience. These two goals aren't mutually exclusive, of course, but safeguarding security provides the right foundation on which to build the best experience.

#### What matters most to customers when making payments





Posh Totty Designs' Rivers-Cripps agrees that security has to be businesses' top concern. She has changed her payments partner in the past in order to prioritise customer data privacy. "We realised that we're much more concerned about our security levels than we are about the aesthetics," she says. "So, we moved over to a new payment system and we've been so much happier. We're no longer taking that information and keeping it ourselves, so it's much easier."

Businesses understand that the price of a security failure, and of just the sense that a failure is possible, is likely to be high: 71% say that a customer who doesn't feel secure when transacting with a business is likely to never return.

In this sense, payment security is more than just a 'hygiene factor'. It's the foundation for every customer relationship. All of the potential benefits of investing in modern payments systems will be undermined by a lack of customer trust.

Security is another area where the right payments partners can help businesses. As well as offering security benefits within their solutions, such as authentication methods and data encryption, they can offer advice and support to make leaders more confident.

Businesses can also improve overall security and fraud prevention by utilising data. With the right data, businesses can establish trust in a customer's digital identity. And that can be done by adding a trust and safety solution along with a payments provider. If a customer is deemed trustworthy, businesses can reduce the amount of friction applied at certain points, like login or sign up, and thus promote better, secure, and more frequent buying experiences.

Half of the businesses in our research (49%) say that the choice of payment gateway providers (services that authorises debit or credit card payments from customers either offline or online) can feel overwhelming. "Some of the companies developing this technology have been more aggressive in terms of looking to gain market share," says BIRA's Goodacre. "Retailers get a lot of people calling their businesses trying to sell them all kinds of things, and so they just switch off."

A provider's commitment to security and its efforts to explain how it protects merchants should help the business to find the right partner. Levels of customer and technical support can also vary widely between providers. Being able to speak to someone as soon as an issue arises can be the difference between a temporary hitch and a crisis, so selecting a provider that prioritises service quality should be a priority.

## Security is non-negotiable



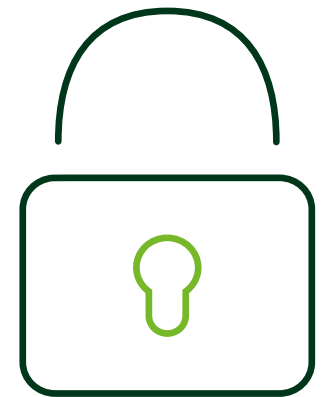
Security is more important to get right than an exciting customer experience



If a customer doesn't feel secure during a transaction, they will never return to a business



Security is the biggest factor we consider when deciding which payment technology we choose to invest in



# Conclusion: Security, loyalty and choice enabled by purposeful partnership



The most important thing to us is keeping the customer secure and our merchant protected.

**Ajit Ramachandran, Head of Product and Partnerships at Lloyds Bank Cardnet®**

UK business leaders recognise that staying on trend with modern payments technologies will reinforce their connection to customers and can propel their growth strategies.

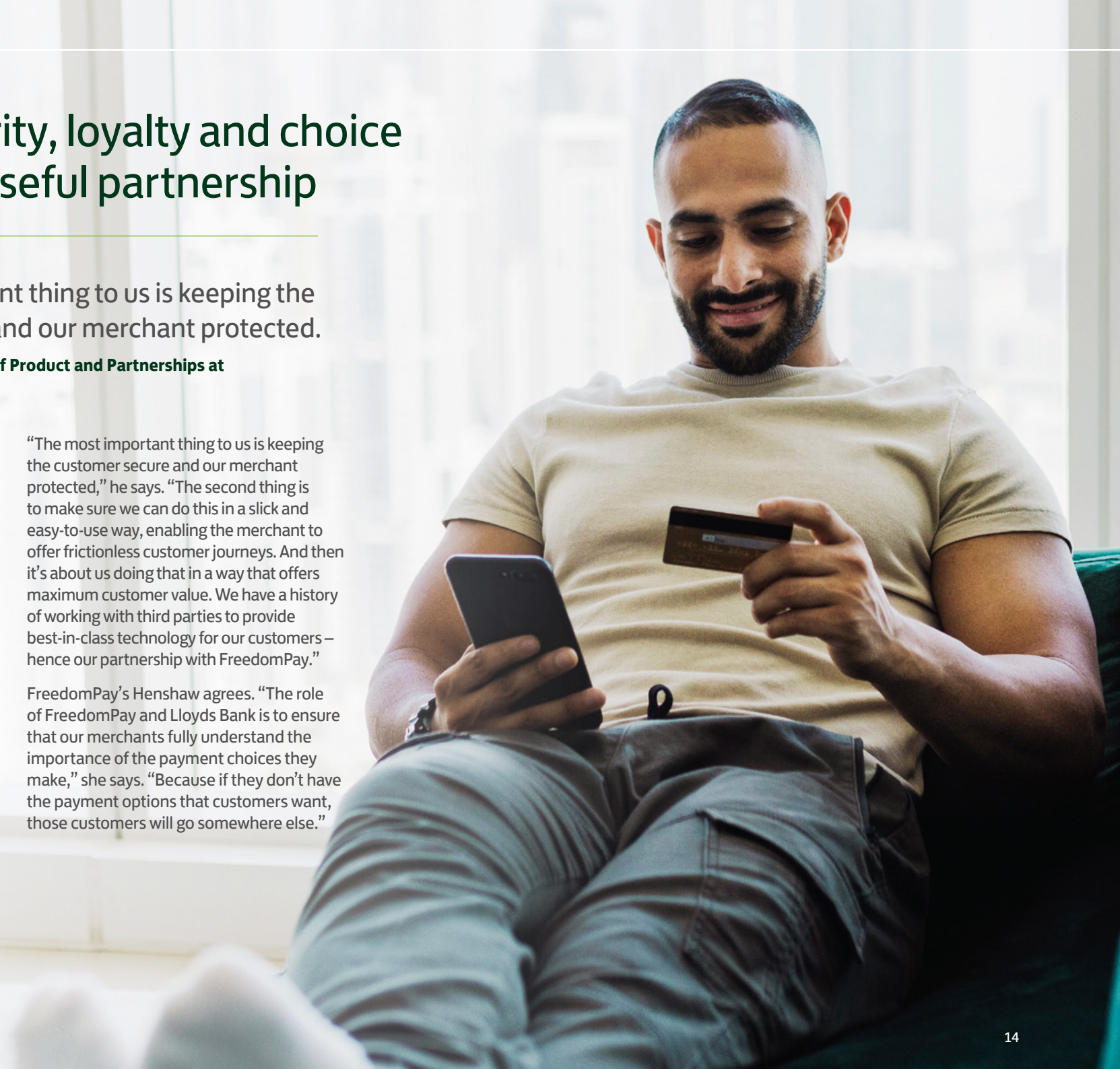
The right payments partner will help them to create a seamless customer experience, use data to increase loyalty and ensure complete security. As well as gaining the innate revenue benefits of customer loyalty, they can then focus on innovation and on their vision for growth for their business.

“Above all, a digital identity strategy is crucial,” states Jordan McKee, Research Director at 451 Research S&P Global Market Intelligence. “Merchants can maximise their results by aligning with partners that help them develop an understanding of the identity associated with each customer interaction and, importantly, the extent to which it can be trusted.”

Ajit Ramachandran, Head of Product and Partnerships at Lloyds Bank Cardnet, says that working with an established and trusted financial services business will bring businesses the best chance of success.

“The most important thing to us is keeping the customer secure and our merchant protected,” he says. “The second thing is to make sure we can do this in a slick and easy-to-use way, enabling the merchant to offer frictionless customer journeys. And then it’s about us doing that in a way that offers maximum customer value. We have a history of working with third parties to provide best-in-class technology for our customers – hence our partnership with FreedomPay.”

FreedomPay’s Henshaw agrees. “The role of FreedomPay and Lloyds Bank is to ensure that our merchants fully understand the importance of the payment choices they make,” she says. “Because if they don’t have the payment options that customers want, those customers will go somewhere else.”



# Take payments with confidence

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Lloyds Bank Cardnet® offers your customers a fast and secure way to pay in person, online or over the phone through a range of payment methods. So, you can concentrate on what's most important – running your business.



## Why choose Lloyds Bank Cardnet?

- **Tailored pricing** – specific to your business.
- **Enhanced security** – a range of fraud prevention tools included.
- **Dedicated support** – from our specialist UK-based support team.
- **Data-rich analysis** – track your finances and gain customer insight.
- **Multi-currency payments** – customers can pay in a variety of currencies.

Cardnet is trusted by tens of thousands of Britain's businesses and lets you sell to customers from anywhere.

So, whatever your needs, Cardnet is here to help you take payments with confidence.

## Find out more



**Take payments with Cardnet**

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