The global context

Merchant acquiring is an industry under transformation. For many years it has been a steady, mature industry serving the needs of retailers to accept debit and credit cards at point-of-sale (PoS) and for MOTO (mail order, telephone order) and providing them with the equipment and banking facilities to do so. Change occurred at a measured pace, with “zip-zap” machines giving way first to magnetic stripe card readers for electronically authorized transactions and then, in many countries (but not yet the USA) to EMV for chip & pin transactions. Ecommerce has been on the rise since the late 1990s, but it was a niche activity in comparison to the core acquiring business.

Not now. Ecommerce and online retailing have reached a critical mass and are becoming mainstream business and key growth drivers for merchant acquirers. At the same time, a sea-change is occurring in the way consumers shop, with big implications for the way they pay.

Smartphones and tablets are at the heart of this retailing revolution, with new technologies such as cloud, analytics and social media also driving change. These same technologies are enabling new ways of paying, and enabling new entrants to bring new payment propositions to market. Key trends reshaping the merchant acquiring landscape include:

- **Ecommerce is growing strongly;** in the US, ecommerce will hit $262bn in 2013, up 13% on 2012; in Europe the respective figures are $166bn and 14%¹ - the picture is similar elsewhere e.g. ecommerce sales in Brazil were $12bn in 2012 up 25% on 2011².

- **Contactless card acceptance** is now a de-facto offering for merchant acquirers with contactless transactions in hyper growth in some markets e.g. Visa reports 797,000 acceptance points in place in Europe, 58m cards, with transaction volumes growing at over 350% per year.

- **mPoS** has opened a whole new market segment of micro-merchants, allowing them to accept card transactions cheaply and easily. Ignited by Square in the US, followed rapidly by others such as PayPal and iZettle, mPoS is also driving innovation in stores e.g. in-aisle purchasing leading to the elimination of some check-out lanes.
Omni-retailing and channel convergence are changing the way we shop, with implications for the way we pay. Consumers initiate and complete a purchase using multiple channels in any order i.e. searching, viewing, ordering, and paying for a single purchase can be done in independent steps on any channel – phone, internet, mobile device, physical store. This is blurring the distinction between online and physical channels for payments, creating an imperative for payment solutions to work seamlessly and consistently over any channel. For example, PayPal is enabling PayPal accounts for use in stores at leading retailers, as well as on-line and on mobiles.

Regulation continues to impact the cards business. With a focus on consumer protection and competition it is changing the economics of the industry. Interchange is the key focus, with, for example, the European Commission proposing a cap on domestic and cross-border debit and credit card interchange in the EU, with caps already in place in countries such as Australia and the US (Durbin). It is shifting the economic dynamics, with much of the impact felt by issuing banks in terms of lower revenue, and by merchants with potentially lower fees.

Key challenges
These trends pose challenges in five areas for merchant acquirers as they rethink and reposition their businesses for the digital age:

**Competition**
Merchant acquiring is becoming more competitive and more dynamic, in particular merchant acquirers have to compete harder to provide value added services to merchants. New entrants such as Square and iZettle are forming relationships directly with merchants and developing PoS innovations. They are expanding the marketplace into new segments that traditional merchant acquirers should now address.

Payment Service Providers (PSP), previously seen as suppliers of online gateway services to merchant acquirers, often provide merchant acquiring services directly to merchants. Ecommerce is a lucrative and fast growing market for PSPs and new payment networks, due to the fees they charge for their gateways, and due to the shift to ecommerce from in-store purchases – they are in a strong position to invest in new capability and exploit this growth.

Finally, card issuers are forming relationships with merchants for merchant-funded rewards programs and digital propositions, loosening the ties between merchant acquirers and merchants for the provision of added value merchant services.

**Strategy and operating model**
Scale counts in payments, and the more expansive a payment or merchant acquiring network the more valuable it is. Merchant acquirers have therefore an imperative and opportunity to expand in digital channels and geographically.

While a strategy to target the fast growing ecommerce and digital markets and to become embedded in the digital ecosystems supporting digital commerce is essential, a key consideration is whether to invest in the mature physical PoS business as well i.e. is the combination of a physical PoS business and a digital (internet, mobile, TV) business critical to support the trend towards channel convergence and omni-retailing?

To expand geographically, considerations include whether to exploit the borderless reach of digital channels and to support merchants as they expand across borders, and whether to acquire portfolios of merchants in new geographies.

**Services**
Acquiring is no longer just about card acceptance. Non-card payments and emerging payments need to be an integral aspect of an acceptance offering. Merchants want one acquirer relationship for all payment types whether face-to-face or online, while face-to-face payment acceptance also needs to accommodate non-card payments, including online bank enabled payments (OBeP) such as iDeal in the Netherlands and SVPco in the U.S.

Digital wallets are likely to be an essential part of alternative payments regardless of the success or otherwise of NFC. With the challenge of alternative payments, also comes the challenge of maintaining service levels consumers have come to expect from cards – specifically, in the area of consumer protection, and in the ability to address disputes and chargebacks, These are supported comprehensively by the card schemes and in card business processes, but are often less robust or even overlooked in alternative payment mechanisms, and can lead to a poor consumer experience in the event of a query or dispute.

**Economics**
while the regulatory pressure on interchange directly affects card issuers, it is also likely to put indirect pressure on merchant acquirer revenues as existing revenue pools shrink –

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1 Forrester Research
2 E-bit, www.e-commerce.org.br
through slowing the growth of issued cards and transactions processed by merchant acquirers (or even reducing them), and through creating incentives for non-card alternatives. New entrants and alternative payment mechanisms with new business models are putting new claims on these revenue pools, increasing the challenge for merchant acquirers to be relevant and profitable.

With alternative payment mechanisms that bypass card networks, merchants may still pay transaction fees to the alternative payment provider, but merchant acquirers risk losing transactions and revenue. For bank owned merchants acquiring this may see a shift in revenue to the retail bank if the bank offers non-card alternative payments, but for independent acquirers it is a risk to their business. At the moment, non-card volumes are very low and the risk is small, but this may change, highlighting the need for merchant acquirers to offer alternative payment mechanisms and get into the value chain early. Strategically, merchant acquirers should consider how they can connect into a proliferating set of payment networks beyond the traditional card networks.

Technology Re-platforming
Merchant acquirers face a significant technology challenge. Legacy technology supporting PoS and MOTO merchant acquiring has rarely worked well with ecommerce technology and online gateways, leading to inconsistencies in the merchant experience and service across channels. Addressing these inconsistencies is becoming an urgent imperative as online commerce continues to grow rapidly, and with the emergence of omni-channel retailing and channel convergence. Key requirements for a merchant acquiring platform include:

- incorporating modern technology such as cloud, social media, mobility and analytics to keep relevant to the growth in digital commerce and flexible to the demand and opportunities it generates.
- supporting high transaction volumes across all channels, including very high peak volumes from digital business models (e.g. event ticket sales).
- enabling payment capture/point of interaction from a range of devices and form factors (including mPoS type devices) all seamlessly integrated, allowing consumers to start a transaction on one channel and to complete via another.
- addressing many of the shortfalls with legacy acquiring platforms including dynamic pricing, merchant outlet management tracking & reporting and billing.
- maintaining PCI DSS compliance, and architecting to reduce ongoing compliance overheads.
- enabling the rollout of EMV (e.g. USA) and contactless (NFC).
- upgrading from the "classic" Base24 switch (for those that use the ubiquitous authorization software).

A further challenge is the shortage of package software providers serving the market with full end-to-end merchant acquiring solutions.

Accenture's approach
Accenture's approach to merchant acquiring transformation has five elements.

Strategy, target operating model design and business case definition
Accenture helps merchant acquirers both identify the end state they are aiming for and also chart the path to get there (such as replacement of specific legacy systems). A recent example was when Accenture worked closely with a merchant acquirer to identify its cross-border strategy to expand geographically and to define the target operating model and IT architecture for it, analyzing the gaps, recommending plans to reach the target state, and finally defining the business requirements for a new technology platform to support the new operating model.

Architecture
through our cards reference architecture model and High Performance Banking process model we can assist merchant acquirers define their business requirements and architect and design their IT systems.

Industrialized delivery and testing capabilities
Accenture has proven delivery capabilities across many geographies and regulatory environments. Through our Global Delivery Network we can build, test and maintain merchant acquiring systems. For example we run the core acquiring systems for one of the world’s largest merchant acquirers, and we are assisting a number of merchant acquirers to implement capabilities to launch mobile and digital propositions.

Merchant acquiring transformation: some key questions

- How does your approach to cross-border merchant acquiring, channels, devices, digital commerce, analytics, mobility, social media and cloud fit together in a holistic strategy?
- Do you have a strategy to support omni-channel retailing and channel convergence, and capabilities to support a seamless consumer and merchant experience across all channels?
- What is your sourcing and partner approach with Payment Service Providers, non-card payment networks, new entrants and others in the emerging digital ecosystem?
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 266,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$27.9 billion for the fiscal year ended Aug. 31, 2012. Its home page is www.accenture.com.

Accenture Payment Services

Accenture Payment Services helps banks improve business strategy, technology and operational efficiency in five key areas: core payments, card payments, digital payments, transaction banking, and compliance, risk, and operations. Accenture and its more than 1,500 professionals dedicated to payment engagements can help banks simplify and integrate their payments systems and operations to reduce costs and improve productivity, meet new regulatory requirements, enable new mobile and digital offerings, and maintain payments as a revenue generator. More than 50 clients worldwide have engaged Accenture Payment Services to help them turn their payment operations into high-performing businesses.