

LUXURY MEMO SPECIAL REPORTS

## State of payments in luxury Luxury Memo special report

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Paying in stores is changing. Image credit: Printemps

By BRIELLE JAEKEL

Payments in the luxury business have drastically changed since the retail revolution, leading even the oldest houses to incorporate new ways of transactions.

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A cashless society is becoming more conceivable, as digital solutions allow consumers' smartphones to act as their wallets and financial services providers work on greater security for credit cards. One of the best-known disruptors in payments is Amazon, with its cashless bricks-and-mortar experiment, but many others have innovated and adapted to completely new ways of paying in the quest to make a frictionless experience for shoppers.

"Current payment trends in the retail industry continue to be born out of a combination of removing friction from the customer experience while also providing enhanced overall payment security," said Ryan Grogman, senior vice president and practice lead at BRP. "Specific efforts in support of these trends include ongoing replacement of legacy fixed payment terminals by retailers, continued mobile wallet adoption, further separation of payment card information and processing from the POS solution itself, and growth in the area of omni-tokens, a single payment token to be used across all sales channels for a given retailer."

"Additionally, for ecommerce payments, many retailers are trending towards the use of hosted checkout pages such as PayPal, Visa Checkout, Mastercard's Masterpass, Vantiv, etc., which reduce the exposure to sensitive payment data while still providing an integrated, seamless checkout experience," he said.

### Top 5 trends in payments in luxury

- Mobile pay  
Solutions that make it easier for shoppers to check out are growing in sophistication through smartphones.
- One-click checkout  
Digital payment platforms are focusing on reducing the need to continually input payment information for faster checkout.
- Conversational commerce

Payment through messaging applications is becoming more popular as consumers find it more natural to communicate while paying.

- Bitcoin and cryptocurrency

Last year's buzzword was bitcoin, as the currency increased in value and luxury retailers accepted it as a form of payment.

- China's impact

Chinese affluents' use of technology is making its way to the Western luxury business.

## Paying with digital

Despite bricks-and-mortar's continued strength in terms of purchasing, with most consumers' purchasing happening in stores, digital has had a great impact on payments.

The mobile device has empowered luxury shoppers in a multitude of tasks in the retail world, including payments in-store.

For luxury retailers and brands, store associates are able to be more fluid in their approach to the in-store shopper, allowing them to come to them with checkout. But for purchasers, checkout has also been streamlined with mobile pay services and more.

Apple Pay, Alipay, Google Pay, Chase Pay, WeChat Pay and Masterpass are just a few of the mobile solutions available for customers to check out in stores.



*Alipay in the Dubai Mall. Image credit: Alipay*

Some of the experiences vary from platform to platform, but overall the idea remains the same, allowing shoppers to quickly checkout using their smartphones at the register without having to fumble for their wallets.

These developers range in different types of companies, from tech providers to financial services, but all are managed through applications. Platforms such as Apple Pay, Alipay, WeChat Pay and Google Pay use QR codes that are scanned upon checkout, whereas others such as Masterpass simply require users to tap their phones on the contactless device.

Financial services have also segued this technology into credit card payments, allowing shoppers to pay with credit cards with just a tap as well.

In addition to paying in bricks-and-mortar locations, these platforms double as a way for easy checkout online. Even though in-store purchases are still significantly higher than online purchases, the one-touch checkout experience that these platforms provide have greatly increased consumers' interest in buying online.



*Alipay makes it easier to pay through mobile devices. Image credit: Alipay*

"Payments are shifting greatly in the retail sector," said Kalyani Menon, head of growth at [Token Payments](#).

"Although many shoppers still prefer to buy in stores rather than online, online shopping and therefore online payments are becoming more prevalent."

"This means retail stores are processing massive amounts of payments online in addition to storing more data than ever," she said.

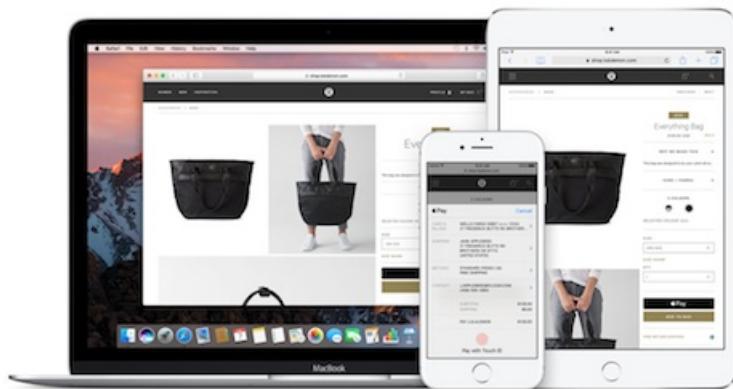
The experience lets consumers checkout on mobile devices with the increasingly popular thumb print scanner, a digital pin or a special login. This eliminates the need for customers to continually enter their credit card numbers as well as shipping and billing addresses.

While these solutions have become more popular, they are not entirely ubiquitous.

Retailers and brands need to sign on with particular mobile and digital pay providers for customers to use them, both in-stores and online.

British childrenswear retailer Childrensalon responded to the growing use of mobile for online shopping with the introduction of Apple Pay for its Web site.

In what the ecommerce site said was an industry first, Childrensalon began accepting Apple Pay for Web in September 2017 ([see story](#)).



*Apple Pay online throughout multiple channels. Image credit: Apple Pay*

U.S. department store chain Neiman Marcus has had Masterpass by MasterCard available in its online shopping options since 2015, expanding the ease of ecommerce for consumers.

The addition of Masterpass came almost a year after Neiman Marcus' addition of Visa Checkout. Enhancing ecommerce options is crucial for department stores who often serve as the only ecommerce option for some brands ([see story](#)).

French department store chain Galeries Lafayette embraced mobile payment solutions by allowing international consumers to pay in-store with WeChat Pay.

Galeries Lafayette attracts more than 15 million visitors from around the world each year, meaning that the retailer must be accommodating to the various preferences and expectations of foreign consumers. In September 2017, Galeries Lafayette became the first offline retailer in Europe to accept WeChat Pay at its Boulevard Haussmann and

BHV Marais flagship stores in Paris ([see story](#)).



WeChat Pay is now becoming more accessible, with even DFS locations at San Francisco's international airport.  
Image credit: DFS Group

In September, Alipay announced it is working with the Singapore Tourism Board to show how easy cashless payments at various travel sites are.

The first completely cashless trip through Resort World Sentosa, Shangri-La Hotel and Singapore Airlines was completed that same month. The trip showcased how Chinese tourists can easily travel through major spots in Singapore using Alipay they same way they do at home ([see story](#)).

#### Cashless future

Amazon has made headlines in the past few years with its experimentation of a cashless grocery store, where shoppers do not even need to visit a checkout station but simply leave the store with their merchandise and pay on the mobile app.

The long-awaited Amazon Go retail store opened last year to immense praise for the cashierless model.

Amazon's in-store concept works by letting users sign into an Amazon Go account on a mobile device. They then simply pluck desired items from the shelves and walk out with them while the smartphone tracks what was picked up, automatically charging the goods to the consumer's account.

Since then, Amazon has increased its Amazon Go store footprint to 11 locations throughout the United States, including its most recent opening in San Francisco.

While it is clear that the idea has immense potential, experts wonder whether it is right for luxury brands ([see story](#)).

#### *Amazon's new shopping concept*

#### Currency in the crypt

Cryptocurrency is also becoming an important of payments today, especially in luxury as bitcoin becomes a buzzword with the wealthy.

The digital form of currency remains unregulated, and allows for individuals to transact using a form of code.

Wealthy investors are beginning to embrace cryptocurrencies, as digital assets such as bitcoin gain more acceptance.

More than two-thirds of high-net-worth individuals will invest in cryptocurrencies in the next three years, according to research from the deVere Group. Major financial institutions and retailers are also beginning to explore how to use cryptocurrencies ([see story](#)).

Last year, bitcoin's worth grew exponentially, but as experts debated its sustainability, luxury retailers flocked to accept the currency.

High profile luxury real estate sales made through cryptocurrencies have massively expanded popular perception of how useful they can be among wealthy elites. With luxury apartments in New York and sprawling luxury homes in California going on sale for bitcoin, it is clear that the cryptocurrency's place in luxury real estate has been cemented, paving the way for further adoption in other sectors of the high-end market ([see story](#)).

Swiss watchmaker Hublot even ushered in the cryptocurrency's decade anniversary with a limited-edition timepiece,

highlighting blockchain's importance in luxury ([see story](#)).



*Hublot's latest limited edition celebrates bitcoin's 10-year anniversary. Image credit: Hublot*

Most recently, Dubai-based ecommerce platform The List has launched BitBay Pay integration.

Cryptocurrency payment platform BitBay Pay is working with The List to allow its shoppers to check out via bitcoin and other cryptopayment. As cryptocurrency continues to grow, especially in Asian markets, The List is hoping to make checkout convenient for customers no matter how they prefer to purchase ([see story](#)).

#### Driving payments forward

Another unique form of payment that has arisen is in-car payments.

As technology in vehicles grow, automakers have figured out a way to get into the payment revolution as well. The concept allows for easy pay on the go for tasks done while in vehicles such as purchasing gas and parking.

British automaker Jaguar built on the disruptiveness of mobility innovation with its own in-car payments system for drivers to seamlessly pay for Shell gasoline.

Oil and gas company Shell is working with Jaguar to bring a cashless system of payment within its vehicles. Drivers will be able to fill up their Jaguar vehicles, pay within the dashboard of their vehicles and simply drive away ([see story](#)).

#### *Jaguar branches into in-car payments*

Visa is also working on a service for automakers to sign on with it, allowing drivers to pay through an in-car mobile payment app in addition to receiving and sending funds with friends and family.

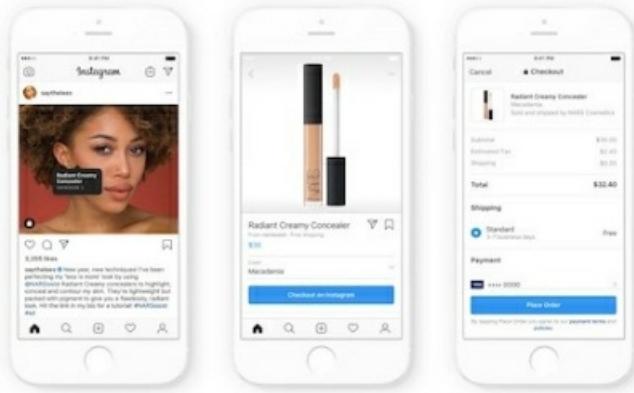
#### Paying for social

Social media has also toyed with the idea of an easier checkout on individual platforms with apps such as Pinterest,

Instagram and Snapchat.

Instagram streamlined the shopping journey for users, allowing them to purchase items from brands directly without leaving its app.

Several luxury brands are among the first to roll out Instagram Checkout, including Dior and Prada. After making itself nearly invaluable for brands with the help of an expansive audience and a suite of advertising tools, the Facebook-owned platform is looking to facilitate an end-to-end purchase journey from discovery to conversion ([see story](#)).



*Instagram Checkout for creators. Image credit: Instagram*

In 2016, there was significant buzz over buy buttons on social media, but consumer adoption did not live up to its hype.

As conversion rates on social buy buttons remained low, there was a slight increase due to updates to user experiences. This inspired Pinterest to majorly tweak its for-business capabilities on mobile and desktop.

Pinterest invested in a multi-platform update for businesses that will allow them more control over what consumers see and more promptly displays pins that can be purchased ([see story](#)).

Social media platforms have also made it easier for customers to purchase items from brands within a messaging thread, which many believe is more natural considering most consumers are used to buying from an actual individual in person.

Brands know that many millennial customers value the experience as much as they do the price, and those that are focused on the experience have found a new tool that helps them create a personal relationship with their customers at scale.

Enter conversational commerce and the era of the chatbot: a new breed of customer interaction that allows brands to connect with their customers on a personal level while creating a more natural interaction that mimics the physical world.

Although still relatively new to the scene, this technology is bringing marketers and consumers closer together by bridging the communication gap between a brand and its customers ([see story](#)).

For instance, global aviation firm VistaJet looked to usher in bookings from China's digitally savvy consumers through a conversational commerce endeavor with a potential to tap a large audience.

WeChat, Chinese consumers' predominant platform in communicating with brands and retailers, will house VistaJet's newest sales platform. The aviation firm hopes to increase bookings with convenience by tapping into an already established user behavior ([see story](#)).

The Chinese platform is one of the more popular spaces for conversational commerce, but Snapchat has also experimented with a way for a way to purchase within a message, as well as Facebook through its Messenger app.

In addition to this, voice-driven commands are also growing in terms of purchasing. AI home speakers such as Amazon's Alexa and Google Home are driving purchasing within consumers' own homes by allowing them to shop with just their voice.



*Voice assistants such as Google Home are gaining traction but lack interest in retail experiences. Image credit: Google*

The retail sector is on the verge of a voice-shopping explosion, says Saisangeeth Daswani of Stylus.

Set for exponential growth in the years ahead usage in the United States and the United Kingdom combined is expected to surge in value from \$2 billion in 2017 to \$40 billion in 2022, according to OC&C Strategy Consultants.

Voice-driven commerce will open up a new realm for shopping: anytime, anyhow access that will reshape luxury retail.

This wave, which includes ever more sophisticated chatbots and intuitive voice systems, is now moving beyond mobile phones and smart home speakers into cars, shops and offices ([see story](#)).

#### Security significance

Going back to in-store checkout, retailers and brands have had to enable more payment security, as wide-swept breaches have taken place in major retailers.

The majority of security breaches have taken places in mass retailers such as a very public fraud attack on mass retailer Target and another data attack on Marriott's Starwood.

While the retailer who was attacked has to deal with the brunt of the damages, covering the losses of both the merchandise and the funds, luxury retailers are more at risk for fraud, as their clientele often has greater funds that can be stolen.

Taking steps to prevent attacks such as these is imperative for luxury brands and retailers.



*Most consumers blame retailers for credit card fraud. Image credit: iStockphoto*

Rates of fraud on jewelry and luxury goods were up nearly 20 percent in 2018, as the high sticker value on these items makes these illegal activities more lucrative.

According to Forter's Q1 2019 Fraud Attack Index, ecommerce platforms are also seeing an increase in fraudulent attacks. With criminals turning to more automated methods of attack, online retailers are especially vulnerable.

The growing popularity of cross-channel returns is creating more complexity for retailers, opening the door to greater fraud risk.

According to the National Retail Federation's 2018 Organized Retail Crime Survey, while retailers expect less of their

returns to be fraudulent this year, three in 10 anticipate fraud rising among purchases made online and returned to stores. From returns of stolen goods to wardrobing, fraudulent returns represent billions in losses for retailers, but companies can combat scams with heightened training and technology ([see story](#)).

Department store chains Saks Fifth Avenue and Neiman Marcus discovered the importance of safeguarding consumers' data in two separate cases.

Saks had a data breach, while Neiman Marcus agreed to settle with those affected by a 2013 credit card information leak. As ecommerce becomes more of a common practice for affluent consumers making high-end purchases, cybersecurity measures will need to be a priority for luxury brands ([sees story](#)).



*Exterior of Saks Fifth Avenue. Image credit: Saks Fifth Avenue*

"What can be particularly dangerous about making payments for luxury goods is that you may be identified by fraudsters as a prime target," Token Payments' Ms. Menon said. "Credit card thieves know that the turnaround on how long they can use a stolen credit card is very short."

"By targeting card holders who buy luxury goods, there is a decent chance of hitting a fairly substantial bank account, which means they can get away with making larger purchases," she said.

#### Branded credit

Security becomes even more of an issue for luxury retailers who have adopted their own credit cards for loyal customers, another growing trend.

For instance, department store chain Nordstrom tapped TD Bank Group to oversee the logistical side of its credit card program.

The bank acquired the department store's existing United States Visa and private label consumer credit card portfolios. The \$2.2 billion in receivable were sold to TD and the two companies will continue to work together in the future on consumer-facing activities ([see story](#)).



*Image credit: Nordstrom*

Dubai, U.A.E.-based airline Emirates is helping its loyal customers earn more rewards with a new line of credit cards.

Working with Malaysian financial service Hong Leong Bank Berhad, Emirates' rewards program Skywards will see a range of cobranded cards. Emirates Skywards members will be able to earn rewards through their daily spend

(see story).

## POS and payments

While many retailers have adopted solutions to accept a wide range of payment services such as mobile pay platforms in an attempt to cater to more shoppers, the systems themselves are innovating as well.

For instance, merchant aggregator Square, founded within the last decade, has changed the way small businesses operate.

Through a mobile point-of-sales system, the service allows for business who do not even have a permanent physical space accept credit card payments in a simple way. Festivals and pop-up shops now see visitors using their cards or mobile devices to pay for a variety of items.

The service also makes it easier for growing businesses to begin, as it eliminates the need for extensive and expensive in-store infrastructure. Businesses only need a mobile tablet to use Square.

[View this post on Instagram](#)

Introducing Square Terminal, your all-in-one credit card machine for payments and receipts. It's secure, reliable, and an entirely fairer way to get paid. Link in bio.

A post shared by Square (@square) on Oct 24, 2018 at 8:51am PDT

*Instagram post from Square*

Through the growth of systems like these, the traditional form of point-of-sale (POS) systems often seems antiquated now.

For luxury brands, mobile POS systems allow for store associates to grow their customer service, without the need to force shoppers to a certain area of the store to checkout.

According to new research, almost all consumers consider the ease of a retailer's checkout process when choosing where to shop, pointing to the importance of having up-to-date POS systems in place at bricks-and-mortar stores.

A report from Boston Retail Partners finds that about half of retailers are planning to replace their existing POS within the next three years, with many opting for updates such as cloud-based systems and mobile checkout. Even with ecommerce growth, many customers are still shopping in-store, warranting investments in making the experience as positive as possible ([see story](#)).

"Luxury retailers, more so than mass-market counterparts, seek to provide an enhanced and personalized customer experience within their physical stores," BRP's Mr. Grogman said. "As a result of this high-touch experience, retailers are outfitting their associates with mobile devices to provide clienteling functionality as well as mobile POS functions, including the ability to fully tender transactions via a payment sled."

"In addition to a faster adoption of mobile checkout, luxury retailers are also leading the charge in growth for private label credit cards (PLCC) and dynamic currency conversion (DCC)," he said. "PLCCs can provide retailers tremendous cost savings in processing fees while providing them with even greater information about their customers, and DCC provides an enhanced service to foreign shoppers looking to conduct the transaction in their local currency."

#### China goes West

The retail revolution can be attributed to many factors, and a large portion of those are related to China's influence.

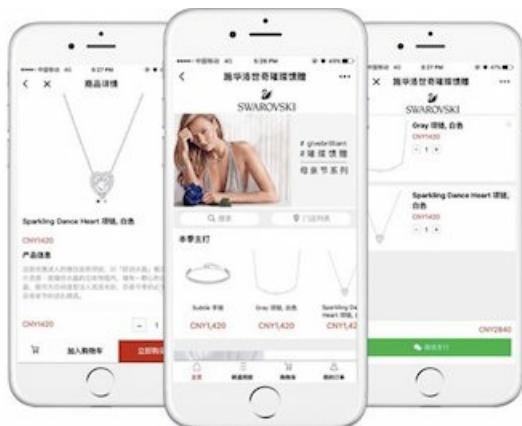
China's development as well as usage of technology has consistently been advanced to the West, but its growth is seeping into Western markets.

While mobile wallets in the West are focused primarily on payment, China's advanced consumer behavior with technology has led to sophisticated consumer engagement tools, according to a report from Forrester.

WeChat's social gifting and augmented reality coupons on Alibaba's Alipay are a few of the tools consumers can leverage through mobile wallets that make the customer experience in China extremely advanced. Marketers should be prepared for this to be replicated throughout the world, as well as advancing beyond ([see story](#)).

"The growth and proliferation of WeChat and AliPay as payment methods for Chinese consumers has helped drive further adoption in western retailers," BRP's Mr. Grogman said. "This is particularly true for luxury retailers who have a significant Chinese customer base."

"This adoption growth has also been propelled by payment gateways and processors who are now able to provide support for these tenders at checkout almost out of the box," he said.



*WeChat Pay is usable with a variety of luxury brands in North America. Image credit: WeChat*

The increased interest in travel from the Chinese affluent has forced luxury retailers to adopt strategies to make it easier for these travelers to purchase. The easier it is for them to check out, the more they are likely to spend.

For example, French department store Printemps brought mobile pay into France's luxury retail sector by introducing Alipay in stores, which will work to entice Chinese consumers to shop its bricks-and-mortar locations.

A significant portion of France's shoppers is made up of Chinese consumers who often spend throughout Europe,

where it is cheaper for them. Printemps hopes to corner that market by offering a mobile pay service already popularized in China ([see story](#)).

Hospitality chain Mandarin Oriental Hotel Group brought a convenient checkout option for Chinese travelers to one of its Hong Kong locations.

The Landmark Mandarin Oriental, Hong Kong has integrated Alipay and WeChat Pay in addition to Apple Pay into its accommodations such as its spa, bars and restaurants. The two new systems help cater to its home location, as Alipay and WeChat are the most popular payment sources in China ([see story](#)).

Luxury retailers need to embrace Chinese digital payment solutions, as travelers from the country outspend all other travelers combined and are drawn to this technology.

When traveling overseas, more than 90 percent of Chinese tourists will use mobile payment platforms if the option is available, according to a report from Nielsen and Alipay. While Chinese consumers are more digitally savvy than other travelers, mobile pay also eases the difficulties that can come with language barriers and other issues from traveling abroad ([see story](#)).



*Alipay is accepted at Starbucks. Image credit: Alipay*

"While China still has a somewhat internalized economy, you will see a lot of technological trends emerging from Chinese companies that make its way into the American ecosystem, such as mass adoption of mobile payments," Token Payments' Ms. Menon said. "For example, China can be looked at as a very strong case study for mobile payments."

"China seemingly skipped right over credit and debit cards, jumping straight from cash to mobile payments," she said. "Between 2015 and 2019 approximately 400 million new mobile phone users adopted mobile payments in China, bringing the total number to about 550 million, 78.5 percent of China's smartphone population."

"In fact, over 60 percent of mobile payment users globally currently reside in China. Everywhere from the grocery store to your taxi, you will find people using Alipay or WeChat Pay. In the United States providers such as Apple and Android have struggled to gain substantial traction in stores, so it is possible they look to Chinese practices to increase adoption rates."

Best practice tips for payments in luxury:

- Kalyani Menon, head of growth at Token Payments
  - "Common sense has a big role to play here, as well as not falling prey to prices deemed too good to be true.' Luxury goods often have a very strong resale market, so it is important to only shop at reputable merchants. Often times you will see luxury goods advertised for well below market prices. If it is on a recognizable Web site such as Ebay you should be wary of knock-off items. However, if you find these items on poorly built, small, Web sites that you have never heard of, there is a real chance that you won't be getting your item and it is simply a front to collect your payment data."
  - "Another important tip is to be proactive in protecting your payments. Even reputable companies can fall prey to massive breaches, like Saks 5th Avenue suffered a major breach just a few months ago, leaking

hundreds of thousands of credit card numbers. Tokenizing your payments, which means substituting your data for pseudo data, is an effective way to keep your data out of their system and only in your hands. Services such as Apple Pay and Android Pay provide this service at the point-of-sale in stores, while our app Token provides the same secure technology for any online purchases."

- Ryan Grogman, senior vice president and practice lead at BRP
  - "It is imperative that luxury retailers have sound payment security processes in place. Best practices for payment security include a multi-layered approach. Moving beyond support and adoption of EMV-enabled cards over the past couple of years, enhanced payment security often starts with end-to-end encryption (E2EE). E2EE ensures that payment card data is encrypted at the initial entry point into the retailer's system (typically the swipe or insert of a payment card) and that encryption is maintained until it is beyond the realm of the retailer's systems. E2EE has increased significantly over the past few years with a reported 61 percent of retailers currently utilizing. The second tier to this approach is tokenization, which enables retailers to remove sensitive information from the network by substituting payment card data with a token which is used as an identifier but has no exploitable value or meaning. Thirty-eight percent of the respondents have implemented a single token solution across the enterprise, with an additional 37 percent planning to implement within the next three years. This technology is additionally critical to offering customers a single unified commerce experience for returns, customer profiles and saved shopping carts retrieved across channels.
  - "Additional best practices include the adoption of mobile tenders such as Apple Pay and Samsung Pay, which can not only decrease retailers' exposure to storing sensitive card data but also are an added customer convenience for luxury shoppers."

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