Financial Services in Retail

An Integral Part of Developing the Next Generation of Retail Customer Experience

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Enhancing value to the customer with financial services

Traditional financial service providers, banks and insurance companies have seen their monopoly of offerings dissolve. Competitors now include grocery retailers, distributors and fintech start-ups. Even the tech giants Amazon and Google are reported to be introducing personal banking accounts.

As consumer adoption of these intermediaries grows and new legislation removes barriers to monopolization, the market for alternative financial service providers (i.e., not the traditional banks and insurance companies) is set to expand. Retailers may now find the time is right to develop new opportunities to engage with their customers by building their own financial products and services.

Financial services can increase consumer stickiness to retail brands

Essentially, there are two types of alternative financial service provider.

1. **Non-core business financial service providers**

   Operating a business different from financial services but offering products and services tailored to the needs of their own customers to enhance the overall value proposition. Companies include retailers, distributors and oil and gas distributors (retail fuel stations).

2. **Financial service providers**:

   Offering products and services that specialize in a particular need, segment or demographic. Companies include brokers, financial comparison websites and peer-to-peer financial services.

In the first category, retailers and distributors typically use financial services to increase the stickiness of their customers to their commercial ecosystem. The goal is to generate additional trips to the store, driving annual customer revenue higher and thereby increasing the long-term value of the customer.

Products and services are typically packaged to match a demographic and/or a particular problem/solution. For retail, examples include access to credit for individuals with weaker credit scores, check cashing, money transfer and value for services that are more competitive than traditional providers. For distributors, this may include establishing credit or financial incentives for products negotiated as part of a customer's project or reducing the order-to-cash cycle with payment automation mechanisms.

Like many companies, retailers and distributors are investing in strategies that enhance their customer experience (CX) to create competitive advantage. By introducing financial services, they become more meaningful in customers' lives creating a competitive advantage vs. retailers competing on price alone.

18.7% of U.S. households (48.9M adults) were considered underbanked, with a bank checking or savings account, but also financial services from outside the banking system[1]

130M people are underbanked or unbanked across Europe[2]

Retail market opportunities include unbanked and underserved segments

One target market for retailers is to propose financial services that appeal to underbanked households.

Another involves improving consumer credit for demographics that might normally find it more difficult to obtain loans due to low credit ratings or as an alternative to facing high credit card rate levels.

Where banks use branches, retailers can address the general needs of their customers using their stores and outlets as distribution points.

Most retailers have chosen to partner with traditional banks and insurance companies to provide their financial offerings. White labeled financial products might be branded and configured to suit the target demographic. Some retailers, such as Tesco Bank, have gone further and obtained regulated licenses to sell their own services.

Tesco's banking services began as a joint venture with NatWest which was replaced in 1997. Tesco ultimately bought out the RBS side to create Tesco Bank in 2009, at which time they began offering financial products to their extensive customer base and uniquely extend their loyalty program to financial products.

Incorporating financial services into retail has many perceived advantages for customers over traditional banks and insurance companies:

- **Convenience**: stores are visited much more regularly than banks; this increases potential visibility of offers and convenience to engage with them
- **Relevance**: offers have fewer constraints and better accessibility, such as simplified access to credit
- **Rewards**: links to the shopping rewards ecosystem that translate financial operations into tangible benefits
- **Access**: sites normally have good transport and parking facilities

However, these advantages may be under threat as digital platforms emerge that cater to specific demographics, offering 24/7 accessibility and the ability to compare products across many different providers instantly.

Retailers need to up their financial services game

As consumer expectations continue to rise, retailers must improve their value propositions with products and services that offer more convenience, better benefits and a personalized user experience.

Drivers for change include the decline in brick-and-mortar retail, as well as increased competition from alternative financial service providers.

Reduction in traffic across malls and stores

Retail traffic/footfall in mall and stand-alone locations continues to decline. Helen Dickinson OBE, chief executive of the British Retail Consortium, noted in 2019 that “Retailers are facing a sustained drop in footfall, with numbers of visitors down over 10% in the last seven years alone.”

As a consequence, the traditional retail store window needed for the promotion of financial services has diminished. However, despite these reductions, the retail sector in many countries continues to grow.[3]

Some of this growth is attributable to online sales. Today’s millennials (born 1981 to 1996) are projected to represent +30% of total retail U.S. sales.

While they have not abandoned walking into a retail store, they are more likely to have made informed choices using online research or been influenced by social media. Retailers are therefore challenged to apply marketing efforts for their offerings to new communication channels and consider selling via new distribution partners, websites, retail apps and social channels.

Competition from alternative financial service providers and non-banks

Many non-traditional channels now exist that offer financial services. Indeed, the offering may be a part of their core business or a complementary service.

Alternative core business providers include 100% online or branchless banking services such as Ally Bank and digital brokers such as Simply Business. These companies might have preferred “flavors” of services. Ally, for example, originating from a division of General Motors, proposes vehicle financing and dealer services. Simply Business focuses on small business insurance needs.

> *“Financial services sold by retailers aim to give consumers more money to spend in their stores rather than being a major profit center. But, technology is allowing tighter integration with existing products and services, creating new value propositions and customer experiences that drive loyalty and spend.*

WHITE PAPER

French telecoms company, Orange, obtained a licence and became a bank in 2017 to drive new sources of revenue from their captive mobile audience. And of course, there is a multitude of store credit cards available from clothing retailers to fuel vendors to coffee houses.

This market movement represents a potential opportunity for retailers to develop more integrated offerings across their brand that include some form of financial services.

The number of physical and digital distribution channels for financial services products that are proposed by alternative providers has dramatically increased and as such, has given the consumer far more choice and, in particular, access to value propositions that compare more directly to those of the retailer.

Next-gen retail financial services opportunities

As consumer appetite grows for non-traditional sources of financial services, retailers have an opportunity to develop new, brand-enhancing customer experiences and value propositions.

Retailers, despite the rapidly changing landscape, still have the potential to develop unique value propositions for their customers. One place of opportunity must include customer experience, for example, supporting a customer journey that transcends disparate products and services with seamless integration of financial services.

Following are some examples of initiatives retailers could (and do) undertake to enhance the customer experience with integrated financial services offerings.

1

Contactless payment services

Facilitating the payment process has taken a significant step forward with contactless payments. And soon consumers might have identity management capabilities via fingerprint located directly on the card itself.

Several systems of cashless payments with smartphone exist. Carrefour Italia iper allows customers to pay directly from their current account. Using a Sanpaolo smartphone application, the customer scans the QR code generated at the checkout. Payment can be made using fingerprint or facial recognition. Advantages for the customer are simplicity, and for the brand, gaining customer trust.

By 2022 ecommerce will account for 17% of total retail, while 41% of sales will be digitally influenced offline sales[4]

Among 5,200 consumers from 13 countries, over 40% think non-banks can better assist them with personal money management and investment needs[5]

2

Au revoir checkout

Staffing checkout registers represents about 30% of store labor costs. But while efforts to reduce these costs, such as self-service checkouts, have been implemented, the fundamental question remains whether these changes improve the customer experience.

Is “instead of you doing it I now have to do it” ultimately a good customer experience strategy?

In a survey of +2,500 U.S. consumers, 57.5% are interested in banking with companies that are not financial institutions[6]

Many retailers are testing no-checkout business models. Examples include Amazon Go and Ahold Delhaize's "taptogo." While both these stores still have staff, BingoBox in China is fully autonomous.

New types of payment services and mobile applications are also accelerating change at the checkout.

3 Automated financial advice and self-service

Delivering face-to-face advice on scale has significant cost. Going digital, with automation may help to address this. Applications of Robotic Process Automation (RPA) in the retail industry's consumer-facing areas include call centers, chat bots, product returns and promotions. The ability to extract information, such as consumer behavior, from these activities will be key in developing more relevant and consumer-centric offers.

Linking automated process capability to automated advice for financial services could prove an impactful value proposition in a market where more consumers are consulting digitally automated services for financial advice.

A recent Financial Advice Market Review FAMR survey indicated half of all adults in the UK received at least one type of information guidance related to investments in the past year, 24% from private sector money advice websites. The same report indicated a growing awareness of usage of automated online investments services.[7]

In order to address a wider audience, retailers may find it will be necessary to help consumers easily engage with automated advice technology. Financial services offerings are perceived as complex by the consumer and automated advice has regulatory guidance to follow.

4 Integrate retail tech with fintech

A retailer's financial products have traditionally been straight forward and cost effective. Offering consumers new products and experiences by joining forces with new partners may help to differentiate from competitors, facilitate customer engagement and develop new forms of revenue.

One source of partnership is with a fintech company whose innovative products and services may be integrated with existing retail products and technology.

Walmart and Green Dot have collaborated since 2006 on a payment card called Walmart MoneyCard. In 2019 they announced a joint venture by establishing the fintech Tailfin Labs to help accelerate the delivery of new customer experiences.

Apple is also among the manufacturers and retailers who have chosen to partner. The Apple Store Card is a partnership with Goldman Sachs (the issuing bank) and Mastercard (the payments network). Their innovations include their virtual wallet only card and "cash-back" approach to using the card for purchases. Additional applications help track spending patterns.[9]

Gartner estimates 85% of large/very large organizations will have deployed some form of RPA by the end of 2022[8]

Personal finance (and subsequently financial welfare) applications are perhaps one of the most obvious of the fintech partners for retailers to consider. Applications such as Mint, Wally and Venmo have features that allow you to track purchases, make and share payments.

5 New point of sale products and services

The point of sale – the checkout (online or in store) – is a point at which some financial services may be relevant to propose.

As a consumer, it's not always obvious if your home insurance covers the new television you have just bought. The insurance industry could offer access to insurance services at the point of sale, such as the company Simplesurance does.

Another potential POS service is that of consumer financing. Platforms such as Jifiti are allowing retailers to provide their customers with financing and complete the transaction at the point of sale using a digital prepaid card.

6 Get connected to your customers' bank account... directly

In Europe, open banking ambitions and the payment services directive (PSD2) are set to help customers have access to more personalized services. Traditional banks and insurance industries have had mixed feelings about new technology companies that can operate as an intermediary without a traditional banking license or can at least apply to become an Account Information Service Provider or Payment Initiation Service Provider.

As open banking rolls out, the potential is for the retailer to access an individual's bank account information directly. As a result, they can proactively propose products and financial services that are derived from the information contained within.

Summary

There is a great deal of activity and opportunity for retailers to enter and benefit from the financial services space. The takeaway from this white paper for retailers looking at entering or expanding in this market include:

- Customer traffic/footfall across malls and stores is declining. At the same time, consumer appetite is growing for non-traditional sources of financial services.
- Retailers have a unique opportunity to enhance their value proposition by offering and integrating financial services into the customer journey to improve the customer experience, increase long-term loyalty and drive the annual customer revenue higher.
- Retailers need to take innovative actions such as collaborating with fintech companies to create new products, services and experiences for their customers.

Advancing customer experience also relies on great data

The addition of financial services to a retail offering is one of numerous ways for retailers to forge closer bonds with their customers. Whether an organization pursues this or another of many options, access to accurate, updated information about your customers, products, locations and more is essential to success.

A great place to begin for many retailers is multidomain master data management (MDM) which can provide a foundation to support digital transformation and data transparency required to deliver innovative customer-centric offerings that drive loyalty and growth.

For more information on MDM solutions that have what it takes to help retail organizations deliver business success, visit **stibosystems.com**

Sources

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