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Reduced transaction costs, increased sales and an improved consumer shopping experience – benefits of mobile payments

- Shifting from cash, credit and charge cards to mobile payments could have saved retailers £463m in lower transaction costs in 2013.
- This is made up of savings of £197 million in lower transaction costs by shifting from cash payments to mobile payments and £266 million from moving away from credit & charge cards to mobile payments.
- Retailers would benefit from reduced online checkout times with mobile payments. Cebr estimates that these reduced checkout times could have boosted internet retail sales by £1 billion last year.
- In-store shopping experiences could be improved if retailers are innovative and mobile payment systems are implemented in a way which reduces queue length. Survey research shows that almost three fifths of shoppers would abandon a purchase when confronted with a long queue.
- The instant settlement offered by services such as mobile payment would benefit many businesses. Nearly a fifth of firms in Q1 2014 report that late payment is a greater challenge than a year ago.

This report presents Cebr’s analysis of the benefits of mobile phone payment to UK retailers and consumers.

Previous research has shown clearly that, far from being costless, cash is a costly means of undertaking a retail transaction. There are significant store count, preparation and error costs associated with cash payments and, once these are taken into account it is more costly to the retailer than many other payment methods.

Mobile payments have the potential to offer additional gains to retailers, reducing costs associated with traditional transaction methods. The Zapp mobile payment system will charge retailers a cost effective transaction fee, regardless of the price of the product. Cebr estimates that shifting cash, credit and charge card payments over to Zapp payments would have saved UK retailers £463m in lower transaction costs in 2013.

There are additional gains to retailers and consumers from mobile payments, in the form of improved shopping experiences. By improving customer journey experiences and checkout times in e-commerce and m-commerce, slick mobile payment systems can significantly reduce the amount of online shopping trolleys that are abandoned before purchase. Cebr estimates that, if average checkout times can be reduced to 22 seconds, the share of online shopping carts abandoned due to long process times would fall from 14.3% to 9.8%. We estimate that this would have implied a £1 billion (2.5%) increase to internet retail sales in the UK last year.

Mobile payments can also improve in-store experiences if implemented in a way which reduces the need to queue before making a purchase.

Businesses can also benefit from prompt payment given the instant settlement offered by systems such as Zapp. Business surveys which Cebr help produce show that around a fifth of businesses report late payment to be a greater challenge than a year ago in Q1 2014.
Previous research shows cash payments are far from costless

- Although cash is often thought of as a “costless” means of transaction, this is far from the case. Cash needs to be counted, checked, kept under security and can be stolen.

- Once these costs are taken into account, cash is one of the most expensive ways of paying for goods and services. The cost of cash is estimated to be 2.8% of total cash takings by retailers. 70.3% of this cost is store count and preparation. Errors in cash transactions account for 2.7% of the cost of a cash transaction.

- The cost of cheques is estimated to be 2.0% of total cheque takings, with fraud perceived as a common issue with this type of payment.

- New payment methods – which offer accuracy, speed, security and low merchant costs – can potentially offer even lower transaction costs on average.

Source: Centre for Retail Research
Cash has significant store count and preparation costs...

Retail costs of cash, as a % of total cash transaction costs

- Errors in cash transactions: 2.7%
- Bank charges: 18.0%
- Cost of cash pick-up in-store: 9.0%
- Store count and preparation: 70.3%

Source: Centre for Retail Research
... but despite this, cash is still used for many retail transactions

- Data from the British Retail Consortium (BRC) show that, despite cash being a costly means of conducting a transaction, it accounts for over half (54.4%) of retail transactions by volume.
- Debit cards are the next most common means of paying by volume (30.0% of transactions) followed by credit and charge cards (10.6%).
- In cash terms, however, debit cards account for about half of retailer turnover (48.2%) — notably higher than the share by volume. This reflects the fact that average debit card transaction values are higher than average cash transaction values. Cash transactions account for just under three tenths (28.9%) of retailer turnover, as shown in the graph opposite.

![Retail transactions split by payment type (in volume and turnover terms), 2012](image)

Source: British Retail Consortium
New payment mechanisms can reduce retailer costs

- Shifting away from cash payments and other costly payment methods has the potential to save retailers millions of pounds through reduced transaction costs.

- One new payment method being rolled out in 2014 is the Zapp mobile payment network. Retailers will be charged a cost-effective transaction fee, regardless of the cost of the product.

- Cebr estimates that, if all retail transactions conducted by cash last year had been conducted by Zapp*, UK retailers would have seen a reduction in transaction costs of £197 million, highlighting the potential bottom-line benefits that would arise from shifting away from cash payment.

- If all retail transactions conducted by credit and charge cards last year had been conducted by Zapp*, UK retailers would have seen a reduction in transaction costs of £266 million.

*assuming an average fee of 25 pence per Zapp transaction.
Late payment remains an issue for many businesses. Instant settlement can ease this pressure.

- As well as reducing transaction costs, mobile payment also has the potential to reduce late payment by offering instant settlement to businesses.
- The ICAEW/Grant Thornton Business Confidence Monitor – a quarterly survey of 1,000 businesses which Cebr helps produce – shows that late payment remains an issue for many businesses at the start of 2014. Nearly a fifth (19%) of businesses report late payment to be a greater challenge than a year ago in Q1 2014.
- Although this share has fallen back since the economic downturn, as shown in the graph opposite, late payment remains a problem for many businesses.

Source: ICAEW/Grant Thornton Business Confidence Monitor
Scope for improving online shopping experiences

- New payment channels such as Zapp have the potential to improve consumer shopping experiences on the internet.
- According to Baymard Institute, a web research company in the UK, 67.86% of online shopping carts are abandoned.
- According to Statistica, over a fifth (21%) of online carts are abandoned because the process of online shopping was taking too long.
- This suggests that 14.3% of online shopping carts are abandoned because of long processes.
- As such, by improving the consumer experience and offering faster, slicker payment methods, retailers could draw in additional online retail sales.

Why do online shoppers leave without paying?

- My payment was declined
- Price presented in a foreign currency
- Website time out
- Delivery options were unsuitable
- Concerns about payment security
- Excessive payment security checks
- Process was taking too long
- Website crashed
- Website navigation too complicated
- Decided against buying
- Overall price too expensive
- Found a better price elsewhere
- I was just browsing
- Presented with unexpected costs

Source: Statistica
New payment systems can reduce online checkout times

- Research shows that slicker means of online payment can significantly reduce transaction times for consumers.
- While a typical Visa checkout process on a website is estimated to take 59 seconds, the same process using Zapp takes as little as 22 seconds.
- This is a 63% reduction in checkout time.

E-commerce customer checkout journeys, seconds

Source: Zapp
Faster checkout processes could boost internet retail sales by £1billion

- Reduced online checkout times have the potential to significantly increase retailer sales.
- Cebr estimates that, if average checkout times decline to 22 seconds, the share of online shopping carts abandoned due to long process times would fall from 14.3% to 9.8%*.
- We estimate that this would have implied a £0.9 billion (2.5%) increase to internet retail sales in the UK in 2013**.
- Mobile payment systems such as Zapp may also bolster internet retail sales through improved security. As the graph on page 9 shows, some 17% of online shopping carts are abandoned because of concerns over security.

* we have assumed that half of abandonment is due to pre-checkout processes and the other half due to checkout processes

** we have assumed that half of abandoned purchases result in purchases from other sites. As such, we have accounted for the fact that not all abandoned carts imply a decline in total internet retail sales.

Source: Zapp
There is also potential to improve store shopping experiences

- New payment mechanisms also have the potential to improve shopping experiences in store if they are implemented in the correct way.
- Survey evidence suggests that if retailers are innovative and use systems such as mobile payments to mitigate the need to queue to make purchases, then they can expect an increase in overall sales.
- Survey data from YouGov, graphed opposite, suggests that as many as three fifths (59%) of UK shoppers would abandon a store purchase for a gift when confronted with a very long queue.
- Of those confronted with a long queue, half (50%) would purchase from other places – 32% would purchase online, while 18% would purchase from another shop.

Answers to question: we would like you to imagine that it is summer and you are buying a gift for a close friend. The gift is the only thing that your friend wants and the summer sales are not on. You find the item that you wish to buy but then see that the shop has a very long queue. What would you do?

- I would queue up: 41%
- Would purchase online: 32%
- Would purchase from another shop: 18%
- Would leave the shop: 4%
- Don't know: 3%
- Other: 1%

Source: YouGov survey