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About this study

This study explores the extent of and potential for digital payment systems in the Swiss retail sector. Face-to-face interviews were conducted with representatives of a range of Swiss retailers. In addition, an online survey of 1,000 Swiss residents was conducted in August 2017 in conjunction with the research institute Research Now. The sample was representative of Swiss consumers' age, gender and region.

We would like to thank all those who took part in the research.

1. Key findings



17% of Swiss consumers occasionally pay for purchases by smartphone (mobile payment); less than **1%** always pay by smartphone, while **83%** never pay by smartphone. Over the next 12 months, the proportion using mobile payment on an occasional basis looks set to double.



54% of current mobile payment users solely use third-party providers, such as Apple Pay or Twint; **27%** use retailers' apps, while **19%** use both methods. Among third-party providers, Switzerland's 'digital wallet' system, Twint, is slightly more popular than Apple Pay.



69% of Swiss consumers use automated systems (self-scanning and self-checkout) to pay for their food shopping. **21%** use such systems every time they visit a supermarket, while **26%** use them at least half the time and **22%** use them occasionally.



Digital technology is likely to have an increasing influence on retail payments over the next few years and there is potential for mobile payment systems in particular. Which suppliers will gain the lead in terms of market share will depend largely on how user friendly, secure and widely available such payment solutions are.

2. Shopping with digital devices

It is difficult today to imagine shopping without using digital technologies. One reason is the increasing shift to online shopping: since 2010, the Swiss retail sector has seen online sales increase by 41%, while physical stores have seen their sales decline by 6%.¹

However, physical stores still account for 93% of all retail sales despite the growing popularity of online shopping, and digital technologies are increasingly evident in these bricks and mortar stores too.

83% of consumers use digital devices

According to research conducted by Deloitte Switzerland, 83% of Swiss consumers now use digital devices when shopping in physical stores. This includes using them before and after visits to stores as well as in the stores themselves.² For example, consumers use their digital devices to research information such as prices or product reviews for the items they wish to buy.

Until recently, the overwhelming majority of consumers still went to shops and obtained such information from customer services. Now, they find it online, mostly using their smartphones.

Cash is no longer king

Digital devices are also having an impact on payments. Increasing numbers of customers scan and pay for their purchases themselves, using self-scanning and self-checkout systems. The payment process has been automated to a certain extent, making customers their own check-out assistants.

Digitalisation has also transformed consumers' choice of payment methods. In 2000, 75% of sales in physical retail outlets involved payment in cash.³ By 2016, this had fallen by around one-third, to just under 50%. Over the same period, digital payment methods, such as debit and credit cards, gained in frequency.

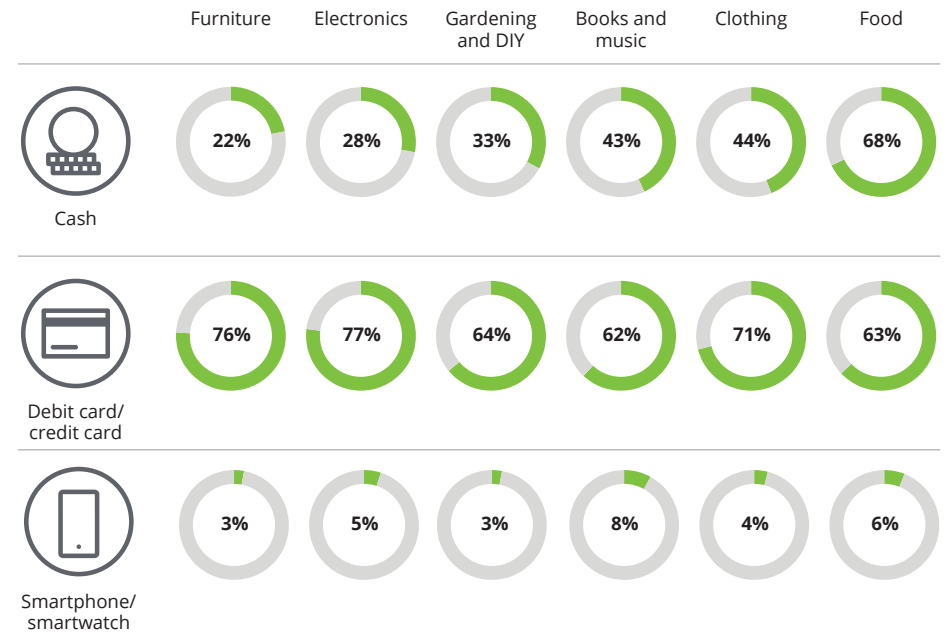
Compared with other countries, Swiss consumers still pay cash for a relatively high proportion of their retail purchases: in the US, for example, cash is now used for only 23% of purchases by value.⁴ However, the trend in both countries is away from cash and towards digital payment methods.

Payment by smartphone still in its infancy

Chart 1 illustrates the current extent of digital payment methods in Switzerland. According to the findings of a representative survey of 1,000 Swiss residents, a clear majority prefer to pay for their shopping by debit or credit card. Food is the exception: 68% of consumers still like to pay cash for their food purchases. Although these findings do not indicate the value of such purchases, they do show that many consumers are already making use of digital payment systems for purchases in physical stores.

The wider availability and increasing popularity of smartphones have made mobile payment a new payment form within the retail sector. Mobile payments are normally cashless and contactless payments using the consumer's smartphone or smartwatch. These devices function as a virtual debit or credit card. As Chart 1 shows, the proportion of mobile payments in physical stores remains low however at between 3% and 8% depending on the product group.

Chart 1. Preferred payment method in physical stores, by product group



Note: up to two responses possible
Source: Deloitte Research

3. Mobile payment

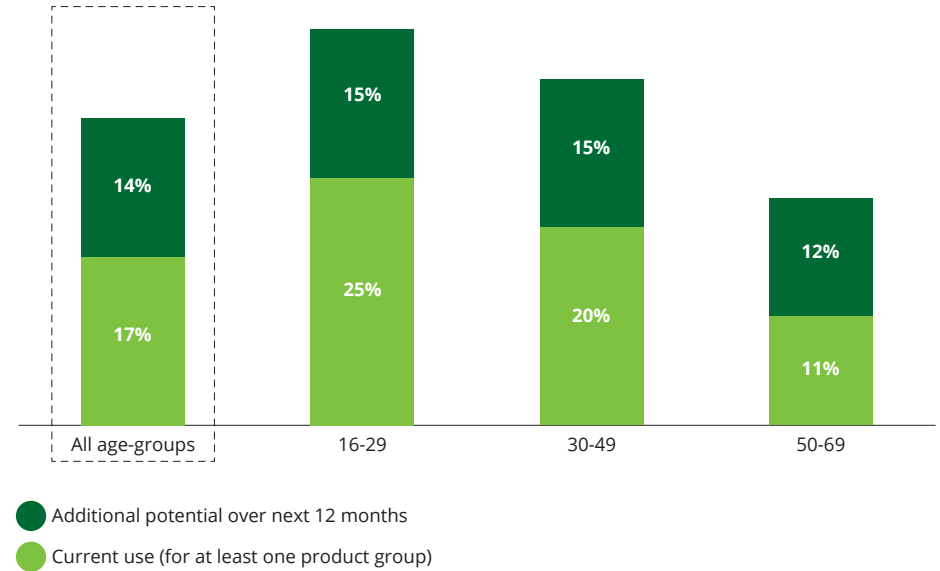
A total of 17% of Swiss consumers report a preference for paying by smartphone for at least one product group (see Chart 2). Conversely, this means that 83% never use their smartphone to pay for purchases in physical stores.

Large user numbers but small transaction volumes

At first glance, this 17% figure appears relatively high, especially when set against the estimates for current Swiss transaction volumes using mobile payment systems (less than 1%).⁵ This discrepancy remains relatively high even when transaction volumes are disaggregated from user numbers.

One explanation may be the frequency of use. Less than one percentage point of this group prefer to use their smartphone for all the product groups surveyed, with most users using mobile payment for just one product group. In other words, while a considerable proportion of Swiss consumers appear to have downloaded mobile payment apps to their phones, only a small proportion are currently using them to any great extent.

Chart 2. Current and future use of smartphones for payment



Source: Deloitte Research

High potential due to high proportion of users

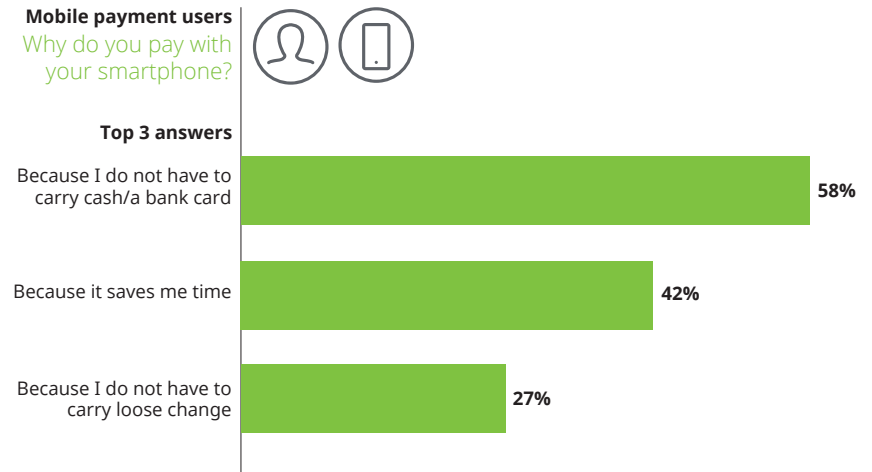
The relatively high proportion of users offers substantial potential for future expansion of mobile payments: as the number of consumers who have downloaded the necessary apps to their smartphones increases, the barrier to using such systems for the first time decreases.

As Chart 2 illustrates, a further 14% of people surveyed report that they will 'probably' switch to mobile payment over the next 12 months. This is in addition to the 17% of respondents who say that they are already using their smartphone for purchases in at least one product group.

Additional benefits from abandoning cash

Future expansion of mobile payments is likely to be driven by consumers' judgement as to whether such systems offer additional benefits over cash or card payments. Chart 3 indicates that a majority of current users believe mobile payments offer additional benefits. 58% of respondents see not having to carry cash and/or a card with them when they go shopping as an additional benefit; 42% believe mobile payments save them time; and 27% report that they do not need to carry loose change.

Chart 3. Reasons for using mobile payment



Note: multiple answers possible
Source: Deloitte Research

“Mobile payment is not fundamentally different from payment by card. With both systems, customers generally enter their credit card details, and a third-party company is involved as intermediary.”

Franz Wittwer, Head of Finance, Administration and Logistics, Loeb

The force of habit

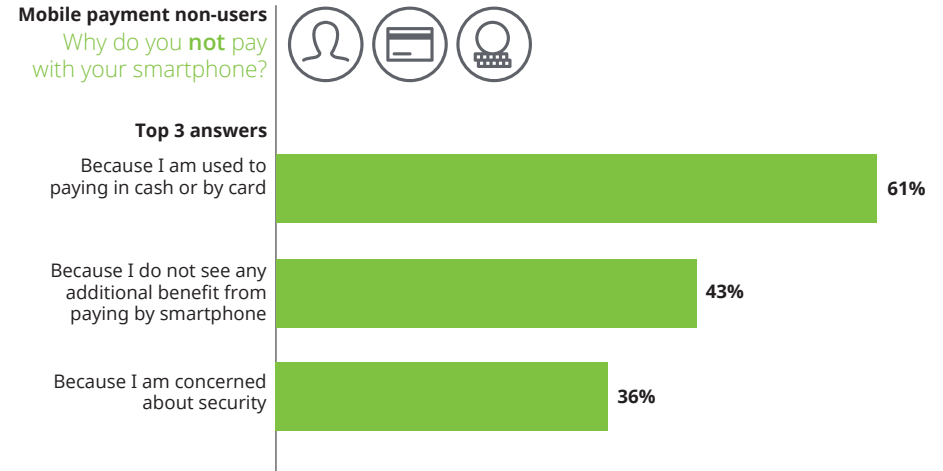
In contrast, 43% of non-users see no additional benefit from paying by smartphone (see Chart 4). It therefore seems unlikely that this group will switch over the next few years, especially given that mobile payment systems are unlikely to change substantially over that time.

One group of current non-users, however, is more likely than others to make the switch – those who stick to conventional payment methods purely out of habit. As Chart 4 illustrates, this group makes up 61% of all non-users, although just over half of that number (35 percentage points) also report seeing no additional benefit or being concerned about security. Excluding these respondents, 26% of consumers are not making a mobile payment simply out of habit.

Security concerns

Trust in the system and a sense of security on the part of consumers will be crucial to future growth in mobile payments. If customers lack confidence in the system, then even users who perceive an additional benefit from mobile payment may be put off using it. As Chart 4 shows, more than one-third of non-users cite security concerns as a reason.

Chart 4. Reasons for not using a mobile payment



Note: multiple answers possible
Source: Deloitte Research

Twint ahead of Apple Pay

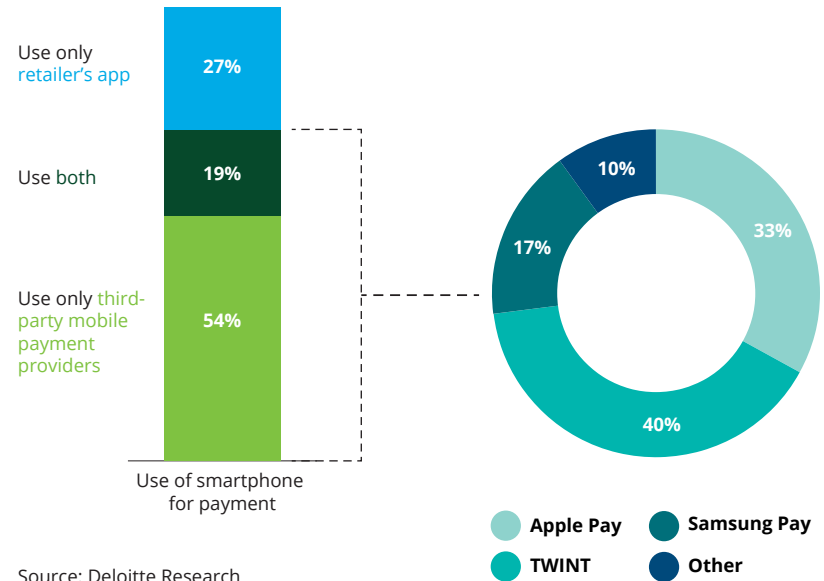
Although physical stores offer a range of mobile payment solutions, two options dominate. Consumers can either use the retailer's own app to pay for their purchases or they can use a third-party provider, such as Apple Pay, Twint or Samsung Pay.

As Chart 5 shows, over half of mobile payment users use third-party providers (54%), with 27% using retailer or supplier apps. 19% report using both these methods.

Among third-party providers, Twint is currently the most popular and is used by 40% of all mobile payment users. Apple Pay accounts for 33% of users, with Samsung Pay accounting for 17%. Twint's popularity among our respondents echoes the findings of other research, for example a study into consumer recognition of a range of mobile payment providers.⁶

While Apple Pay functions like a virtual credit card and transfers data using near field communication (NFC) technology, Twint is more like a debit card: users load money onto the app and then pay by QR code or Bluetooth.

Chart 5. Use of different providers



Source: Deloitte Research

“One important advantage of Twint is that it does not require a credit card, something that may prove decisive among young people in particular.”

Reto Conrad, Head of Information, Production and Services Division, Coop

4. Self-scanning and self-checkout

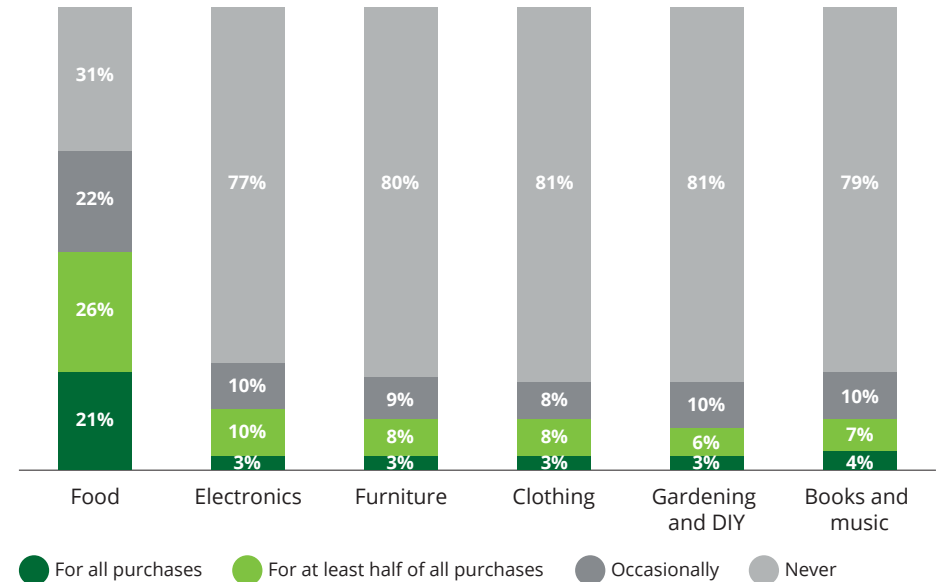
Digitalisation has transformed not only payment methods but also payment processes. The use of self-scanning and self-checkout systems has made increasing numbers of customers into checkout assistants, scanning and taking payment for their own purchases.

The norm for food purchases

Most consumers seem to like self-scanning and self-checkout systems. Such systems were introduced only recently, yet they are now an integral part of the Swiss retail sector. The transformation has been driven by the two market leaders, Migros and Coop, which have installed large numbers of automated checkout systems in branches across the country. This is a major reason why more than two-thirds – 69% – of Swiss consumers already use self-scanning or self-checkout systems for their food purchases (see Chart 6). 21% of consumers report that they always use such systems.

The breakdown by product group produces a rather different picture, however. A large majority of consumers are not (yet) using automated checkout systems for purchases other than food. For some specialist products, consumers attach greater importance to advice than to an efficient payment system; retailers in these areas are therefore not yet rolling out automated checkouts.

Chart 6. Frequency of use of self-checkouts and/or self-scanning by product group



Source: Deloitte Research

“In physical stores, there needs to be a focus on the customer experience and face-to-face advice – these are things that online shopping cannot offer to the same extent.”

Thomas Wengi, Head of Support for Specialist Markets, Migros

Time-saving and practical

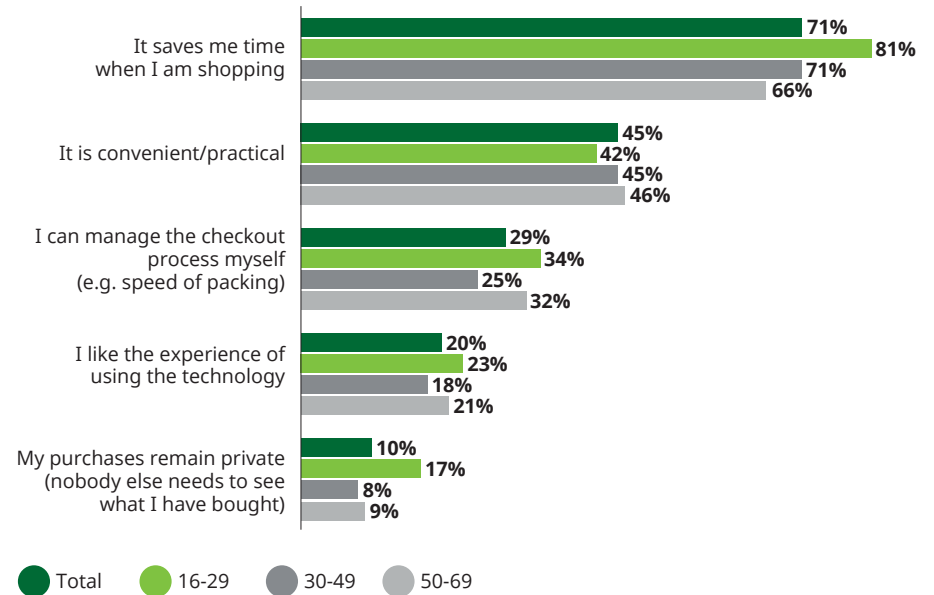
The high usage levels of automated checkouts clearly illustrates that such checkouts are popular with many consumers. As Chart 7 shows, the main reason is they are less time consuming. Almost three-quarters of Swiss consumers (71%) use self-scanning and self-checkout to save time. 45% use automated checkouts because they are easy to use and practical, while 29% like being able to control the check-out process.

However, there are differences between age groups. For example, the proportion of 16- to 29-year olds who use automated checkouts to save time is considerably higher than the proportion of 50- to 69-year olds. The same is true of concerns about privacy: the younger generation is surprisingly more concerned about the privacy of their purchases than the older generation. By contrast, 50- to 69-year olds place greater emphasis on ease of use and practicality.

“It is important with self-checkout systems that the staff are on hand to offer support. If automated checkouts are not staffed, then this sometimes means that they do not offer the full benefit they should.”

Beat Steiner, Head of Digital POS & Service Desk, Manor

Chart 7. Motivation for using automated checkout systems



Note: multiple answers possible
Source: Deloitte Research

5. Looking ahead: Strategies and trends

Although online sales have grown more rapidly than in-store sales, Swiss retailers still make most of their sales in physical stores. This also looks unlikely to change fundamentally over the next few years: 'going shopping' is, and will remain, important for many consumers.

However, this does not make online sales sites secondary to physical stores. Quite the contrary: online sales sites are also having a direct influence on sales in physical stores. For example, many customers now go online to research prices or read product reviews but then make their purchase in a brick and mortar store. Deloitte calculates that this practice influences almost one-third – 29% – of the sales of physical retailers in Switzerland.⁷

Moreover, online sites and digital technologies are becoming increasingly important within stores, where they are used to making shopping easier, faster and more customer friendly. As our study shows, this is also true of payments: over recent years, digital technologies have transformed both the use of payment methods and payment processes.

This transformation started on a large scale only a few years ago, and the process is by no means complete, so retailers still face some important strategic decisions. They need to assess how the market for mobile payment solutions is likely to evolve, to continue to develop and optimise automated checkout systems, and to trial future technologies at an early stage.

Mobile payments: Who holds the best hand?

Although smartphones are unlikely to replace cash payments over the next few years, it is almost certain that the shift to mobile payments will gain momentum. However, the array of mobile payment providers currently makes it difficult to predict with any reliability how the market will evolve and which providers will take the lead in terms of market share. Nonetheless, there are some key differences among the current leaders in the field.

Unlike the Swiss provider Twint, the two leading international providers – Apple Pay and Samsung Pay – have the advantage of being available around the world. Moreover, these two providers process payments more rapidly than Twint because they use near field communication (NFC) technology: Twint users first have to unlock their smartphone, then open the app and finally confirm payment.

On the plus side, however, Twint enjoys broad-based support from major Swiss banks and some of the country's leading retail chains. Twint functions like a debit card, so users do not need a credit card. A further advantage is that the service is not confined to a single operating system.

The future strategy of credit card issuers is also likely to be crucial in determining which third-party providers eventually gain the most market share. In this respect, Twint currently enjoys the greatest support, but it is unclear how long this will continue. Another Swiss mobile payment provider is the country's largest watch brand Swatch which has launched its Bellamy watch with NFC capabilities to handle payment. In the longer term, however, major IT companies may circumvent credit cards altogether and offer their own bank account. Such a move would make banks superfluous as intermediaries.

As well as using third-party providers, retailers may also roll out payment systems using their own apps, as Migros and Coop are already doing. However, the success of such apps depends to a large extent on how loyal customers are and how often they shop with a particular retailer. Infrequent customers are unlikely to download and use a retailer's app, and neither are consumers who have already downloaded a third-party mobile payment app to their smartphone. One advantage of retailers' own payment apps is that they can be combined with incentives such as customer loyalty cards, discounts and vouchers. They can also reflect the specific needs of different consumers.

The deciding factor from the customer's point of view is likely to be how user friendly, secure and widely available any payment solution is.

Automated checkouts: How can they be optimised?

Customers like automated systems such as self-checkout and self-scanning, and make frequent use of them, so such systems need to form part of Swiss retailers' strategic planning. While a relatively small numbers of checkouts may impede introduction of such systems, this needs to be set against lower costs, better use of space and improved customer satisfaction.

It is not surprising that major retailers are already making use of self-scanning and self-checkout systems. Their priority is to optimise their systems in areas such as ease of use, security and deployment of staff (in particular, retraining checkout assistants as customer advisers).

Payment systems: What does the future hold?

Alongside optimising the use of mobile payments and automated checkouts, a priority for Swiss retailers will be to focus on untried new systems and technologies with a view to piloting them at an early stage.

Promising new systems include payment based on facial recognition, which Alibaba is currently trialling in China. With facial recognition technology, customers can pay without cash or a smartphone.

Other systems, like the one that Amazon is currently trialling in the US, operate without checkouts: when customers enter a shop, they only need to open the retailer's app to facilitate a totally automated scanning and payment process.

“Fully automated supermarkets like Amazon Go may not yet be as sophisticated as they should be, but we should not underestimate their potential. After all, 20 years ago, nobody would have imagined that self-scanning could work.”

Stefan Kopp, CFO, Lidl Schweiz

6. Endnotes

1. Excludes online purchases from outside Switzerland. See GfK: Swiss online commerce 2010-2016, GfK, 2017.
2. The digital consumer. The impact of digital technology on consumer behaviour in Swiss retail, Deloitte AG, 2017.
3. Bankkarten verdrängen Bargeld [Bank cards driving out cash], Trüsch, Tobias, Die Volkswirtschaft 8-9/2017, 2017.
4. Figures for the US are based on a consumer survey; those for Switzerland are based on Swiss National Bank data.
5. Kampf um mobiles Zahlen in der Schweiz [The battle for mobile payment in Switzerland], Dietrich, Andreas, Die Volkswirtschaft, 8-9/2017, 2017.
6. Wie die Schweiz Twint nutzt [How Switzerland is using Twint], Dietrich, Andreas, Finanz und Wirtschaft, 9/13/2017, 2017.
7. The digital consumer. The impact of digital technology on consumer behaviour in Swiss retail, Deloitte AG, 2017.

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