How to elevate customer experience and payment in vending in the New Normal?

White Paper

Digital Payments
for a Trusted World

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Introduction

The last 2 years have transformed nearly every aspect of our world. Living through a global pandemic has driven dramatic shifts in our work, social interaction, childcare, and purchasing behaviour. One of the most notable changes was the closure of offices as employees began to work from home.

The vending industry has not been immune to those changes but has been directly hit, seeing most workplaces around the world shutting down. Now, a year and a half on, it seems likely that office life will never be the same again. This can be a source of great uncertainty for the vending industry in Europe when 80% of machines are located in the workplace. Most remote employees state that when the pandemic finally ends, they will want to choose where they work, with many preferring a flexible mix of office and home. That is a profound shift in attitude, which companies and the players within this ecosystem will need to grapple with.

In this report, we will explore the most significant trends and customer expectations impacting payment and vending in the "new normal" and will identify the way it will reshape our industry.

Reshaped consumer and payment behaviour
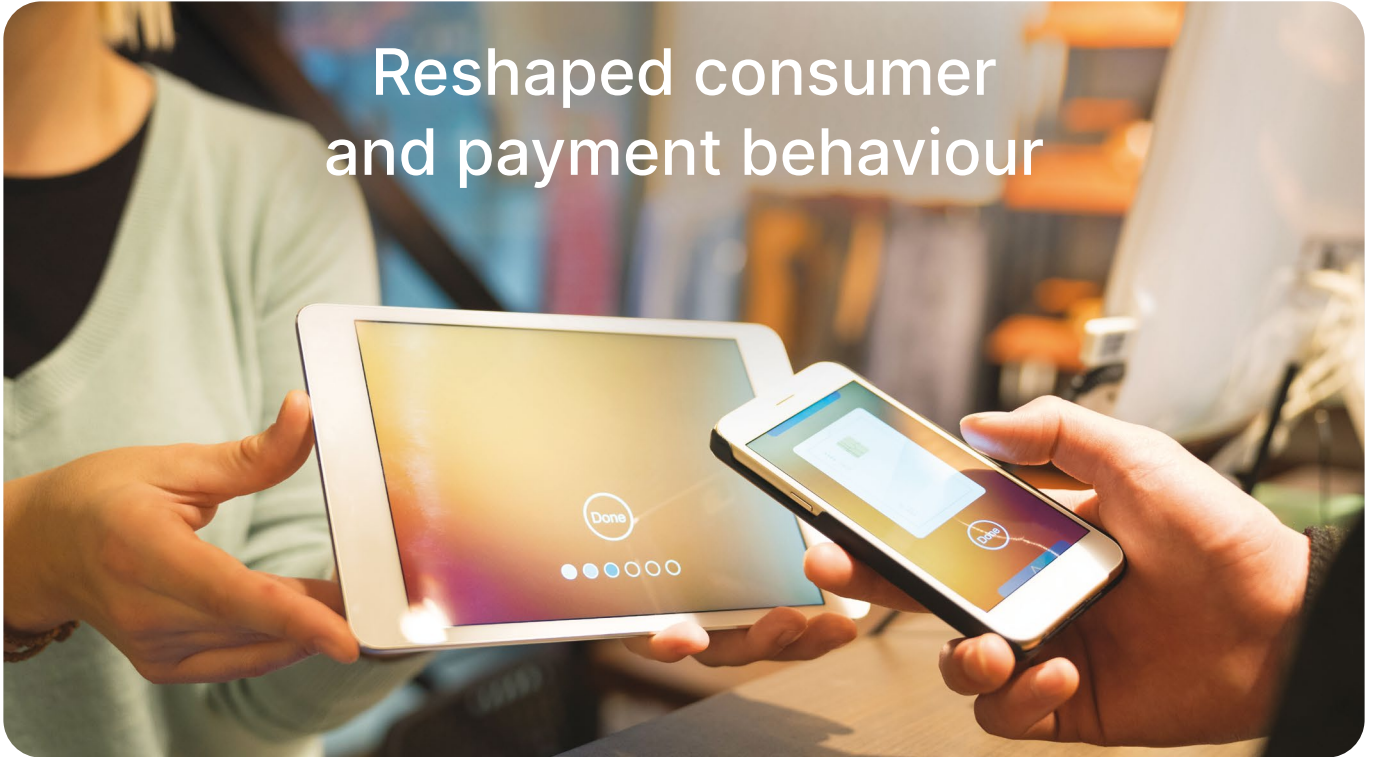
Shift to touchless commerce and rise of contactless payment

The Covid-19 pandemic has demonstrated how emerging trends can be accelerated within a short period of time. These transformations have led to unprecedented changes in shopping behaviour and shaped a new way of doing business, including how we make payments.

First comes the shift from cash to touchless commerce. It is remarkable to see even the most technologically reluctant users getting into the daily habit of using digital-based services such as curbside pickup, remote meetings, touchless check-in or mobile payment.
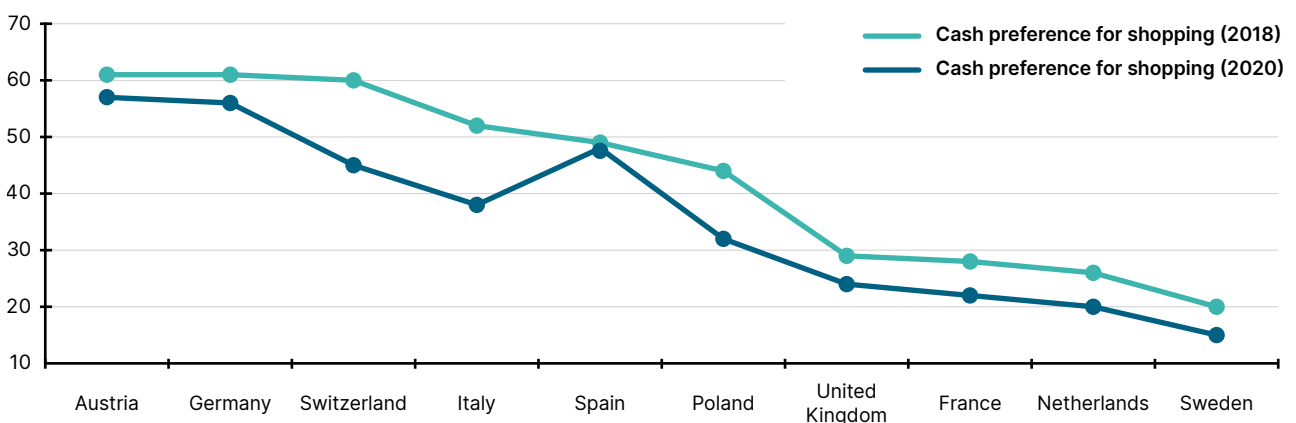
Europe going cashless

Across Europe, the trend towards a more cashless society has been accelerated by the pandemic.

Preference for electronic payment has increased in all Western European countries, including dramatic changes in Italy and Switzerland.

Cashless adoption is still fragmented within Europe, paving the way for incremental growth in the future.

Preference for cash when shopping[1]

Chart legend:
- Cash preference for shopping (2018)
- Cash preference for shopping (2020)

Countries (x-axis): Austria, Germany, Switzerland, Italy, Spain, Poland, United Kingdom, France, Netherlands, Sweden

1 Source: Strategy & Open-Banking Study

![VISA]

Contactless acceleration

Consumer demand for contactless, mobile and online payments has continued to grow as a share of the different payment methods used by consumers.

As of March 2021, 29 countries across Europe have increased contactless payment limits to further fuel this transformation in consumer behaviour. Visa applauds these actions and is fully supporting the rollout of contactless-enabled terminals, cards and mobile devices.

- More than 80% of Visa payments in Europe are now contactless (June 2021)

- One billion Visa contactless payments within the new, higher limits have been processed, including over 400 million in the UK (March 2021)

- In many countries in Europe, the share of contactless Visa transactions has increased by at least 20% (YOY growth, March 2020 – March 2021).

- The share of Visa transactions that are contactless has increased across all countries and now represents the majority of all card present transactions.

| Contactless penetration	June 2021
Central Eastern Europe	Around 95%
Central Europe	Around 80%
France, Belgium, Luxembourg	Around 70%
Nordics & Baltics	Around 80%
South Eastern Europe	Around 80%
Southern Europe	Nearly 75%
United Kingdom & Ireland	Around 80%

Supporting seamless customer experience

What we are seeing is that frictionless payment technology, such as contactless, is critical in a world where no-contact, touchless experiences are here to stay.

- Implementing contactless payments provides an opportunity for vending operators to offer more seamless experiences.

- Visa's role goes well beyond enabling contactless payments; helping cities across Europe to grow sustainably and take advantage of the latest digital commerce solutions.

- In the near future, many other everyday objects will be equipped with a payment function. For example, connected cars will, just like smartphones today, be linked to a Visa card, making everyday life easier for consumers.

Whatever the "new normal" looks like, one thing is certain: contactless and digital payments are here to stay.

Richard Campion – Head of Acceptance, Visa Europe - added: *"Consumers and retailers rely on digital solutions to make everyday payments and contactless payments has become the norm for many European consumers and retailers. Contactless payments are popular because they combine speed and convenience with security and those factors are increasingly relevant to the Vending sector. Enabling contactless and digital payments will be key to Europe's economic recovery."*
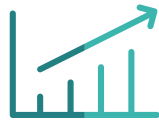
Self-service sector growth

With social distancing continuing to be the norm, so self-service culture has grown, a valuable solution to the current unprecedented circumstances. Many people, in addition to businesses, try to keep their touch points on a digital level. With that comes a large number of digital solutions which support social distancing whilst saving time and reducing cost.

The pandemic saw a growing demand for more convenience vending. The European Vending & Coffee Service Association (EVA) reported in its 2020 report on the Covid-19 impact on the vending and OCS industry that 77% of operators were expecting a change in consumer behaviour at the vending machine and confirmed the growing need for new alternatives to canteens due to changing habits in the workplace.

Erwin Wetzel, General Director - European Vending & Coffee Service Association commented: *"According to our 2021 report on the economic situation of the vending & OCS industry, on the one hand operators see an increased demand for snack and fresh food from chilled vending machines due to the closure of canteens and company kiosks as a consequence of the pandemic, while on the other hand, 72% of the operators consider home office as the biggest threat, because it reduces the number of vends in the traditional business. This means that there are opportunities for the industry to diversify the offer, and to develop new concepts to adapt to the new working environment of employees. The report also confirms that cashless solutions and digitalisation are the biggest opportunities for operators to achieve this transition. Traditional vending machines will still play an important role and remain attractive thanks to innovative features. However, new solutions will help to grow the self-service segment."*

In Europe, many new solutions are expected to increase such as:

- **smart fridges**, with growing demand across Europe for these new machines allowing a broader and fresher range of products in connected refrigerated machines.

- **micro-markets**, such as small, unattended convenience stores in workplaces, widely deployed in the United States and now taking off in Europe. Other alternatives such as frozen connected snack bars, bringing healthy food 24/7 in private places. The Vending & Automatic Retail Association reports continuous growth over recent years, with a 350% increase since 2017[2].

- **automated outdoor machines**, for items such as fresh pizzas, regional and farm products and new concepts developed by the foodtech industry.

Applications beyond traditional convenience services

Micro-markets are not only for traditional vending machine operators. The micro market can be an ideal solution for retailers such as supermarkets and pharmaceutical businesses that wish to expand beyond the store and allow customers 24/7 access to products.

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2 https://business-reporter.co.uk/2020/10/28/the-future-of-retail-vending-innovations-in-a-post-pandemic-world/

Importance of health and sustainability

The Covid-19 outbreak has pushed consumers out of their normal routines, including the way they purchase in self-service. Three long-term trends have been identified and have accelerated:

Conscious consumerism

Many consumers state that the Covid-19 pandemic has turned them into a more ethical, more environmental-conscious consumer. Of those questioned, 60% of consumers reported making more environmentally friendly, sustainable or ethical purchases since the start of the pandemic. 90% said they were likely to continue doing so in the future as well[3].

For vending, this will continue to adapt to consumer preferences with fresher and healthier goods, higher quality food, nutritional information... Vending machines will have to be smarter to provide a smooth buying experience, with informative messages. In parallel, efficient support to operators will be required with business intelligence and dynamic management of their inventory[4].

Buying local

Consumer behaviour has changed with more shoppers seeing their local food shops and independent retailers in a new light. In its 2020 Britain study, ThoughtWorks found that after a year in and out of lockdown, more people are considering buying food directly from producers or online through ecommerce websites[5].
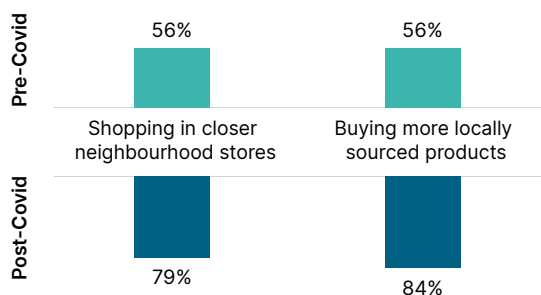
Only 32% of under-25-year-olds believe the future of food shopping will take place in a traditional supermarket environment – down from 58% in 2018.

Of the top 10 ways people will buy food in 2030, purchasing from local producers through ecommerce (34%), buying directly from farmers (27%) and buying from a local high street shop (26%) ranked third, fifth and sixth respectively.

This means new distribution channels to develop, like direct-to-consumer kiosks – and new merchants - more local - to address for vending integrators and operators.

Proportion of consumers who are changing their shopping habits[6]

	Pre-Covid	Post-Covid
Shopping in closer neighbourhood stores	56%	79%
Buying more locally sourced products	56%	84%

3 https://www.bbc.com/news/business-55630144
4 https://www.specialityfoodmagazine.com/news/post-covid-consumer-shopping-trends
5 https://www.specialityfoodmagazine.com/news/local-shopping-trend-2021
6 Source: Accenture COVID 19 Consumer Pulse Research

How can vending companies gain a competitive advantage by embracing this new reality and adopting emerging trends?

With so many touchpoints and channels available for consumers, vending operators should, like retailers, feel the pressure to react quickly and create a frictionless end-to-end experience: from a seamless user journey to fast payment, customised messaging and an agile supply chain.

Companies must invest in the data, technology and systems required to enable them to deliver the kind of exceptional consumer experiences that will give them a competitive edge and position them as the next customer-experience leaders.

So how can vending players react to these shifts and rethink their operational model? **4 key drivers have been identified:**
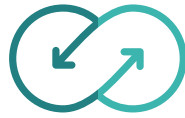
Flexibility and agility

Innovation as enabler of new customer experiences in Vending

Payment security

Digitalisation and omnichannel

Flexibility and agility

The Covid-19 crisis has emphasised how important it is to adapt rapidly and scale new operational practices: **accept electronic payments - update new contactless limits - introduce new means of payment - refund the user - or even to reflect changing customer expectations, such as paying on the go or buying online**.

Business agility can also be enhanced by leveraging a cloud-based payment gateway, giving companies the much-needed dexterity to manage points of acceptance remotely, get real-time analysis of the processed payments, respond to evolving market conditions, and reduce unnecessary human involvement.

During the pandemic, restaurants which quickly implemented **outdoor self-service kiosks** were able to maintain business continuity, secure their revenues and retain customers. This strategy demonstrated its efficiency in overcoming short-term business challenges. But it also turned into a long-term plan for revenue growth with extended service hours and diversification of sales channels for an enhanced customer experience.

Caroline Jeanneau, Head of Vending Offer – Worldline added: *"Making sure to have the right building blocks to scale their business & their payment acceptance capabilities has proven to be the winning* strategy for merchants & vending integrators during the outbreak. *The ability to scale, to adapt to new consumers' expectations should be taken as a priority, not only for pure retailers but also in self-service businesses. This transformation can be managed smoothly, with transitional steps. First step will be the upgrade of existing vend machines with modern points of acceptance, with limited costs. What matters the most is to invest in evolutive solutions, future-proofed to enable extended digital commerce and business management capabilities in a second stage."*

New innovative technologies as enablers of new vending customer experiences

Technological innovations, such as face and voice recognition, interactive display systems and big data integration, are making the vending machine easier and more convenient to use and will also have a positive impact on demand. The advent of the **Internet of Things (IoT)** will also contribute to the expansion of smart machines. Large format, interactive touch displays, dialogue-oriented sales & payment processes, loyalty schemes, smart advertising are all key developments of our times and will enhance the overall customer experience.

With such developments, vending machines have evolved and are much more than drinks dispensers. They can now deliver custom-made food items such as ready-meals and salads.

Creating new customer journeys & experiences at vending machines will also require new payment-related features. For instance, a new payment flow is required to support **smart coolers**. Advancement in technology enables new customer experiences while shopping / rendering services. A key differentiator from a "traditional transaction" is that the merchant / service provider accepts the payment (e.g. contactless) at the start of the shopping/service delivery, and before the final transaction amount is known.

An initial estimated authorisation will allow merchants to receive approval to open the fridge door. The final transaction amount is calculated once goods have been collected and the door is closed.

Contactless payment solutions also support so called **reverse vending** – which enables the recycling of single use containers such as plastic or glass bottles, aluminium cans, etc. for a fee. This is a great example of how innovative technologies can support and contribute to the growth of the circular economy.

The Reverse Vending Machine (RVMs) market is expected to expand at a significant pace with substantial growth rates. A recent research report, entitled Global Reverse Vending Machine Market, shows that the changing consumption patterns are expected to have a significant impact on the overall market. According to QY Research[7]. RVM market is forecast to grow from $343.6 million in 2018 to $685.1 million by the end of 2025.

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7 https://resource-recycling.com/plastics/2021/03/22/first-person-perspective-reverse-vending-machines-can-help-our-industry-reverse-collection-struggles/

Vital payment security

In a changing commerce environment, **safety and security** are a bigger concern for customers. Security of payment with secure transactions is key and cybersecurity becomes a more serious concern as more business activity moves online.

Vending integrators and operators won't be excluded from this risk with the growing adoption of contactless payment, digital wallets and in-app ordering. This will have several implications and operators should get ready for it. Solutions have to be implemented, without tipping the balance between payment security and consumer convenience. This will imply:

- **Strong Customer Authentication (SCA) as a must-have:** vending operators have to get ready for full Payment Services Directive (PSD2) compliance. They can significantly increase their revenues by offering card payments but if they do not provide SCA, the risk of losing sales and negatively impacting their brand reputation in case of security breachis high. Both operators & integrators need to secure and optimise their sales in the near future.

- **Payment Card Industry (PCI) compliance as a baseline:** meeting the stringent security standard to be PCI compliant is the first step towards other regulatory compliance. Preventing card payment fraud starts with meeting the payment card industry standards. PCI encompasses a set of rules and regulations around credit cards, sensitive payment data and other identifiers. It is vital for the long-term success of all vending operators to invest in PCI certified solutions. When you become PCI compliant, the costs of meeting the requirements of other standards are drastically reduced, since you will already have tested a majority of your security controls. For PCI compliant operators, the likelihood of developing business relationships also increases and this will secure business partners.

- **Get the support of a reputable partner:** payment security is difficult and operators should turn to proven partners to outsource this complex task. They can produce outcomes aligned to their business interests, for the short and longer term while helping operators concentrate on their core activity.

Digitalisation and omnichannel

In the future, digital adoption is expected to grow further and will be a key driver for growth for many consumer businesses. Digitalisation will mean a reduction in costs and will help to forecast sales, allowing a more effective supply chain with demand alignment. The increase in digital payments is also an opportunity for improved data analysis. Loyalty programmes and brand engagement actions will be key to maintain and build customer engagement as the main barrier for traditional sectors has been the slow implementation of new technologies.

To fully take advantage of digitisation and retain customers with differentiating experiences, merchants need to shift to a cloud-first way of working and leverage the IoT. New consumer habits lead to new shopping interactions, such as touch-free services which allow shoppers to not only pay but also select their purchase and even establish direct contact with their chosen brand. The payment experience needs to be fully embedded into this customer journey to ensure that the experience is and remains compelling.

In self-service use cases, this will apply for instance when pre-ordering a pizza through the merchant's app and collecting it at a kiosk, or flashing a loyalty card at the vend machine. In workplaces, this is illustrated with digital wallets supporting dematerialised meal vouchers and company-subsidised wallets.

With this, a superior personalised experience can be achieved by enabling a seamless purchase journey for the consumer with close collaboration between physical and digital channels and by being innovative in building omnichannel capabilities.

In the long run, achieving these objectives will future-proof organisations and help them retain their competitiveness in an increasingly crowded space.

Nicolas Dejonghe, Head of Vending & Adjacent Markets at Worldline commented: *"For vending businesses, omnichannel capability is becoming an important feature of the chosen payment solution. The implementation of a cloud-based payment gateway allows operators to have a comprehensive and real-time view of their vends whatever the channel used by their customers (Mobile payments, closed loop wallet recharges, card payment). The native availability of tokenisation of such solutions gives the possibility to operators to understand and monitor the habits of their consumers using non sensitive information. Payment experts, like Worldline, can support efficiently the implementation of such solution. It allows operators & integrators to concentrate on their core activity, while letting Worldline manage payment complexity on their behalf".*

In conclusion

Recent circumstances have created what many expect to be irreversible trends in customer behaviour. But there is a competitive advantage to be gained by vending companies that embrace this new reality and adopt emerging trends, such as cashless payments, innovative customer interactions and mobile purchases.

To successfully support their growth and develop their ambitions in our fast-evolving digital world, vending experts should rely on trusted payment experts to manage complexity.

With its expert team, Worldline fully supports major international vending players and a variety of local vending operators and industry experts throughout Europe. Worldline offers flexible solutions from one-stop-shop to tailored offers to make self-service payments fast, simple & safe.

By combining next generation acceptance terminals with advanced technologies, such as mobile payment, Worldline provides access to an all-in-one place from accepting any kind of payment to receiving money, unlocking the omnichannel potential of its vending partners.

About Worldline

Worldline [Euronext: WLN] is a global leader in the payments industry and the technology partner of choice for merchants, banks and acquirers. Powered by 20,000 employees in more than 50 countries, Worldline provides its clients with sustainable, trusted and innovative solutions fostering their growth. Services offered by Worldline include instore and online commercial acquiring, highly secure payment transaction processing and numerous digital services.
In 2021 Worldline generated a proforma revenue close to 4 billion euros.

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WL Vending Suite
https://business.worldline.com/en/wl-vending-suite