

PayPal

How payments impact the retail customer experience

The new era of shoppers



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Great products at great prices are critical in retail, but experience is becoming a major differentiator.

Shoppers want seamless journeys across every channel, and payments play a critical role. More than a transaction, they're a means to reduce friction, build trust, and turn intent into loyalty.

And with customer expectations shifting fast due to economic pressures and increased demand for convenience and personalization, the retail sector itself is also changing.

What's changing in retail?

Many factors are impacting consumer shopping behavior, such as economic pressure and shifting spending habits, redefining the rules of US retail. Growth is still forecast, but it comes with tighter margins, new payment preferences, and a customer base that shops across channels without distinction.

US retail sales are projected to rise 2.7%–3.7% in 2025, reaching over \$5.4 trillion.¹

Customers want a unified experience

Shoppers expect a streamlined, connected experience, wherever they choose to buy or browse. Retailers that can recognize the same customer across every channel (both physical and digital) and make their journey seamless from start to finish, stand to win big.



¹ NRF, 'NRF Forecasts 2025 Retail Sales to Hit \$5.42 Trillion, Despite Economic Uncertainty', 2025. Available at: <https://nrf.com/media-center/press-releases/nrf-forecasts-2025-retail-sales-to-hit-5-42-trillion-despite-economic-uncertainty> (Accessed: August 2025)

Digital wallets are on the rise

Convenience, security, and flexibility now drive payment choice, and digital wallets are fast becoming the go-to option across channels. When retailers fail to meet this expectation, they risk losing customers at the moment that matters most: checkout.

Digital wallets are now the leading way to pay online in the U.S. and are rapidly gaining ground in stores²

E-commerce has consistently made up about 15–17% of U.S. retail sales since 2020³

Create a smarter payments strategy to get ahead

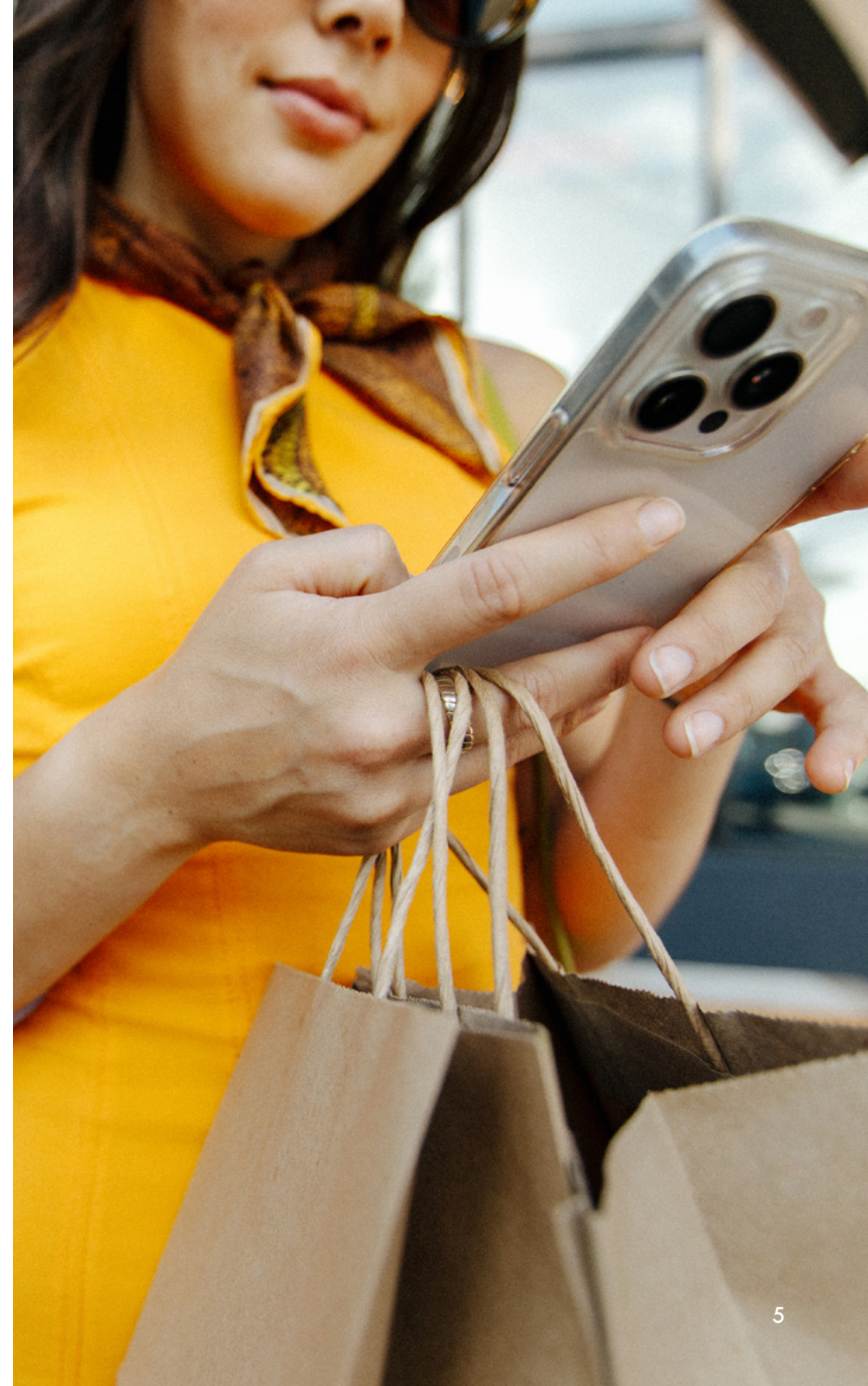
Rising labor costs, tariffs, and supply chain pressures are squeezing margins. Payments can be a powerful lever to ease that pressure while improving the customer experience.

A smarter payment strategy can:

- Cut processing costs
- Improve authorization rates
- Reduce cart abandonment
- Build customer loyalty

² Worldpay, 'Worldpay Global Payments Report 2024: Digital Wallet Maturity Ushers in a Golden Age of Payments', 2024. Available at: <https://worldpay.com/en/global-payments-report> (Accessed: August 2025)

³ The Census Bureau of the Department of Commerce, 'Quarterly Retail E-Commerce Sales Report', 2025. Available at: <https://www.census.gov/retail/ecommerce.html> (Accessed: August 2025)



Expected barriers in retail transformation

Overcoming barriers is critical for retailers to adapt and move forward with confidence. Disconnected systems, rising costs, and outdated technology make it hard for retailers to deliver the streamlined experiences customers expect.

A fragmented customer experience

Disconnected systems often create inconsistent journeys across channels, which can lead to:

A smarter payment strategy can:

- Disjointed customer data
- Inconsistent payment options
- Higher cart abandonment
- Difficulty recognizing returning customers

Rising costs and complexity

In the US, card processing authorization rates for specialty retail purchases through PayPal Checkout are **2.1 percentage points** higher than the market average.⁴

Managing payments has become increasingly expensive and complicated. Retailers now have to handle:

- Multiple providers, adding to operational overheads
- Card processing fees, which continue to climb
- Fraud and chargeback losses cutting into margins
- Reconciliation processes draining resources

Technology integration hurdles

Retailers cannot innovate at speed when legacy infrastructure creates inefficiencies. Many retailers use:

- Modern payment tools that don't integrate easily with older POS systems
- Quick fixes that can create costly technical debt and potentially hinder operational efficiency
- Manual processes that absorb valuable employee time

⁴ PayPal internal data, Q3, 2024

How payments are transforming retail

With the right strategy, payments can streamline operations, unlock customer insights, and strengthen fraud protection, turning a cost center into a competitive advantage.

Creating unified payment experiences

Consistency across every channel is essential. Streamlined checkouts help reduce cart abandonment, while options like in-store pick up, contactless, and mobile checkout ensure customers can shop the way they prefer.

Leveraging data for greater payment insights

Every transaction generates insights. Retailers that harness payment data can better understand customer shopping behavior, resulting in smarter decision-making and more personalized, profitable experiences.

Strengthening fraud prevention

Payment fraud remains a costly challenge, but the right tools make prevention less of a burden. Real-time transaction monitoring and advanced machine learning help stop fraudulent payments without adding friction, safeguarding revenue while protecting customer trust.



How should retailers move forward?

Knowing where to focus your payment strategy for the biggest impact is key. Here are **four core areas** to consider.

1. Are you balancing physical and digital investment?

Physical stores remain central to retail, even as digital influence grows. To bridge the two, invest in technologies that connect experiences across channels:

- In-store pick up services
- In-store mobile checkout
- Unified inventory systems

2. Can you automate to drive efficiency?

While labor, freight, and operating costs continue to climb, automation in payments and operations can relieve pressure by:

- Increasing reconciliation efficiency
- Reducing manual errors
- Freeing Streamlining personnel for higher-value work



3. Where could you capture alternative revenue streams?

The strongest retailers are building new revenue streams beyond transactions. For example, payments can unlock business growth and value through:

- Retail media networks – monetizing first-party data by offering brands targeted ad space across digital channels
- Loyalty programs – using rewards and incentives to drive repeat purchases and strengthen customer relationships
- Targeted offers – delivering personalized promotions at checkout that can help increase basket size and conversion

4. How do you cater to customer demographics and choice?

Polarized consumer behavior is shaping a two-speed market, and payment strategies must cater to both ends, offering flexibility and choice that meet diverse expectations.

- Affluent shoppers are willing to pay more for premium, streamlined experiences

The results of smarter retail payments

When payments are treated as a strategic asset, the results speak for themselves.

Increased operational efficiency

Smarter payment systems may help cut costs and free up resources. Optimized routing reduces processing fees for retailers, while automated reconciliation shortens reporting cycles and limits manual intervention. With fewer payment-related service queries, employees can focus on higher-value tasks, driving efficiency across operations without compromising customer experience.

Revenue growth

Globally, retail merchants using Pay Later see average order values 78% higher than standard PayPal transactions.⁵

A strong payment strategy feeds directly into top-line growth. Higher authorization rates mean more completed sales transactions, while flexible options like Buy Now Pay Later lift average order values. Reducing friction in cross-border transactions also unlocks international demand, helping retailers expand reach and capture new revenue streams.



Positive customer experience

Streamlined checkouts help reduce cart abandonment, while digital wallets encourage repeat purchases through speed and convenience. In-store, integrated payment solutions can help shorten lines and enable faster transactions, creating easy experiences that keeps customers coming back time and time again.

⁵ Internal Data Analysis of general-retail merchants with Pay Later transactions from January – December 2024. Data inclusive of Pay Later transactions across 7 markets (US, UK, AU, DE, ES, IT, FR).

Make payments your competitive advantage

Payments influence every part of the retail experience, from cutting costs to building customer loyalty. For US retailers under pressure from rising costs and shifting consumer behaviors, the right partner can simplify complexity and deliver consistent experiences across channels.

PayPal Open provides that foundation. With one integration, retailers can support wallets, Buy Now Pay Later, and mobile-native checkouts, while benefiting from fast deployment and low developer lift. Advanced fraud protection and the confidence of PayPal's trusted brand help safeguard margins, while partnerships like PayPal x Verifone strengthen in-store experiences.

Every smooth payment is another reason for a customer to return, and in retail, repeat business is everything.

Ready to talk about how PayPal Open can help you boost conversion and build loyalty across every channel?

Get in touch

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