

Arkwright

IN PARTNERSHIP WITH MPE



PAYMENTS FROM A MERCHANT'S PERSPECTIVE

A EUROPEAN INDUSTRY ASSESSMENT

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Payments from a Merchant's Perspective

A European Industry Assessment

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Written and edited by:
Francesco Burelli
Steven Jacob
Peter Großkurth
Lena Büttner
Oliver Leimbach

To request an electronic copy and for more
information on the topics of this report please
contact:

francesco.burelli@arkwright.de
steven.jacob@arkwright.de

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FOREWORD

When considering the fast-changing world of merchant payments, how do you envision the current and emerging trends, challenges, and opportunities in 2024?

This year, once again, the Merchant Payment Ecosystems Team partners with Arkwright to bring unique research and fresh insights to our community of merchants and acquirers ahead of the MPE 2024 conference.

On this occasion, we took the perspective from the merchant side of our community. We have conducted a survey aimed at understanding the key dynamics, challenges, and needs to identify possible opportunities for merchants and their acquiring providers to potentially collaborate and enhance their businesses and the industry as a whole.

Evolution always brings forth numerous questions and misconceptions. We will shed some light on current trends and explore merchants' preferred payment methods. You will learn about the key challenges in in-store and online payment acceptance, as well as the innovations merchants expect from their payment providers.

If you are interested in discussing the trends and learning more about the changing merchant payments ecosystem, we invite you to join us at MPE 2024 on March 12-14 in Berlin. We look forward to seeing you there, and until then, happy reading!



Natalia Ivanis

Head of Marketing & Media Partnership
Empiria Events



EXECUTIVE SUMMARY

THE SUCCESS OF THE PAYMENTS INDUSTRY IS CLOSELY INTERTWINED WITH THE SUCCESS OF THE RETAIL COMMUNITY IT SERVES.

Ahead of mpe 2024, the premier European merchant payments conference, Merchant Payments Ecosystem (MPE) and Arkwright Consulting partnered on a joint research project. On this occasion, we decided to move beyond the merchant acquiring segment and take a further step along the industry value chain to focus on the merchant segment.

During Q4 2023, MPE invited merchants¹ within its community to participate in the survey, with a response from just over 10%. Arkwright then performed the research through online questionnaires and a sample of deep-dive interviews.

Overall, the European merchant industry appears to be facing a variety of challenges. For example, the general characteristic of the economic environment is that the region has managed to avoid recession, yet consumer confidence and the propensity to spend are, in certain areas, noticeably restrained.

Many merchants are facing the challenge of a business that is technically growing in revenues due to price inflation instead of by an actual increase in the volume of goods sold.

There is also a perception that certain payment services may not be priced at a level considered as fair by many merchants. In particular, mobile wallets were mentioned as a payment type that is unfairly priced due to a lack of competition.

¹ During November and December 2023, MPE and Arkwright Consulting jointly developed a survey for the MPE's merchant community. 1,711 merchants were invited to the survey, of these 174 responded, providing answers to a questionnaire prepared by MPE and Arkwright. Arkwright followed up with 32 deep-dive interviews, randomly selected from the responding merchants, with the aim of expanding the answers, seeking further clarification and/or broadening the scope of the questions.

Unsurprisingly, fraud is a challenge that continues to plague the industry. Online merchants are mainly concerned about customer authentication being a point of friction that may lead to cart abandonment. In-store challenges include the handling of returns and refunds originating from online sales and the complexity of integrating them within the in-shop payment infrastructure.

Standardized and low-friction open banking payments are scoring high on merchants' wishlists for payment innovation, together with a demand for data and analytics solutions. Overall, there appears to be an untapped demand for services and support that may enable payment providers to differentiate their services, moving away from price competition to an advantage based on improved value propositions and services.

Overall, the success of the payments industry is closely intertwined with the success of the retail community it serves. Not only does the MPE/Arkwright survey provide a snapshot of the European retailing industry, but it also points to potential focus areas for the improvement of merchant acquiring and acceptance value propositions alike.

INTRODUCTION

FOR MERCHANTS,
THE PAYMENT PLAYS
A VITAL ROLE
IN CLOSING A SALE.

The act of paying is an important part of each shopping journey, both in-store and online. Most consumers are oblivious to the complexity of the data exchange that takes place during the few seconds it takes to complete a payment in electronic form, or of the cash handling processes in the case of a cash payment.

For merchants, the payment plays a vital role in closing a sale. It is of strategic importance for them to be able to cater to new payment instruments, as well as evolving customer needs and preferences.

The success of every player in the payments industry depends on the ability to meet consumers' and merchants' demand in facilitating fast, safe, and smooth transactions.

Arkwright Consulting has once again had the opportunity to partner with the top tier event in the merchant acquiring and payment acceptance industry, MPE. The shared research initiative, specifically prepared for mpe 2024, is focused on payment acceptance.

Starting from a questionnaire that MPE shared with over 1,700 European merchants² within its community, our report not only reflects the current state of the European merchant payments industry but also places it into the context of economic factors influencing consumer and merchant payment behaviors.

By highlighting key findings, we aim to bridge the gap between the evolving merchant needs and the rapidly transforming payments landscape, providing an overview that encompasses economic factors, market trends and payment innovations, which is essential for stakeholders navigating the European retail payments acceptance industry.

² Ibid.

PAYMENT BEHAVIORS IN EUROPE

There is much diversity in the economic, habitual, and cultural backgrounds across Europe; this is reflected by the distinctive transaction preferences in different countries.

Diverse payment methods play a different role in consumers' everyday life, as shown by the European Central Bank's (ECB) "Study on the payment attitudes of consumers in the euro area (SPACE)", which provides a snapshot of the payment mix across Europe in 2022.³ The ECB study served as a baseline to which the responses of the Arkwright merchant study were compared to.

Fig. 1 – Share of payment instruments used at the POS based on the value of transactions, in value 2022-2023.⁴

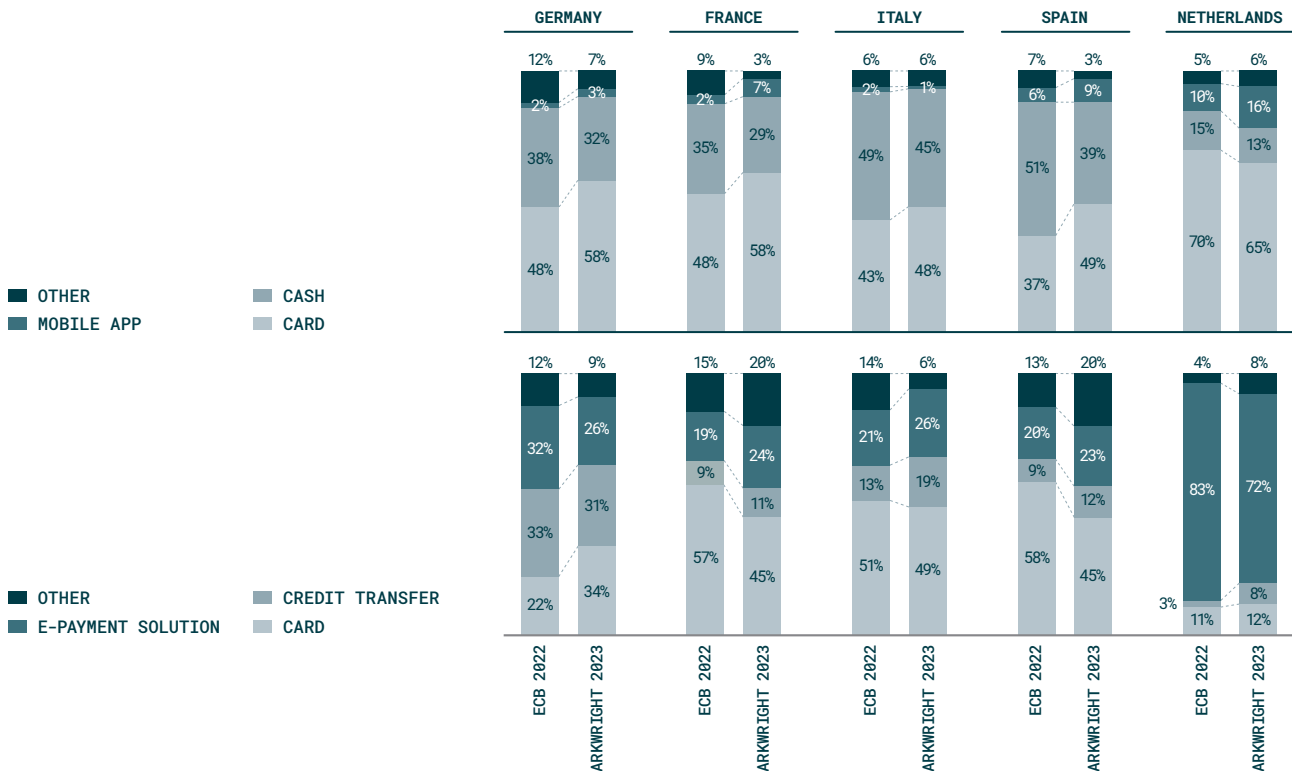


Fig. 2 – Share of payment instruments used online based on the value of transactions, in value 2022-2023.⁵

³ Please refer to Appendix 1 for more details.

⁴ European Central Bank, "Study on the payment attitudes of consumers in the euro area (SPACE) 2022". ECB based its calculations on De Nederlandsche Bank and the Dutch Payments Association (2022) and Deutsche Bundesbank (2022). MPE's and Arkwright Consulting's Merchant Payment Survey (2023).

⁵ Ibid.

Figures 1 and 2 provide an illustration of the payment mix resulting from the merchant study at the end of 2023 compared with the payment mix reported by the ECB in 2022.

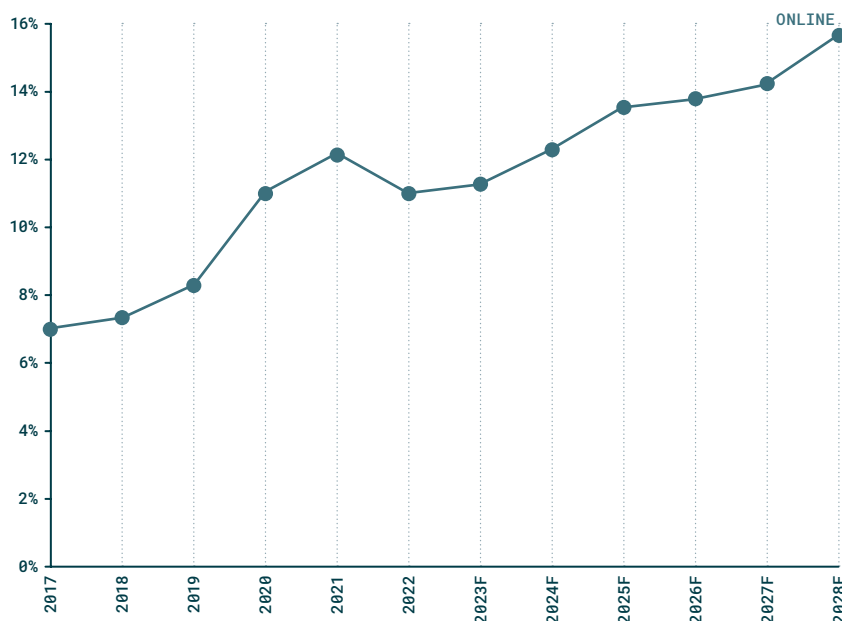
While being mindful of the limited comparability of a full market study against a merchant survey with a limited sample, and possible distortions originating from discrepancies in the share of merchants by category type of the two samples, the results raise some interesting points for consideration.

In-store payments are seeing a diminishing share of cash and a growing share of electronic transactions, a trend accelerated during the Covid-19 pandemic. Transaction value share paid by cards appears to be on the rise in most markets in our sample, except for the Netherlands, where mobile payments and other types of electronic payments (e-payments) are increasing. This is likely driven by a growing preference for iDeal, the Netherlands' long-established online payment method, and mobile wallets.

Online payments show a varied set of changes across markets. E-payment solutions (e.g., wallets) are increasing their share in France, Italy, and Spain. In line with that, further investigation revealed that German merchants indicate a growing preference towards wallets and other e-payment solutions for online transactions. However, card payments continue to be the dominant online payment method in most countries included in the sample, except for the Netherlands.

Overall, payments volume by retail channel will continue to be driven by the dynamics of in-store versus online purchase behavior. Figure 3 provides an illustration of the current and predicted share of online retail sales as a percentage of total retail sales in the 27 EU countries.

Fig. 3 – Share of online retail sales of total retail sales by sales channel in the EU, 2017-2028.⁶



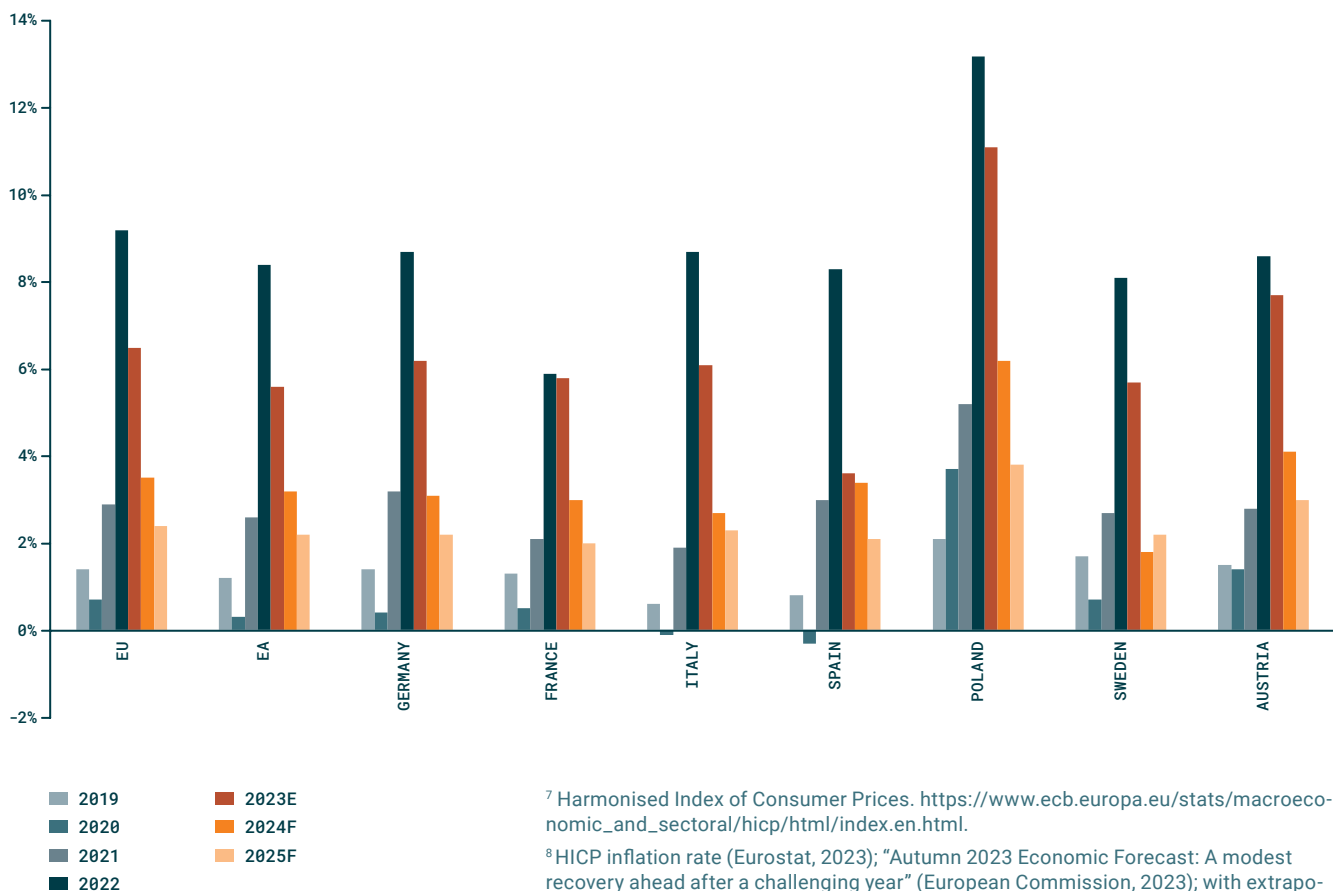
⁶ Share of online and offline sales channels in EU-27 (Statista Market Insights, 2023), with forecast from 2023 to 2028.

ECONOMIC FACTORS OF INFLUENCE

The broader economic conditions in Europe have a significant impact on the retail sector and, by extension, on the payments industry. Inflation, for example, directly affects consumer purchasing power. Its marked increase in recent years has led to shifts in consumer purchasing habits and preferences for payment methods, with consumers in search of greater control of spending habits or the ability to uphold living standards despite decreasing affordability.

The Consumer Price Index (CPI) increase that took place in Europe in 2022 and 2023, as illustrated in **Figure 4**, is indicative of consumers' recent challenges in Europe.

Fig. 4 – HICP⁷ Inflation rate in Europe, actual and forecasted (selected countries).⁸



⁷ Harmonised Index of Consumer Prices. https://www.ecb.europa.eu/stats/macroeconomic_and_sectoral/hicp/html/index.en.html.

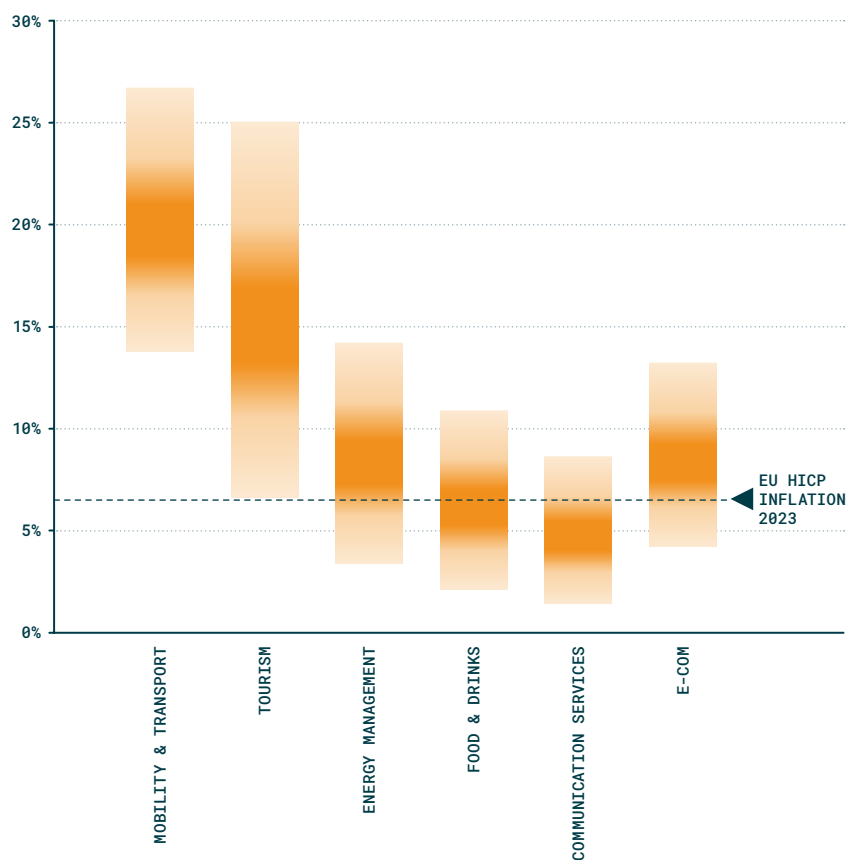
⁸ HICP inflation rate (Eurostat, 2023); "Autumn 2023 Economic Forecast: A modest recovery ahead after a challenging year" (European Commission, 2023); with extrapolated figure for 2023 and forecasted figures for 2024 and 2025. Current definitions of EU and EA (EU27 (2020) and EA20 (2023)).

Since a fall in inflation rates does not result in a price decrease to 2019 levels, the negative impact on consumers' finances is permanent and has a direct implication on spending attitudes. As such, interviews with merchants point to subdued expectations for growth.

Merchants are stating that the growing value of total sales is being driven mostly by rising prices, not by increases in sales volume.

Fig. 5 – Change in sales value over the past 12 months (Dec 2022 - Dec 2023, averages across selected merchant categories).⁹

One of the survey questions asked about the change in sales during the previous 12 months. Figure 5 provides an illustration of the distribution of answers across merchant categories.

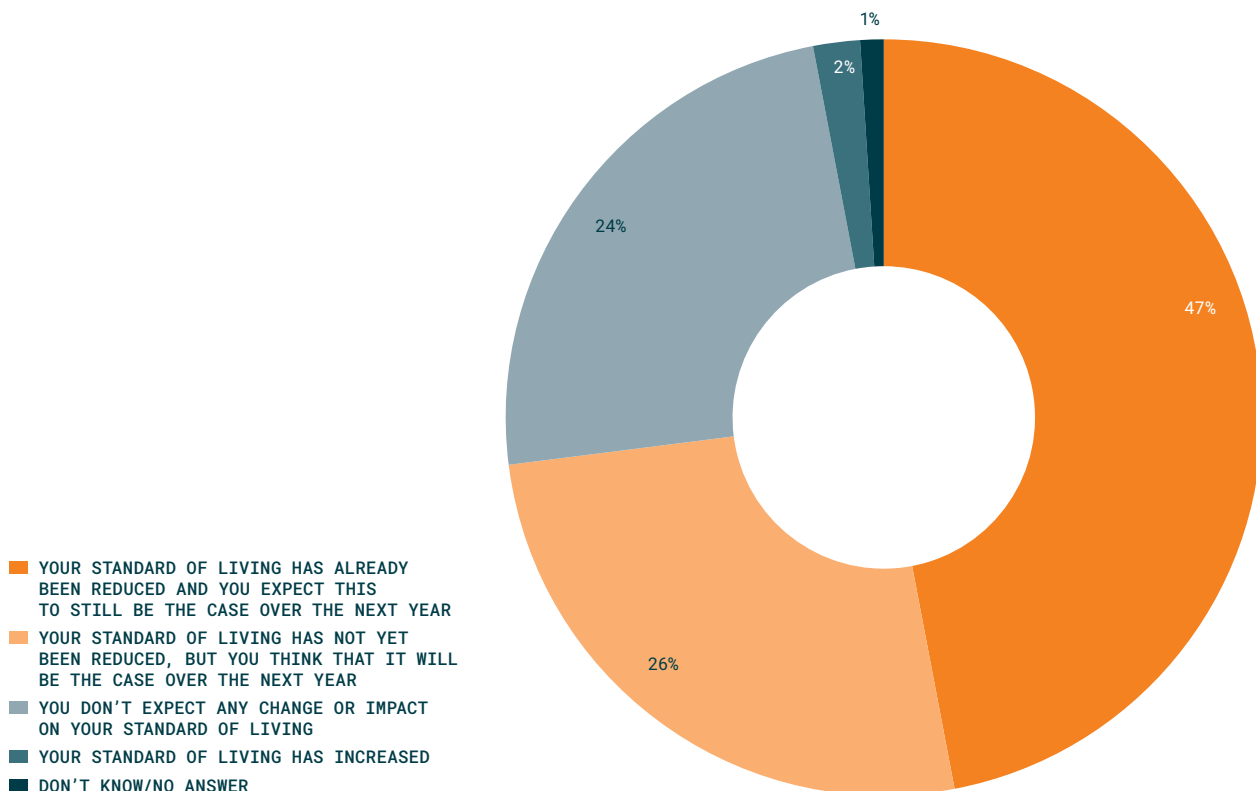


⁹ Arkwright Consulting Merchant Payment Survey (2023).

Merchants in the mobility, transport and tourism sector indicated sales growth rates above inflation. Those from the energy, food and drinks, communication services and online retail sector provided a mixed picture, with some declaring revenues growing higher, as well as lower, compared to the average inflation rate.

There is a parallel between the statements from merchants in the survey and publications about consumer sentiment. Other research, as of autumn 2023, has highlighted concerns about living standards in Europe. As **Figure 6** shows, a substantial 73% of EU citizens perceive that their standard of living has already deteriorated or will further diminish in the upcoming year.

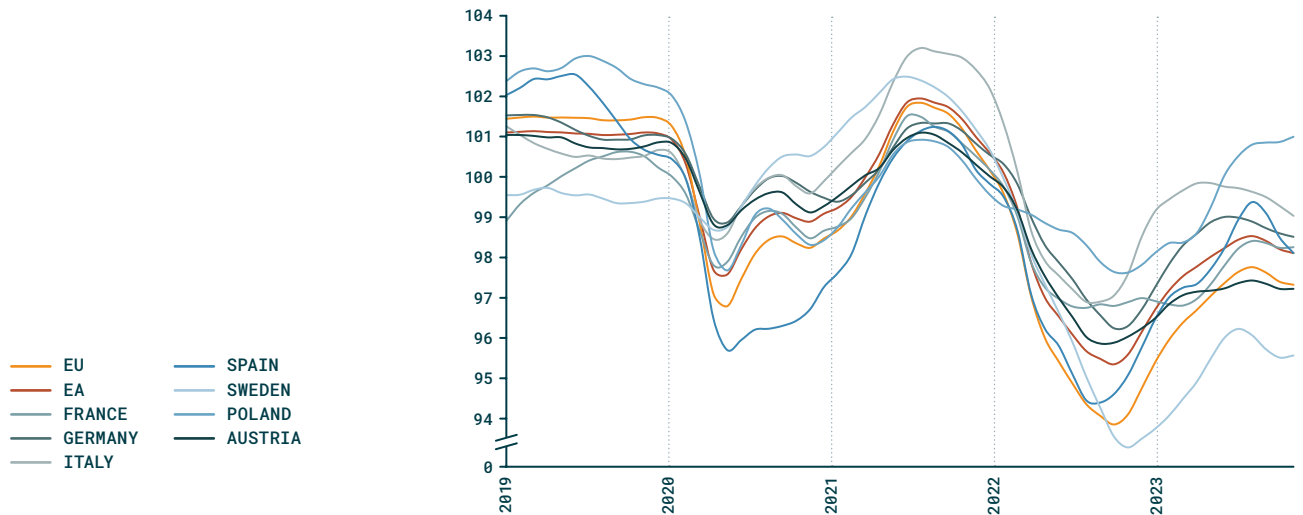
Fig. 6 – Sentiment of EU citizens regarding standard of living.¹⁰



¹⁰ Autumn 2023 Survey: Six months before the 2024 European Elections (European Parliament, 2023).

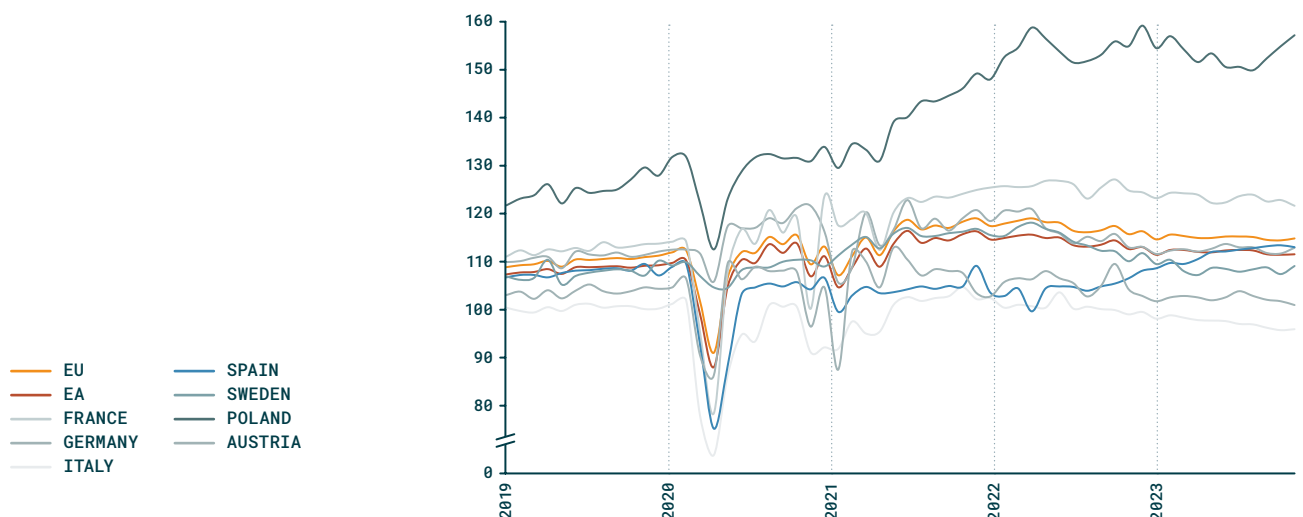
The Consumer Confidence Index in the EU saw significant drops in 2020 and 2022. While there was an uptick in 2023, the index has not returned to pre-pandemic levels. Instead, a recent decline indicates a resurgence of consumer apprehension. These sentiments likely have implications for consumer spending behavior and, ultimately, the payments industry. **Figure 7** provides an indication of the consumer confidence trends in selected European countries.

Fig. 7 – Consumer Confidence Index (selected European countries).¹¹



The relationship between consumer confidence, income and retail sales is crucial, as shown by trends in the retail sales index, illustrated in **Figure 8**, which indicates consumer purchasing behavior changes. A rising index suggests increased consumer spending, higher revenues for the merchant and increased processed volumes for the payments industry. When comparing the data across the two timelines of **Figures 7** and **8**, the correlation between the two datasets is $R^2 = 0.42$.

Fig. 8 – Retail trade turnover index, deflated (2015=100) (selected European countries).¹²



¹¹ Consumer Confidence Index (OECD, 2023). EU27 (2020) and EA19 (2015-2022) definitions.

¹² Turnover of sales in wholesale and retail trade (Eurostat, 2023). Current definitions of EU and EA (EU27 (2020) and EA20 (2023)). Note: Values are based on turnover values that have been adjusted for inflation.

MERCHANTS' ACCEPTANCE, RELATED PREFERENCES, AND PERCEPTIONS

Fig. 9 – Payment methods currently offered by e-commerce only and multichannel merchants (figure excluding cash).¹³

A 2023 survey of e-commerce only and multichannel merchants by Tribe Payments (see Figure 9) highlighted the near-universal acceptance of card schemes among merchants in the examined countries, with a 98% acceptance rate.

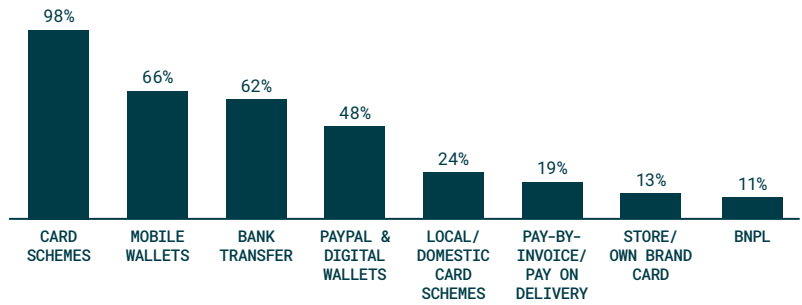
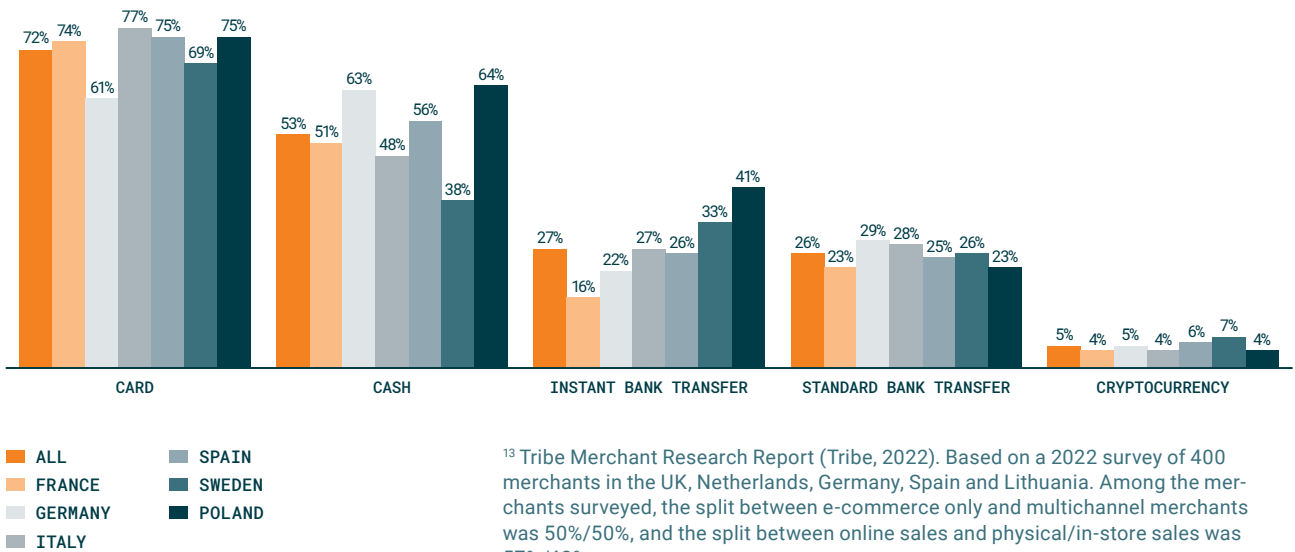


Fig. 10 – Preferred payment methods by merchants (combined summary of physical, online, and multichannel merchants).¹⁴

That said, merchants tend to accept any prevailing payment method consumers may have a preference for, as a lack of a chosen payment option may risk a loss of a sale. When asked about favorable payment methods, merchants choose cards, cash, and instant payments as the top three preferred methods. Their preferences are illustrated in Figure 10.



¹³ Tribe Merchant Research Report (Tribe, 2022). Based on a 2022 survey of 400 merchants in the UK, Netherlands, Germany, Spain and Lithuania. Among the merchants surveyed, the split between e-commerce only and multichannel merchants was 50%/50%, and the split between online sales and physical/in-store sales was 57%/43%.

¹⁴ The True Value of Cards (Payments Europe, 2023). Based on a 2023 survey of 1560 merchants in France, Germany, Italy, Poland, Spain, and Sweden.

Fig. 11 – Perception of payment methods across different dimensions.¹⁵

Payment methods are perceived differently by merchants across different dimensions. The survey asked respondents to rank payment types across four dimensions: speed of payment; security and resilience to fraud; operational challenges due to chargebacks and refunds; and complexity of payments acceptance (see Figure 11).

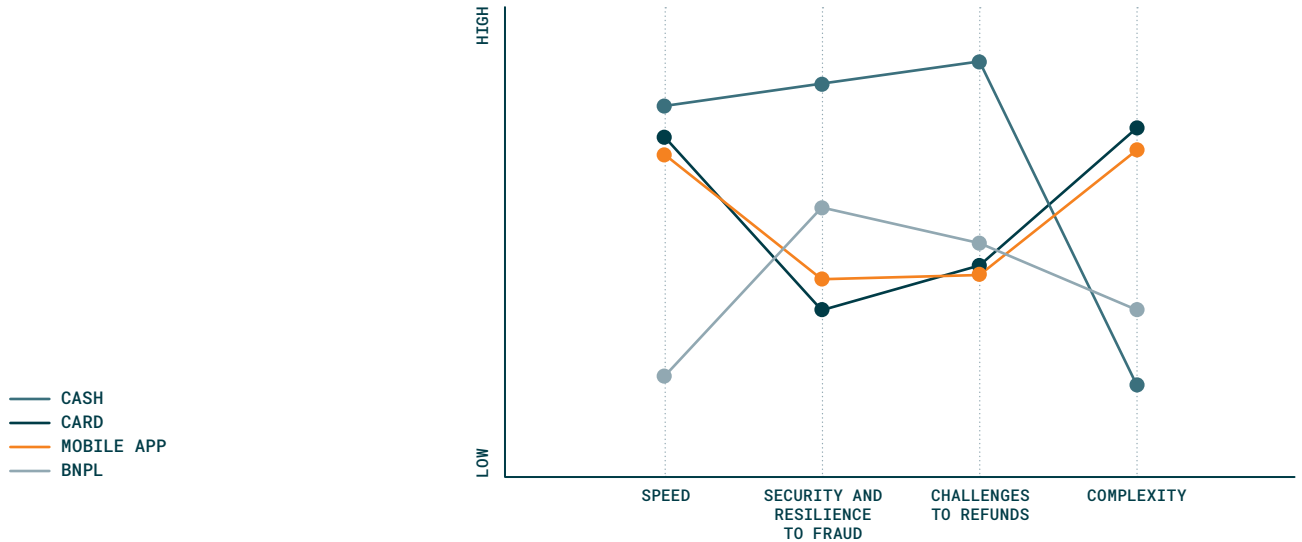
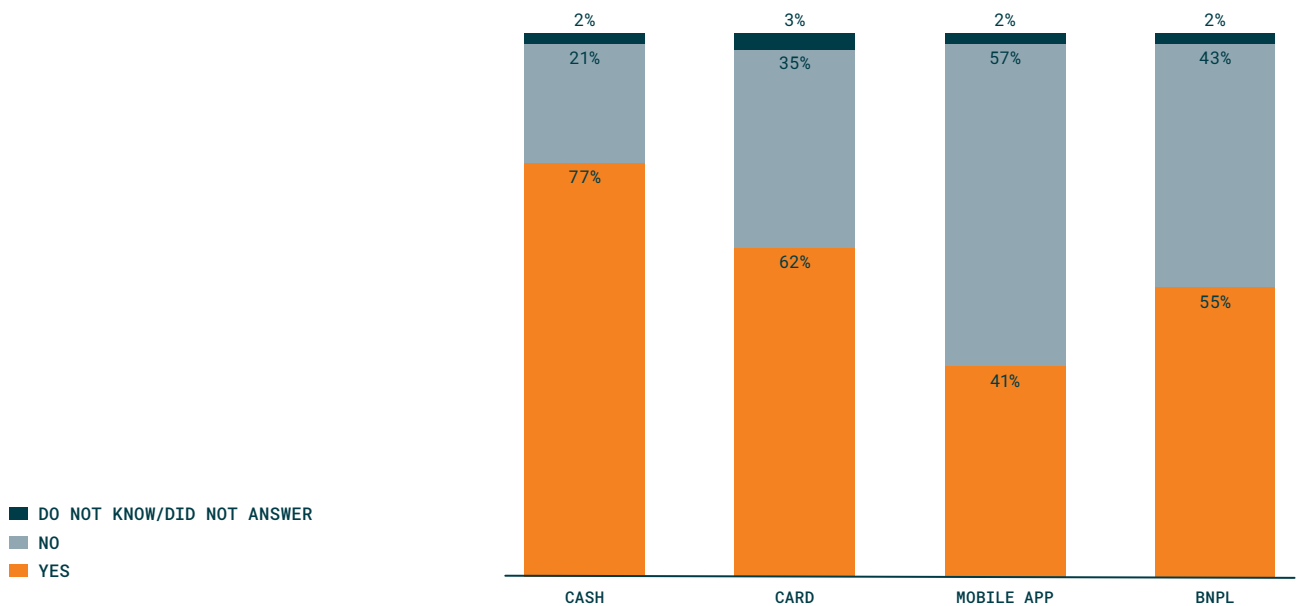


Fig. 12 – Answers to the question: “Is the cost of acceptance fair?”.¹⁶

When asked expressly about the perception of acceptance cost, nearly all surveyed merchants mention cost as a cause for dissatisfaction. Figure 12 shows that mobile apps are deemed fairly priced by less than half (41%) of the polled merchants. Buy now, pay later (BNPL), on the other hand, is perceived as priced fairly by 55% of respondents. Cash handling and deposit is considered to be too expensive by 21% of respondents, while card payments are regarded as priced fairly by 62%.



¹⁵ Arkwright Consulting Merchant Payment Survey (2023).

¹⁶ Ibid.

The merchants that perceived the costs as unfairly high were asked to provide reasons for their views. The answers regarding cards and mobile wallets are illustrated in **Figures 13** and **14**.

The lack of transparency in fees is mentioned as the main reason for dissatisfaction. But when the fact was raised that fees are disclosed as their interchange and margin components, some dismissed it as too complex to understand or not sufficiently transparent by others.

Lack of competition was the main reason of dissatisfaction for mobile wallet payment acceptance. Merchants were referring to the predominance of some major brands typically preferred by consumers.

Fig. 13 – Reasons why card acceptance fees are deemed not fair (multiple answers possible).¹⁷

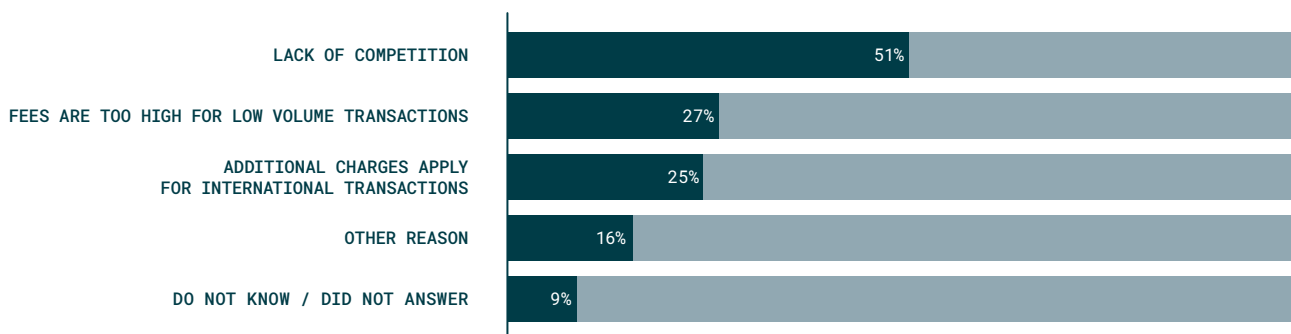
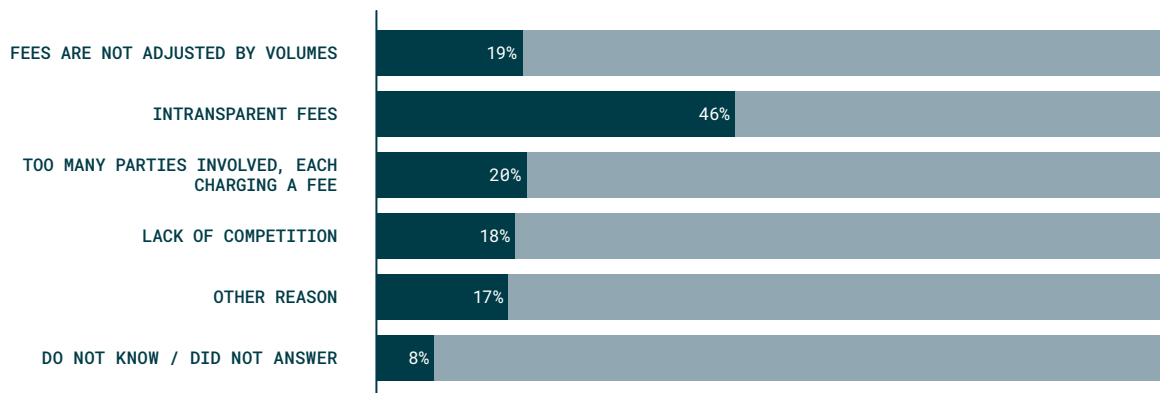


Fig. 14 – Reasons why mobile wallet acceptance costs are deemed not fair (multiple answers possible).¹⁸

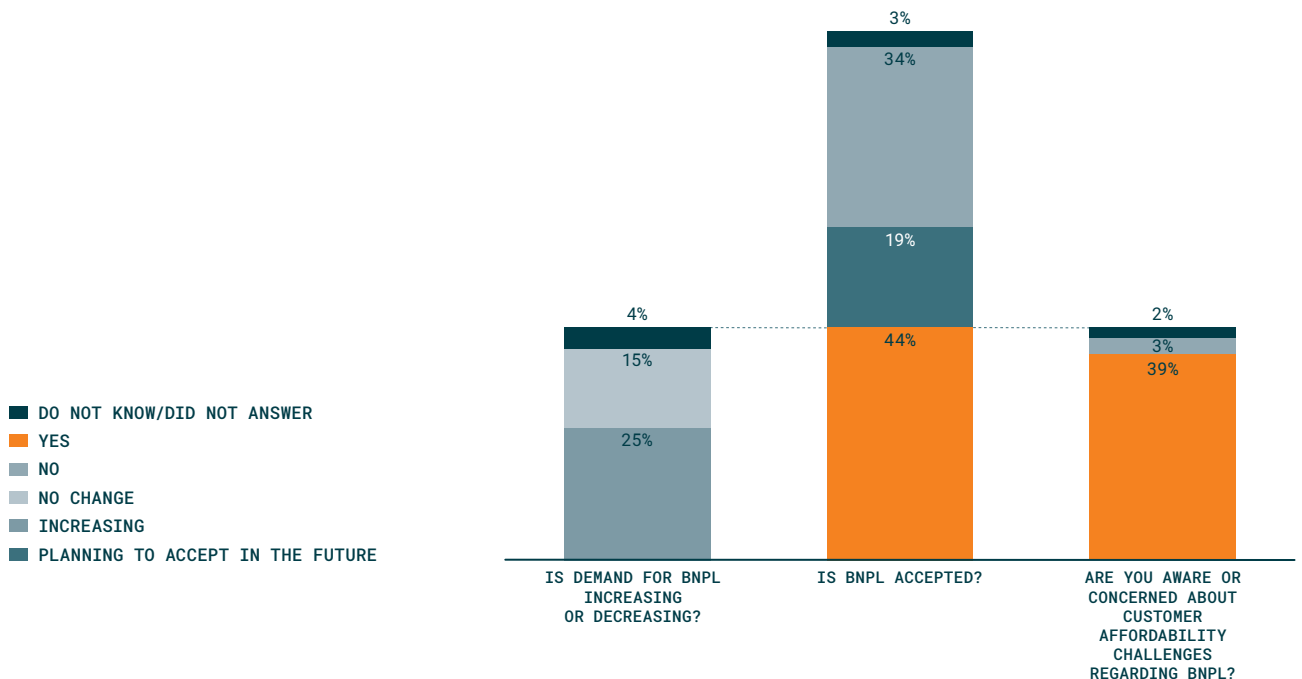
¹⁷ Ibid.

¹⁸ Ibid.

BNPL is offered by 44% of respondents to the MPE and Arkwright survey. The vast majority of these, 39% of total (or 89% of the share offering BNPL), acknowledged an awareness that BNPL can be associated with potential affordability challenges for their customers. However, 11%¹⁹ of the merchants not accepting BNPL were either not aware or didn't respond to the question.

Within the sample of respondents offering BNPL as a payment method, 57%²⁰ reported an increase of payments settled with BNPL credit arrangements. Just over a third, 34%,²¹ reported no change in the share of BNPL as part of the payment mix. 19%²² of respondents stated that BNPL is an active part of their development plans, as reported in Figure 15.

Fig. 15 – BNPL usage and awareness of affordability challenges.²³



¹⁹ 100% = the 44% of the sample of merchants offering BNPL.

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

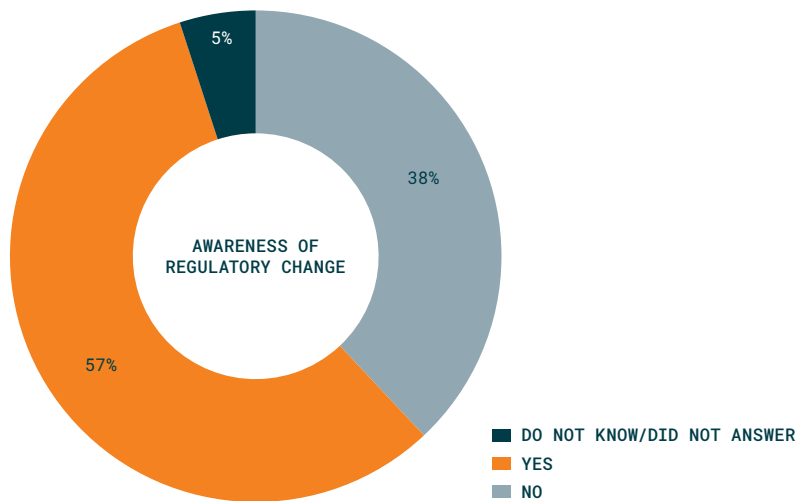
²³ MPE's and Arkwright Consulting's Merchant Payment Survey (2023).

AWARENESS OF REGULATORY CHANGES

The MPE and Arkwright survey included questions about merchants' awareness of regulatory changes. Similar to other findings on the monitoring and understanding of payment regulation by the retail community, our results highlight a significant gap in merchant awareness regarding upcoming regulatory changes and developments in the payments sector.

Fig. 16 – Awareness of regulatory changes.²⁴

Figure 16 shows that 38% of respondents admit a general lack of awareness of regulatory changes related to payments acceptance.



²⁴ Ibid.

CHALLENGES AND WISHLIST PAYMENT FEATURES

RESULTS HIGHLIGHT A SIGNIFICANT GAP IN MERCHANT AWARENESS REGARDING UPCOMING REGULATORY CHANGES AND DEVELOPMENTS IN THE PAYMENTS SECTOR.

The survey asked merchants about the challenges they experience regarding payment acceptance. Unsurprisingly, fraud scores highly for in-store as well as online merchants, albeit their answers have different drivers.

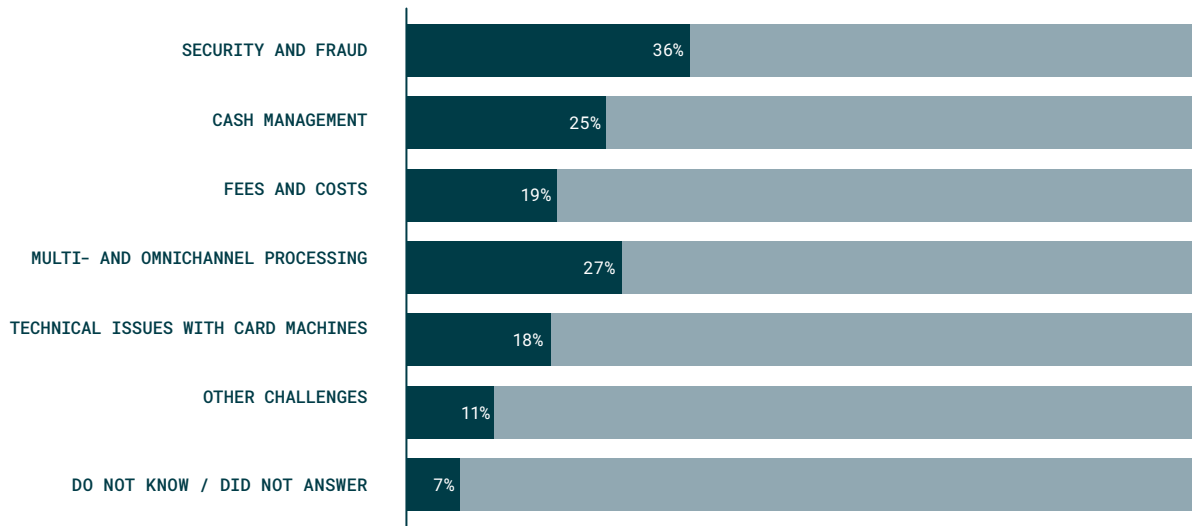
While online fraud is mainly related to payment fraud, in-store fraud also refers to the risk of robbery/shoplifting (relevant in countries with a relatively higher share of cash payments), as well as untrustworthy employees at checkout and the acceptance of compromised payments, such as counterfeit bills. When questioned during the interviews, merchants admitted that there is a gap between actual in-store payment fraud and the perception of the problem with the perception being actually higher than the actual losses.

Other in-store challenges that merchants mention include: the complexity of cash handling and management, something quoted typically by larger retail merchants; and the complexities inherent in the checkout experience, including the self-checkout process that needs to address the trade-off between security, customer service levels, checkout speed and customer experience. The integration of returns and refunds from sales originating online is also a relevant challenge.

Surprisingly, technical issues with the point-of-sale (POS) terminal were mentioned, as merchants appear to have technical challenges, as well as a wish to better customize features on the terminal (e.g., being able to enable or block specific functions).

The major online challenge identified by merchants is friction during the checkout process, as this is considered a reason for cart abandonment. Fraud features prominently as a challenge for online merchants, followed by the wide range of online payment methods that need to be accepted, associated costs and the related technical implementation challenges.

Fig. 17 – What are the major challenges you face with payment acceptance? (in-store) (multiple answers allowed).²⁵



Figures 17 and 18 provide an illustration of the challenges mentioned by in-store and online merchants, respectively.

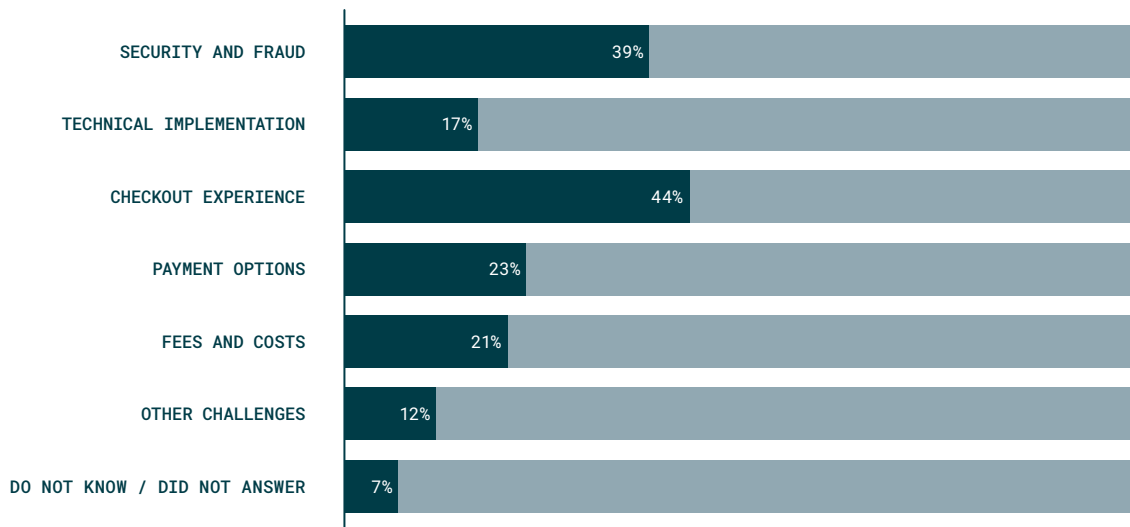


Fig. 18 – What are the major challenges you face with payment acceptance? (online) (multiple answers allowed).²⁶

²⁵ Ibid.

²⁶ Ibid.

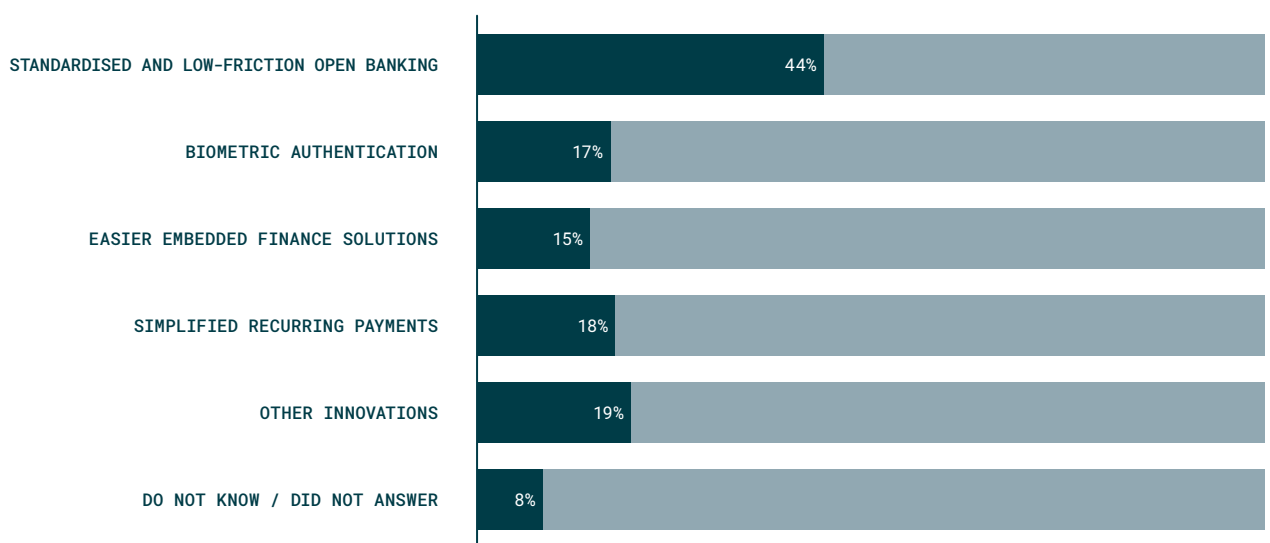
A highly debated topic during the interviews concerned what merchants would see as an improvement in their payment acceptance capabilities. The desire for standardized and low-friction open banking payments scored highly on the wishlist.

Other innovations included secure offline payments, an increase in issuers participating in variable recurring payments, off-the-shelf embedded financial services in merchant apps, and more one-click payment solutions other than those offered by selected mainstream wallets.

Artificial intelligence was mentioned prominently within this category, as a functionality that merchants perceive will improve both false positive and negative detection, as well as fraud prevention more generally.

Fig. 19 – What innovations would you like to see in payment services? (all channels - multiple answers allowed).²⁷

Figure 19 provides an illustration of the payment innovations that merchants would like to have based on the survey replies.



²⁷ Ibid.

When asked what services merchants would like to receive from their acquiring providers, most were related to analytics, payment acceptance, and business optimization. Support related to regulatory updates and technology support were the second and third type of services, respectively, followed by fraud reduction, support for chargeback management, and cost reduction.

Fig. 20 – What support would you expect from your acquirer? (all channels - multiple answers possible).²⁸

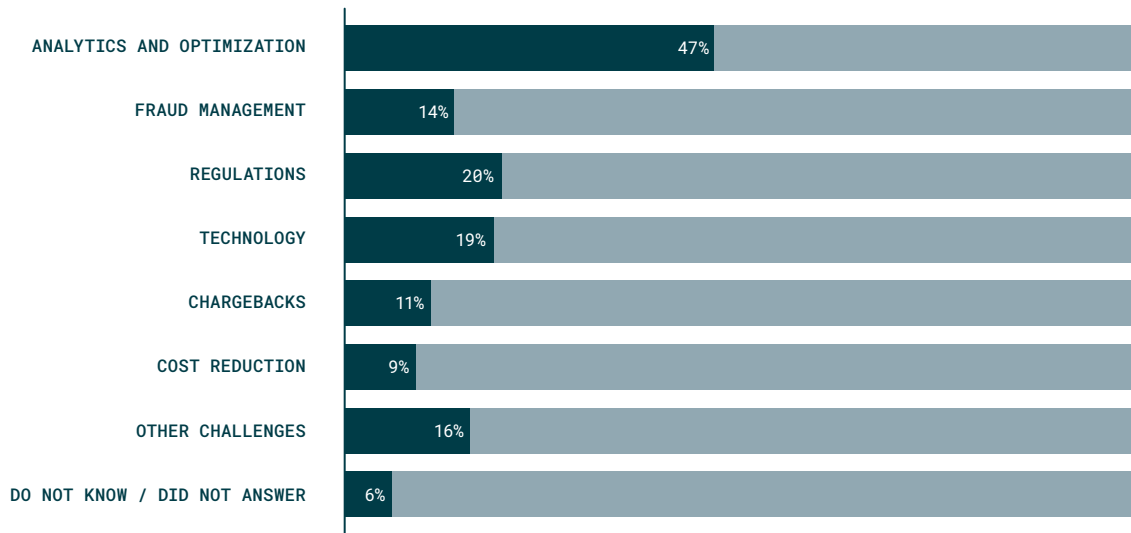
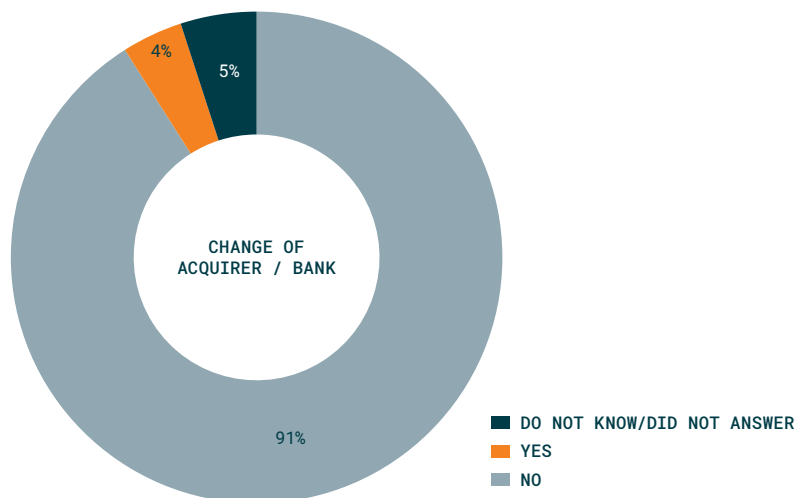


Figure 20 illustrates the demand in the areas where merchants would like support from their acquirers.

Only 4% of merchants interviewed indicated that they are interested in considering changing their payment solution provider in the next 12 months.

Fig. 21 – Do you expect or plan to change merchant acquirer/payment solution provider in the next 12 months?²⁹

However, during the deep-dive interviews merchants were asked about their interest in considering alternative providers in the medium to long term, resulting in a much higher share of merchants expressing openness to consider alternatives. The answers to this question are illustrated in Figure 21.



²⁸ Ibid.

²⁹ Ibid.

CONCLUSIONS

Based on the survey results and previous studies, European merchants are facing a variety of challenges. Operating in an economy that has avoided recession – but in which consumer confidence, their ability and willingness to spend appear to be, selectively, subdued – many merchants are observing revenues growing out of price inflation, rather than out of an actual increase in the volume of goods sold.

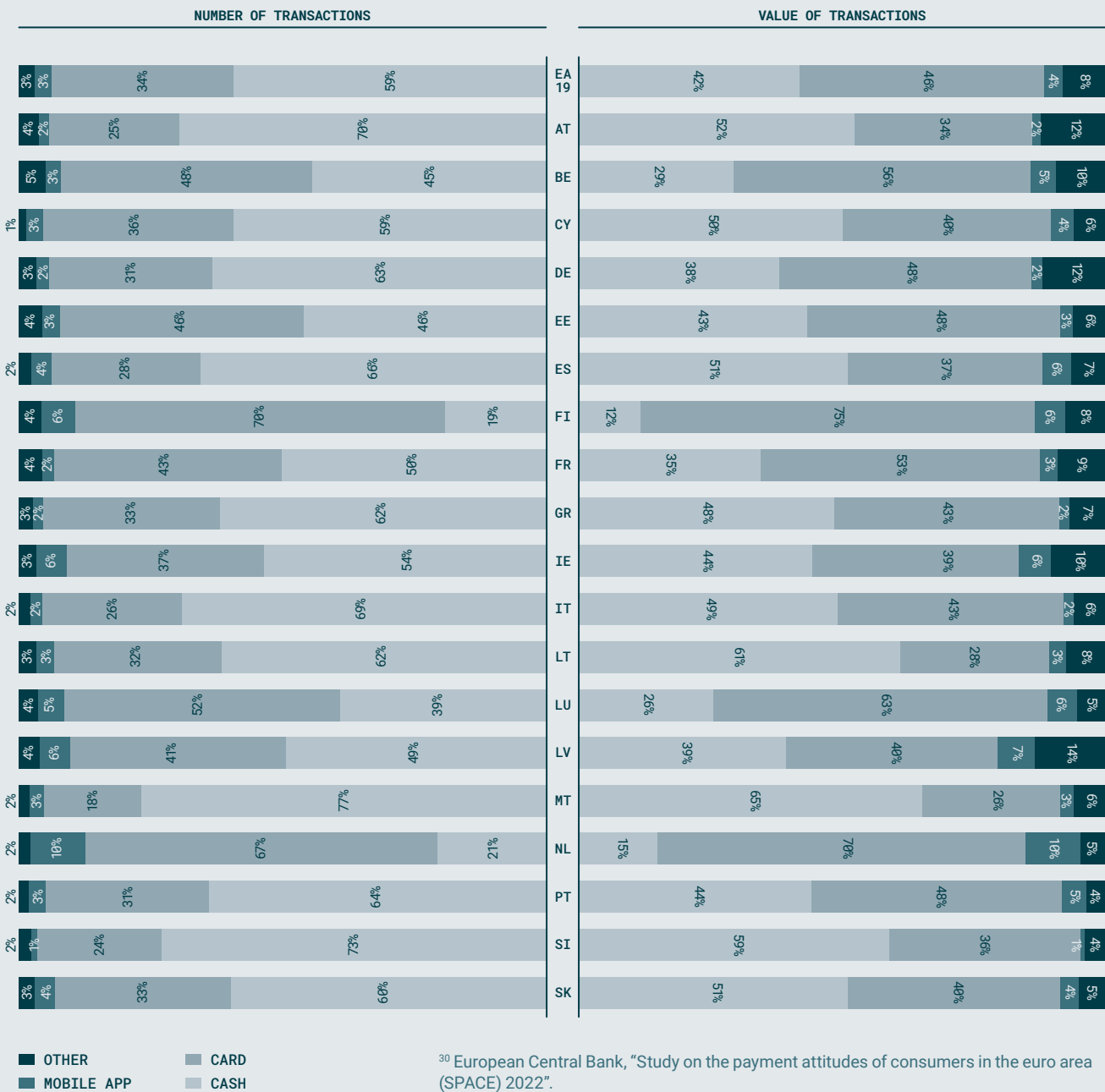
Many merchants appear to perceive payment services as unfairly priced, particularly for specific brands of mobile wallets. At the same time, there are common challenges that have long plagued the industry, such as fraud and the complexity of the integration of payment acceptance into retail infrastructure, in particular for multi-channel retailers.

Standardized and low-friction open banking payments are scoring high on merchant wishlists, together with a demand for data and analytics solutions. Overall, there appears to be an untapped demand for services and support that may enable payment providers to differentiate their services away from price competition. An enriched processing value proposition, as well as consultative support regarding regulation and data services, could offer unique competitive advantages.

Ultimately, the success of the payment industry is very much the outcome of the success of the retail community it serves. The survey has not only provided a snapshot of a sample of the retailing industry in Europe, but it also points to potential areas of focus for the improvement of acquiring and acceptance value propositions alike.

APPENDIX 1

PAYMENT INSTRUMENTS USED AT POS AS PER CUSTOMER PRESENTATION – 2022³⁰

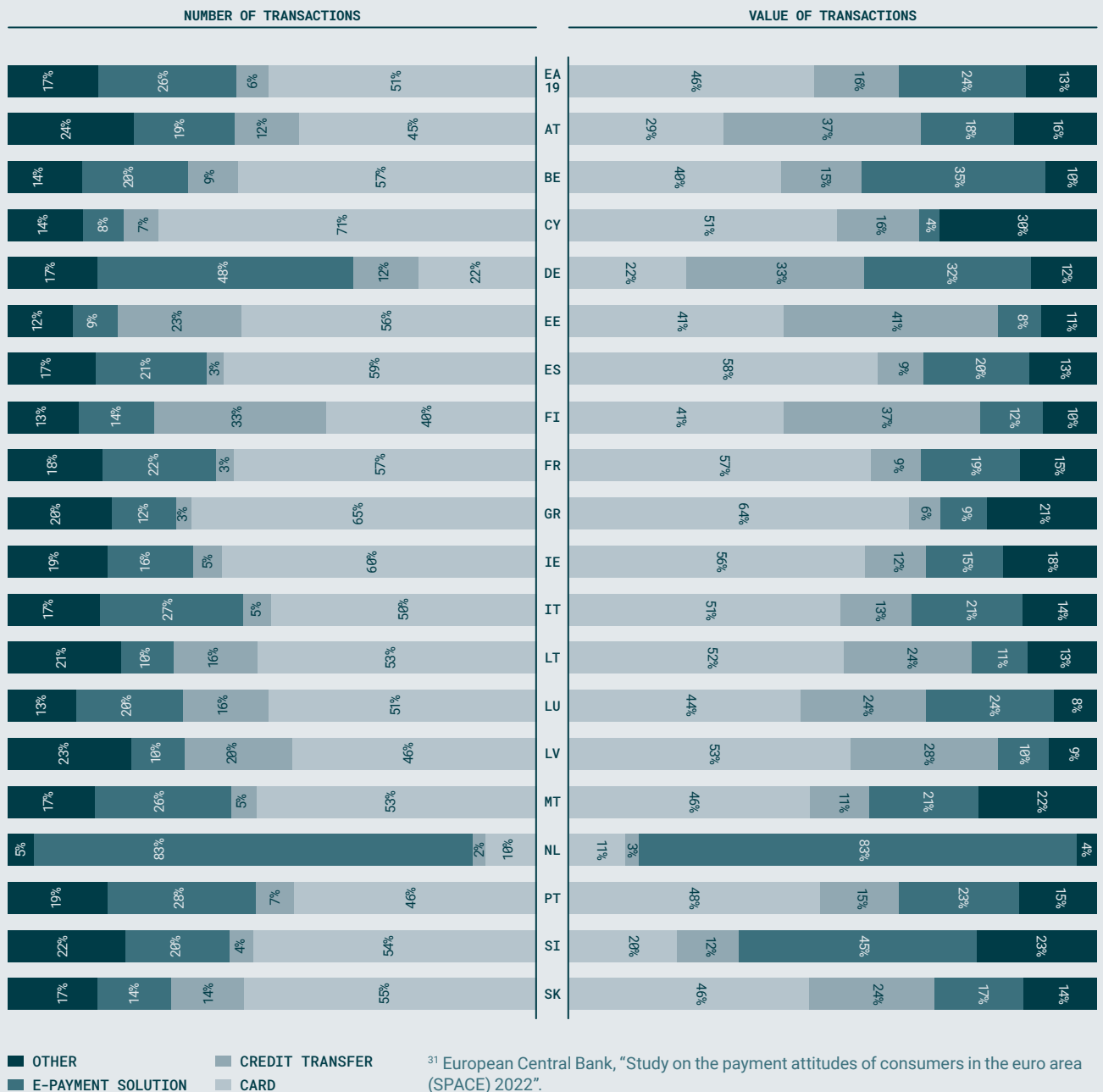


³⁰ European Central Bank, "Study on the payment attitudes of consumers in the euro area (SPACE) 2022".

Notes: EA19 refers to the euro area (19 countries). "E-payment solutions" includes PayPal and other online or mobile payment methods (e.g., Klarna, Sofort, iDeal, Afterpay). "Other" includes loyalty points, vouchers and gift cards, crypto assets and other payment instruments. In the 2019 data, iDeal was classified under credit transfers.

APPENDIX 1 (CONTINUED)

PAYMENT INSTRUMENTS USED ONLINE BY PAYMENT INITIATION METHOD – 2022³¹



³¹ European Central Bank, "Study on the payment attitudes of consumers in the euro area (SPACE) 2022".

Notes: EA19 refers to the euro area (19 countries). "E-payment solutions" includes PayPal and other online or mobile payment methods (e.g., Klarna, Sofort, iDeal, Afterpay). "Other" includes loyalty points, vouchers and gift cards, crypto assets and other payment instruments. In the 2019 data, iDeal was classified under credit transfers.

ABOUT MPE



Merchant Payments Ecosystem in Berlin (MPE) is Europe's #1 Merchant Payments conference connecting 1400+ senior-level merchants & payments professionals with the proven & highly valued combination of networking opportunities and a carefully curated program in the electrifying MPE atmosphere.

The event & its community have always been a barometer showcasing what will matter over the next 12 months in the industry. Although nobody can predict what will happen, getting insights into the latest trends from industry research & analysis, debating and confronting different standpoints at MPE in Berlin (MPE), help the industry better understand these dynamics.

Uniquely focused on merchant payments, MPE connects Merchants with Acquirers, PSPs, POS SW & HW vendors, established companies, and start-ups from 40+ countries, supported by three days of world-class content by TOP industry Leaders & Influencers.

Find out more at <https://www.merchantpaymentsecosystem.com/>

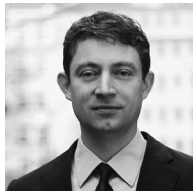
ABOUT ARKWRIGHT

WE BELIEVE
IN PRAGMATISM,
METICULOUSNESS
AND DEEP
KNOWLEDGE OF
THE INDUSTRIES
IN WHICH WE
OPERATE

AUTHORS



Francesco Burelli
Partner



Steven Jacob
Partner



Peter Großkurth
Principal



Lena Büttner
Associate



Oliver Leimbach
Associate

Arkwright is a management consulting firm offering strategy advisory services to private corporations, NGOs, investors and start-up companies. Amongst a number of different industry-dedicated teams, our Digital, Payments and Digital Banking practice is one of the most experienced globally, positioning Arkwright as a high-end digital financial services and payments specialist strategy boutique.

With clients that include major financial institutions, central banks, technology providers and institutional investors as well as internet market places and media organisations, Arkwright has hands-on experience in leading and supporting the development of digital strategies and digital transformation.

Our knowledge of global cases and best practices, proprietary ideation methodologies and the hands-on experience of our management consultants and industry experts is able to support throughout the strategy and implementation phases.

We believe in pragmatism, meticulousness and in deep knowledge of the industries in which we operate. At the heart of our mission is the development and implementation of enduring performance improvements and growth strategies, in partnership with our clients.

When we founded Arkwright in 1987, we did so with a strong belief that clients' sustained success requires deeper collaboration and a different working model than what we experienced at the time. Since then, our focus on deep-rooted, long-term partnerships with selective clients has formed the basis of our approach and helped us grow to what we are today: an international consultancy with Nordic roots, operating truly globally, from our offices in Hamburg, Oslo and Stockholm and with additional operational presence based in the Middle East and the US.

