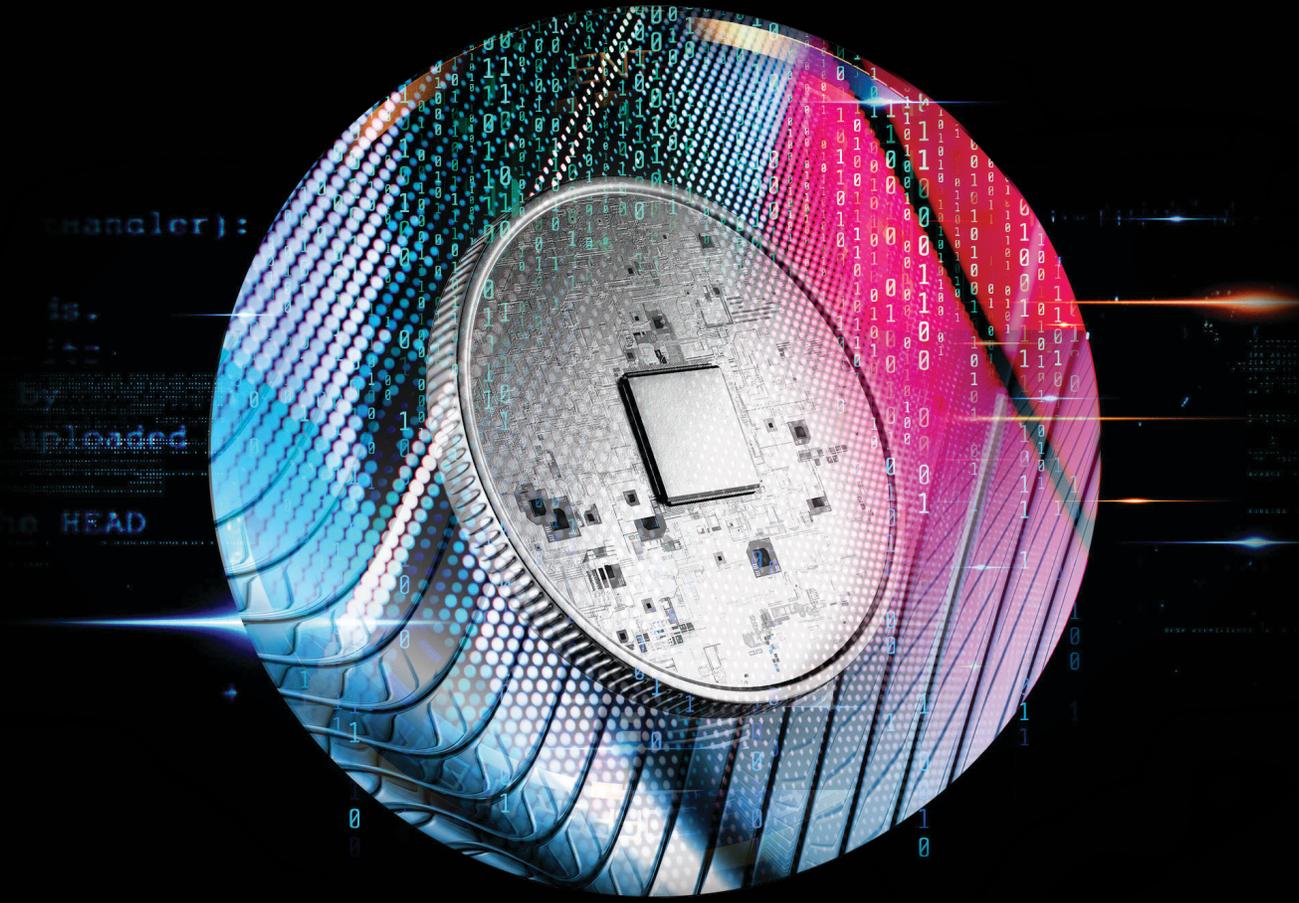


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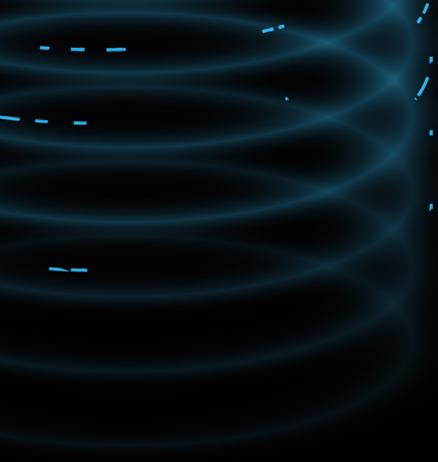


Merchants getting ready for crypto

Merchant Adoption of Digital Currency Payments Survey

Prepared in collaboration with PayPal





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Methodology

The survey was conducted between December 3 and December 16, 2021, as a research vehicle to gain greater insights into the overall attitudes and investments in adoption of digital currency payment systems. The survey highlights included in this report reflect the opinions and perceptions around merchant adoption of digital currency payments and the potential impact of this adoption in the future. The information shared provides summaries of a subset of overall data and insights collected.

The survey polled a sample of 2,000 senior executives at retail organizations across the United States. All respondents were from the consumer goods and services industry, with a 10% contribution from each of the following subsectors: cosmetics, digital goods, electronics, fashion, food & beverages, home/garden, hospitality & leisure, personal & household goods, services, and transportation. Seventy-five percent (75%) of respondents' organizations' primary channel of sales was business-to-consumer (B2C), while 15% of the organizations were business-to-business (B2B) and 10% were direct-to-consumer (D2C).

Respondents reported at least a general knowledge of cryptocurrency and stablecoins, where all respondents described their understanding of stablecoins as "little understanding," "some broad understanding," or "excellent understanding." Most respondents were a primary decision-maker when deciding whether their organization would accept cryptocurrencies and stablecoins as a form of payment.

Introduction

When an American online retailer became the first major merchant worldwide to accept cryptocurrency as payment in 2014, it was big news.¹

Since then, digital currency has entered the mainstream. Globally 220 million people use cryptocurrency now,² and customers are paying for everything with it, from travel to sports tickets to mobile phone services.³ A radical shift has occurred in less than a decade, with once-wary customers and retailers increasingly viewing digital currency through an optimistic lens.

In this study, we examine the role of digital currency in the rapidly evolving world of transactions. The survey focuses on US consumer businesses, with annual revenues ranging from below \$10 million to \$500 million and above, asking their views on digital currency payments and the investments they've made in payment infrastructure, as well as their plans for the years ahead.

The digital currency ecosystem is maturing, and the industry growth is continually fueled by the increased utility and accessibility. Overall, we find that merchants are receptive to their customers' needs and expectations and see business and enterprise-related benefits from embracing digital currency payments. These organizations have invested and plan to continue investing in enabling this capability. However, there are still a number of factors to be considered, such as infrastructure decisions, security, and the development of a regulatory framework that will determine much of the pace at which adoption continues to grow.

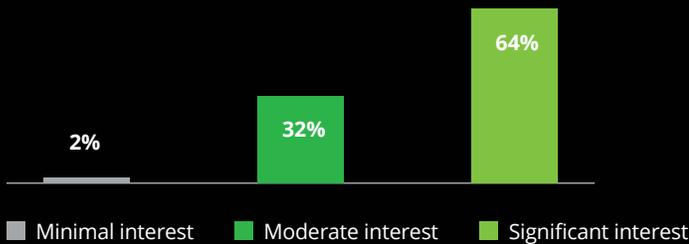
Cryptos and stablecoins welcomed

Merchants are considering the adoption of two different types of digital currencies: cryptocurrencies and stablecoins.

There is a major distinction between these two forms of digital currency. Cryptocurrencies are digital assets developed and maintained on decentralized blockchains that can be used as a medium of exchange. While, stablecoins are one type of asset-backed cryptocurrency, whose value is typically pegged to the value of an underlying asset (e.g., US dollar or other currency).

Since the introduction of Bitcoin in 2008, customers have played a strong role in driving interest and adoption of digital currencies.⁴ More recently we have watched COVID-19 transform the world, causing many companies to accelerate digital transformations and customers to embrace new, digital forms of money, leading to a recent boom of the crypto industry. Around two-thirds (64%) of our surveyed merchants indicated that their customers have significant interest in using digital currencies for payments, and 83% expect consumer interest in digital currencies for payments to increase or significantly increase over the next 12 months.

Current customer interest in digital currency



Although digital currency payments may not yet be an everyday occurrence for the average customer, overall interest in digitally native solutions is significant, especially among younger generations. It's a sign to retailers that those that fail to embrace the customers' demand of this trend run the risk of being left behind and losing out on profits.

There are also shared expectations of broad adoption in the future. Around 85% of surveyed merchants expect that digital currency payments will be ubiquitous among suppliers in their industry in five years.

Sentiments around digital currency



■ Agree/Strongly agree

In line with the above, more than 85% of the organizations are giving high or very high priority to enabling cryptocurrency payments, while roughly 83% are doing the same for stablecoins. As such, and likely driven by larger retail adoption/availability of cryptocurrencies, it seems as though these assets have a role as the primary starting point for adoption.

Priority of enabling cryptocurrencies



Priority of enabling stablecoins



Merchants ready for digital currencies

Survey respondents are very optimistic about digital currencies in the consumer market, reporting broad agreement that accepting digital currency payments is already a point of differentiation, and are expected to see broad near-term adoption.

Nearly three-quarters of those surveyed reported plans to accept either cryptocurrency or stablecoin payments within the next 24 months.

Overall, merchants broadly agree that organizations accepting digital currencies have a competitive advantage in the market (87%). In fact, an overwhelming majority of those who currently accept cryptocurrency as a payment instrument (93%) have already seen a positive impact on their business's customer metrics, such as customer base growth and brand perception, and they expect this to continue next year. While it may be anticipated that optimism would not be as strong among small and mid-sized consumer merchants,⁵ the majority of SMBs surveyed expect the adoption of digital currency payments to have a positive impact on their organizations.

Sentiments around digital currency



■ Agree/Strongly agree

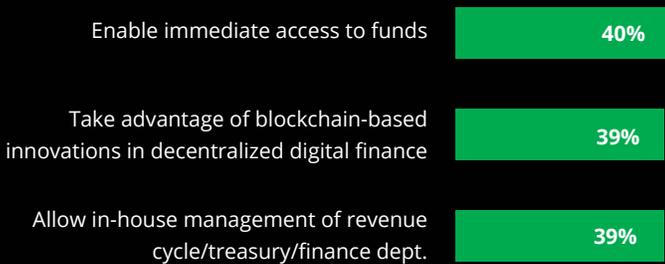
Merchants are eager to adopt digital currency payments for a variety of reasons. They see that the market is rapidly changing and want to support customer preferences. They expect to derive value from their digital currency adoption in three distinct ways: improved customer experience (48% of respondents), increased customer base (46%), and brand is perceived as cutting edge (40%).

Customer-focused motivations



In addition, merchants are motivated by the prospect of enabling immediate access to funds (40% of respondents), taking advantage of blockchain-based innovations in decentralized digital finance (39%), and allowing in-house management of the revenue cycle/treasury/finance department (39%). It is worth noting that 86% see a significant benefit to their finance and cash management for accepting digital currency payments. In fact, 26% have already integrated digital currencies in their finance functionality such as revenue cycle and treasury, and 61% plan to do it over the next 24 months.

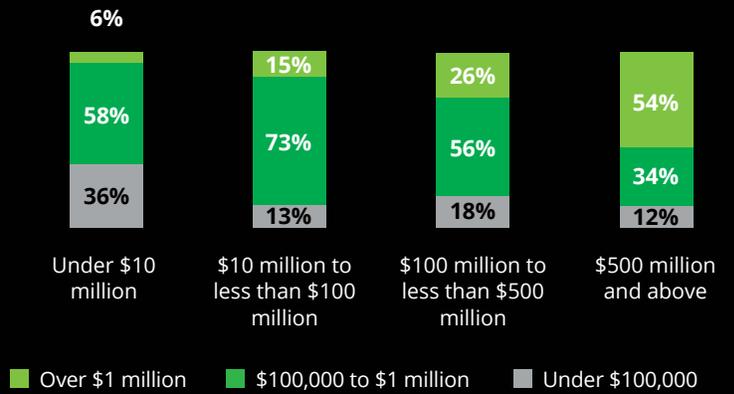
Organization-focused motivations



Originally merchants were driven to enable digital currency payments as a marketing technique, but that is clearly changing as merchants now show an interest in benefits such as speed of payments and cost efficiencies. There is also a sense, however, that longer-term strategic value is driving current adoption of digital currencies, and not shorter-term cost savings.

Retailers hold an increasingly optimistic view of digital currency as a form of payment and are quick to recognize this as a business imperative. Current spends are still on the smaller side but growing significantly. Not surprisingly, the larger companies are more likely to be making significant investments in their digital currency adoption plans. Over half (54%) of large retailers (with revenues of \$500 million and up) have invested more than \$1 million on enabling digital currency payments, while only 6% of small retailers (with revenues of under \$10 million) did so.

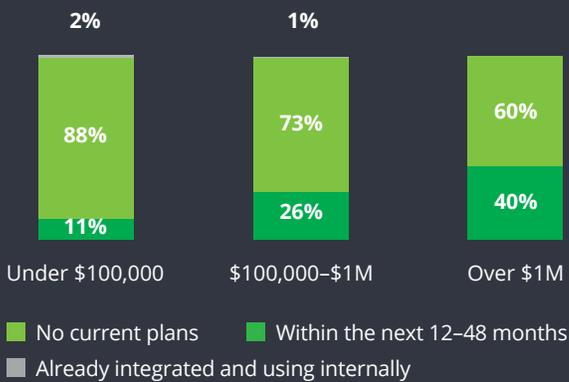
% level of investment in enabling digital currency payments by organization revenue size



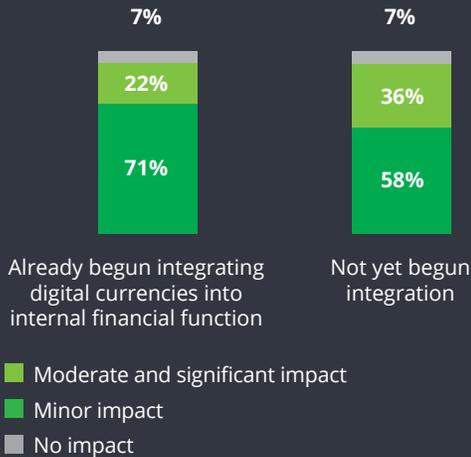
Integrating digital currencies into the finance function increases value for organizations

It probably comes as little surprise that the more organizations invest in infrastructure, the more likely they are to experience a positive impact. The true benefit, however, seems to appear when organizations have also integrated digital currencies into their financial function (e.g., revenue cycle, treasury, etc.). Companies that have begun integrating digital currency into their finance function are significantly more likely (71%) to report a moderate or significant impact, while 22% reported a minor impact and only 7% reported no impact.

% integrating digital currencies into finance department functionality

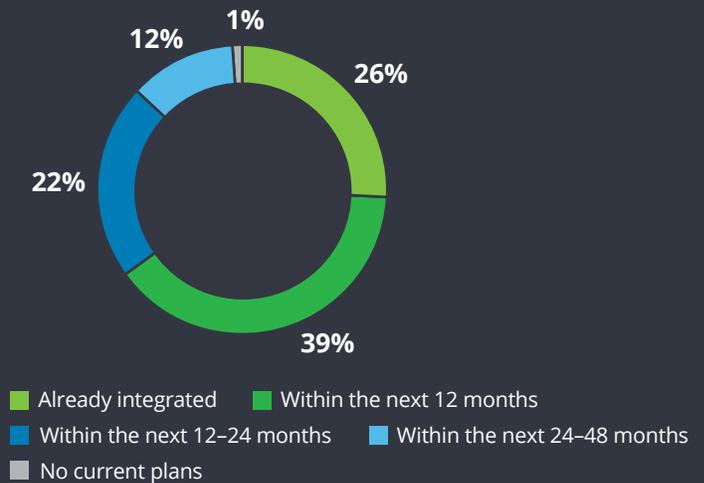


Impact of digital currency by finance integration



Slightly more than a quarter (26%) of the organizations surveyed for this report have already begun integrating digital currency into their finance department functionality, but more than a third of respondents (39%) plan to begin integration within a year.

Plans to integrate digital currencies internally



As might be expected, mid- to large-sized organizations with low investment and reported lower customer interest are lagging in this integration. Across all merchants surveyed, 26% reported having already integrated and are currently using digital currencies in their finance department functionality (e.g. revenue cycle, treasury, etc.), with 39% reporting they plan to integrate within 12 months.

What's more, there's a correlation between companies that report a high investment in adoption and their likelihood of holding digital currency. More than four-fifths of the mid- to large-sized companies with a high investment hold cryptocurrencies.

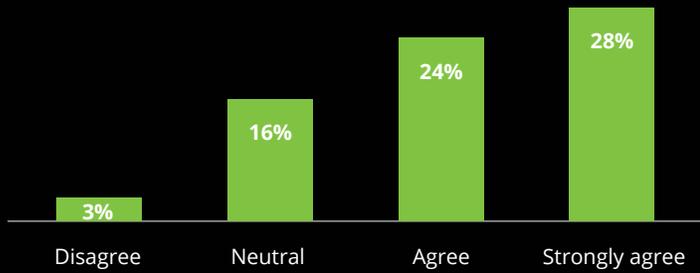
Among those with low investment, more than half (57%) don't hold it, though they are considering it despite key regulatory, tax, and accounting considerations.⁷ Interesting to note with stablecoins, many believe accessing their full benefits and utility as it relates to treasury management will be dependent on widespread adoption throughout supply chains and in wholesale markets.

Regardless of their organization size and investment level, nearly all (85%) are motivated by a belief that they'll see a significant benefit to their finance/treasury/revenue cycle within their cash management functions if they accept digital currency payments.

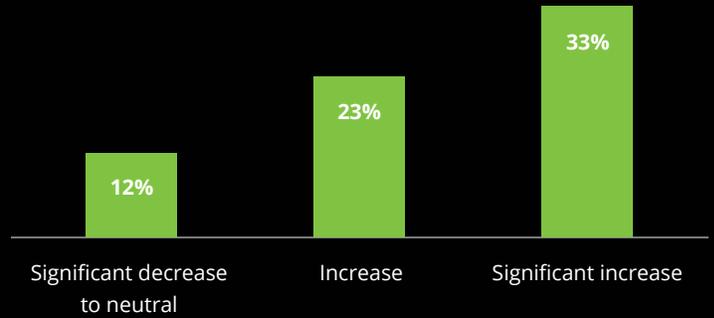
Merchants are driven to support digital currency development plans with two patterns:

- The first is belief in the future adoption of digital currencies. The more a respondent agreed that their organization anticipates digital currency will be ubiquitous, the more likely they are to have invested heavily in enabling infrastructure (over \$1 million).
- Similarly, those who expect customer interest to increase the most over the next 12 months are more likely to be investing heavily.

% of respondents investing more than \$1M toward their digital currency development over the past year
My organization anticipates that digital currency payments will be ubiquitous in our industry in 5 years.



% of respondents investing more than \$1M toward their digital currency development over the past year
Over the next 12 months, how does your organization expect customer interest in digital currency payments to change?



Spending is expected to increase over the next year, as more than 60% of respondents report they expect to have budgets of more than \$500,000 to enable digital currency payments in the next 12 months.

A preferred approach

Organizations are predominantly partnering with third-party payment processors to enable digital currency payments, and there appears to be no correlation between their motivation for adoption, or their level of investment, and how they are building out their digital currency capabilities.

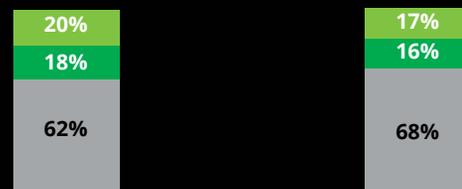
Organizations are predominantly partnering with third-party payment processors to enable digital currency payment (55%), while the remainder are split between building internally (23%) and working with their traditional payments partners (22%). Driving adoption of digital currencies within mainstream payments should look familiar, as partnerships will allow merchants to tap into traditional concepts such as brand familiarity, continuity, and a foundation of trust.

As retailers are still testing the waters as they explore digital currencies, enabling digital currency payments does not mean that organizations are holding or handling the assets. More than half (52%) of respondents plan to have payment processors convert digital currency into fiat⁶ so they never actually take custody of the digital currency, and organizations that are partnering with third-party digital currency payment processors are particularly likely to do so (61%). This approach offers easier and faster time to market and is largely considered lower risk than the alternative approaches. These findings are similar across all revenue ranges and sectors.

Even the merchants that are building internal infrastructure are looking for payment processors to help them convert digital to fiat currency. Furthermore, over a third of respondents (39%) from small and midsized organizations who are building internal infrastructures are looking for payment processors to help them convert the digital currency to fiat, suggesting that while they are building internally, they are doing so by mixing “the old with the new” in a combined approach that would allow them to enjoy the benefits while reducing the complexity of digital currency-enabled payments.

There are many plausible explanations for holding fiat, including a number of considerations involving price volatility, third-party product design (e.g., invoicing in digital currency, forced liquidation), digital currency acceptance by vendor, and tax complexity.

Digital currency infrastructure by motivation for adoption

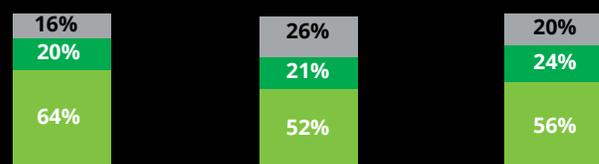


Organization focus (enable immediate access to funds, take advantage of blockchain-based innovation, allow in-house management of treasury)

Customer focus (improve CX, increase customer base, brand perceived as cutting edge)

- Building functionality internally
- Alliances with traditional payment processors
- Partnering with third-party digital currency payment processors

Digital currency partner by level of investment



Under \$100,000

\$100,000–\$1M

Over \$1M

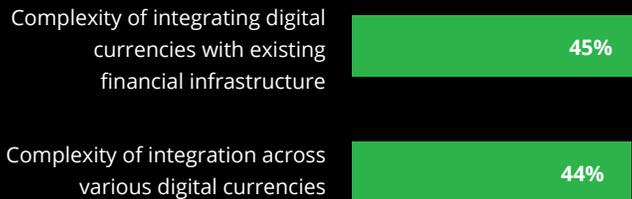
- Partnering with third-party DC processor
- Alliances with traditional payment processors
- Building functionality internally

Not without speed bumps

Merchants recognize a number of challenges when considering the enablement of digital currency payments. Among them, they consider complexity of integration as the leading challenge.

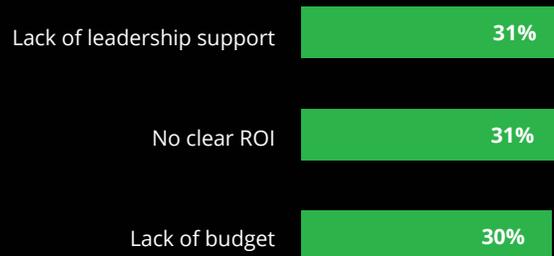
Eighty-nine percent of respondents selected at least one of the two options alluding to integration complexity: integration with existing financial infrastructure and/or across various digital currencies. These challenges are seen consistently across companies, regardless of revenue size.

Greatest challenges in enabling digital currencies payments



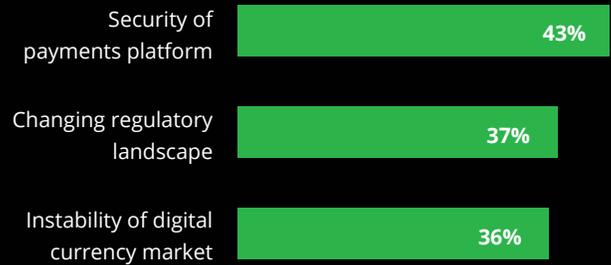
The least cited challenges included lack of leadership support (31%), no clear ROI (31%), and lack of budget (30%) ranked among the least challenging aspects of digital currency adoption.

Least cited challenges in enabling digital currencies payments



Similarly, survey respondents cited multiple barriers to adoption, with customer security of the payment platforms topping the list (43%), followed by the changing regulatory landscape (37%) and the instability of the digital currency market (36%). For large merchants and those who invested the most, the disconnected nature of the digital currency marketplace is their biggest barrier (43%).

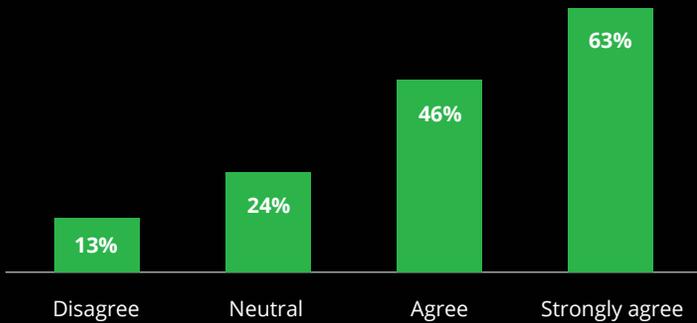
Primary barriers to digital currency adoption



In terms of level of concern, more than three-quarters of the organizations (79%) indicated a higher concern with cryptocurrencies. It's interesting to note that high levels of concern are reported by organizations that more strongly believe in digital currency being ubiquitous in their industry in five years, expect a significant increase in customer interest, and that invest the most. Because of the volatility associated with cryptocurrency, retailers report greater levels of concern about engaging in business payments with cryptocurrency than with stablecoins.

Despite the challenges and barriers, organizations remain optimistic and consider digital currency enablement a high priority. We anticipate that further partnerships with regulated and established institutions in the industry will help deliver the benefits of digital currencies (e.g., convenience and support) and will continue to build the necessary foundation of trust. As with most topics, an increase in education and awareness efforts can lead to increased levels of trust in the new technology.

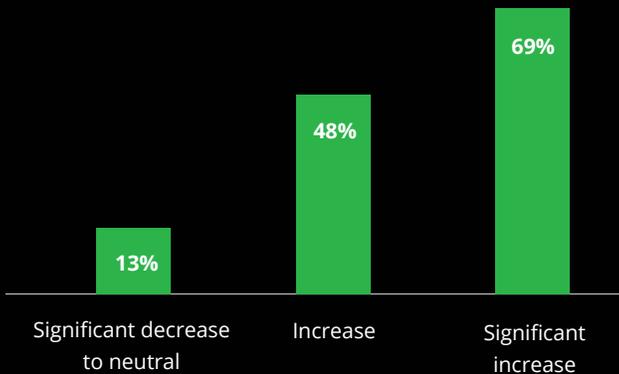
% of respondents with high level of concern
My organization anticipates that digital currency payments will be ubiquitous in our industry in 5 years.



Investment by level of concern



% of respondents with high level of concern
Over the next 12 months, how does your organization expect customer interest in digital currency payments to change?



Clearing the way

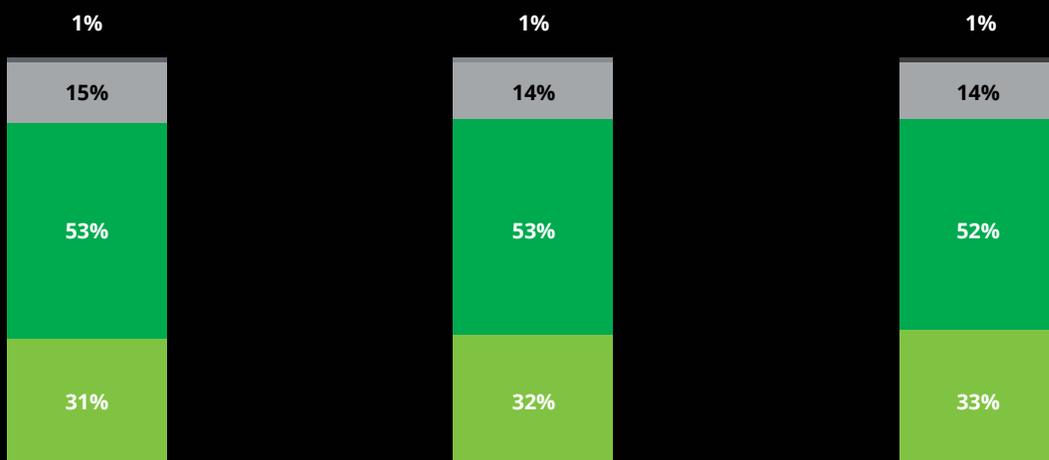
While merchants were able to identify notable benefits of adopting digital currency payments, they also point to concerns and challenges. Hence, generating space for additional external motivation.

This motivation can be provided through both incentives from digital currency payment processors and regulation that lowers the barriers to cryptocurrency adoption.

The top three ranked motivators that merchants are interested in are: incentive programs based on volume of transactions and/or value, new customer promotions, and no transaction costs.

As with traditional fiat arrangements, merchants would like digital currency payment processors to create favorable conditions. More than 80% of surveyed merchants would be motivated to adopt digital currency payments if third-party processors avoided the traditional holding period, had incentive programs like those of fiat models, or offered no conversion fees for digital and/or fiat currencies.

Organization-focused motivations payments



The lack of exchange fees for digital and/or fiat currencies is a motivating force for adoption of digital currencies

Incentive programs from payment processors comparable to fiat models would greatly accelerate digital currency adoption

By avoiding the holding period of traditional exchanges, digital currency payments will enable significant value gain for our organization

■ Strongly agree
 ■ Agree
 ■ Neither
 ■ Disagree

Envisioning the future, respondents cited top regulatory priorities that they believe will lower the threat and reduce barriers to adoption. Digital currency regulation and legal framework development has been slow.

Additionally, responsibility for regulatory oversight of cryptocurrency has been unclear. More than half agreed that certain regulations need to be enacted, including national guidance around holding digital assets, the ability to hold digital currency in bank accounts, and clarity on the tax implication of using digital assets.

Regulatory priorities to broaden adoption



Conclusion

Our survey confirms the direction and strength of the trajectory toward broad adoption of digital currency payment solutions across US retail organizations. Respondents understand the value and benefits of such capability and have taken steps toward enablement.

Merchants are listening to their customers and believe that many currently have a significant interest in using digital currencies for payments. The majority of merchants believe customer interest will increase over the next year, and nearly 75% reported plans to accept stablecoin payments and almost the same reported plans to accept cryptocurrency payments, both within the next 24 months.

As discussed, our survey data does not point to pragmatic differences in the adoption of stablecoins or cryptocurrencies, which we find interesting given concerns around market fragmentation and stability. We would anticipate more nuanced approaches in the future but appreciate a point of view that preserves customer choice above all else.

Nearly all the respondents agreed that the use of digital currencies for regular, everyday purchases will increase over the next few years. This trend is likely to grow as the technology continues to mature and merchants' broad confidence is coupled with strong convictions.

However, merchants also report concerns/barriers to adoption as well as execution challenges. We see a number of them (e.g., security and integration challenges) could be addressed through deeper conversations on aspects of the technology and its implementation.

We also expect continued education and broader learning to underpin further regulatory clarity to allow for wider mainstream adoption across a broader set of financial service offerings and products, and feel specifically encouraged by the current engagement from different orbits of the US government. As this happens, we see a critical role for established, trusted traditional payment processors in providing capabilities (e.g., compliance, customer experience and service) and serving as business enablers, impacting the pace at which upgrading to digital money payments unfolds.

Endnotes

1. Cade Metz, "[Overstock.com becomes first major retailer to accept bitcoin worldwide](#)," *Wired*, September 11, 2014.
2. Crypto.com, "[Measuring global crypto users: A study to measure market size using on-chain metrics](#)," July 2021.
3. Emma Newbery, "[7 companies where you can pay with crypto](#)," *The Ascent*, October 5, 2021.
4. Linda Pawczuk, Richard Walker, and Claudina Castro Tanco, *Deloitte's 2021 Global Blockchain Survey: A new age of digital assets*, August 18, 2021.
5. For the purposes of this report small and medium businesses are defined as organizations with company revenue ranging from under \$10 million to less than \$500 million.
6. Response options adding to the remaining 48% represent transactions involving customer- and/or merchant-owned wallets, but no indication of the holding period of the digital currency transacted on.
7. Deloitte, "[Corporates investing in crypto](#)," January 20, 2021; Deloitte, "[Corporates using crypto](#)," April 23, 2021.

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