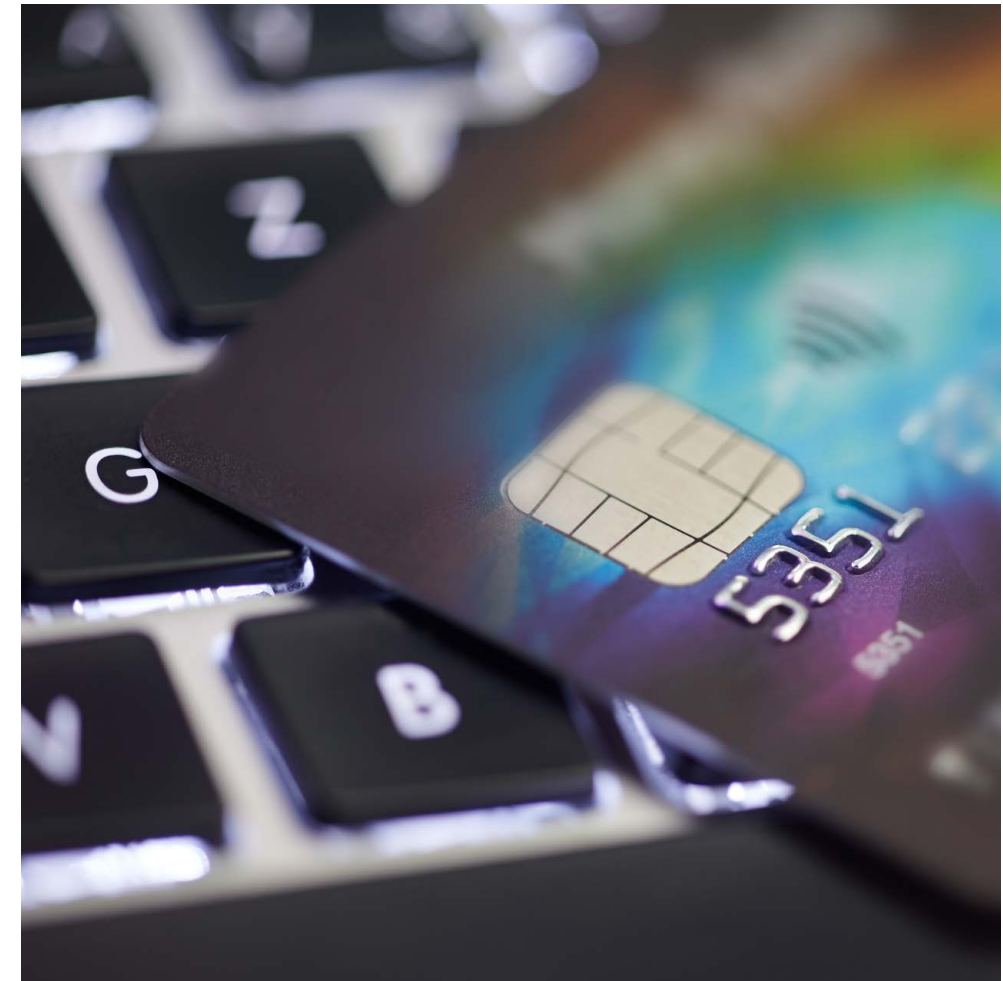


Commerce Connected

Playbook

Digital Commerce Edition

FEBRUARY 2019



The PYMNTS Commerce Connected Playbook series, in partnership with First Data, is designed to give readers an overview of the latest developments, data and trends from around the connected commerce space. The Playbook will follow the debut of new tools that connect retailers with consumers, gauging how they drive conversion in-store and online. Each issue of the Playbook will cover the major news and trends from connected commerce players, present new data on shifting consumer behaviors and preferences and will include a data-driven deep dive into various retail segments and industries.

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Executive Summary

“Fast enough” just doesn’t cut it anymore. Consumers no longer settle for traditional work or entertainment services. Paper-check payroll payments, often-limited cable options and public transportation options that charge too much and offer too little are out, and more robust and efficient solutions are in.

It’s no wonder that consumers [increasingly tap into subscription services](#). Ridesharing firms like Lyft or Uber provide apps that get them to the office in the morning instead of forcing them to hop on a bus or train, and they’re using on-demand streaming subscription services like Netflix or Hulu instead of browsing cable channels when they turn on their TVs, phones and tablets.

What’s more, digital services are expanding in both the United States and markets around the world. Providers are now working to make customer experiences more contextual, finding users wherever they spend their time — through car dashboards, on mobile apps or through other devices.

Streaming services companies are integrating payments into their platforms as they expand to new markets, for example. They’re also tailoring content to the mobile devices that are taking a more central role in entertainment,



paying bills and consumer transportation needs, among other daily functions. Consumers are using said devices to order food from delivery services like Grubhub or Seamless, get help setting up their IKEA bookcases via TaskRabbit and subscribe to new car plans — all with just a few taps.

Entertainment is still a main category through which consumers engage via mobile, of course, often through mobile games, videos and entertainment apps — even in emerging markets that see mobile just beginning to take off. The online game Fortnite quickly [rose to become one of the most popular in 2018](#) with 125 million registered players worldwide, for instance. In a more modest example, Netflix successfully shifted its focus to target new audiences, [adding 6.4 million international subscribers in 2018](#). The company now boasts 137 million global users.



These services are becoming more important to worldwide consumers, too. Rideshares like Uber and Grab are fighting to retain customers with their Uber Eats and GrabFood food delivery services. The former has paired with Starbucks to [open up 95 percent of the coffee company's menu](#) up to mobile orders, while Grab is testing video streaming via a [partnership with streaming startup Hooq](#).

Whether for mobile games or on-demand delivery services, catering to consumers' instant gratification needs means making both buying and paying for digital goods and services as seamless as possible. Enabling that experience requires more work on the back end, however. Digital commerce platforms

need to accept local currencies using global consumers' preferred payment methods, and also identify fraudsters' threats and swiftly work to prevent them.

What's more, companies expanding into new markets must remain compliant with new and existing legislation like the European Union's General Data Protection Regulation (GDPR) and revised Payment Services Directive (PSD2). Fortnite is currently working to [resolve claims of money laundering](#) and fraudulent activity linked to its platform's online payments, for example.

Such regulations even affect larger technology firms as they operate within

“ Whether for mobile games or on-demand delivery services,

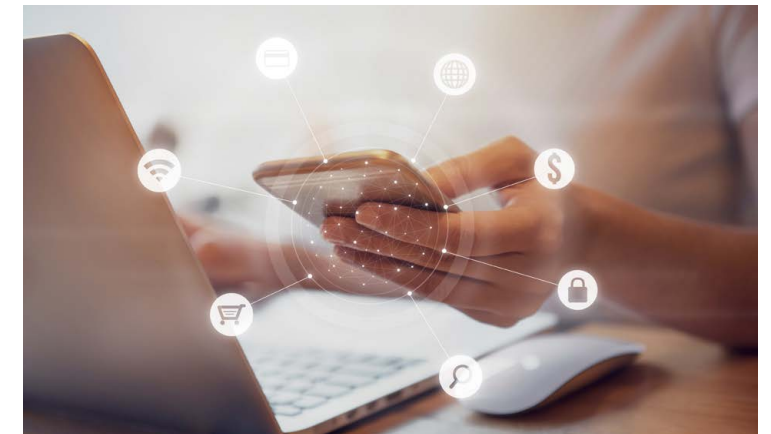
CATERING TO CONSUMERS' INSTANT GRATIFICATION NEEDS

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the EU. A privacy complaint recently [filed in Austria against YouTube and Apple](#) could affect their usage and sale of customers' data, and have repercussions on how other tech providers handle future payments.

So, how can digital goods and services providers stifle fraud, provide quick and seamless payment experiences, comply with new regulations and grow into new markets?

This edition of the PYMNTS.com Commerce Connected Playbook, a First Data collaboration, analyzes global digital offerings' rise, and provides service providers with a roadmap for adapting their payments and online approaches to worldwide digital commerce growth.



By the Numbers

Click on the  icon to read more.

\$7.3B

Annual amount cross-border digital platforms will spend on AI by 2022



57%

Share of Americans who subscribe to some form of streaming service



80%

Share of customer interactions projected to be handled by AI in 2023



Commerce
Connected



\$848

Chinese cross-border shopper's average annual spend



70%

Combined projected growth of North American, Asian and European non-cash transactions by 2023



Engagement & Retention



Spotify eyes voice activation, moving out of the App Store

Music streaming service Spotify is looking for fresh ways to engage customers and make streaming more contextual as competition grows fiercer. The company is already experimenting with new platform interactions outside its mobile app, [enabling voice-activated streaming](#) in consumers' cars through a Bluetooth-enabled product. Approximately 125 million cars set to ship between now and 2022 [will be able to link to digital services](#).

Spotify is also working to engage consumers without the typical middleman, looking to leave the Apple App Store, send users to a mobile site and cease paying the tech firm for new in-app subscriptions. Apple takes 30 percent of third-party sales. Moving out of the App Store [would allow Spotify to keep that cut](#), potentially freeing up more funds for international expansion and new projects. Netflix also pulled its app from the App Store and Google Play in late 2018.

Microsoft takes on gaming with subscription model

Technology firm Microsoft has made a comeback in recent years with its Office 365 and Azure cloud subscription services. The company is now looking to apply the same strategy to its video game business, [turning to a gaming-as-a-service model](#) to add new subscribers. Microsoft began offering its Xbox Game Pass subscription plan earlier in January, giving video game players access to more than 100 games for just \$10 a month.

The move comes alongside other efforts to capture a larger share of the \$138 billion global gaming industry. Microsoft has so far bought a total of seven gaming studios, acquiring two in 2018, to build out its video game platform and compete with Amazon's Twitch. It is also upgrading its reward system, structuring points as Microsoft Quests. Completed Quests give subscribers points they can redeem for \$2 per month in monetary rewards, a structure paralleling that of Xbox.



Netflix to launch mobile access in India

While Microsoft bets on incentives to boost its subscription service, other players are focusing on building their mobile offerings in international markets. Seventy percent of North American and European Netflix subscribers prefer to stream through their TVs, but the company has its eyes set on mobile engagement as it looks to expand into savvy markets like India. The country’s consumers use smartphones for everything from shopping to paying bills, and Netflix has set an ambitious [goal of adding 100 million local subscribers](#) over the next few years. This would double its current total of 137 million users worldwide.

“If you think about the opportunity, there’s about 450 million internet users in India, and about half of them are watching video on YouTube and services like that, which makes for a very interesting, addressable market,” said chief content officer Ted Sarandos in a CNBC interview.

Netflix is set to compete with Amazon and India-based platform Hotstar — both of which have banked on affordable price options to woo and maintain customers — with 100 original shows tailored to Indian consumers.

Main Takeaway

WHAT LEADING DIGITAL SERVICES KNOW ABOUT OFFERING SUBSCRIPTION PLANS



Global reach

- Offering subscriptions allows eCommerce companies to reach potential subscribers around the world, regardless of physical barriers



Seamless payments

- Swipe, click or tap — friction-free payments are critical for higher conversion rates



Maximizing authorizations

- Cardholders frequently change their cards — leverage services to update card credentials



Consumer data

- Collecting and analyzing consumer data is crucial to offering tailored products and services



Regulation and Compliance



Austrian privacy group files GDPR complaint against Apple, Amazon

Industry voices are already calling for technology firms to change how they buy and manage user data as GDPR sweeps across the EU. Austria-based privacy group None of Your Business (NYOB) has [filed a complaint with the Austrian Data Protection Authority](#) claiming that Amazon, Apple, YouTube and other digital goods and content providers are violating the regulation. The group might be familiar to those who followed a similar Facebook case last year, which it summarily won. NYOB is [alleging that the firms](#) — many of which now handle payments — are not sharing GDPR-relevant information with their users.

“Many services set up automated systems to respond to access requests, but they often don’t even remotely provide the data that every user has a right to,” said Max Schrems, NYOB chair. “This leads to structural violations of users’ rights, as these systems are built to withhold the relevant information.”

The group’s complaint could result in companies changing how they manage customers’ data and, more importantly, how they process users’ payments.

Google, Square urge U.S. Fed to move on faster payments

The EU is caught up in payment and data rules upgrades, but the U.S. is further behind. To that end, eTailers like Target and Walmart and tech giants including Amazon, Google and Square are urging the Federal Reserve to [develop a new real-time payments system](#). Such a move would allow shoppers to pay directly from their checking accounts, thereby reducing settlement time.

The companies allege that lack of a real-time payment infrastructure creates lags for consumers and businesses when it comes to receiving physical and digital goods. A faster payments atmosphere would also provide a significant lift to companies like Google and Facebook, both of which are starting to inch into EU payments now that PSD2 is allowing third-party providers.



Main Takeaway

HOW GDPR AND PSD2 ARE AFFECTING DIGITAL COMMERCE



More data transparency

- The regulations change the ways that customer data may be used and shared, giving consumers more control than ever before



Stronger authentication

- GDPR and PSD2 make strong customer authentication non-negotiable for any eCommerce company



3DSecure 2.0

- New EMVCo standard will address stronger consumer authentication needs — ensure you have a payments strategy that leverages 3DS 2.0



Transact



India looks to rein in Chinese eCommerce spending

So many Indian consumers are purchasing products from popular Chinese eCommerce platforms that the country is considering [capping the number that they can order](#). Cross-border commerce may not be that easy to stifle as consumers get used to its convenience and speed, however. Chinese eCommerce website Club Factory — which has approximately 70 million active global users — counts nearly 40 million Indians among its customers. This seems to suggest that the country's residents are already adapting to such online purchases and increasingly relying on digital commerce platforms to fill many of their needs.

Grab looks to expand into video streaming with Hooq

Southeast Asian rideshare Grab is bringing a new on-demand service category to its mobile platform, [partnering with video streaming startup Hooq](#) to add streaming to its app. The pilot will first launch as a free trial for users in Singapore and Indonesia by March 2019, according to the company, allowing users to watch more than 10,000 hours of content.

Grab is quickly moving to make itself indispensable, bundling a variety of on-demand services onto its app. The company offers mobile payment services, micro-loans and food and grocery delivery in addition to ridesharing and streaming. U.S. rideshares are making similar moves with food delivery, but Lyft, Uber and others have yet to become commerce-enabling platforms.

Chowbus raises \$4M in new funding

On-demand delivery service Chowbus has [raised \\$4 million in a funding round](#) that has been earmarked for expansion into new U.S. markets. Its platform allows users to order food for pickup and delivery from independent Asian restaurants via mobile, and provides participating firms with marketing and advertising tools like mobile-specific digital menus. The Chowbus Shuttle currently delivers food for a \$1 fee in Boston, Chicago, New York City, Philadelphia and Champaign, Illinois, with new markets to be announced in the future.

Protect



Fortnite money laundering scheme shows authentication weaknesses

Popular online game Fortnite’s ability to grow its international audience has been the subject of some hype since it officially landed on the market in 2017. Part of its appeal is its V-bucks in-game payment system, which enables users to purchase items that can help them advance through its levels. The seamlessness offered has [proven a siren call for fraudsters](#), however, many of whom are using Fortnite’s in-app currency for money laundering and other bad acts.

The draw for fraudsters is twofold: It’s easy for registered users to use stolen credit information to buy V-bucks — which they can then sell on the dark web — and Fortnite’s global reach means its virtual currency can be accepted by nefarious actors from around the world. The game doesn’t require much for user authentication, either, so posing as a legitimate player is easier than posing as a legitimate bank customer, for example. The lesson is important for digital commerce platforms: Secure authentication and a rigorous approach to payment fraud prevention must be top-of-mind for those set on managing expanding digital payments flows.

Mastercard squashes free trial payments, but not for online subscriptions

Subscriptions are becoming typical when consumers purchase both physical goods like books or clothing and online streaming offerings. Many of these services gain new customers through free trials that often simply roll into paid plans when consumers forget to cancel them. Mastercard is now [updating its merchant rules to change that](#), but only for certain purchases.

The payment services firm is changing its terms for network merchants that offer free trials, requiring them to gain cardholder approval before they begin billing. This rule notably only deals with physical goods, including “skincare or healthcare items,” and does not apply to digital-only products or services. How users pay for such services will only become more important as they rely more on online subscriptions for everything from work to entertainment.

Analyze



More risk, more reward in Latin American eCommerce

India and Southeast Asia represent two of the hottest eCommerce markets, but they're not the only regions in which online commerce is seeing growth: Latin America could also prove attractive for eCommerce companies as the region's consumers increasingly interact with online content and entertainment. Its eCommerce sales are [expected to grow by 11.9 percent annually](#) over the next four or five years, leading to a projected \$87.2 billion in sales by 2022.

Brazil and Mexico are top growth areas, both with large consumer bases interacting online and potential for additional expansion over time. Chile has lower operating costs and higher consumer incomes, though, which could reduce some of the risk eCommerce companies might find elsewhere in the region.

Main Takeaway

WHAT DIGITAL PLATFORMS NEED TO KNOW ABOUT GOING GLOBAL



Make the platform ubiquitous

- eCommerce platforms need to be multifunctional and aware of social and cultural nuances, allowing consumers to interact and shop contextually



Personalized offers and services

- Data and analytics can be used to offer individuals the deals and content that most appeal to them



Get local know-how on payments

- Markets outside the U.S. or even Western Europe have vastly different payment acceptance rules and experiences. Ensure payment providers have real local know-how



Payment choice matters

- Giving consumers relevant methods with which to pay — such as through cards, eWallets and netbanking — is critical to maximizing conversions



Regulatory compliance

- Successfully offering cross-border services requires careful compliance with existing and forthcoming regulations





Deep Dive:

DIGITAL SERVICES AND THEIR IMPACT

From getting an entertainment fix on Netflix and finding new artists on Spotify to making the commute to work with Lyft, consumers are gradually turning to digital services to fill their personal needs.

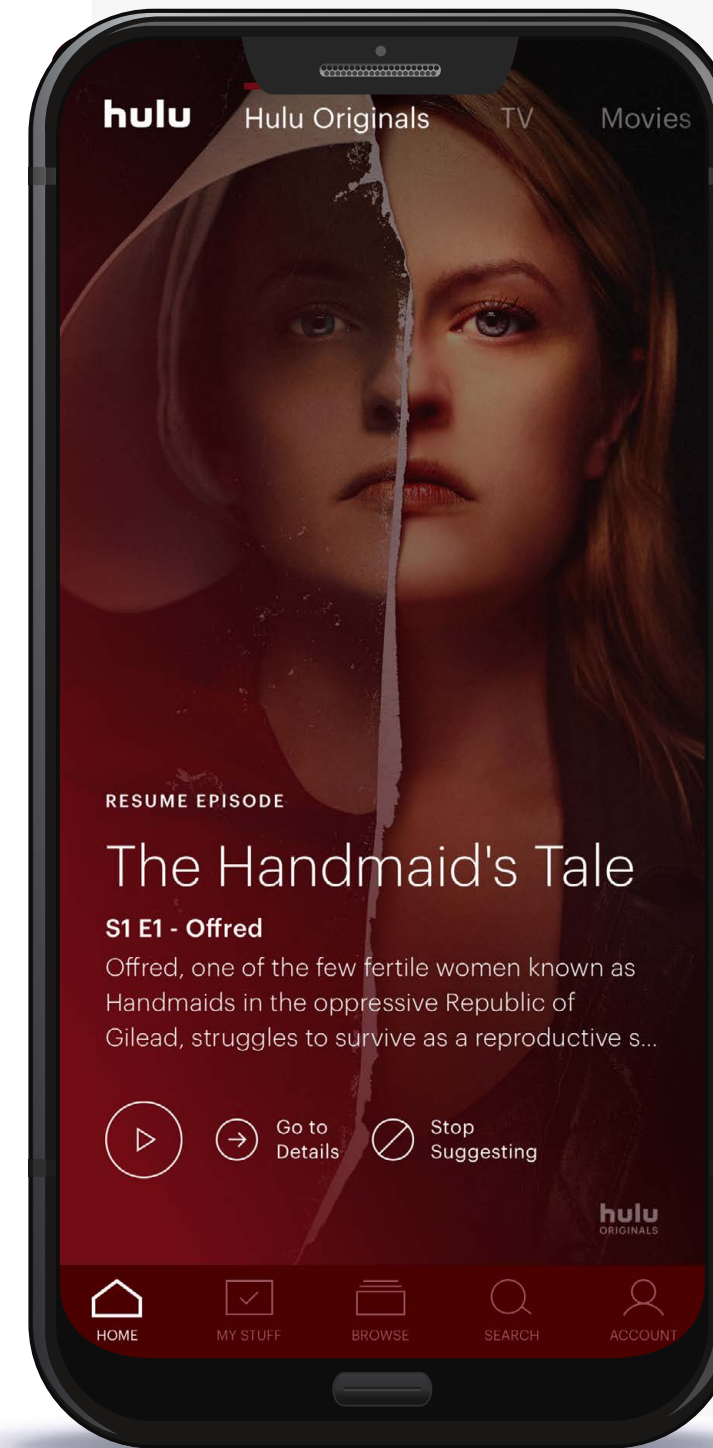
That spike in digital offerings has come with increased competition, though. Card volume for on-demand, live-streamed and game or software content increased by 35 percent between 2017 and 2018, according to a [First Data SpendTrend report](#). Regular retail experienced just 14 percent growth year over year, suggesting on-demand is fast emerging as a developing segment for digital commerce brands. Overall, transactions for digital goods and services are growing at 45 percent, according to FDC estimates, with on-demand services, games and software two of the fastest areas for this growth.

Customers are not only becoming more comfortable with viewing content from on-demand and streaming services, but also actively paying for it. Spending on digital goods and services is responsible for \$90 billion in U.S. total payment volume, or about 20 percent of online retailing, according to FDC estimates. This is essential to keep in mind as providers compete with both online content platforms — like the ever-present Netflix — and those like YouTube, which has long relied on a “freemium” model to capture users and boost subscriptions. The key to success is making the payment as frictionless as possible.

Consumers' attachment to their smartphones means they more frequently turn to mobile devices for content instead of larger screens. Most ads are now viewed on smartphones rather than laptops, tablets or TVs, [according to a Comcast report](#), and 60 percent came from smartphones in Q4 2018 compared to 44 percent the year before. The study found online ad views rose by 26 percent in this same period.



Consumers are also showing interest in streaming all types of content, from live events to on-demand shows. This makes streaming a key focus area for advertisers as traditional channel viewing wanes. Ad views for live-streamed content account for 33 percent of total views, up from 23 percent in 2017. This suggests that more customers are turning to digital platforms for live programming. Notably, certain platforms — like Netflix — still don't have ads, a hotly debated topic as the firm continues to tweak its business model.



Viewers now expect more on-demand and streaming options, too. Platforms like Netflix, Hulu and HBO still boast large viewership, but are beginning to allow other providers to share their content on outside streaming platforms. This strategy allows consumers to find the content they crave through a variety of outlets, while also enabling subscription services like Netflix to capitalize on licensing fees.

Even legacy television providers are muscling into the on-demand arena, with NBCUniversal looking to [launch its own ad-supported streaming platform](#) in early 2020. The Comcast subsidiary has access to a large pool of content, including shows that appear on Hulu — in which Comcast has a 30 percent stake. The service will also provide users a tiered ad or ad-free approach, like YouTube's own free versus paid offerings, with the ad-free option presumably more expensive.

As on-demand's popularity grows and customers begin to change how they interact with such platforms, businesses and streaming service providers seem to be rethinking their content approaches.

Some companies, like Samsung, are using their resources and infrastructure to quickly capitalize on the niche's growth. The technology firm [has announced it is launching its own platform](#) in the Middle East and North Africa, a region currently seeing high on-demand content growth. Revenues totaled \$523 million there in 2018, a 21 percent increase over 2017 figures. Samsung will be working with three established local providers to break into the market, rather than crafting its own platform from scratch.

Other providers are starting over as on-demand content becomes more difficult to produce, market and maintain. Many are having a tough time adapting to the segment's rise, including those that originally saw success with the model.

AT&T supports the DirecTV on-demand service, for example, but is now [considering selling the platform](#) despite initially using it to grow usership. The telecommunications company would create another streaming service following said sale, offering on-demand content from HBO, Warner Bros. and Turner and effectively rendering the DirecTV platform obsolete.

It's clear the on-demand space is growing to encompass the digital content with which users interact. What's less clear is which providers will be able to evolve and maintain the highest usership, particularly in a world that sees customers only getting more, well, demanding.

One thing is certain — the winners in the market for on-demand services will make payments seamless, frictionless and global so that they completely fade into the background of the overall experience.



About

PYMNTS.com

[PYMNTS.com](#) is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

First Data.

First Data (NYSE: FDC) is a global leader in commerce-enabling technology, serving approximately 6 billion business locations and 4,000 financial institutions in more than 100 countries around the world. The company’s 22,000 owner-associates are dedicated to helping companies, from startups to the world’s largest corporations, conduct commerce every day by securing and processing more than 3,000 transactions per second and \$2.4 trillion per year.

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