PYMNTS.com

52 MONDAYS 2020

BY KAREN WEBSTER

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MONDAY BY MONDAY,
2020 SAW **SPEED, SCALE AND SEISMIC SHIFTS** IN PAYMENTS

Looking back, when we take stock of what happened, and sift through the chaos and heartbreak of the year that was, we'll see the seismic shifts that took place in 2020.

I'd written back in January that "the 2020s promise to bring about a convergence of the technology and innovations that have defined the last 10 years — to bring about new disruptions as the web shifts into higher gear, mobile becomes ever more popular and vital, homes and automobiles become hotbeds of commerce. Big Tech firms face significant political and policy challenges and redefine themselves for the new decade. New ecosystems are being created as the old methods, in many cases, start to fall away."

While many of those projections came to pass, it would have been impossible to even guess at the *speed and the magnitude* of those changes. It's been widely remarked that commerce, and specifically digital-first efforts, accelerated by a number of years throughout a mere few months.

For just two examples: Didn't know what curbside pickup meant before the pandemic? Odds are that you do now. The restaurant experience may feel long ago and far away, and the aggregators have helped fill a need for restaurants to salvage (at least some) top line and for consumers to get the food they wanted, at the doorstep.

Indeed, we might look to March 11 as the dividing line between what was, and what is and will be in the connected economy. Traditional business became anything but traditional.

A continuing series of consumer surveys, as detailed in separate research, recapped and placed in context on Mondays right here, showed that consumers made the great digital shift out of concern for safety and, along the way, for convenience.

Main Street small and medium-sized businesses (SMBs) scrambled to make their own digital shift, even while facing operational pressures that were only partly ameliorated by stimulus packages and government programs.

Big Tech faced threats, suits and other actions from regulators and lawmakers that centered (and still may succeed) on making Big Tech a little ... smaller.

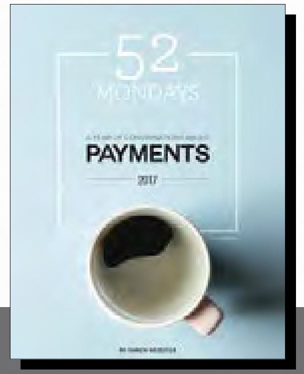
Dozens of Monday reflections are gathered here, in a year where each Monday seemed to herald a week rougher than the previous one.

But with challenges come opportunity, of course — and we're on track, post-pandemic, to see a new age of (truly) digital commerce as the digital-first economy takes shape in 2021.

And, as always, we'll take stock of the big picture right here — one Monday at a time.

Karen L. Webster

Karen Webster
CEO | PYMNTS.com
#52Mondays



52 MONDAYS 2017
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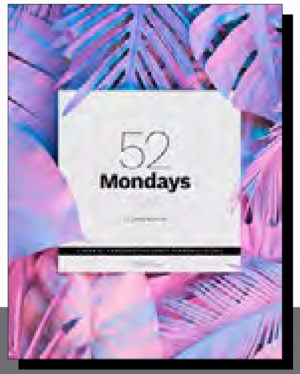

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January 1, 2020

Welcome To The Connected Economy

Making predictions is simply irresistible at this time of the year – this year in particular.

Sixteen days from today will mark not only the end of a year, but the end of a decade. Not just any decade, but one that has seen unprecedented levels of innovation touch nearly every industry segment and almost every corner of the world.

Predicting the future, though, is risky business – which may explain why many predictions are wishy-washy or soon proved wrong.

There's a famous Steve Jobs quote, though, that I think frames any conversation about the future in a more thoughtful way.

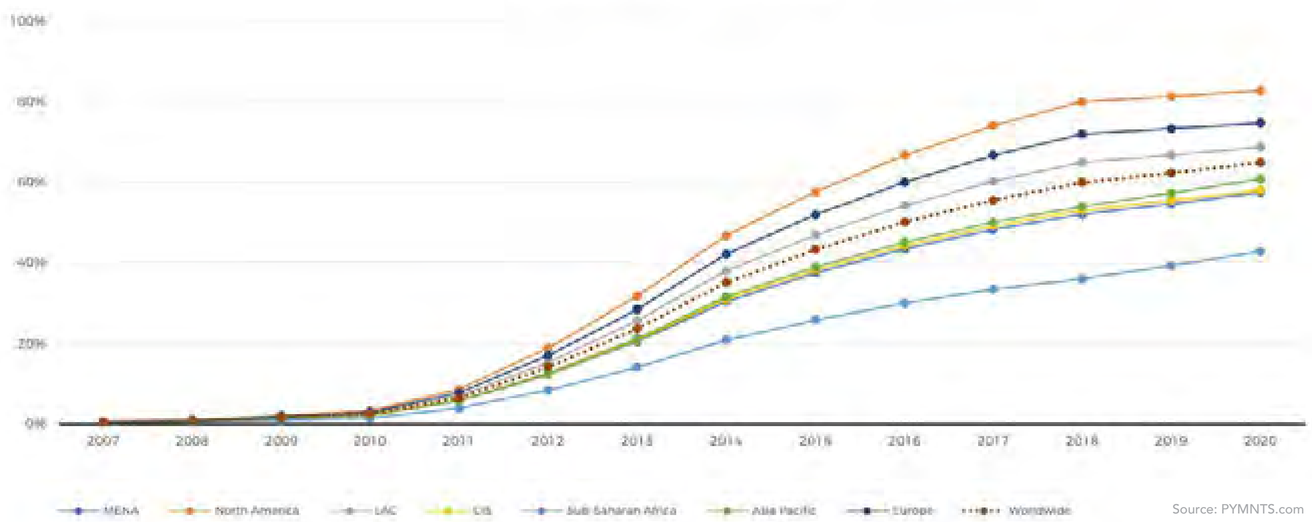
Jobs said that predicting the future can't be based simply on assumptions about what might happen. Instead, he said, looking ahead starts with looking back, then connecting the dots that define the present. Only then, he said, can one get clarity about how those dots can guide innovators about the future.

The last 10 years in payments and commerce have given us millions of dots to connect.

> **LOOK BACKWARDS** AND **CONNECT THE DOTS** TO UNDERSTAND WHERE THE FUTURE MAY BE HEADED.
>
> — Steve Jobs

THE MOBILE DEVICE AS THE CATALYST

Share Of Population With Smartphones



The introduction of the iPhone in 2007 – and the birth of the apps ecosystem a year later in 2008 –inspired an entirely new class of innovators, stating the 2010s with a brand-new toolkit. Armed with new tech, mobile devices, data and the cloud, they fast-tracked the shift from a largely analog world to the app-based economy of today.

Over the last decade, the combination of smartphones and apps has changed how we shop, how we pay, how we connect with people, how we discover and consume information, how we work, how we bank and even how we are paid.

In many ways, however, the decade of the 2010s was the warmup act for the transformation yet to come – the transition from an app economy to one in which connected ecosystems aggregate commerce experiences and enable transactions across channels, devices and environments.

Payments will power that shift.

That connected economy will be the result of the full force of the Internet of Things (IoT) in action. Just about every device will be connected to the internet and capable of enabling a transaction – between every possible permutation of machines, people and businesses.

In this new connected economy, we will find ourselves living in a world where new networks, intermediaries and enablers will change what is today considered the payments and commerce status quo.

A status quo that a decade ago seemed almost unimaginable.

I've connected a few of the dots from over the last decade that I believe will shape how the world will evolve in the 2020s, as well as the role of payments in driving that change. From those emerge seven trendlines that will influence the direction of the exciting new decade that will begin a few weeks from today.

2020's 7 KEY TRENDLINES

01 Rapid acceleration of cash to digital

02 The rise of on-call commerce

03 The shift from eWallet to everyday app

04 The banking of the un- and underbanked

05 The massive monetization of payments choice

06 The global game-changer of voice

07 The enduring power of the card networks

01

RAPID ACCELERATION
OF CASH TO DIGITAL

2020 TRENDLINE ONE:
RAPID ACCELERATION OF CASH TO DIGITAL PAYMENTS

Cheaper smartphones and more access to fast internet everywhere in the world will accelerate consumers' demand to move cash to digital payment methods. Ironically, cash-in and cash-out networks will play a critical role in enabling that shift.

Today, there are 7.3 billion people in the world, 5.1 billion of whom have a mobile phone. That's roughly 67 percent of the population – and in five years, that will grow to 71 percent. According to the GSMA, 79 percent of those users will own a smartphone.

And that's just five years from now.

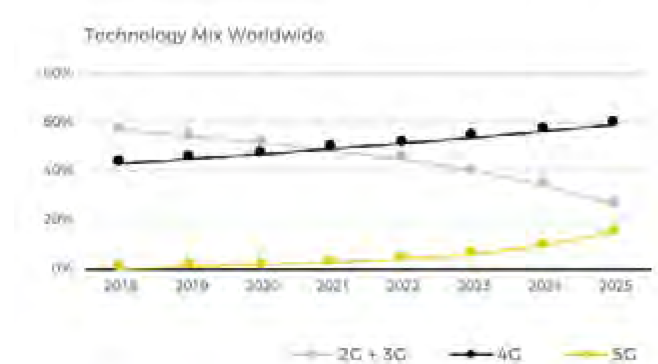
Looking across the globe, the average cost of a smartphone today is about $341, with Europe and the U.S. driving that figure higher. Yet today, a person in India can buy a pretty good smartphone for about $100 – and more competition and creative business models will only drive those prices lower over time.

The demand for those smartphones (and the competition for lowering their prices) will increase as access to faster internet comes online, as developing

5G

PROJECTED ACCESS BY 2025

South Asia: **7%**
Asia Pacific: **18%**
United States: **50%**
Europe: **30%**
China: **36%**
India: **7%**

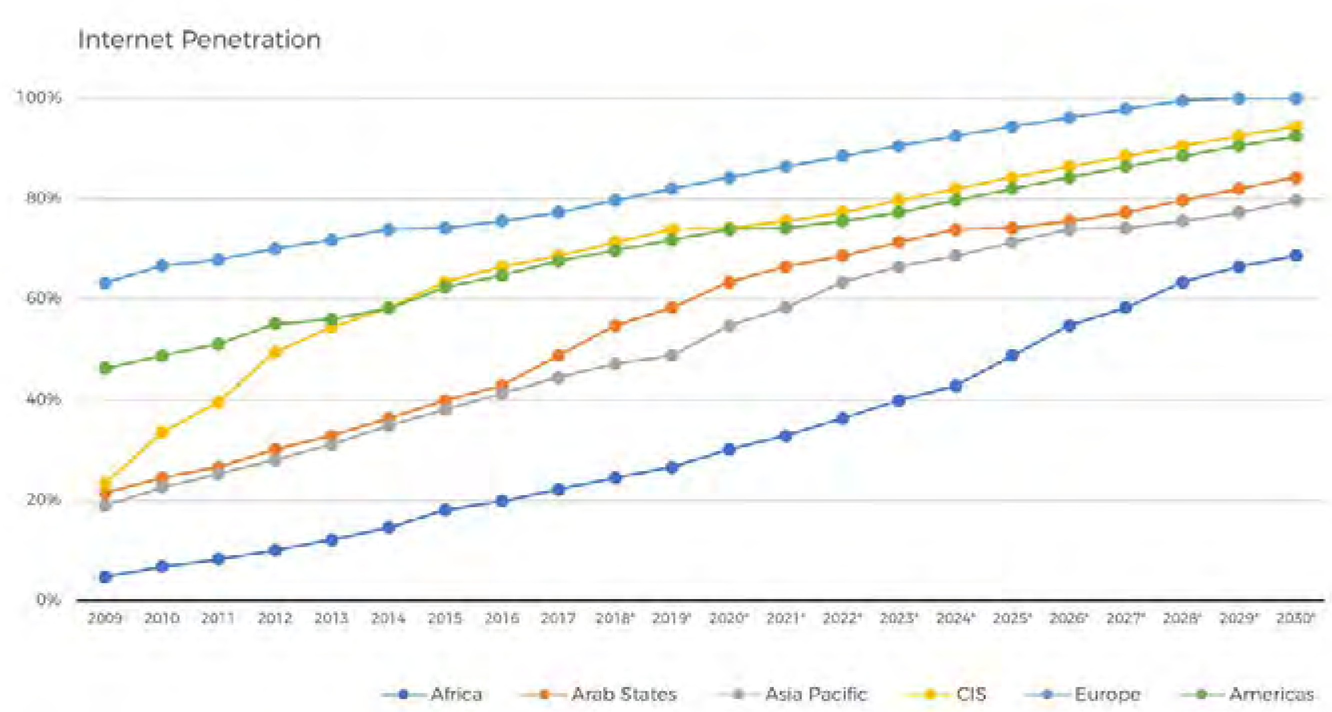


4G AND 5G NETWORKS WILL PUT **FAST INTERNET** IN THE HANDS OF **BILLIONS OF PEOPLE.**

markets move from 2G/3G to 4G, and as developed markets move from 4G to 5G.

In developed markets, 4G will move to 5G with 15 percent of mobile phones connected, and to 5G five years from now.

Access to faster internet means consumers everywhere can tap into ecosystems that were once largely unavailable to them, or not available in any sort of robust way. In developing and emerging economies, thin-feature, phone-friendly apps will give way to more robust apps and ecosystems that power shopping and buying online, paying bills, banking – even building a credit profile and receiving microloans.



When nearly every phone is capable of conducting a transaction and nearly every adult human on the planet is capable of engaging in digital commerce, there will naturally be a spike in demand to digitize cash and take advantage of a connected digital ecosystem that was once totally out of reach.

This is happening even faster than we anticipated.

Cash usage, across the more than 60 countries that PYMNTS has tracked over the last decade, has seen modest growth, even outpacing the overall GDP growth in many of the key countries we monitor. Much of that growth is driven by the growing size of the spending pie – that is, even if cash is declining in use as a payment method, more people spending more money will sustain or increase its use. That's true even in developed markets like the U.S., where mobile devices, apps and digital methods are strong, and cash usage continues to maintain a stable course.

Fast-forward to the decade of the 2020s, and we will see a rapid deceleration in the growth of cash in many economies, including those that are today largely cash-centric. Cash, while important, is rapidly digitizing as consumers in emerging economies are keen to live in a connected, digital world.

That desire will drive demand for platforms to enable that cash-to-digital shift – and for the players in the connected economy to create new use cases that meet the needs of these emerging digital natives.

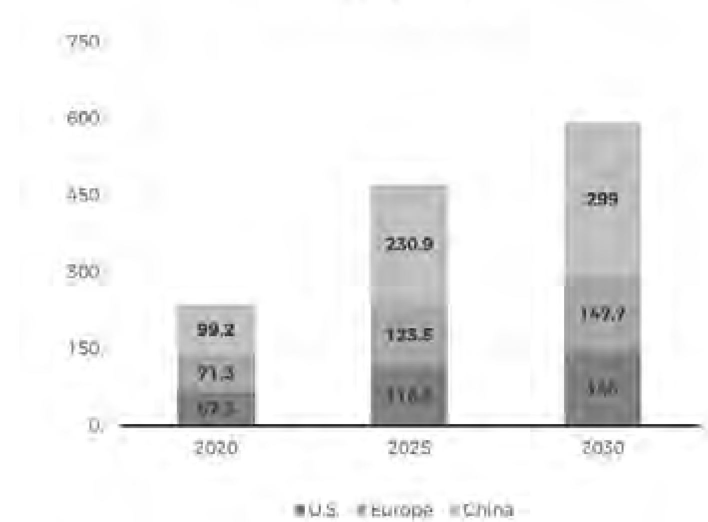
EVERY DEVICE IS A CONNECTED DEVICE WITH EVERY CONSUMER **CAPABLE OF ENGAGING** IN DIGITAL COMMERCE.

02

THE RISE OF
ON-CALL COMMERCE

2020 TRENDLINE TWO:
THE RISE OF ON-CALL COMMERCE

CONNECTED CAR shipments will go from 51.1 million in 2019 to 76.3 in 2023.



In an analog world, consumers had to consciously carve out time to go shopping to discover what to buy and then buy it, do their banking and pay their bills.

Today, with mobile devices and apps, commerce is portable – simply a click or a swipe away. But in the connected economy, commerce will be all around us. Our homes, cars, workplaces, schools, hospitals and cities will become powerful software platforms capable of enabling on-call commerce by anyone, at any time and using any devices – and seamlessly across these ecosystems.

The notion of on-call commerce will do more than simply blur the lines between the online and offline worlds: It will make commerce present – and effortless – in entirely new channels, creating new efficiencies that will have a positive impact on the economic well-being of countries all over the world.

In emerging economies, this transformation will be led by smartphones. In Vietnam, to take just one example, smartphone penetration

> THE INTERNET OF THINGS WILL CONNECT COMMERCE TO CONSUMER **EVERY PLACE** THEY WORK, LIVE OR PLAY.

will reach 77 percent three years from now, up from 25 percent today. Southeast Asia will see 370 million new mobile users in the next five years, bringing smartphone penetration to 72 percent of that region's population.

Back in the developed world, smartphone adoption will reach nearly 100 percent of the adult population – in the U.S. and Canada, it will grow from 83 percent of the total population today to 90 percent in 2025, and in Europe it will move from 73 percent to 83 percent in that same timeframe. And eCommerce volumes will soar, with countries such as China, Japan and the U.S. witnessing growth rates that are double, triple or even quadruple the projected global annual growth rate of 18.5 percent over the next five years.

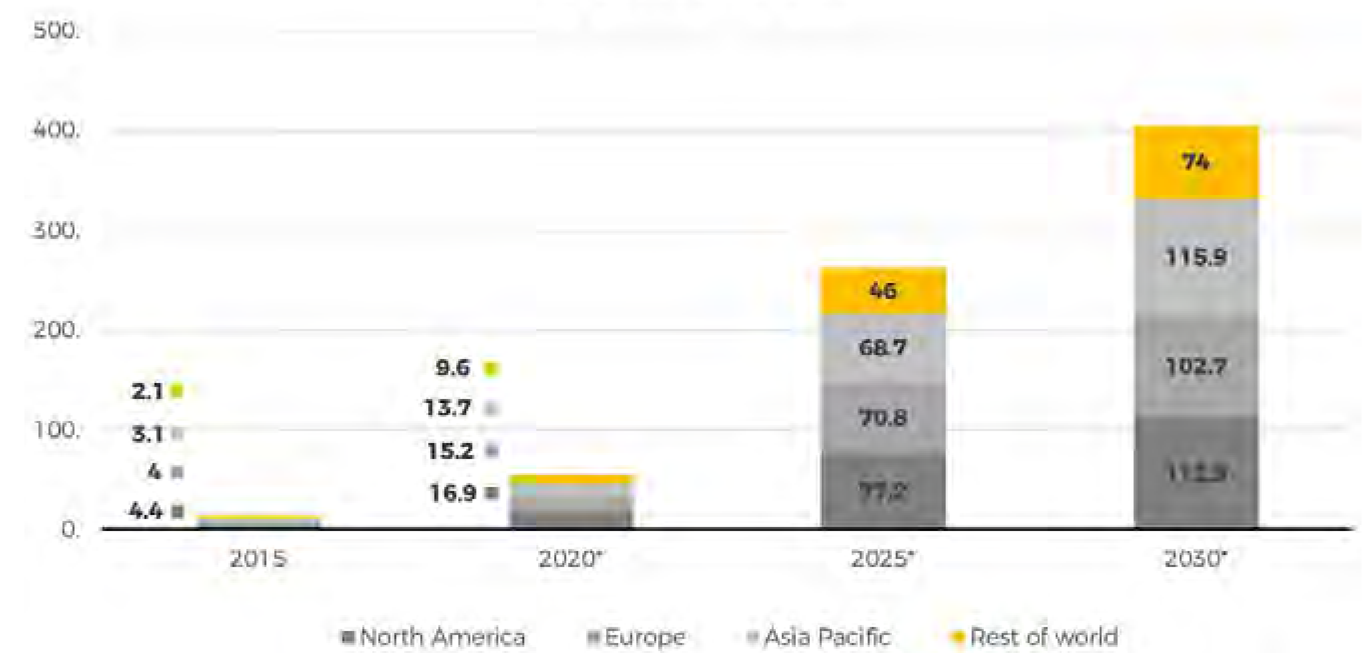
But the shift from portable commerce to on-call commerce will come from the explosion of connected devices, which will push commerce anywhere a device and an internet connection intersect.

In five short years, by 2025, there will be more than 25 billion devices capable of interacting with the internet – up from nine billion today. Everything from cars to homes to offices to appliances will be capable of enabling transactions. Appliances will troubleshoot problems before they exist, ordering parts and

SMART HOME will increase from 134 million in 2019 to 322 million in 2023.

Smart home market revenue worldwide from 2015 to 2030

IN BILLIONS USD



alerting service technicians to set up a service call before things break down. Cars won't need consumers to bring along their mobile phones to make them smarter, connected and capable of transacting. Connected car shipments in the U.S., China and Europe are expected to nearly double in the next three years.

Homes will get smarter, too.

Today, a little more than a quarter of U.S. homes are connected to the internet via some form of a smart device, with nearly half expected to be "smart" five years from now. And this is not just a developed economy phenomenon. Homes all over the world are getting smarter, as new construction incorporates smart elements into the building process, and homeowners install doorbells, light fixtures and other "smart" devices linked to a virtual assistant as they upgrade and remodel their residences.

It's all part of the growing trend of consumers making the home the center of their connected commerce world – a trend that we saw emerge in our third annual How We Will Pay study, done in collaboration with Visa.

That's not just because consumers can shop and buy online without leaving the house. Today, many of the activities that consumers once could only do outside of the home can now be done without leaving it.

More consumers are working from home, which changes their patterns and preferences for shopping and eating, as well as their daily routines. They're watching Netflix at home while eating carryout instead of going to dinner and a movie. And instead of investing in tickets to go to a game, they're investing in smart flat-screen TVs to watch live sporting events at home with friends. Instead of going to the gym, they're climbing on their Peloton bikes or exercising in front of their Magic Mirrors with trainers and others who are part of those digital fitness communities.

All of these developments have laid the groundwork for the on-call commerce experiences that will shape how and why consumers engage with businesses of all types – forcing firms to adapt to those changes in order to attract consumers who increasingly want commerce delivered on demand.

AS COMMERCE BECOMES **CONTEXTUAL AND RELEVANT,** MORE CONSUMERS HAVE MORE OPPORTUNITIES TO INTERACT WITH EACH OTHER AND BUSINESSES.

03

THE SHIFT FROM eWALLET TO EVERYDAY APP

2020 TRENDLINE THREE:
FROM THE EWALLET TO THE EVERYDAY APP ECOSYSTEM

ECOSYSTEMS NEED PAYMENTS TO KEEP – AND MONETIZE **THE CONSUMER'S ATTENTION.**

A decade ago, the conversation about digital payments was largely about registering payment credentials with a third party to make online checkout less friction-filled wherever those "buy buttons" were accepted.

What a difference a decade makes.

Today, there are some 190 variants on the mobile wallets theme – literally a "Pay" for every person and every use case, with most driven from the birth of the smartphone/app ecosystem.

Some, like M-PESA in Kenya and I-Mode/DoCoMo in Japan, are enabled by telcos. There are Pays courtesy of mobile operating systems, like iOS/Apple and Android/Google and Samsung.

Others, like China's WeChat Pay and Alipay, are enabled by internet giants – one with its roots in a social network and the other in a commerce ecosystem, Alibaba, which is also how PayPal got its start in 1998.

Still others, like Amazon and Walmart, are merchant-driven, linking authentication credentials to registered

payments credentials to check out online and offline.

The next decade's conversation will be different.

Today, consumers toggle between a variety of apps on their mobile devices to discover what to buy and pay for what they buy, to bank and pay bills, to send money to people, and to save and invest. A decade from now, consumers will spend much of their time inside one, or just a few, everyday connected ecosystems that enable all or many of those activities without stepping outside it. Consumers will move fluidly inside of that ecosystem instead of between the 20 or 30 apps that enable that engagement today.

We're seeing it happen today as these ecosystems, with their critical mass of authenticated consumers and registered credentials, add more services to capture more of their users' time and attention in an effort to become the "go-to" app.

Walmart has expanded its financial services ecosystem to include healthcare services for its users, in addition to making P2P transers, bill pay, savings and payments part of the services they provide. Amazon is leveraging Western Union's global cash in/cash out network to let consumers shop online and pay in cash at one of their 500,000 global agent locations. Facebook wants to integrate payments

WECHAT AND ALIPAY ARE THE MODEL THE WORLD **ASPIRES TO BE.**

THE EMERGING EVERYDAY APP ECOSYSTEM

to become a commerce platform instead of just an advertising platform. Apple has introduced a credit card and companion card app with personalized offers and an easy customer interface to drive more Services revenue. Uber is giving its drivers free digital wallets to receive their pay (and, they hope, all of their other pay as well) as well as access to special deals and promotions to linked to that account to keep more of them driving for the company. In South Asia, Grab and Gojek are giving drivers and consumers access to financial services, including microloans.

PayPal's ecosystem gives consumers options to register a variety of payments credentials (and access to installment credit via PayPal Credit) and to use any of them to pay at a merchant. PayPal accounts can accept funds (including pay and cash), store funds, tap into working capital, receive instant settlements from a merchant on their platform and save money via a third-party app. With its recent acquisition of Honey, PayPal will help its users get the best deals on the products they would like to buy.

Google has embedded commerce into search across a wide variety of use cases, including travel, food ordering and food delivery. Storing credentials in Chrome creates a Google Pay account that consumers can use when shopping online at a merchant on that browser. The company's recent announcement of a smart DDA with Citi is a potentially very "smart" move in bringing banking inside Google's ecosystem with one of the most respected industry names – and on a global scale. And Google's recent announcement that PayPal COO Bill Ready will join the firm as president of commerce in January is just the latest signal of how serious Google is about turning its search and advertising platform into the everyday ecosystem where consumers can interact – cross-channel and cross-platform.

As with many things, consumers don't always know what they really want until they see it. Yet last summer, when we described what an "everyday app" might do for them in a PYMNTS study, more than half of all U.S. consumers said they'd be interested. As consumers search for speed, convenience and value in an increasingly time-challenged world, the appetite for simplifying their commerce experiences inside of a small number of very rich ecosystems seems high. And Big Tech (Amazon, Google) and FinTech (PayPal) players top the list of those who would like to enable it.

04

THE BANKING OF THE UN- AND UNDERBANKED

2020 TRENDLINE FOUR: BANKING THE UNBANKED AND UNDERBANKED

EMERGING MIDDLE CLASS WILL DRIVE DIGITAL PAYMENTS AND COMMERCE TO UNPRECEDENTED NEW LEVELS.

Today, nearly 70 percent of adults worldwide have access to a bank or bank-like account – either from their bank, a FinTech or a telco – up from 51 percent at the turn of this decade. In a world in which all seven-plus billion humans living on the planet will soon have a smartphone that can access apps and the internet, it's hard to imagine that those who lack access to a bank account and/or bank-like services today will have to go without for much longer.

That includes those living at the very bottom of the pyramid today – and who, with such access, will finally have a way to participate in the financial services ecosystem. For these underbanked and unbanked people, their mobile phones will do more than allow them to create an account that can store value and enable digital transactions. These accounts will also integrate payments credentials with identity credentials to further streamline and protect parties to those transactions. Governments and others that distribute funds will have a digital means to do so, securely and compliantly, with the knowledge that funds will reliably reach those for whom they are intended.

With that access will come the visibility necessary to build a credit and financial history, which could pave the way to credit and microloans, as innovators use data and artificial intelligence (AI) to underwrite risk and build credit profiles.

With that access comes the potential for those individuals to build microbusinesses, sell their goods and services on digital marketplaces, and build and fortify a new emerging middle class.

And that also means an onramp for financial stability and financial independence – and economic prosperity for the countries where these 1.7 billion people now live.

This new emerging middle class will drive digital payments and commerce to unprecedented levels over the next decade. And it will fuel the interests of innovators and incumbents alike to use financial inclusion as a springboard to delivering the financial independence that billions of consumers once considered out of their reach.

The GDP of emerging markets would grow **$3.7T** by 2025

GLOBAL MIDDLE CLASS FORECAST

IN MILLIONS

	ASIA-PACIFIC	EUROPE	NORTH AMERICA	LATIN AMERICA	MENA	SUB-SAHARAN AFRICA
2015	1380	724	335	285	192	114
2020	2023	736	344	303	228	132
2025	2784	738	350	321	285	166
2030	3492	733	354	335	285	212
GROWTH RATE 2018 - 2030	**4.24%**	**1.30%**	**1.17%**	**1.95%**	**3.57%**	**6.22%**

05

THE MASSIVE MONETIZATION OF PAYMENTS CHOICE

2020 TRENDLINE FIVE:
THE MASSIVE MONETIZATION OF PAYMENTS CHOICE

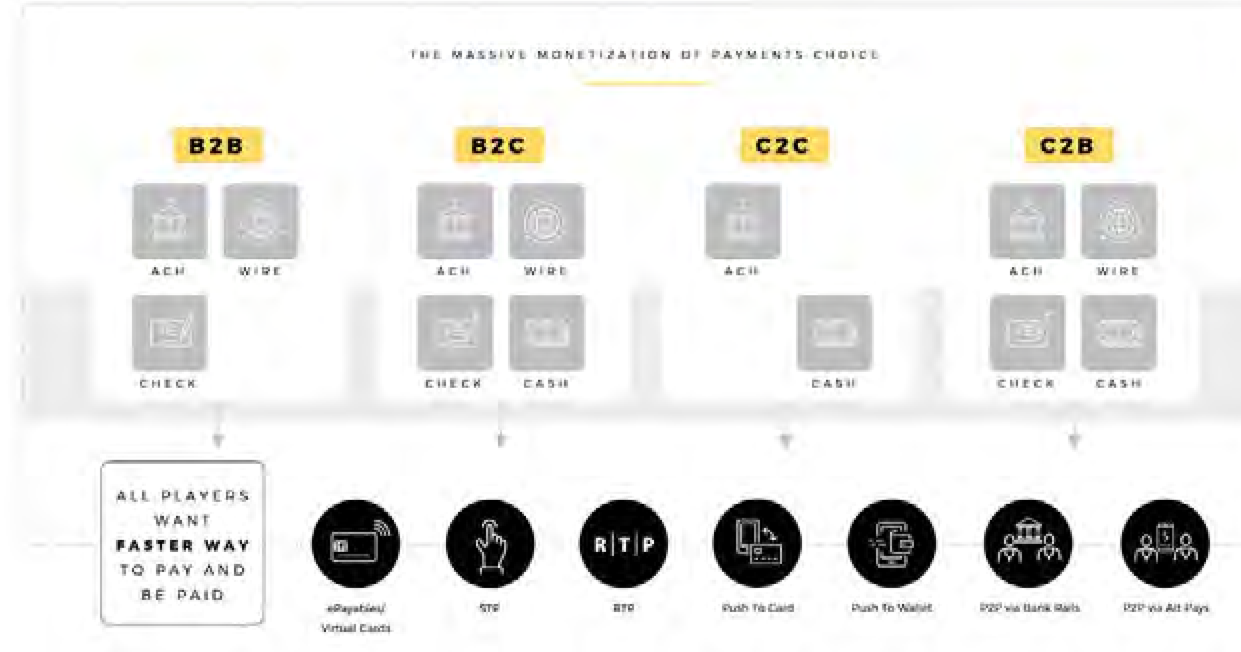
In an analog economy, the world was standardized on a small number of ways to move money between people and businesses because there weren't many available options.

In the apps economy of the 2010s, the number of digital options expanded dramatically for consumers and businesses – and with that expansion came pressure to enable acceptance by merchants and by businesses.

Over the last decade, on the retail side of payments, merchants waited to expand checkout choice until they felt that sales were at risk if they didn't. On the B2B side of payments, acceptance by suppliers of anything other than a check or ACH payment often came through brute force. The larger the enterprise, the more demanding the supplier onboarding process becomes, and many simply defaulted to the paper check, particularly for one-off or infrequent ad-hoc payments, including disbursements. Today, the paper check still drives well more than half of all payments made between businesses – a percentage that's even higher when small businesses pay each other.

In the connected economy of the 2020s, all businesses will be challenged to enable choice, as consumers push for options to pay and be paid using the

ADVANCES IN TECHNOLOGY TO ENABLE SAFE AND SECURE TRANSMISSION.



many options available in their wallets today. And businesses will awaken to the notion that choice delivers a competitive advantage, including the choice to receive funds much faster than they move today – and in some of those cases, in an instant.

The opportunity for businesses and payments providers to monetize choice is nearly as massive as the challenge for businesses to enable it, particularly for B2B payments, where getting buyers and suppliers to support choice for the dozens, hundreds, thousands or tens of thousands of suppliers that are paid is daunting.

Delivering and monetizing choice means recognizing that businesses, like consumers, find the option of preserving it so compelling that they are willing to pay to give or receive it in many cases.

Over the next decade, enabling choice between businesses and between businesses and consumers will only accelerate the demand for platforms that deliver it across the entire end to end experience — from onboarding to risk management to credit to data to reconciliation to the incentives that give buyers as much of an incentive to enable payments choice, as suppliers who want to receive it.

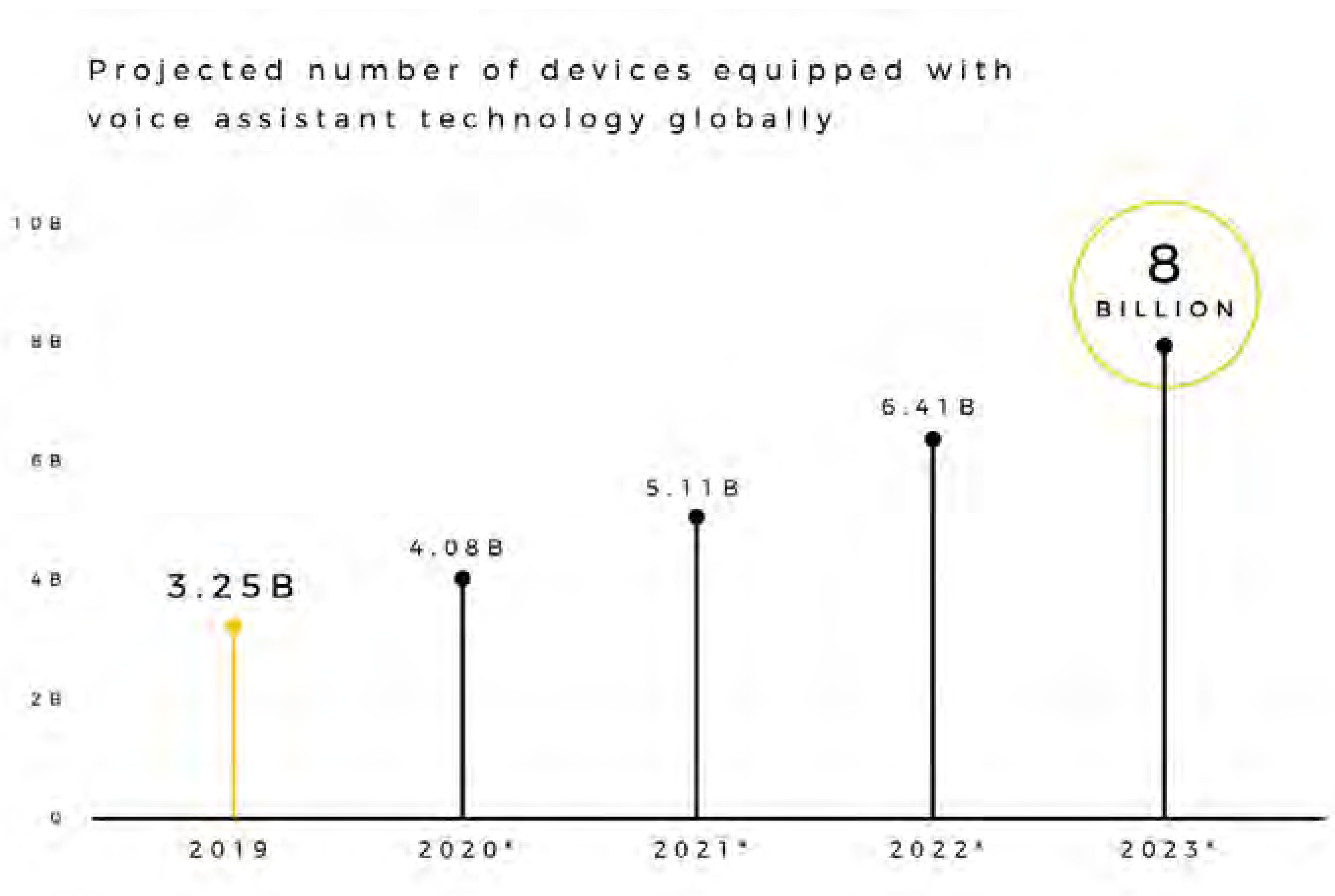
06

THE GLOBAL
GAME-CHANGER
OF VOICE

2020 TRENDLINE SIX:
THE GLOBAL GAME-CHANGER OF VOICE

Voice emerged in the second half of this decade as the new commerce ecosystem, one that will power the connected economy of the 2020s.

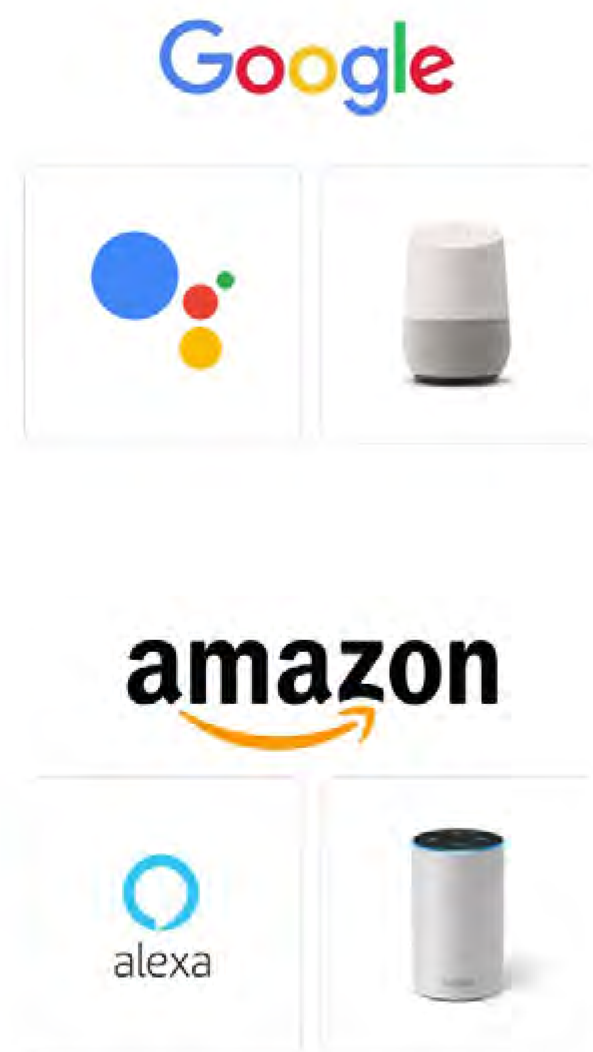
In fact, I said this years ago when I first saw the Echo device, as primitive as it was at that time. I wrote a piece shortly thereafter about voice as a powerful new payments and commerce intermediary – an ecosystem of skills connecting a virtual assistant to the activities consumers want to engage in. Intermediaries based on voice, I wrote then, had the potential to shift the power away from the card brands, bank brands and merchant brands to the product brands as consumers got hooked. Consumers would expand the use of those powerful virtual assistants beyond asking them to tell jokes or to answer basic questions to searching for information about what to buy, building their shopping lists, playing music, making telephone calls – all using the power of the human voice to replace the time and the tedium of apps and typing and swiping.



In four short years, we have seen the rapid adoption of voice-activated speakers and the rapid emergence of ecosystems and apps that have grown up to support both Alexa and Google Assistant. The shift was so fast, in fact, that it took half the time for 25 percent of the U.S. population to own a voice-activated speaker than it took to have broadband installed in their homes.

Today, based on our own research, more than 30 percent of consumers report owning a voice-activated speaker – more than triple the number who reported owning one over the three years PYMNTS has been tracking this – and nearly as many reported using it to make a purchase. That will only increase as voice plus visual – via a smart device with a screen or a voice-enabled mobile device – streamlines the commerce process.

In many ways, voice is the great payments and financial services equalizer – the most ubiquitous and natural of all ways to communicate and trigger a transaction. Over the next decade, voice commerce and the



virtual assistants that enable access will accelerate the growth of the everyday app ecosystem, as well as the consumers' embrace of the everyday ecosystems that will simplify their lives and the payments and commerce experiences that underpin them.

And two key players will emerge to dominate that experience – Google and Amazon, those two cross-device, cross-platform, cross-operating systems ecosystems that are well-positioned to leverage the power of voice commerce to keep their connected ecosystems sticky and to keep innovators eager to create new skills to keep them that way.

VOICE IS POSITIONED TO BECOME **THE GREAT COMMERCE EQUALIZER.**

07

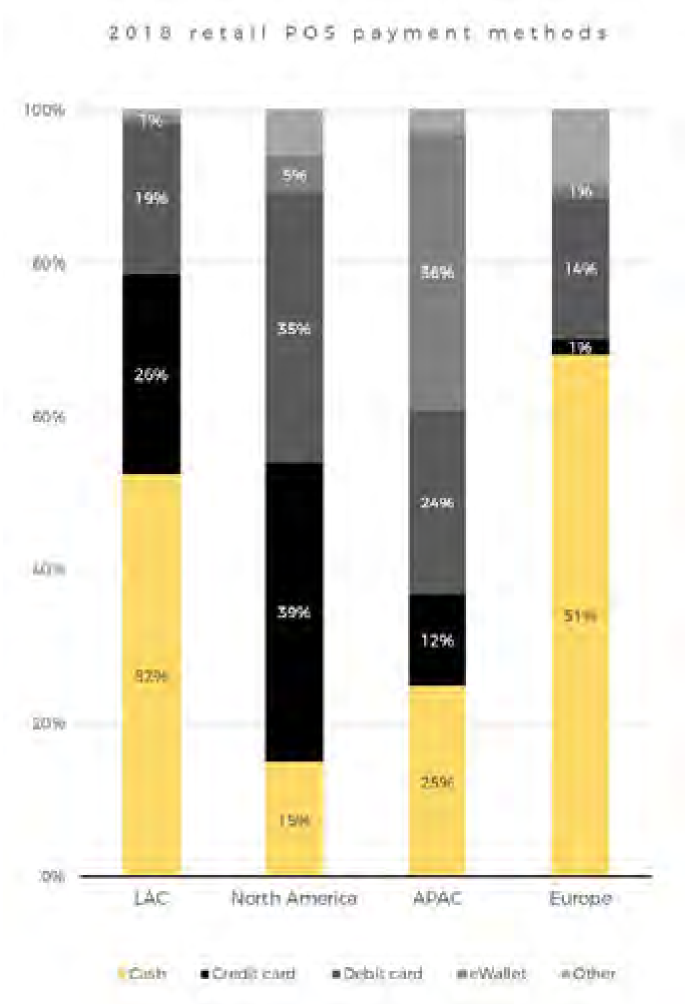
THE ENDURING POWER OF THE CARD NETWORKS

2020 TRENDLINE SEVEN: THE ENDURING POWER OF THE CARD NETWORKS

Visa and Mastercard exist today because they innovated the transformation of analog payments to digital six decades ago (Visa) and five decades ago (Mastercard).

Consumers who once only used cash, checks and store accounts at retail stores could use a plastic card with a line of credit attached to it to shop at any store that accepted it. Thirty years ago, Visa ignited the debit card, which gave consumers the ability to buy things with funds in their bank accounts.

Over the last decade, those same credentials that were issued by their banks to make shopping in stores more efficient have also made online commerce possible. Tokenizing and



provisioning those same credentials into mobile wallets now powers mobile contactless payments across devices and mobile operating systems around the world.

In the decade to come, the global card networks will also play an important role in powering the connected economy as they move beyond the card to tokenize any kind of payments credentials across any network and between any endpoint – including in developing economies, where card credentials are lacking today.

Critics of the card networks have been calling for their demise over the last decade, as economies without cards or card acceptance emerge as the next wave of digital payments transformation – and as domestic schemes have emerged all over the world to enable real-time movement of funds from account to account, without the need for card rails.

Yet they have all underestimated the difficulty of operating a secure and compliant global payments network at scale, as well as the willingness of the card networks to partner with and enable new payments experiences for innovators who view those networks as platforms to enable specialized use cases.

NETWORKS RACE TO MOVE **BEYOND THE CARD.**

Today, Visa and Mastercard partner with innovators globally to enable the instant issuance of credentials to power installment payments at the point of sale, to turn funds in bank accounts into virtual debit cards for transacting online and across borders, and to leverage global remittance providers in moving funds instantly between senders and receivers. With China as an exception, it's safe to say that every digital wallet in every country where Visa and Mastercard is accepted will also have a Visa- or Mastercard-issued credential. And the card networks will continue to work with merchants worldwide to increase their acceptance, as well as with innovators to remain relevant in the developing parts of the world, where consumers and merchants have fallen in love with mobile payments and often don't rely on traditional cards for transactions.

WHAT COULD BEND, AND SHAKE UP, THE TRENDLINES

The next decade, like this one and those in the past, will face a number of threats that could derail or slow the journey to the connected economy future that I strongly believe is before us.

At the top of that list are the regulators, who seem quite driven to punish, and rein in, Big Tech and some FinTechs for getting too big for their britches. Maybe they have a point in some cases, but they don't give these companies much (if any) credit for delivering all of the great innovations that have moved us from a largely inefficient analog economy to one that has created unprecedented sources of value for consumers and businesses all over the world.

The Big Tech bashing – driven not by complaints from consumers, but by many of the same media pundits who idolized them a decade before – could only make it harder for all innovators and innovation to flourish.

For instance, if the regulators are crawling all over Google for its potential Fitbit acquisition, then imagine the reaction if a larger and more strategic move were contemplated by Google, Amazon, PayPal or any of the Big Tech/FinTech innovators – even if the outcome of the action were demonstrably better for the consumer. Regulators can't seem to reconcile themselves to the fact that taking actions that might make one Big Tech player weaker could also end up making other Big Tech rivals stronger. Consumers, with their actions, seem best suited and in the most relevant position to decide who gets their business – and, as a result, who survives or dies.

Consumers are always a threat to the pace at which we transition to a connected economy since they are the ultimate litmus test for what makes sense. Consumers have to trust that the new is better and safer than the old – and must get a pretty rich value proposition to move from what works well today to something different.

Part of what erodes consumer trust is bad behavior by those who want their business – and their trust. Facebook is the poster child for that over the last several years, which is why its prospects for Facebook Pay seem limited, and why Libra is simply dead.

Speaking of bad: Bad business models erode investor trust, which, in turn, destroys the business and sours future opportunities for others. WeWork is the prime example for that, as are the thousands of venture-backed companies that could only make a go of it so long as there was a big checkbook funding their losses – where value delivered was not sustainable, nor was it the basis for building a strong, viable business.

Perhaps the biggest threat facing everyone over the next decade is the potential obsession over the next big thing – the shiny object that looks good and makes it past someone's screen in an organization, but consumes far too many resources for far too long before it is declared dead.

Or perhaps it is never declared dead, in hopes that someday, somehow, it will get its due.

SO, WHAT'S NEXT?

Over the last decade, about this time of year, I've defied the advice of one of my economist colleagues who says to never make a prediction that can be disproved in your own lifetime. Instead, I've put it all out there and shared my thoughts on how I see the next year evolving. I think I've had a pretty good track record of correctly calling a lot of those shots. Not because I have a secret crystal ball or superpowers, but because so often, the industry, pundit and media consensus isn't based on an intellectual framework with which to assess the chances of success or failure in a complex ecosystem like payments. It's one where platform economics rule, scale matters and even the best ideas may never get enough critical mass to succeed.

The seven trendlines I have laid out are rooted in that framework, as well as in the hundreds of conversations I have had with CEOs and innovators all over the world this past year. I believe that a shift to a connected economy is inevitable, and that it will happen faster than we think.

This connected economy won't take 10 years to realize, and it will be powered by payments that will be largely invisible, but imminently powerful in shaping how commerce happens over lifetimes.

The role that each of you plays in shaping this shift will be up to you – and it will be fascinating to observe. I can't wait to connect the dots that are laid in the months and years to come.

January 6, 2020

Who Will Shape The Future Of The Connected Economy?

Ten years ago, the world of payments and commerce was in a very different place.

SOs sold terminals and card processing, mostly to brick-and-mortar merchants. Square was a white dongle that turned a smartphone into a point of sale terminal for micro merchants. The Collison brothers had founded Stripe, but it would be a year before it would be in-market. Braintree still belonged to Braintree and was run by its founder. PayPal was part of eBay, reported 100 million active users and was accepted at fewer than 350,000 merchants.

eBay was considered Amazon's biggest competitor. Amazon surprised analysts by beating earnings with $9 billion in Q4 sales and CEO Jeff Bezos touting the success of its Kindle reader. eCommerce was teeny at $160 billion in sales, and physical retail hadn't yet felt the impact of the retail apocalypse that would start to punch it in the gut later that year. Facebook was two years away from realizing it really needed a mobile app.

Uber was a San Francisco-based on-demand black car service. Most people were still paying taxi drivers with cash, and if those drivers had POS terminals, they – hmm – weren't working when you wanted to use a card to fund the ride.

The "Pays" didn't exist, and it would be a year before the Starbucks mobile app launched nationwide. People started living in iPhone and Android ecosystems, as smartphones were the "it" device and those ecosystems were where more people started getting their apps and services. Speaking of apps, they were pretty clunky and slow, because 4G on those phones wouldn't be widespread for another couple of years.

It would be a year before Spotify would launch in the U.S., and iTunes was how people consumed music on mobile devices. Netflix had just introduced its streaming service. Amazon Prime was celebrating its fifth birthday, and there was no Amazon Prime Video.

Chatbots were expected to rule the world, and messaging apps, with chatbots, were expected to become the new consumer inbox. Only 1.97 billion of the 6.93 billion people on earth at that time had ever logged onto the internet.

Apple bought the Siri technology in an effort to ignite the notion of a digital virtual assistant, although it would a year before Siri would become an integrated part of the iPhone. Chip cards didn't exist in the U.S. WeChat Pay didn't, either, and Alipay had a measly 300 million users who drove five million transactions per day. Paytm was a brand-new prepaid mobile card in India.

POS financing was largely the domain of physical merchants who offered zero interest with hidden interest rate traps when consumers wanted to buy big-ticket items in their stores. Digital identity was the domain of social networks like Facebook, with its Facebook Connect feature.

And so on.

What a difference a decade makes.

> The 2020s will experience a dramatic and rapid shift from the app economy the smartphone ignited in the decade we just left behind to one that connects people and businesses with commerce wherever they happen to be, and via any device they happen to be using, in real time – safely, securely and privately.

Mobile devices, fast cellular networks, the cloud, data and new tech – along with investors with capital and incumbents with an appetite for innovation – gave innovators the tools, ideas and capital to disrupt the then-analog sacred cows. And gave them the courage to explore new, otherwise unimaginable ways for people and businesses to connect, along with dynamic business models to monetize those interactions.

Today is the first business day of the first week of a new decade – one that will experience a dramatic and rapid shift from the app economy the smartphone ignited in the decade we just left behind to one that connects people and businesses with commerce wherever they happen to be, and via any device they happen to be using, in real time – safely, securely and privately.

The strategy sessions, investor presentations and conversations with partners and investors that will happen this week, and in the months and years to come, will focus on how every company that touches a person or a business will operate in this new, vibrant, connected economy.

Or they will find themselves on the wrong side of a decade that will move commerce and payments to an entirely new level.

> Touching and swiping apps on a screen will give way to other modes of engaging with those brands, like voice, and standards will emerge to make those modes interoperable across devices, as we are already starting to see.

THE CONNECTED ECONOMY'S POTENTIAL

As we start this new decade and prep for the innovation that will propel it, there are some things we know, for sure, already.

As software platforms and standards make it possible for consumers and businesses to interact in real time anywhere and anytime there is a connected device nearby – which will be almost everywhere – we can assume that the connected economy will see the smartphone, like the PC of the last decade, diminish in importance. Touching and swiping apps on a screen will give way to other modes of engaging with those businesses, like voice, and standards will emerge to make those modes interoperable across devices and ecosystems, as we are already starting to see.

We can also be sure that the definition of "connected device" will expand well beyond what we see today, to include what are perhaps just threads of an idea on the drawing boards of companies that don't even exist yet – or ideas from others whose efforts are today being pooh-poohed as too far-fetched to succeed.

Let's not forget how hard many laughed at the Amazon Dash buttons, which were introduced in 2015 and were brushed off as an April Fool's joke. Look who's laughing now. Those Dash buttons were just the warm-up act for what has, in five short years, become an enormous subscription business for Amazon and the commerce engine that connects its portfolio of connected devices to payment.

We can also be certain that the impact of the connected economy will be profound and eight powerful cornerstones of this economy, worldwide, will see rapid innovation:

- **WORK:** How and where people work
- **PAY:** How people are paid and pay others
- **EAT:** How and where people eat
- **SHOP:** How and where people find things to buy and buy them
- **LIVE:** How people find, buy and use their homes
- **TRAVEL:** How and where people travel for work and for pleasure
- **BANK:** How and where people save, store and access their money
- **BE WELL:** How people consume healthcare services to stay healthy

These cornerstones are the end points for the innovations that will connect people and businesses across the economy. All the time. Everywhere in the world. And faster than we think.

LET THE GAMES BEGIN: THE CLASS OF 2020 AND THE CONNECTED ECONOMY

What we don't yet know is who will be playing the game, how and where they might play, who will be left on the sidelines as tacit observers or who will come out of nowhere to shake things up.

We do know there will be a lot of players vying for their shot at the connected economy prize.

The entering class of 2020 will be big, it will be global, and players will come and go. The class of 2020 will consist of those who don't yet exist, as well as those who've been around for decades (or more). It will consist of innovators who seek to transform one of the eight cornerstones and the interactions between them, as well as those who desire to be the connective tissue that creates entirely new connected ecosystems uniting many or all of them.

We also know that the efforts inside of those discrete, but connected, cornerstones will both shape what happens within it and unlock opportunities to innovate across the supply chains that support them.

Take mobility.

It's been reported that car sales are slowing in the U.S. and in China.

Part of that slowdown is attributed to the cost of cars – they are expensive, so consumers can't buy a new car every two or three years like their dads and granddads once did.

Part of it is related to the quality of the car – cars are made better, so they last longer. Cars that don't break down as often don't need to be replaced as often.

Consumers also aren't driving cars as often as they once did. That means these more expensive, better-quality cars last longer now, too. Access to the internet, cloud-based business tools and collaboration software make it possible for businesses to support a remote workforce, reducing how often consumers commute to the office. Ride-hailing platforms make it easier for some consumers in urban areas to be without a car entirely, or to use the ones they have less often.

Driving less has implications for gas stations and convenience stores, which may not get visited as often and need to figure out how to replace that revenue.

Same goes for parking garages and QSRs if more remote workers go to the fridge for last night's leftovers instead of the QSR next to the office. Or AM coffee runs to the local coffee shop are replaced by the coffee machine on the kitchen counter.

Reduced driving is also forcing insurance carriers to rethink how they price the risk associated with owning a car since drivers who aren't behind the wheel as often are less likely to be in an accident.

At the same time, car OEMs want to give consumers more of a reason to buy new cars – as newish as the "old" ones sitting in their garages may be – and are examining new channels and business models to create more efficient distribution and more flexible financing options.

And car owners want to find new ways to monetize their investment. Getting behind the wheel of those cars for a couple of hours a day to and from work or while the kids are in school gives consumers a way to earn a few bucks by using their own cars to serve consumers who may not want to use theirs. And digital payments and eWallets makes it easier for those drivers to be paid for those rides.

The shift to electric vehicle technology will spur demand for charging stations, and for ways to find and pay for a charge. Turning cars into voice-activated, self-driving software platforms will transform the driving experience and reshape the in-car experience in entirely new ways. When PYMNTS last did a study on the Digital Drive and the connected car experience and asked consumers what they would do if they didn't have to drive a car, right after checking their email and social network, they overwhelmingly said they would shop.

> We'll see early on the role everyone has in igniting this connected economy, who is essential for ignition and who becomes an interchangeable feature or function within someone else's ecosystem.

The cornerstone is mobility – and how software plus technology is changing how consumers get from point A to point B as a part of their day to day routines. But the constant thread that runs across it is payments and commerce – and how Big Tech, FinTech and FinServ players are adapting their platforms and business models to enable new ways of doing business for all of the players who operate within in.

LET THE 2020 GAMES BEGIN

We start this new decade with more certainty, perhaps, of how innovation will evolve than we had last decade, although who will ultimately survive and thrive is yet to be determined.

The last decade's investments in software and digital technology – in securing and scale it – laid the tracks upon which new products and services could be created and new channels of access for people and businesses in this connected economy. The work to be done over the decade – work that starts in earnest today – will leverage those investments to fast-track its reality and the value it promises to deliver. The pace of this next decade will be swift.

We'll watch as the members of the entering class of 2020 use their assets to protect the beachheads they've put in place today, and to acquire others to expand their presence and redraw ecosystem lines across products, markets and geographies. We'll watch competitors become partners in some cases and, in others, watch partners become competitors. We'll see early who plays what role in creating and igniting this connected economy, who's essential for getting it off the ground, who becomes an interchangeable feature or function within someone's else's ecosystem.

Consumers, of course, eagerly anticipate this future even though they may not know what's on the horizon. What they have experienced over the last decade is a demonstrable change in how technology has made going about their day to day better, easier, less friction-filled – and they want more, regardless of where they are in the world. The consumer will be our touchstone for how we measure who of the class of 2020 is delivering that experience.

We'll all watch as digitally adept consumers across all age groups and demographics, everywhere in the world, provide real-time feedback about what they like and what they don't like, and what is likely to ignite. They are consumers who have grown more than comfortable integrating technology into their lives – whether they are six, 16 or 86 years old – increasingly, everywhere in the world.

THE CONNECTED ECONOMY AND CHANGING THE WORLD

The entering class of 2020 isn't the class of companies that will graduate at the end of this year, or even at the end of this decade, but those whose innovations will shape how people and businesses connect with each other in new and meaningful ways today and in the years and decades to come.

The potential that is before us – for innovation to demonstrably improve the eight cornerstones of the connected economy – brings to mind an anecdote in one of the most inspiring books I've ever read.

"Make Your Bed: Little Things That Can Change Your Life ... And Maybe The World" is written by Admiral William H. McRaven and was published in the spring of 2017. The book is about McCraven's experience going through Navy SEAL training and the 10 life lessons that came out of it.

McRaven is now retired from a long and distinguished career as a highly decorated Navy SEAL and four-star admiral who served as the ninth commander of the U.S. Special Ops. The book is short – 144 pages – and was adapted from a commencement speech he gave to the University of Texas graduating class in 2014 shortly after his retirement.

I'll bet that if you haven't read the book, you might have been one of the more than 10 million people who watched him deliver it on YouTube. It's worth 19 minutes of your time.

The title of the book, "Make Your Bed," is the first lesson he learned: a simple task that he says sets the tone for the day.

But it's the preamble to that speech and those ten lessons that speaks to our work as payments and commerce innovators so far, and our potential to do even more as we step into this new decade.

McRaven issued a call to action to the graduating class that day. He made the point that if each member of the graduating class that year changed the lives of just 10 people, and if each of those 10 people changed the lives of just 10 people, over the course of a generation, the lives of 800 million people would have been changed.

It's humbling to think about just how many lives the payments and financial services innovators have already changed by putting the power of tech and creative new thinking to work for people everywhere in the world. And the potential we have to build on the great progress to improve the future of the billions people living on Planet Earth.

Inspiring words for the entering class of 2020. Now, let the 2020 games begin!

And don't forget to make your bed.

January 13, 2020

Who Will Win The Restaurant Aggregator Race?

Foot traffic is flat as digital dominates top-line growth.

Purchases are shifting from individual brands to marketplaces.

Mobile influences the purchasing and ordering process, regardless of whether the product is ultimately delivered or picked up in-store.

Scale economies help big players, and brand affinity helps hyperlocal players compete – while brands in the oversaturated middle struggle to differentiate.

Rewards and loyalty programs are being retooled to drive personalized offers and promotions to acquire and retain customers.

Logistics and delivery are now make-or-break, as consumers have many options to find and purchase the same or similar products.

Just like retail, this is the state of the restaurant industry as we kick off 2020: caught in the throes of a digital reinvention as the role of the physical footprint is being rethought, and as tech plays as much of a starring role in its top- and bottom-line success as the products it produces and delivers.

RESTAURANTS ON THE DIGITAL CHOPPING BLOCK

Like retail, the restaurant industry is rethinking its product, merchandising and delivery model to balance the consumer's desire for a great experience with their demand for efficiency and convenience.

Like retail, the industry is adjusting to the changing preferences of increasingly time-challenged consumers living in increasingly connected homes, who like the experience of a restaurant meal – only eaten at home.

It's an industry, like retail, that is faced with new competition – the direct-to-consumer brands that leverage mobile, scaled efficiencies in food preparation, new contextual commerce channels and logistics providers, threatening to destabilize how the traditional players keep their customers and find new ones.

And like retail, the restaurant industry is struggling to find the balance between teaming up with aggregators that provide reach, distribution and marketing efficiencies with the economics of paying as much as a third of the order value to these aggregators to market, deliver and process orders for customers.

And where the aggregator is intensifying competition for the customer by putting so much choice at the diner's fingertips.

None of these issues are new, but the conversation about them took a new twist last week.

That's when the news broke that Grubhub was pursuing a number of strategic options, including a sale, in an effort to deflect the potential attention of an activist investor. Its stock price rose by more than 17 percent on that news, and Uber's stock price saw a slight uptick. Grubhub later denied such claims, after which its stock took a drubbing from presumably disappointed investors.

You don't have to be a stock market analyst to interpret their reaction: that the food delivery space would be better off with fewer players burning cash to find and keep consumers and restaurants onboard – and that maybe Grubhub found a buyer to kick off that consolidation trend.

Grubhub saw its market cap reduced to $4.79 billion on Jan. 10, 2020, down from a high of $13 billion in September 2018 and $7.3 billion this time last year. Investors seem to be losing confidence – and patience – in the firm's ability to find its way to profits and scale.

THE RESTAURANT/AGGREGATOR FORK IN THE ROAD

Restaurants and aggregators are at an interesting crossroads.

Restaurants are trying hard not to follow in the footsteps of their retail brethren a decade or so ago, when they ignored the impact of digital, mobile and voice – and the proliferation of connected devices –on their businesses.

Many recognize that, although small in terms of percentage of sales, the digital and delivery channel is growing more rapidly than visits to physical establishments. And in an effort to not miss out on those trends, they are following the classic digital commerce playbook: Be where the consumers are.

And if the consumer is going to aggregators to find stuff to eat and have delivered, instead of walking into their establishment to order or sit down at a table to eat, they need to make sure that they are there, too. It's actually not an unfamiliar move – many restaurants paid to get on OpenTable, Yelp, and other reservation platforms years ago in order to fill seats in their dining rooms.

At the same time, accommodating this digital shift puts new pressure on those restaurants to anticipate demand from these new and unfamiliar channels,

and to prepare those orders for delivery 30 to 40 minutes from when they are placed.

All while tracking and juggling the orders across the variety of aggregators they may support, and while ensuring that the quality of the food, when delivered, meets the consumer's expectations for that order.

And do it without jeopardizing the experience of those who are in the establishments ordering, or are seated at a table to eat. That's still the preponderance of their sales – not to mention the ambience and vibe that builds customer loyalty and repeat visits.

Aggregators have their own issues to address.

Grubhub CEO Matt Maloney told The Wall Street Journal in October of 2019 that the delivery space was "in some sort of a weird bubble ready to burst" after reports that restaurants were pressuring aggregators to lower fees and boost marketing and promotion for their brands. The race to the bottom for the aggregators competing for that business was described by restaurant operators as "dialing for dollars," with the bigger brand names calling the shots and naming the terms.

Maloney also told investors during Grubhub's Q3 2019 earnings call that the delivery space was commoditizing, as delivery capabilities – along with the supply side of the platform – looked largely similar across all of the aggregators. The opportunity for differentiation, he said, was on the diner side, where efforts to find and keep "promiscuous diners" loyal was the ticket to their top-line growth and profitability.

Of course, it is ultimately the consumer who decides the winners and the losers, and all platforms need buyers to thrive and survive. But consumers are only loyal to marketplaces that have enough density of supply to attract them the first time and keep them on board. Restaurants are the supply-side of the platform, and the reason consumers try out an aggregator in the first place – and why they hopefully stick around.

Keeping restaurants on board, and paying enough to keep the platform afloat, is a big part of delivering that diner's experience – and is potentially the restaurant aggregator's biggest vulnerability.

YOUR MARGIN IS MY OPPORTUNITY

Aggregators make money in several ways: the demand generation or marketing fees they charge restaurants on the platform to drive demand, their delivery fee and their order processing fee.

Aggregators, however, make their margins one way – and that is on the marketing fees they charge on the supply side of their platform to drive demand, which is reportedly roughly 20 percent of the ticket. The big brands aren't contributing to that because they don't need aggregators to build demand – they just need them to deliver their food. Aggregators keep the big brands on board as anchor tenants that attract consumers and drive consumer demand, but don't really pay the freight.

Smaller restaurants do pay – and represent a big chunk of aggregator margins today.

These small brands don't have the wherewithal to subsidize food orders, buy TV ads, blast social media with clever marketing campaigns, or otherwise let consumers know what they are doing and what new menu items are on offer. They probably haven't invested in mobile apps, and perhaps have only bare-bones rewards and loyalty programs that lack the personalized experiences that create important touchpoints for their loyal patrons.

Like small, third-party sellers on Amazon, these small restaurants will pay to participate if they want to be online, and they believe their investments will deliver enough incremental volume from enough customers to fill in the gaps. And hopefully, they can somehow transition repeat customers into their own, less expensive digital channels over time.

Restaurants make their money, of course, by getting more butts in seats (at the restaurant or at home), which is why demand gen from aggregators can be valuable – at the right price, given their costs.

Restaurants could make more money and margin if they could find a way to get their costs of producing the food down and expand their capacity. New businesses models are giving restaurants of all sizes that chance.

Delivery-only (aka ghost) kitchens can expand existing restaurant capacity for delivery-only orders without compromising the dining experience in their establishments. This opportunity to handle delivery-only orders in delivery-only facilities gives restaurants more control over the margins made on

those orders and more chances to add incremental volume to their business.

Large restaurant chains are creating their own delivery-only kitchens, and some are closing less trafficked storefronts to do that and drive higher margin orders. New ventures, like Travis Kalanick's CloudKitchens, operate these kitchens without any physical restaurants.

In a ghost kitchen model, it isn't clear that there's much room for restaurant aggregators to drive margin from demand gen fees. As more food orders move to ghost kitchens, that could be large enough to do their own marketing, aggregators are mainly providing delivery – a nearly commodity service.

WHAT'S NEXT

Today, restaurant aggregators are both marketing and logistics platforms trying to create density on both sides. For as much progress as they've made, they are still quite small – 22 million active diners and 140,000 restaurants across 2,700 cities for Grubhub, for example. The challenge for them, and others, is building enough of a critical mass of hyperlocal demand and supply to create a profitable business just around restaurant delivery. And drive enough volume at the right price points to the smaller establishments to keep them interested, on board and paying to get notices.

At the same time, tech and software platforms are giving all restaurants new ways to get noticed – at the expense of aggregator demand gen margin.

Google is using a third-party platform to power order-ahead and delivery for restaurants that consumers discover when they search for places to eat near them – leveraging aggregators' logistics expertise to deliver the meal, but little more. This traffic, directly to the restaurant site, provides an opportunity to convert a browser into a buyer, and create a relationship without an intermediary in between. Loyalty and rewards platforms that are integrated into the restaurant's point of sale are helping even the smallest restaurants to embed loyalty with payments and create seamless, personalized experiences and a valuable digital touchpoint, as well.

Most expect Amazon to enter this space at some point, leveraging their 300 million Prime Member consumer engine, demand gen and logistics expertise to capture more share of the consumer's spend on food. Amazon has scaled back its restaurant order and delivery plans over the last several years here in the U.S. but has made a strategic investment in U.K.'s Deliveroo. But

Amazon owns Whole Foods, says it will open a new chain, has opened Amazon Go, with plans to open more, delivers groceries for free for Prime Members, has expanded their meal kit business, and makes it easy to order and refresh pantry stables from its website. Amazon and Google, both, have the potential to be the aggregator for food – not just the narrow vertical of it called delivery.

As we have seen from the retail reinvention over the last decade, the future of the restaurant aggregation space isn't an either/or proposition, but one in which tech and logistics proficiencies increasingly drive consumer preference. Aggregators will be pressured to examine where they can drive the most efficiencies and get profits and scale. Maybe that's by being marketing and delivery for restaurant takeout. Maybe that's by being hyperlocal delivery across numerous verticals – helping retailers across all verticals solve their last mile challenges.

What's obvious is that consumers like the new way of using digital channels to find and order their food – whether that's to order ahead for pickup, make a reservation to dine in the restaurant or have it delivered to the places most convenient for them to eat it. But like physical retail, the restaurant industry itself seems ripe for disruption.

Just as there were opportunities for pure online retail with no physical stores, there will be opportunities for pure online food delivery without physical restaurants.

There will be opportunities for large players to operate large, online (delivery-only) kitchens and physical chains – using more economical facilities to prepare food for delivery for a single order or for catering and even tailoring menus to make those options more efficient and profitable.

Unfortunately, many small, independent restaurants, are caught in the squeeze. Cheap delivery, mobile ordering, and restaurant aggregators create a new powerful type of competitor, even if they, today, provide a channel that gets them playing the digital game.

Small restaurants can participate, too, just like specialty boutiques have survived – but not all will make it through. They may be the ones driving the aggregators' margins today – but like the stores that lined the malls between the anchor stores in the physical malls, they are at risk, as the big players find new places to meet customers, leaving smaller players to fend for themselves in ghost malls.

February 3, 2020

Why Consumers Are Firing Traditional Retailers

"Jobs to be done"

a theory popularized by the late Harvard Business School Professor Clayton Christensen – is the notion that consumers don't ***buy*** products, but they hire them to perform a task they need done.

Extending that analogy to retail, one could look at the data on the decline of mall and retail store foot traffic, the increase in retail store closures and bankruptcies, and disappointing retail sales and margins in an economic environment of increased consumer spending, and might conclude that consumers aren't hiring brick-and-mortar retailers to get their shopping jobs done the way they once did.

But it's more than that.

Consumers are firing brick-and-mortar retailers from the jobs they held years and decades before.

To get their shopping jobs done, consumers are now hiring retailers that make it convenient to do business – anywhere, anytime, through any channel and on their terms. And finding, buying and taking possession of those products is an integrated experience driven by consumer choice and defined by certainty.

It's why Amazon continues to crush retail sales, why fulfillment is increasingly where the retail battle is won or lost and why – as I have said for years – voice commerce, as a platform, will be a commerce gamechanger. And why 5G networks and connected devices will create entirely new shopping ecosystems and consumer experiences over the next decade.

But it's also why the physical retail death spiral will continue, as traditional retailers double down on an omnichannel experience that is store-first rather than consumer-first. For all the talk of being digital-first and consumer-centric, most traditional retailers continue to ask consumers to do a job they no longer want to do: take their feet and their business inside their stores.

WHEN BUY ONLINE, PICK UP IN-STORE GOES HORRIBLY WRONG

Retailers have been talking for years about the need to turn their physical stores into fulfillment centers, leveraging their brick-and-mortar real estate to create a new omnichannel shopping experience for the consumer who likes to discover and buy online and take possession of their purchases in a store that is convenient to them.

It seemed like a no-brainer: A consumer finds and pays for something online and picks it up at the store faster than they could have it delivered. A win-win-win, since consumers and retailers don't incur or pay shipping fees and the retailer still gets the sale – and maybe even a shot at picking up more sales when the consumer comes in for the pickup. In-store pickup centers once required (some still do) that consumers walk through the store and pass by other products. Several years ago, reports suggested that the one-two strategy was working – of the 60 or so percent of consumers who said at the time that they were buy online, pick up in-store (BOPIS) customers, more than a quarter reported buying something else while in the store fetching their purchases.

Way back in the good old days of 2016, the BOPIS value proposition promised a bit of an advantage. At that time, consumers seemed more accepting of a three-day or longer delivery window. In fact, more than half (56 percent) of consumers in a study done by eMarketer reported that getting stuff from retailers three days later – or even longer than that – was acceptable.

As they say, that was then, this is now.

The "Amazon effect" has moved the delivery goalposts at the same time that it has expanded the depth and breadth of products that can be purchased from their ecosystem and delivered for free in two days, next day, same day and – someday soon – even before it's ordered.

All of that has raised the bar for what the consumer now expects from any shopping experience, including buying online and picking up in a store from a traditional retailer. Two to three days is no longer good enough – particularly when, thanks to the Amazon effect, retailers have been forced to up their own free, two-day shipping game.

Especially when the same-day pickup option is a disappointing, friction-filled work in progress for many retailers – even after all of these years of pledging allegiance to an omnichannel, consumer-centric way of doing business.

THE HEARTBREAK OF BOPIS

Like you, I suspect, I've attempted to use the buy online, pick up in-store option on many occasions over the last couple of years. For me, the motivation was to get something the same day. Mostly I've tried to purchase clothes or shoes from well-known department stores. But so many of the times I've explored the option, a same-day pick up has not been available, nor has there been any option faster than free two-day shipping. As a result, I've been trained to not bother clicking on the in-store pickup option.

Until last week.

I was on a flight from Boston and decided it was time to buy a new pair of shoes from the retailer where I usually shop. I found a pair that I wanted to buy and noted that there was an in-store, same-day pickup option, at a location convenient to my meetings. Imagine my delight upon paying for them online, getting a confirmation and order number – all while zipping along at 35,000 feet – and then hopping in an Uber when I landed many hours later to score my new kicks.

When I arrived, I did the logical thing and went to the shoe department, as there were no special instructions provided about where to pick up my shoes. I was then told by a sales associate to go to another place in the store to get them. Pressed for time, I asked whether he might be able to check to see if my shoes were waiting for me there.

He did, and they were not. I was further advised that since all such orders had already been delivered for that day, it was unlikely that my shoes would be available for pickup until the next day. That was a problem since I wasn't available the next day, not to mention that I had a confirmation stating that the shoes were available in the store that day.

I then suggested that perhaps the reason I was offered a same-day fulfillment option was because the shoes were in stock in the store – as in, the stockroom right behind him – and asked him to check. They were there.

What followed was a painful, 25-minute lesson on the shortcomings of a very large, sophisticated, "digital-first" retailer to nail the omnichannel experience – or even come close.

I was told that since I bought and paid for the shoes online, I couldn't just take the shoes that were in stock in the store to fulfill my order and call it a day – even though that was obviously from where the online order would be fulfilled. In order to get the shoes that came from the store inventory – the ones that the sales associate and I were staring at in their nice little box – I had to cancel the online order and then repurchase them in the store.

However, I could wait until the online order system had synched with the physical store inventory system sometime later that day and the shoes were delivered to the fulfillment center – which, of course, was a few floors upstairs in that very same store. In that scenario, I would have had to go to customer service to redirect the shipment to my home, maybe three to five days later. All for a pair of shoes that had suddenly become a huge time suck – and that I was starting to like less and less the longer the process continued.

I felt sorry for the sales associate, who just wanted to help, and extremely frustrated by the customer service and shoe department manager, who simply didn't know how to handle the situation because the rules are the rules and the process is the process. I ended up canceling the online order (the refund, I was told, would take three days to show up on my account) and buying the shoes from the sales guy. I did that, in part, because I was so fascinated by the inefficiency of the experience that I wanted to see how it would all end up – and in part, because I wanted to give the very nice and apologetic sales associate the sale.

A consumer-centric retailer would have done things differently. Perhaps they would have taken my information and offered to deliver the shoes to my hotel later that day once the inventory synching had completed. Or made it their problem and not mine that whatever needed to be synched hadn't and given me my shoes without all of the cancellation and repurchase gymnastics. Or maybe the online customer service would have offered to expedite shipment to the next city I was visiting. Or done just about anything else to reduce the hassle factor and keep a customer satisfied.

But a store-centric retailer did exactly what this one did: wasted 25 minutes of my time with an experience that I found bad enough to now share with millions of readers.

THE RETURNS HASSLE

Maybe that sounds like a high-class problem to you – a little hassle with buying expensive shoes that I really didn't need from a fancy, luxury retailer. But I think the only difference is that I happened to buy online at 35,000 feet. Yet, it's just another data point on the failure of retailers, 20+ years after Amazon changed the rules of the game, to recognize that their stores are no longer relevant to how consumers want to use them.

Or don't.

Some retailers also think that penalizing consumers by charging them exorbitant fees for mailing in a return instead of coming into the store, or making it tricky to opt out of in-store pickups during the ordering process, will force them to comply. Instead, it will only force them to other options, including Amazon, whose return policy now seems to give consumers even more of a reason to standardize on Amazon – no hassle and instant credit within minutes of returning the item to one of many return centers.

And another reason for consumers to fire traditional retailers.

I also think it's emblematic of the failure of many retailers – including the biggest ones with the biggest budgets, the sharpest minds, the fanciest apps and the most at stake – to recognize that "digital-first" and "omnichannel" isn't code for somehow tricking consumers to come into their stores.

It's true that buy online and pick-up-in-store is going gangbusters for retailers like Walmart and Target, representing initiatives that are driving huge investments from each to compete. But those experiences aren't about picking up stuff in the store but outside of it. Even Walmart's Super Bowl ad for Pickup was all about the convenience of having purchases handled to shoppers without ever entering the store. Curbside grocery pickup is booming for both Walmart and Target, both of which recognize that their job to be done is to eliminate the friction from grocery shopping by not forcing consumers to do any of it inside the store.

These are among the same retailers that are also installing click-and-collect towers outside of stores and building pickup lockers in the front of stores to give consumers the choice of grabbing and going, or going inside the store to pick up more things.

And that are are investing heavily in same-day delivery to meet consumers on their terms and on their turf.

Analysts dinged Amazon last year when it announced a nearly billion-dollar investment in next-day delivery in Q2 of 2019. They then lauded that investment last week, when Amazon announced a record-breaking Q4 and reported that next-day delivery was a key driver of holiday sales.

THINKING OUTSIDE THE STORE

A consistent theme across the many consumer studies PYMNTS has done over the years is that convenience and choice drive consumer preference and spend.

More so than price – since consumers now weigh the value of their time against saving a couple of bucks here and there on the things they want to buy.

More so than location – since consumers define convenience as being where they are, not where a retailer happens to be. And increasingly, that is their home, a trend we observed for the first time last year when PYMNTS released its third annual How We Will Pay study, with research we did in collaboration with Visa.

Consumers spend more of their time at home now, since they can do many things there that once could only be done outside of it. Everything from going to the movies and watching live sports to eating restaurant food and shopping at their favorite (and newly discovered) stores can all be done more efficiently from the comfort of their increasingly smart homes. 5G and 8K televisions will serve as the catalyst for the virtual and augmented reality applications that will make going to the store a rich, immersive experience, without the need for a consumer to physically step inside – unless they really want to.

WHAT'S NEXT

Pundits say that physical retail will never go away – it will just change.

Yet many of them are going away – 7,000 stores closed in 2017 (a 200 percent increase from 2016), 5,844 stores shuttered in 2018 and 9,300 shut their doors in 2019. Analysts predict that another 75,000 stores will close in the next five to six years, the hardest-hit sectors being clothing and electronics retailers.

And not many of them are changing.

Retailers have one important job to do: connect consumers with the products they want to buy in whatever way they want to buy and receive them.

Maybe that's an experience-driven store, or an inventory-less store with a more curated and personalized shopping experience. Or maybe some reimagined version of the traditional retail establishment.

But increasingly, for retailers to be hired and not fired, they will be challenged to think differently and really walk their omnichannel talk. They will need to focus less on how to lure consumers inside their stores as if that were the asset they need to monetize and more on how to invest in data and partnerships that will increase the odds of a consumer finding something to buy — and the logistics that bridge the gap between the consumer's intent to buy, converting that sale and the sheer delight of making sure that the consumer gets those purchases wherever and however and whenever they wish to take delivery. Where the store works for the consumer — and not the other way around.

February 10, 2020

What Amazon At 10 Can Teach Us About Uber At 10

Uber reported its earnings last week. Analysts seemed happier than they've been in a while about the company. That's mostly because they heard from its CEO that Uber is now laser-focused on stemming its losses and achieving profitability a year earlier than previously thought. Analysts rewarded Uber's performance and that guidance with its best trading day ever, and a 9.5 percent increase in its stock price. On Friday (Feb. 7), Uber stock closed at $40.63 per share, giving it a market cap of roughly $69 billion.

That's a real 180 from the drubbing analysts have mostly given Uber ever since it went public in May of 2019.

Each earnings report since then has raised the inevitable questions about Uber's massive losses and its seeming inability to keep its core business strong and competitive with its ride-hailing counterpart, Lyft, now a decade after its launch.

Lyft, you will recall, stormed out of the IPO gate with a vengeance, with a stock price of $72 per share and a market cap of $26 billion. Uber followed a month later with a much more muted showing, trading below its IPO share target and breaking it for the first time in June. Lyft will report its Q4 2019 earnings this week. As of Friday, it was trading at $49.92 a share with a market cap of $14.6 billion, well off its high the day it went public – and unable to get close ever since.

Sound familiar?

It should, since it's nearly identical to the drubbing Amazon received a decade into its existence as a disruptor seeking to change how people searched for, found and bought stuff.

TAKING A TRIP DOWN AMAZON'S MEMORY LANE

It's easy to forget now, but back in 2004, an almost 10-year-old Amazon was being eviscerated over its massive losses and questioned repeatedly about its ability to compete, online, in selling things that weren't books, videos or music. "What kind of company can't make money a decade into its existence?" industry pundits would question. "And why are its investors so patient with this retail money-loser?"

When Amazon reported its earnings in January of 2004 for the Q4 2003 quarter, it posted a profit for the first time, yet its stock took a big hit. Among other things, analysts cited its 35 percent growth in electronics and general merchandise sales as an indication that Amazon's growth was slowing in those categories in the face of competitive and pricing headwinds.

At question was its growing reliance on its marketplace business to drive sales, as well as the uncertainty of how Amazon would manage those prices and margins.

A year later, in 2005, analysts raised even more concerns over Amazon's continued losses, and the investments needed to support the introduction of a membership program that asked people to pay to $79 a year to guarantee two-day shipping. Besides believing that few people would ever pay that much just to get free shipping, analysts also wondered why in the world Amazon would ever give up so much shipping revenue.

On top of that, analysts flagged well-funded startups such as Overstock.com and SmartBargains.com that were "nibbling away at Amazon's market share." At the same time, traditional brick-and-mortar retailers posed a growing threat – at the time, more than 95 percent of retail sales didn't happen in the channel that Amazon had identified as its competitive advantage. The company's market share was about $14 billion that year.

I'll spare you the "what a difference 15 years makes" cliché.

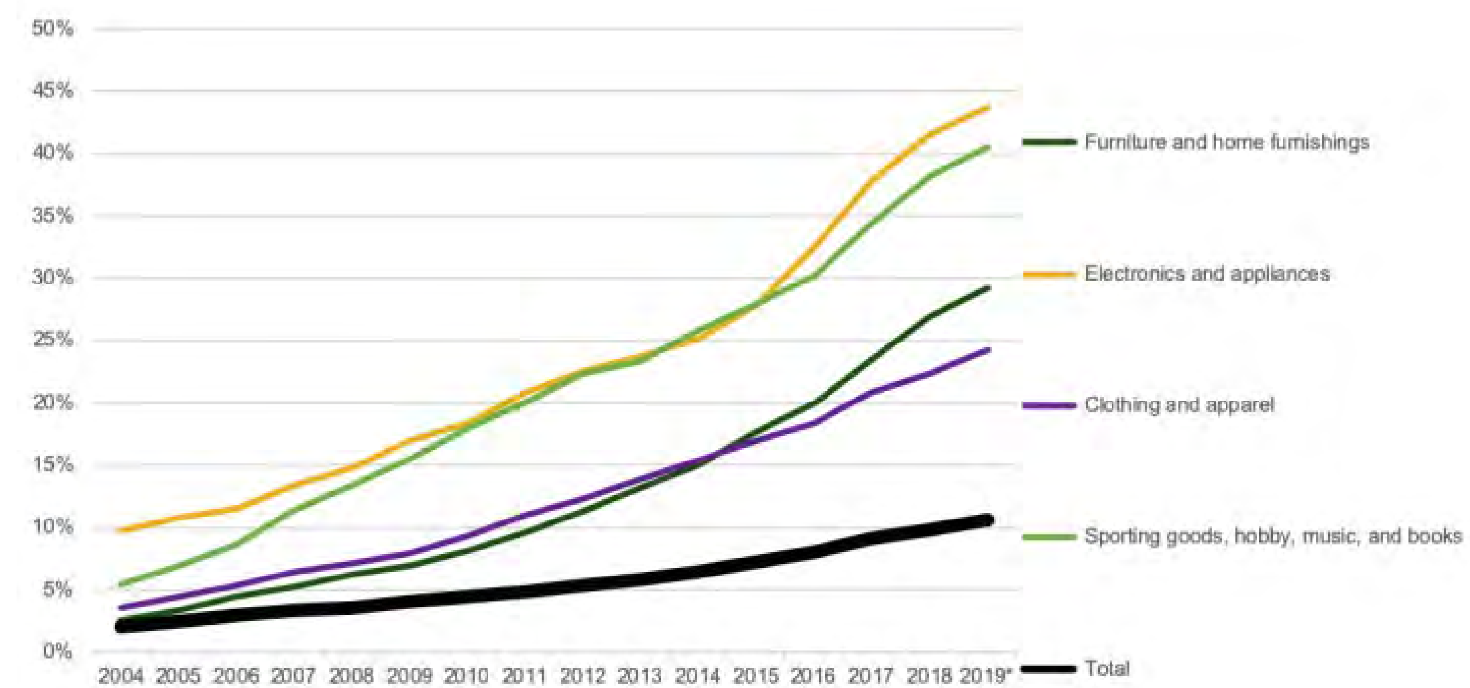
While the rest of the world was trying to compare Amazon – a decade into its life as a company – to Overstock.com and Walmart, Amazon was building a trillion-dollar platform that the rest of the retail world would have to measure up to – and compete with – in due time.

THE RETAIL PLATFORM SALES SLAYER

Twenty-five years after Amazon opened its virtual doors and kick-started the idea of buying new merchandise from an online marketplace, our analysis of online spend and share shows that about 44 percent of electronics sales are online, as are 41 percent of sporting goods and hobby sales, and 24 percent of clothing and apparel sales. We estimate that Amazon accounts for between 25 and 30 percent of online sales across each of the electronics, sporting goods and hobby segments, about 10 percent of clothing and apparel sales, and more than half (51 percent) of all eCommerce sales in the United States.

As for those well-funded startups back in 2005 that were poised to eat Amazon's lunch, today Overstock.com gets about 24 million visitors a month and SmartBargains.com doesn't get enough to register on the internet tracking site that provides those numbers. That compares to Amazon's 2.3 to 2.7 billion monthly visitors in the U.S. Three hundred million people pay

eCOMMERCE AS A PERCENTAGE OF TOTAL RETAIL SALES FOR SELECTED SEGMENTS



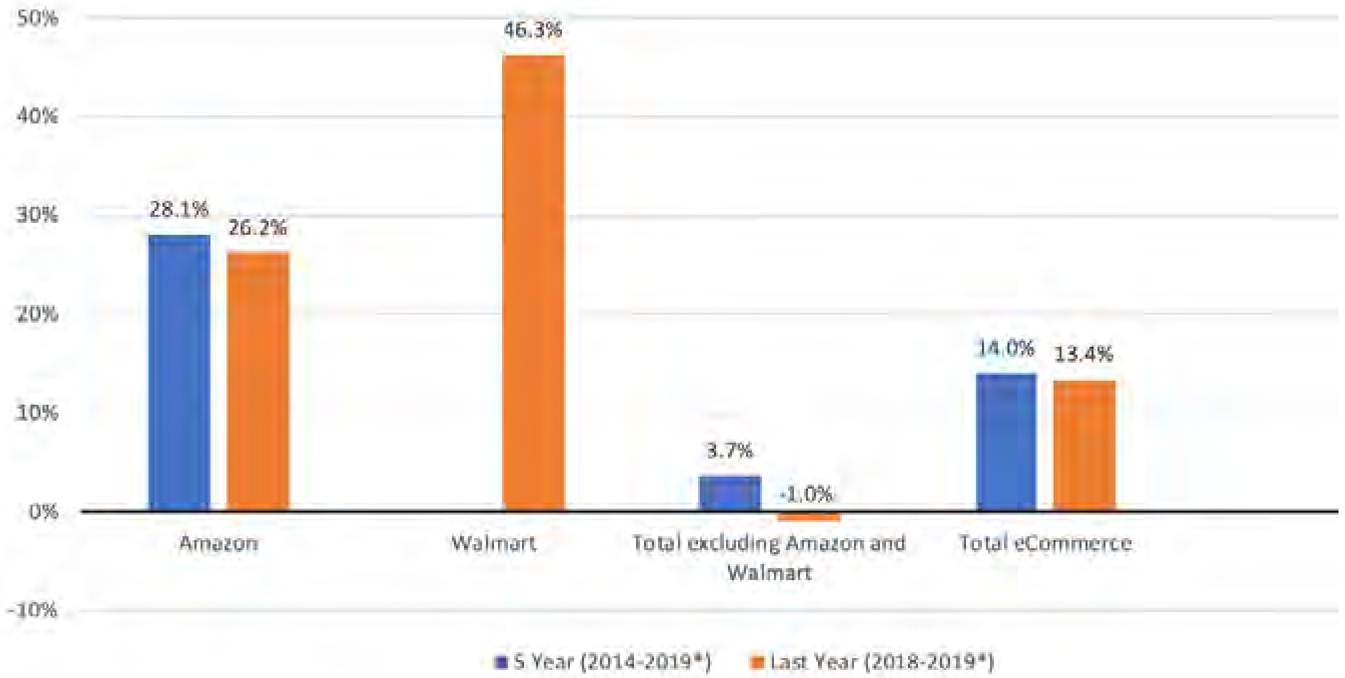
Source: PYMNTS.com

for the benefits of Amazon Prime – which now go well beyond free two-day shipping.

As for Walmart, we track the overall share of Walmart's online spend and Amazon's online spend in the key categories that drive retail spending quarterly, and provide an update on what both companies are doing to hone their retail strategies.

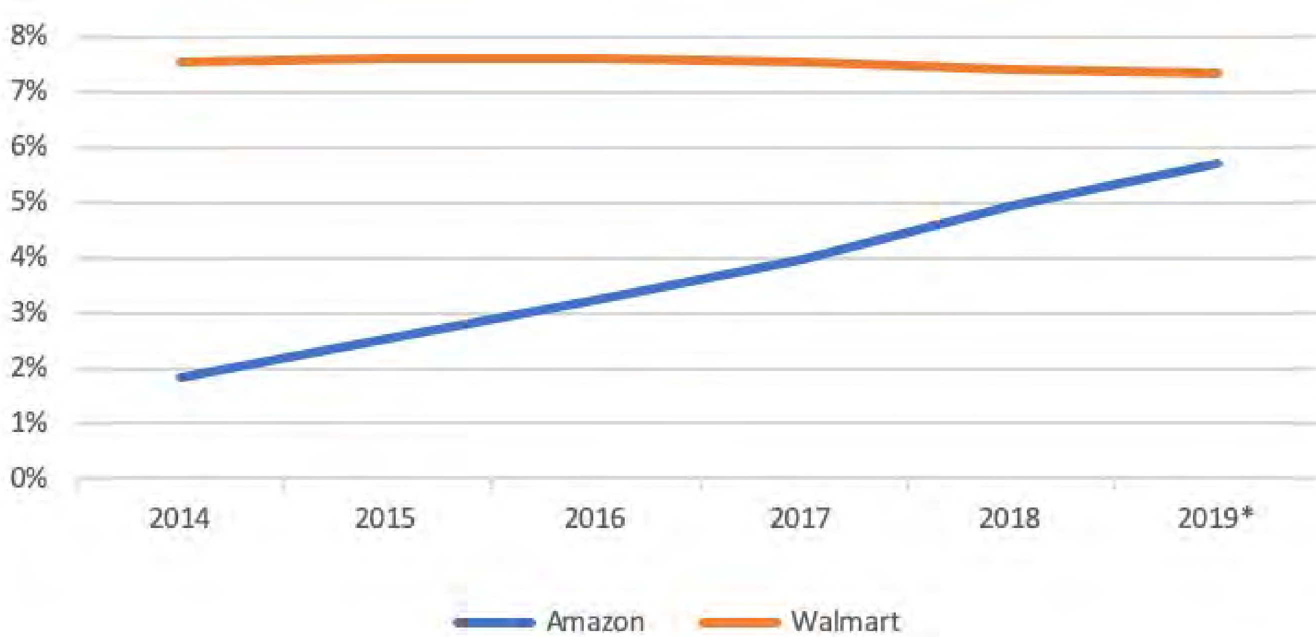
We observe that Walmart's annual retail sales growth has been about 2.7 percent over the last five years – about the same percentage that total retail sales have grown over that period. Amazon has grown its retail sales about 30 percent (29.6 percent) over that same period – and, we estimate, now accounts for roughly 6 percent of all retail sales, up from 2 percent five years ago. Today, Walmart accounts for more retail dollar sales overall than Amazon, but their share of all retail sales has remained relatively flat, at more or less 8 percent.

CUMULATIVE ANNUAL GROWTH RATE IN TOTAL eCOMMERCE SALES



Source: PYMNTS.com

AMAZON AND WALMART SHARE OF SALES



Source: PYMNTS.com

In other words, Amazon is closing that gap.

Much of Amazon's growth in retail has happened in the last five years, as its investments in logistics to support the delivery of its retail strategy, along with its offline retail investments, have destabilized the competition and drawn more of the consumer's dollars. Amazon used its platform assets to color outside of the traditional retail sales lines, redefining the shopping experience for the consumer and all of the stakeholders who are now part of its ecosystem.

Those earlier fears over Amazon's inability to grow share beyond books now seem laughable – as does the failure to understand how it was steadily evolving its strategy to ignite and scale its platform.

Just like many seem to underestimate Uber's power, pigeonholing it as little more than a ride-hailing platform competing for consumers who don't want to drive their car or take a taxi.

THE PLATFORM PLAYMAKER

I wrote a piece last April, shortly after Lyft went public and shortly before Uber did, positing that Uber could become the next trillion-dollar platform. At that time, Uber's market cap was expected to be around $100 billion. Declaring that Uber could come anywhere close to that valuation seemed nuts. After Uber went public and more earnings were posted, some thought it seemed rather disconnected from reality.

That's because I believed then, and still do, that in 2009, Uber didn't just set out to build a better and more predictable version of the taxi.

Like many of the trillion-dollar-market cap players in the platform economy today (Apple, Google, Amazon, Microsoft), Uber is leveraging its platform assets – its critical mass of drivers and consumer users, along with the technology that powers the on-demand Uber experience – to find new sources of value for its platform and the stakeholders who are a part of it.

With Uber Eats, launched in 2012, Uber added a new "side" to its platform – restaurants, which had their own logistics challenges. Today, Uber reports nearly 400,000 restaurants are part of its network, a nearly 15 percent take rate of its 111 million monthly average platform consumers and $4.37 billion in annual revenue, up 71 percent in 2019. Eats is the second-largest restaurant aggregator in the U.S.

Uber Freight was launched in 2017, adding carriers and shippers to its platform by making its billing and tracking tech available to 36,000 carriers and 400,000 drivers across a diverse group of manufacturers. The value proposition is for Uber to bring the same level of transparency and certainty to the freight business that it brought to the consumer ride-hailing business.

In 2018, Uber added healthcare providers to its platform. These providers face a unique set of logistical problems in getting patients to appointments. Uber's integrations with healthcare providers and their billing platforms help patients more reliably reach doctors' offices, which reduces wait times and non-adherence.

As Uber has gone global, it has expanded its consumer transportation options – bikes, scooters and whatever is local to the countries and cities in which it operates – as well as acquisitions, partnerships and integrations that provide loyalty and other rewards for using Uber.

Over the years, Uber has also tweaked its business model and added subscriptions for both Rides and Eats. The company reported last week that consumers who use two or more services on the platform have a number of transactions that are now three times that of a single user. Uber has also improved the speed at which it pays its drivers – instantly – and launched Uber Money in 2019 as a "super app" for its drivers to get paid and then pay for the things they want to buy for themselves and their businesses. Deals on gas purchases and other incentives are intended to get Uber drivers to sign up and then, over time, rely on Uber Money as their primary banking relationship.

THAT PLATFORM VISION THING

Over the years, Amazon became much more than a new retail channel, even though that is how it started. Today, its connected commerce ecosystem – online and off – gives consumers and retailers more and more ways – and reasons – to live conveniently within it, and players more incentives to become part of it.

For Uber, transportation is a platform feature that's central to its business, but ride-hailing is not its end game. Today, Uber is a last-mile logistics platform, one that uses its global network of drivers and consumer users – and the technology that powers the on-demand Uber experience – to remove the friction associated with moving people, products and services from point A to point B.

The cars and scooters and bikes and rickshaws and tractor-trailers that Uber drivers operate are nodes on a global last-mile logistics network that gets people where they want and need to go, delivers dinner from a restaurant to a home, gets patients to and from medical appointments and digitizes and delivers freight from a manufacturer to a distributor or store – and who knows what else over the next decade.

The market opportunity for Uber is massive, since solving for the last mile is a huge and expensive problem that everyone serving the consumer in a connected world now faces. Which is just about everyone.

It's why in the connected economy of the 2020s, logistics will make or break a company's future.

Last year, Amazon delivered more packages then FedEx did and remains a threat to traditional retail. Sure, it increasingly has more of the stuff that people want to buy, but also uses its logistics expertise to reduce the uncertainty of when people will get what they do buy.

Last year, about three million Uber drivers gave 6.9 billion people rides, up 32 percent from the year before. Uber has just shy of a million drivers in the U.S. For the company, there is enormous value in having driver density in all of the places where consumers and businesses need to connect with each other – and an opportunity for businesses to tap into an efficient, last-mile ecosystem to compete and find new sources of value for their consumers.

The company has been able to build up a dense network of drivers in local areas because it provides a great way for people all over the world to make money, on-demand and at their convenience, to build their own futures. And it provides them with a lot of services, like payment, that makes it a breeze to turn some spare time, and a spare vehicle, into quick money.

That provides the foundation for building lots of businesses – some known now, some as of yet unimagined – that depend on an efficient way to solve last-mile problems. Like Amazon, Uber will start some of those itself, and will capture more and more new categories. And it will serve other companies that will use its solution as a critical input into their business.

Maybe it will stumble. Maybe regulators will throw sand in the gears. But there is certainly the opportunity to create a trillion-dollar-market-cap company, and a vibrant ecosystem, in the next decade or two.

February 24, 2020

The Connected Economy: It's About Time

One of the most important innovations in history is the pendulum clock, which was invented in 1636 by Christiaan Huygens, a Dutch scientist and founder of the field of mathematical physics.

Although humans had created mechanisms for keeping time for thousands of years, an accurate measure of time — one that also included a display mechanism for all to see — didn't exist before Huygens' invention. It's said that his clock design became the standard means of timekeeping for the next 300 years, and is one of the reasons he is regarded as one of the most important figures in the scientific revolution.

The pendulum clock's historical significance was its ability to accurately measure and track time, something that became a key enabler of the Industrial Revolution. Timekeeping devices helped companies more accurately track workers' time and calculate their pay based on hours worked. By knowing how long it took for people to travel from one place to another, innovators were able to improve the speed and efficiency of transportation options, including railroads. Observing how long it took workers to complete specific tasks not only helped companies staff their shops and factories more effectively, but also inspired new processes and machinery to improve the speed of those jobs.

Enabling people to use their scarce time more efficiently has been at the core of many disruptive innovations throughout history. And today, 384 years later, innovators are still using time to disrupt the status quo across each of the eight cornerstones of our connected economy.

But unlike centuries before, when innovations were only focused on counting and measuring time in order to economize the consumer's use of it, today's innovators must do more — because people and businesses want more.

How we work, pay, are paid, shop, bank, live, play, stay well and eat will continue to be transformed by innovators who understand that the digital transformations within each of these cornerstones will create efficiencies that will save people time.

The vocabulary words we use to describe this transformation are making those activities more accessible, more convenient and less friction-filled.

Yet that understates the role time will play as a catalyst to the innovations that will mark this new decade.

The 2020s will be defined by the innovators who understand that time is a currency people truly value — and they will use technology and connected devices to maximize each unit of time.

Not just by saving more of it, but by compressing time in a way that makes the use of it even more productive.

Maybe even spendable.

THE 24-HOUR CLOCK

Benjamin Franklin wrote in 1789 that the only certainty in life was death and taxes.

However, he may have missed another big certainty: There are only 24 hours in a day.

Everything that a person wants or needs to get done in a day has to fit within the 1,440 minutes that start every day at 12:00 a.m. and end at 11:59 p.m., 24 hours later. That's pretty much the way it's been, well, forever.

Thanks to Huygens, the world has made a cottage industry out of watching the time, benchmarking it and counting it in any number of ways, and for any number of reasons.

In fact, the U.S. government conducts a study every year to measure how Americans spend those 24 hours. Called the American Time Use Survey, it is conducted each year by the Bureau of Labor Statistics.

The below chart shows the results of that study for the period from 2010 through 2018 — the most recent year for which that data is available.

At first glance, it looks as though not much has changed. Americans have spent more or less the same amount of time sleeping, working, eating, drinking, preparing food and engaging in sports and leisure activities over that nine-year period.

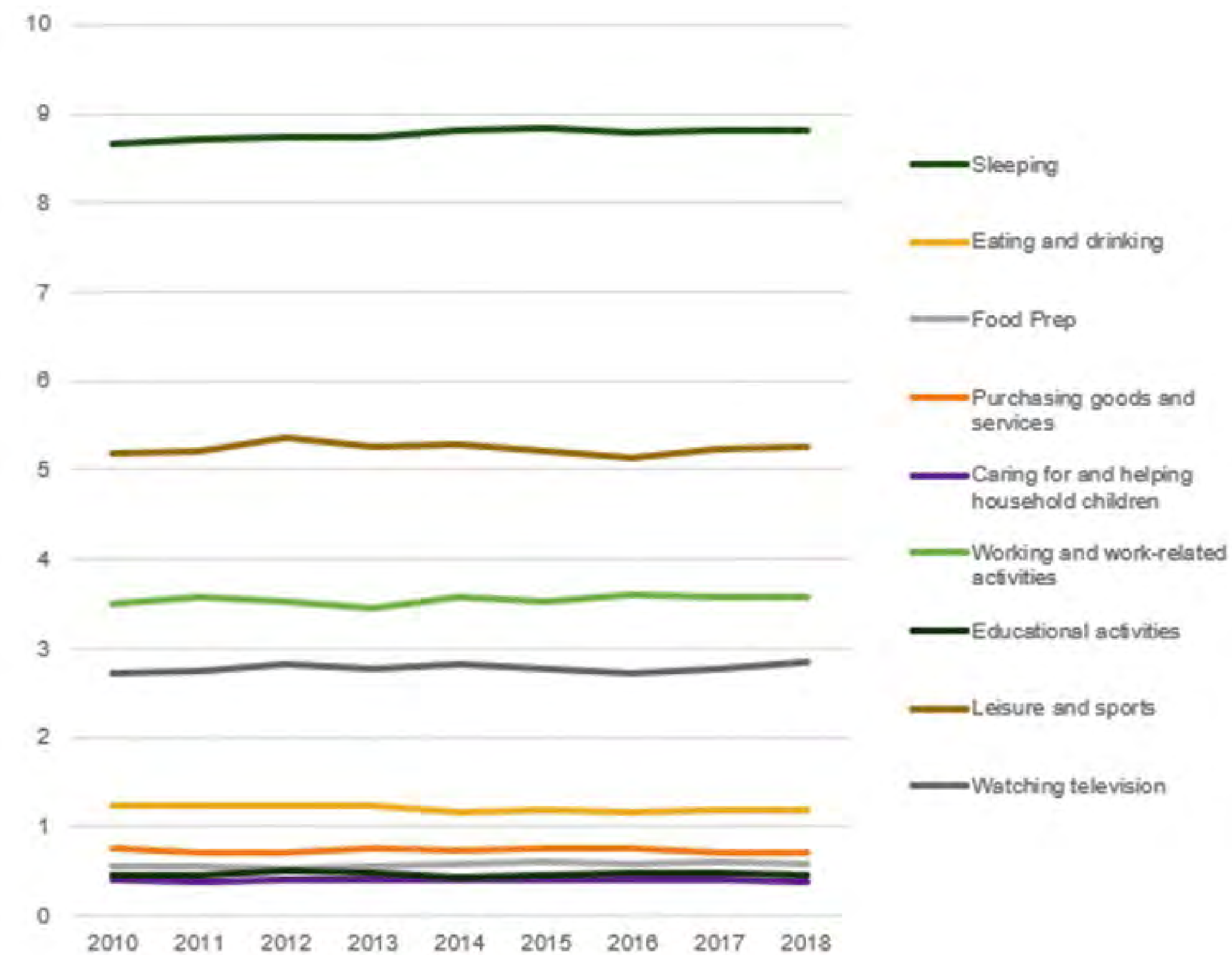
Yet everything has changed.

Consumers increasingly use mobile phones and other connected devices and apps to make the most of the daily activities that fill those 24 hours.

Over the last decade, innovators have capitalized on the consumers' growing desire to save time, using mobile devices and apps to create any number of ways to do that.

Consumers don't have to wait for a taxi, and can instead use Uber or Lyft. They don't have to go to the bank to cash a check, and can instead use mobile remote deposit capture. They don't have to sit at home and write checks to pay the bills — they can use online or mobile bill pay to get the job done. Instead of sitting on hold to make an airline or hotel reservation, consumers can use online travel aggregators or

AVERAGE NUMBER OF HOURS SPENT ON MAJOR ACTIVITIES IN THE U.S.



Source: Americcan Time Use Survey, BLS

branded apps to book and confirm their arrangements.

Consumers don't have to go the movies to watch original content — they can pop open Netflix, Amazon Prime, Hulu or another of the many streaming services to watch at home on their $4,000 flat-screen smart TVs. They can save time driving to and from the stadium to watch the you-name-the-sports game, instead live-streaming it from the comfort of their living rooms.

Eating at a restaurant is still an option, of course, but so is eating food at home or anywhere else, thanks to aggregator apps that save consumers the trip and the wait. Online shopping cuts out the triple-time-waster — the time it takes to get to the physical store (and park), the time it takes to find something to buy (if it is found in the store at all) and the time it takes to wait in line to pay. In fact, 50 percent of consumers in a study we did last summer reported making an online purchase in a 24-hour period in seven of the 13 categories we tracked — everything from buying clothes, food and digital goods to booking household services and buying health, beauty and medical supplies.

Buy buttons on websites save consumers time at checkout and improve online merchant conversions.

Over the last decade, we have witnessed the disruption caused by these — and many other — time-saving innovations for businesses that didn't recognize the premium consumers place on their time.

Taxi medallions are worth pennies on the dollar. Nearly 60 percent of all bills are now paid online, and consumer check usage has taken a nosedive. Sixty-one percent of consumers are said to use mobile devices and apps to book travel, shuttering travel agents of all ilks. Over the last decade, mobile remote check capture is reported to have saved consumers 830 million hours spent going to bank branches, in part causing banks to rethink the staffing and usage of their physical branch footprint.

Attendance at live sporting events is on the decline, with turnout at MLB games down precipitously for each of the last six seasons. This creates a conundrum for the sports franchises that don't rake in the big bucks from ticket sales, but also don't want to broadcast games with empty stadiums or suffer a potential change to team dynamics when playing at a sparsely attended arena.

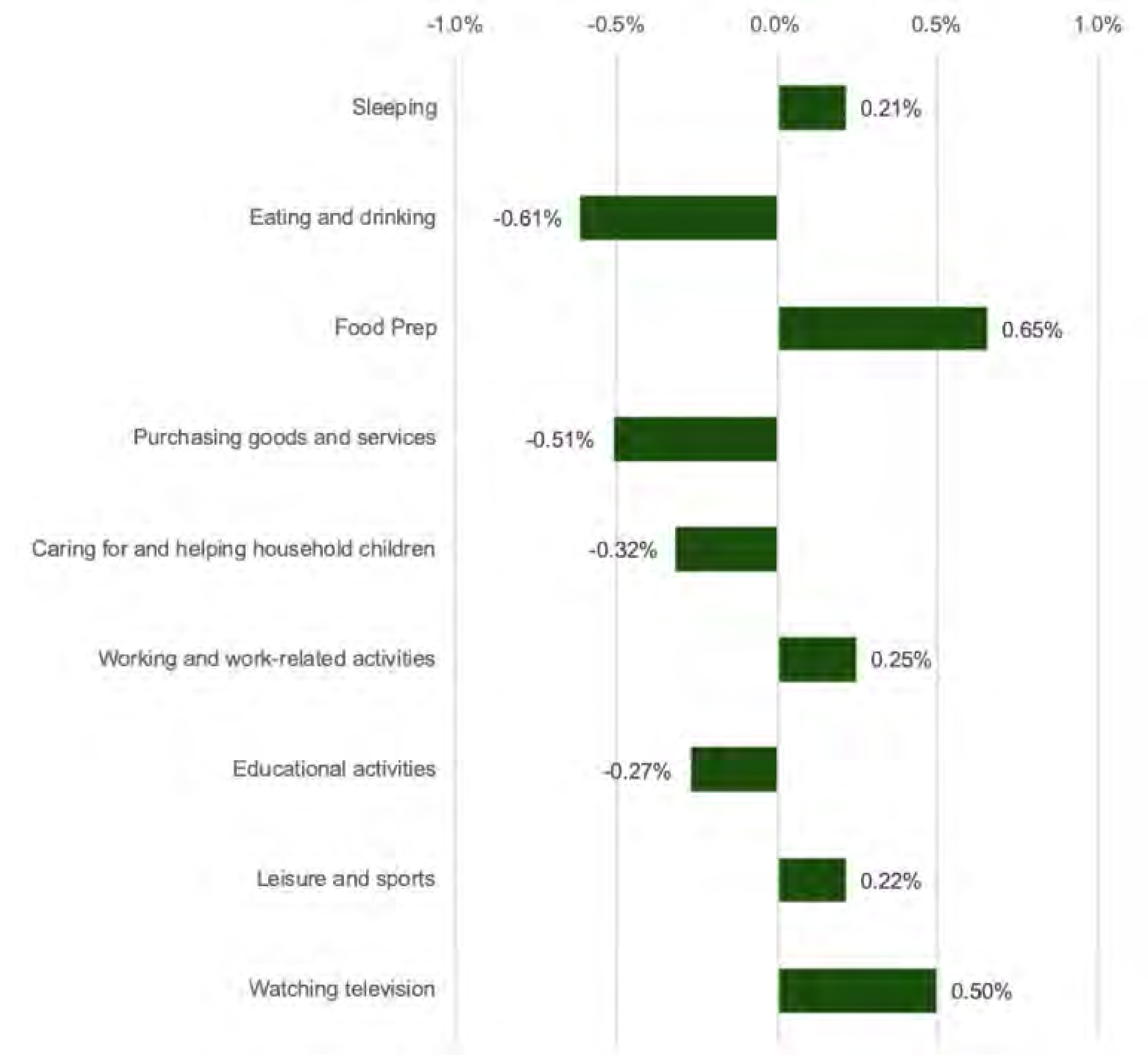
Attendance is also down at movie theaters — the average moviegoer sees 3.2 movies per year in the theater in 2018, versus the 5.2 movies they saw in 2002. Restaurant sales are up, thanks to higher prices, but foot traffic is down, which is becoming a disturbing trend.

Of course, we all know the story of the implosion of physical retail, as consumers skip the lines in the stores to buy online, even if they pick up what they buy online in the store.

Saving time is also a key driver when it comes to using connected devices to buy and pay for things. In fact, it tops the list.

We observed this last year in the 2019 How We Will Pay study, done in conjunction with Visa, which examined the use of connected devices to buy and pay across some 2,800 U.S. consumers. Saving time is so important that consumers will even spend more to preserve it — in one of the greatest examples, 150 million of them paid $119 per year to Amazon to get deliveries in two days, and now one day.

CUMULATIVE ANNUAL GROWTH RATE IN THE TIME SPENT ON MAJOR ACTIVITIES FROM 2001 THROUGH 2018



Source: PYMNTS.com

TURNING TIME INTO MONEY

In 1745, Benjamin Franklin wrote in his famous Advice to Young Persons that time is money for two reasons: Using time to work means using time to earn money — but the opportunity cost of being idle means giving up money that could have been earned without the ability to recover it.

That's the calculus that consumers now use to measure the value of their time. Consumers think not only about how much time they have to spend in any given day on any given activity, but also about how to use that unit of time most effectively.

Consumers understand that time wasted can't be recovered.

It's why I believe the greatest contributions made by innovators over the next decade will be their ability to leverage connected devices, new tech, artificial intelligence (AI), the cloud, payments, 5G, tokenization and new business models to help consumers compress as much time as possible within the discrete daily activities that consume the 24 hours in their day.

When they do that, innovation will emerge from these new connected ecosystems that will enable consumers to multitask within any given activity, much more than they do today, without interruption.

We see the green shoots of that innovation today. In fact, in the 2019 How We Will Pay study, we observed that of the 15 routine activities that could be performed at home — many of which involved shopping and making purchases – consumers used connected devices for seven of them.

Consumers can tell Alexa or Google Home to add Cajun seasoning to their shopping list while cooking or cleaning up after dinner, order new running shoes while watching the Lakers, order coffee and a breakfast sandwich for a drive-through pickup while headed into work, text the dog walker that they'll be late while pounding out that late-night client assignment, dispute a card transaction with their bank via an app while riding the subway to meet friends for drinks after work, or search for a flight on Google and then book it without even visiting the brand's site. Smart homes can set the alarm, turn on the lights, turn up the heat, open the blinds and start the coffee without the consumer having to lift a finger — or even get out of bed.

All of those things didn't take a decade — they emerged and gained traction over just the last three or four years.

PAYING IN TIME

IKEA made news last week when it took time as currency to a whole new level.

In a pilot now running in Dubai, IKEA is literally giving people the option to be paid for the time it takes to drive to its stores and to shop using their time as a currency. When customers present their Google Maps route that calculates the time spent driving to the store, it is converted into a currency that can be spent in the store, enabling consumers to cash in their travel time to buy products. Prices on store shelves are presented in units of time, based on a formula that considers the average wages for workers in Dubai.

Employers and gig platforms recognize that for workers who don't want to wait for their pay, time is money. According to our recent studies, 65.9 percent of skilled gig workers and 59.1 percent of unskilled gig workers who get their

work via digital platforms would flip to a platform that paid them faster, and 64.4 percent would pay for earlier access to those wages.

SMBs pay 1.5 percent to Square to get instant settlements, and Uber drivers without an Uber Money account and Lyft drivers can pay to get their wages deposited after every ride. Hourly workers pay a variety of pay advance app platforms to access earned wages, as an alternative to falling short when paying their bills or when they want or need to pay for an unexpected purchase.

People know they only have so much time in a day — and in their lifetimes.

It is the most precious thing we have. So it's not surprising that people care so much about it. And it's no wonder that innovators have focused so much on time over the years.

But now the opportunities for innovating time are exploding, as every nook and cranny of the physical world becomes a node on the internet.

And it's why time will be central to the innovation that emerges in the connected economy over the next decade and beyond.

March 2, 2020

How The Digital World Will Soften The Blow Of The Coronavirus

Sixty-seven years ago this month, Jonas Salk announced that he had successfully tested a vaccine for polio. Many in the U.S. breathed a huge sigh of relief. In 1952, polio was an epidemic that gripped the country, affecting 58,000 people that year, with 3,000 deaths, many of them children.

The summer season was when this highly infectious disease kicked into high gear. Parents took many precautions to avoid the risk of their kids contracting a virus that could weaken their bones or cause crippling deformities. They avoided crowded swimming pools, movie theaters or gatherings that brought kids and families together in close proximity.

The fear of contagion was so significant that in 1952, according to NPR, aside from the nuclear bomb, polio was America's biggest fear.

It would take Jonas Salk seven years — from 1948 to 1955 — to get a polio vaccine from laboratory discovery to human trials to clinical trials to FDA approval for widespread distribution. By 1957, the number of cases in the U.S. had dropped dramatically to fewer than 6,000. By 1962, an oral version of the vaccine made distribution much easier, as school nurses could administer it to students via a little paper cup in sugar cube form.

As a result, polio has largely been eradicated — not just here in the U.S., but everywhere in the world.

Today, the world is in the grip of a serious global pandemic from the Coronavirus, which is reportedly twice as contagious as the flu, but for which there is no cure or vaccine. What started six to eight weeks ago as a quarantine of the 11-million-person Wuhan province in China has become a devastating downward spiral of disruption, as the contagion — along with the fear of it — has spread rapidly.

Global supply chains are impacted, as millions of workers living in the provinces of developing and emerging economies like China, Vietnam, South Korea and Malaysia are unable to work at the manufacturing facilities due to quarantine, illness or both.

Production that has largely been at a standstill in China for nearly two months is having an impact on the inventory that companies can sell — and we don't know exactly for how long. Fewer products to buy means fewer sales to be made. We've seen one Fortune 500 company after another warning of the impacts that slowdown would have on future performance. Analysts have even gone so far as to suggest that

2020 could be a lost year, as earnings for most companies could show little to no increase. Apple, Google, Amazon, Microsoft and Visa collectively lost $1 trillion of their market value last week as investors assessed the effect of lost sales on their short- and long-term performance.

Then there's the human fear factor.

Highly contagious diseases for which there are higher mortality rates than the flu and no known cure cause people to reconsider their plans — and cause companies to make decisions to protect their workforces from possible contagion. Countries are enforcing travel bans. Airlines and hotels are making the tough, but correct, decisions to restrict or even shut down travel to and from highly infected areas. Companies large and small — and their workforces — are making decisions not to travel unless it is essential, and to avoid large gatherings of people.

Their fear is not entirely unwarranted.

People can be contagious without knowing it, and without having any symptoms. An asymptomatic person could infect a member of their family or a co-worker without realizing it. That means a single person can cause the infection of many others, beginning of course with family, friends and co-workers. Then there's a 2 percent chance of mortality if one is infected. So, while the Coronavirus might not be that risky for any single person, it is very risky for their social network.

Who would want to risk being exposed to something that could endanger their family and friends?

In response, the Centers for Disease Control has mobilized in a matter of weeks, using tech and the latest in diagnostic protocols — including a sophisticated test for COVID-19 — to identify any existing symptoms and help contain any possible outbreak.

And instead of seven years, it has been reported that it will take scientists only about six months to get a Coronavirus vaccine into human trials, and about a year longer to successfully get that vaccine into the market. That's because the pharmaceutical industry has made significant investments in technology and artificial intelligence (AI) to expedite that process.

A year from now — not five or seven years from now — people around the world will have access to a vaccine for a disease that today has no means to prevent the world's citizens from contracting it.

Some blame our global connected world for the last week's unraveling of the global economy, suggesting that it should force a rethink of how global, digital and connected we should be. Had the world not been so connected and so dependent on large providers of services and products, they say, we could have prevented or largely mitigated the significant ripple effects of such a global contagion.

They're wrong for many reasons.

But here's the one I want to talk about.

The connected, digital economy — and the many players who enable business within and across the ecosystems that support it — is helping enterprises, workers and consumers continue to interact and do business, even as the virus continues to spread. Even if the way we all do business may be different in the short term — and, quite possibly, the long term.

It's not a perfect solution, but absent the digital economy, things could quite possibly be much worse.

WHY WE NEED A CONNECTED, DIGITAL ECONOMY — NOW MORE THAN EVER

We see it everywhere.

In the areas most impacted by the virus, connected ecosystems make it possible for the show to go on, so to speak. The House of Armani live-streamed a "dark" fashion show in Milan two weeks ago to present his fall 2020 lineup. People everywhere could still see models walk the runway wearing his creations, without risking possible exposure to the virus. The Italian government has asked for soccer matches in affected areas to be played without fans and instead live-streamed, enabling citizens to still watch, support and cheer on their favorite teams while avoiding the danger of infection.

All of that is made possible by the technology, apps and networks that power use cases like these.

In China, digital content and the platforms that serve and create it are thriving, as people take to one of their many screens at home to ingest it. Gaming apps have surged in popularity in the country as people download video content. Museums are putting their exhibitions online for people who want to visit but are unable to currently. Educators are putting coursework online so that children quarantined at home don't have to miss out on key aspects of their education while school is closed or students can't get there.

Online sales have seen an uptick in China, and Alibaba reportedly added 10 new servers to accommodate the demand. Observers recall similarities to the SARS outbreak in 2003, which they say ignited China's online retail sales, and expect a similar spike and continued upward surge.

In China, apps that enable transacting in what was once considered a more physical ecosystem, like car buying, are surging — as apps that provide virtual test drive experiences help car dealers stay in business while people stay in their homes. There has been a surge in health and wellness app downloads, as consumers in all affected areas take extra precautions to monitor their vital signs and learn how to reduce their risk of infection.

Everywhere – not just in those areas most impacted by the virus — social networks make it possible for people to stay in touch with their loved ones. Smart speakers with screens enable video phone calls so people can talk **and** see each other. Family members can visually check on moms and dads and brothers and sisters and grandmas and granddads without physically visiting them, providing a level of comfort that would be impossible over the phone.

Seniors, for whom the virus can be most debilitating, don't have to leave the house to get food or have their medicine filled or refilled. Apps, virtual assistants, delivery aggregators and online grocery options make it possible for them to order what they need and get it delivered instead of going without or relying on others to do it for them. Telehealth apps and patient portals increasingly give people more access to doctors without having to take an unnecessary trip to their offices.

Global peer-to-peer (P2P) platforms expedite the delivery of money in minutes to anyone anywhere in the world, especially those living in affected areas, in an effort to blunt the impact of lost work and wages.

Businesses that don't want their workforces to travel or whose employees are uncomfortable taking trips can stay connected with team members, clients and prospective clients around the world using software platforms like Slack, Zoom and Microsoft Teams — making those interactions real-time, dynamic and almost as good as being there in person.

Digital content platforms like PYMNTS are seeing surging demand for high-quality, consumable content, as executives take to their offices instead of airports to stay up-to-date on who is doing what and how best to reach them. And consumers are increasingly taking to their screens at home to watch a variety of content, including some of the live events they might otherwise watch in person.

THE DARWIN EFFECT

The last Black Swan event to hit the U.S. and impact the global economy was the financial crisis of 2008, which plunged the U.S. into a severe recession. It would take our economy five or six years to work our way out of that hole. Over that period, businesses failed, banks faced liquidity crises and the Fed used a variety of monetary policies to avoid an even more dire outcome.

Yet out of the financial crisis came a wave of innovation that has reshaped how businesses and people have engaged over the last decade, seeding the path for the innovations that are at our doorsteps this decade in the connected economy. Deal volume surged in 2010 as 3,277 deals were made, with a 19 percent increase in dollars raised and a 12 percent increase in deals done over the prior period. Investments in software scooped up the lion's share of those dollars.

Startups stepped in to fill the gap that traditional players couldn't or wouldn't fill in banking, lending, payments and retail services. With reCommerce platforms popping up out of nowhere, it become possible for consumers to monetize the clothes they didn't want anymore by giving others the chance to buy them. Gig platforms made it possible for workers to find and do work remotely to fill in for the jobs they may have lost and the skills that employers needed but couldn't invest in full time workers to support. Innovators examined opportunities to reduce B2B payments efficiencies by using digital methods to reduce the cost of making and receiving payments. Many leveraged the smartphone and app and data opportunity to rethink how businesses and people interact across all segments and disrupt conventional norms.

In fact, some of those startups and innovations make it easier for the world today to blunt the impact of the coronavirus somewhat and continue to do business in the face of what is likely to be a global pandemic.

I trust that we will see many of the same impacts from the COVID-19 black swan.

Thinly capitalized businesses that rely mainly on physical channels will struggle, and many could die. Unicorns could shrink in size and become attractive acquisition targets for big companies — or shrivel and die, too. Businesses that were built around serving people and SMBs with cheap capital may find themselves and their business models tested. Restaurant business models will be tested even more than they have been, as customers potentially pull back and ghost kitchen models use this opportunity to double down and take share.

At the same time, people will embrace the power of a connected world and the ability of connected ecosystems to sustain consumers and businesses. Firms that have optimized logistics and direct-to-consumer (DTC) models could have an advantage over those who were late to that party. Companies with a digital-first and/or a digital-only legacy will prosper, since their models weren't built to boost physical environments but to complement or replace them. As we have seen quite clearly in retail, the shift from physical to digital is much more of an uphill climb than the other way around.

And new businesses will emerge, capitalizing on the opportunity in crisis and investors willing to support new product and service delivery paradigms.

Of course, there is no bright side to COVID-19. Businesses will probably fail, workers will lose their jobs and it is expected that many people will die. The effects of the virus will last far longer than the contagion itself. But the crisis will accelerate the move to the ever more connected digital world, force businesses to rely more on digital solutions and likely spawn a new wave of innovation.

When we come out on the other side, the world may well be a different, better place. Some of the methods and ways of doing business as the global crisis plays out may very well become standard operating procedure in the decade that awaits. And it will be the connected economy innovators who will lead the way.

March 9, 2020

How To Compete With Banks: Start With First Principles

Aristotle may have originated the notion of first principles thousands of years ago, but it would take Elon Musk to add a contemporary business flair to that method of analyzing business problems.

First principles is the discipline of going back to the rudimentary sources of truths for any problem or situation, and then designing a solution only after truly understanding those foundational elements. Musk describes the use of first principles as the type of thinking that would help him launch SpaceX by manufacturing and commercializing space rockets cheaper and better than anyone else.

Getting back to first principles often starts with asking very simple questions — those that people are usually too embarrassed to ask, because they sound so basic.

Questions like, “What is a bank?”

It’s a fair question today, particularly as we observe the blurring of the lines between traditional banks, Big Tech and FinTechs — and as we contemplate the impact that the blurring of the digital and physical worlds has on consumers’ expectations and customer service paradigms.

It’s also an important question, since we think we already know how consumers would answer it — so we rarely step back to ask.

But given the rise of neobanks — FinTechs that are using banking services as the foundation for new ecosystems and Big Tech, which is exploring ways to extend their reach into banking and financial services — we thought we’d go back to first principles and ask consumers that simple question in relation to their primary banking relationship.

PYMNTS fielded a study to a national panel of 1,062 U.S. consumers during the last week of February 2020. The full details of this research provide

a brief but fascinating lens into the psyche of a well-informed consumer who understands the financial services landscape far better than we might assume.

Here's what we learned:

- **Consumers know what a bank is,** and pretty much define it the same way.
- **They know the difference between traditional banks** and financial service providers that aren't banks, but offer banking-like services.
- **A vast majority of consumers express a passing interest in exploring banking-like services** from providers that are not banks, even though only a small percentage of consumers use those providers today in that way.
- That said, some banking-like providers **appear to be closing the primary banking services gap, particularly regional banks and credit unions (CUs).**
- Perhaps most interesting, though, is what we **learned about the gap between what consumers believe makes a bank a bank, and the services** consumers use from their primary bank.

It's in these gaps where challengers may mine potentially rich veins of opportunity to build new business models and acquire customers — and alternatively where traditional banks must find new ways to fill them to avoid putting their own business models as risk.

Sometimes it pays to ask the simple questions.

ASK THE SIMPLE QUESTION, GET THE RIGHT INSIGHT

Let's get back to basics.

According to the Cambridge English Dictionary, a bank is an institution in which people and businesses can securely store and access their money and borrow it as needed.

Nearly every respondent in our study — 99 percent of them, in fact — defined a bank the same way the dictionary does: as a place to store their money, access their money and borrow money if needed. Nearly every single consumer uses an institution that provides all of those services as their primary bank.

Ninety-two percent of consumers count their primary bank as either a national bank, regional/community bank or credit union. Seven percent (7.4) of consumers report that their primary bank is a digital-only bank (4.2 percent) or

CONSUMERS' FAMILIARITY WITH BANKS, CREDIT UNIONS AND DIGITAL AND ONLINE BANKS
Share of consumers expressing awareness of select institutions who do or do not consider them to fit the definition of a traditional bank

PayPal (3.2 percent). Those consumers tended to be younger (average age of 35) and more affluent ($100,000+ in annual income). But overall, Big Tech and FinTech usage barely register, and respondents do not regard them as either banks or entities that provide banking-like services — at least not today.

The list of things consumers say an institution must do to qualify as a bank is long, but the list of services that consumers use at their primary bank is short.

Eighty-five percent of respondents expect their primary bank to provide the same three services: checking accounts to store money until needed and to pay bills, savings accounts that earn interest on deposits — and, yes, physical branches.

And in that order.

More than half of all consumers say that having a physical branch is important for a bank to be considered their primary bank. That finding is also relatively consistent across income and demographic profiles, even for bridge millennials (the largely affluent 30- to 40-year-old crowd) and Gen Z respondents.

The need for physical branches tops providing ATM services by a factor of almost four. That's not surprising, because people don't need ATMs as much as they once did — back when they used cash more often and had no other way to deposit checks when banks were closed. It also strongly suggests that physical branches are an important touchpoint when consumers have a more specific banking need or a question for which a website, mobile app or ATM service falls short — even though, as in physical retail, consumers don't step into those branches as often as they used to.

It's also an interesting insight for digital-only banks that somewhat proudly eschew physical for digital, traditional banks that have physical branch footprints and ATM providers interested in complementing the traditional banking services experience.

For digital bank customers, ATMs are essential, as they represent the only physical touchpoint they have – but they may become a limiting factor as consumers' banking needs evolve and the digital-ATM combo is no longer enough. Banks and non-traditional providers of banking services must create customer service options that go beyond what consumers can do on their phones – whether that's via branches with different service models and support staff or via ATMs with capabilities that bridge the physical/ digital divide.

THE SERVICES EXPECTATION

As I mentioned, there is a long list of services and features that consumers say make a bank a bank. Aside from checking accounts, savings accounts and physical branches, the services on that list aren't necessarily those that consumers actually use via their primary bank. Some of the things on

SERVICES CONSUMERS BELIEVE BANKS SHOULD OFFER VERSUS THOSE THEY ACTUALLY USE
Share of consumers who believe banks must provide select services versus the share who use those services, by type of primary FI

SERVICES	Checking accounts	Savings accounts	Make loans	Provide ATM services	Ability to access with laptop/ computer	Ability to access with mobile device	Currency exchange
SERVICES USED							
National bank	94.7%	74.8%	30.4%	73.5%	68.6%	52.2%	7.2%
Regional/local bank	95.5%	72.8%	31.8%	71.1%	63.7%	43.5%	4.2%
Credit union	95.2%	92.9%	40.3%	66.8%	67.1%	44.5%	5.2%
PayPal	60.1%	51.3%	12.1%	44.3%	53.1%	47.2%	2.8%
Digital/online bank	91.5%	73.7%	9.1%	59.2%	74.5%	74.6%	2.0%
SERVICES THAT MUST BE PROVIDED							
National bank	96.0%	91.4%	70.9%	78.9%	61.4%	56.3%	43.2%
Regional/local bank	97.2%	93.7%	75.5%	77.8%	60.1%	46.7%	40.5%
Credit union	96.9%	90.8%	75.8%	72.8%	41.9%	47.8%	32.5%
PayPal	65.0%	77.4%	39.0%	60.7%	40.0%	49.8%	49.2%
Digital/online bank	89.5%	89.0%	53.8%	70.8%	59.7%	54.8%	22.1%

Source: PYMNTS.com

that list seem rather analog in a physical world (like safe deposit boxes), while others seem quite niche-y (like currency exchange services).

Understanding those gaps, though, provides new insights into how traditional providers and challengers are navigating them and acquiring customers, and reframes how and from where consumers think about getting banking services.

Take loans — auto, mortgage and personal loans.

We see a bit of a disconnect between the share of consumers who say a bank has to offer loans to be considered a bank and the share of consumers who use loans from what they say is their primary bank. Our research shows that 70.9 percent of national bank customers believe a bank has to offer loans to be a bank, even though only 30.4 percent currently have a loan with their primary financial institution (FI). Consumers, obviously, like to shop around.

Credit unions seem more effective at using loans to attract and maintain primary banking relationships with their customers, since they also seem quite adept at capturing savings deposits (more on that later). Three-quarters of respondents (75.8 percent) cite loans as important for credit unions to be regarded as a bank, with 40.3 percent of CU customers also using them to borrow money.

Now take savings accounts.

More than 90 percent of respondents say that a bank has to offer a savings account, with nearly three-quarters of consumers who use national, regional and local banks also having a savings account with that bank. Although that gap isn't nearly as great as that with lending products, a quarter or more of consumers also don't maintain a savings account with their primary bank, even though for most consumers it is the second most important service they expect from their primary bank.

These gaps between "must-have" and "I use" for financial services has spawned both innovation and competition for the consumer's retail banking business.

It's relatively easy for a consumer to open a new account — checking or savings — with any bank and park money there for any number of reasons. Banks and providers of banking-like services use slick mobile apps, high-interest savings, promises of early access to paychecks or low-interest loans to lure in customers.

And regardless of whether it's with a bank that isn't their primary bank or a banking services provider that enables access to loans, consumers seem quite willing to play the field. It's why digital-only banks want bank charters to accept deposits, why non-traditional players are moving into the personal lending space and why LendingClub made its bid to buy a digital bank. And why loans with alt lenders remain popular alternatives for consumers.

Digital banks, in particular, have given savings accounts a whole new lease on life, and have used high interest rates as an inducement for consumers to open new accounts. PayPal, which offers savings through a partnership with Acorn, provides a savings capability for its users. Big Tech players, like Google with its "smart" DDA, seem to recognize the importance of bank-like features — including a physical branch network and a roster of savings and lending products — to bridge, not just blur, the lines between bank and banking services provider.

THE GENERATION GAP

We also observed what could be an interesting trend in how the banking preferences of younger generations — the bridge millennials, millennials and Gen Zers — could shift over the next

DIFFERENT GENERATIONS' LIKELIHOOD OF USING VARIOUS TYPES OF FIs
Share of consumers who currently use select types of FIs, by generation

GENERATION	Generation Z	Millennials	Bridge millennials	Generation X	Seniors/baby boomers
National banks	45.2%	46.4%	48.2%	47.7%	39.2%
Local/community banks	23.0%	13.7%	16.1%	21.5%	24.3%
Regional banks	10.3%	12.3%	10.6%	14.2%	21.7%
Credit unions	10.0%	10.3%	9.8%	10.8%	12.4%
Digital/online banks	6.8%	7.3%	8.1%	3.6%	1.9%
PayPal	4.7%	8.1%	6.3%	2.0%	0.3%
Financial technology firms	0.0%	1.0%	0.9%	0.3%	0.0%
BigTech firms	0.0%	0.9%	0.0%	0.0%	0.0%
Brokerage house	0.0%	0.0%	0.0%	0.0%	0.3%

Source: PYMNTS.com

decade, and who might be on the wrong side of that shift.

Not surprisingly, FI preferences shift between generations. Bridge millennials are the most likely to play the banking services field, doing business with national banks as well as digital and online banks. According to our survey, 48.2 percent of bridge millennials' primary FIs are national banks, but 8.1 percent of them use digital and online banks as their primary FIs. Bridge millennials are also the second-most likely generation to use PayPal and FinTechs as primary FIs, behind millennials.

Sixty-one (61) percent of our respondents expressed an interest in exploring banking-like services with some of those providers. Although a small segment of the population (only 7.4 percent of all consumers) use PayPal and FinTechs as primary banks, that could evolve over time — particularly as PayPal and banks alike contemplate ways to address the physical branch touchpoint that is among nearly every consumer's top three must-haves.

Or consumers could continue to manage their banking services portfolios in much the same way as they do now: using their primary banks for essential services and using other trusted providers — FinTechs, Big Tech and digital banks — more opportunistically, often in response to specific use cases, to fill their banking services gaps.

Consumers in our study seem to suggest that the gap could begin to narrow. Today, 44.1 percent and 37.8 percent of respondents say they are extremely likely to use (or are using) a national or community bank as their primary FI. Another 31.7 and 29.9 say they are extremely likely to use (or are using) credit unions and local banks, respectively, as their primary go-to. Another 23.9 percent report the same for PayPal. It wouldn't take much, or much time, for the current balance of power to potentially shift.

So what do first principles tell Big Tech and FinTech about competing with banks?

It's pretty simple: Digital is great. Clever apps and services are too. But people first and foremost want to bank somewhere that they define as a bank. That means a safe place to keep their money, with an easy way to access it and a place to borrow funds when they need them.

They don't need to get those services from a traditional bank, and their banking services provider could be Big Tech or FinTech. But to be **their bank**, consumers must be convinced that these new players offer the same basic services that banks have offered consumers for hundreds of years.

How they find inducements for consumers to make that switch? It might pay to mind — and mine — the gaps.

March 16, 2020

What 2K Consumers Told PYMNTS About How COVID-19 Changed Their Daily Lives

On March 6, at the end of the first week that the coronavirus roiled markets and rocked the U.S., PYMNTS asked 2,128 U.S. consumers to tell us about its impact on how they work, travel, eat, shop and play. Karen Webster said their responses across these five key pillars of our connected economy provides an important baseline for understanding how those behaviors may shape the new normal when we emerge on the other side. Why? It was the last week that it was more or less business as usual in the U.S. and consumers could actually decide. Here's what we learned.

It was only two weeks ago that the world as we knew it in the U.S. would so dramatically change.

During the week of March 2, 2020, COVID-19 got up close and personal. That week, we saw the disease begin to rout U.S. financial markets and rock nearly every aspect of daily life. The media went into over-drive in tracking and reporting outbreaks, and no one could get enough of seeing and hearing Dr. Anthony Fauci's take on the progression and severity of the contagion here and around the world.

On Friday of that week, March 6, PYMNTS put a study into the field to a census-balanced panel of roughly 2,128 U.S. consumers. Our goal was to baseline consumer sentiment and behaviors that first week across a number of activities that represent five cornerstones of our connected economy: how people shop, work, spend their leisure time, travel and eat.

Mostly, we wanted to benchmark and then track over the weeks to come how much of that change would shift to become the "new normal" — and how quickly those shifts might happen, and across which activities.

Looking back, it turned out to be an important week to gauge consumer sentiment.

For this first week, any behavioral changes were self-imposed — it was largely business as usual across most of the U.S., despite reports that the contagion was escalating.

Businesses were still open, people were still going to work and having meetings, planes were still flying, gyms and movie theatres were still open, sports teams were still playing in arenas (at least that week), and stores were still operating at normal business hours, as were bars and restaurants.

All that said, consumers had begun to do things differently.

This study, the first of many we will publish over the course of this pandemic, provides an important baseline of the consumer's psyche, sentiment and behaviors across those connected economy pillars while those decisions were still theirs to make.

Here's the topline for the week that started it all.

THE 411 ON COVID-19, WEEK NO. 1

Based on our survey results for that week, we learned that:

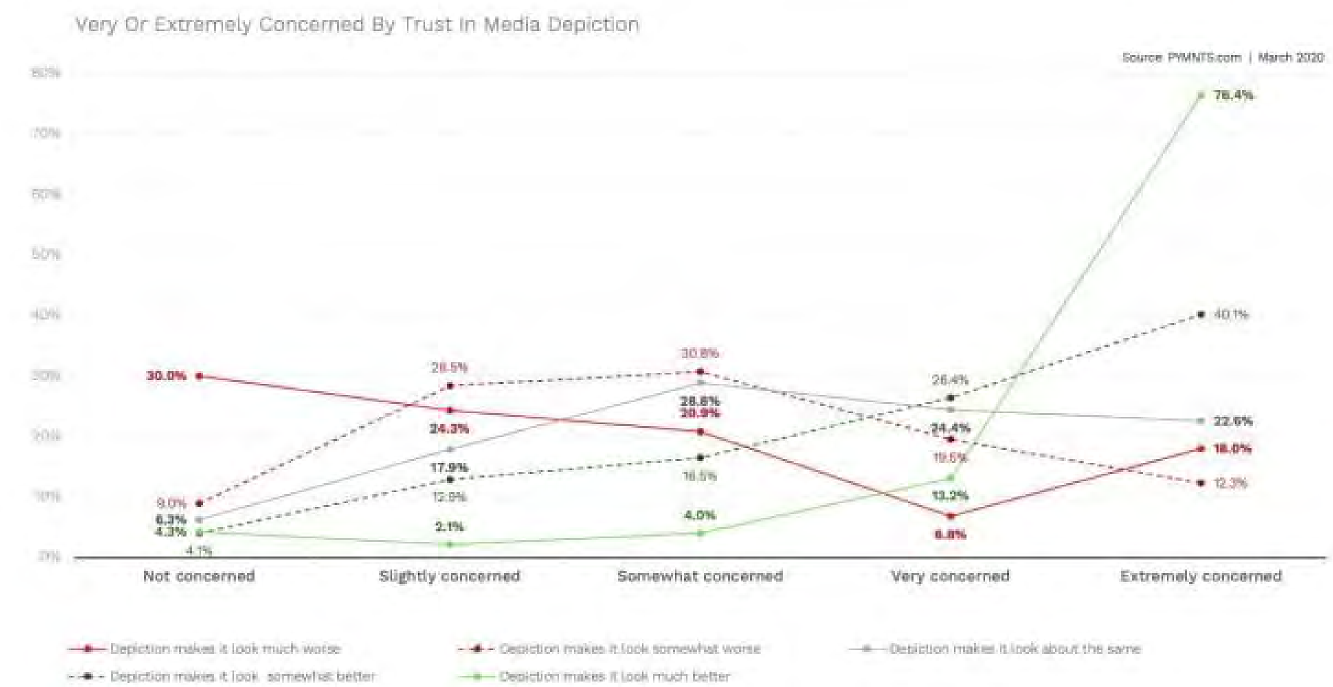
- Men and women are equally concerned about their risks of contracting the virus, but women were more likely to change their day-to-day routines in an effort to manage them.
- The 30- to 40-year-old bridge millennials were the most concerned of all demographic groups — in fact, nearly 30 percent more so than their boomer parents and senior grandparents.
- Higher-income individuals shopped more online, while those earning less than $50,000 a year just didn't do much shopping at all.
- All consumers reported eating out less, particularly at restaurants with table service, and said they used delivery aggregators, bought prepared foods at grocery stores and used mobile order-ahead less than they did before that week.
- Even before March Madness was canceled and sports teams pushed pause (or stop) on live events, consumers had put social distance between themselves and sports arenas, as well as movie theatres.
- Consumers just said no to getting on planes — especially if those trips were to New York or any international destination for work or pleasure. The same held true for booking vacation rentals and B&Bs and using public transportation, and to a lesser degree for getting into Ubers — in part because they didn't need to and in part because they didn't want to.

And what would give consumers the confidence to get back on an airplane, check back into a hotel or use public transportation?

That answer may surprise or even stun you.

It's not hearing that there's been a reduction in the infection rate, nor the CDC telling consumers that it's safe to travel, and especially not the media telling us that things are good to go.

In fact, 65.7 percent of consumers surveyed that week said they felt the media was making the virus seem worse than it actually was.



It's not even offering discounts of 50 percent for airfares or hotel rates (even though discounts of more than that would get 9 percent of consumers to book a trip).

Here's what consumers said would boost their confidence: knowing that a vaccine is available in the U.S. to protect them from contracting the virus in the first place.

Something that is 12 to 18 months away, according to most medical experts.

WHO'S THE MOST WORRIED?

Hint: It's not boomers or seniors.

By the end of that first week, we learned that just about everyone reported being concerned about the risk of contracting COVID-19.

Roughly 85 percent of U.S. consumers said they were concerned on some level about contracting the virus, with more than a third of consumers — 37 percent — reporting they were extremely concerned. Nearly half of consumers — 49 percent — said they were somewhat or slightly concerned.

Only 33 percent of boomers and seniors reported being very or extremely concerned, even though they are the demographic groups described by nearly all medical professionals as being high-risk. They are also the group most able to practice social distancing, and very likely had already taken measures to self-quarantine to avoid exposure and risk.

It's the 44 percent of bridge millennials — those 30- to 40-year-olds who represent the first generation of connected consumers with discretionary income — who report being extremely concerned, making them the largest demographic group to report that level of apprehension. This, of course, is the generation of consumers who came of financial age in the aftermath of the Great Recession, and had begun to accumulate wealth and discretionary income — and to feather their nests and settle down — over the last decade.

Their concern is interesting, given that they appear to be at relatively low risk of having serious health consequences if they were to contract the virus, according to most medical experts. Yet this "black swan" is an unwelcome intruder, with the perceived potential to compromise their financial health and to put themselves and their social network at risk of contagion.

This is also the generation of consumers whose behavioral changes, we posit, could most clearly define "the new normal" of everyday activities on the other side of this global pandemic.

WHO'S CHANGING WHAT — AND WHY

We also learned that all consumers, even in that first week, had already begun to change how they worked, shopped, ate, played and traveled.

Those changes in behavior were more or less aligned with the consumer's level of concern over their perceived risk of contracting the virus, and those changes were more or less done of their own volition.

More consumers did more of their shopping online. We observed a dearth of shopping of any kind among those with incomes of less than $50,000, particularly in physical stores. Seventy percent of these lower-income individuals also expressed the highest levels of concern over contracting the virus, so not spending money seemed to be key. More affluent consumers seem focused on avoiding public spaces, while going online to buy what they needed and wanted.

Not surprisingly, we observed that consumers had already made their own decisions to travel less by plane anywhere, but particularly to New York, the Pacific Northwest and most international ports of call. For those who continued to travel that week, it's interesting to note that more consumers (14.3 percent) felt more comfortable

staying in someone's home — aka home-sharing properties — than in large or small places with other people, specifically large name-brand hotels (9.7 percent) and B&Bs (11.4 percent).

Consumers also reported eating at home more than they did before reports of the outbreak in the U.S., and were using meal delivery services, aggregators and mobile order-ahead services less often.

Consumers voluntarily put themselves under partial quarantine by working from home and by commuting via car rather than using public transit if they were going to work. They also made decisions to cancel work-related gatherings and leisurely plans of all sorts, from attending sports events and concerts to watching films in theaters — even before the sports franchisees decided to take unprecedented measures and do that for them.

THE NEARLY HALF OF THE COUNTRY WHO WERE STILL ON THE FENCE

We wanted to dig deeper into how the fear of contracting the virus that week had begun to impact the behaviors of consumers in how they work, shop, eat, and travel for business and leisure. This window, we suspect, will be important in helping us better understand the degree to which consumers shift to a "new normal" once the COVID-19 crisis dissipates.

Our week-one respondents gave us that baseline insight.

Not surprisingly, we observed big pullbacks in corporate travel, with 31 percent of consumers reporting that they had curtailed their business trips.

For the 48 percent of consumers who say they are slightly or somewhat concerned about their COVID-19 risk, that pullback is even more stark.

For this group, 55 percent reported cutting back on domestic travel for business, 47 percent on using public transportation, 44 percent on using Ubers and 53 percent on traveling internationally for personal reasons, which we suspect involved changing spring break plans. This behavior proved to be much more restrictive than what we observed in the sample at large — motivated in part by businesses advising employees to limit their travel to essential business trips, and in part by people deciding to use a call or video chat instead.

During the week of March 2, more consumers reported going to the office to work than not, particularly among those who were slightly or somewhat concerned. Only 6 percent of the somewhat concerned reported that they were going to the office less, versus the 12 percent of the overall sample who said they had taken steps to work from home.

That week, consumers were already giving up on movie theaters, live sporting events and concerts, with 37 percent, 33 percent and 3 percent of consumers, respectively, reporting a reduction in those activities.

Consumers across the board had also begun to change how they shopped.

Thirty percent of consumers reported going to physical stores less, and 19 percent reported that they shopped online and via mobile devices much more. There was an interesting paradox with respect to their grocery store behaviors: More consumers reported a decline in curbside pickup (19 percent) than those who reported an increase (16 percent). Only 5 percent of all consumers reported going to the grocery store more often that week — a decision that many likely lived to regret when they found themselves standing in five-hour lines at those stores the following week.

Perhaps most fascinating are the reported changes in how and where consumers got and ate their food.

Consistently and across the board, consumers ate out less. More than a third (35 percent) reported eating less at quick-service restaurants (QSRs), and about a quarter reported using order-ahead less often. This is interesting, particularly since this same group reported that they were still largely going to their offices to work and, presumably, still using order-ahead during their commutes and during the day to order food.

More dramatically, more than a third (36 percent) said they were eating less often at restaurants with table service. A quarter reported a decline in buying prepared foods at grocery stores to eat at home. Twenty-nine percent of those consumers reported using aggregators less often as well. Fear of the contagion was one factor at play. The other perhaps? Wanting a better understanding of the health and risk factors of those preparing, and in the case of restaurants, serving their food.

NOW WHAT?

Fear is a powerful motivator of human behavior, and the human brain is hard-wired to avoid loss. Social scientists who study human decision-making have consistently observed that people typically place a higher value on the

things they have and could lose, than on the things they don't have but could get.

We're seeing this phenomenon — which scientists and behavioral economists call loss aversion — play out in real time as the COVID-19 contagion accelerates globally, and is now front and center in every single state in the U.S. for each of the 331 million people living here.

Consumers will go to extraordinary measures to avoid losing what they have. And they must be absolutely convinced that there's no downside to doing anything that could put them or their families at risk.

With the exception of going to work, the behaviors of the nearly half of all consumers (48 percent) who reported being slightly or somewhat concerned about their risks of contracting the virus more or less tracked with those across the entire sample of consumers that first week.

But that was week one, and any decisions to modify their behaviors were theirs to make in an environment that tried quite hard to remain business as usual.

Last week did, and this week already will usher in more changes as federal, state and local governments and businesses themselves made decisions about how they — and all consumers, by default — will go about their daily lives. Already this morning (March 16) we have seen LA, NY OH and MA close bars and restaurants to takeout only, restrict gatherings of more than 25 (in Massachusetts) and 50 or more (across the U.S.) and shutter schools and gyms. Airlines are reducing capacity and stores are restricting the hours they are open. These closures vary in terms of duration — some for the next few weeks, others for a month and even longer.

How and why that impacts the short- and long-term behaviors of U.S. consumers across these five pillars of the connected economy remains to be seen.

A lot will depend upon the duration, how quickly we in the U.S. have been able to flatten the curve and how confident the U.S. consumer is that their risk factors are diminished.

What's clear is that every change in behavior requires a catalyst to drive lasting change. The fear of loss in the form of COVID-19 and its unprecedented impact on the global economy and every person living in it could be the catalyst that will shape our connected economy's future. Check back with us in a week to get the latest on how consumers and businesses are navigating these very uncertain times.

Until then, stay well.

March 23, 2020

The 11 Days That Changed The Consumer's COVID-19 Mindset

Thursday, March 19 was the first day of spring in the U.S. — a season that is symbolic of rebirth and renewal after a long, cold winter.

It was also the day that we got our first look at the latest PYMNTS study of 1,923 representative U.S. consumers and the changes to their daily behaviors due to the COVID-19 pandemic.

We went back into the field on March 17 — only 11 days after our first study was launched on March 6 – to see what had changed since our first benchmark study. You'll recall that the week of March 6 was when the coronavirus first became real for most people living in the U.S., with a large number of outbreaks reported in Kirkland, Washington.

On March 6, consumers could largely make their own decisions about what was in or out of bounds based on their personal level of concern overexposure to the virus. Stores, schools and businesses were still open. Even though consumers weren't being forced to socially distance, they were already doing that in many ways. Our first study documented how changes in behavior redefined the consumer's day-to-day activities — how they worked, shopped, traveled, ate, bought food and spent their leisure time.

What a difference 11 days makes.

By March 17, Johns Hopkins was reporting 3,200 confirmed cases of the COVID-19 virus in the U.S., with 65 deaths. Virtually all sporting events had been canceled or postponed, and theme parks were closed. The CDC had issued guidelines limiting gatherings to 50 or fewer participants.

San Francisco had just ordered citizens to self-quarantine. Airlines had cut routes due to lack of demand or governments closing their borders to travelers. Hotels reported sharp declines in occupancy. Cruise lines had stopped more cruises as they got distressed ships to port.

Retail stores were still open, but some local shops in certain cities had begun to curtail hours due to declining foot traffic. Some schools in certain counties had decided to close for a few days or a few weeks. Colleges were starting to tell spring breakers not to return for the rest of the semester.

The four days between March 12 and March 15 saw Americans empty grocery store shelves and binge-buy toilet paper and hand sanitizer. The entire country of Italy went on lockdown, and reports of confirmed cases and deaths had skyrocketed in the country. Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, went on Meet the Press on Sunday, March 15 and warned that America was on course to look more like Italy than China, and that millions of Americans were at risk of dying from the virus. He further advised the country to do “whatever was necessary” to flatten the curve, including closing restaurants and bars nationwide.

A day later, the governors of Ohio, Illinois and California announced the shuttering of bars and restaurant dining rooms, and New York City closed its schools.

Like just about everything associated with this global pandemic and its unprecedented impact on every aspect of our daily lives, context is critical. Not surprisingly, the results from our second, census-balanced study of the U.S. population portrayed a consumer in a very different place — and with anything but a spring in her step.

WHAT A DIFFERENCE 11 DAYS MAKES

Between March 6 and March 16, the number of U.S. consumers who reported being extremely concerned about contracting COVID-19 doubled, with 32 percent of the population reporting that level of concern versus 20 percent 11 days earlier. We observed a sharp increase in the number of baby boomers and seniors who now say they are concerned, going from 33 percent on March 6 to 61 percent on March 17.

Not surprisingly, we saw that the level of concern spikes if someone in the consumer’s social network has presented symptoms, even though only 7.7 percent of the population reported knowing someone who has.

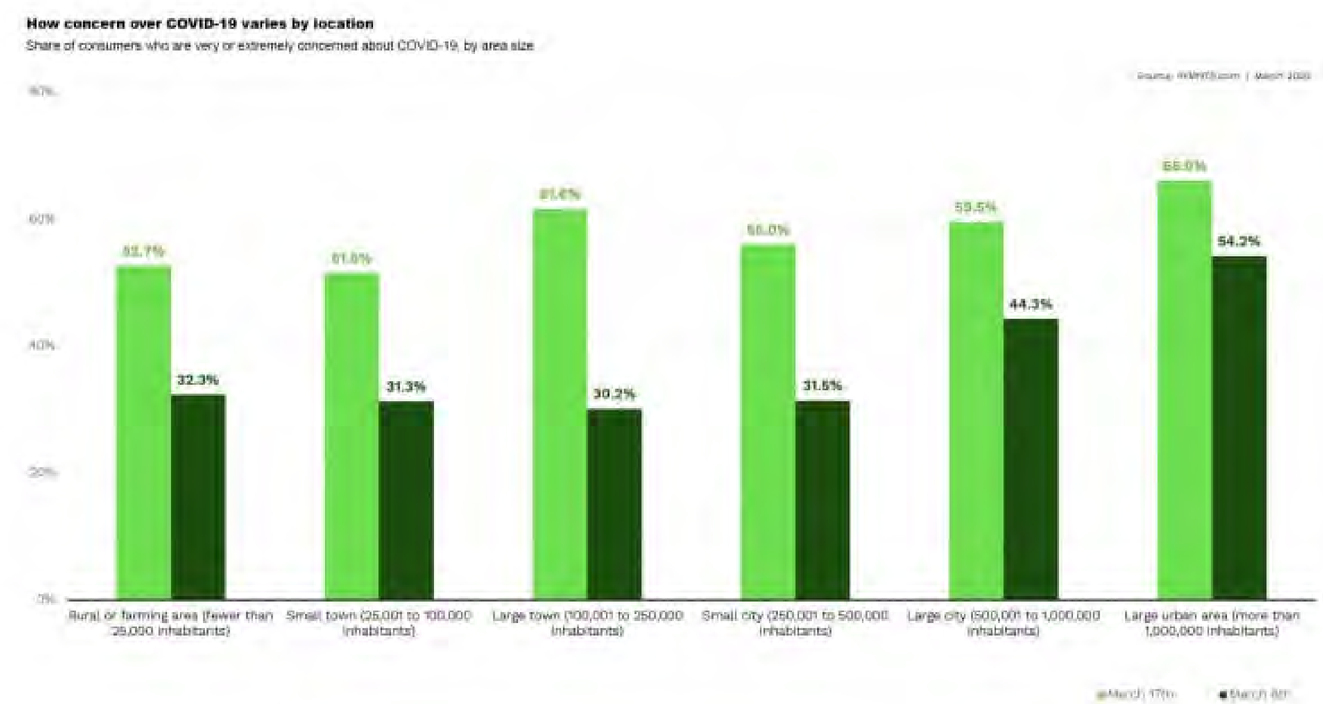
Our March 6 study reflected an over-indexing of COVID-19 concerns among those living in highly populated urban centers and large cities, with 54 percent of those living in urban centers expressing concern compared to 31 percent of those living in rural communities.

That wasn’t the case 11 days later.

Concern about contracting COVID-19 is now largely consistent regardless of where people live, across urban centers of one million or more people and rural towns of less than 25,000 people.

By March 17, we saw that Americans’ biggest concern was transmitting the virus to family members or friends (72 percent), but they were also two and a half times more afraid of dying from COVID-19 (42 percent) than losing their job (18 percent).

More than half (54 percent) of baby boomers in our sample say they are worried about dying from COVID-19, as



are 46 percent of consumers earning less than $50,000 a year.

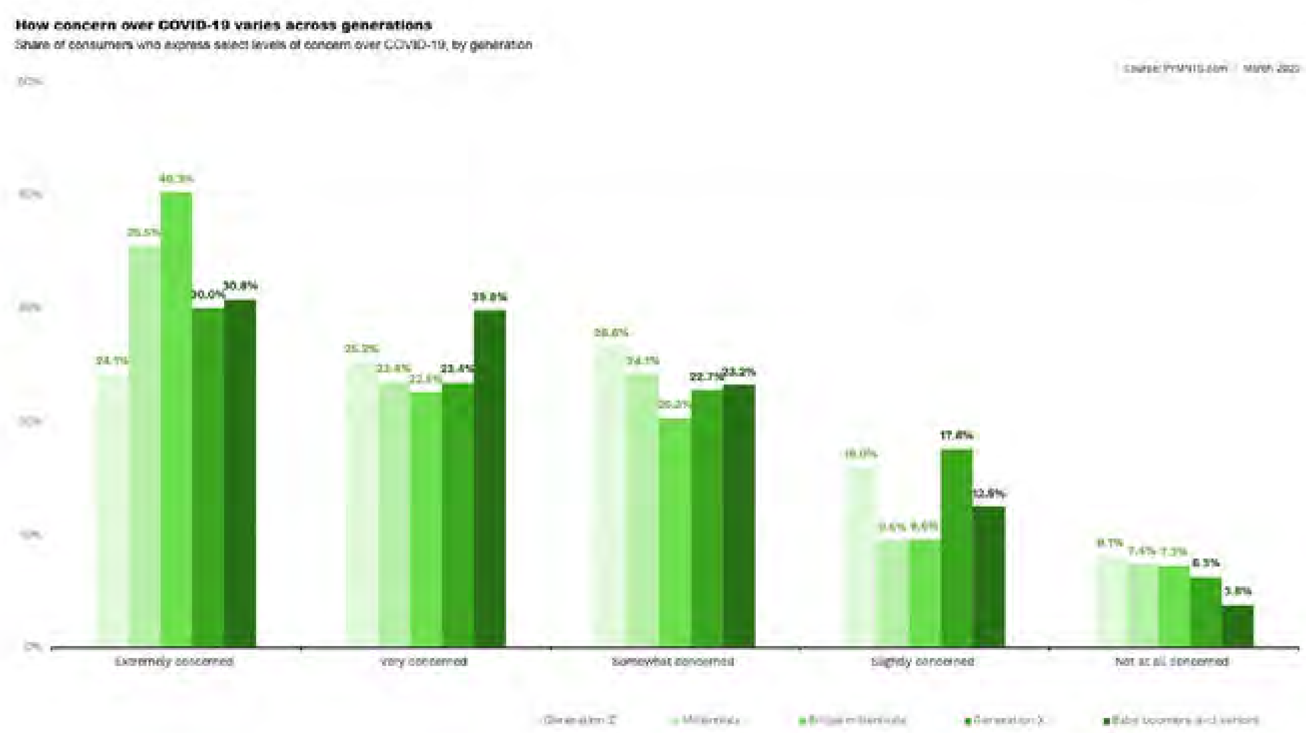
According to our sample, it’s also a population that ranks losing social contact as the third greatest risk of the COVID-19 outbreak (41 percent) above losing their financial wealth (30 percent), despite the unprecedented levels of stock market turbulence over those 11 days. At 57 percent, Gen Z is the generation most concerned with the social impact of COVID-19 on their daily lives, a sentiment that is the subject of great criticism and concern in the face of their very public “spring breakdown.”

In the span of 11 days, we observed an American consumer who came to believe that the media is portraying the COVID-19 risk accurately, an increase from 26 percent on March 6 to 36 percent on March 17 — but some still believe that the federal, state and local government’s portrayal of the risk is much worse than it really is.

Thirty-eight percent of our sample and 42 percent of the 32- to 41-year-old bridge millennials share that view.

In 10 short days, we saw American consumers pulling back on consumption and changing their buying patterns radically across every single daily activity, largely over fears of contracting the virus.

Nearly a third (31 percent) of consumers said they are working from home, and 46 percent and 47 percent have stopped



traveling for business and leisure over fears of contracting the virus — not because their businesses were closed or because they were told to not hop on a plane.

Consumers who were already practicing social distancing and refraining from shopping in physical stores are keeping their distance even more — and that was shown to be true across all incomes and demographic groups. Nearly 78 percent of consumers in our March 6 study reported shopping in physical stores, an activity that was already down by 30 percent from their usual daily patterns.

By March 17, those numbers were 75 percent, a decline of 150 percent. Among those who reported being extremely concerned, those numbers are even more dramatic — at 84 percent on March 17, up from 57 percent on March 6.

And what are consumers buying? Just the essentials, ma'am — or what consumers now regard as essentials.

That's cleaning supplies (24 percent increase), medical supplies (18 percent increase) and games (10 percent increase), as parents look to buy things to keep the kids busy while at home (and while trying to work from home right along with them).

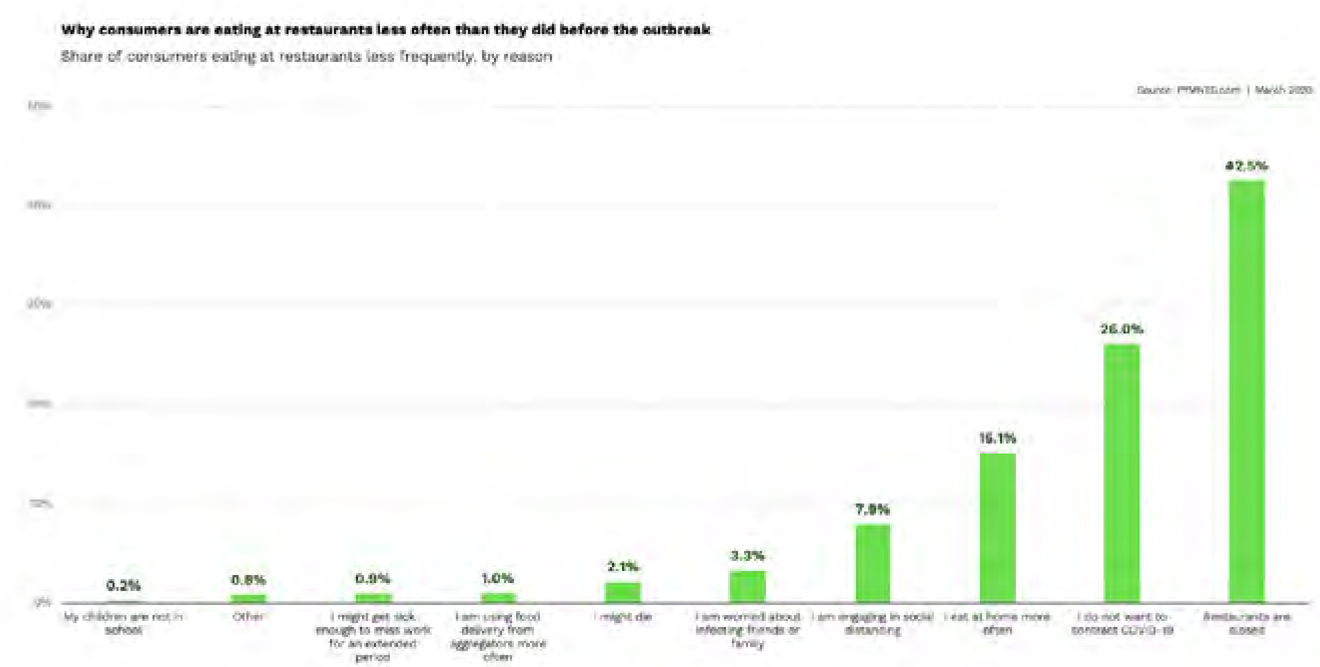
Apparel and accessories, not so much — they were down 42 percent from before the COVID-19 crisis.

As one retail executive shrewdly noted last week: Who needs to buy clothes when people are self-quarantining?

The work-from-home trend over the last several years certainly changed the mix of clothes that consumers were buying — but they were still buying. Now, there are no walks to Starbucks, carpool runs, school plays, sports events, movie nights, dinners out, weekend trips with family and friends or vacations — which means there is no reason for anyone in the household to buy anything new.

THE RESTAURANT REALITY

We didn't need nearly 2,000 U.S. consumers to tell us about the dire straits restaurants are in — particularly independent restaurants — as a result of the COVID-19 pandemic. Stories abound of restaurant after restaurant closing, laying off staff, and shifting from dine-in to takeout and delivery. Danny Meyer, restaurant icon and founder of Shake Shack, closed all of his 254 establishments and laid off 2,000 employees in the space of a week, in a sobering sign that the entire sector is on shaky ground.



What's also been reported is the pivot independent restaurants have made to order-ahead and takeout to generate any possible sales and keep some staff working.

But it doesn't appear that consumers are using those restaurants in that way.

Unlike other daily activities that involve being around people in a physical environment — travel, shopping, working, going to events — 43 percent of consumers in our sample reported that they stopped going to restaurants because they are closed. Only 26 percent of consumers reported not visiting restaurants over fears of contracting the virus.

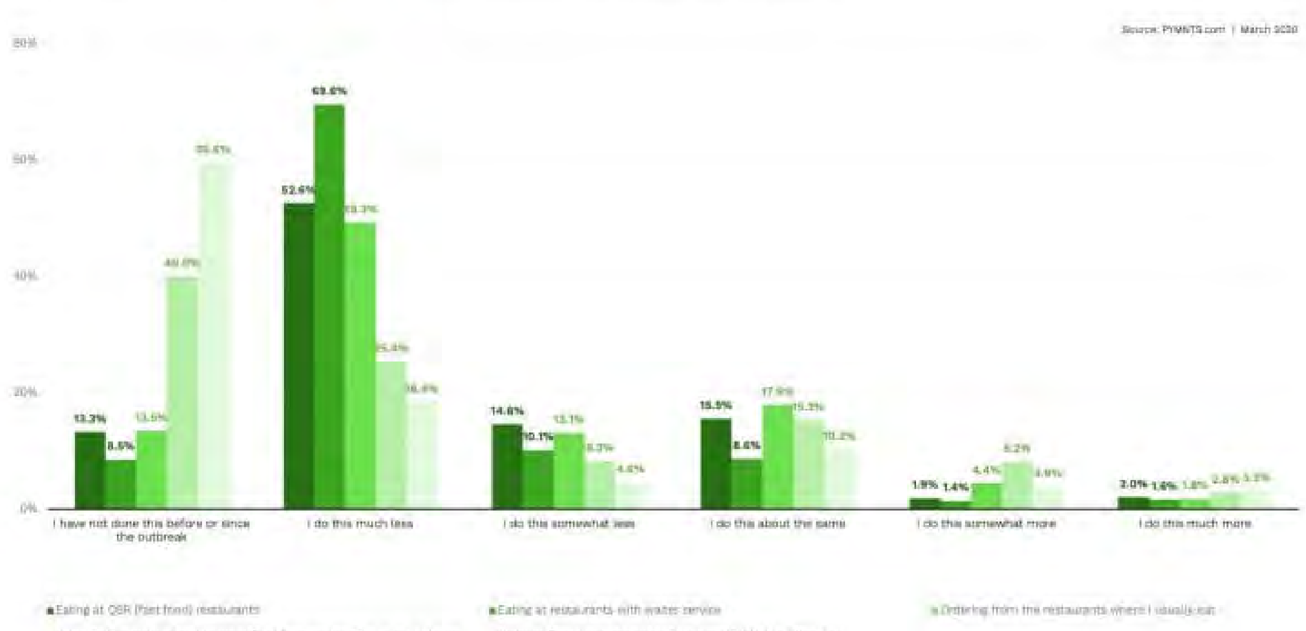
Yet only 1 percent of consumers reported ordering takeout or delivery from those establishments.

For the consumers in our sample, we also observed a 7 percent decline in ordering from Grubhub or Uber Eats over the 11 days between March 6 and March 17, with the share of consumers using mobile order-ahead from restaurants decreasing by 11 percent.

Millennials and bridge millennials are the two generations most likely to use both mobile order-ahead and

How COVID-19 has changed how often consumers eat

Share of consumers who report eating in restaurants more or less often since the beginning of the pandemic



aggregators less now than before the outbreak. We found that 44 percent of millennials and 40 percent of bridge millennials in our sample report are using mobile order-ahead somewhat or much less often than before the outbreak. We also saw that the share of millennials using aggregators has decreased by 36 percent, and the portion of bridge millennials using aggregators has dropped by 32 percent.

That decline could be the result of orders not being delivered to offices, consumers not using order-ahead for breakfast or lunch, or concerns about delivery aggregators handling their food.

But all consumers reported eating more at home and cooking the food they bought at grocery stores, whether by choice or necessity.

The picture for restaurants is sobering. A sector of establishments that was grabbing an increasing share of stomach as consumers gravitated to going out to eat with family and friends is now competing with grocery stores (again) for their very survival, across both digital and physical channels. Sixty-one percent of our survey respondents said they never shopped for groceries online and picked up curbside before the COVID-19 pandemic; now, 12 percent do it much more than ever before.

The same consumers who seem to be upping their online ordering and curbside pickup game don't seem to be doing that with the restaurants they once visited every Friday or Saturday night.

THE FUTURE

We were also curious how long consumers in our study think it will take for their daily activities to resume to the level they were before the COVID-19 pandemic became a reality for them and this country.

Roughly a quarter (27 percent) of consumers believe it will be two weeks to a month, with roughly another quarter (25 percent) reporting that it would take two months. Boomers are the most pessimistic at a year or more, and bridge millennials are the most optimistic at two weeks.

That finding suggests that roughly half the country believes that by Memorial Day, COVID-19 will be in the rear view, under control enough for the venues that are now closed to reopen — and for life to pick up where it left off at the start of what most people will describe as the longest March they've ever experienced.

But that was back when most businesses said they'd be closed through the end of March, maybe until April 3. And back when the schools said they would close for a month. At that time, San Francisco residents were self-quarantining for three weeks, and gyms and exercise studios said, "see you on April 1."

Consumers based their perspectives — and their responses to our survey — on what they had been told.

In just the last week, though, things have become even more restrictive, and the picture of when things will (sort of) get back to normal is much less clear.

What is becoming more clear is that the "normal" on the other side of COVID-19 will be redefined by two things:

First, how much of the consumer's "new normal" sticks.

Businesses may decide that working from home is pretty efficient for more of their employees.

Even more consumers may decide that watching movies on the big screen in their living rooms beats going out to the movies — particularly since Hollywood is bypassing shuttered theaters and going straight to streaming sites for the first run of their movies.

Consumers could also decide that online yoga lessons and spinning in the privacy of their own homes on their Peloton bikes beats beating it to the gym.

Or that shopping online for groceries — or just about anything — is much more convenient than going to the store.

But a big part of that normal will be defined by what the business landscape looks like at that time, and whether the gyms, the restaurants and bars, the vacation rentals that were once annual family traditions, the hair salons, the shops and boutiques in their local communities — even the businesses they work for — will be there for consumers to revisit two weeks, two months, six months or a year from now.

That, unfortunately, is beginning to look far less likely.

Our next survey goes into the field in the middle of next week. We'll see what the next 11 days brings.

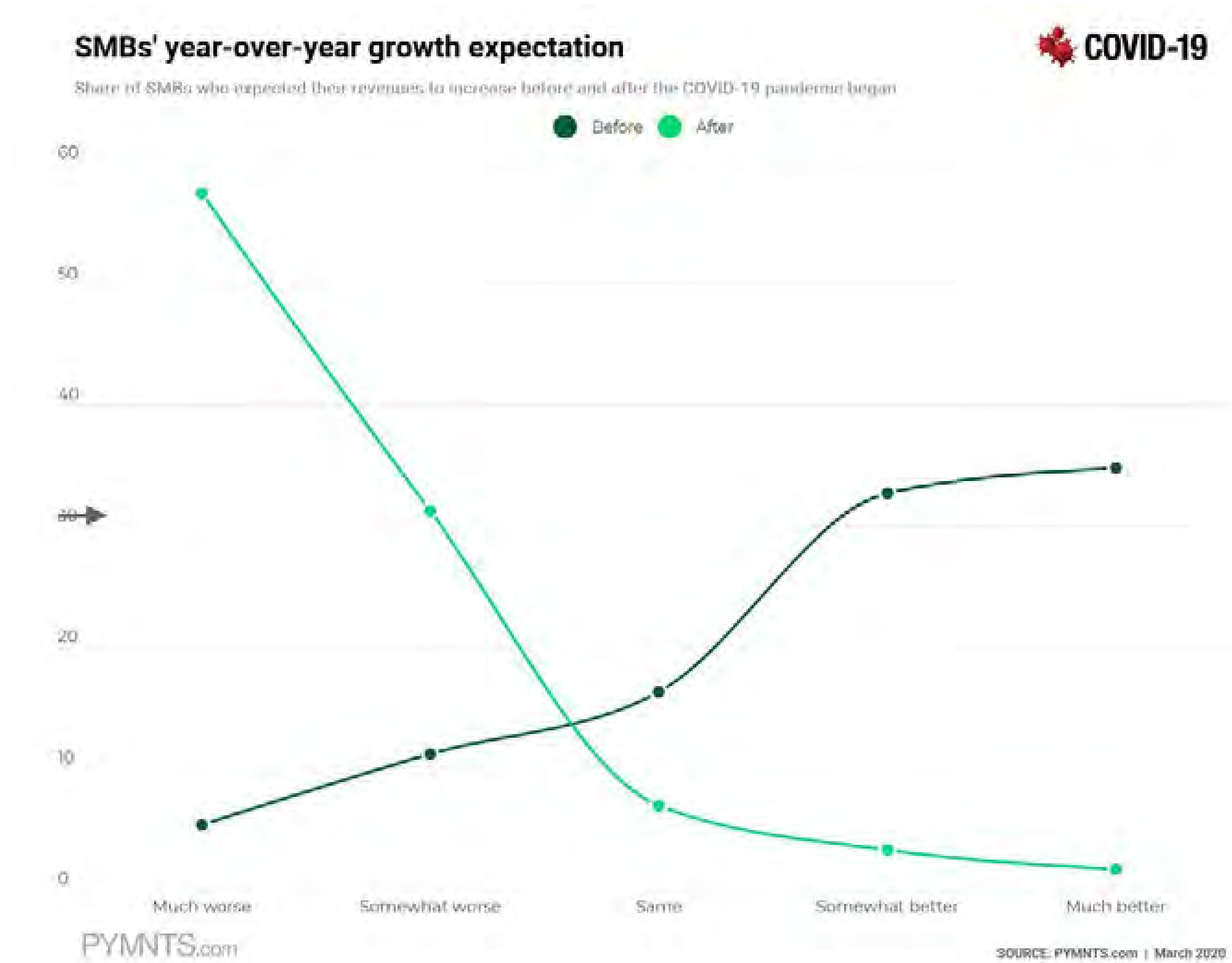
March 30, 2020

What COVID-19 Is Doing To Main Street SMBs

For most small businesses, the dawn of the new decade was filled with optimism for their futures.

Consumer confidence was at an all-time high, and unemployment at an all-time low. Consumer spending was strong, as were their household balance sheets.

For most SMBs, 2019 was a banner year, and 2020 was expected to be nothing less than spectacular. Two-thirds (66 percent) of SMBs expected to see their revenues grow beyond — even well beyond — what they had booked in 2019. The construction and manufacturing sectors were the most bullish, as consumers bought new houses and invested in improving the ones in which they were living. The boutique shops that lined Main Street USA, which got nearly all of their



business face-to-face in their stores, expected that 2020 would be another great year.

It would only take three weeks — the 21 days between March 9 and March 27, during which consumers had already started to voluntarily shelter in place, and later when federal and many state and local governments issued guidelines that forced it thereby, restricting consumer access to non-essential physical establishments — for that thinking to shift completely.

Today, nearly all SMBs (those that remain in operation, that is) have been forced to divert that sense of optimism into a battle for their survival.

Already, in the space of those three weeks, 5 percent of the SMBs we surveyed reported closing their doors for good.

PYMNTS asked more than 200 SMB owners across a variety of sectors, sizes and geographies to tell us about their experiences before the crisis, and now in the midst of it. We went into the field last Wednesday (March 24) to understand, at an aggregate level, how COVID-19 has impacted the SMBs that line the Main Streets and the side streets of our communities.

We wanted to hear how they were doing, whether they had access to cash (and if so, how much and for how long), what they were doing to stem the tide of lost sales, and how they assessed the stability of their own businesses.

Most of the SMBs we asked aren't new to the world.

They are the very businesses that make America's cities, towns and urban centers lively and vibrant and interesting — and make our communities culturally, socially and economically strong. Many are businesses that have been around for years and employ people living in the community, whose paychecks help keep those local economies strong, too.

More than half of the businesses we talked to (52 percent) employ between 11 and 100 people, and one-third employ between three and 10. Thirty-eight percent report between $1 million and $5 million in annual sales, and 50 percent report between $100,000 and $1 million.

More than half of the retail businesses we studied operate shops that sell clothing, accessories, household furnishings and gifts; provide personal services such as hair and nail salons; and operate fitness studios, neighborhood convenience stores, grocers, car dealers and auto parts stores. The distribution of our SMBs spanned large urban centers (29 percent), large cities and towns

(49 percent) and the small towns (22 percent) for which Main Street is the heartbeat of the community. In other words, this sample reflects the composition of SMBs on those Main Streets and side streets of the communities that we all call home.

We are grateful that so many took the time from trying to save their own businesses to share their thoughts with us.

We are heartbroken by what we heard.

THE SMB'S STRUGGLE FOR SURVIVAL

In just the last three weeks, nearly nine out of every 10 of those SMBs (84 percent) have seen their revenues decline, with more than half (55 percent) reporting significant declines.

In just 21 days.

Sixty-two percent of those once-optimistic construction and manufacturing firms reported seeing their revenues decline significantly, and 60 percent of retail shops, personal services firms, coffee shops, bars and restaurants and fitness studios — shops that earn more than 75 percent of their sales in a physical store — have seen their sales plummet.

Even technology firms have been hit — with firms out of business, or at least not in business the way they once were, firms aren't spending money. Sixty percent of technology firms have seen their sales decline by more than half, as well. Two-thirds of professional services firms — the web and graphic designers, boutique consultants and business consultants — have also seen their sales decline, despite their many valiant efforts to pivot their businesses online.

More than a quarter (26 percent) of SMBs surveyed doubt they'll survive the COVID-19 pandemic. A third (33 percent) aren't sure they will. For them, it all depends on how long the current lockdown/shutdown lasts and when consumer demand will return — and at what level.

Only 37 percent of SMBs remain confident that they will survive, keeping their doors open and their businesses afloat.

Those numbers are so stark that they are worth repeating.

One in four businesses doubt they will make it. Only four in 10 are confident they will.

All of them, even those who are the most optimistic about the future of their businesses, say it will be a long time after the COVID-19 pandemic subsides

before their performance returns to what it was a month ago. Those who are most confident guess it will take 141 days — about 4.5 months. Those least optimistic say it will be 224 days — about 7.5 months. In other words,

not right away.

THE CASH FLOW BURDEN SHIFTS TO THE SMB WORKFORCE

PYMNTS conducted this study before the historic $2 trillion stimulus bill was passed, and before there was clarity about the role the government would play in giving SMBs access to the capital they needed to stay afloat.

At that point in time, only 20 percent of SMBs we talked to that asked the government (at any level) for assistance received any, and only 17 percent that asked their banks for more funding had gotten it.

SMBs, therefore, had no choice but to take matters into their own hands to stem the tide of red ink. Many had few choices but to shift the financial burden to their employees given the abrupt lack of demand for and/or access to their products or services.

Nearly 30 (29.4) percent of all SMBs we surveyed said they closed their doors temporarily, either because they had no other choice or due to a lack of demand. Twenty-seven percent asked their employees to work fewer hours, 8.6 percent reduced employee salaries and 22.3 percent laid off their workforce.

The severity of those actions varied by how stable SMB owners felt about the future of their own businesses.

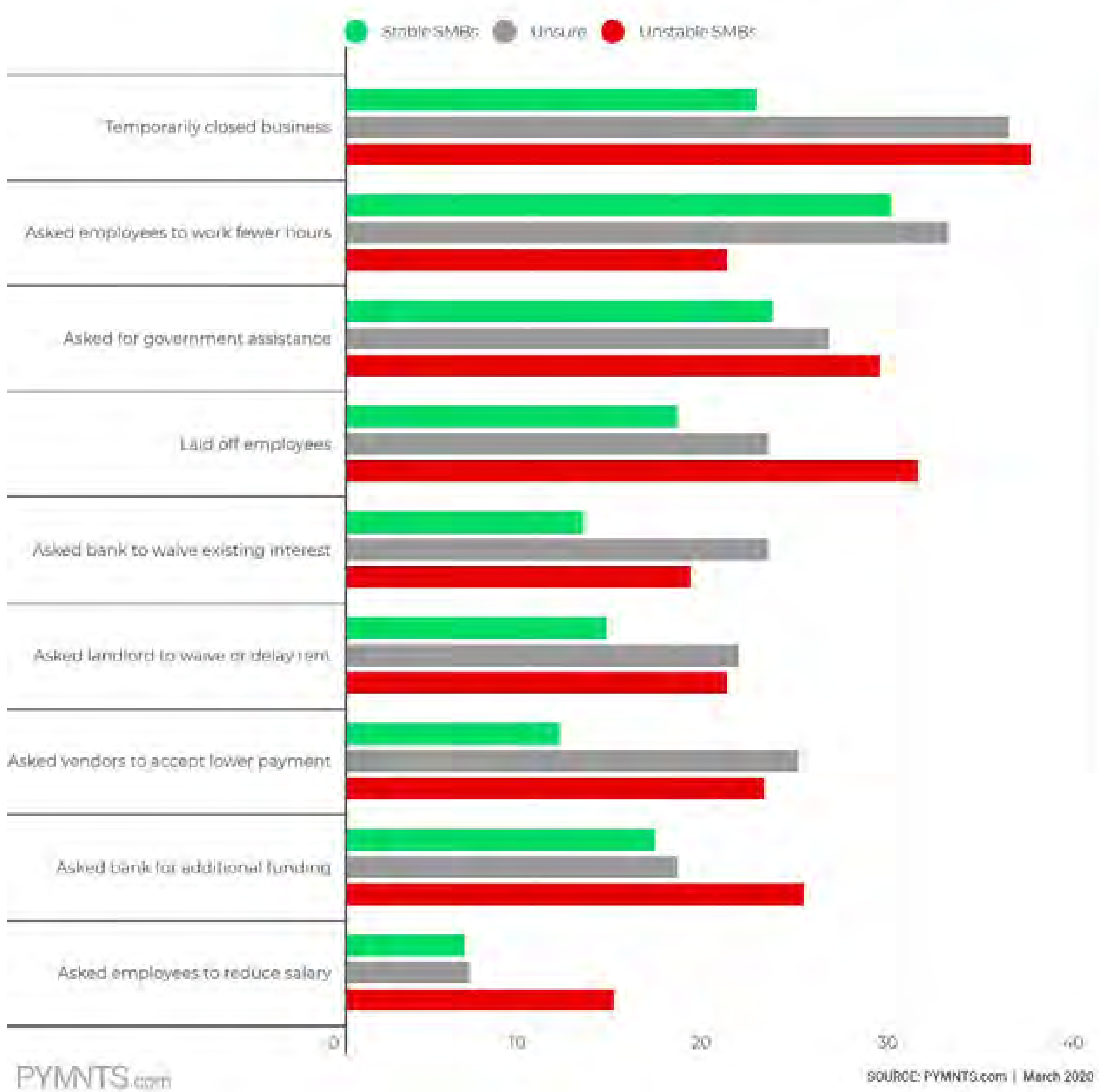
Perhaps not surprisingly, the 27 percent of SMBs in our study who said they don't think they will survive have been more aggressive across the board in cutting hours (20 percent), reducing pay (16 percent) and lessening their workforce (31 percent). These businesses were also more than twice as likely to cut employee wages (15.7 percent) than either those businesses that are unsure about their future (6.3 percent) or those that are confident in their survival (6.2 percent). Those businesses seemed to have instead opted to cut back on hours worked while keeping headcount in place as they explore new ways to find sales.

THE CASH FLOW BURDEN SHIFTS TO THE SMB OWNER

Most businesses, SMBs included, plan for rainy days, and have access to capital of some kind to smooth over those lumpy cash flow crunches. Very, very few have the capacity to survive — for even a few weeks — if their revenue

How SMB owners are changing their operations

Share of stable, unsure and unstable SMB owners who have taken select measures to help cope with the COVID-19 economic slump



goes to a fraction of what it once was, without warning and all at once.

And without any certainty about when demand may return.

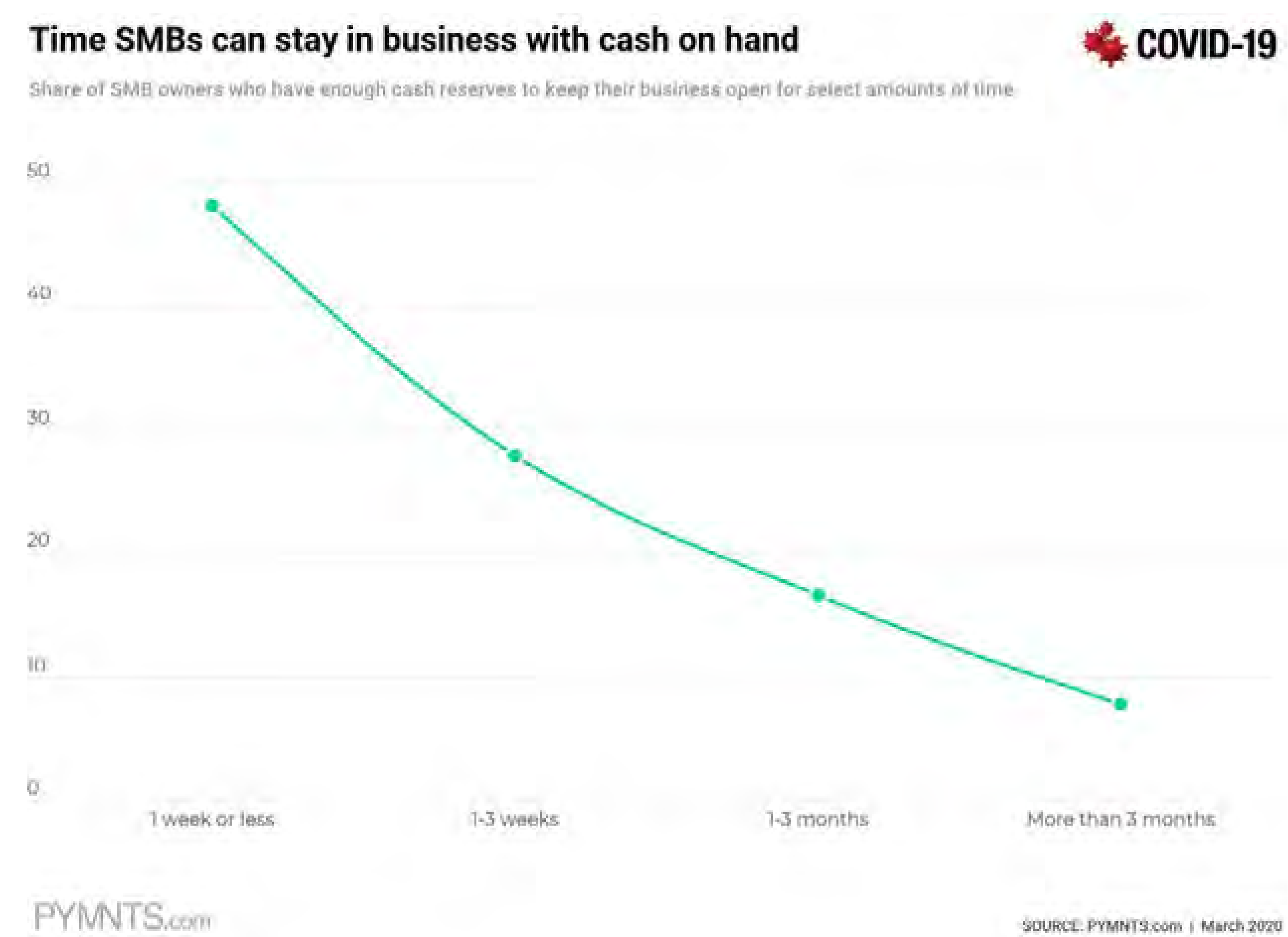
That's the situation that two-thirds of the SMBs we studied said they were forced to confront, since the majority of their revenue comes from face-to-face interactions — either via their storefronts or on-site at a consumer's home or business establishment.

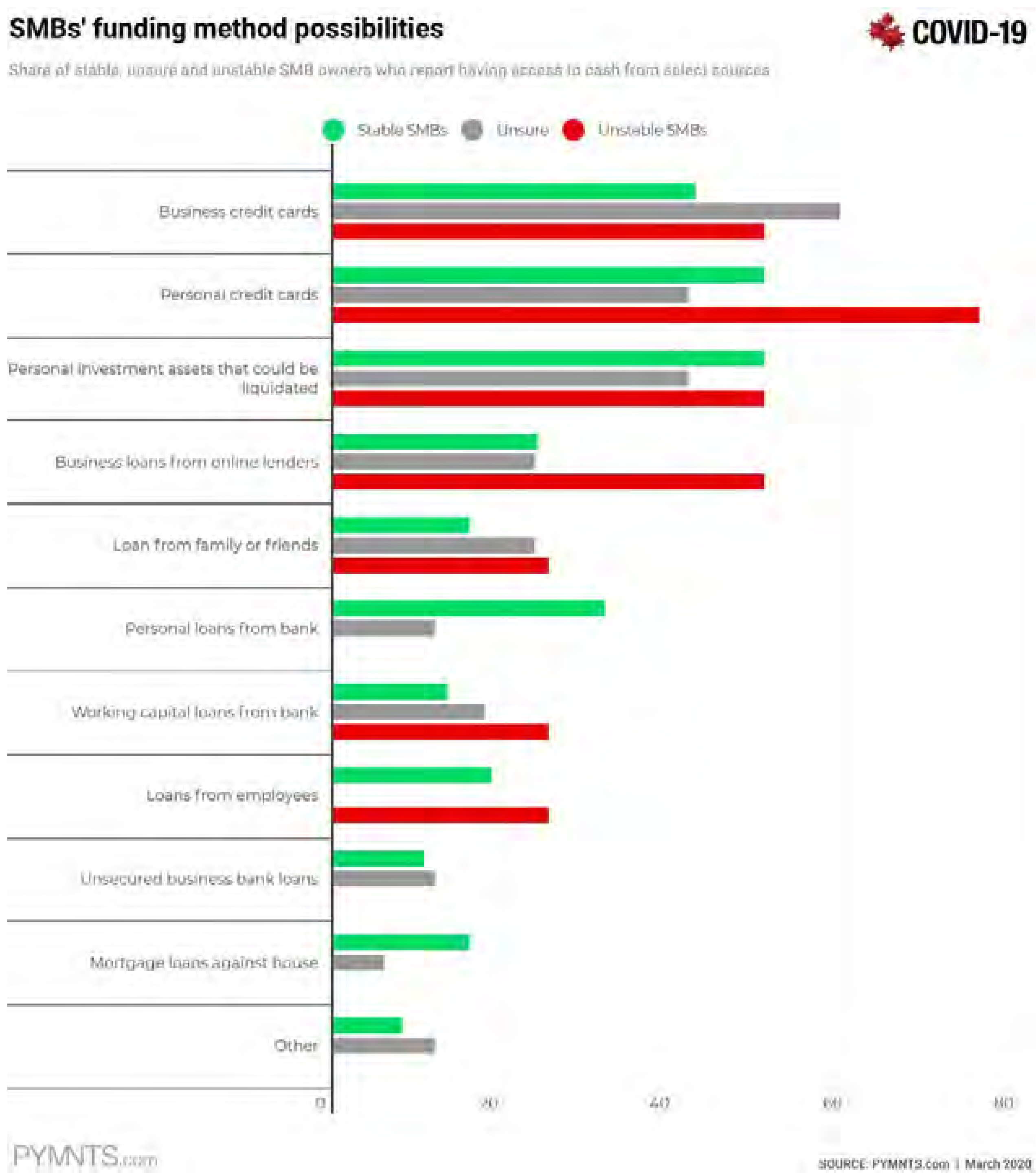
Roughly two-thirds of the decline in sales is the result of a forced government shutdown of their physical locations. The fraction of business that these SMBs can get from other channels simply isn't enough to keep the lights on, even as many tried to pivot their business creatively to capture more online volume.

The question then shifts to how much cash SMBs have on hand to ride things out, and the source(s) of that capital.

Time SMBs can stay in business with cash on hand

Share of SMB owners who have enough cash reserves to keep their business open for select amounts of time





At first glance, the picture here looks pretty rosy.

Nearly three-quarters (72 percent) of the SMBs we studied reported having ready access to cash, either via a bank (44 percent) or other capital (31 percent). Yet three-quarters of them (76 percent) say they don't have enough to last 25 days. Nearly half (48 percent) report having access to less than a week's cash on hand. Only 8 percent of SMBs report having three or more months of capital to draw on to keep their businesses afloat.

Larger firms fare better — nearly half (47 percent) of SMBs with annual revenues of between $5 million and $10 million reported that they are likely to have ready access to cash, with only 23 percent of those with less than $100,000 in annual sales having any access to cash.

For many, the sources of that cash lie largely in their personal assets — personal investments (47.5 percent), personal credit cards (49.5 percent) and personal loans (23.1 percent).

Less than half (47 percent) of SMBs report having access to capital via a business credit card. The question for them is whether their issuer will keep their line open and available for them to use.

It may not be so clear-cut.

DOING THE MATH

Many of the at-risk SMBs get at least half of their capital from business credit cards. That's the case for half of the SMBs that doubt they will survive the COVID-19 crisis and almost 40 percent of those that aren't sure they will survive. More tragically, perhaps, is that for those SMBs that don't think they will survive, the largest pool of capital they report having available is their personal credit cards (75 percent) along with their personal investments (50 percent).

The question that many SMBs are pondering at the moment is whether they will — or can — put their personal fortunes, including their homes or investments, at risk in order to save their businesses, particularly since even the most confident of the SMBs we studied see a sevenfold gap between the amount of cash they can tap and the number of months it will take to return to business as usual.

A BRIGHTER HORIZON?

The Farmers' Almanac says that if March comes in like a lion, it will go out like a lamb.

There is no doubt that March 2020 has come in like a lion with a vengeance. And there is every hope that with the passage of the $2 trillion stimulus package on Friday (March 27) — and the $350 billion that is being allocated to SMBs — it may go out like a lamb.

Or at least begin to show some lamb-like qualities.

SMBs can apply through their banks for SBA assistance, which offers a loan of 2.5 times their average annual monthly compensation — for all employees and independent contractors on the payroll earning less than $100,000 a year — up to a cap. Loans will be forgiven if SMBs keep their employees on their payroll. Treasury Secretary Steve Mnuchin said Sunday (March 29) on Face the Nation that any SMB that has laid-off workers should hire them back, and that help is on the way. He said that more than 1,800 banks are ready and able to help SMBs in need.

It could be that in a matter of a month, SMBs will have access to the capital they need to rehire their workforces and serve consumers who are ready to spend. But time is of the essence, and it remains to be seen whether the money flows into SMBs' bank accounts as quickly as Secretary Mnuchin predicted — and whether it more than offsets what banks and other lenders have cut from those SMBs' usual sources of capital.

Even so, it may not be enough to save the many businesses that are teetering on the brink, or those that believe that the situation, for them, has moved beyond the point of no return.

But hopefully, enough money will flow quickly to enough SMBs — the ones that lend character to our cities, towns and Main Streets — so that when consumer demand comes back, they'll be ready.

For better or worse, we'll know pretty soon.

April 6, 2020

Why COVID-19 Will Be The Connected Economy's Inflection Point

March 11 marked the end of traditional business in the U.S., maybe even the rest of the world – and probably forever.

That was the day when the World Health Organization (WHO) declared COVID-19 a global pandemic and federal, state and local governments began to make decisions to close schools and non-essential businesses.

And it was when consumers all over the country began to #stayathome to flatten the curve.

Every 10 days – starting March 6, five days before COVID-19 was declared a global pandemic – PYMNTS has gone into the field to study the daily behaviors of consumers across the seven pillars that define our connected economy during this unprecedented time in our history. Each of these studies asks a national sample of roughly 2,000 consumers a series of questions about their behaviors to document and index those shifts and dig deeper into the trends we observed in prior surveys.

On March 28, we conducted our third consumer study. Over the last 22 days, we have seen two dramatic shifts emerge that make "no more business as usual" more than just a cliché.

FROM DIGITAL-OFTEN TO DIGITAL-MOSTLY

First, consumer demand has shifted to where there is supply – and that means online.

In less than a month, the American consumer has moved from living in a digital-often world to one that is now largely digital-mostly – across every one of their "business and life as usual" activities.

How consumers shop, bank, work, work out, worship, eat, entertain themselves and their families, stay connected socially and even tap into healthcare services is now almost entirely online.

That's in large part because governments have intervened and closed many physical businesses that consumers relied on, while restricting access to others. For the seven pillars that we examine every 10 days, we see growing evidence suggesting that some, maybe even more than some, of this offline-to-online behavior is likely to stick around even after governments have relaxed their #stayathome restrictions – particularly as we observe the shift to digital even for activities where offline outlets remain available, such as shopping for groceries.

The longer America remains on lockdown, the more likely it becomes that consumers – who have set up accounts at the online platforms that are filling those gaps, gained experience using those platforms and gotten used to the convenience of getting services from them – will make them part of their daily routines going forward.

The connected economy may have hit an inflection point (a quantum jump, really) in late March of 2020 – with COVID as its catalyst – and years earlier than anyone otherwise expected.

CONSUMER SPEND HASN'T FOLLOWED THE DIGITAL SHIFT

Consumers may have shifted their activities online, but not their level of spend, as their fears mount about the security of their paychecks.

In the last 22 days, we've seen the percentage of consumers who shop online for groceries triple – from 3 percent on March 6 to 9 percent on March 28. We've also seen the share of consumers who shop online for things other than groceries more than double – from 13 percent to 30 percent. The percentage of people who interact with restaurants digitally has more than tripled, too – from 6 percent to 20 percent.

And that's just in the last 22 days.

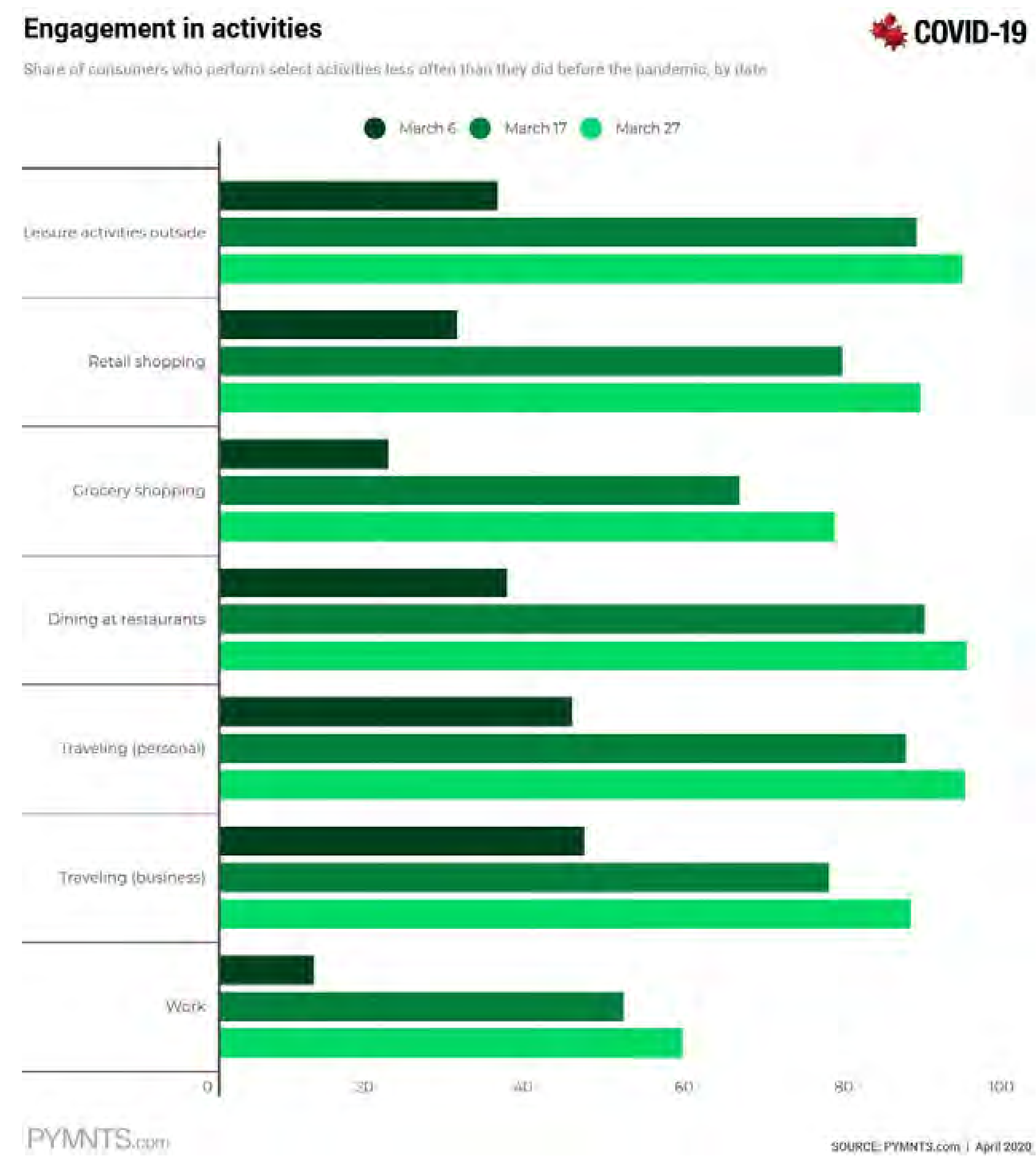
Unfortunately, while the online slice of the pie is getting a lot bigger, the pie itself is shrinking.

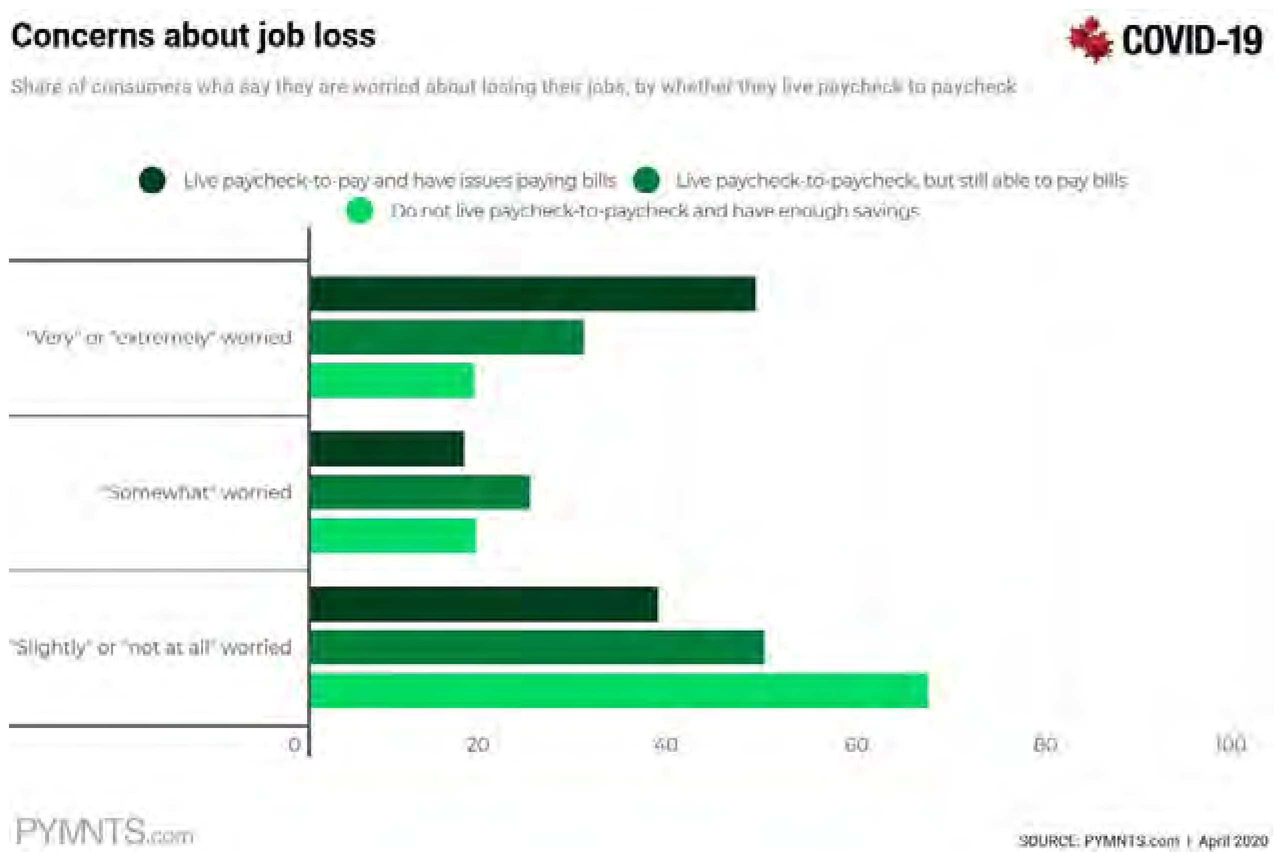
Today, 87 percent of consumers report shopping less for groceries, and 80 percent are shopping less for things that aren't groceries. Ninety-three percent report eating at restaurants less, while 93 percent and 86 percent of consumers report traveling less for leisure and business, respectively.

This belt-tightening comes as an increasing number of consumers are losing their paychecks, and others fear the same fate – and most report not having the personal savings safety net to get them through the duration of the pandemic as they define it.

Over the last 22 days, 15 percent of consumers have reported no longer having a job. On March 6, 62 percent of consumers reported having a job, while as of March 28, only 52 percent did.

Now, some 28 percent of the workforce – 45 million consumers – report being extremely concerned about losing their jobs. Consumers who live paycheck to paycheck and say they cannot pay their bills at the end of the month are the most worried, with 47 percent saying they are either "very" or "extremely" concerned about the pandemic.





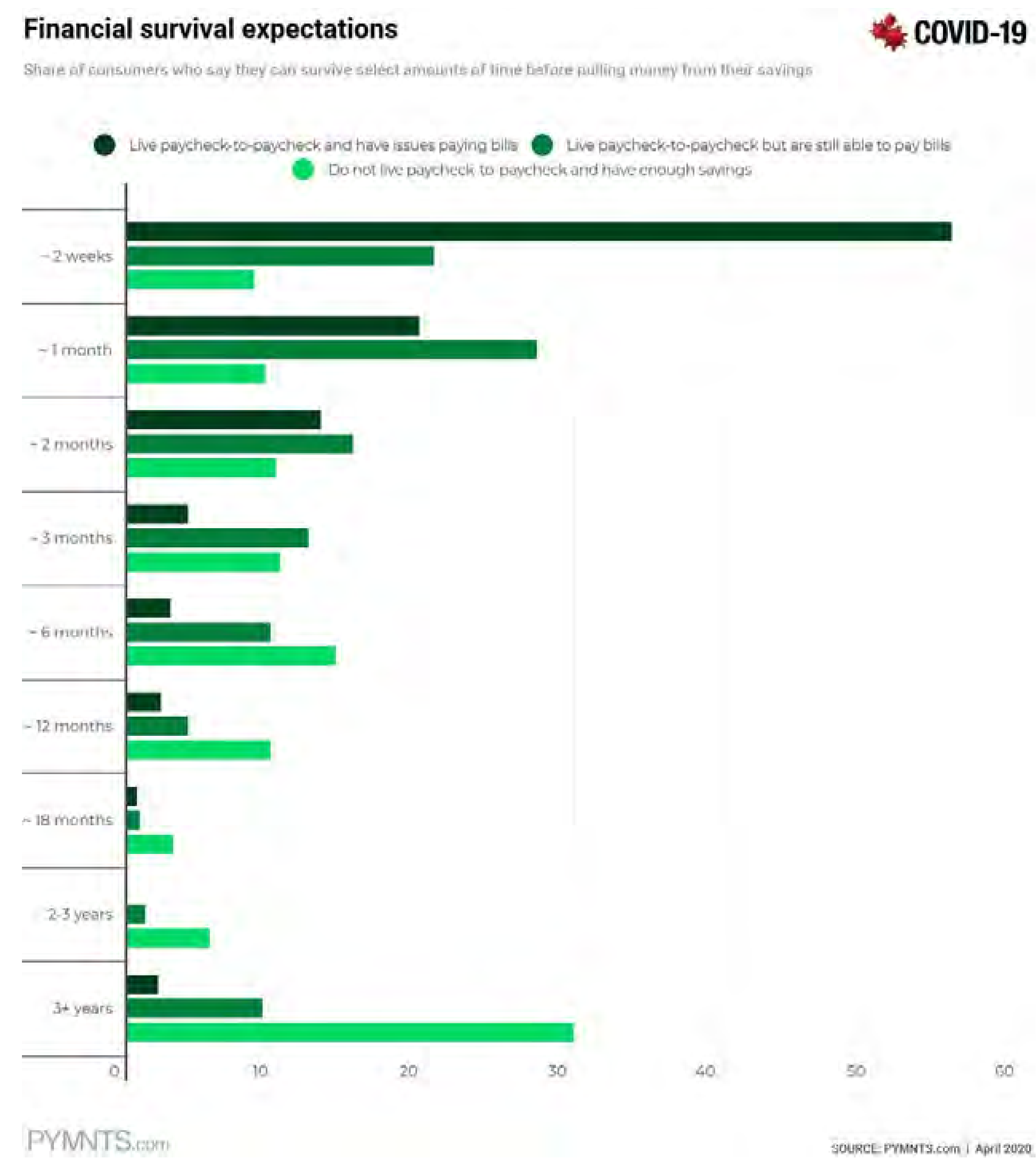
At the same time, 58 percent of the consumers we studied report having less than half as much in savings as they say they will need to pay their bills if that became their only source of cash.

Since March 6, seven times as many consumers have reported having two weeks or less of cash available to pay the bills before dipping into savings – some 55 percent of Americans on March 28 compared to 8 percent just 22 days earlier.

Forty-five percent of consumers say they have $2,500 or less in savings, and 30 percent of consumers earning less than $50,000 per year report having no savings at all.

Even consumers who say they don't live paycheck to paycheck and can pay their bills are tightening their belts. Here's what we found.

In the last 10 days, we observed a 20 percent increase in the number of consumers who report not living paycheck to paycheck and being able to pay their bills – 41 percent of consumers on March 28 versus 34 percent 10 days earlier.



We have also observed a decline in the average income of those consumers – from $98.8K to $91.1K in the last 10 days, suggesting that even those who remain comfortable paying their bills are conserving their cash.

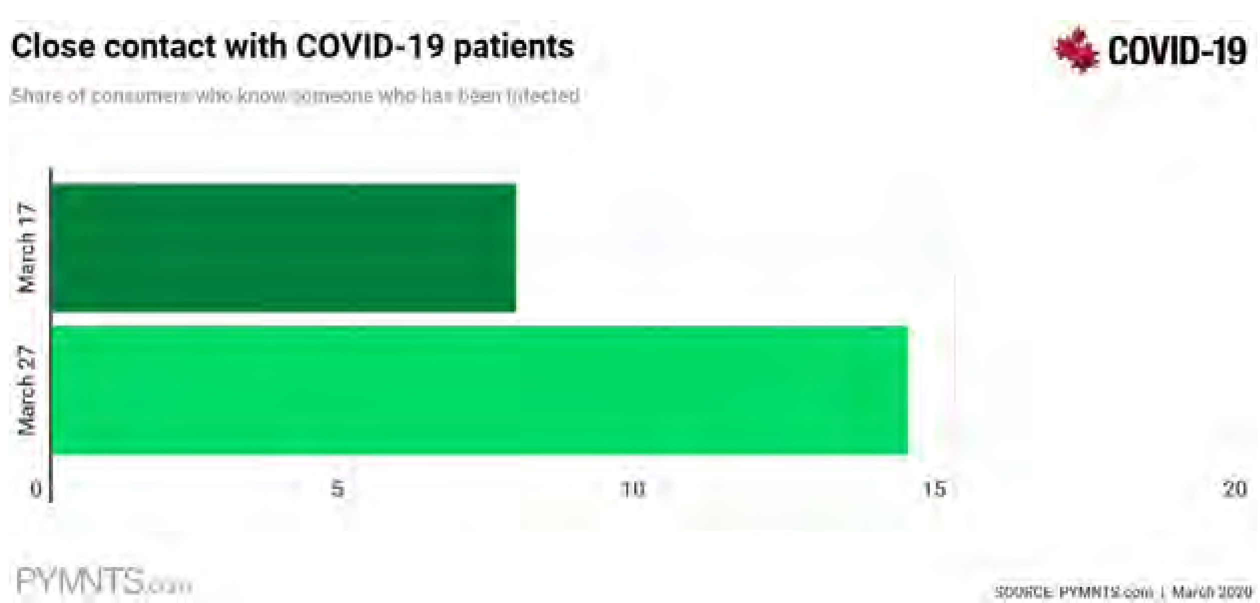
Regardless, all consumers are shifting their spending to essentials.

Of the 30 percent of consumers who have now largely shifted their spend online over the last 22 days, three times more consumers are buying cleaning supplies (59 percent) than clothes (19 percent) and four times more consumers are buying medical supplies (43 percent) than home furnishings (11 percent). Consumers are also four times more likely to buy games and puzzles (35 percent) than sporting goods (9.5 percent) as they valiantly fight boredom while observing #stayathome restrictions.

COMMERCE GOES ONLINE AS COVID GETS PERSONAL

On March 6, there were roughly 30 confirmed COVID-19 cases in the U.S., mostly concentrated in Seattle. At that time, 35 percent of all Americans reported being very or extremely concerned about contracting COVID-19.

Three-and-a-half weeks later, Americans did a complete one-eighty: Today, two thirds (66 percent) of Americans report being very or extremely concerned about contracting the virus.



That's in large part because twice as many Americans report knowing someone who has it. In just a 10-day span, the percentage of consumers who reported personally knowing someone who had tested positive jumped from 7.7 percent to 14.2 percent.

As the virus gets more personal, so does the consumer's concerns over its impact, and its influence over how and where consumers will spend their time and money today and in the future.

We also observe a spike in the percentage of Americans who fear dying from the virus if contracted (an increase of 3.4 percent) and a corresponding decrease (6.6 percent) in their concern of spreading it to family and friends.

All in just the last 10 days.

As a result, what consumers say is necessary to resume their daily activities has also shifted.

For 71 percent of American consumers, that's having a vaccine – an increase of 2.4 percent in just the last 10 days. A vaccine is more important to consumers than flattening the curve (66 percent) or having a therapeutic (63 percent), and is four times more important to Americans than the WHO declassifying COVID-19 as a pandemic and 3.5 times more important than being told by the CDC that it is okay to travel again.

If that's true, it may be a very long time before consumers feel comfortable resuming what they once characterized as their daily offline activities. And the denser the physical space, the less likely it seems that most consumers will want to participate – at least until they feel their risks of doing so are mitigated.

Going to a movie theater, cheering on their favorite sports team at a stadium, going to a concert to hear their favorite artist, visiting an amusement park with the kids, working out at the gym, getting on a cruise ship or an airplane, staying in a hotel, going out to eat at a crowded restaurant, having happy hour at a packed hotspot, or attending a conference may be the very long tail of offline activities that consumers bring back into their usual routines.

Particularly when they've already spent two months getting set up to live in a digital-mostly world, will spend at least another month living that way, and then very likely, will spend many more months getting reacclimated to an offline world that will look different on the other side of the pandemic.

THE 3.5-WEEK DIGITAL PIVOT

Twenty-two days ago, most Americans were still eating in restaurants (82 percent), shopping in retail stores (78 percent), going to work (60 percent) and participating in leisure-related events such as going to the movies and engaging in or going to sporting events and concerts (69 percent).

Twenty-two days ago, the NBA was still playing, and people were going to their offices, even though some people and many employers had begun to implement their own versions of social distancing. People were traveling for work and still shopping in physical stores.

Three-and-a-half weeks ago, which seems like an eternity ago, I was going into physical stores to buy things other than groceries, to my morning exercise class and my favorite restaurant on Friday night. Here in New England, we were complaining that TB12 had decided to be a Tampa Bay Buc – not facing the prospect of not seeing the NFL take the field in the fall.

Today, nearly all Americans are largely living in an online world – by choice or by necessity, probably by both. And the longer the lockdown, the harder it may be for consumers to break many of the digital habits they will have mastered and return to the offline world.

The connected economy platforms that provide consumers with life's essentials will thrive, as nearly all consumers shift their spending from what's "nice to have" to what they feel they need to survive – and likely for a very long time as the economy recovers.

Consumers will shift that spend to the places where they feel comfortable transacting – which is now, and will be for some time, online, and physically distant from what they perceive to be the personal risks associated with reentering the physical world to conduct business or engage in commerce.

"Business as usual" is being redefined.

So is life as usual.

So is commerce as usual.

We've known for some time that our destiny is the connected economy, covering all aspects of our lives, with almost everything we do facilitated by online technologies.

Only inertia held that back.

The COVID-19 crisis has resulted in a quantum jump in the growth of the connected economy. The tragedy is that many traditional physical businesses, which were always going to be left behind by the shift to digital, have lost the possibility of a soft landing – or of gradually transitioning themselves to the new digital-mostly reality.

April 13, 2020

Can Main Street SMBs Cross The PPP Cash Chasm?

Friday, April 3 was the day everyone expected would bring a sigh of relief — and offer much-needed hope — to the 30 million SMBs that employ roughly half of the U.S. workforce, and whose businesses had been hard hit by the #stayathome requirements of the COVID-19 pandemic.

That was the day the SBA PPP rescue relief effort began accepting applications from banks on behalf of their small business customers. Many of those SMBs had already begun working with their commercial bankers to prepare for that go-live day immediately after the $2.1 trillion CARES Act had passed a week earlier, on March 26.

Unfortunately, it didn't do much to change how those SMBs felt about their chances of surviving the economic impact of the pandemic.

In fact, it didn't move the needle at all.

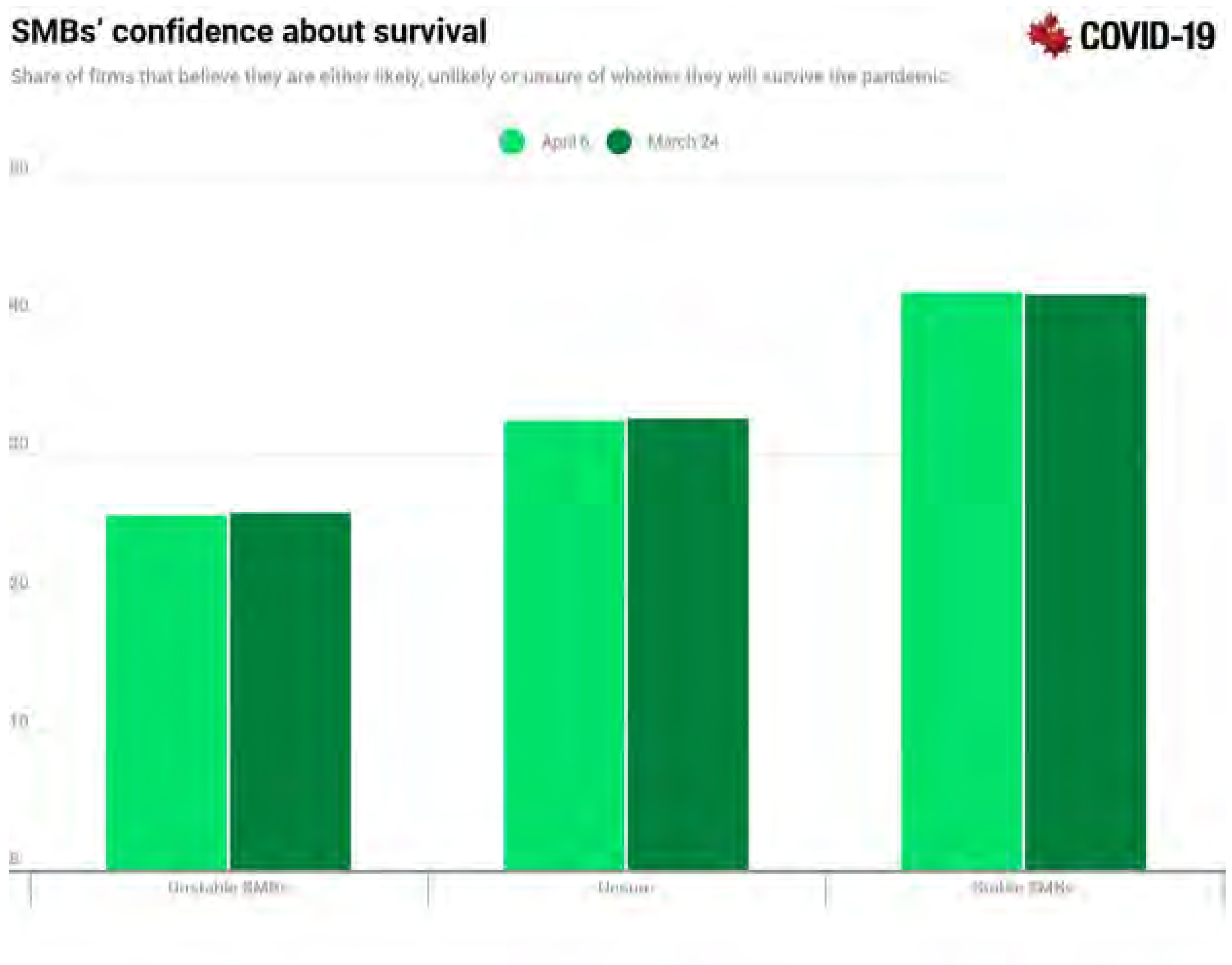
PYMNTS has studied more than 700 SMBs since March 24 to understand the impact of the pandemic on their operations, the stability of their businesses, their access to cash and working capital, and their efforts to slow their cash burn and pivot their approach if possible.

The focus of our research is on Main Street SMBs, the mix of establishments that define the social, cultural and economic character of our country's cities and towns. This mix of SMBs includes retailers, restaurants, professional and personal services firms, contractors, manufacturers, wholesalers and tech firms. They range from operating in small towns to large cities. The average firm had 28 employees and revenue of $1.5 million. We go into the market every 10 days to see what has changed, quite literally, week to week.

On March 24, two days prior to the passage of the CARES Act, we asked Main Street SMBs to assess the likelihood that their businesses would survive the economic crisis created by COVID-19. Ten days later, on April 6, we asked the same questions once again.

On March 24, knowing that government help was on the way, but not certain of the specifics, **one in four Main Street SMBs** didn't think their businesses would survive the pandemic, and **four in 10 said they weren't sure.**

On April 6, days after the SBA PPP program had gone live and the details were known, **one in four SMBs still didn't think their businesses would survive** the pandemic, and **four in 10 still said they weren't sure.**



Those who thought their businesses would survive before the stimulus bill still think that way. Those who weren't sure or were convinced their businesses wouldn't survive still think that way, despite the promised help.

That's despite the passage of a $2 trillion stimulus bill that gave those Main Street SMBs a $350 billion PPP lifeline to grab — and despite the fact that a third of the SMBs we studied had already applied for one.

This finding will shock many people, and quite possibly many policymakers who have worked very hard to create and pass a stimulus bill that will pump unprecedented levels of capital into the market – and, in theory, into the bank accounts of those Main Street businesses.

Yet it will shock absolutely no one who understands the economics of SMBs, and the reality of what it takes to run one.

MAIN STREET SMB ECONOMICS 101

The business model of most Main Street SMBs is quite simple: Customers walk into their storefronts and buy stuff every day, book appointments to get their nails and hair done every day, work out at gyms and fitness studios every day, and hang out at bars and coffee shops or eat in their restaurants every day.

Daily foot traffic and sales are the oxygen of those businesses.

Contractors estimate and complete projects for businesses and for homeowners who want to remodel their homes or repair broken things in their homes or companies every day. Professional services companies and tech firms serve businesses and consumers who need their marketing or web or graphic design services, their bookkeeping, tax accounting and business services, their payments systems and processing services, their IT and communications systems services, their residential and commercial cleaning services, or their automobile repair services.

Healthy businesses and consumers who want and need access to those services are the oxygen of those businesses.

COVID-19 – quite ironically, given the nature of the virus – has robbed these establishments of their oxygen.

People can't live five total minutes without oxygen.

Small businesses can't survive weeks without demand.

In both cases, certain death is the result.

For these Main Street SMBs, there is no demand.

People can't walk into stores or bars or restaurants or gyms or hair salons or spas anymore – they have all been closed since the middle of March, most everywhere.

Consumers, 60 percent of whom now report living nervously paycheck-to-paycheck in an economy that is literally shut down, with the ranks of the unemployed approaching 15 percent, have shut down their wallets to anything they don't deem essential.

Even services considered essential may give consumers pause if they require interacting with anyone they don't know, especially when it means letting them into their homes.

Projects that were on the books in January and February have been canceled or put on indefinite hold.

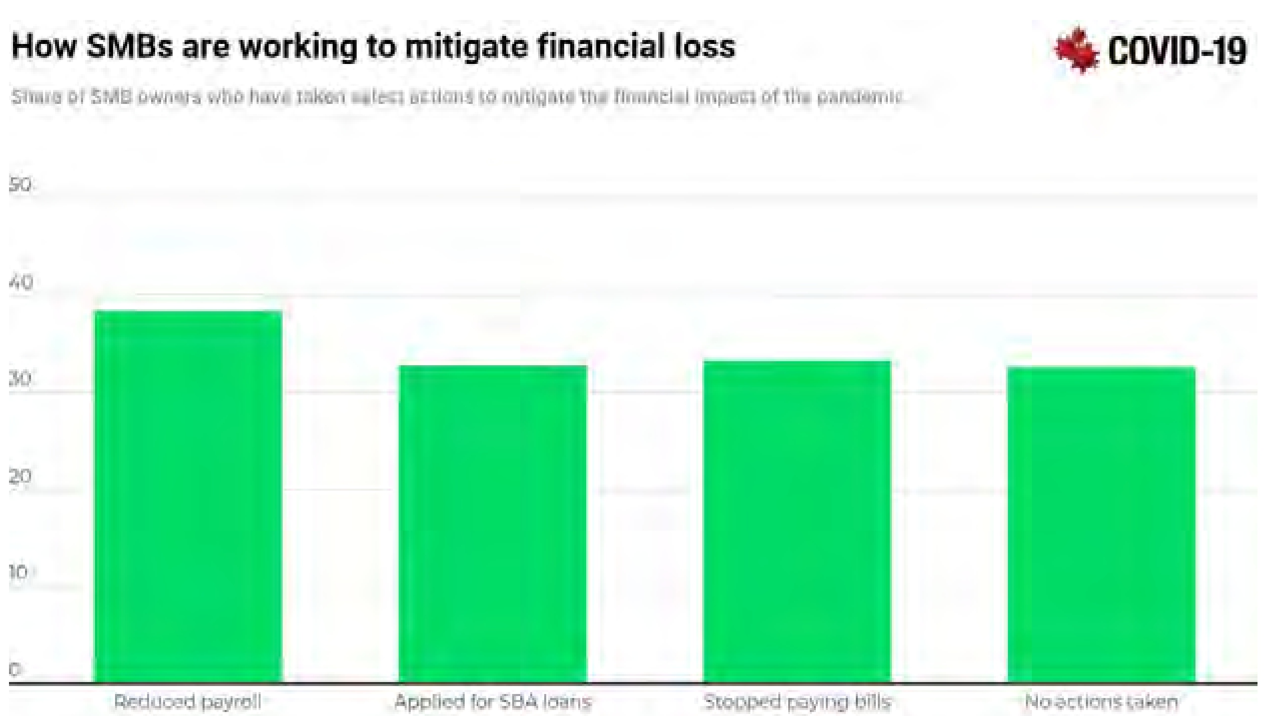
For these Main Street SMBs, there is no cash cushion.

Most Main Street establishments run on very thin margins. The notion that all Main Street SMBs are living large, pulling down double-digit margins and banking piles of cash at the end of each week, simply isn't accurate.

Margins for restaurants and boutique brick-and-mortar retailers average between 3 percent and 5 percent of sales. Contractors' margins average between 5 percent and 7 percent of sales. The typical hair or nail salon, on average, has a profit margin of 8 percent. These are averages, of course, and some establishments do much better and some do much worse based on their overhead and operating costs.

All of these businesses make most of their money serving customers in an offline world.

Like any business, most Main Street SMBs are quite accustomed to dealing with the short-term cash flow lumpiness associated with business cycles and seasonality, even bad weather, and the little blips that interfere with those daily sales or project bookings. Many of them can more or less predict when those blips will occur, and have planned for and/or have access to working capital in one form or another to smooth over those temporary lulls.



The operative word here is temporary.

COVID-19 shut down those Main Street businesses quite literally overnight – and those businesses have remained on lockdown for nearly one month.

Even before the lockdown, those businesses had started feeling the impact of consumers' self-imposed social distancing weeks earlier.

Today, 44 of the 50 states have moderate to severe lockdown orders in place, and some 95 percent of the U.S. population is impacted.

The same Main Street businesses that were crushing it in January and February found themselves with zero sales, or pretty close to it. The 67 percent of Main Street SMBs who told us on March 24 that they expected their business performance to be the same or better in 2020 than in 2019 found their businesses nearly 100 percent supply and demand constrained.

All at once, and all at the same time.

Not surprisingly, most Main Street SMBs lack enough of a cash cushion to survive what they believe will be the duration of the pandemic, even if they get a PPP rescue relief grant.

Today, for most Main Street SMBs, there is no money to meet payroll or pay bills.

Seventy-one (71) percent of these SMBS have done the only thing they feel they can do when revenue goes to zero or near-zero overnight: reduce payroll (38 percent) and stop paying their bills (33 percent).

Only a third of the Main Street SMBs in our study think that PPP will provide relief for them.

CROSSING THE MAIN STREET SMB STIMULUS CASH GAP

There is a universal agreement that the CARES Act PPP rescue relief bill is a necessary step in financially shoring up the SMBs that were hobbled by a mandated government shutdown. There is also a universal appreciation for the herculean effort it took to assemble a stimulus program of this magnitude — and so quickly — and for the Fed to take the unprecedented steps it has taken to, in theory, flood SMBs with operating cash.

Yet the longer the government shutdowns remain in force, coupled with the uncertainty of what life after lockdown will look like for Main Street SMBs, many may decide to not bother applying for PPP funds. Or, if they do, they might not accept the funds that are offered.

An important provision of the PPP program is loan forgiveness. SMBs with fewer than 500 employees who apply can receive 2.5 times their W-2 payroll. They can have the loan forgiven if they keep their payroll constant over the next eight weeks — constant as defined in a world before COVID-forced layoffs or furloughs. The intention of the PPP relief package is to have SMBs keep or rehire their workforce, and pay them, using government funds for the next 2.5 months.

For the many SMBs that have already been without sales over the last month and have already furloughed or laid off much or most of their workforce, there is still too much of a cash gap chasm for them to cross before they believe their businesses will return to pre-COVID levels, even with the benefit of PPP funds. There is also great uncertainty about when PPP funds will arrive.

On average, the Main Street SMBs we studied report a cash gap of roughly four months. One hundred and thirteen (113) days is the gap that most of these businesses project between the time they say they will run out of cash and when the pandemic is expected to end, at which point their businesses can resume normal operations.

With the two months of PPP funds, these Main Street SMBs still count a cash gap of roughly two months — some 53 days.

These cash gaps, even with access to PPP funds, vary by industry.

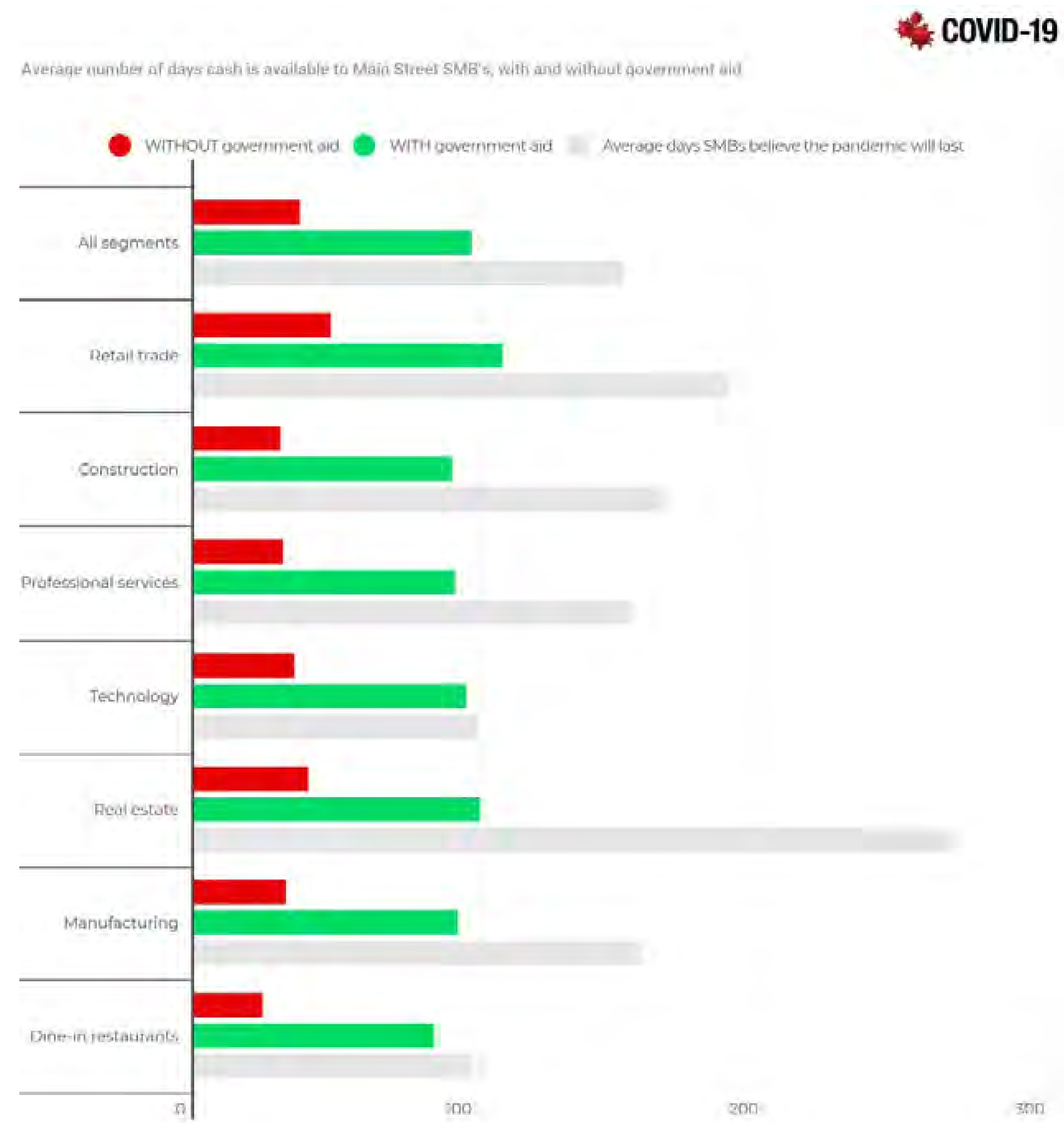
DOING THE MAIN STREET SMB MATHEMATICS

Unfortunately, no one really knows when the economy will return to business as usual— and what business as usual will even mean on the other side of the pandemic.

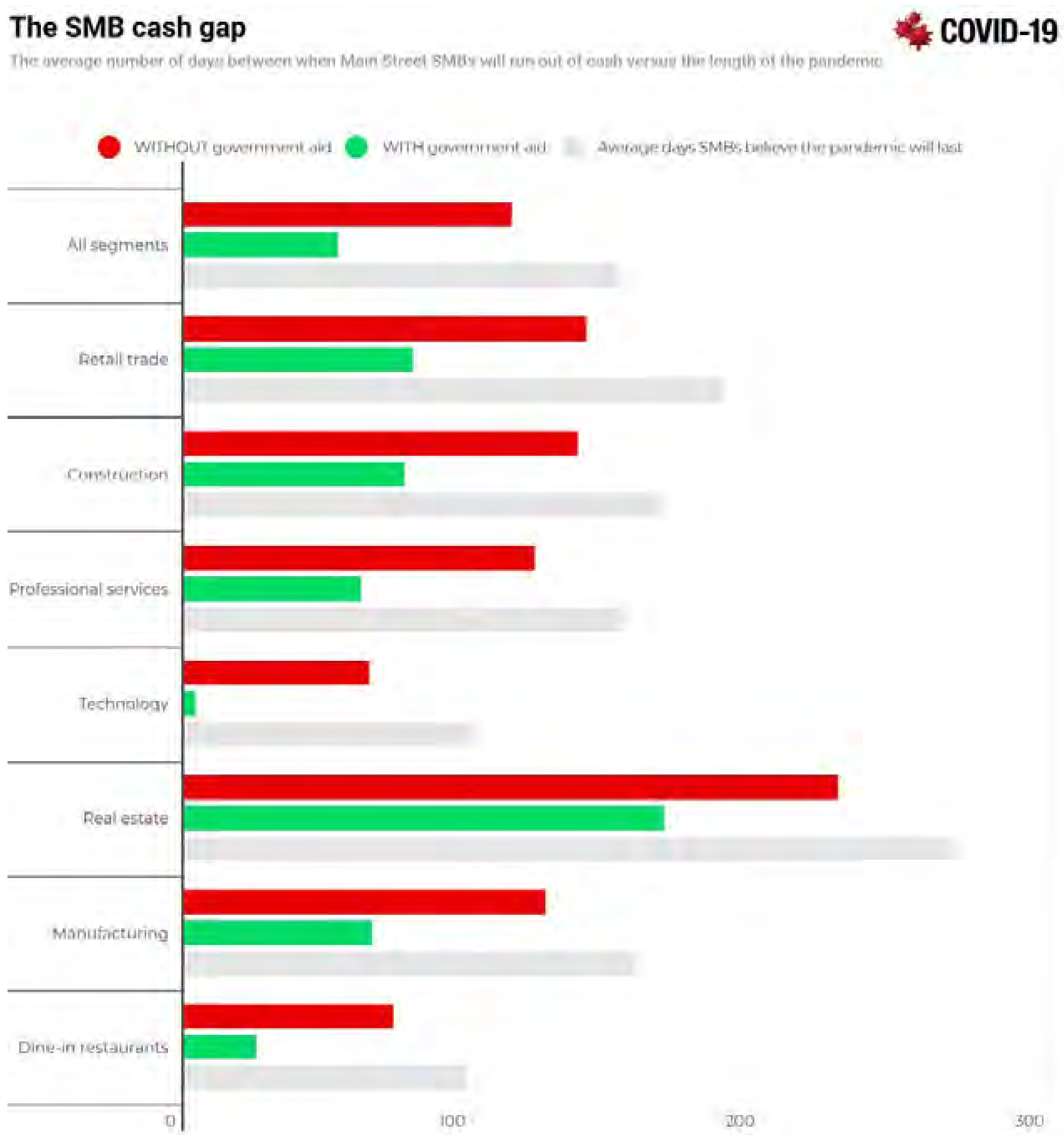
On April 6, most Main Street SMBs were operating under the impression that restrictions would lift in the early part of May.

A week later, discussions are circulating that the lockdown may leak into the end of May and possibly early June. Infectious disease expert Dr. Anthony Fauci told MSNBC's Brian Williams on April 10 that he hopes the U.S. will be able to return to normal in November.

November is 8.5 months away.



All of this uncertainty figures into what the 60 percent of Main Street SMBs that are either convinced their businesses won't make it — or are unsure whether they will make it — are doing right now about their businesses.



It also figures into whether PPP funds will help them hang on — or whether they'll just kick the inevitable potential for business failure and employee layoffs down the road for 2.5 months.

Restaurant and bar operators wonder if life after lockdown will mean bars and restaurants can accommodate customers at their pre-COVID-19 capacities — or if, as part of reopening parameters, they'll be forced to operate at 50 percent or 60 percent less capacity for an unknown period of time.

Main Street retailers have the same concerns.

Even when restrictions are lifted, all Main Street SMBs worry that it might take a long time before consumers feel comfortable going into stores, restaurants, bars, gyms, nail salons or spas the way they once did. Seventy-one (71) percent of consumers say it will take the availability of a vaccine before they can feel comfortable resuming their normal activities.

They worry that the digital habits many of their once-loyal customers have been forced to adopt across all of their daily activities will become their new routines, and that they'll never return — or won't use their services the way they once did.

These Main Street SMBs wonder, too, whether consumers, many of whom may be facing unemployment or are already unemployed, will still have the discretionary income to spend. And even if they do, whether they will feel comfortable spending until they feel confident the economy is on sure footing.

Not knowing the answers to any of these questions, but knowing that taking PPP funds means having to keep pre-COVID payroll intact, may mean that small businesses will decide not to take any money at all.

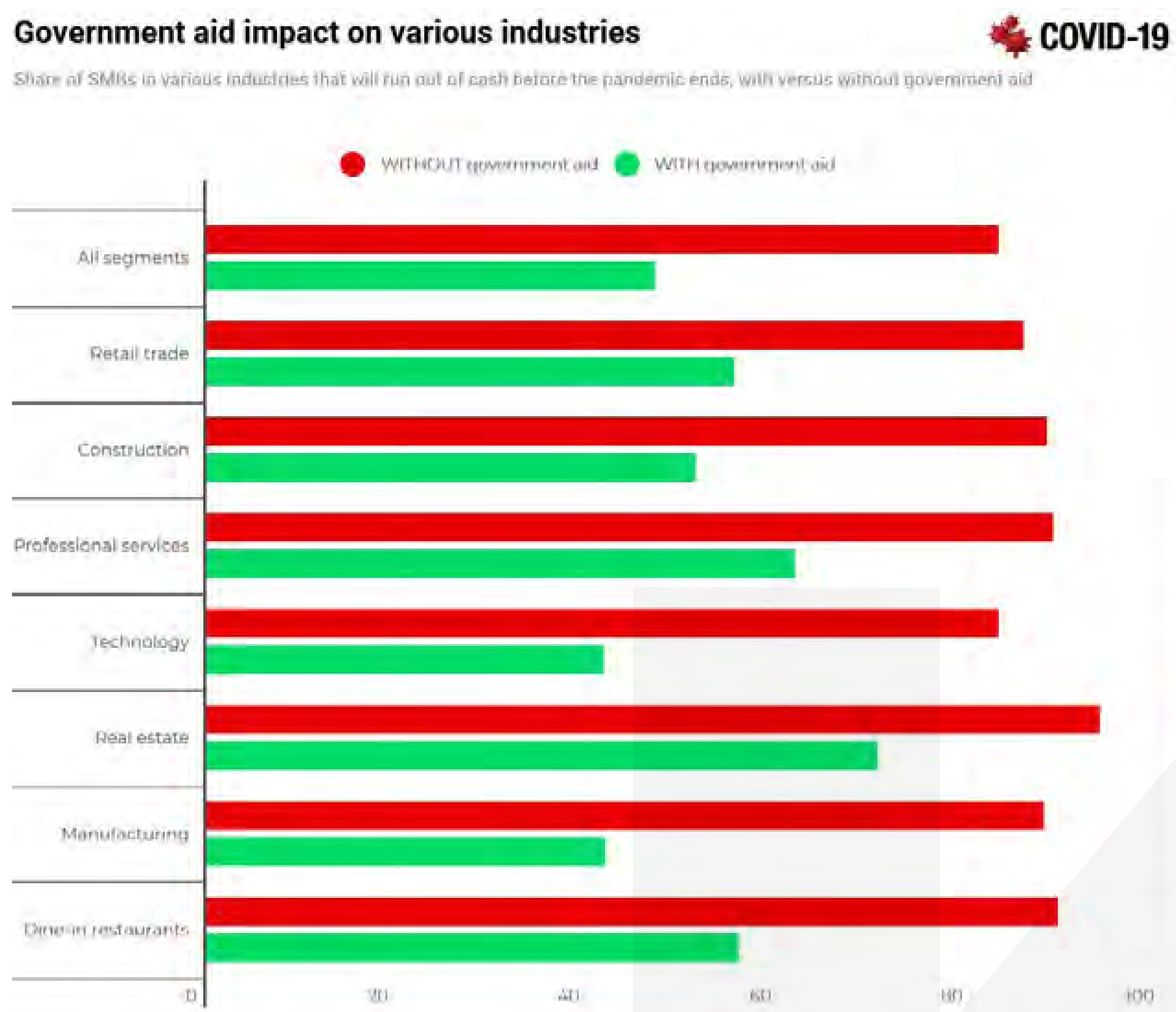
In fact, many of the Main Street SMB business owners I have spoken with don't want to make the commitment to maintain their payroll or have to repay a loan — unsure of when and whether demand will warrant staffing up to meet their pre-COVID supply.

With all of those considerations, here's what the math looks like for Main Street USA.

Based on the length of time the COVID-19 pandemic is expected to last and the cash that is currently available to Main Street SMBs, 83 percent of them expect to run out of cash before they can reopen their businesses and make sales without any government assistance.

Even with PPP funds, nearly half — 47 percent — believe they will deplete their cash before demand comes back.

Restaurants, not surprisingly, are the hardest hit.



SURVIVAL OF THE MAIN STREET SMB FITTEST

Five days after PPP was officially accepting applications — and a week after it was known that help was on the way — roughly 25 percent of the Main Street SMB retailers in our sample had applied. And 35 percent of contractors, 41 percent of Main Street manufacturing companies, 30 percent of personal and professional services firms and 50 percent of restaurants had applied to receive PPP funds.

Thirty-nine (39) percent of those Main Street SMBs who characterize their businesses as highly unstable applied for PPP funds. For the 47 percent of Main Street SMB retailers, 38 percent of SMB contractors, 40 percent of Main Street professional and personal services firms, and 100 percent of tech and manufacturing firms who characterize their businesses as unstable — and whose annual sales are $250,000 or less, and who have applied for PPP funds — it is very likely that PPP is much too little, and much too late.

The question, then, becomes which of the 42 percent of Main Street SMBs that characterize their businesses as stable enough to weather the COVID storm, and which the 32 percent aren't sure. Only 25 percent and 36 percent of those Main Street SMBs in our sample, respectively, got in line for PPP funds as of April 6.

Maybe we'll find in our next study that more stable businesses will have done the math and gotten in line to get a cash cushion to avoid layoffs and furloughs. And perhaps more of the unsure businesses will believe that taking PPP funds is enough to stabilize their business. We'll let you know 10 days from now.

Now for my two cents.

Congress, and the Trump administration, need to rethink the terms of the PPP loan program, and do it quickly. SMBs should be given more flexibility on having the PPP loan forgiven so they can survive long enough, with as many workers as possible, until the economy returns to normal. The period for the loan forgiveness should be extended to as many months as the lockdown lasts, which now looks to be at least three months and possibly more.

Further, unless SMBs are given more funds, they should have the loans forgiven as long as they maintain the portion of the payroll that they can pay during the duration of the lockdown — so something like 50 percent of payroll, if the lockdown extends to four months, or something more flexible.

Even so, there will be carnage.

At the same time, we will need a parallel effort to encourage entrepreneurs to start new businesses to replace the ones that have made permanent exits, so we can quickly revive Main Streets across America. The time is now to think about government subsidies to keep Main Streets from becoming economic deserts.

Many have said that out of crisis comes opportunity. If that is true, Main Street SMBs need more economic opportunities — and right now — to make that sentiment more than just a media talking point.

April 20, 2020

When, How And Why Consumers Will Change Post-COVID-19

For weeks now, American consumers and businesses – everyone everywhere, really – have been desperate for the answers to three questions:

- Are we flattening the curve?
- When can we reopen the economy?
- What will life look like once we do?

Answering the first two questions is the single-minded focus of some of the world's most brilliant researchers, scientists, epidemiologists, doctors, healthcare experts, economists, regulators, governments and policymakers the world over.

Collectively, they are balancing the trade-offs, nearly in real time, between keeping the economy closed and keeping people safe from a highly contagious virus for which there is currently no treatment, nor any vaccine, nor enough large-scale testing to assess its level of spread.

Answering the third question will increasingly become the single-minded focus of the consumers, all of whom must be convinced that those brilliant minds have created a reopening plan that reduces their personal risk of getting sick, or worse.

THE NEW NORMAL: HEALTH BEFORE WEALTH

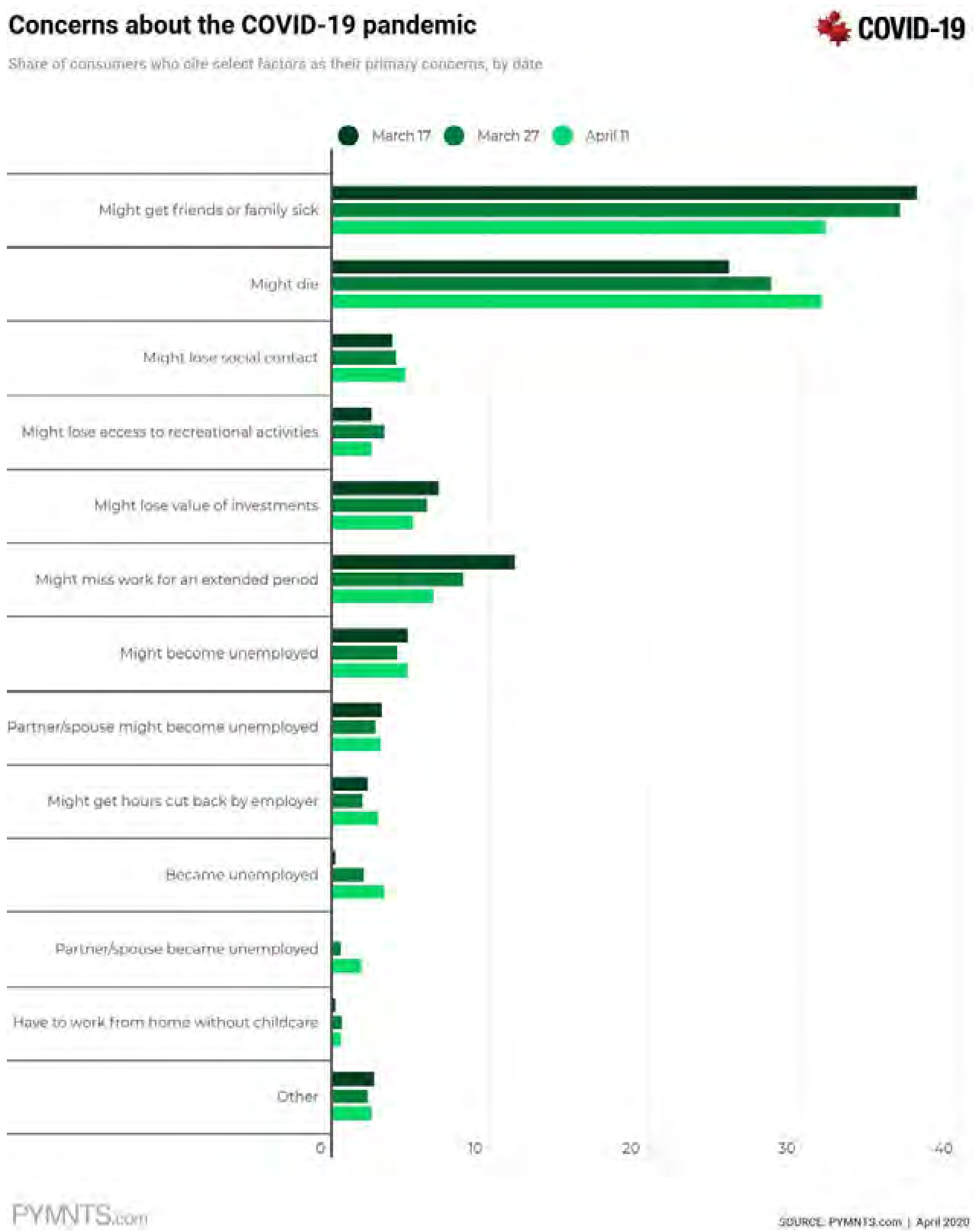
As the pandemic progresses, the share of consumers who cite the danger of dying as their primary concern continues to increase, as the share who worry about infecting others keeps falling.

Today, consumers report being nearly eight times more concerned about dying from COVID-19 than losing their jobs or their personal fortunes as a result of it.

That's despite the fact that the risk of losing their jobs and the value of their investments as a result of the virus' impact is far greater.

It's not really surprising — after all, people get reemployed, but can't come back from the dead.

This shift is also perhaps understandable, as more than 25 percent of the consumers we studied reported personally knowing someone who has tested positive — an increase of 16.8 percent from the 7.7 percent on March 17, meaning that the number of people in this group has more than tripled in the last month — and as the death toll in the U.S. continues to rise as more hotspots hit their peaks.



This shift offers important insights into the psyche of U.S. consumers who have changed their behavior quite significantly over the course of the pandemic — by choice, by mandate and by the economic reality of what COVID-19 has wrought. These documented shifts over the last six weeks have helped us more fully understand how consumers have changed their behaviors, and whether they will or won't break with them once the #stayathome requirements are lifted.

The most recent PYMNTS study, fielded on April 11, provides the fourth benchmark across a national sample of more than 8,000 U.S. consumers about how they work, eat, shop, buy food and engage in leisure activities during the course of the pandemic.

The results of our most recent study show that consumers have new clarity about that timeline to normal – and the reality of life post-COVID.

Or at least they think they do.

Only half of them believe that life as normal will resume for them once the pandemic is over.

CRAVING CERTAINTY

COVID-19 has created a series of vulnerabilities for consumers — all at the same time — unlike anything in our lifetimes.

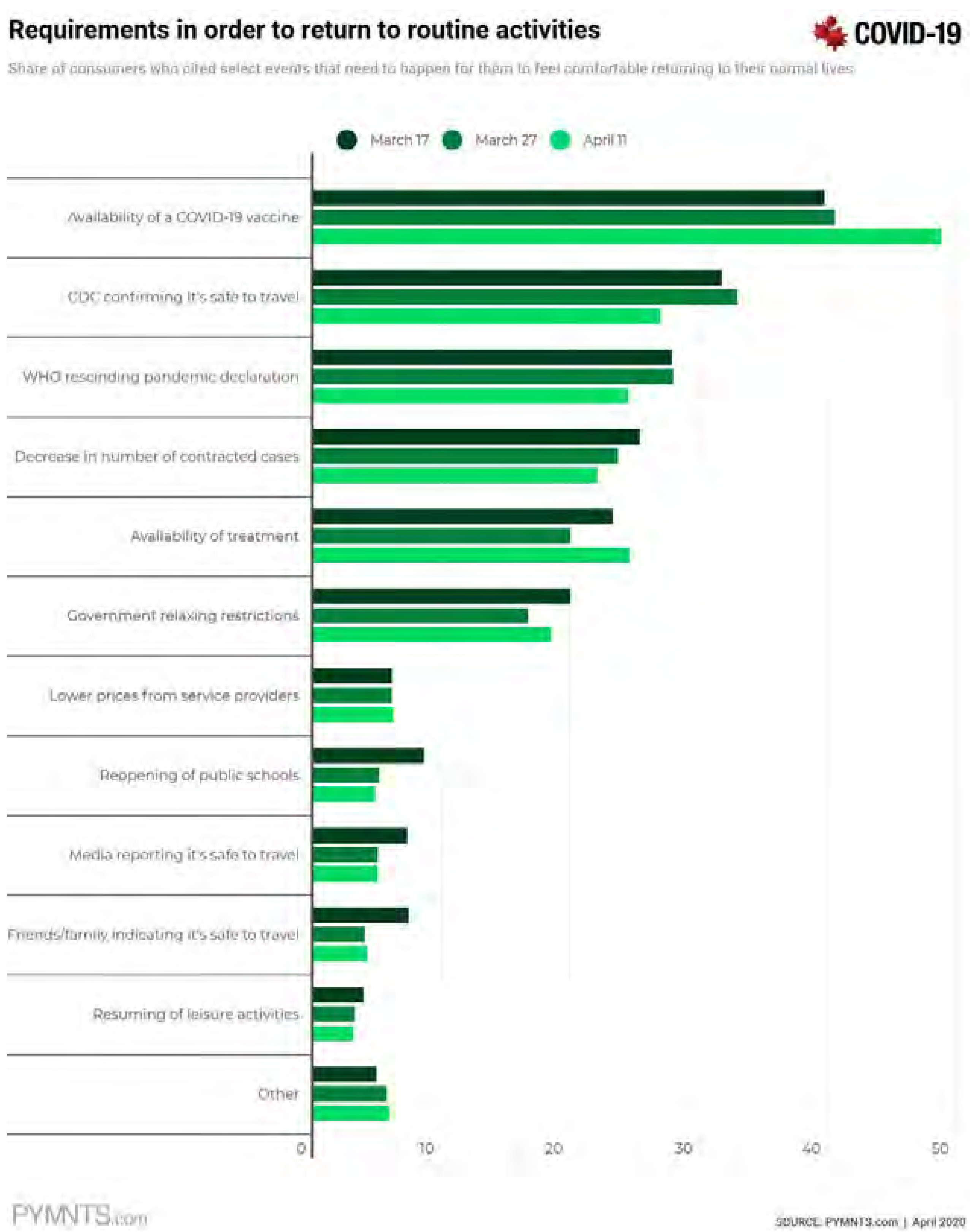
It has put the *consumer's personal health at risk*, given the highly contagious nature of the virus.

It has put the *consumer's personal finances at risk*, given the extreme stock market volatility.

It has put the *consumer's paycheck at risk*, given the shutdown of the economy and the business uncertainty that has followed.

According to our latest study, roughly a third of those who are still employed are worried about losing their jobs, across nearly all categories. More than half (51 percent) of all construction workers fear their jobs are at risk, as do 38 percent of financial services employees — that's up 8.8 percent and 30.7 percent respectively, since March 17. Even healthcare and social services workers (26 percent) now have those concerns.

Those vulnerabilities have consumers seeking certainty, to help them feel their personal risks are mitigated and that resuming their daily activities won't put them in harm's way.



For the consumers we studied, that certainty isn't necessarily provided by the actions the federal and state governments will take to reopen the economy – even though roughly one in five say having federal and state governments giving them the "all-clear" is an important part of restoring their willingness to return to normal.

The certainty also doesn't come from flattening the curve (22 percent), having a treatment (25 percent), the CDC reporting that conditions are safe (27 percent) or the WHO rescinding COVID-19 as a global pandemic (25 percent). It's interesting to note that both the CDC and the WHO have lost credibility with the consumers we have studied over the last 10 days.

There is only one thing, consistently, that consumers say will make them comfortable resuming their normal routines.

A vaccine.

Now, nearly half (49 percent) of all consumers we studied report that a vaccine will give them the confidence to resume normal activities — twice as many as we reported on March 17.

Not surprisingly, nearly as many — 45 percent — of consumers now expect the pandemic to last six months or longer, up from 31 percent on March 17.

A vaccine is a proxy for consumers feeling secure leaving their homes and resuming their daily activities. Maybe that will change as more information is revealed about the efficacy of therapeutics or antibody testing that assures them being around people won't put them at risk of contagion.

So far, however, a vaccine has taken the lead, by a longshot, among what consumers need to feel at ease.

THE NEW TIMELINE TO NORMAL

That makes the next insight all the more believable.

In just the last 10 days, consumers have added more than a month (33 days) to their personal timelines for getting their daily activities back to pre-COVID levels of normal.

On March 27, the consumers we surveyed said it would take 145 days, up slightly from 138 days on March 17, to emerge from the COVID-19 crisis.

On April 11, that timeline is now, on average, 178 days — or six months. That's on top of the nearly two months that have passed since the majority of the U.S. has been on lockdown.

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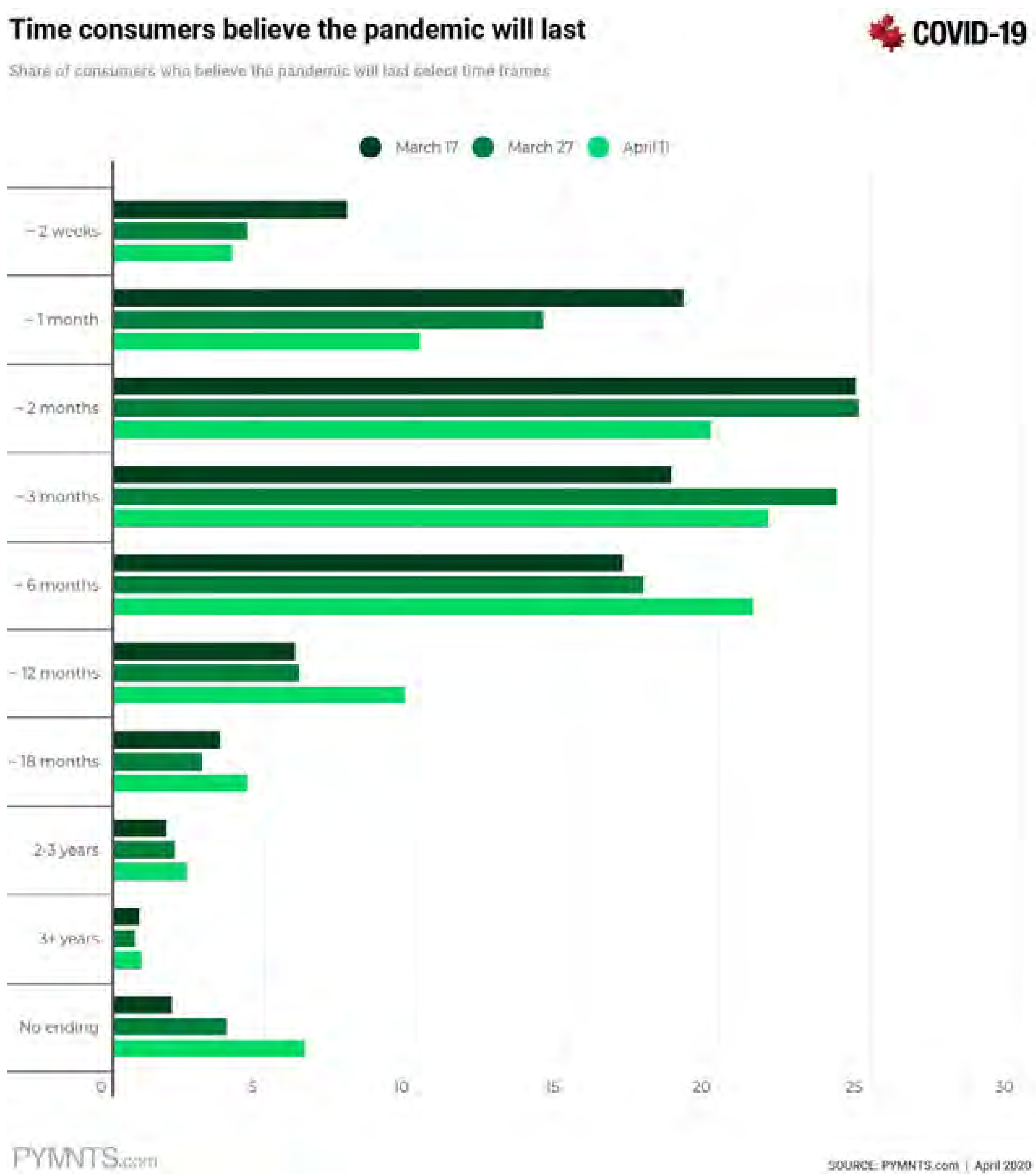
Six percent of the consumers say normal will never resume for them — three times more than when we asked on March 17. Another 19 percent said normal will be one to three years away.

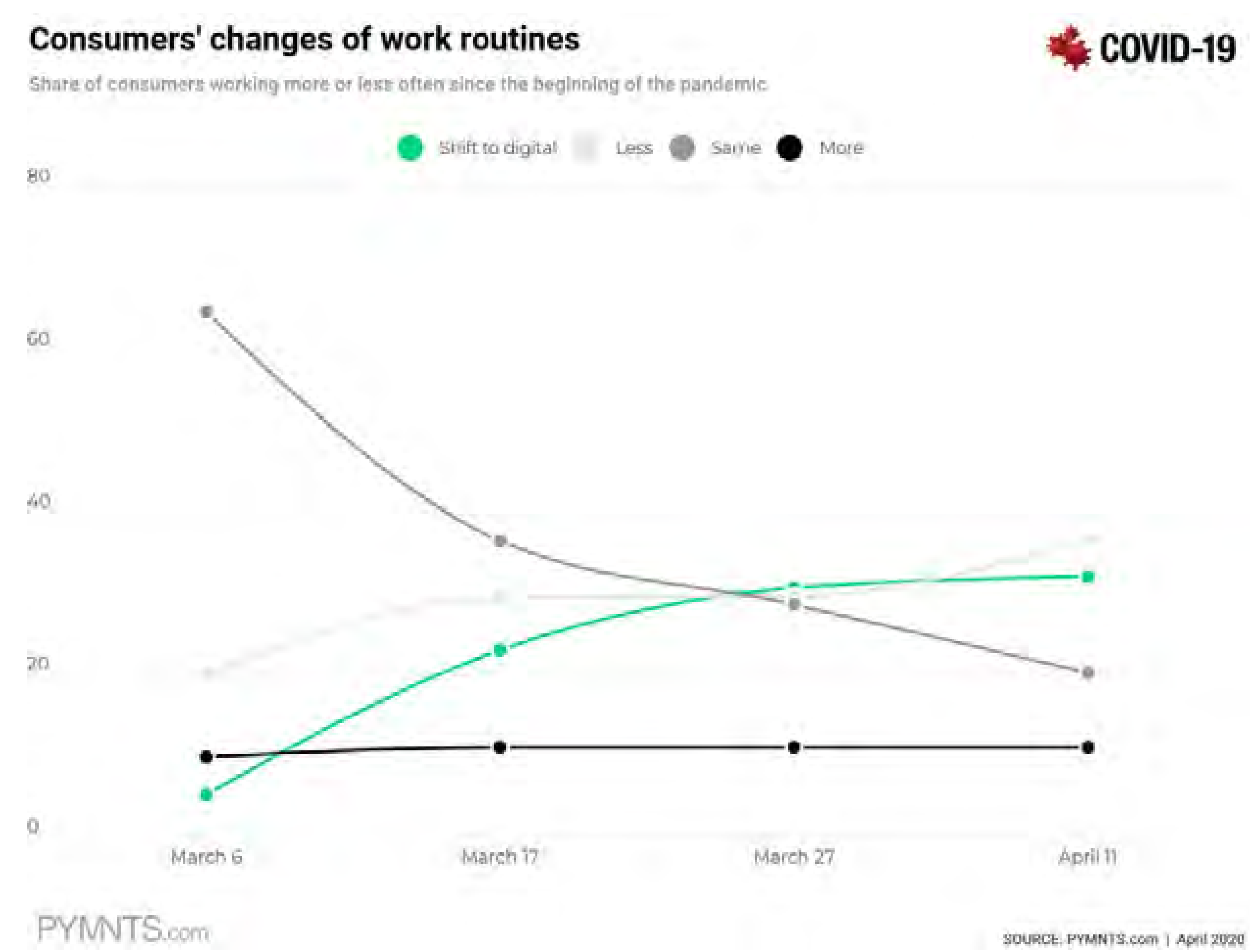


Most consumers, it seems, have now accepted the reality that COVID-19 won't just cause a two- or four-week hunkering-down at home, but will change their behaviors in some way for almost all of 2020.

Like redefining what it means to be a digital native — and where digital activities will largely be done.

HOME IS WHERE THE COMMERCE IS

Over the last six weeks, the very devices that have democratized access to the digital world for consumers have also democratized the digitization of almost all of the daily activities in which those consumers engage. As the pandemic progresses, they are working, eating, grocery shopping and shopping for pleasure using increasingly digital means

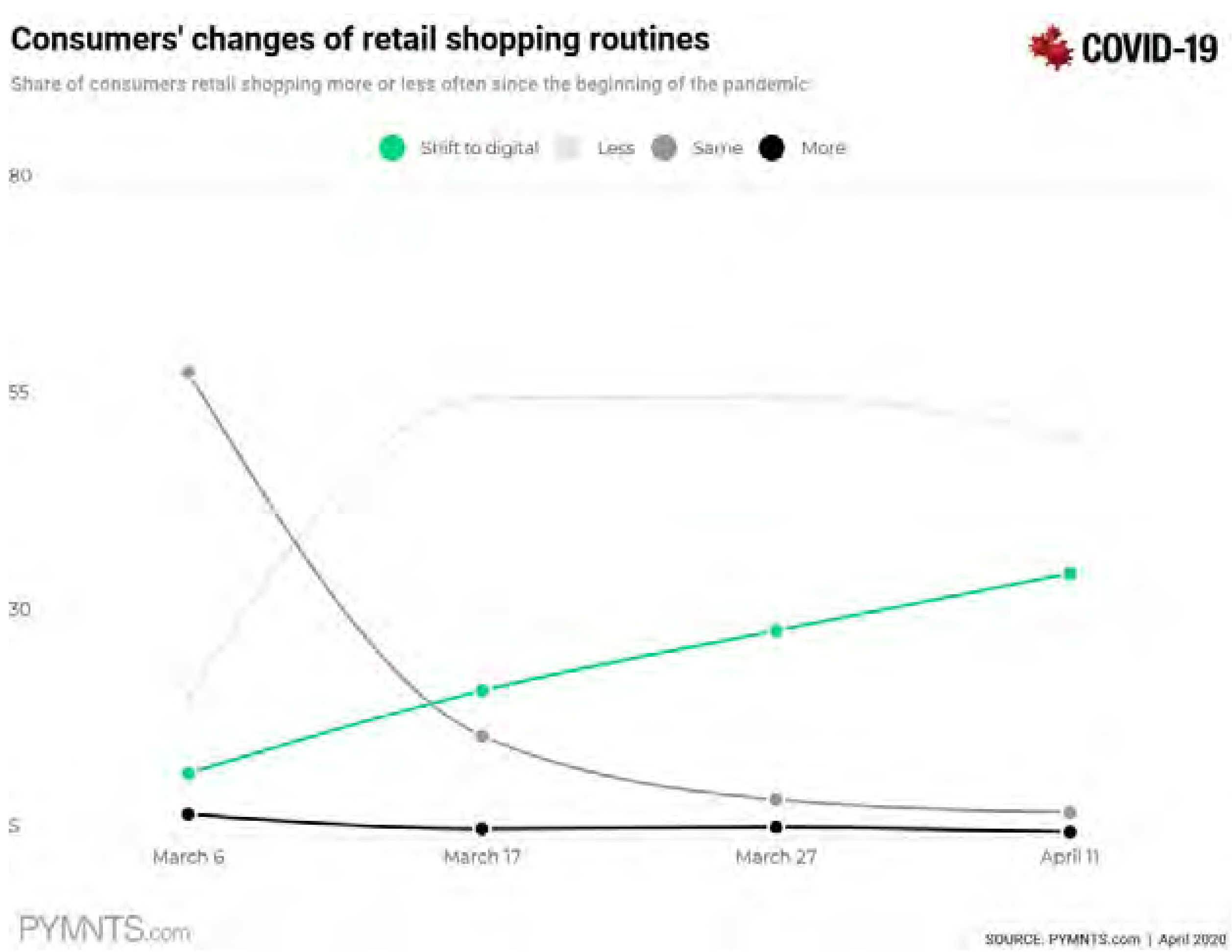


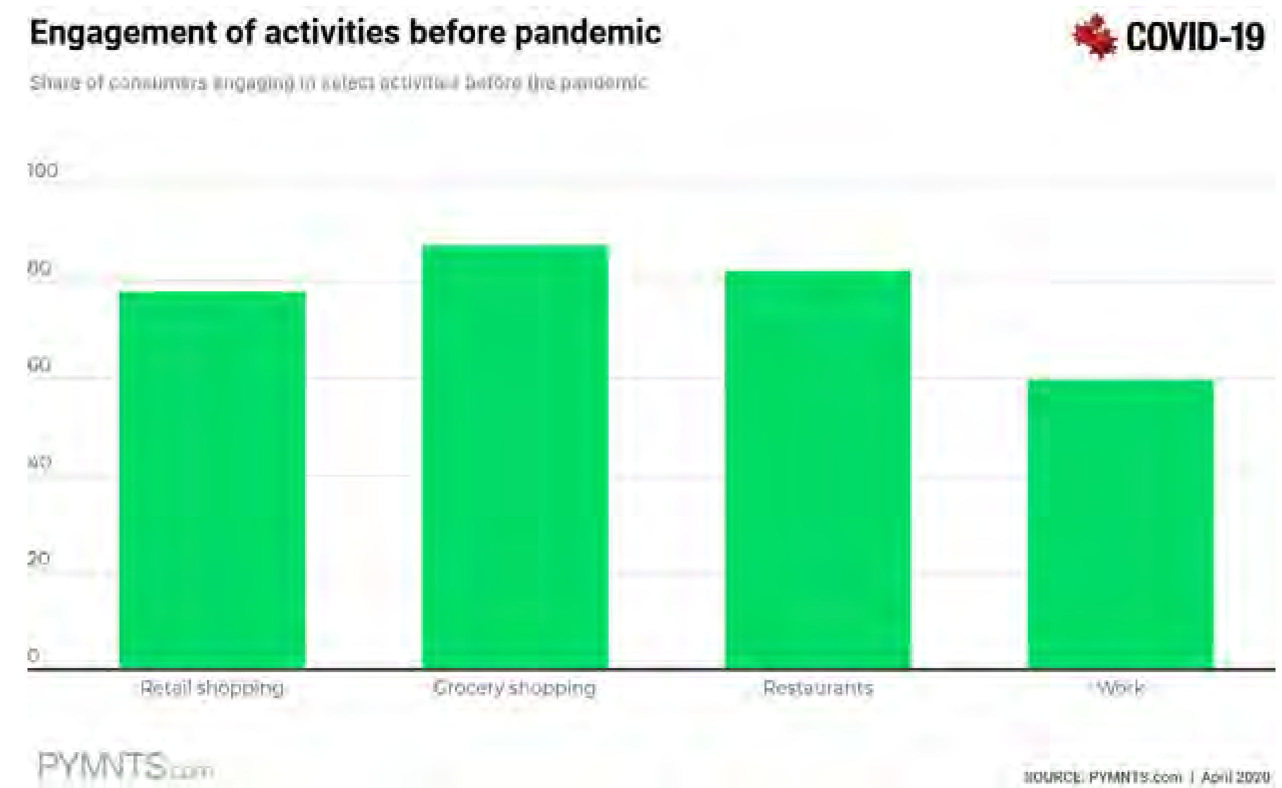
— and they are doing all of it from home.

The consumer's new perspective on the journey to "normal" is mostly the result of the steps they have taken over the last six weeks to live their lives in a mostly digital world. Home has become the digital command center — and the shift from the offline to the digital world over the last six weeks has been nothing short of dramatic.

Among those consumers with jobs, working from home increased by a factor of six — from 5 percent to 32 percent.

Online shopping for groceries increased nearly four-fold — from 4 percent of the 87.4 percent of consumers who buy groceries as of March 6 to 15 percent on April 11. Of those who shopped online, 61.1 percent had groceries delivered or picked them up curbside.





Online shopping for non-grocery items tripled — from 12 percent of the 77.6 percent of consumers who once shopped in physical stores to 36 percent on April 11.

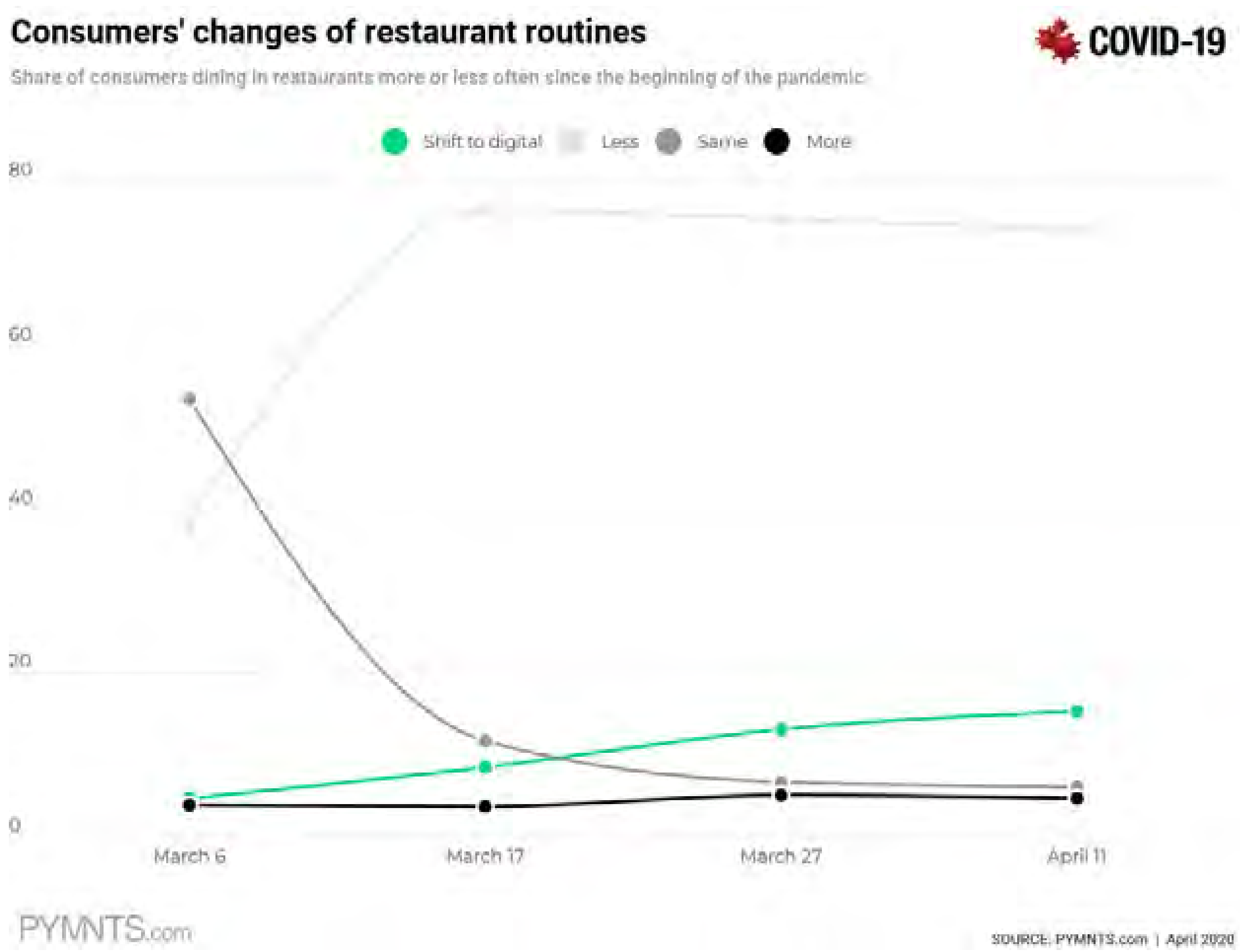
ven getting food from restaurants — either via an aggregator, QSR or one that has transitioned from table service to takeout — has tripled, from 5 percent on March 6 to 15 percent on April 11.

That's the good news.

The bad news is that despite the shift to digital, consumers overall are doing everything much less than they did before the pandemic.

More than a third (37 percent) of those we studied are working less. Fifty-nine (59) percent of consumers are even shopping less for groceries. More than half (51 percent) are shopping less often for products other than groceries. Three-quarters of consumers are eating less at any type of restaurant, via any channel.

That's why normal — and what normal looks like for the American consumer — is totally up for grabs.



THE HALF-EMPTY NORMAL GLASS

Returning to normal has several dimensions for consumers.

Will their jobs and paychecks return to normal? Will the shops and restaurants they used to buy from and eat at still be there? Will the value of their investments return to normal? Will the health risk of the virus be what it was before COVID-19 became a crisis?

Those uncertainties, right now, are too great for most consumers to gauge.

That's why only 48 percent of consumers expect to resume their normal activities once the pandemic ends, with another 4 percent saying they will do so once they have childcare for their kids. About a third (32 percent) say they will perform more activities at home and fewer activities away from home, with 16 percent saying they won't resume normal activities outside of the home after the crisis ends.

This means 121 million American adults will not resume their activities in the same way they did before the COVID-19 outbreak. At least that's how they feel now.

Interestingly, the bridge millennials — those connected consumers who drive discretionary spending — is the generation most likely to say they will not return to their usual activities after the pandemic ends, with 21 percent making that claim.

Restaurants have the toughest lift, since consumers can't see — and thus may not trust — what's happening in the kitchens where their food is prepared, and may be uncomfortable sitting too close to other diners. Thirty (30) percent of the consumers we studied said they will not go to restaurants like they once did.

Things won't be normal, even if they — and we — wish it to be that way.

Consumers have discovered that the internet makes their daily routines more efficient and gives them more time to spend doing other things. Once they have made investments in setting up new digital accounts with the stores where they're now shopping, those consumers will be more likely to stick with digital — particularly if they believe that, either through choice or mandate, they won't be able to go to the places they once visited the same way they once did.

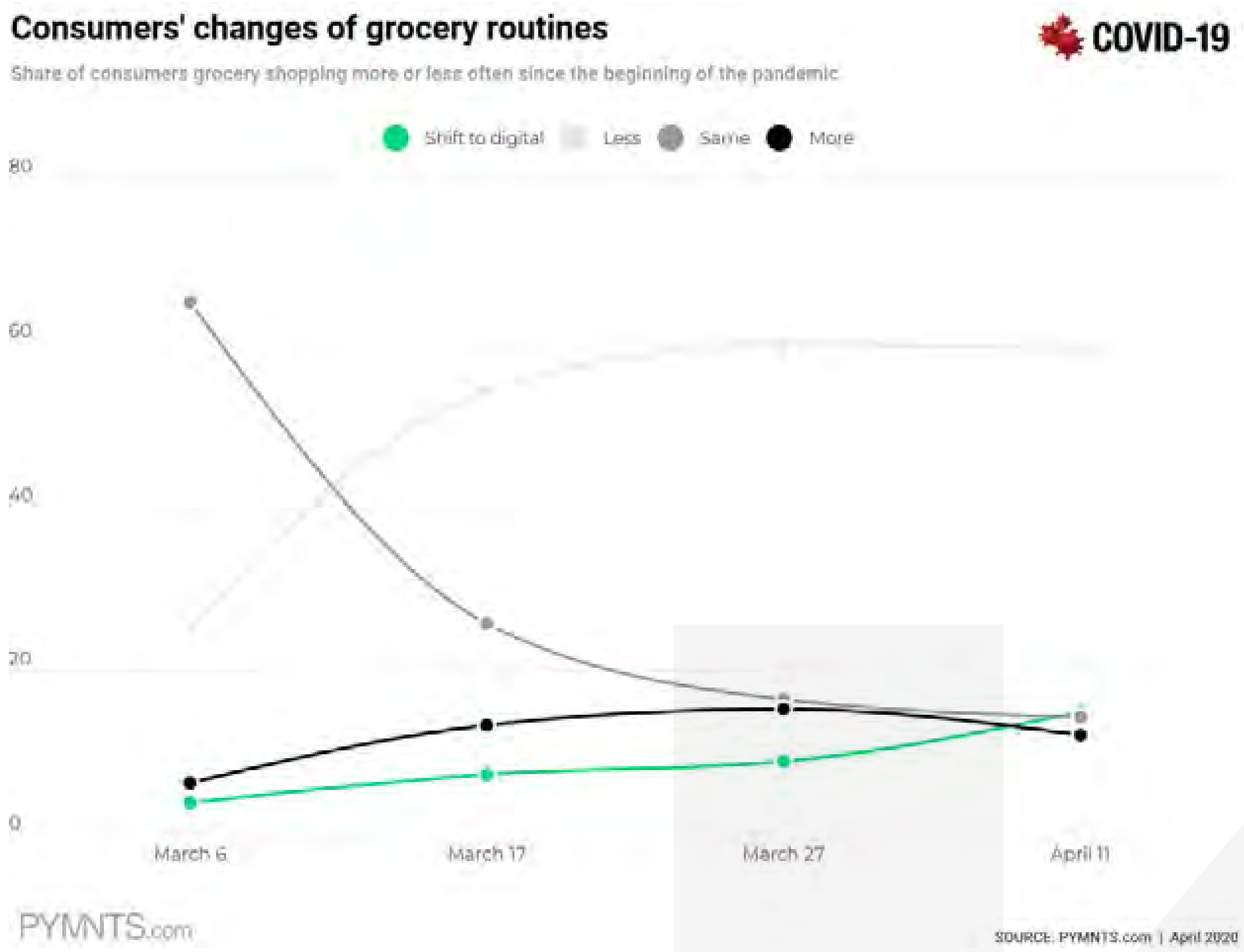
Or they may find that their favorites are no longer there for them to visit.

Businesses may find that working from home saves their employees time — and saves them rent for offices. The investments they have made in setting up a remote workforce and getting processes in place could very likely stick.

"Normal" for consumers is also a matter of having their jobs and paychecks back, and feeling comfortable spending on things other than necessities. That is made more difficult as consumers now seem closer to running out of cash — with 49 percent in this latest study reporting that they're tapping into savings to pay their bills within less than a month, and more than 36 percent having savings of $1,000 or less.

HOW WE WILL CHANGE

We've only been doing these surveys every 10 days for six weeks. It seems like a lifetime. But this last one should be a real eye-opener for local, state and federal governments that are managing the response to the crisis, and the businesses of all sizes that are trying to figure out how to best serve their



consumers and their workforce in the coming years.

For governments, the message is clear: People's paramount concern is being safe. Even if workplaces and restaurants are allowed to open, people may not show up until they feel safe. And right now, safety is based on most consumers' personal timelines.

For businesses, the message is also clear: It may take a vaccine, and therefore quite a bit more time, before most people are willing to return to normal — and even then, about half say they won't return to normal, even then. The ramp to 2021 sales could be a long, slow build.

The other message for everyone is that the big boost digital has gotten, and the hit physical has taken, will likely be permanent.

The shift to digital has surged across all of the categories we track — particularly as the reality has sunk in that it will take time for businesses to get back online and operating in the way they once did. What we find most interesting is how many of the consumers who have shifted to digital have said they won't return to the physical channel on the other side of the pandemic.

Shopping for groceries and other products are the areas where that digital shift has the potential to make great gains.

More than half of the consumers (52 percent) who shifted to digital grocery shopping say they won't go back to their old ways of shopping, as online delivery and curbside pickup are gaining ground. And 60 percent of the consumers who shifted to digital to shop for things other than grocery items say the same.

So, how will we change? Digitally, as the consumer's digital muscle memory gets even stronger over the many months to come.

April 27, 2020

Why Reopening The US Economy Should Be About Reinventing It

It Never has one letter of the alphabet been such a hot topic of conversation.

That letter — V — has become the proxy for how some describe the shape of the economic recovery as businesses begin to reopen here in the U.S. and on a global scale, and as the public health threat of COVID-19 recedes. The letter V is emblematic of the sharp drop as a result of the mandated business lockdowns and #stayathome restrictions imposed by COVID-19 — and then the sharp rise back up once those lockdowns and restrictions are removed.

It may also be wishful thinking.

The challenges of reigniting the economy after nearly two months of a near-total shutdown of the physical world, and probably a longer partial shutdown, is a lot like the ones faced by an entrepreneur with a platform business that she wants to ignite and scale.

It requires identifying the key stakeholders, understanding their interdependencies and then devising a strategy to build critical mass on all sides while aligning supply with demand.

It requires a realistic appraisal of the frictions associated with stakeholder interactions, how businesses will reduce or eliminate them and which stakeholder group is most critical to getting the flywheel moving.

Building critical mass is then about aligning incentives across all stakeholders.

Sound familiar?

This is the problem that platform businesses face at birth — some crack them, and many don't. We know a lot about the strategies for igniting platforms. As it turns out, these same principles provide insights into how to get the economy moving again.

Getting to critical mass is perhaps the most important platform dynamic to crack. Getting that right is the difference between a platform that ignites and scales or crashes and burns – or worse yet, never gets off the ground at all.

That will be true for businesses that are generally coming out of a very long hibernation.

WHAT PLATFORM DYNAMICS HAVE TO DO WITH REOPENING THE ECONOMY

Reopening the economy in the U.S. — and everywhere in the world — requires building critical mass across key stakeholders:

Businesses that supply goods and services to customers;

The *employees* of those businesses who are needed to deliver those goods and services; and

The *customers* who buy the goods and services from those businesses.

The *buyers* are key, of course, since they drive demand and sales.

But so, too, is having a critical mass of businesses with stuff they can buy — and enough of a workforce for those businesses to support the delivery of that demand.

The total and simultaneous shutdown of the economy, along with the public health threat that COVID-19 represents, has introduced one very unusual platform friction that makes igniting the economy tricky, and therefore renders a V-shaped recovery unlikely — at least given how many define what it means to "reopen."

Businesses must be convinced that demand will be sufficient enough to rehire their workforce and cover their costs before they run out of cash.

The workforce must be convinced that it's safe to return to work — from both a job security and public health standpoint.

And the consumer — who today is eight times more afraid of dying from COVID than losing their jobs or their nest eggs as a result of it — must be rock-solid convinced that the rewards of resuming their physical activities are greater than (a) the frictions imposed when the economy partially reopens (b) their perceived individual health risks when reentering and (c) the rewards of continuing to do many of their day-to-day activities in a largely digital world that has worked pretty well for them so far.

THE LONG ROAD TO REOPENING

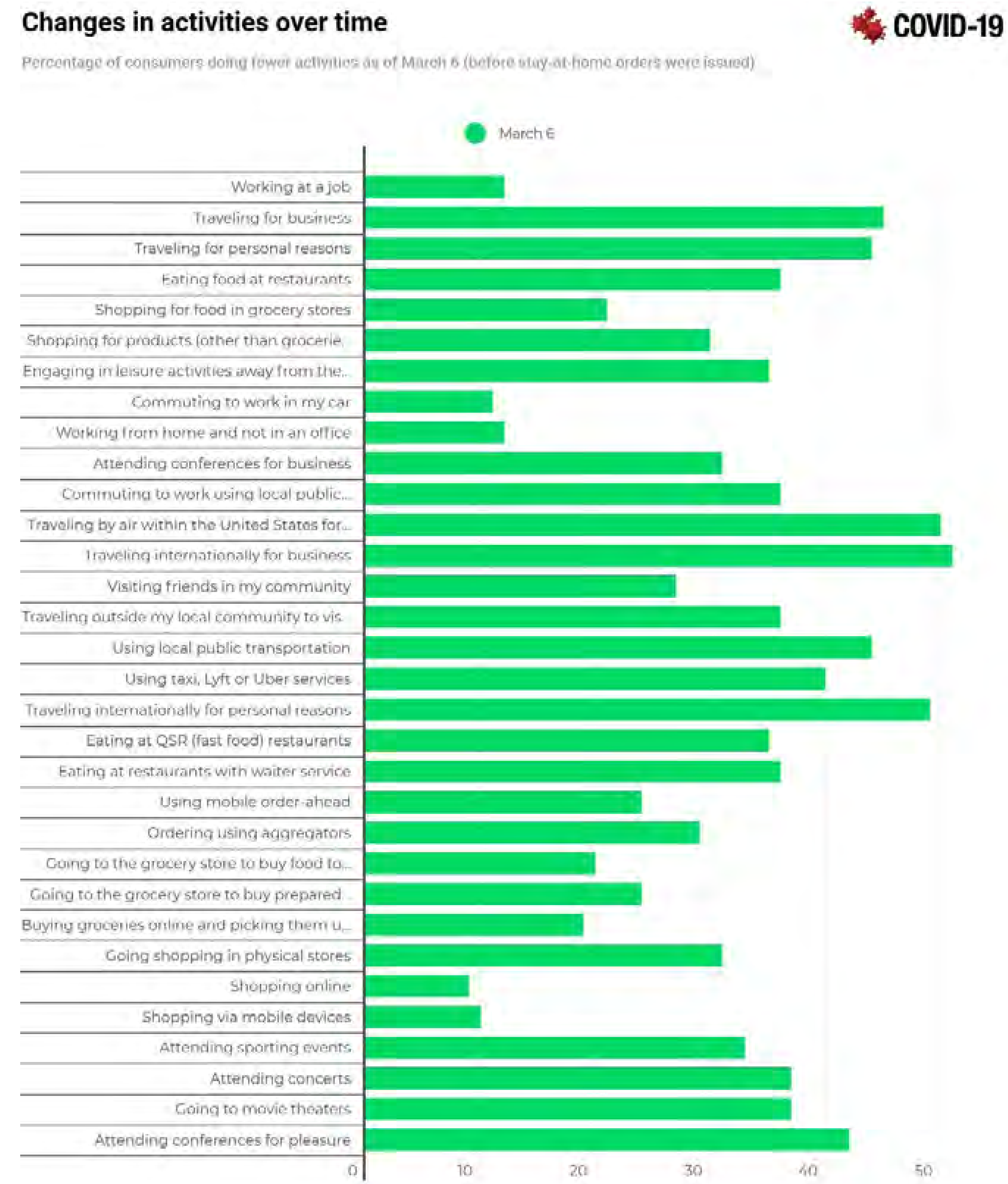
Maybe you think the consumer's fears of COVID-19 are overblown, even irrational. Maybe you think the consumer doesn't have all of the right facts on which to make their decisions and is basing them on incomplete data.

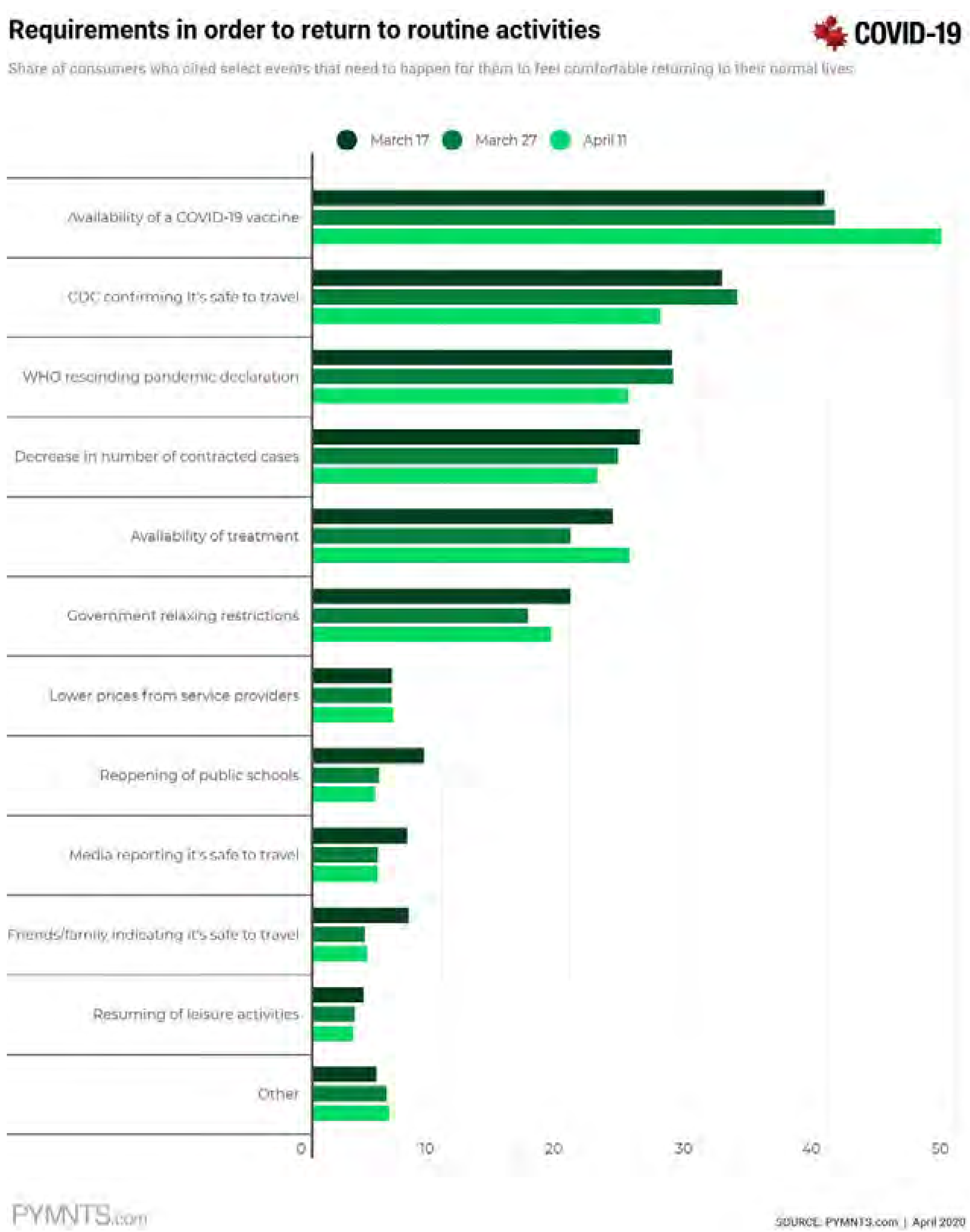
Maybe that's true — but, as the saying goes, the customer is always right, even when they aren't.

Our national survey of consumers, more than 10,000 now, has found consistently, week after week, that the only thing that will give the customer real confidence about getting back to their daily routines is the availability of a vaccine that will make alleviate their fear of dying. If anything, that sentiment has only gotten

Changes in activities over time

Percentage of consumers doing fewer activities as of March 6 (before stay-at-home orders were issued)





stronger each and every time we go into the field and ask — which is every 10 days.

That fear of getting sick, or worse, influences their behaviors and their decisions, in part because COVID-19 has gotten up close and personal for a large majority of the U.S. population over the last seven weeks. Today, about a quarter (24.5 percent) of the consumers we studied personally know someone who has had the virus. More than 22 percent of Main Street SMBs have had someone in their workforce test positive.

The latest reports, published just yesterday in the Financial Times — which show that the global death toll is likely underreported by 60 percent, coupled with the latest U.S. death toll that stands at nearly 55,000 (as of April 26) — is unlikely to make consumers feel any less vulnerable. And then there are the daily obituaries of the famous, and not-so-famous, people that make death by COVID-19 most salient.

That makes the school of thought that reopening the economy is as simple as doing a copy/paste from February to the end of May or June or July or whenever, and that things will pick up where they left off, is misguided.

It's also dangerous for businesses to think that it will.

HOW CONSUMERS HAVE CHANGED

Readers of these pages have had a weekly, real-time ringside seat to the shifts in U.S. consumer and Main Street business behavior over the last seven weeks, as PYMNTS has studied a national sample of now more than 10,000 consumers and nearly 1,200 Main Street SMBs every 10 days. We've had a unique insight into the psyche of the American consumer and the Main Street business owner as the pandemic has progressed, as more information about its public health implications have been made known and as consumers have shifted their behaviors as a result.

That has contributed to perhaps one of the biggest "aha moments" of our work so far — something we believe is an important input into what it means to "reopen" the economy, and why our thinking must now shift to how we both reopen and reinvent the businesses that will power its recovery.

That insight is that consumers and businesses now think it will take much, much longer for them to resume their pre-COVID daily activities — going to work, taking business or family trips, going to the store, going to the gym, going out to eat or going to a sporting event or concert.

And their timelines seem to extend for every 10 days that we conduct our research.

In early March, most consumers measured the duration of the pandemic in terms of weeks, with most thinking that by the end of March or early April, things would return to normal.

Ten days ago, that duration increased by a factor of six — to six months, on top of the two they have already been in lockdown.

In other words, for most of 2020. And that's assuming that kids go back to school in the fall.

In mid-March, Main Street SMBs thought the duration of the pandemic was a month, maybe two. Last week, they said it would take 199 more days for their businesses to recover beyond the two months that most have been largely shut down. Restaurants and retailers say it will take even longer, at 205 and 224 days, respectively.

In other words, most of the year. That's against a backdrop where one in four businesses don't think they will make it — and with four in 10 still not so sure. The longer the duration of the pandemic, and the longer it takes for consumer demand to come back, the less sure they are about reopening, rehiring their workforce or even opening at all.

It has all the makings of the classic platform death spiral, now applied to the physical world as businesses contemplate their future odds of survival.

At the same time, over those seven weeks, we've seen consumers shift their behaviors – some rather dramatically — as #stayathome has become their daily reality.

Almost four times more consumers now shop online for groceries – from 4 percent to 15 percent in just the last seven weeks, with consumers who shop using digital channels favoring both delivery and curbside pickup as an alternative to going into physical stores.

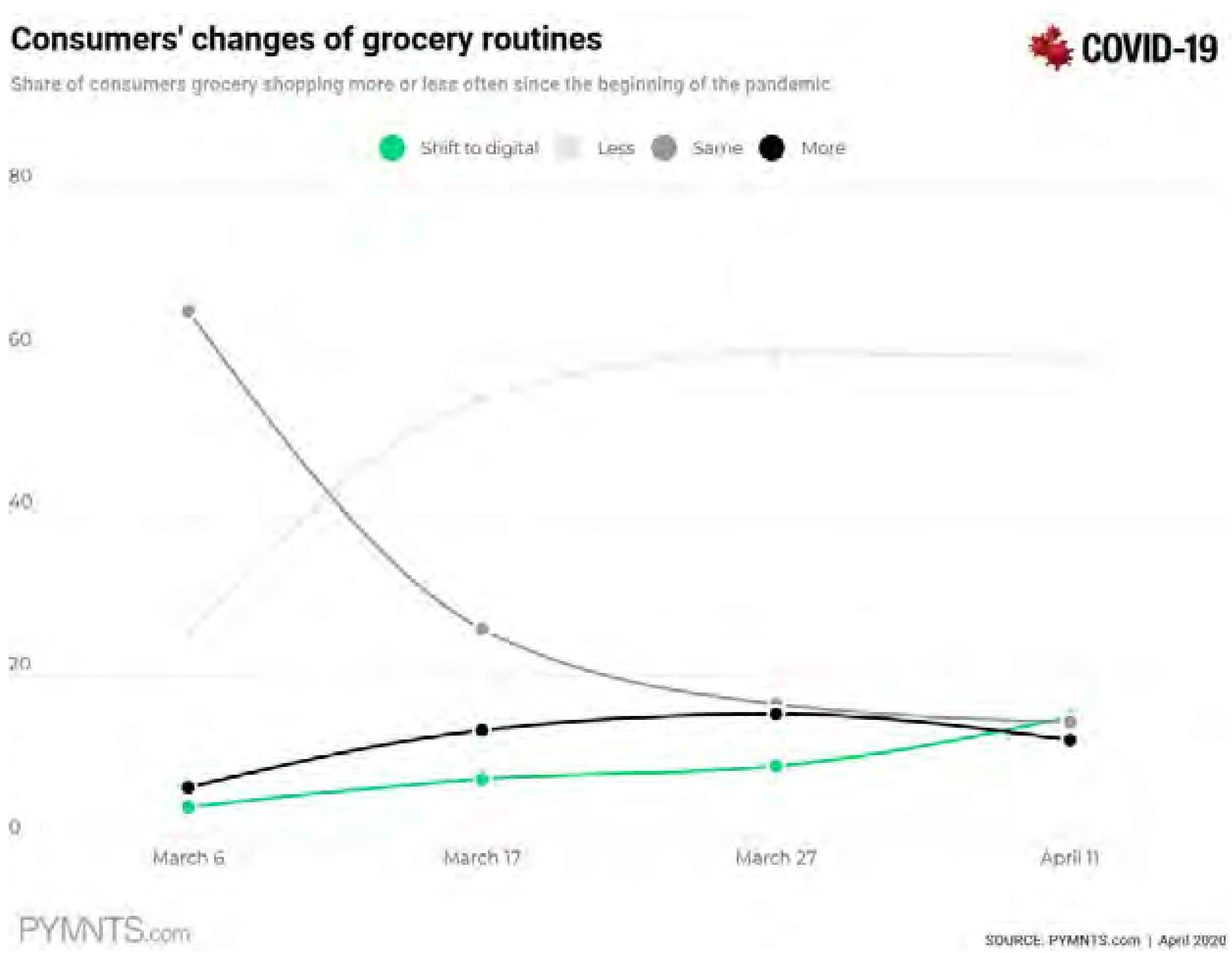
Three times the number of consumers now shop online for things other than groceries, even though their spending across the board has declined. From home, and using one of their many connected devices, consumers can easily find what they want at the best price; establish an account; use their digital wallet or card on file to pay, or check out as a guest; and then have the product shipped to their homes.

It's the ultimate no-touch payments and commerce experience, in an environment where no-touch is the most sought-after experience.

Knock, Knock. Who's There? Nobody — Yet.

The truth, though, is that consumers didn't need the state governments to lock down the economy before they took it upon themselves to practice social distancing and retreat from their largely physical worlds.

On March 6 — a full 10 days before most state governments told its citizens to #stayathome — the fear of contagion had them already starting to do it anyway. Our first study of 2,000 U.S. consumers showed that 36 percent of consumers were eating in restaurants less, 30 percent were shopping less in stores, 45 percent were traveling less for work, 37 percent were going to movies and concerts less often, and 12 percent of people with jobs were working in the office less.

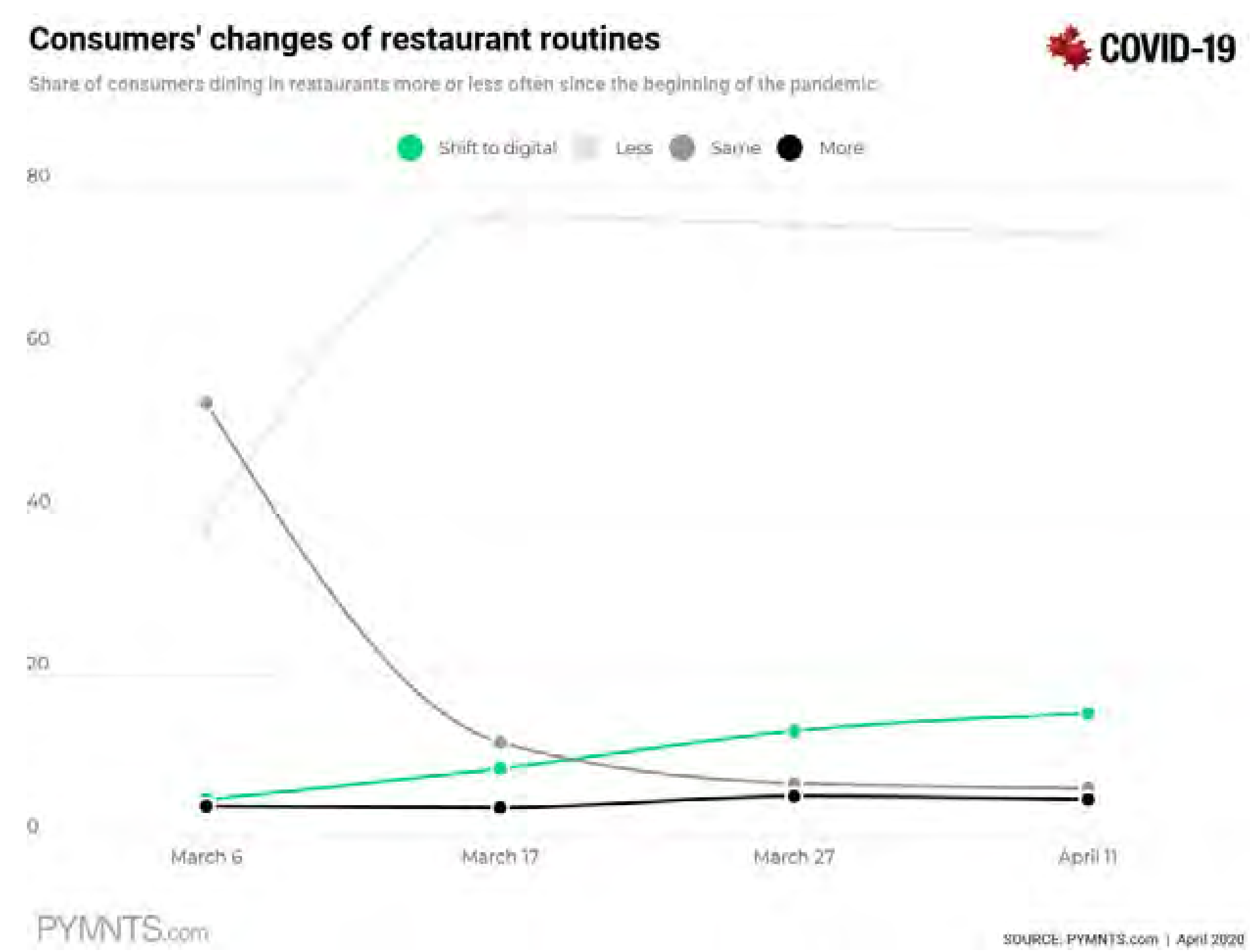


Today, we see consumers now feathering their nests as movie nights and game nights are more frequent and working and studying from home has become a necessity. They're buying pots and pans and kitchen appliances, as they have both the time and the interest to prepare food instead of ordering out for delivery.

Right now, and probably for some time to come, home is where the heart and the health is for the majority of consumers.

In just seven weeks, the shifts consumers have made — first out of choice, then by necessity and now out of habit — have become, for the majority, their new routine.

Roughly half of consumers (48 percent) report that digital behaviors will stick across many of the categories we studied — shopping, eating, working, traveling and spending their leisure

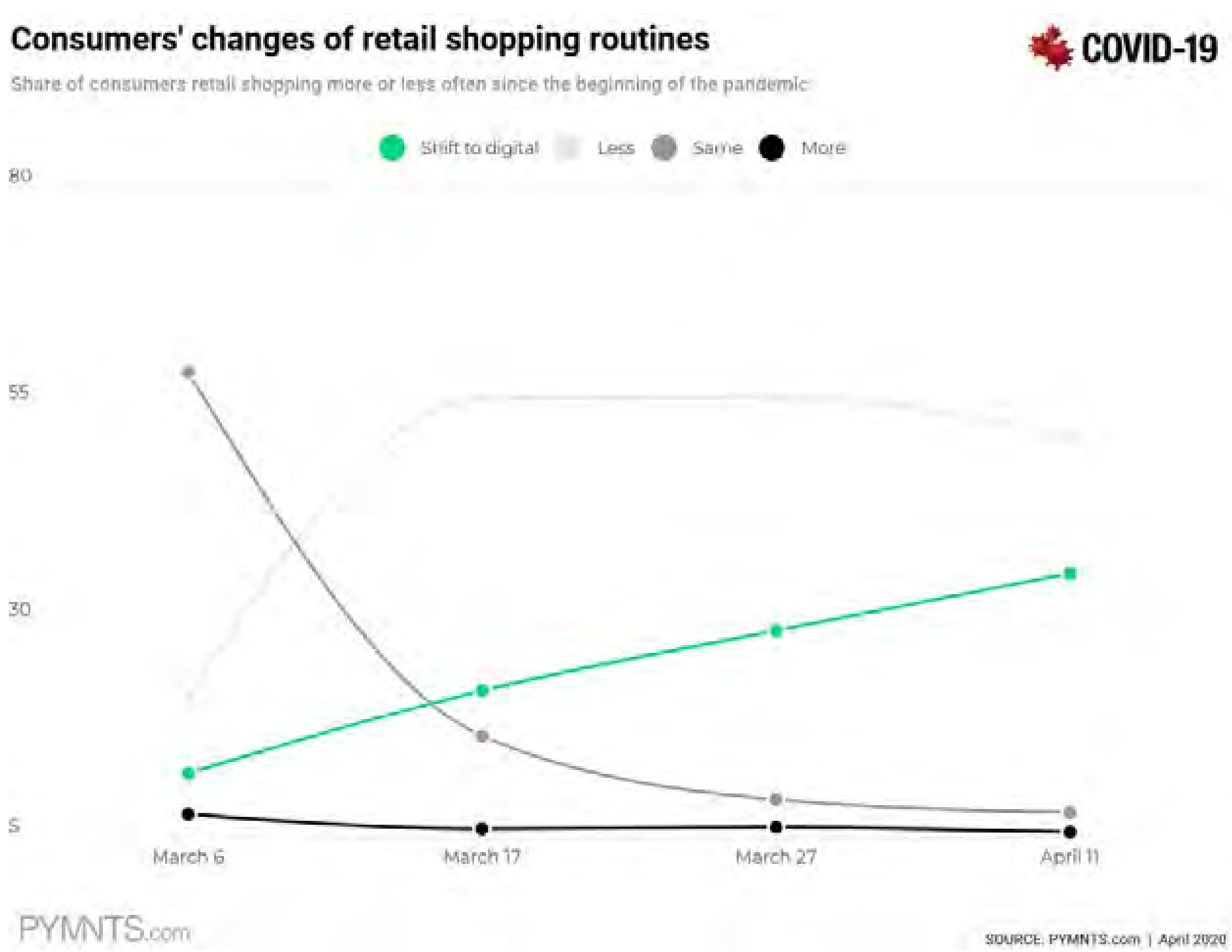


REINVENT, THEN REOPEN

Unlike the 2008 financial crisis, COVID-19 has put the **consumer's personal health at risk** due to the highly contagious nature of the virus, their **personal finances at risk** given the extreme stock market decline, and their **paychecks at risk** given the shutdown of the economy and the business uncertainty that has followed.

Even if real estate values don't decline, homeowners are increasingly sitting on illiquid assets, with fewer buyers, skittish mortgage lenders and not a lot of extra cash.

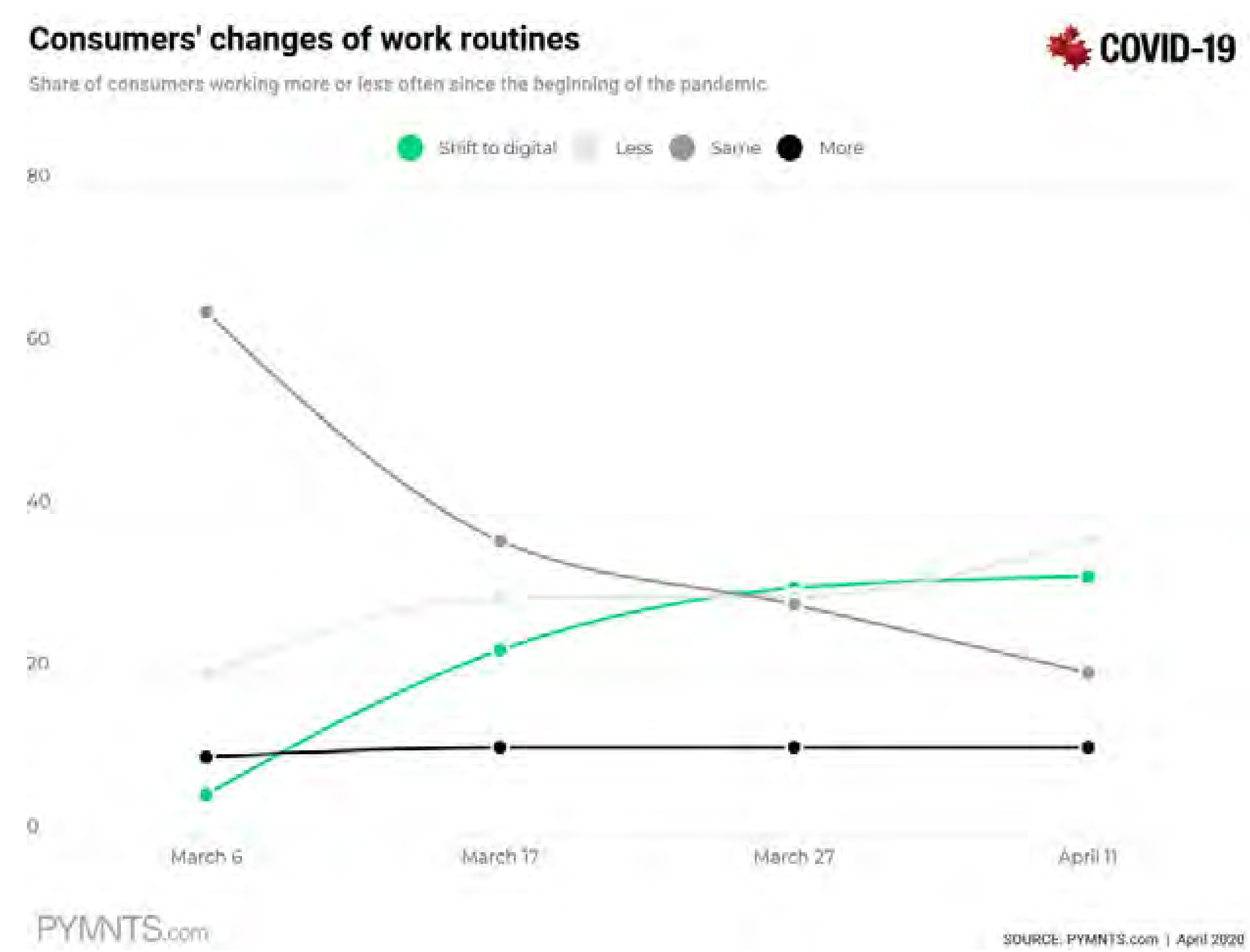
Reigniting the economy must mean addressing those fears, those realities and the attendant concerns raised by businesses, consumers and the workforce about their future.



That may not be easy — and it is unlikely to be immediate.

With administration economists now admitting that unemployment will reach "Depression-like" levels, too many consumers have already lost their jobs or live in fear of losing them, have taken a significant wage hit or live in fear of being asked to take one, or have had to ask for rent, mortgage or credit card payment abatement since they can't pay their bills. Sixty percent of U.S. consumers now report living paycheck to paycheck, with 59 percent of them now less than a month from having to dip into savings to pay bills.

Consumers are tightening their purse strings and spending less overall for anything they don't deem essential. Spending, and therefore the demand



for most anything other than essentials, is down — even for the affluent. All consumers today are simply being cautious, regardless of the size of their bank accounts.

Downtowns have become ghost towns as consumers watch their favorite stores, restaurants, salons and other businesses shutter, or know business owners who are in distress — and it's sobering. Wearing a mask outside has become a necessary part of a consumer's wardrobe over fears of contagion — and it's scary.

Recognizing this, governments all over the world have begun to talk about reopening plans, with some even taking steps to relax their restrictions to allow some storefronts to reopen. Many of those shop owners still haven't, even though they can.

The consumers who happen to venture out are few and far between, and continue to keep their social distance and wear masks. More of them, though, just sit it out — some over fears that it still isn't safe, and some over the reopening requirements that have introduced more friction into the experience than they are willing to accept.

Particularly given the digital substitutes now available to them.

As it turns out, not many people want to stick their fingers into bowling balls at the bowling alley or their feet into rental bowling shoes right now. Or even have their hair done, despite the many reports of hair crises that have emerged over these last seven weeks, if the tradeoff is being attended to by stylists wearing the equivalent of PPE, and only after signing a sworn statement that they are not sick.

The experience of being served in a restaurant where waiters are toting plastic menus and wearing surgical masks and rubber gloves, and where diners are getting their temperatures checked before entering, wearing masks and gloves, sitting 6 feet apart from one another, and receiving little bags in which to put their masks while they eat isn't all that appetizing, either — as much as consumers want to go out to eat at their favorite spots.

That's why reopening the economy must be about five things:

- **Rethinking the now-daily routines** of consumers: The ways they work, shop, pay, eat, travel, play and stay healthy have all changed — and so has what it means for them to feel safe and reengage.
- **Understanding the frictions** that will be required for consumers to reengage, how willing they will be to tolerate them — and for how long — based on the nature of the activity. The more essential the activity, the more friction — provided the consumer hasn't found a suitable digital substitute over the last seven weeks that works just as well, or better.
- **Resisting the urge** to go back to where things were in February, and instead use this experience and the new digital habits consumers have formed over these last seven weeks to create and power a new, dynamic, connected economy for consumers, businesses and the workforces tasked with delivering it.
- **Understanding the frictions** consumers will require at reopening, and how willing they'll be to tolerate them — and for how long — given how essential they deem the nature of the activity. And, more importantly, which frictions they won't tolerate, because they've found suitable digital substitutes over the last seven weeks that work just fine.
- **Resisting the urge** to think about how to get things back to the way they were — and instead focusing on how we can use this experience, and the new digital habits consumers have formed over these last few weeks, to create and power a dynamic, connected economy for the consumer, the business and the workforce tasked with delivering it.

WHAT'S NEXT

I have no doubt that we will see innovators use technology to find new ways to fulfill the fundamental mission of the connected economy: to bring commerce to the consumer, instead of the consumer having to chase it down.

I believe we will see forward-looking businesses really blur the online and offline worlds by seizing the potential of hyper-personalizing the hyper-local experiences offered by businesses that now largely operate in the physical world.

I think we will see forward-looking businesses seize the potential of hyper-personalizing the hyper-local experiences offered by businesses that largely operate in the physical world. We will see platforms democratize logistics, artificial intelligence (AI) and payments choice so that those businesses can flex, as consumers shift from physical venues that require them to interact with lots of consumers they don't know to the experiences they can now have at home with their family and friends — and to do so at scale. The movies, not the movie theaters. The fitness, not the fitness studios. The shopping, not the shop. The on-the-couch fan, not in-the-stands, reveler. The restaurant food without the restaurant.

Until they feel safe — or until that becomes their new daily routine.

Just like the early days of the web, when the smart money followed those who saw it as much more than a place to upload brochures, we will see creative, resilient entrepreneurs using this time to reimage their businesses with a mostly-digital consumer in mind.

Their workforces will look different, and their shops may look and operate differently, too. But they'll have customers. And they'll get critical mass.

And they'll have every potential to survive and thrive as the economy reopens, powered by the businesses that see the great potential in reinventing it.

May 4, 2020

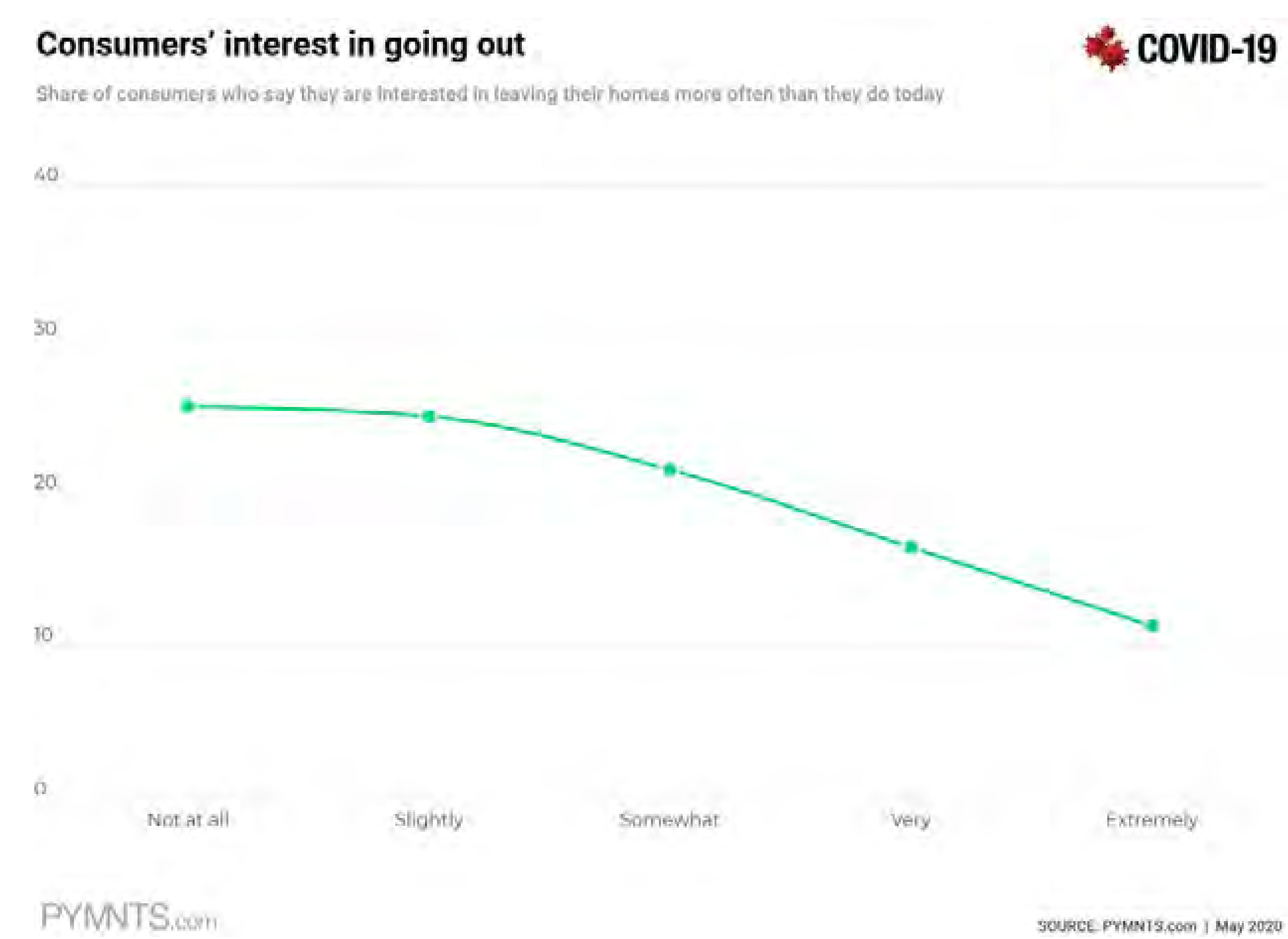
Why Consumers Aren’t In A Rush To Reopen The Economy

Economists, policymakers and epidemiologists have been modeling the cost/benefit of reopening the U.S. economy since governors began asking their citizens to #stayathome in mid-March, and even well before that.

A decision to reopen, even partially, must weigh the economic impact of keeping the economy locked down against the availability and effectiveness of treatments that will mitigate or eliminate the risk of another serious outbreak, as well as illness and deaths, within months of reopening – and the potential for another shutdown.

At the same time, consumers are doing their own cost/benefit calculations about when it’s safe to re-enter and resume their daily activities.

Most aren’t in much of a rush. That’s because they see more cost than benefit in resuming many of their old activities.

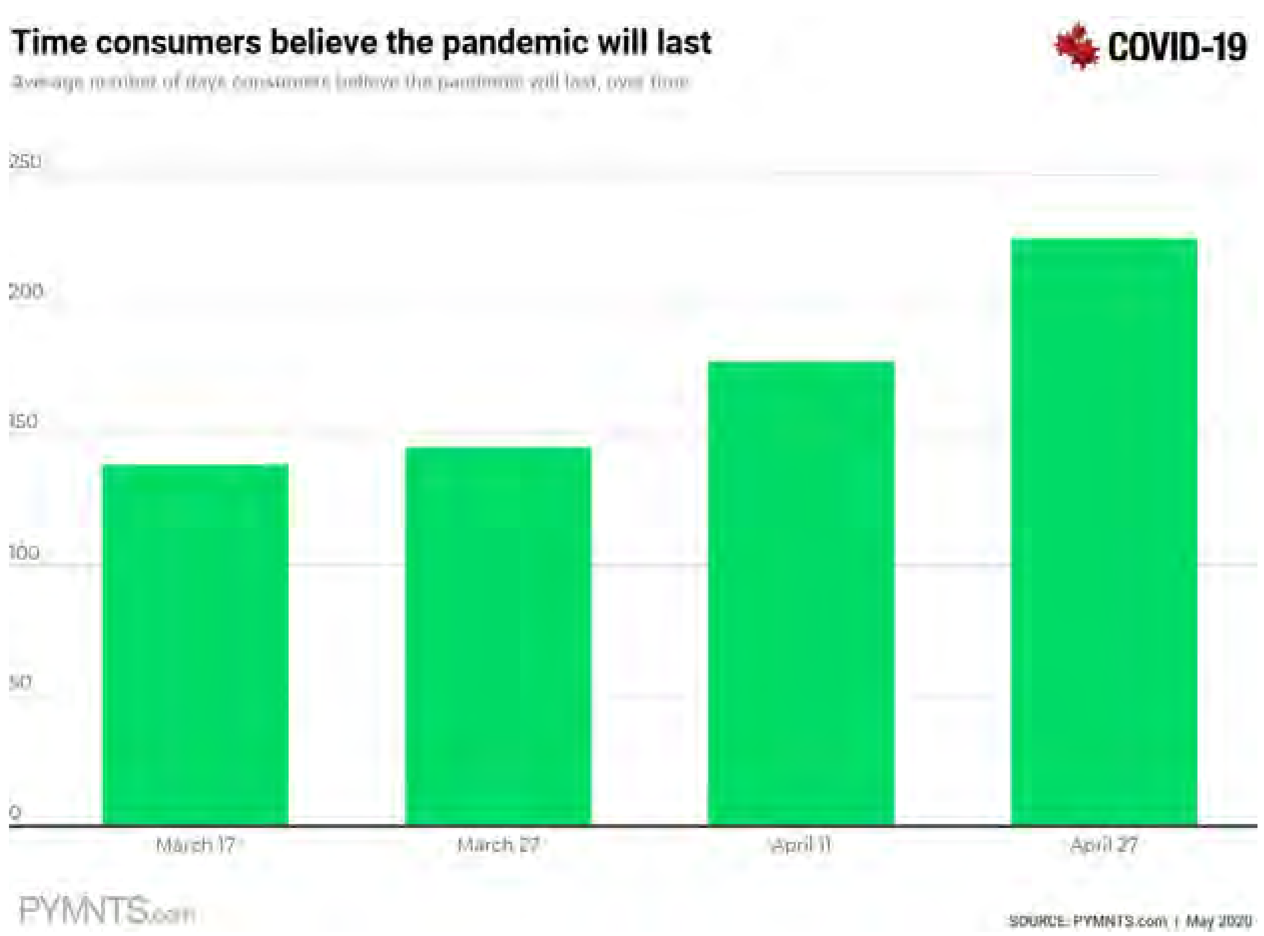


The fifth PYMNTS study of consumer behavior before and during the course of the pandemic, now encompassing a national sample of more than 12,000 consumers as of April 27, shows that nearly two times as many Americans have little or no interest in leaving their homes to reengage in the physical world as those who do.

Just 28 percent of the U.S. consumers we studied report being very or extremely interested in doing so, with 51 percent being slightly or not at all interested. This sentiment is consistent across all demographics and income groups.

It's also one that seems to correlate with who consumers turn to and trust to tell them it's safe to reengage.

Consumers are basing their decisions on their understanding of the medical risks based on information from credible scientific sources. Nearly twice as many consumers are putting more stock into



what medical science is telling them will lower their risk of contagion than what governments say is safe to do. Those consumer cost/benefit analyses heavily weigh what scientists and medical professionals say about when it will be safe for themselves and their families to leave their nests.

That, in turn, has shaped how long most of the American consumers we studied now think it will take for them to do that.

Over the last two weeks, consumers have added 47 days to how long they think it will take for them to return to normal, and when they think the economy will truly reopen. In my reading, that's pretty consistent with how long the scientists say it will take, too.

More than half (53 percent) of the consumers we studied now say it will take 7.2 months (225 days), up from roughly six months (178 days) just two weeks ago. That belief is largely consistent across income groups and generations. Millennials are the outliers, but not really by that much, with only 44 percent sharing that view.

That seven-month timeline is on top of the two months most have already spent in lockdown.

For those keeping score at home, seven months from now would be December of 2020.

HEALTHY OR HERMITS?

Now, it isn't as if the very same Americans who were out and about in droves in January and February have suddenly turned into hermits and recluses over the last eight weeks. Or that Americans have collectively decided that social distancing from the comforts of their homes is now their preferred way of life for the remainder of the year.

But for a consumer who is still seven times more afraid of dying from the coronavirus as losing their jobs or their wealth as a result of its economic impact, they must be convinced that the benefits of re-entering the physical world are far greater than perceived risks to their health if they re-enter now or sometime over the next seven months.

Calculating those risks and trade-offs also has much to do with the availability of convenient and reliable substitutes for the activities consumers once only did in the physical world — and now do mostly via digital channels, because they must.

Those decisions will be further influenced by how essential those physical world services are to consumers, and whether there are suitable digital substitutes for the activities they miss and don't think they can get any other way.

Their decisions to reengage in the physical world will also be influenced by what restrictions are in place when the physical world slowly reopens — and whether those restrictions will create an experience that a majority of consumers are comfortable with and are willing to accept.

In other words, whether the benefits of the experience will outweigh the costs of the remaining health risk.

And more importantly, whether consumers believe that those digital surrogates create a better experience now and in the foreseeable future.

As consumers mull those tradeoffs and their personal health risks and weigh the cost and benefits of re-entering, the question for every business — and every provider of services to those businesses — is this:

Do the digital-mostly experiences of the last eight weeks offer enough of an improved experience that when the economy fully reopens, those substitutes will become permanent replacements for most or all of what consumers used to do in the physical world?

Based on what we are hearing from the 12,000 consumers we've studied so far, businesses might not want to wait seven months to find out.

LIFE IN A DIGITAL-MOSTLY WORLD

Consumers seem to have settled comfortably into their digital-first — and sometimes digital-only — groove.

In just eight short weeks, we have observed six times more consumers working from home, four times more consumers buying groceries online instead of going into the grocery store, four times more consumers ordering takeout from aggregators or their favorite restaurants, and three times more consumers shopping online for things other than groceries.

Now, 39.2 percent of consumers shop for retail goods online more often than they did on March 6, the first day of our study, and that continues to climb — up 10.5 percent from 35.5 percent in just the last two weeks.

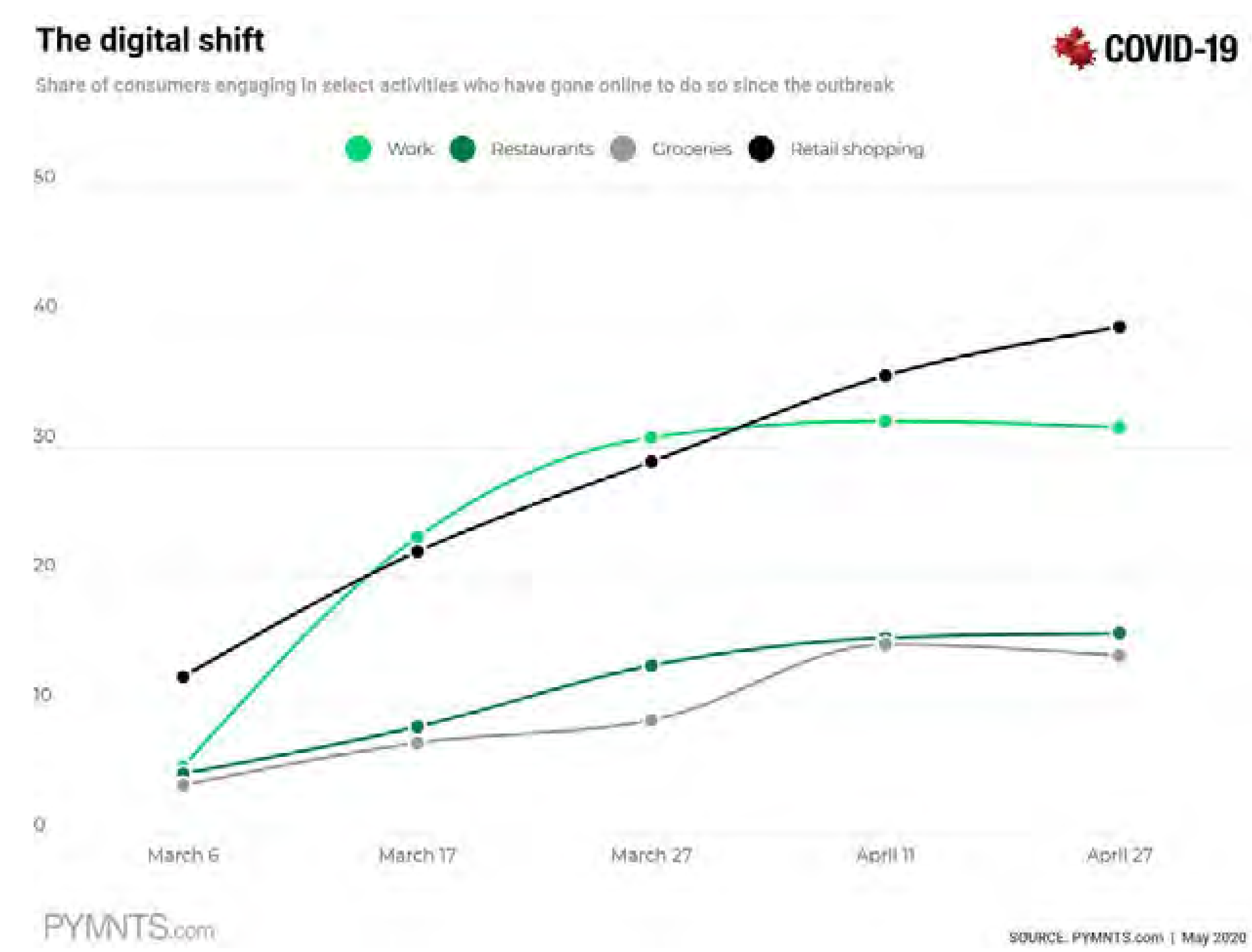
Of course, some, if not all, of those behaviors were changed out of necessity. Even if they wanted to, consumers couldn't go to a restaurant to eat and couldn't shop at a physical store.

And for the activities they are able to do, consumers remain uneasy.

Two-thirds (66 percent) of consumers say that going to the grocery store puts them at risk of getting the virus — even though grocery stores have implemented rigorous social distancing and sanitizing procedures.

Consumers feel the same way about going to the store — with nearly as many (64 percent) citing it as a reason not to shop in physical stores once they reopen.

Those concerns, and the availability of digital substitutes that offer a great consumer experience, suggest that these digital habits will stick — even when consumers can resume their once-normal day-to-day activities.



Only slightly more than a third (36 percent) of the consumers we studied who went out to eat at restaurants before the pandemic say they'll go back to their pre-pandemic restaurant routine — two-thirds say they will not.

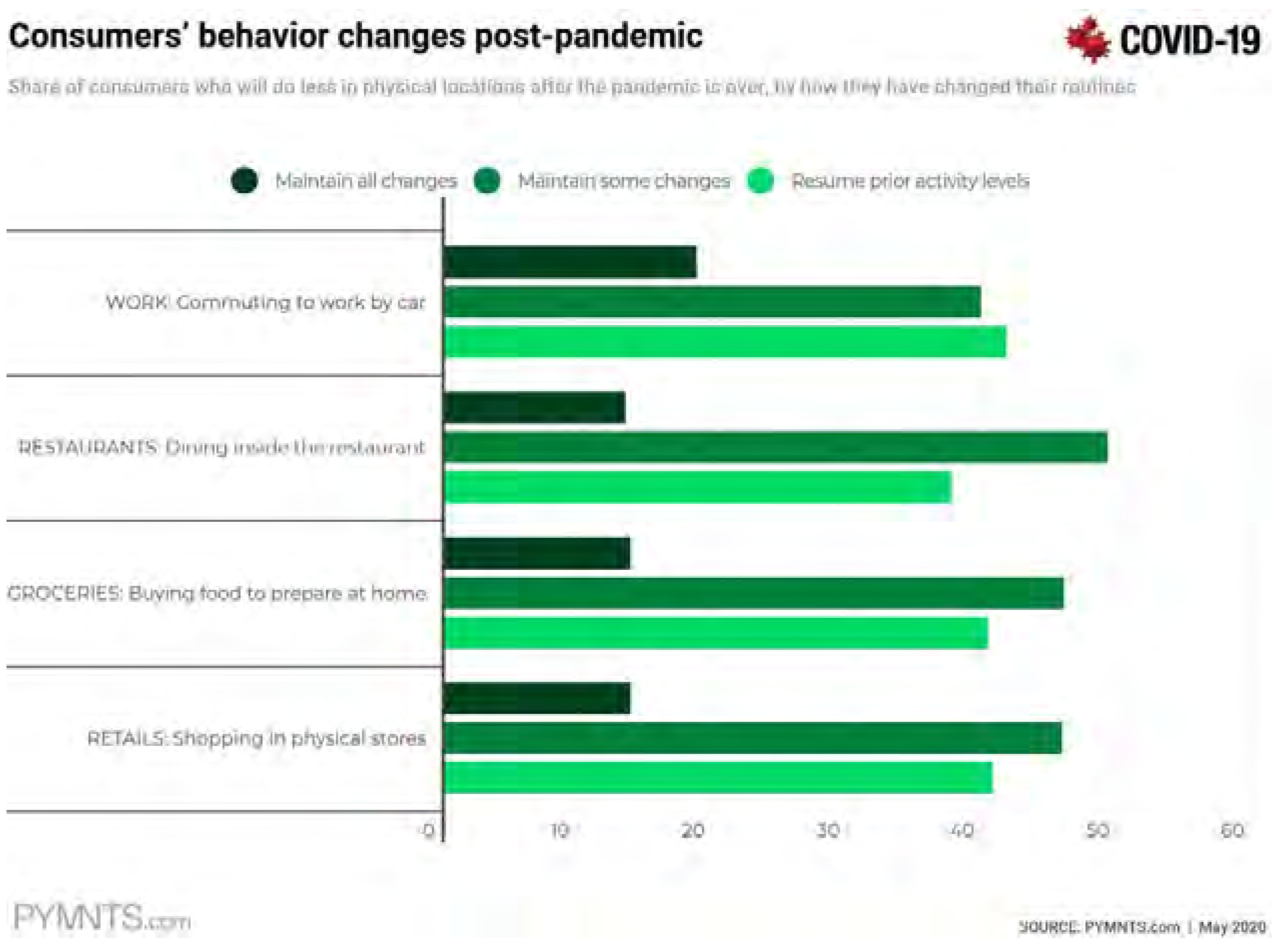
Seventy (70) percent of consumers who are now working from home say they will continue to do so for some or all of their jobs, if they can.

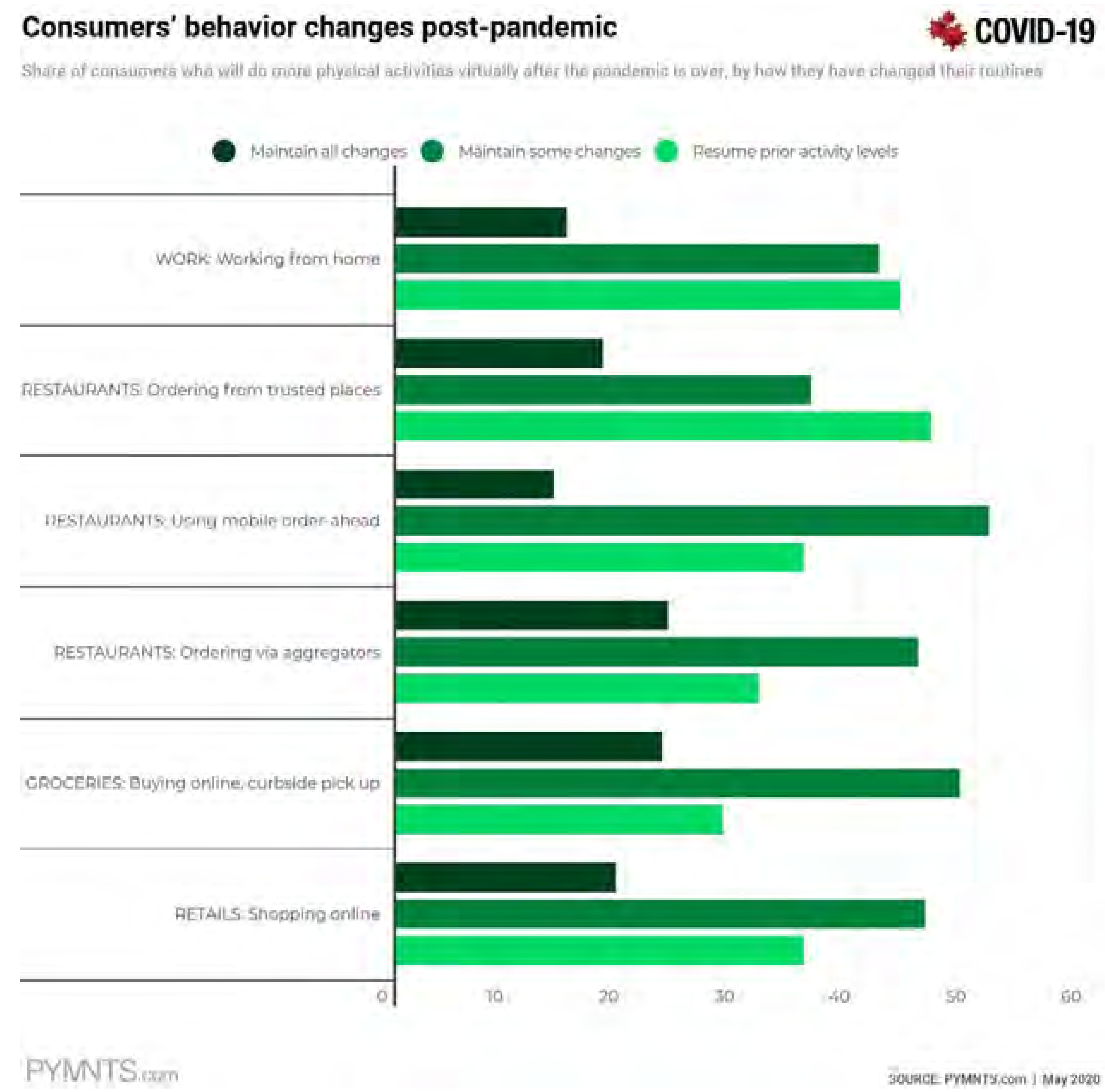
Almost two-thirds (65 percent) of the consumers who have used order-ahead or ordered food from aggregators more often since restaurants closed in mid-March will continue to use them just as much even after restaurants reopen.

Almost three-quarters (71.7) percent of the consumers who now order groceries online and pick them up curbside say they will stick with that routine even when shopping in the grocery store starts to return to its pre-pandemic state.

Almost two-thirds of consumers (64.8 percent) say the same thing about shopping online.

Among those who are now shopping more online, only one-third say they will go back to physical stores to shop when they reopen. More telling, perhaps, is that only 40 percent of those who used to shop in a physical store say they will





resume their normal shopping activities when those stores reopen.

Physical retailers, which had already been threatened by stores with a strong digital presence, now have even more of a reason to question their business models.

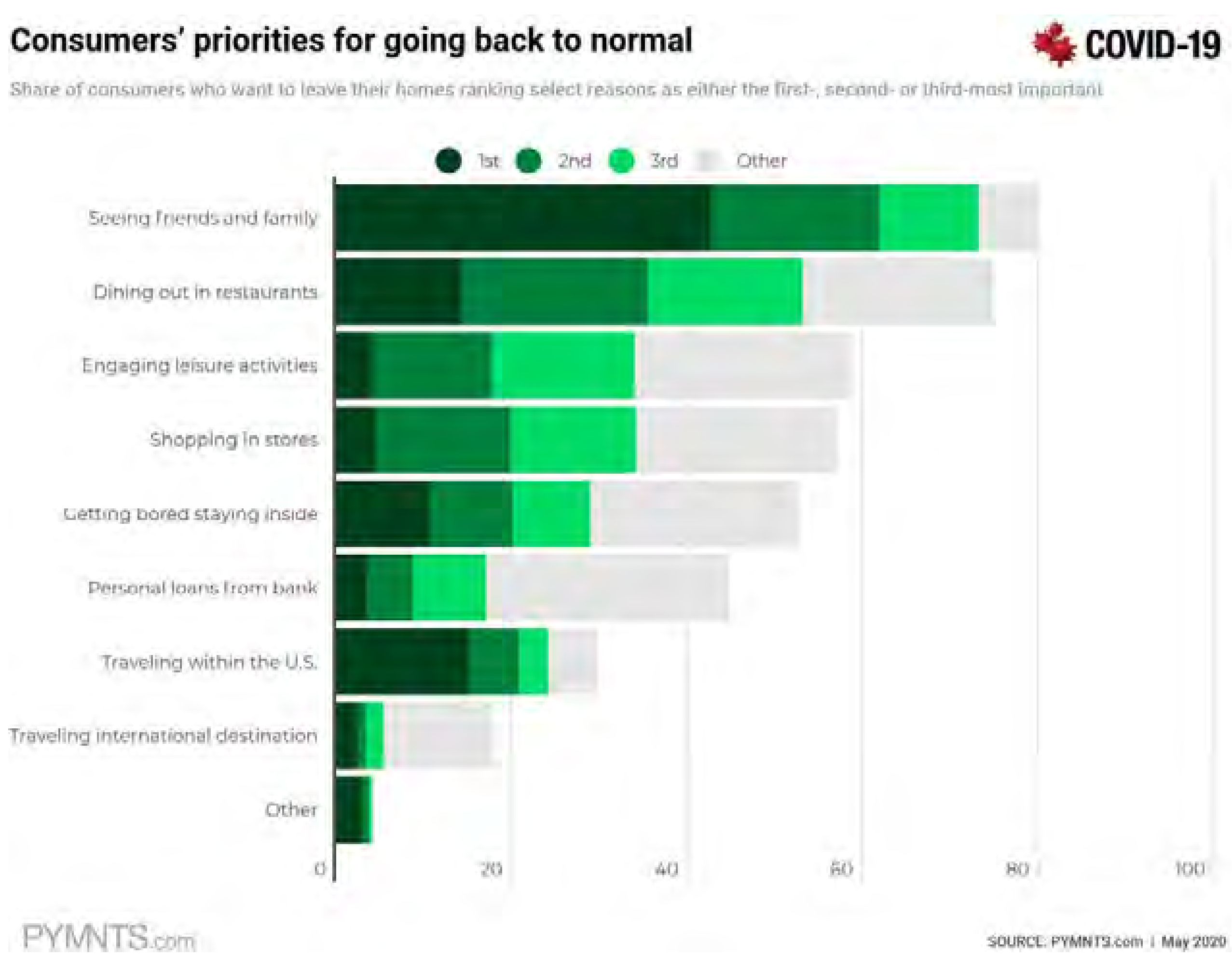
Restaurants, which depend on foot traffic to make their numbers, face a much harsher reality.

WHAT CONSUMERS MISS, AND WHAT THEY DON'T

It's not as if consumers don't miss their physical world activities. They do.

Of those consumers who are eager to leave their homes and restart the physical world economy, there are a few activities they say they really miss a lot.

Three quarters (75 percent) of those consumers say they miss going to restaurants. And who doesn't?



For most, eating out at a restaurant is a social experience with family and friends, which comes with a side of good food. For millennials, who tend to live in small spaces and often with roommates, going out to bars and restaurants with friends is a key part of their daily and weekly activities. Being under lockdown has made that doing that impossible — and an activity sorely missed.

Not surprisingly, 59 percent of consumers who'd like to resume their daily activities said they miss going to sporting events and participating in other leisure activities. And even going to the store (57 percent) to buy things.

More than half (53 percent) of those consumers say they are just plain bored — bet you can't guess who said that the most — and want to leave the house to go somewhere, anywhere and do something, anything.

Then there are the things those same consumers said they don't miss as much.

Less than half (44 percent) of consumers who want to resume their daily activities as before want to travel domestically.

And hopping on a plane and traveling abroad?

That's near the bottom. Only 18 percent of consumers find travel abroad appealing.

More interesting, though, is what those consumers said when we asked them to rank in order the activities that will motivate them to return to their normal day-to-day activities.

Seeing their family and friends tops the charts.

Eight in 10 (80 percent) of consumers with an interest in resuming their day-to-day routines say that being able to visit Grandma or get together with friends is why they want the lockdown to lift. Forty-three (43) percent of the consumers we studied say it's the No. 1 reason for wanting to do so — four times more than the number of consumers who say they miss going out to eat.

Second on the list is getting back to work.

Although it ranked seventh on the list of reasons for leaving the house, going back to work was cited as the most important reason by 43 percent of those who said going back to work was an important reason to reengage with the physical world.

In addition to offering a job and a paycheck to get back to, the workplace is also a hub of social activity. Although using Zoom, Teams or Slack makes working at home more efficient, it doesn't necessarily make it social.

Consumers may also miss going to the store, but only 4 percent of those who said they really missed it see it as the primary reason they'd like to restart their activities in the physical world; only slightly more said the same thing about attending sporting events or reengaging in the leisure activities of the past.

It's not that surprising. Consumers have found suitable digital substitutes to fill those gaps.

Consumers can get a restaurant meal brought to their doorstep, and can even work largely from home right now thanks to software platforms and connected devices that make it easy and efficient. They can order stuff online, they can stream movies, - even first run movies - at home. They can go outside for a run or a bike ride, fire up an app and do a workout, even Facetime with their hair stylist about how to get unruly hair to behave. They can pile the kids in the car and drive to a park and walk around, respecting social distancing.

But what they can't do is give moms and dads and grandmas and granddads a hug. They can't see family and friends at birthday or engagement parties, celebrate weddings or bar mitzvahs, or go to graduation parties or ceremonies. Zoom and Face Time only take those experiences so far.

What's clear is that consumers really, really, really, really miss the one thing for which there is no efficient and available digital substitute: seeing their friends and family more often than they can right now.

IS THE BENEFIT WORTH THE COST?

The consumers we have studied over these last eight weeks remain steadfast in their belief that it will take a vaccine to get them comfortable resuming what used to be their normal routines in the physical world:

Hopping on an airplane for business or leisure travel.

Sitting in packed stadiums or movie theaters.

Standing shoulder to shoulder in a line to do anything.

Sitting at a table a foot away from other diners in a restaurant.

Going shopping at a physical store — even the grocery store.

It's why reentering the physical world – restarting the physical economy – and coming into contact with people they don't know in environments isn't that appealing right now. Particularly when they consider the risks to their health if they do, against the benefit of the experience they might find when they reenter.

Take eating out at a restaurant.

Let's suppose a consumer has her favorite restaurant, one that is her normal go-to. The food is great, the atmosphere is buzzy. It's always crowded.

In addition to dining tables, there's a bar. Maybe she and her friends visit so often that the owner and waitstaff all know them, and serve their favorite drinks and apps without them even having to order.

Part of the allure of going to that restaurant is the experience of seeing, being seen and eating there.

That same restaurant is forced to close as a result of the pandemic, offering only takeout or delivery from a limited menu. She and her friends continue to support that restaurant since they all want to do their part. But they see the struggle each and every week, and notice that the food isn't what it once was. They suspect that's because the kitchen staff has been slimmed down, and it's harder to get the food supplies they need to make more than what's on that limited menu right now. They also suspect that the volume isn't nearly enough to pay the bills – and without alcohol, the tab for each of those orders is a fraction of what it once was.

Then the lockdown lifts – but the regulations require that the restaurant operates at reduced capacity, something like 25 percent of what it once was. The waitstaff and other diners wear masks and gloves and take their temperature at the door. There is a limit to the number of people who can be seated at any one table and at any one time in the restaurant. Reservations are no longer taken – it's first come first served – which requires more planning and introduces more uncertainty. Plastic utensils replace stainless steel cutlery. Diners are asked to sign a certificate, with their email addresses, saying they do not have symptoms at the door, too. The bar scene doesn't exist.

The experience feels weird, even awkward, for everyone.

If that's the restaurant experience for the next several months, will consumers go at all – or as much as they used to?

If a large part of the restaurant experience is the social experience with a side order of great food, it seems doubtful.

Instead, consumers will likely gather at home with their family and friends, in small groups they know and trust. They'll cook together, barbecue together, picnic together. Maybe that will include getting takeout delivered, heating up prepared foods bought at the grocery store, cooking a meal from scratch with stuff they ordered from the grocery store and picked up curbside, even having their favorite restaurant deliver a fully prepared meal. The array of digital substitutes allows those consumers to create a great experience, doing the one thing they really miss – getting together with family and friends – where the benefits far outweigh the risks.

That seems to be what we are hearing, now from nearly 12,000 American consumers. That makes the question for restaurants, retail and every physical establishment with whom the consumer once engaged quite clear: Is what they are doing right now – or plan to do for the foreseeable future – enough to end up on the right side of the consumer's cost/benefit analysis?

Of course, eventually, everything really will get back to normal.

But it's starting to seem that a true normal — as it was before the pandemic — is still a long way off.

Meanwhile, the consumer's cost/benefit calculation will determine how quickly the economy revs back up and which businesses can generate enough consumer demand to survive in the meantime.

It will also determine how many consumers will stick with the online substitutes they've found for physical activities, which seem to get stickier and stickier every time we ask them.

May 11, 2020

The Big Jump: Pandemics And The Connected Economy's Bigger, Faster Future

To understand when and how consumer demand will return and the impact it will have on federal and state efforts to reopen the economy, we need consistently refreshed data from a large national sample to get out of the quarantine "information bubbles" and see the big picture.

For the last eight weeks, I have used data from our every-10-day study of more than 12,000 U.S. consumers and Main Street SMBs to explain the impact of the abrupt shift to digital that was forced on consumers and businesses when the economy shut down in mid-March. We have observed the rapid acceleration of online behaviors that were nascent when consumers had a choice of how and where to shop, how and where to eat, and how and where to travel and work.

We have also begun to document the reopening roadmap for people and Main Street SMBs — a recovery that will be consumer-driven even though it is technically federal- and state government-led.

But to understand how that thinking and those behaviors will influence the direction of the connected economy over the next decade, we need to start with a little math.

INFLECTION POINTS AND JUMP DISCONTINUITIES

Take this graph of a two-dimensional function. The line is chugging along. Then, all of a sudden, the curvature changes. Maybe things speed up or slow down. That's an inflection point.

Image source: "Only the Paranoid Survive" by Andrew Grove

Entrepreneurs live for inflection points — well, mostly the ones that go up and to the right. It's the point where sleeping under their desks and eating ramen noodles has paid off, and their growth accelerates. Their businesses ignite. Fortunes are made.

Andy Grove popularized inflection points in business in his famous book, “Only the Paranoid Survive.”

For platform businesses, these “ignition points,” which were popularized by “Matchmakers” authors David Evans and Dick Schmalensee, happen when the platform has solved the chicken-and-egg problem and gotten enough critical mass for sustained, profitable growth and scale.

And what’s true for startups is true for markets overall.

Demand grows slowly at first, and then more and more people see the benefit of buying a new product or joining a new service. The market takes off and pulls along the firms that introduce those new products or services to consumers or businesses.

Something very different can happen, though — something that math geeks (and I am not one of them) call a jump discontinuity.

A jump discontinuity is where the function breaks sharply and, well, jumps. If you were walking along the path of the function, the discontinuity is like having to climb up a ladder, or jump down a cliff, to a new path.

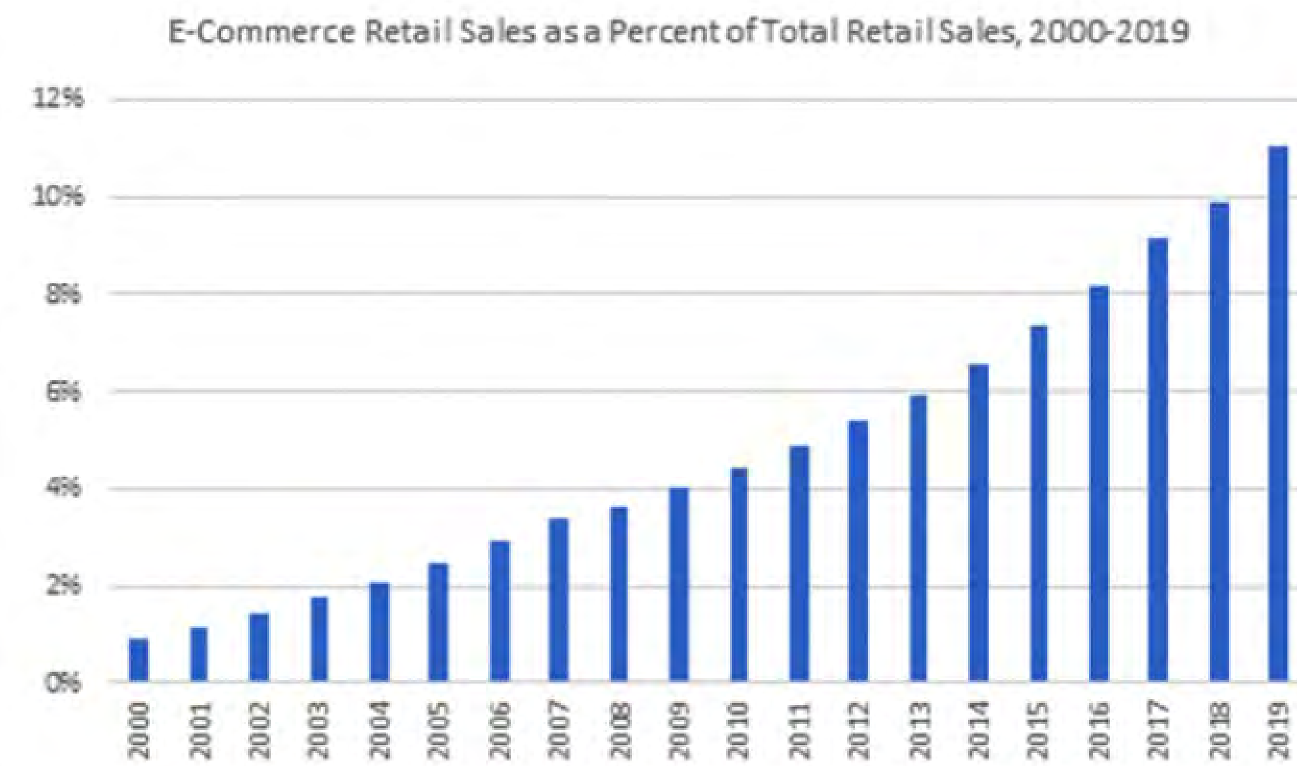
In business, a jump point is when something abruptly happens. That could be good, taking things to new heights. Or it could be bad, falling in the abyss. Sometimes it can be both, depending on the business.

The fact of the matter is that hardly anything ever happens abruptly in business and technology. If you look at most major innovations, for example, they diffuse slowly and seem to take longer than anyone expected.

Take the internet. Back in the mid-1990s, people talked about “internet time” and how rapidly changes would take place.

Take a look at eCommerce. It has grown slowly and steadily based on the Census data. The average annual growth rate has been flat at 15.3 percent since 2010. The convex shape in the last decade simply reflects compounding.

A lot came together at the end of the 2010s, which made me believe that we were actually at an inflection point for the connected economy. It became apparent that the combination of technology, software, artificial intelligence (AI), connected devices, payments technology, data and the cloud would move us away from the apps-based economy that defined the decade of the 2010s and toward one that would give shape to new connected ecosystems and new ways



Source: U.S. Census Data

for consumers and business to interact within them.

And that the growth of the connected economy would accelerate over those 10 years.

That was the premise of my January piece on the future, and how the next decade would evolve and who would shape it.

January, when I wrote that piece, now seems like a lifetime ago.

In fact, so does March.

COVID-19 BREAKS THE CURVE

Unless you’ve been camping out in Antarctica, embracing your New Year’s resolution to disconnect, you are all too aware that we are in the midst of what could be the most important discontinuity in our lifetimes.

At one point, many thought this discontinuity would last a few weeks — not so much a jump that would be visible to observers looking back from the future. It was expected to be a short, funky period, a little bump in the road — and we would return to normal before we knew it.

The infamous "V-shaped recovery."

But now the duration, depth and contours of the disruption, while uncertain, will clearly be longer, deeper and more sweeping than many imagined a few months — and perhaps even a few weeks — ago.

What is clear is that the crisis has resulted in a jump discontinuity that will have dramatic consequences for the evolution of the connected economy over the next decade and beyond.

The pandemic will eventually subside.

People will be able to get medicine for an infection. There's a good chance that within the next 18 months, we'll have a vaccine that will protect many. People will want to embrace physical interactions again. They may even have a pent-up demand to go dancing and crowd into concerts and stadiums.

But looking back, we are likely to see 2020 as the year in which the connected economy made a quantum leap to a higher level of activity, faster growth and more rapid innovation.

Some businesses will find their way back onto that path (or climb up those steps to get back onto it). Many will get lost and find that the path they were walking is now a road to nowhere.

Was The Connected Economy At An Inflection Point At The End Of 2019?

Despite the decade of long, steady growth, it was apparent — though perhaps not certain — that the connected economy was at an inflection point at the end of 2019. It looked like the move from physical to online was accelerating, or at least poised to do so soon.

You could see and feel the momentum, driven by innovators with new solutions and platforms, buoyed by consumers with an insatiable appetite for integrating connected devices and new tech into their day-to-day routines.

People were already gradually replacing their physical activities with their online counterparts. They were learning the convenience of shopping on Amazon and other eCommerce platforms, and getting things delivered to their door. No fuss, no muss.

Physical retail was in serious decline, with massive store and mall closures, and department stores and others on the precipice of bankruptcy. As more traffic disappeared and more stores

shuttered, even more retail would happen online — the effect became the cause of its decline.

Car manufacturers were struggling, and rental car companies were in bad shape. Personal travel had moved over the course of the 2010s to ridesharing services. Sure, they were yet to turn a profit, but it was clear they would prosper — and that the automobile industry would have to reinvent itself, and that rental car companies were not long for this world at a significant scale.

It has taken a long time for people to get into ordering their groceries online. But innovations in the gig economy and logistics-enabled platforms like Instacart, as well as the grocery stores themselves, made it increasingly easy for people to order online and get what they wanted quickly delivered. And, of course, Amazon pushed delivery of center-of-the-aisle consumer products to Amazon Pantry in 2014, and later everything through Whole Foods.

People had so many more choices for doing high-quality video calls from their mobile devices or desktops than ever before. Many of us found that it was a lot easier and less disruptive to have meetings over the phone. Why jump on a plane and have to host a visitor when you could use BlueJeans, Zoom or Skype? Too small to really dent the air travel business, perhaps, but the direction was clear.

The list goes on across the 10 pillars of the connected economy: how we eat, shop, pay, live, travel, bank, work, communicate, have fun and stay well.

In all of these cases, consumers were substituting online solutions that had more capability and less friction than physical-world options. And as they did so, more people followed. Physical solution providers started withering, making them less appealing and pushing more people online.

Meanwhile, the next generation of advanced cellular technologies was about to be deployed. A decade earlier, starting around 2011, the U.S. carriers started installing 4G networks. By 2014, that resulted in a massive jolt to the smartphone ecosystem, and an inflection point in app adoption and use. In early 2020, carriers were starting to deploy 5G technology, which would blanket every nook and cranny of the physical world with extraordinarily fast and wide data pipes.

Those developments set the stage, as of Jan. 1, 2020, for an important inflection point. That was the basis of my thesis — then.

THE MARCH 2020 JUMP

Then COVID-19 hit.

The pandemic has pulled people from their physical activities to virtual equivalents across all of the 10 pillars of the connected economy.

In some cases, people just didn't have physical solutions to turn to. In other cases, the physical solutions, like going to the grocery store, weren't as good as they used to be, with the risk of infection just one of the problems. And so people substituted online solutions for degraded physical alternatives.

A few weeks of this would perhaps be a blip. The future observer looking back who didn't remember the pandemic might not even notice it in a timeline of the adoption of online methods or the decline of physical ones.

But we can be pretty sure this is a quantum leap.

Take the U.S. (although similar things are happening almost everywhere). Tens, if not hundreds, of millions of people are trying online solutions that weren't on their radar a few months ago, or they are using online solutions much more.

PYMNTS' surveys of consumers (12,000 so far) during the pandemic have documented the shift. Based on population projections in on our surveys, 12 million more people used online grocery ordering between March 6 and April 27 than in January of 2020.

Think of that — 12 million more adopters of a relatively new digital behavior in less than two months.

When people feel safer shopping in the physical grocery store — and two-thirds of the consumers we study say they fear getting sick while shopping for groceries in the store — some of these people will revert to their old ways.

Many will continue to use online solutions more.

THE COVID-19 JUMP

To see how important the COVID-19 jump really is, consider the diffusion of some older innovations.

People were pretty happy riding horses and being pulled along in horse-drawn carts. It took a long time to persuade people to get cars or for governments to build roads. Now just think what would have happened if a pandemic wiped out much of the horse population.

Or the adoption of electricity. Folks were pretty happy with whale oil for their lamps — but what if the whales died?

In both cases, some people might have gone back to horses and whales. Many would have stuck with the new ways of doing things — particularly as more of their friends, family and neighbors did so — leaving oil lamps and horses behind.

The same will be true for the connected economy.

Most every adoption curve — across online platforms and across the 10 pillars — will have a break in early 2020, with a jump upward, from which growth will happen.

As a result, high degrees of penetration will take place earlier across all parts of the connected economy.

Across every single one of those 10 pillars.

WHO BENEFITS FROM THE COVID-19 JUMP?

The big, immediate beneficiaries of the COVID-19 jump are online platforms that had made significant innovations, but whose success wasn't guaranteed. Platforms like Instacart were still losing money even though they had gotten large. And some others, like Grubhub, were bleeding cash. A deeper dive than I can do here would probably show many more platforms, apps and online businesses in similar situations.

The COVID-19 jump provided a rapid surge in customers and use. For some platforms, that means achieving critical mass for self-sustaining growth is possible. For others, it means crossing the profitability line — as in the case of Instacart, which finally eked out a profit. And for still others, like Zoom, it has meant going from being yet another successful platform to being a superstar.

Meanwhile, the large, established platforms have in one fell swoop pulled in millions of dedicated users, and have become entrenched as the go-to places for the connected economy. Take Amazon, for example. Its eCommerce business has benefited in three ways.

First, more people are using Amazon for online ordering, leading it to hire hundreds of thousands of additional workers for warehousing and delivery.

Second, more retailers are signing up for Amazon Marketplace as their fear of going under overtakes their suspicion of Amazon. And many of the physical retail alternatives to Amazon won't see the other side of the pandemic, as bankruptcies and closures rapidly pile up.

A similar story with a twist is playing out at Facebook and Google.

Usage is surging as people under lockdown spend more time on connected devices for communication and entertainment. The companies' ad revenues have taken a hit as the economy sags. They'll survive that, but many of their ad-supported competitors may not be so lucky. The pandemic will likely push physical newspapers, which didn't have much lifespan left anyway, into an early grave.

Of course, the COVID-19 jump isn't upward, not even for all online platforms.

Some, like Uber, are tied closely to physical activity, and may struggle to get back to their earlier growth. Personal cars, bikes and shoe leather might be better options than ridesharing for some time — until consumers and drivers feel it is safe to reengage.

The diffusion of 5G technology could also slow down. One sensible reason is that installing 5G requires sending workers out to install or replace equipment and technology – and that's not so safe right now. It isn't clear how quickly the major carriers will be able to get the country covered with 5G.

The crazy reason is that there are virally spreading conspiracy theories that 5G causes the coronavirus. In fact, the U.K. carriers have asked people to stop burning 5G towers.

CRISES, COVID-19 AND THE CRUCIBLE OF INNOVATION

The Great Plague of London wiped out about a quarter of the population of London between 1665 and 1666. This was the last major epidemic from the bubonic plague, which started sweeping Europe 300 years earlier. Isaac Newton had just finished his undergraduate degree at Cambridge when it began.

The 23-year-old hightailed it out to his family farm in the countryside. During his lockdown, he laid the foundations of calculus and the theory of gravity, which revolutionized math and physics.

Crises and pandemics can be crucibles of innovation. Not everyone spends their time binge-watching Netflix and recording videos on TikTok (although it does make one wonder if young Isaac would have been so productive if he'd had those distractions). People have more time to gestate new ideas and come up with innovations that can change our lives. And they see new opportunities as a result of the disruptions all around them.

Although it is implausible to think that consumers will never go back to the day-to-day routines that defined their worlds in January and early February, it is becoming quite clear that when they feel comfortable reentering the physical world seven months or more from now, their interactions with people and businesses will be different.

We will observe a post-pandemic recovery shaped by access to convenient digital substitutes, which provide consumers with a safer, more convenient and more efficient way to interact. We will see the innovators who have witnessed the power of connected economy in action over the course of these last few months rethink their businesses, dig deep and do more.

What's visible now are the established platforms, the up-and-comers and the early startups. And they will benefit from the jump.

What isn't visible to all of us are the great ideas entrepreneurs will develop that could change our lives.

As we look back at COVID-19 jump, a decade or more hence, my guess is we won't be talking only about many of the digital firms we see today.

We'll be marveling at a whole new group born during the crisis, who have seen the power and potential of the connected economy and have changed the world.

May 26, 2020

The Flaw In Demonizing Big Tech

Between all the burger-flipping, and making sure your mask didn't catch fire while you were doing it, you probably missed an important development that happened over the holiday weekend here in the U.S.

Late Friday afternoon, a senator and a congresswoman introduced legislation that targeted anyone named Karen.

You see, for quite some time, there have been a lot of complaints — not to mention jokes and memes — circulating on the internet. I'm sure you've read many of those articles, but have been polite enough to never mention them to me ... because, well, my name is Karen.

Thanks for that, by the way.

Here's an example of what I mean.

As one Washington Post article (by a Karen, of course) put it, according to the growing consensus (now made viral on media, social and otherwise), "A young Karen likely would have been the class snitch, tattling on her classmates to the teacher to get them in trouble. Middle-aged Karen is the one asking to see your manager. And a Karen at the peak of her powers will call the police on someone for a mild inconvenience."

The "Just Stop Karen" law will require all Karens to, well, just cut it out, or face jail time. I don't know whether this extends to writing my occasionally snarky pieces on PYMNTS, but I'm firmly in the camp that orange is definitely not the new black.

Okay, of course, I'm just kidding. That's what Karens do, I guess, which makes them all the more endearing.

But it helps make a larger point.

BIG BAD TECH

Civilization has progressed enough that most of us know it's wrong to demonize a group of individuals based on a personal characteristic — because it isn't based on reason or evidence, and simply reflects base prejudice.

But this is more or less what's going on with Big Tech, and even lots of tech that isn't so big right now. Following several years of op-eds and articles that condemn tech companies and attach labels to them, like the Frightful Five, "Big Tech" has become a code word for "Bad Tech" among some politicians, regulators and the media. This group demonization has culminated in proposals for the "Just Stop Karen"-type legislation that targets these businesses — not for doing something necessarily bad, but for being part of that group.

Take the Pandemic Anti-Monopoly Act that was introduced by Senator Elizabeth Warren and Congresswoman Alexandria Ocasio-Cortez a few weeks ago.

That proposed legislation would impose a moratorium on acquisitions involving firms with more than $100 million in revenues, or by private equity firms, until small businesses, workers and consumers are no longer in severe financial distress. Since firms with more than $100 million in revenue can't buy, other firms can't sell to them.

That makes this a moratorium on firms selling firms as well as buying them.

The introductory language is an example of this group demonization. The authors claim that "Big Tech has moved to snatch up struggling startups" as one of the reasons for the proposed moratorium. The implication is that Big Tech, as a class, has been bad because they have acquired startups.

The proposed Act links to an article that claims acquisitions have supported the platforms' trajectory to become among the most powerful companies in the world, and that startups need to be "disincentivized from selling out to the dominant platforms [aka Big Tech] in this moment of weakness."

Even though many of them would like nothing more, since that is how they can take the assets they have created and see them scale, grow their own businesses, and hire and take care of their workforce.

Now, it is almost certainly the case that some Big Tech firms have done anticompetitive things, and perhaps they have acquired some small rivals they shouldn't have. But that is very different from condemning Big Tech as a class, and suggesting that acquiring startups is generally a bad thing and that they shouldn't be allowed to do it — now or any other time there is a national emergency.

OTHER TECH MAY BE FRIGHTFUL, TOO

At the same time, lawmakers and the opinion writers want to break them up. Senator Warren campaigned on breaking up Big Tech. Amazon, Facebook and Google headlined the proposal, but it extended to any "large tech platforms."

Maybe you assume that just because you haven't been called out as a member of the Frightful Five, you're safe. But if you are any large tech platform powering the connected economy, don't wipe your brow in relief just yet.

Consider the AB5 law in California. In theory, this legislation was about making companies treat workers as employees rather than independent contractors. It's also a well-trodden subject in state and federal labor law.

But in scratching below the surface, it's clear that AB5 is essentially an assault on app-based, on-demand tech companies.

It is replete with exceptions for much of the traditional gig economy — for instance, it's for people selling Tupperware part-time, but not for someone dropping off meals for a restaurant delivery app. Uber and Postmates, in fact, have filed a lawsuit in which they claim that "AB5 is an irrational and unconstitutional statute designed to target and stifle workers and companies in the on-demand economy…"

For some extra #stayathome fun between Zoom calls, take a look at the exceptions. It's pretty obvious.

So, if you have a company that's smaller than the Frightful Five and you think you're safe, guess again. Once you trigger that tech threshold and get the group label, you may be deemed a demon, too.

THE DELIGHTFUL DOZEN

Of course, maybe some of these op-ed writers and polls have a point. Perhaps there is something about Big Tech, or Other Tech, that makes them frightful. With all of those acquisitions and accumulations of power, maybe they are charging consumers high prices or giving them lousy service.

Big business can be frightful sometimes — or at least annoying.

Many people used to really hate their local cable providers. They charged a boatload of money for hundreds of channels, most of which people didn't need or want. And it was a huge pain to disconnect the service if they were fed up. If you needed to get cable installed, good luck with that — you had to set aside an entire day, since you couldn't be sure when they'd show up. The large cable companies weren't on anyone's "most trusted" or "most admired" list of companies — far from it, in fact. In the old days, they were able to get away with this, because most people just didn't have much of a choice.

But with Big Tech, there's a huge disconnect.

Consumers like these companies. A lot. The 2019 Morning Consult survey found that Amazon and Google were the second and third most trusted brands among consumers.

Periodically, PYMNTS does surveys of various services in which we ask people what firms they would trust to provide them. These studies aren't about Big Tech, but we happen to include Big Tech and Other Tech among the choices provided. Generally, people place a high degree of trust in Big Tech and Other Tech companies to provide them with a variety of critical services, including banking and financial services, compared with other companies.

And it's not hard to see why.

Amazon has revolutionized online buying and home delivery. It made the friction of buying online very low and invested in a logistics system that enables people to get fast, reliable delivery. This didn't just benefit Amazon shoppers — it also helped to bring new small sellers on board and gave them access to Amazon's massive audience of high-spending Prime customers.

That also forced other retailers, including big physical ones like Walmart, to up their game and try to provide similar value to consumers. And it prompted other FinTechs to develop and scale their own platforms, giving sellers new opportunities to compete in a digital world.

Google has helped consumers find things online efficiently, for free, and has provided sellers with a low-cost, efficient method of advertising and generating leads. Since consumers can go online, and see many choices, that has made the competition more intense for online and physical retailers.

The other Big Tech companies have similar stories. And consumers keep flocking to these platforms and using them more and more — particularly today. Together, Big Tech and Other Tech are making it possible for our physical economy to be on lockdown and for consumers and businesses to continue to transact. Without them, it would be hard to imagine accessing essential

products and services — particularly for those who are unable or unwilling to venture from home.

Right now, if you look at what consumers do with their clicks and say in response to surveys, these are the Delightful Dozen. It's possible, I guess, that the story will eventually end with them being Frightful.

More likely, though, the Frightful Five is a character in a make-believe tech fairytale — and if you need a monster, why not make it them?

After all, the FAANG acronym is just so perfect for that.

THE TECH PLATFORMS PULLING UP THE REAR

Smaller tech platforms might revel in the fact that the big guys are under the microscope. But the recent attacks on the gig economy platforms shows that once you start labeling tech with evil monikers like Frightful, there's really no end.

Uber and the other ridesharing platforms upended a taxi-cab industry that passengers in many major cities reviled. Here in Boston, which is probably better than most, back in 2009 or 2010, if you ordered a taxi to pick you up at an appointed time, you had no guarantee that it would come, or when it would show up. If you needed to get to the airport for an early morning flight, you could either roll the dice or order a car from a very expensive limousine service.

In the U.S., Uber managed to get around oppressive operating restrictions by creating a loyal base of riders who would advocate for the service when regulators and politicians had to deal with inevitable efforts by the taxi industry to shut down a more efficient competitor.

Over the last decade, consumers have voted with their butts and their dollars to ditch taxis and rental cars in favor of ridesharing.

Meanwhile, lots of people have decided to make a few extra bucks by driving part-time for these and other local transportation platforms. Our surveys of gig economy workers find that they mainly do gigs to soak up a few extra hours and like the flexibility of the on-demand companies.

The AB5 law in California amounts to a large-scale assault on the business model of these companies and their ability to deliver value to people who to catch a ride, get a meal delivered or have someone shop and bring their groceries — and to also provide benefits for the people sitting in the driver's seat for all these activities.

At least with Big Tech, the companies have strong balance sheets to help them fight back. Many of the new targets have yet to achieve a profitable growth path, so the restrictive laws and regulations put them, their customers and their drivers at risk that these platforms just won't make it, or will fail to scale.

THE GOOD, THE BAD AND THE UGLY

Of course, like many driven entrepreneurs, the tech industry has a lot of people with sharp elbows, who are hypercompetitive and aggressive.

But the problem with the attack on Big (and Other) Tech is that it's long on demonization, short of analysis and slim on facts. Companies buy other companies all the time instead of building key capabilities. If that enables them to create more efficient companies and get to market faster with more valuable services for consumers, we should applaud that.

At best, there's loose speculation that some acquisitions might have squelched competition. And it remains just speculation unless someone can make the case, with data, that the purchased companies could have evolved into viable competitors or made some other competitor stronger, and that either would have been better than rolling those assets into the Big Tech platforms.

Even then, wouldn't we want evidence of a consistent and significant factor in the success of these platforms rather than something that happened once in a while?

Like all other scofflaws, including the occasional Karen (present company excluded, of course), we should be targeting tech firms only when there's evidence that they have done something bad, or that they will in the future.

Just like it shouldn't be, "Oh, your name is Karen, so you must be a problem," it shouldn't be, "Oh, Big Tech, you're bad and therefore you must be stopped."

June 15, 2020

Why Digital's 3.0 Shift May Take Longer Than We Think

There is an out-and-out frenzy to capitalize on the pandemic-fueled digital shift that gave consumers few options for accessing products and services over the last twelve weeks.

Miss this shift and miss it now, and pundits say it probably won't be long before you're just another piece of roadkill on the highway of companies who couldn't adjust with the times and changing consumer and business demand.

And you better do it right now, they add, since digital shifts wait for no one.

Innovators with better tech will appear and — literally overnight — snatch your customers out of your calcified incumbent arms and build scale, they say. And incumbent, for some, means any business that existed before March of 2020.

There is, of course, some truth to this.

Any business, new or old, that hasn't used the last 12 weeks to rethink its business focus, business model and digital strategy likely won't make it in the long term — but not because an overnight sensation will emerge in the next few months to eat its lunch.

And there will be businesses that, regardless of the will to shift, simply can't because of a failure to embrace digital as a key customer touchpoint even before the pandemic made it an essential business strategy. For those companies, making the quantum leap to digital is, literally, a bridge too far.

And certainly, there will be innovators — new and existing firms — who see the very important secular shift that has just emerged, and the opportunity to capitalize on it, who will find success.

This shift isn't about giving physical a digital channel, but instead integrating physical into a digital-first experience.

But it won't happen overnight.

Just ask many of the players who are, today, powering the digital shift that we have just witnessed.

THE FALLACY OF 'INTERNET TIME'

In November of 1998, a book was published that captured the prevailing wisdom of startups operating at the time. The book, *Competing in Internet Time*, was written by Professors Michael Cusumano (MIT) and David Yoffie (Harvard Business School) about the headline-making browser war rivalry brewing during that decade: Netscape and Microsoft.

The book's thesis, using the David vs. Goliath example, was that competitive advantage was up for grabs at the hands of startups that could take share, achieve critical mass and scale, quite literally overnight. Their message was that "internet time" waits for no one — and those who can't move at internet speed would die at the hands of startups who could. And quite possibly even before incumbents realized they'd been out-flanked.

The "internet time" mantra drove startups into thinking that anything built to run "on the internet" could become an overnight success because the internet would magically propel its scale.

Unfortunately, that thinking ignored the complexities of adapting businesses processes, workflows and business models to a digital world, what was needed to successfully build and operate platforms at scale, the fragility of platform business models and an understanding of the dependencies needed to drive success.Not to mention the time it would take to do it. Especially if any of those innovations touched the physical world.

As a result, many startups that drank the "internet time" Kool-Aid found themselves on the wrong side of the competitive advantage proposition.

The Nasdaq composite index, fueled by the notion that startups could be overnight sensations by operating at the speed of "internet time," rose by 400 percent in the late 1990s, only to crash by 78 percent in 2002, erasing all of its gains. Most of the overnight successes built on "internet time" largely became one-hit wonders, including Netscape, which soon lost the browser war to Microsoft, and was largely shuttered not long after it was acquired by AOL Time Warner for $4.2B in 2002.

Soon, the "internet time" mantra was replaced by the "tipping point" battle cry — a concept where just a nudge of luck could vault an Internet business into the stratosphere.

If only.

SLOW AND STEADY THROUGH THE SLOG

There were, however, those born during the heady days of the dot com boom who survived the dot com crash, largely because they were in the middle of the long slog to build scale and ignite — and because they were also very much tuned into the complexities and slow pace of getting to scale.

These startups, and many who were born much later, saw the potential of digital and the internet to change how consumers and businesses found information and interacted — but also saw the challenges of quickly getting to critical mass, and had a business model that would generate and sustain profits for themselves and their investors.

And they steered well clear of the elixir of ad-supported content plays to help them do that.

For those startups, digital's 1.0 shift was about figuring out ways to reduce the frictions of engaging in a physical world where the lines between physical and digital were then very bright and very fixed.

And where going digital was very new.

Access to the internet then relied on devices — desktop computers — that consumers had in only one of two places — their homes or offices — and had to make time to use.

At the turn of the millennium, only 25 percent of the U.S. population had access to a cell phone — and if they had a desktop at home, access to the internet wasn't via a broadband connection. Broadband wouldn't become pervasive in homes until about 2005.

Until then, going digital was largely via a very slow dial-up modem and required operating on a desktop at home during evenings and weekends, or at work using the office computer at lunchtime. Fulfilling those digital purchases meant figuring out how to accept payments online and managing the logistics of getting products delivered. Delivery times then were measured in weeks, not days or hours.

Some of those survivors, now two-plus decades old, include many of the digital 1.0 shift pioneers: Amazon, PayPal and Google. The first decade of their work to build a critical mass of stakeholders on both sides of their platforms helped position them well to capitalize on innovations in wireless broadband, smartphones and apps that made it possible for commerce to happen anytime, anywhere.

These innovations would usher in digital's 2.0 shift, starting in about 2009 and 2010.

Digital's 2.0 shift was truly about blurring the lines between the physical and digital worlds by making commerce happen anywhere a consumer with a smartphone wanted it to. The digital 1.0 pioneers who invested to integrate payments into digital and then mobile apps helped to ignite a new wave of digital commerce for themselves, while inspiring others to embrace mobile as a more accessible digital channel for doing business — or as an alternative to doing business at all in the physical world.

Digital 2.0 also inspired a new crop of innovators who saw the opportunity to further blur the physical/digital world lines by using mobile devices and apps to create new digital-first experiences. Their names are familiar: Uber, Lyft, Instacart, DoorDash, Grubhub — innovators who have removed enormous friction from doing business in the physical world, and who today are used by tens of millions of consumers, but who have yet to prove their business models are profitable, even a decade or more hence.

Now, fast forward a decade to January 2020.

The innovators who kicked open the doors to digital 1.0 and 2.0 more than 20 years ago had momentum, the result of their work over those two decades before to build scale, improve and enhance digital and mobile capabilities and add new features to their platforms. Yet as successful as they have been and as dominant as their platforms are today, they still represent a fraction of overall payments and retail sales.

According to a recent PYMNTS analysis, Amazon, for example, at roughly half of all online retail sales, accounts for only a small fraction of overall retail sales now, more than 20 years after it launched its eCommerce marketplace.

The ride-hailing platforms like Uber and Lyft represent a small portion of the overall mobility and transportation segment that they set out to displace and disrupt a decade earlier. In fact, Uber in its April 2019 S-1 said that it was only at 1 percent of its overall addressable market worldwide.

Aggregators and delivery platforms like Grubhub and Door Dash are expected to account for $16.6 billion in sales by

2023. Restaurant sales that same year are expected to hit $708 billion.

DIGITAL'S 3.0 SHIFT

Today, the pandemic has opened the door to digital's 3.0 shift — a world in which the lines between the physical and digital worlds will blur even further as physical becomes an integrated part of a digital-first experience.

But unlike the shifts to digital in the 1.0 and 2.0 versions, success will require more than a slick user interface on a mobile device, and even more than integrating payments and loyalty into a digital commerce experience. All of that is table stakes today.

A digital 3.0 shift will be characterized by the ability to deliver products and services at the hyperlocal level. Logistics — innovating and enabling that last mile, at scale — will ultimately decide who wins and who does not in a digital 3.0 world, a world where digital and physical become largely indistinguishable. And a world in which consumers say many of their digital-first habits will largely stick in a post-pandemic world.

Like the 1.0 and 2.0 versions of prior digital shifts, those who have spent the last ten or twenty years investing in building out their platforms to evolve and blur the physical-to-digital experience, come to it with a running head start, having sorted through the kinks of getting critical mass and sporting the confidence of engaged platform stakeholders.

And, like every other digital shift, innovators will emerge who see the potential of the quantum leap to digital that the pandemic has created and who see an opportunity to amplify digital in a 3.0 world.

And all of them will be focused on truly cracking the code for the physical delivery of a digital-first interaction, on perfecting the workflows and the business models that underpin them and on removing the frictions that have become more visible as consumers and businesses have been forced to do business in a digital-first way.

That will be hard, and it won't happen overnight.

Even innovators like Amazon, with decades of experience and billions of dollars of investments in building out a massive logistics platform, struggled to meet the upsurge in demand during the pandemic. They, like everyone, have a long way to go to handle large increases in volume as we move to a digital-first economy where consumers want more things delivered to their doorsteps — and faster than ever.

But it's not just about the physical inventory and getting goods to consumers and businesses. Other innovations — in payments, in healthcare, in B2B payments, in moving money cross-border, in travel and hospitality, and more — will each have their own "last-mile" problem to solve as they try to leverage their assets and use digital's 3.0 to revolutionize how they engage with their customers and partners.

Although time is of the essence, digital 3.0 will take time to realize its full potential. Those who understand this will take a measured approach to capitalizing on this extraordinary opportunity by playing offense, not defense. Thinking strategically, not being reactionary. Being focused, not distracted by the clatter of the next big thing that underappreciates the effort required to scale and drive profits.

Because if we have learned anything over the last 20 years of living in a digital world, it's that playing to win in internet time probably isn't necessarily the best way to play the long game.

June 29, 2020

How A Global Pandemic Created A Digital-First Customer In 12 Weeks

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Then, cases in the U.S. had hit 1267 and there were 38 deaths, most of them concentrated north of Seattle, Washington. Worldwide, there were a reported 120,000 cases and 4,300 deaths. The WHO's statements laid bare what everyone all over the world had feared: The coronavirus would hit every single country in the world and put every single citizen living on Planet Earth in its path.

One week before, PYMNTS fielded our first in a series of more than 10 bi-weekly national studies of U.S. consumers about the impact of this global pandemic on how they worked, traveled, shopped, bought food and spent their leisure time. What we found was a consumer that was already nervous and already practicing their own social distancing by reducing the level of activity in the physical world. They weren't going out to eat as much, or to the physical store to buy things as much, or traveling for work or pleasure as much, or even going to the office to work as much. We saw the first signs of the massive digital shift to come take shape.

One week later, many governors across the country made decisions to shut down the physical economy. On March 17, PYMNTS began to conduct bi-weekly studies across a national sample of Main Street SMBs, the collection of businesses on the main streets and side streets of communities across the country, to understand the impact of the pandemic on their businesses. What we found was a Main Street SMB sector that was floundering and ill-prepared to deal with the loss of their daily foot traffic all at once. Then, 40 percent of those businesses said that they doubted their ability to survive the pandemic.

Over the course of these studies, we have studied more than 14,000 consumers and more than 1,500 Main Street SMBs. These studies serve as a timeline of sorts, documenting the impact of the pandemic on U.S. consumers and SMBs. Each time our studies came out of the field, I shared my own insights around the digital shift in how consumers changed how they work, shop, shop for food, eat, travel and spend their leisure time – as well as the struggles of the Main Street SMB to stay afloat.

We think our work has been a bellwether of the pandemic's impact on that shift to digital – and why it occurred.

Early on, we surfaced the fact that consumers were prioritizing their own health – and not their jobs or their financial wealth – in making decisions about doing business in the physical world. And that the only thing that would give them the confidence to reemerge was a vaccine.

Early on, we identified a consumer and a Main Street SMB that didn't think recovering from the pandemic would take a couple of weeks or even a couple of months. Less than a month ago, we found a consumer who, for a variety of reasons, had added 53 days to their own recovery timetable, now reaching early Q1 of 2021. Main Street SMBs share that sentiment.

Early on, we identified the massive shift to digital in categories like grocery and food delivery, which pre-pandemic were still quite nascent. Using statistical analyses, we also identified four consumer digital personas that offer new insight about whose digital habits might stick, where and why.

We also found a Main Street SMB that got a cash flow lifeline from PPP funds, which may still not be enough, and a huge incentive to embrace digital as a way to turn what was essentially zero sales to something that could help keep their businesses open and operating, even at the margin. At the same time, we found a Main Street SMB that wants to go back to business as mostly usual once the pandemic passes, even though they have embraced new digital methods. A restaurant operator still wants her restaurant to be one that largely welcomes patrons for a pleasant dining experience, even though takeout and delivery got her over the hump during the darkest days of the pandemic.

At nearly the halfway point of the year, the pandemic has topped 10 million cases, with roughly 500,000 deaths. The U.S. has crossed 2.5 million cases with more than 125,000 deaths. We have seen how the pandemic has accelerated the shift to digital across every facet of our economy, compressing years of progress into just three months.

So, as we reflect on what the rest of 2020 has in store – and the implications of the pandemic on how consumers

live, work, shop, pay, eat and spend their leisure time – we thought it useful to put all of those insights into one place, to reflect on that real-time journey that consumers and Main Street SMBs have also taken, and to offer perspective on the role that each of us plays in bringing what I call "Digital 3.0" to life. A Digital 3.0 world that we believe will take longer than we think to fully form, despite covering so much important ground in just the last 90 days.

Stay safe and well.

Click here to download our free report.

July 6, 2020

The Vicious Circle Of Physical Retail Meets The Virtuous Circle of Digital

If your business touches retail in any way, it might pay to follow a few important breadcrumbs.

Nike posted its lowest quarterly sales in two years, along with a $790 million quarterly loss, when it reported its Q1 2020 earnings in late June. A key driver of the results was a 50 percent reduction in wholesale shipments and canceled orders from physical stores that had closed. That quarter, Nike CEO John Donahoe said that digital represented 30 percent of Nike's sales. He told investors that he plans to drive more than 50 percent of future sales through digital channels.

Last week, Constellation Brands purchased Empathy Wines, a direct-to-consumer (DTC) eCommerce business that sells wines from California vineyards. It reportedly purchased this digital upstart — one with a reported (and very small) $3.9 million in sales from selling 15,000 cases since its launch in 2019 — to build a strong digital presence. Constellation, a holding company that owns popular beer, wine and spirits brands including Corona, says that 90 percent of its sales today come from physical establishments — bars, restaurants, liquor stores and hotels, to name a few.

In May of this year, PepsiCo launched two DTC sites, it said, to meet consumers where they now live, work and shop — which is via digital channels. PantryShop.com and Snacks.com sell pantry staples (think Quaker Oats and Gatorade) and salty snacks (think Doritos and Cheetos) directly to consumers even as grocery and convenience stores still represent the bulk of PepsiCo sales.

Analysts now say that as many as 50 percent of U.S shopping malls will shutter by the end of 2021. It's not a surprise, really — malls have been in distress for the last decade, as consumers have shifted more of their shopping to digital channels, and the dead malls have been piling up for some time. But the loss of distressed anchor stores — Sears, JCPenney, Nordstrom, Barneys — and the yet-to-be-announced closures of some Macy's, Saks and Neiman Marcus stores, analysts say, will only accelerate their demise.

Worse yet, some analysts fear the triggering of break-lease clauses for retailers in malls if anchor stores leave. The hardest-hit are likely malls in the more suburban, less densely populated areas, which will require consumers to drive father if they want to shop there. All of this will only make malls an even tougher sell to consumers, and to retailers that want consumers to buy their stuff. And all of this is happening at the same time that consumers are shunning enclosed environments of any kind, including malls, over pandemic-fueled health and safety fears in favor of digital and digital-first options.

These four independent data points, together, signal a dramatic shift in how the retail landscape will look in a post-pandemic world.

And they set the stage for the inevitable clash between what has increasingly become the vicious circle of physical retail and the virtuous circle of digital.

HOW MUCH WILL DIGITAL-FIRST STICK?

The global pandemic has surfaced any number of questions for businesses trying to chart a course toward a future that is without modern, historic precedent — and a future for which many of the elements that will shape it are largely unknown.

Among the many questions that businesses want answered is one that may already be quite knowable: How much of the consumer's pandemic-fueled shift to digital will stick once the pandemic has passed.

Knowable, that is, if you follow the breadcrumbs and dig into the data.

Based on what we know from consumers, now a little more than 100 days into living under full or partial lockdown, the answer is that they very likely will.

In May, I made the case that we were witnessing what math geeks call a jump discontinuity, a sharp and distinct break from the past and an irreversible shift — a quantum leap — to something new.

In the past, innovations that have created the foundations for some of history's greatest quantum leaps have evolved slowly over time — because breaking with the status quo means breaking free from the inertia that prevents consumers from trying something new, and keeps businesses from getting that something new to scale quickly.

The global pandemic has made inertia a moot point — and has made the quantum leap to a digital-first retail world an inevitable reality.

Here's why I say that.

A month ago, we found a ***consumer*** who thought it would take until early 2021 before they would feel comfortable re-engaging in the physical world the way they did in January. We'll soon know whether the recent spike in COVID

cases in the U.S. has impacted that timeline.

Consumers consistently say that a vaccine is what will make them totally comfortable re-engaging, and from what we are hearing from the CDC, that is probably a year away. As hard and as fast as pharma companies are working, it will take time for a vaccine to be approved and then distributed to healthcare providers. The longer that takes, or the longer it takes for a reliable therapeutic to become available, the longer that consumers will have to buff up their digital shopping skills, the longer brands will have to buff up theirs, the longer digital intermediaries will have to capture more of the consumer's attention, and the longer physical retail will have to keep up.

Today, we find a consumer who has become digital-first because she is now making decisions about everything through a "my-health-first" lens. We also find a consumer who's had a taste of re-engaging in the physical world — to eat at restaurants or to shop in stores — at least once as lockdowns have loosened. The question yet to be answered is whether consumers have found those experiences satisfying enough to revert to their regular pre-pandemic frequency. The many with whom I have personally spoken say they have not, despite the best efforts on the part of shops and restaurants to make it as good as it can be under current reopening restrictions.

Maybe without good digital or digital-first options, consumers would accept these physical experience trade-offs. But with them, many consumers are just as likely to wait and to use convenient digital alternatives until they feel more comfortable.

Brands see this digital shift in their numbers, even as stores have reopened and physical sales have started to increase. A consumer who relies less and less on the physical store implies that brands will, in turn, rely less and less on physical retail as a viable channel for selling their products.

Brands could naturally pull back on physical store efforts in favor of other channels that increase their odds of making sales — and making them at full price. Shifting more heavily to digital channels isn't simply a way to diversify across shopping channels — it's a conscious realization that some, maybe even many, of the physical channels that once drove margins and sales are likely to become less relevant, and even faster than what was once expected.

After all, those brands also have to blunt the impact of the pandemic on their own sales, and growing concerns over the uncertainty of a consumer's ability and appetite to spend money with them today and tomorrow.

For ***physical retail***, this jump discontinuity is being fueled by consumers who, despite the reopening, may be as comfortable going to physical stores as they once were. According to a PYMNTS study a month ago of a national sample of some 14,000 U.S. consumers, two-thirds reported being uncomfortable shopping in a physical store due to concerns of contracting the virus.

Going to physical stores now carries a multitude of uncertainties for the consumer — uncertainty over the new in-store shopping experience, uncertainty about their own perceived health risks when shopping there, and uncertainty related to the selection they will find when they arrive.

The ability to try on clothes or shoes or hats or coats or jewelry or makeup before buying was one of the big benefits of the physical store experience — and a boost to physical store sales. That, too, is causing friction now, as consumers either can't try things on, don't want to try things on or need to make an appointment in advance to do so.

All things considered, we have a consumer who, with an abundance of digital channels available, may not feel they are missing out if they avoid going to the physical store.

With fewer consumers shopping in physical stores and better digital alternatives readily available, there are fewer opportunities for physical retail to make itself an attractive alternative in a timeframe that is relevant to both the consumers' interests and the brands' bottom lines.

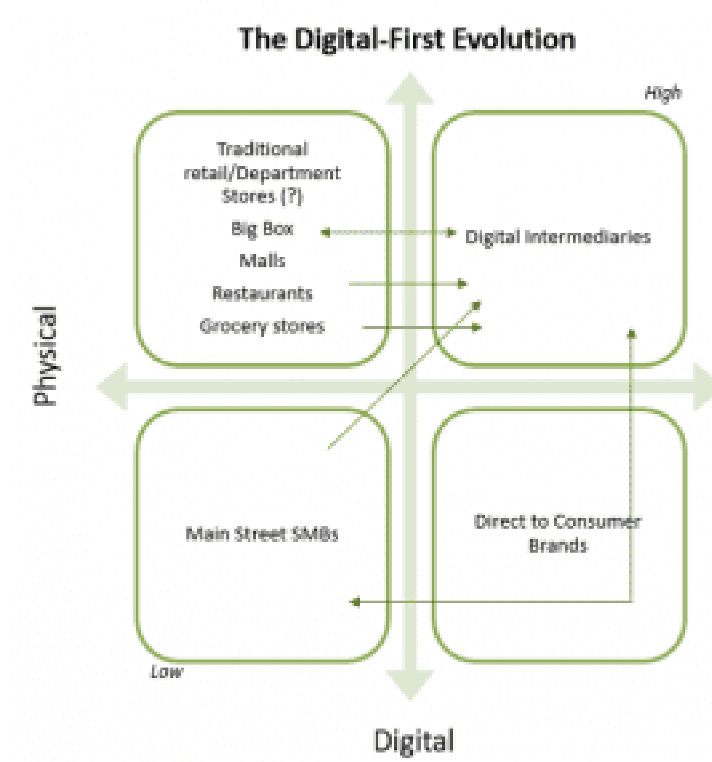
THE PATH FORWARD

The virtuous circle of digital — and digital-first — is now fanning the flames of the vicious circle of physical retail. Consumers aren't going to return to physical for many months, and physical can't survive that loss of demand — which means consumers won't have as many physical choices as before once they feel comfortable reengaging.

In other words, getting a consumer to think and act differently will require more than physical retail channels going more toward digital.

The big question between now and then is whether physical retail — and the physical retail business model — can make the same quantum leap to digital that their customers already have, and one that digital-first retailers had a head-start creating many years ago.

Some physical retailers, including many big-box brands, have created new experiences that blend the digital and physical — and in creative new ways, including culling VIP lists and offering advance looks at new merchandise, new markdowns or new experiences.



At the same time, digital-native brands have doubled down on making the digital experience personalized — and as good as, if not better than, dealing with a sales associate in a physical store. They've made live chat actually live, in real time, with a real person who can answer questions on products, send images via text and use digital tools to create personal shopping pages with curated items — all with the goal of increasing a consumer's propensity to buy.

Brands are also more forcefully and strategically expanding their direct-to-consumer channels, taking ownership of that customer relationship in an effort to shift the digital-first consumer to their own digital-first DTC channels that offer better inventory, pricing, distribution and margin control. They are also examining their options with the digital intermediaries that consumers trust, which create a friction-free, digital-first shopping experience — even perhaps forcing these digital intermediaries to make their own brands more visible and shoppable.

Speaking of digital intermediaries, they are solving the distribution and logistics issues that have prevented many businesses, particularly those on Main Street, from being able to go digital in any meaningful way — especially since so much of their traffic is hyperlocal and comes in and out of their stores. The integration of digital tools and new business models has even turned traditional players into digital intermediaries themselves, boosting consumer choice by providing access to unique, digital-native brands.

Digital commerce and payments platforms make it easy for businesses to get online, accept digital payments and enable a touchless and contactless experience, in or out of their stores, using contactless cards and scannable QR codes.

As a result, the digital experiences offered by brands — and the digital intermediaries that consumers now use to find and buy things — are becoming more refined, more valuable and more feature-rich every day.

And, therefore, they are becoming stickier for consumers who try it and discover that they really like it.

Physical retail can make the quantum leap, but it will be at the hands of digital players who will force its reinvention — or otherwise contribute to its demise.

Take Main Street SMBs, those most hurt by the lockdowns, a segment of physical retail that may even have the best of all digital/physical retail options. Direct-to-consumer brands may find them to be an attractive outlet to capitalize on the hyperlocal shopping experiences with which consumers in those communities feel most comfortable. Digital platforms help them create digital storefronts, and integrate with digital intermediaries to solve their logistic challenges or utilize digital platforms to solve them on their own.

At the other extreme, marketplaces and aggregators, depending on which segment of the market they serve, stand to gain the most, as they use their technology platforms to seamlessly integrate physical into a digital-first experience. These intermediaries have also benefited the most from the pandemic-fueled lockdown, as many of them took their own quantum leaps into digital years ago.

But in the end, the vicious circle doesn't bode well for physical retail. Even before the pandemic, consumers were getting turned off to brick-and-mortar stores, as foot traffic declined and inventories were depleted.

Now, they are finding that many of the stores where they used to shop aren't there. Often, that will require them to take a longer trip to a store they do like — or settling for one they are less happy with.

So, they'll stick with digital and will tell their friends — and physical will see more of a decline.

Some of this would have happened without COVID-19. But the sudden jump to physical has accelerated the vicious circle of its decline — at least for traditional physical — and boosted the virtuous circle of growth for digital.

And it will happen sooner than anyone thinks. Just ask any consumer.

July 13, 2020

How To Drive Success In A Digital 3.0 World

In 1946, the then-61 members of the World Health Organization (WHO) saw the need for a consistent yet comprehensive definition of "health." They felt strongly that any definition had to acknowledge that a person's good health was more than not being sick or disabled, but instead should reflect "a state of complete physical, mental and social well-being." Two years later, that definition of health became the cornerstone of WHO's mission, and it remains so now, more than 72 years later.

In 1979, psychologists Daniel Kahneman and Amos Tversky developed the Prospect Theory, one of the foundations of behavioral economics for which they would win the Nobel Prize in 2002. The premise of the prospect theory is that humans are hard-wired to avoid the loss of what they know they have, and therefore make tradeoffs to protect themselves from that risk. This theory posits that people, generally, are willing to accept a more modest upside gain to avoid what they perceive to be a significant downside loss. The greater the potential for loss, the more likely people are to also accept a less-than-optimal experience or outcome.

The pandemic is putting that decision framework — in the context of the WHO's definition of health – to the test.

Today, consumers are making decisions about every aspect of their lives — how they live, work, shop, buy food, do their banking, eat, travel, work out, socialize (or not), spend their leisure time and just about everything else — with an eye on protecting their downside risk of loss from contracting the coronavirus, dying from it and/or spreading it to others.

But unlike the risk/outcome tradeoffs those consumers might have had to accept a decade ago (or maybe even five years ago), we're also seeing a consumer with the opportunity to both manage her downside health risk without necessarily having to accept a subpar experience.

Why?

Because avoiding the health risk was motivation enough to get her over the inertia of trying something new — which could ultimately be as good as, if not better than, her physical world alternatives.

In July of 2020, we see a U.S. consumer who had to make an abrupt shift to digital when states locked down the physical economy in March. We also see a consumer who, today, seems more than willing to stick with at least some of those "Digital 3.0" options nearly four months later, even as the stores, shops and restaurants in the physical world have, to varying degrees, reopened.

Back in March, the consumers who were already living their lives in a digital-mostly world simply shifted more of their activities online. The consumers who divided their time between the digital and physical worlds shifted more of their activities that way, too, even though they could still shop at some physical stores. Consumers who may have been digital-on-occasion shifted out of necessity, and have now embraced a Digital 3.0 world with both hands and thumbs.

The digital platforms and enabling technologies created a decade or more ago made these pandemic-fueled shifts an easy transition, breaking whatever inertia might have prevented them in years past. With that inertia finally overcome, the consumer's decisions to stick with a digital-first experience are now a safe and attractive alternative that saves them time and eliminates the friction of being exposed to the virus.

How long those digital shifts will stick is the subject of intense debate.

What isn't up for debate is what will define success in a Digital 3.0 world.

The success stories will be those businesses — both physical and digital — that recognize that their biggest downside risk is a consumer who is willingly, and even comfortably, making digital/physical tradeoffs to minimize her own risk.

It won't be hard to spot the winners.

WHO IS DIGITAL 3.0-FIT®?

I've had the chance to take a sneak peek at the latest PYMNTS data on consumer commerce digital shifts over the course of the pandemic. Since March 6, PYMNTS has published eight consumer studies, now covering a national sample of more than 18,000 U.S. consumers. The results, which we will report soon, point to a consumer whose decisions are still shaped by her interest in reducing the risk of contracting the virus, even as state and local governments have decided that it's safe enough to reopen, in some ways, the physical world.

We see a consumer whose biggest personal fear remains dying from the virus — and whose second-biggest concern is spreading it.

We also see a consumer for whom a vaccine is still the only thing that will give her confidence that her downside risk of putting herself and her loved ones in harm's way is not only reduced, but eliminated entirely.

We also see a consumer who, just a month ago, said that it wouldn't be until January 2021 until she would be comfortable reengaging in her pre-COVID physical-world activities — but who today has expanded her own personal timetable much longer. (I think you will be surprised by what that timeline now looks like.)

But we also find a consumer who has overcome the inertia of getting (or shifting) once-physical world activities online — and has gotten comfortable living in the Digital 3.0 world.

Not surprisingly, we also find businesses large and small stepping up their Digital 3.0 games.

As a result, consumers now find their digital-first experiences to be an efficient way to manage their time, stay safe and get what they need. These experiences are so good that many consumers who have made these digital shifts report even more of a willingness to stick with all or many of them, even after the pandemic is a distant memory.

That's telling, since economies have reopened and consumers have now had the chance to reengage. For many, the risks are still too great, and their experiences in the physical world are filled with more friction than those same experiences online — even if they aren't entirely identical to what they once enjoyed in the physical world.

MAKING CONSUMERS AND BUSINESSES DIGITAL 3.0-FIT®

The success or failure of any digital platform is its ability to remove friction — to make it easier for people and businesses to interact at scale and to turn a profit. Getting to scale, profitably, is always make-or-break.

Going forward, success will be defined by how businesses manage what I call the Digital 3.0 **FIT® Framework:** their ability to eliminate **Friction** for the consumer, and in doing so, giving consumers the incentive to move past the **Inertia** that once kept them from trying something new. That leads to preserving their second-most valuable asset, next to their health: their **Time**.

That means platforms must, first and foremost, find a big enough problem that enough people also consider a big enough problem, and then get them on board. A big part of romancing those stakeholders is the promise that once onboard, the platform will make interactions so efficient that time once spent doing things the old way can be freed up and reallocated to other things.

As good as that sounds, it's still a slog to convince enough stakeholders to shift from the inefficient-but-still-workable (and familiar) option to something that has a lot of potential but requires work — and is not guaranteed to live up to its promise.

Inertia was always the biggest impediment to overcoming stakeholders' resistance to change.

Pandemics have a funny way of making inertia look like a couch potato running for the exit when the fire starts.

In fact, this pandemic gave both consumers and businesses a new — and very personal — incentive to leave inertia behind. Consumers, largely, had no choice, even though essential businesses like grocery stores remained open. And the physical businesses that wanted to save themselves didn't have a choice either.

Take shopping for groceries.

In January, going to the grocery store was part of the weekly routine. Sure, supermarkets had invested in online ordering and delivery, but that was a friction-filled experience for most consumers. Why bother investing the hour (or more) to get that first online grocery list assembled when it was just as easy to spend that time at the store getting exactly what was needed?

At the start of the year, the consumer's use of online channels to order groceries was nascent. In May of 2020, our PYMNTS research found that four times as many consumers ordered groceries online than on March 6 — a massive shift to digital on the part of tens of millions of consumers in just three months — even though grocery stores, as essential businesses, remained open.

Take shopping for things other than groceries in retail shops.

Although digital has been making a steady dent in how (and how often) consumers shop in physical stores, going to the store and the mall was still something they did. For many consumers, seeing, touching and feeling a product was preferable to ordering online — and preferable to the time and friction associated with sending back something that didn't work.

As stores locked down, consumers shifted those purchases — at least the ones they continued to make — online. Between March and the end of May, PYMNTS research also found that four times as many consumers shifted their purchases of retail products online — and this is the digital shift that most consumers say they are willing to stick with.

Take going out to eat at a restaurant.

Going out to eat is something that nearly all consumers say they miss the most about being on lockdown. Without any access to physical restaurants, consumers who wanted a restaurant meal had no choice but to order from an aggregator, or from the establishment itself, for delivery or takeout. It wasn't like being at the restaurant, but it was close — consumers got a break from the kitchen while helping to support a local restaurant that they enjoyed visiting.

Now that restaurants have reopened, consumers have reemerged to an understandably different dining experience. Social distancing, masks, Plexiglass and other CDC guidelines and restrictions have changed not only the experience, but also the vibe. Some consumers have been eager to reengage, but many have decided to sit it out a little longer. The digital alternatives are working for them, and so is the nice weather and the chance to fire up the barbie and have a meal with a small circle of trusted family and friends.

Take going to the gym.

In many states, gyms are among the last businesses to reopen, and among the hardest-hit. Consumers were forced to shift to digital methods, causing a spike in sales of Peloton bikes, treadmills and gym equipment, as well as downloads of livestreamed and video workouts. As gyms reopen with social distancing requirements in place, most consumers remain cautious — particularly given the investments they have made and new workout routines created around the safe, digital alternatives that are available to them, on demand.

In each of these cases — and in many, many more — the activities that once delivered the best experiences are now the ones that produce the most friction, so long as the virus is still around. Going forward, success will be defined by how businesses manage the Digital 3.0 FIT® Framework I mentioned earlier.

For consumers, the FIT® Framework will drive their decision of who gets their business, and who can make it easy, safe and efficient to get the products and services they need.

For businesses, it will determine how well consumers think they FIT® into their lives.

HOW TO START AND STAY FIT®

What we are seeing play out in real time is that those experiences that once delivered the highest possible outcome for consumers now present the highest potential risk to their health.

They also happen to be the ones for which efficient, scalable, digital-first alternatives exist.

The great irony, perhaps, about the **FIT®** Framework is that in January of 2020, before the pandemic's restrictions, the activities that consumers felt had the lowest risk but also the lowest reward — like ordering takeout from their favorite restaurant when they could still go inside to eat there — has now totally flipped. The risk of going inside a restaurant to eat carries a far greater risk for many consumers than popping open an app or going on a website and ordering a meal. The reward for going into the restaurant to eat is also lower, given the social distancing and CDC requirements. The **FIT®** Framework provides insights into a digital transformation accelerated by the global pandemic, and by a consumer whose decisions about their upside gain and downside risk are being made through a "my health-first" lens.

It also tells the story of a consumer for whom inertia is in the rear-view mirror.

I've told this story often, but it bears repeating.

My 85-year-old father now orders his groceries online using Instacart. The funny thing is that I didn't even suggest it — he discovered it all on his own. This is a guy who once considered going to the grocery store a social outing, but now won't go inside his favorite supermarkets. This is also a guy who has a lot of time on his hands, but says he just isn't comfortable — and he also says it would take him too much time now, with all of the restrictions. He likes the predictability, efficiency and personal safety of ordering groceries online, and says he'll stick with it.

Aside from the fact that he is 85 and my dad, he's no different than every other consumer who is making decisions right now about how physical and digital will co-exist in their worlds — at least for the foreseeable future.

At some point, my dad and every other U.S. consumer will want to get back to dining inside a restaurant and recapturing that cool vibe; getting on planes to visit family and friends or to take vacations; going to the gym and the nail salon; enjoying a live concert, the theater or a sporting event; and even going to the grocery store to buy food.

But maybe not as much as they did before. And in some cases, like grocery shopping, maybe even a whole lot less.

As many people have said, and I agree, the pandemic has shown us the resiliency of businesses, but also the fragility of old models that are too steeped in the physical world. It has inspired innovation and the sheer grit of entrepreneurs, giving them more than a fighting digital-first chance.

And it has taught entrepreneurs who are seeking the power of digital to innovate physical models, and has shown them the importance of overcoming inertia — provided they have a solution that solves a big physical friction, and probably saves people a lot of time.

And helps both consumers and businesses stay **FIT.®**

July 20, 2020

What A 90-Year-Old Essay Tells Us About 2020's Great Digital Shift

We are suffering just now from a bad attack of economic pessimism.

That is the first sentence of a roughly 4,000-word essay titled "Economic Possibilities for our Grandchildren," written in 1930, by economist John Maynard Keynes. One of the most famous and influential economists of all time, Keynes wrote the essay to offer a more optimistic view of the future for a world that was, at the time, in the grip of the Great Depression.

Keynes used an economic framework to make his case, using data to remind everyone that the best days were ahead of them and not behind them. He called attention to the gains in business and workforce productivity, thanks to innovations in technology at the turn of the century that contributed to an increase in worker wages, a decline in hours worked and a corresponding increase in leisure time.

That, he said, drove the expansion of consumption. People with more money and more time bought more things — which, in turn, drove economic growth. That made it possible for capital to be raised and invested to keep the economic flywheel moving. Collectively, these forces created the strong and resilient economic foundation that would both get the economy back on its feet and, he believed, power its growth for the next 100 years.

In his essay, Keynes also cautioned that to focus solely on the negative risked missing the not so visible but no less important trends that would lead to this more prosperous future. He urged the world to pay attention to what he described as "the advance guard" — those who, he said, are "spying out the promised land for the rest of us and pitching their tents there."

Now, 90 years later, with a world in the grip of a pandemic that has already cost hundreds of thousands of lives, Keynes' words are prescient.

We're living in a world that now, too, seems to suffer from a "bad attack of economic pessimism," as new outbreaks of the virus threaten the economic recovery. In a global economy, any outbreak anywhere generates ripple effects. Look no further than the businesses and economies that thrive on travel and tourism from those who remain locked down, are prevented from entering their countries or, if they did gain entry, would be subjected to quarantine.

Today, economists also routinely debate what letter of the alphabet the shape of the recovery will take. The stock market gyrations have reflected that uncertainty. Businesses debate that, too, many recognizing that their individual recovery may be a different letter than that of the overall economy. The world seems to have finally come to grips with the notion that knowing what letter the recovery might take is directly related to how long it will take for a consumer to feel safe engaging in the physical world the way she did in 2019 — and, frankly, whether she will ever do so again.

But as Keynes wrote 90 years ago, there is much about the foundation of our economy that sustains it now and will support its future growth, with our best days firmly ahead and not behind us.

As was the case in 1930, innovations in technology over the last many decades — and its rapid acceleration over the last decade — have created the foundation for future economic growth, and are responsible for the current resilience of our economy. The investments in technology platforms have made it possible for consumers and businesses to adapt, survive and even thrive amid the abrupt lockdown of the physical world and the rapid shift online.

In 2020, we also have our own advance guard: the Digital 3.0 personas we've been studying since March 6, 2020 — a week before the physical economy shut down — based on our national surveys of almost 20,000 consumers. Overall, U.S. consumers shifted digital, en masse, when the world locked down. They are also now deciding how physical fits into their digital-first world as the economy opens back up and, in theory, they are able to get back to their physical routines in some capacity.

Just as Keynes wrote in 1930, focusing only on what's wrong (and there is a lot that can go very wrong) also risks missing what's right. It is the "what's right" that will power our future and is making our present very much a functional reality.

Since March of 2020, we have seen massive waves of goodness bubbling beneath the surface, as businesses heed the call of innovation in the name of survival, and consumers gravitate to the digital innovations that make them feel safe.

Businesses — some small, some very large — are out there "pitching their tents." And they're following the lead of the advance guard of consumers who are helping the rest of us see what our digital-first future holds — an advance guard that is also inspiring innovators to do more to bring the rest of the world along.

DIGITAL 3.0 PERSONAS

The concept of an advance guard dates back to the medieval times and how wars were fought, and hopefully won. The battle strategy was simple: The only way to get a good sense of what the enemy might do, or what might be effective in defeating them, was to send a small team of the best soldiers into battle first, who then paved the way for the rest of the militia to follow.

We've examined the behaviors of U.S. consumers since March and assembled them into four personas who all have one thing in common: They've made a pronounced shift to digital in all or in some part of their lives.

Here's what these Digital 3.0 personas look like.

We classify roughly *36 percent* of the consumer base as ***social-shifters***. These are the personas who most like to shop in physical stores, and miss it — but who have most shifted online to make retail purchases as a result of the pandemic.

Safety-shifters are at the other extreme. This is the *13 percent* of the consumer base who have embraced digital channels to buy groceries and other products because they are also the most concerned about contracting the virus when going into a physical store — more so than other consumers.

The *21 percent* of the consumer base who have always put a premium on speed and convenience, we have dubbed the ***convenience-shifters***. These are the personas who report making decisions about where and how they shop based on the digital-first experiences merchants offer — a behavior that has become even more pronounced since the pandemic.

Then there are the ***office-shifters***, representing *17 percent* of the consumer base who report working from home more frequently than pre-pandemic. This group, maybe not surprisingly, also say they are most eager to return to the physical world — particularly offices, stores and restaurants.

But here's what's interesting about these personas: Many of their digital shifts appear to be more than just a temporary break from their physical world interactions.

Social shifters and office shifters, those who said they are most eager to return to their physical shopping experiences report that many of their shifts to online shopping for retail products (69 percent and 72 percent, respectively), online shopping for groceries (77 percent for both) and online ordering from restaurants (61 percent and 68 percent, respectively) will stick once the pandemic passes.

Convenience shifters, whose MO is what's fast and efficient, report that 70 percent, 75 percent and 63 percent of their online retail, grocery and restaurant digital behaviors, respectively, will mostly or entirely stick.

For safety shifters, the numbers are 71 percent (online retail), 75 percent (online grocery) and 64 percent (online from restaurants).

As of the end of May, across all of these Digital 3.0 personas, some 41 percent of the U.S. adult population were using digital channels more today than they did before the pandemic, and said they plan to stick with some or all of those digital behaviors moving forward.

And all in the space of just three months.

In data that we will report in the next two weeks, we see consumers across each of these personas, each of whom has had a taste of the physical world reentry, only strengthening their Digital 3.0 convictions. It isn't as if the physical world is irrelevant to them, but their interactions in it are different now. The consumer's expectations of those experiences are now different, too — they are digital-first, with physical complementing that experience in some way.

Some of the permanence of that shift is the result of businesses ramping up their digital games and meeting this digital advance guard where they have already pitched their tents and plan to keep them. And part of the reason that those shifts are some and not all relate to the nature of the business. Consumers will eventually want to experience the 2019 in-dining experience, but the interactions with the restaurant in the future may be more digital than they ever were.

But most of the digital shift that will stick is the result of a consumer who has overcome the inertia of shifting to digital, and who has experienced the innovations that businesses have offered to accommodate her digital preferences — first under lockdown, and now as part of what has become her preferred interaction.

This is a consumer who likes, and also feels safe, living her life in a digital-first, Digital 3.0 world.

This is the 104 million Americans who like digital-first enough to say that they now want it to comprise at least some of their new routine.

This is our advance guard.

SCOUTING OUT THE TRENDS

Delta Airlines released its Q2 2020 earnings last week, and it was a sea of red.

Coming off a 93 percent decline in bookings, CEO Ed Bastian said it was the airline's worst quarter since 2008. That wasn't much of a surprise to analysts. Something else Bastian mentioned may have been surprising, though: He told analysts that he does not expect business travel *to ever* return to 2019 levels.

"Ever" is a pretty strong word.

"Road warriors," he said, have found suitable alternatives to hopping on a plane to take a business trip. And those suitable alternatives haven't diminished the ability or even the effectiveness of firms to do business with each other in that way.

Part of the reason that business travel is unlikely to return to its former state is that businesses — which are now accustomed to the cost savings, productivity benefits and lack of wear and tear on their key executives — will divert those funds to other, more business-critical functions. That will mean corporate travel will be reserved to those instances when it is really essential. Meanwhile, rapid advances in virtual gatherings are taking place, which further reduces the need for the trips that were once second-nature.

Marc Geigher, CEO of the four-day music festival Lollapalooza, said in an interview that he doesn't expect concerts in the U.S. to return until sometime in 2022, when there is a vaccine. Lollapalooza hosts 400,000 people in Grant Park in Chicago and is typically a sellout. If he's right, that's a two-year break in the action. Streaming platforms, platforms that move branded merchandise and live-streamed digital concerts integrated with digital payments are helping to fill the gap, as the industry explores new, digital-first ways to keep fans engaged in the interim.

KFF, a nonprofit source of healthcare-related data, reported in late May that 48 percent of Americans have put off going to the doctor's office because of the pandemic. Independently, several of the medical professionals I have spoken with report that hospitals are eerily absent patients, but for COVID-related medical conditions and otherwise essential medical procedures. It isn't that people aren't getting sick or don't need medical care — it's that they are uncomfortable going to the hospital or a doctor's office to get it.

What some are doing instead is seeing a digital doctor.

A study of patient visits at the NYU Langone Health done between March 2 and April 14 reported a 683 percent increase in the number of urgent care visits done virtually and a 4,345 percent increase in non-urgent care visits. Granted, the base is small — JD Power reports that only 10 percent of consumers had used telemedicine services in 2019 — but the trend is clear. Not only do consumers feel safer using teledocs now, but the convenience, speed and efficiency it affords them will mean they're likely to make it an overall part of their healthcare routine in the future.

Airbnb reorganized last week, a move that CEO Brian Chesky said was motivated, in part, by the shifts in behavior by Digital 3.0's advance guard. Airbnb's bookings now reflect a consumer who is less interested in taking a long trip to an exotic locale than visiting one 300 miles or less from their home. Whether motivated by people's desire to get out of the house and do something within driving distance of their homes, or the need to find a short-term rental as work-from-home scenarios become more permanent, the company's reorganization was all about what Chesky described as "getting back to great hosting," recognizing that it may be a long time before consumers hop on a plane and travel far from home.

Restaurants and Main Street SMBs, perhaps two of the hardest-hit segments, struggle to make up for the lost sales that foot traffic once brought to their establishments. These businesses found a lifeline online, as technology platforms, touchless payments, apps and digital wallets made it possible for their digital shift to happen in weeks rather than months or years. For instance, QR codes make it possible for every transaction to become contactless and touchless — and in restaurants, they can trigger a complete order-to-pay experience.

More than half of the Main Street SMBs we have studied since March report adopting some digital innovation to get them over the hump, with many saying that their own digital shifts will stick, as the advance guard has led the way.

Meanwhile, we are seeing the world's greatest scientists, medical researchers and doctors come together with one common goal: to develop a vaccine to prevent the spread of the virus that has brought the world to its knees. The rapid advances that are taking place in medical research, including the rapid development of vaccines, will bring benefits for years to come.

These are but a few of the trends rippling beneath the surface that will shape the future of how we live, how we work, how we buy and eat food, how we spend our leisure time, and more. These businesses, and many like them, recognize that their future — and ours — depends on how FIT® their organizations are to simultaneously manage the friction, inertia and time necessary to accommodate a consumer whose embrace of the physical world will be digital-led.

And with no turning back.

TO THE FIT® GOES THE SPOILS

At the conclusion of his essay, Keynes encouraged businesses to innovate and experiment, but to also recognize that there were four things — largely out of their control — that could slow the pace of growth, despite their best efforts to advance progress.

One of those four things was the people's willingness as an economy to let science do its work when, as he stated it, "matters of scientific concern required it." Today, we have seen businesses and local governments step in when impediments make it otherwise difficult for science to prevail. Uber's new television ad perhaps said it best: The front-line workers have done their job for us, and now it's time for us to do our jobs: No mask. No ride.

A stampede of large retailers is also leading that charge.

What we have seen over the last four months is a pandemic that has spawned a level of innovation across every pillar of our economy, and at warp speed. It's been almost impossible to step back and take stock of it all — the pace of innovation and change has been relentless.

When we do, we will see that in our darkest moments, the sheer grit and determination of entrepreneurs and innovators and SMBs — which are desperate to save their businesses — has inspired everyone, across every nook and cranny of our economy, to go where the Digital 3.0 advance teams have already planted their flags.

To a future shaped by digital, and open to all.

August 3, 2020

Big Tech And The Optical Illusion Of Monopoly

The most interesting thing about Big Tech's Fab Four tour of Capitol Hill last Wednesday (July 29) wasn't the perfunctory lawmaker grandstanding, or even the number of times lawmakers used "dominant" and "crushing the competition" to describe their views on the companies' behavior.

It was watching the stock prices of each of the companies whose CEOs were on the hot seat that day.

Throughout the six-plus-hour grilling, the stock prices of Amazon, Apple, Facebook and Google were all up — and stayed that way throughout the day.

The very next day, the four companies reported their earnings — and by all accounts, it was a rout.

That was true even for Alphabet, whose results beat estimates but whose stock price took a bit of a drubbing the next day. A large chunk of Google's ad revenue comes from the sectors that were hardest-hit by the pandemic — travel, hospitality and retail — and some analysts seem concerned about the longer-term hit to that piece of Google's business as those sectors struggle to rebound. Analysts have since upped their price targets for Google, confident in the resiliency of its platform.

Between the close of business on Tuesday and end of day on Friday, though, Barron's reported that Alphabet, Apple, Amazon and Facebook collectively added $370 billion to their market caps. To put that three-day *increase* in market cap in perspective, $370 billion is more than the GDP of Hong Kong, the GDP of Singapore and roughly 4.5 times the entire market cap of American Express.

All of this, unfortunately, is likely to make the lawmakers even more eager to regulate or break up Big Tech — or both. The big are only getting bigger, they will say. And going into these hearings, no one really expected that the testimony of Jeff Bezos, Tim Cook, Sundar Pichai or Mark Zuckerberg would change any or many minds.

In fact, Wednesday's closing remarks by House Antitrust Subcommittee Chair, Rep. (D-RI) David Cicilline, sounded like they were written long before the hearings started. They went something like this:

"This hearing has made one fact clear to me," Cicilline said. "These companies as they exist today have monopoly power. Some need to be broken up; all need to be properly regulated and held accountable. We need to ensure the antitrust laws, first written more than a century ago, work in the digital age."

Let's hope he really meant that last sentence.

ONCE UPON A TIME IN PRE-COVID AMERICA

In the pre-COVID days, Apple, Amazon, Facebook and Google were already making great strides in eliminating the frictions of connecting people with other people and with businesses in a digital world. Their formula included using, a growing portfolio of connected devices, data, artificial intelligence (AI) and payments to expand choice and make it easy and efficient for consumers and businesses to find each other, interact and transact.

In the decade that we left behind in December of 2019 and the new one we started in January, doing business in the physical world was always an option, and consumers regularly moved back and forth between the physical and digital worlds.

Eight months ago, we used to call that "omnicommerce."

What we meant then was how digital as a new channel extended the reach of the physical world.

By mid-March, we observed the abrupt — and global — digital shift. By digital shift, I mean the simultaneous ***reduction*** in the use of physical world channels and the ***increase*** in the use of digital ones.

Based on PYMNTS research, we estimate that 41 percent of Americans have shifted to digital, as I have defined it. That's 104 million Americans, with more shifting every day. And even more of them are sticking with the digital habits they have already created.

Now, it's digital that makes the physical world relevant — or not.

Since mid-March, in a world gripped by a global pandemic, Apple, Amazon, Facebook, Google and many of the innovators that depend on them for distribution have become valuable ways for consumers to access essential goods and services and for businesses and consumers to interact.

As consumers increasingly make their decisions about reentering the physical world — including going to the doctor or dentist, riding in the back of an Uber, going out to eat at a restaurant, getting on an airplane with their families to go on vacation or riding an elevator in an office building to go to work — their personal health and safety is now their primary consideration.

According to PYMNTS' latest research, as of just a few weeks ago, two-thirds of consumers say they still fear shopping in a physical store because of the risk of

contracting the virus. That's despite the great lengths to which these businesses have gone to make consumers feel safe to reenter.

We need only look at the earnings of airlines, reports from restaurants and retailers, and the explosion in curbside pickup, delivery and other touchless commerce experiences to see how true to their word consumers are.

Of course, the role of Big Tech in enabling these digital-first experiences is by now all too familiar.

When the physical economy locked down, consumers turned to Amazon to buy groceries and other essentials that they couldn't or didn't want to go to a store to buy, to stream music and movies, and to buy Alexa-enabled speakers to make their homes smarter and their at-home commerce experiences touchless. Amazon reported that online grocery and new Prime signups drove its Q2 earnings, while physical-store sales at Whole Foods were down 13 percent.

Consumers turned to Google to get information about COVID and many other things, to find out which businesses were open in their local communities, to download apps and play games, to access digital content on YouTube and to cut the cord in favor of YouTube TV, and to check out online with Google Pay using card-on-file credentials via browsers and mobile devices.

Consumers turned to Apple to buy tablets and phones and laptops so they could work at home (and their kids could go to school online), visit the App Store to download apps and play games, use Apple Music and Apple+ to stream music and digital content, use Apple Pay to make contactless purchases in the physical stores where they shopped, and use the Apple Watch and Apple Health to monitor their vitals.

Consumers turned to Facebook and its family of properties to keep in touch with family and friends, get information about the virus, support first responders, share pictures, discover new brands and buy from them, send and receive messages, and sell stuff they no longer wanted on the Marketplace. During its earnings call, Facebook reported three billion monthly active users on its platform — 40 percent of the world's population — who want to stay connected more than ever, as social distancing makes it impossible to get together in many situations.

Businesses, of course, want to be where consumer eyeballs are, and where digital wallets are ready to spend. So do innovators with new tech and big ideas to help improve the experience. Big Tech has leveraged its platforms to help businesses and the connected economy endpoints do just that.

Amazon reported on its Q2 earnings call that third-party sellers saw higher revenue growth than online stores on the Amazon platform. More than half (52 percent) of paid units sold on Amazon in Q1 2020 were from third-party sellers, and Amazon CFO Brian Olsavsky confirmed that more than 50 percent of units sold in Q2 came from third-party sellers as well. Amazon also announced new initiatives to make voice commerce — perhaps the most touchless form of commerce possible — more useful (via shopping list enhancements) and more portable (via new Alexa app functionality).

Google is giving SMBs $340 million in free ad credits and other search-enabled innovations to help boost traffic to their physical storefronts or their new online shops. It rolled out Shoploop, which blends user-driven content with commerce for featured brands. Its deal with Shopify underscores the value of Google as an aggregator of consumer eyeballs for the merchants who have set up shop using the Shopify platform, but lack distribution and want a piece of the 3.5 billion daily searches that happen on Google's platform. For Google, it's a way to buff up Google Shopping by improving its Buy With Google options, and to use commerce to monetize search as more and more product searches start on other platforms — Amazon, in particular, but also many other vertical aggregators.

Apple reported that developers scored $500 billion in sales from apps in the App Store in 2019. Google Play and Apple's App Store also make it possible for consumers and restaurants to do business via apps — their own or aggregators' — something that has helped these Main Street businesses navigate the cash flow gaps caused by the physical lockdown of the economy and its capacity-constrained reopening.

Hyperlocal apps like OfferUp have helped consumers buy and sell merchandise that all of a sudden became essential — much of which stores didn't have — like swimming pools, badminton and volleyball sets, puzzles and games. Apple also just bought a FinTech that uses software to make any NFC mobile device a point-of-sale terminal, in an effort to boost the utility of Apple Pay in physical commerce encounters and to give Main Street merchants a new option for making sales.

Facebook opened Facebook Stores to help Main Street SMBs complement

the physical storefronts that had been shuttered. Businesses used Instagram's news feed to promote their shops and to streamline payments. Outside of the U.S., WhatsApp for Business now has 50 million users.

The actions of each of these Big Tech platforms in enabling these digital experiences have helped businesses make sales while the physical world has been broken down. This has also helped the rest of the commerce ecosystem survive and thrive. The tech companies, payments processors, software platforms, digital wallets and card networks all benefit from the efforts of these Big Tech platforms to keep business flowing, despite the physical world disruptions.

COMPETITIVE OPTICAL ILLUSIONS

One of the most famous optical illusions is the drawing of the old woman and the young girl. I'm sure you've seen it a million times.

Optical Illusions trick us into seeing things that scientists say "make sense," but may not be the most accurate interpretation of the image. FYI, it's a biological trait we share with horseshoe crabs (go figure).

It explains why some people immediately see the old woman with her long nose and chin on her chest, and the young woman wearing a hat with a plume only after someone points her out.

Understanding how to identify the competition in a digital-first world that is rapidly reshaping the boundaries of our now very connected economy is a lot like trying to find the young girl.

The illusion, of course, is that what's really happening with Big Tech is based on what they are doing, what they are investing in and the partnerships they are striking: They are much more

competing aggressively with each other rather than acting like monopolies with a particular segment locked up. Lawmakers see what makes sense to them, instead of what is really happening in the complex, dynamic connected economy.

That doesn't mean some haven't crossed the line — maybe a lot, sometimes — and violated the antitrust law. I have been highly critical of Facebook over the years for its seemingly lax policies about content. But proving that requires showing that they have harmed consumers or their business customers. And it should require Congress to show that whatever they end up proposing will help consumers — who, after all, are also voters.

Take grocery shopping.

In January, going to the grocery store was a weekly pilgrimage that consumers worked into their schedules. Most of the time, they shopped at the stores that were between two and four miles from their homes, even if they heard that another store farther away offered a better experience. Getting there introduced friction — too much time, and too much uncertainty about whether it would deliver. The status quo won out.

Since the pandemic, we have observed a massive shift to online grocery shopping. Based on PYMNTS' studies of a national sample of now 20,000 American consumers since March 6, we estimate that 41 percent of consumers — some 18 percent of the U.S. population — have done two things simultaneously: shopped in physical grocery stores less often and used digital grocery store channels more often.

We see this in their numbers.

Grocery stores, warehouse clubs like Costco and mass-merchandise giants like Walmart and Target are reaping the benefits of that digital shift.

Kroger reported a 92 percent jump in online sales in Q1, Target reported that its online ordering platform, Shipt, grew 278 percent in Q1, and Walmart's Q1 earnings were bolstered by a 74 percent increase in online ordering, which includes grocery sales. Amazon reported that its online grocery sales tripled in Q2 at the expense of Whole Foods' in-store sales, which were down 13 percent over the same period.

But that doesn't really tell the whole story.

Some of this shift no doubt came from existing customers who shopped at Kroger online instead of at the physical store, and Target customers who decided to try online ordering and curbside pickup. Amazon Prime customers who never used Amazon for online grocery but shopped at Whole Foods shifted online to place their orders. And based on Amazon's reported quarterly results, more consumers got Amazon Prime memberships and used them that way, too.

But some of this shift came from an entirely new customer. These customers used platforms like Instacart or Shipt to buy groceries from places that were once too inconvenient to reach physically, but now had become as easy as any other online ordering experience. Costco's CFO said that if they counted Instacart-driven sales in the Q3 2020 numbers, the company's online orders would have increased by 100 percent.

These platforms, with a business model based on using third-party shoppers and offering consumers a choice of stores, introduced a new way for grocery stores to acquire new customers while simultaneously bolstering their online capabilities. They also enabled them to be more competitive against Amazon, which offered one and only one choice: the products and quantities of products on offer at Whole Foods.

Using these platforms, consumers no longer had to trade choice in exchange for the convenience of a two- to four-mile trip to the grocery store. Instead, they could decide where to shop based on which grocery store had the products they wanted to buy and would let the shoppers do the schlepping.

These platforms also did something else: They reduced the friction associated with getting consumers over the digital grocery shopping hump.

Consumers who now had accounts and payment credentials on file with these platforms became more likely to make them a new part of their grocery shopping routine. That's 41 million consumers (and counting) who may never go back to shopping in-store the way they once did.

Grocery stores have a new way to compete, and Amazon and Walmart have new competition. As these platforms and others like them gain traction, more grocery stores and other retailers will want to hop on board, too.

That will give consumers even more choice, and introduce even more competition into the market.

NOW WHAT?

If Rep. Cicilline is true to his words, he and his Congressional colleagues must prove that the actions of Big Tech are harming consumers and stifling competition.

They have work to do.

The impressive performance of the companies that lawmakers (on both sides of the aisle) now love to hate stems from how much consumers and businesses like and use their platforms, in a world where innovators with new options and alternatives are funded and flourishing. These platforms help expose consumers to products and places that might not be found any other way.

Doing business digital-first holds sway, and likely will for a very long time. First, because it was the only way — and now because it is the preferred way.

That won't be lost on the brands that wish to diversify away from the physical store channels that have blunted their sales, and need a way to tap into eyeballs and consumer aggregators to build that demand. I have a funny feeling that Big Tech will be an important part of that mix, regardless of how big or small that direct-to-consumer brand is.

The impressive performance of Big Tech's Fab Four reflects how much confidence investors have in the role that each of these platforms will play in powering the connected economy for the benefit of businesses, consumers and innovation in the years to come. The inertia that must be overcome isn't the shift to digital, but the shift away from the platforms that consumers — and the businesses that want to reach them — use, like and trust.

August 10, 2020

What Overcoming Inertia Tells Us About The Future of Physical Retail

By now, you've no doubt heard the story about how Isaac Newton turned quarantining during London's outbreak of the Bubonic Plague between 1665 and 1667 into a time of great focus and innovation.

Newton's sojourn out of Cambridge, England, where he was attending Trinity University, to his family home in Woolsthorpe in order to avoid the risk of infection produced some of the world's most important scientific and mathematical discoveries.

What's lost in that story, though, is the more direct application of one of Newton's quarantine-induced discoveries to the modern world's reaction to the global pandemic.

Newton's First Law of Gravity was one of his most important work-from-home discoveries. Although great debate remains about whether the apple that fell out of the infamous tree on his family's property and inspired his discovery actually landed on his head, there is little debate about the importance of what actually came out of his head.

"An object at rest stays at rest, and an object in motion stays in motion with the same speed and in the same direction unless acted upon by an unbalanced force."

Newton's first law of motion is also called the law of inertia.

And the global pandemic has taught the world a lot about inertia — or, more appropriately, getting over it.

For nearly every pillar of our economy, the pandemic has been the force strong enough to break the inertia associated with doing business mostly in the physical world and to activate the shift to a largely digital-first way of life.

The pandemic has also made laid bare the one force strong enough to move consumers and businesses, en masse, away from the status quo: concerns about their health and safety.

Consumers who have shifted to a largely digital-first world over the last five months will need an equally strong force — like the internet breaking completely apart — to move them completely away from the digital habits they have developed (and now enjoy) and onto something entirely different.

It's why the mindset that the world will revert to "what it used to be" once the pandemic passes is deeply flawed.

A LONG TIME AGO ... IN JANUARY 2020

For physical retail, the pandemic was simply the force that accelerated a decline that had started in 2014 — one that inertia had masked for all of the years up until now.

Admittedly, 2020 has been a year that has felt both like the fastest and slowest ever, which makes anything that happened PC (Pre-COVID) a big blur.

But even as recently as February of 2020, it was obvious that physical retail's decline was nothing new.

That month, the Commerce Department reported that January sales at clothing stores had declined the most since 2009.

This data came on the heels of a holiday shopping season that was strong, but weaker than retail analysts had expected. Sales at brick-and-mortar stores for clothes, health and beauty items, sporting goods and other retail products were soft, as online commerce sales grew. At the time, analysts dismissed that data as the result of a shorter holiday season and more cautious consumers tightening their purse strings ahead of a potential recession.

All despite a confident, spending consumer and record-low levels of unemployment.

It seemed a little like fiddling while Rome had been burning for a while.

Over the last five years, the Commerce Department stats showing physical retail sales holding steady at 90 or more percent of all retail sales did a huge disservice to physical retailers. That data lured the retailers into thinking there was still life in their traditional retail business model, and that reports of the physical retail apocalypse were overblown.

That was despite incontrovertible evidence that online was taking share in important categories that were once critical to keeping the lights on in physical retail stores — like clothing, sporting goods, shoes, electronics, auto parts and even home furnishings — and that consumers' feet were showing up less often in their brick-and-mortar establishments.

Anyone who went to a major department store knew it, too. It was hard to miss the fact that there were few people there — it was like social distancing before it became a way of life.

It also ignored the reality that between 2017 and 2019, analysts reported that roughly 23,144 physical stores had closed. So far in 2020, analysts

report that more than 12,000 physical retail establishments have closed permanently. The downward trend continues.

Then there are the malls.

Reports of "zombie malls" were making headlines back in 2017. Holiday 2014 was the first time that stores in malls acknowledged a steep decline in foot traffic, and stories began to surface about the malls losing their grip on shoppers. As anchor stores like Sears and JCPenney closed, department stores went under and the shops that lined the corridors between the anchor stores shuttered, malls become less appealing to consumers as one-stop shopping destinations.

Today, analysts report that as many as 25 percent of the 1,100 malls still left standing will close. One retail expert once quipped that there are probably a couple of hundred great malls in America — but the problem is there are about 1,100 malls.

Mall operators have tried new tactics to reverse the tide, some even turning malls into experience centers — a mix of stores, restaurants and other attractions. They've found the results to be no different than those that stuck to their physical retail focus: Consumers didn't show up. Shoppers who had already been disproportionately putting more of their dollars into in-home entertainment centers and less into out-of-home entertainment just didn't feel compelled.

Now, if media reports are to be believed, many of the malls that remain open will become something different still: fulfillment centers for Amazon as the eCommerce giant reportedly negotiates to take the spaces once leased to JCPenney and Sears.

It's unclear whether the future of the mall will have much, if anything, to do with shopping.

THE LAWS OF GRAVITY

It's perhaps ironic that the law of inertia Newton discovered around 355 years ago, in kind of a loose sense, provides insights into why some 104 million Americans — or some 46 percent of the adult U.S. population — have become digital shifters.

PYMNTS first coined this phrase in mid-March after measuring the shift among consumers who have done two things at the same time: They have done less of a particular activity in the physical world and have done more of that same activity in the digital world.

PYMNTS research, as of now based on a national sample of more than 20,000 consumers queried since March 6, consistently shows this digital shift, with an increasing number of consumers now saying they'll stick with, even as they reenter the physical world. And this shift is most pronounced for those buying retail products.

In truth, the pandemic was the big force that got consumers to do more of what they had already begun to do: shift their shopping experiences away from physical stores and more online. But it was a force far greater than the promise of a more efficient and seamless 24/7/365 shopping experience that got them over the hump. Delivering a safer and more certain shopping experience is why consumers accelerated their shift, and why today they feel comfortable sticking with it.

The consumer's digital shift has also been a wake-up call for brands that relied on physical-world intermediaries to drive sales, as the channels that once served as important distribution channels for consumers dried up. The pandemic has also forced these brands to break with their own inertia of relying on old business models because it was the way it was always done, and has pushed them to find new outlets to reach consumers where they now want to shop.

For brands to go back post-pandemic to "the way it used to be" means being convinced that the consumers will go back, too.

But getting consumers to go back to the mall or to the physical store means convincing them it's worth doing more of something they were already doing less.

Inertia is what kept physical retail alive — even as online channels have emerged, flourished and expanded.

And now, inertia will accelerate its inevitable decline.

Once consumers overcome the inertia to move to something new that works, they rarely — if ever — go back.

WHO NEEDS A HORSE ANYMORE?

People with places to go in the late 1800s often got there by horse and buggy.

As it was originally a mode of transportation that only the well-to-do could once afford, the proliferation of carriage companies in the United States drove down the cost of buying one, thus democratizing transportation for many people. By the time 1900 rolled around, a person living in the U.S. could buy such a buggy for as little as $20 — about $621 in today's dollars — which was roughly 4.5 percent of the median household income at the time. In 1914, the carriage industry was booming with some 4,600 manufacturers cranking them out.

A couple of years before that, the production of the horseless carriage in the U.S. began to get some traction.

Although Henry Ford gets much of the credit for democratizing access to automobiles when the Ford Motor Company introduced the Model T in 1908, by 1899 there were already 30 automotive manufacturers pumping out 2,500 such vehicles that year, purchased mostly by wealthy businesspeople.

As automobile manufacturing plants became more efficient, the cost to produce automobiles dropped, and competition kept prices competitive. And consumers began buying them.

By 1910, the number of horseless vehicles on the road topped the number of those with them.

By 1929, there were fewer than 90 buggy manufacturers in the U.S. producing carriages — mostly for those living in rural areas for which travel by car was impractical because of the lack of roads.

Over the course of just two decades, the buggy industry and the ecosystem that supported it had all but collapsed.

It wasn't as though shifting away from the horse and buggy to a car was an easy transition.

Consumers had to figure out how to drive a car — a pretty big hurdle — and store it. They had to figure out what to do with the horse and the carriage. They had to be convinced that cars were as reliable and dependable as a strong, healthy horse — and as easy to operate. They also had to be certain there were enough places to fuel up, and enough roads to use them on. Horses didn't come with those built-in dependencies.

But once consumers got a taste of what it was like to have a vehicle that was more efficient and more practical to use, they never looked back.

And they never went back.

Innovators saw opportunities to build new ecosystems around this new mode of transportation, making the experience even better for consumers who bought cars. Better experiences meant more reasons to buy and own a car. And more and more consumers did just that.

And there was nothing the carriage manufacturers or dealers could do to get consumers to change their minds.

BREAKING WITH INERTIA

At some point — very soon, we all hope — the virus will be part of our past, and no longer part of our present. Until then, consumers, businesses and governments will continue to make decisions about how best to integrate physical into the digital-first experiences around which consumers have now organized their lives.

But the pandemic will define our future.

In fact, it already has.

The latest PYMNTS research says the typical U.S. consumer believes it will be another 371 days — yes, a little more than a year from now — before they are comfortable fully engaging in the physical world as they once did.

For all sectors of the economy, that means taking stock of the frictions that keep consumers from reengaging — in full or in part — in the physical world.

Take travel. People are still traveling, and they are staying in hotels. They are just staying in hotels within driving distance of their homes, and aren't getting on planes to fly to the places they once considered their vacation go-tos. Consumers will eventually get back on airplanes once they are convinced it won't endanger their health. In the meantime, a whole new crop of innovators has emerged to address these physical-world frictions, and to create new, digital-first experiences tailored to consumers' new expectations of travel — experiences that consumers won't likely leave behind, even as they broaden their travel horizons.

For physical retail, it's folly to think that a year from now will start to look like January 2020, since January 2020 was simply a continuation of its five-year decline. Bailouts and bankruptcies, and financial and tax tools, may stop the bleeding — but they won't change why consumers stopped being enamored with the physical retail experience many years ago.

That's not to say that physical retail doesn't have its place. It does. But the players will likely be very different. Like the carriage makers that couldn't pivot to making horseless carriages, many of the traditional retailers that once defined how retail happened in the physical world won't overcome their own internal inertia to embrace the new, digital-first models that their consumers have already embraced.

Innovators will continue to make these digital-first experiences richer, stronger, more valuable and safer for consumers. New ecosystems will emerge that deliver experiences that we haven't yet imagined. It will take a lot to convince consumers, now propelled forward into this digital-first world by their pandemic-fueled burst of energy, to even think about going back.

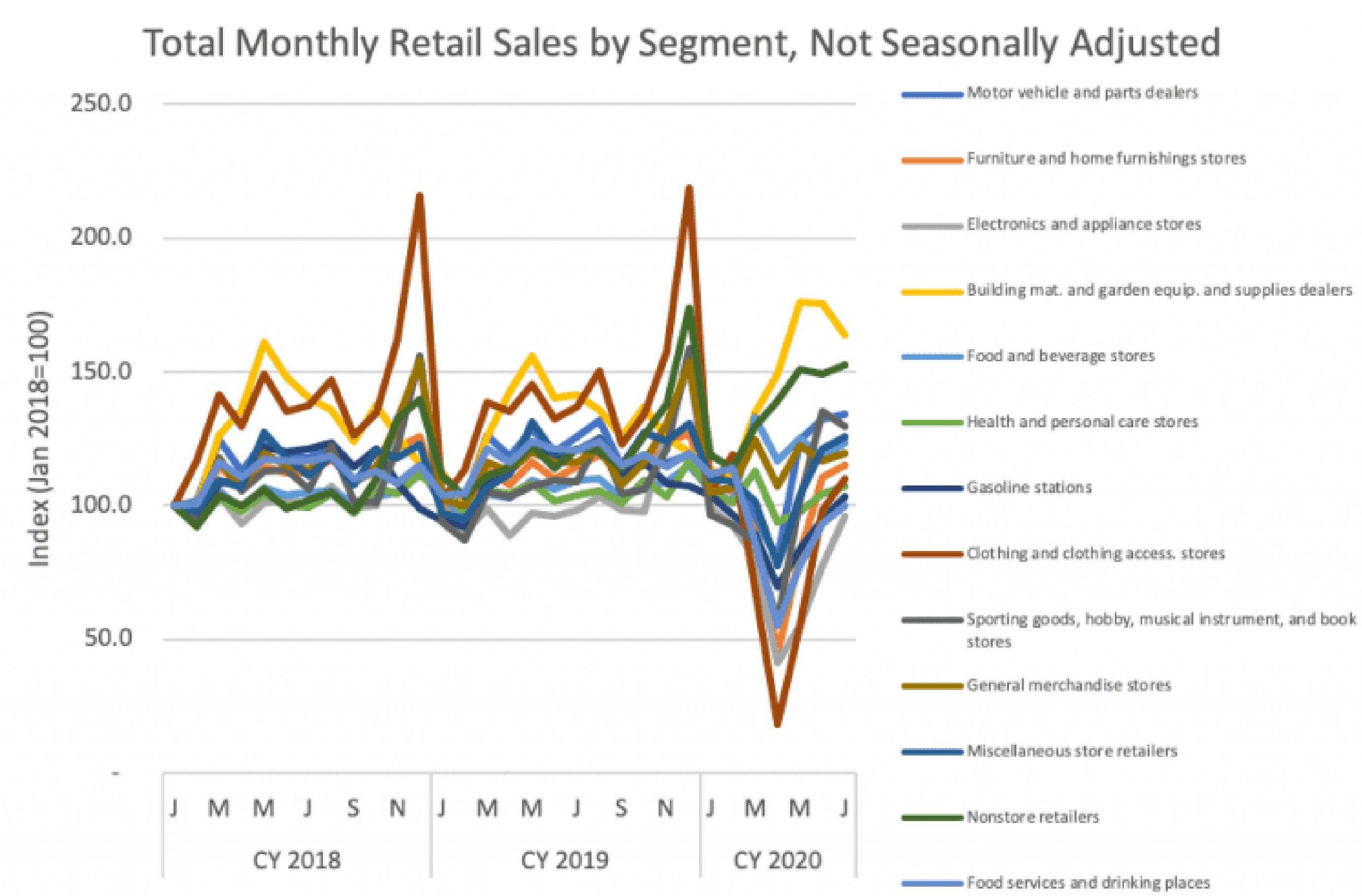
August 17, 2020

The Rise Of The Auto-Refill Economy

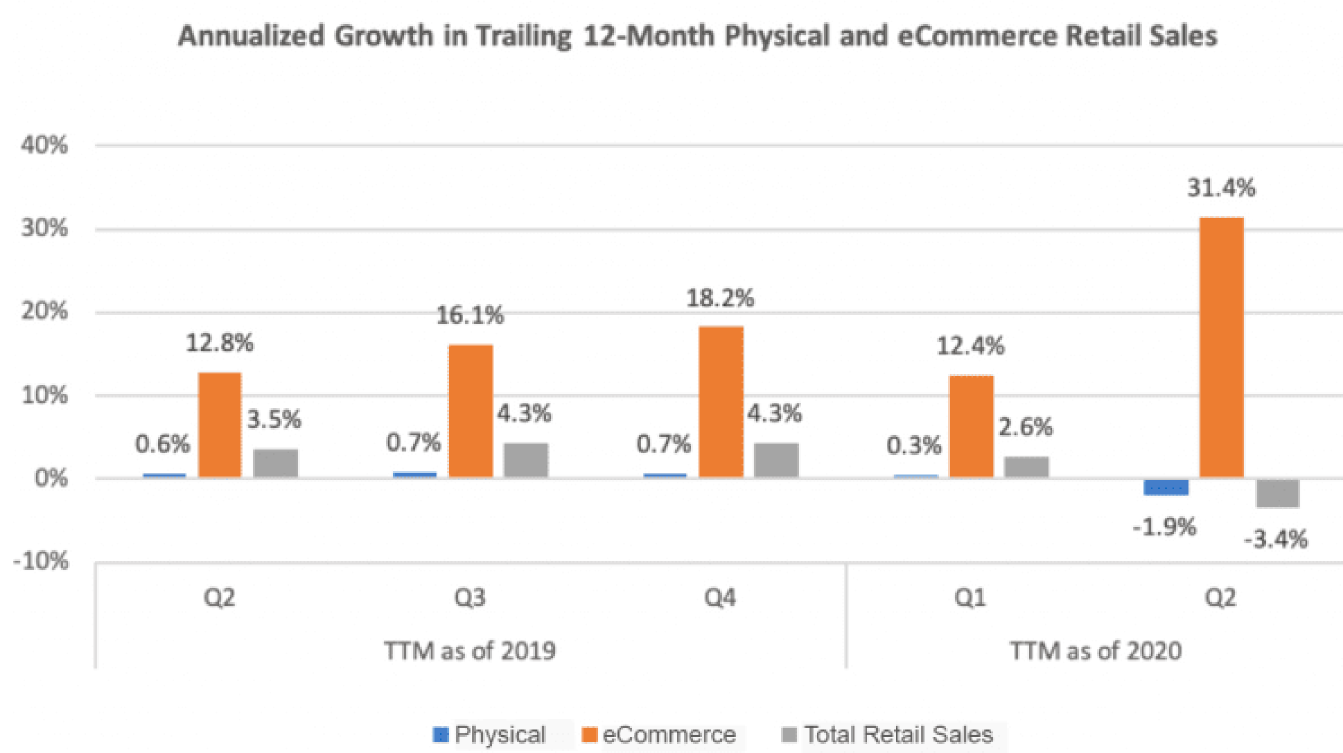
The Commerce Department released July's retail sales last week, showing an increase in seasonally adjusted retail spending – up 1.2 percent overall last month, but down from the 8.4 percent growth in June. Analysts reported that physical retail sales, seasonally adjusted, were up 2.7 percent overall in a trailing 12-month period, and that businesses had mostly recovered all of the losses that had been incurred in the March-through-May lockdown.

What we see in those numbers are the glimmers of a "V-shaped" recovery in those segments where consumers really value and want to return to the physical retail experience – with restaurants leading every other sector.

We also see the struggle facing nearly every other category – the ones that aren't so dear to the consumer – as they try to climb back out of their physical retail trough.



Source: PYMNTS.com based on the Census Bureau Advance Monthly Sales Not Adjusted, August 14, 2020. https://www.census.gov/retail/index.html



Source: PYMNTS.com based on the Census Bureau Advance Monthly Sales Not Adjusted data, August 14, 2020. https://www.census.gov/retail/index.html

And what we also see is only one part of the retail sales story.

Looking at non-adjusted retail sales, the storyline is a bit different: It's more aligned with what consumers are actually spending and where they are spending it.

And where are they spending their money? Online.

Using Census data, the trailing 12 months of non-adjusted physical retail sales show a decline of 1.9 percent and quarter-over-quarter growth of 1.6 percent.

The Census will release its Q2 eCommerce sales results today, but we've been using our own methodology to forecast eCommerce sales for some time, given the lag in Census reporting. And we've found our models to be remarkably consistent over time.

Using those models, the trailing 12-month, non-adjusted, online retail sales numbers show an increase of 31.4 percent and a quarter-over-quarter growth of 27.9 percent — growth that is 30 times that of non-adjusted physical retail sales over the last 12 months, and

a nearly 15-times growth quarter over quarter.

That growth in online sales comes during a time period when consumers could (and did) get out and about, visiting those brick-and-mortar establishments that they felt would add value to their shopping experiences and reduce the health and safety risk of shopping in a store.

Granted, the growth of eCommerce sales is on a much smaller base of retail sales, but the trendlines are clear: The consumer's digital shift is real, and it appears to be accelerating.

There are many reasons for that — and we've highlighted them consistently since March, in the published PYMNTS research of the pandemic-induced shopping behaviors of more than 20,000 American consumers.

That data shows a consumer who first shifted to digital out of health and safety reasons, but who now likes that digital shift enough to stick with it for all or part of their shopping experiences — most particularly for retail and grocery products.

There's another reason for this digital shift, one that was beginning to get traction before COVID-19, and is gaining momentum as a result of it.

And that's the rise of the auto-refill economy.

This is different from subscriptions that allow ongoing access to a particular product or service, most commonly involving content like newspapers or streaming services. The replenishment models establish auto-order frequencies for depletable physical products that people consume on regular basis.

Marketplaces and brands now make it easy now to auto-refill everything from paper towels to pet food, skin crèmes to salty snacks, bottled water to baby wipes. Most offer suggestions for the appropriate replenishment schedule, and all aim to eliminate consumers' FORO: fear of running out.

Auto-refill offers consumers the convenience of never having to remember to order the items that are always on their shopping list, and eliminates the friction of having to do without an essential product.

This "set it and forget it" model has the potential to accelerate the consumer's shift to digital and make it that much more enduring.

And across a growing number of important retail segments.

CPG GOES ONLINE — AND TO AUTO-REFILL

The middle aisles of the grocery store aren't the places where grocery stores make their biggest margins, but it is where most every consumer entering the store shops. Those aisles (and you know them well) are where the non-perishable pantry items — canned and packaged goods, baking products, cereal, paper goods, cleaning and laundry supplies, and pet food — are found. It's also where the stuff that takes up the most room in grocery carts — and consequently, in the trunks of consumers' cars — are bought.

Sales of those middle-of-the-aisle products spiked in the physical stores in the early days of the pandemic, as consumers rushed to stock their pantry shelves with those non-perishable items. CPG companies reported record sales of comfort foods sold in a can, bottle, box or plastic bag — soups, salty snacks, cereal, canned spaghetti, you name it.

It's also where CPG companies have reported seeing big spikes of online sales, particularly to new consumers. PYMNTS research, done in collaboration with sticky.io, reports that 45 percent of U.S. consumers have tried a new brand in the last 60 days, and have made that purchase directly from the brand via an online channel.

Not surprisingly, each of those companies is investing heavily in building out eCommerce capacities — both via their own platforms and via the eCommerce platforms that serve the grocery stores carrying their products.

PepsiCo said its Q2 eCommerce sales doubled quarter over quarter. The company has established its direct-to-consumer (DTC) online pantry so that consumers can order their salty snacks directly from the source. Reynolds reported that 26 percent of its customers in Q3 2020 use eCommerce to buy their products. P&G reported that eCommerce is now 10 percent of its business, growing globally by 35 percent in Q3 2020.

General Mills reported that its U.S. business saw a 250 percent increase in eCommerce in its Q4 2020, now accounting for 9 percent of its total business. Why wasn't that number higher? For one reason: There wasn't enough capacity at the store level to meet delivery demand, the company's president of North American retail reported to analysts.

Think about that for a minute: About 10 percent of CPG sales for these massive players now come from digital channels. These are products that, not that long ago, were almost exclusively purchased in the physical store.

It's a remarkable shift, in the space of just a few short months, in a category that many thought would take years to move even the tiniest bit of volume online.

Of course, we see this in our own data as consumers have shifted more and more comfortably, it appears, to a digital-first grocery shopping experience.

Before the pandemic, the weekly trek to the grocery store was a force of habit.

In early March, it was driven by the fear of running out, as consumers hoarded whatever they could get to avoid going to the store any more than they had to.

Two months later, we saw the shift to digital come out of fear of getting the virus while under lockdown.

Today, we see the ranks of these digital-first grocery shoppers on the rise, with five times as many consumers shopping for groceries online compared to early March. In a study PYMNTS fielded in mid-July, roughly 20 percent of U.S. consumers reported shopping for groceries online, while fewer than 4 percent did in March.

More than 15 percent of those consumers say that most or some of those digital habits will stick, a number that continues to increase each time we go back into the field.

As the virus remains a health and safety threat for consumers, two-thirds of U.S. consumers still fear spending time in a physical store, even while wearing a mask and despite stores' precautions to keep stores safe and maintain social distancing. The average consumer used to spend about 43 minutes shopping in the grocery store — but that was before the pandemic. Adhering to social distancing makes that time spent even longer.

It may not be that much of a leap from a consumer who already orders groceries online to a consumer who sets many of her middle-aisle purchases to auto-refill, reducing the time she spends shopping in the physical grocery store to a bare minimum — limiting it to the time she needs to buy the perishable items that she wants to personally inspect.

THE CONSUMER ON AUTO-REFILL

In March of 2015, Amazon introduced the world to Dash Buttons, those little branded plastic buttons that consumers could stick on their washing machines or refrigerators, in the pantry or in the garage — or wherever it made sense around the house — to order the products whose brands graced the front of those buttons whenever they needed a refill.

Initially thought of as an April Fool's Day joke (they were released on March 31), Dash Buttons were legit. More than legit, actually. The buttons were linked to a consumer's Amazon Prime account, and each time they were activated, the consumer's registered card on file was charged.

Dash Buttons were the precursor to what is now Amazon's Subscribe & Save replenishment business. Subscribe & Save allows consumers to auto-refill — at any given frequency — a growing list of branded items they buy regularly.

Many brands have followed that lead in an effort to lower their own cost of sales and fulfillment by locking a consumer into a set pattern of refills for certain products.

And we see increasing evidence that consumers are opting into auto-refill options for retail products, seemingly inspired by the pandemic-triggered desire to avoid buying these items in physical stores.

In research that PYMNTS will publish soon, done in collaboration with Recurly, we observed a surprising uptick in consumer subscription habits: Out of the national sample of the more than 2,000 American consumers we studied, 40 percent more reported activating subscriptions to consumer retail products than in January — the biggest increase of all the categories we tracked.

These aren't "box-of-the-month" subscriptions, but auto-replenishment options for products that consumers buy regularly.

One theory is that brands are offering auto-refill options for more of the essential consumer retail products — and that appears to be true.

Health and beauty brands offer a variety of products on auto-refill and via a variety of channels — their own, and others.

So do pet product brands. Packaged Facts reports that 27 percent of pet products will be purchased via online channels this year and that in 2024, online will be the preferred channel. Having pet food on auto-refill ensures that Fido never goes without, and eliminates the need for Fido's owner to carry a 20-pound bag of dog food to the car every couple of months.

The other theory is that consumers want to reduce the time they spend shopping for the things they buy anyway and that they once purchased in the physical store. Their interest in using digital channels increases the certainty that they will get what they want, when they need it.

Innovations in tech can help brands expand the current range of set-and-forget products to a wider range of categories that consumers consider to be basic and essential, but often forget to reorder until the item has reached the end of its life or has run out.

Innovations in payments tech can remove the friction from those purchases.

And innovations in voice commerce can help propel this shift.

New PYMNTS data shows that roughly 13 percent of the U.S. population made a purchase using a voice-activated speaker over the last 90 days, an increase of 50 percent from this time last year. More than half of those purchases were for grocery items, more than a third were for clothing items and more than a quarter were for health and beauty supplies. That friendly voice assistant on the other end of that experience will seamlessly add those items to a digital shopping list at the most appropriate frequency.

For brands, set-and-forget is an opportunity to build and retain brand loyalty, regardless of where a consumer purchases those items. Not just any cereal, but Cheerios. Not just any corn chip, but Doritos. Not just any paper cup, but Hefty paper cups. Not just any laundry detergent, but Tide. Not just any T-shirt, but Hanes. Not just any face cream. but Le Mer. Not just any running shoes, but Nike Zoom Fly Flyknit.

Auto-refill may be a first step in the consumer's journey from always buying physical to usually buying digital. Consumers are now gravitating to auto-refill because their needs are predictable — and because buying bulky items in the physical store can be a hassle.

Once they get used to this convenience, it's easy to go down the shopping list and move more and more items to the digital basket. And even when consumers set and forget it, they'll still be delighted when those items arrive just in the nick of time on their physical doorstep.

September 14, 2020

What Innovators Can Learn From Netflix

Netflix Co-founder and CEO Reed Hastings has written a new book about building the video-streaming powerhouse that now has nearly 200 million subscribers globally, as of the end of July. In the book, he freely admits that his formula might not work for every company.

But the one thing that might work is taking a page from the innovation playbook that Netflix seems to have written and followed over the last 22 years.

It's the playbook on using technology and a new business model to turn something *that consumers didn't really want to do* into something *they no longer had to do*, while getting the same — or an even better — result.

For anyone seeking inspiration on rethinking their business and better serve their end customers in the face of, or despite, the global pandemic, they might want to consider that outcome as their innovation "North Star."

'I DON'T WANT TO, BUT I HAVE TO'

If you wanted to be among the first to see the sequel to the 2000 movie blockbuster "Meet the Parents" starring Robert DeNiro, Ben Stiller, Barbara Streisand and Dustin Hoffman, you had one and only one choice: stand in line at a movie theater ticket window, buy a ticket, load up on popcorn and soda and Junior Mints, and take a seat.

The sequel, "Meet The Fockers," released in December of 2004, was among the top-grossing films of 2005. It is also pretty hilarious. Watching it at home in the comfort of the living or family room wouldn't be an option until nearly two years later: August 22, 2006, when the DVD was finally released.

That's pretty much the way movies and DVDs rolled out for the better part of the early to mid-2000s.

Studios didn't release popular films like "Meet the Fockers" on DVD until 12 to 16 weeks after they had premiered in movie theaters. For popular first-run hits, the studios would drag it out much longer to maximize box-office sales and profits.

Netflix was founded in 1998 to give consumers a mail-order alternative to schlepping to video rental stores to get their videocassettes and, soon, their DVDs. The growing popularity of DVD rentals in the early 2000s introduced more competition into the market, making them more affordable for more consumers. That, in turn, increased demand for more DVD titles to satisfy the consumer's desire for watching video programming at home. At their peak in 2005, DVDs were a $16.3 billion business, representing 64 percent of the home video entertainment market.

In 2007, Netflix introduced streaming services to further scratch that consumer itch. As more people had fast broadband connections at home, the popularity of this new "video on demand" service increased. Apps on mobile phones and tablets with 4G connections introduced even more flexibility to consumers to watch movies and other video content anywhere they wanted.

Between 2008 and 2019, the DVD rentals market dropped like a stone. In 2010, Blockbuster declared bankruptcy, a decade after famously telling Netflix, which then had $5 million in annual sales, to get lost when they suggested that Blockbuster buy them.

In 2017, Netflix was reported to have had as many U.S. subscribers as cable television, covering 73 percent of the country's households.

In 2020, movie studios, motivated by the pandemic's hit to movie theatre attendance and the hockey-stick growth of streaming subscribers, reversed a decades-old rule that now only gives movie theatres 17 days, or three weekends, of first-run movie exclusivity, down from what was once a three-month head start.

Since January of this year, Netflix has added roughly 26 million new subscribers to its platform, globally, and 10.1 million in the April to June timeframe alone.

Netflix is the story of the classic, but the always so-much-harder-than-it looks, ignition strategy, laid out over more than two decades. A combination of forces — Netflix's own content and technology innovations and advances in hardware and software — helped them consistently attract more eyeballs. And those eyeballs helped Netflix buy more content — and more content helped get even more eyeballs. Cheaper and higher-quality HD flat-screen TVs, the near-ubiquity of fast broadband at home, and powerful tablets all turbo-charged consumer adoption and usage over time.

A lot has happened over the last 20 years to give consumers more ways to watch movies in the comfort of their own homes while giving content producers more incentives to offer consumers more choices about what to watch.

Today, consumers can pop open the Netflix app on one of the many

connected devices that are now in the hands and the living rooms of almost every person and household in the U.S. — and a growing audience in every other part of the world — and binge-watch whatever they want.

Netflix the platform became the catalyst for a powerful yet subtle shift in how people could consume video content. They turned something *that consumers didn't really want to do* (go to the DVD rental store) into something *they no longer had to do*, while still getting the desired (or even better) outcome.

'I DON'T HAVE TO, BUT I WANT TO'

Over the last five years or so, we've seen confident, employed consumers in a very strong economy shift how they spend their money. Money spent on things gave way to money spent on experiences: going out to eat, traveling, going to concerts and other live events.

Those experiences didn't fall into the bucket of things consumers had to do, but what they wanted to do — and do with their families and friends. The experience was the product, and consumers were all in.

Until March of 2020.

The pandemic has largely put a pin in most, if not all, of those activities.

Take eating out in a restaurant.

When the physical economy locked down, so did restaurants. Sales plummeted, and many restaurants reported losing 80 percent to 90 percent of their sales overnight. They scrambled to offer takeout and curbside pickup to get some sales in the door.

Four times as many consumers used an aggregator to order food from a restaurant at the end of August than they did in March — but most will tell you that it's no substitute for the experience of being at a restaurant and eating that same food.

The one thing PYMNTS has heard consistently in the 10 studies of a national sample of more than 25,000 U.S. consumers, which have been conducted since March 6, is that consumers want to go back to eating at restaurants. As a close second to seeing family and friends, more than three-quarters of consumers consistently say that going to a restaurant is the physical-world experience they miss the most.

Not surprisingly, innovators are hard at work devising digital-first experiences for consumers making their "don't-have-to-but-want-to" decisions about going back to a restaurant, with the impact on their health an important driver of those decisions.

QR codes in restaurants, which show menus and put ordering and payment into the hands of consumers, have eliminated the need to touch a menu or the check in the plastic billfold that once defined the checkout ritual at the end of every meal.

Socially distant settings in largely outdoor dining areas have helped mitigate consumers' fears about the virus and brought consumers back to restaurants. Eager to break their quarantine routines, consumers are filling restaurants to whatever capacity they can accommodate, according to the requirements of the states in which they operate.

The question now for consumers, innovators and restaurant operators is whether this digital-first technology is enough to get the "don't have to but want to" consumer back into their regular Friday and Saturday night dining-out routines.

Just like ordering food from a restaurant isn't the same as eating it in the restaurant, neither is eating in a restaurant where the dining experience is now defined by COVID-protocols, many say.

Part of the dining-out experience **is** the experience: the vibe of a crowded, bustling restaurant scene, often with patrons crowded around the bar. It's a vibe that's impossible now with current capacity constraints.

Many COVID protocols also make the dining experience itself very different — bare tables, more restricted waiter/diner interactions — so that the ambiance-inspiring artifacts that consumers once enjoyed are no longer part of it.

As cooler weather makes outdoor dining less of an option — and the CDC has recently cautioned consumers that indoor activities, like eating in restaurants, carry a higher risk of being exposed to the virus — it's hard to know how or when consumers may feel comfortable, digital-first technology options notwithstanding, with getting back into their pre-COVID restaurant routines.

Dining out, though, is just one example of the consumer's "don't have to but want to" activities that brands can meet with digital-first solutions to keep consumers engaged.

Traveling, going to live concerts or attending sporting events are also areas where we've seen innovation emerge to meet consumers in their digital-first bubbles. Fortnite now hosts concerts inside of its gaming ecosystem. Live sports are still being played, but to a virtual and not physical audience. Consumers are buying or renting RVs or packing the kids in the car and traveling, while sticking close to home instead of flying on airplanes to faraway places.

Using innovation to move consumers more into the "want to" camp comes with a unique set of challenges, some easier to overcome than others. Consumers can still satisfy their wanderlust and get out and see new places. They can still watch the Pats on TV, like many of them always did. Piped-in fan cheers and field noise — and few shots of empty stadium seats — doesn't really degrade the home viewer's experience.

In other cases, like eating in a restaurant, digital is an important enhancement to, but not a substitute for, the experience that the consumer really, really wants to have.

And let's face it: For many physical activities that people didn't have to do, but wanted to do, it's been very hard to come up with solutions that make them want to nearly as much. And that's been a real drag on the economy, with no apparent solution absent a vaccine or other consistently implemented safety measures, which do not appear to be on the near-term horizon.

'I HAVE TO, BUT I DON'T WANT TO'

Here we are in September of 2020.

Walmart is testing the drone delivery of packages weighing less than 6 pounds into consumers' backyards.

Consumers can buy cars online and have them delivered to their driveways without ever talking to a car salesperson or going to a dealership to sign paperwork.

Sellers from anywhere in the world can list products on dozens of online marketplaces and reach new customers who would never find them any other way.

Consumers need a paper cashier's check for real estate closing costs.

What's wrong with that picture?

In the days before COVID-19, going to the bank to get a cashier's check to cover closing costs was always inconvenient, but was the means to an important end. Consumers may have grumbled, but they always made the time, went to the bank and got it done as instructed.

In the throes of a pandemic, the paper cashier's check is an example of unnecessary, time-consuming friction. Did I mention, unnecessary?

Of course, with enough digging around and persistence, banks may offer to process a wire to arrive the day before closing, but at a price. The bank that a colleague interacted with last week charged him $30 to send a "wire" from his account to the lender's account, which happened to be at the same bank. The funds were guaranteed to arrive before 3 p.m. the day before closing (which was at 4 p.m.), but not instantly.

He said he was more than happy to pay that fee, since it avoided what would have become an hour-long excursion to and from a branch to get that quaint paper artifact. The local branch near him was closed, so he would have had to drive much farther to a nearby town to complete that transaction.

Keep in mind: All the lenders cared about was making sure they had their money before signing on all of those dotted lines. They didn't much care how they got it.

A lot of consumers probably would have put on their masks and spent the time to hoof it to and from the branch to get a cashier's check. Maybe they didn't know they had an option (it took digging to find that option for that bank, I am told). Maybe they weren't sure the money would get there in time, or maybe they didn't want to spend the $30 required to process an electronic payment.

This is just one example of the "have to but really, really don't want to" category of activities that are ripe for innovation — and in need of digital-first solutions that satisfy all stakeholders.

In some situations, the absence of suitable digital-first solutions carries far greater consequences than spending a few hours trekking to and from a bank branch.

As we saw over the course of the pandemic, and even now, consumers who needed to see a doctor, didn't. Telehealth usage is up, but many patients remain concerned about going to the doctor's office for routine visits or to treat something more severe. As further evidence that consumers aren't going to the doctor, there are unspent

balances in many HSA accounts. As doctors report, it isn't that people aren't getting sick or having strokes or heart attacks or other serious medical problems — they just aren't seeking treatment.

Consumers who have to pay for their purchases in the store don't want to use cash, nor do they want to touch a terminal in any way. Not all consumers have contactless cards or feel comfortable using digital wallets to pay. Innovations such as online ordering for curbside pickup and QR codes for in-store checkout give consumers payment options that give them more control over their experience. It also keeps them from doing something they increasingly say they don't want to do: Go into stores to buy retail products. Nearly two-thirds of consumers still say that going into the physical store to shop makes them uncomfortable due to fears of being exposed to the virus.

Businesses don't want to be paid by check any more than buyers now want to send those checks. Moving money efficiently between accounts has been technically possible for a very long time — yet checks were easy for senders, and so receivers took them to get money in the door. The popularity of virtual cards has soared over the course of the pandemic, as both buyers and suppliers seek certainty around cash flow and the ability to move detailed data with the money being sent and received. Flexibility around terms and working capital now provide even more incentives for each side to get on board.

What makes many of these "have to, don't want to" situations so interesting is that they are rife with inertia — the sacred cows that have stuck around for years or more just because the status quo was familiar, and change seemed hard.

Yet, as the pandemic has exposed, it's also where the opportunity for digital-first innovation can be so profound.

GETTING FIT® TO INNOVATE

Two months ago, I first introduced the FIT® framework to provide insight into why consumers' and businesses' shift to digital has been so sharp over the course of the pandemic — and why so much of that shift seems so permanent.

The FIT® framework examines and quantifies the three vectors that influence the trajectory of innovation one way or the other: **F**riction, **I**nertia and **T**ime.

In the case of the pandemic, given its unexpectedly long duration, consumers and businesses have become highly motivated to eliminate the **friction** of doing business in the physical world with physical payment methods and manual and paper-centric processes. They knew they lost a lot of valuable **time** as a result of that friction – but it was a hassle to go to the trouble of establishing digital accounts, methods and processes. That created **inertia**: They wanted to move, but just couldn't get over the hump. But keeping consumers and employees safe from being exposed to the virus, and mitigating the impact to business operations that paper-based methods introduced to a distributed workforce, got them over the hump — it countered that inertia.

The longer the pandemic remains — which, according to the latest PYMNTS consumer and small business research, could be until the end of summer 2021 — the less likely that consumers and companies will go back to the old ways of doing business.

Thinking that inertia will work in reverse means ignoring the reality of the jump discontinuity that the pandemic has created — and the new, digital-first path that consumers and businesses are now traveling.

THE NETFLIX INNOVATION INSPIRATION

We've observed a rapid rise of innovation over the last six months, in an effort to help businesses of all types and sizes navigate the devastating impact of the pandemic.

Much of that innovation has been critical to keeping businesses operating by introducing digital into experiences that were once largely physical in some way.

Six, now going on seven, months into the pandemic, it's time to shift focus, and to take innovation up a notch or three by examining how the FIT® framework can help turn the things consumers don't want to do, into the things they no longer have to do to get a better outcome.

Eliminating friction and saving time, of course, is what all innovators strive to do; it's table-stakes for any successful company and essential for any platform worth its ignition strategy. But overcoming inertia is the hard part.

Introducing digital-first experiences to consumers and businesses that have to, and want to, do things is relatively straightforward — and overcoming inertia is an obvious payoff for embracing a new experience. And in many areas, shifts to digital had already started and the pandemic fast-forwarded its adoption, like ordering groceries, teaching kids, buying cars and settling on homes online.

But where innovation has the potential to make its greatest impact is where Netflix showed us how to forge that path: turning a "don't want to" into "a don't have to" experience.

The pandemic has created a new opportunity to break the inertia that has held innovation hostage for so long.

Innovators have greater incentives now to make consumers and businesses want to use digital solutions for things they have to do but don't want to do, and for things they don't have to do but want to do. It's now up to innovators to find those opportunities for digital solutions — knowing that if they succeed, consumers and businesses, having overcome that inertia, will happily leave the status quo in the rear view.

October 5, 2020

How Consumers Forced Big Merchants To Up Their Digital-First Game

Human beings are creatures of habit. Take popcorn and going to the movies.

Americans consume roughly 13 billion quarts of popcorn every year, roughly 30 percent of that at the movies. Well, that was back when theatres were open, before COVID, and going to the movies was a regular part of a consumer's routine.

But in those good old days of 10 months ago, digging into a tub of popcorn while watching a movie on the big screen seemed an inextricable part of the movie-going ritual – and theater owners kept that popular snack at the ready.

And for good reason. Margins on concessions sales, including popcorn, are as high as 85 percent, and can account for as much as 46 percent of theater owners' profits.

In 2014, scientists wanted to determine how much of a ritual eating popcorn at the movies is for the American consumer. They did a study in which they gave consumers two different buckets of popcorn to taste — one stale and one fresh. Consumers, naturally, preferred fresh to stale, until they were randomly given buckets of fresh and stale popcorn at the movie theater. There, researchers found that of the consumers who typically ate popcorn at the movies, just as much of the stale popcorn was eaten as fresh.

Old habits are hard to break — even, apparently, when it comes to eating lousy-tasting popcorn.

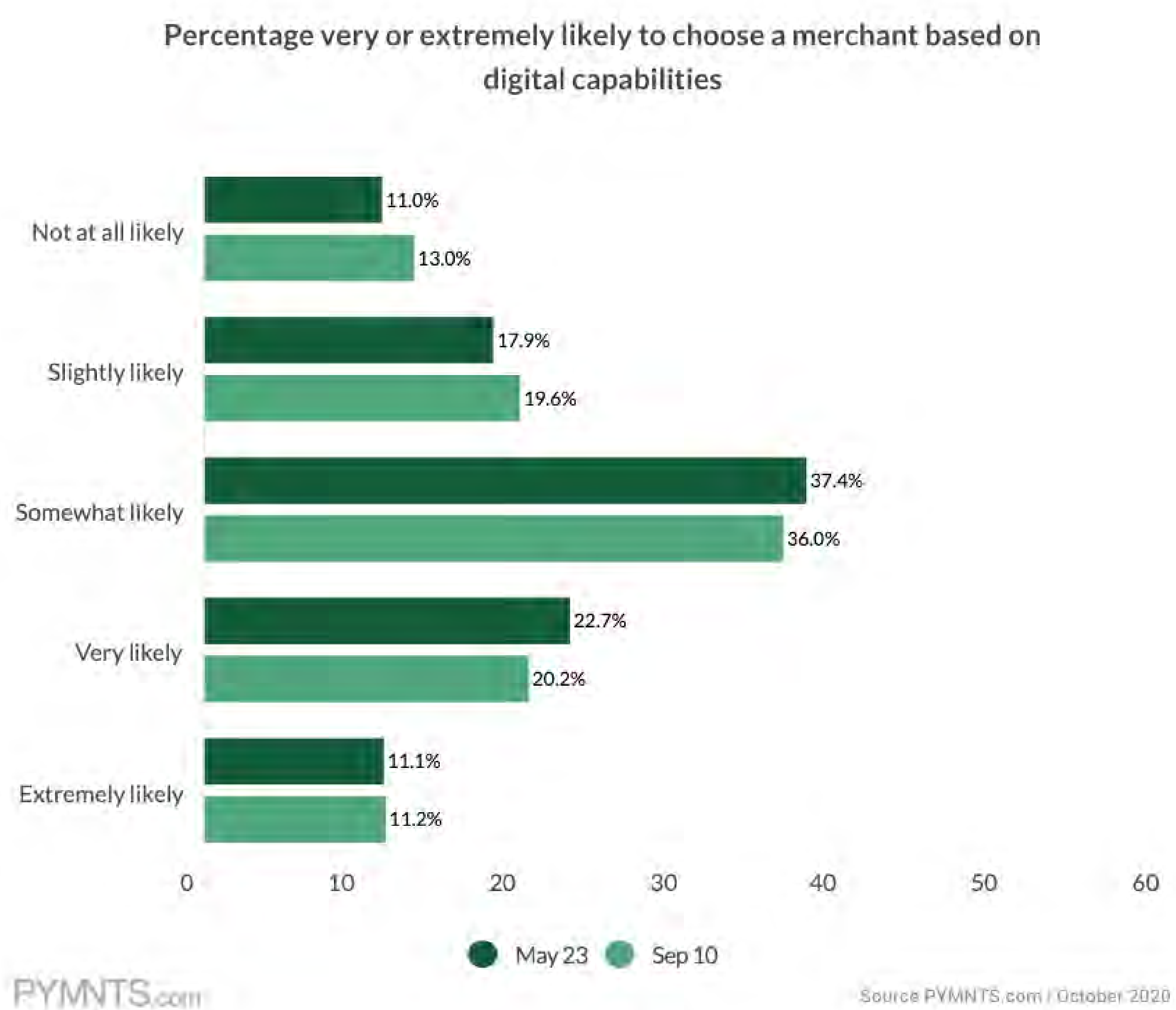
This finding, though, is just another data point in the growing body of evidence to prove how habits and context shape the ritual of a person's regular routine. Habits deliver certainty — and the more routine the activity, the more incentive people have to shortcut the process of deciding what to do every time they do it. Scientists say that 40 percent of the 12 primary activities that account for the typical person's day-to-day norm are largely done on autopilot, the repetition of tried-and-true behaviors that deliver a predictable and satisfactory outcome.

Since the early part of the year — the middle of March, for those living in the U.S. — people all around the world broke with the habits and rituals that once defined their daily routines across all 12 of those activities. First, it was partly out of necessity, as governments locked down the physical economy — but now, it's increasingly out of choice, as the duration of the pandemic continues and consumers' concerns over their personal health and safety remain high.

These digital-first consumers, this new digital advance guard, define certainty and predictability in new ways. The once tried-and-true habits introduced frictions, and no longer provided the satisfactory outcome they once did.

New PYMNTS research suggests that this shift to digital now foreshadows a more permanent change in how consumers shop and even order and eat food at restaurants. These are the results of the thirteenth study PYMNTS has conducted since March 6. Each study examines consumer behavior about the shopping and dining behaviors of a national sample of now roughly 30,000 U.S. consumers, as well as the behavior of a sample of Main Street business owners.

What we have learned is that health-first has accelerated the consumer's shift to digital-first, and continues to influence to whom the consumer turns to build those new habits.



That has forced merchants to break their own habits, and to meet consumers where and how they want to shop, pay, order and eat their food.

On their very digital-first, touchless turf.

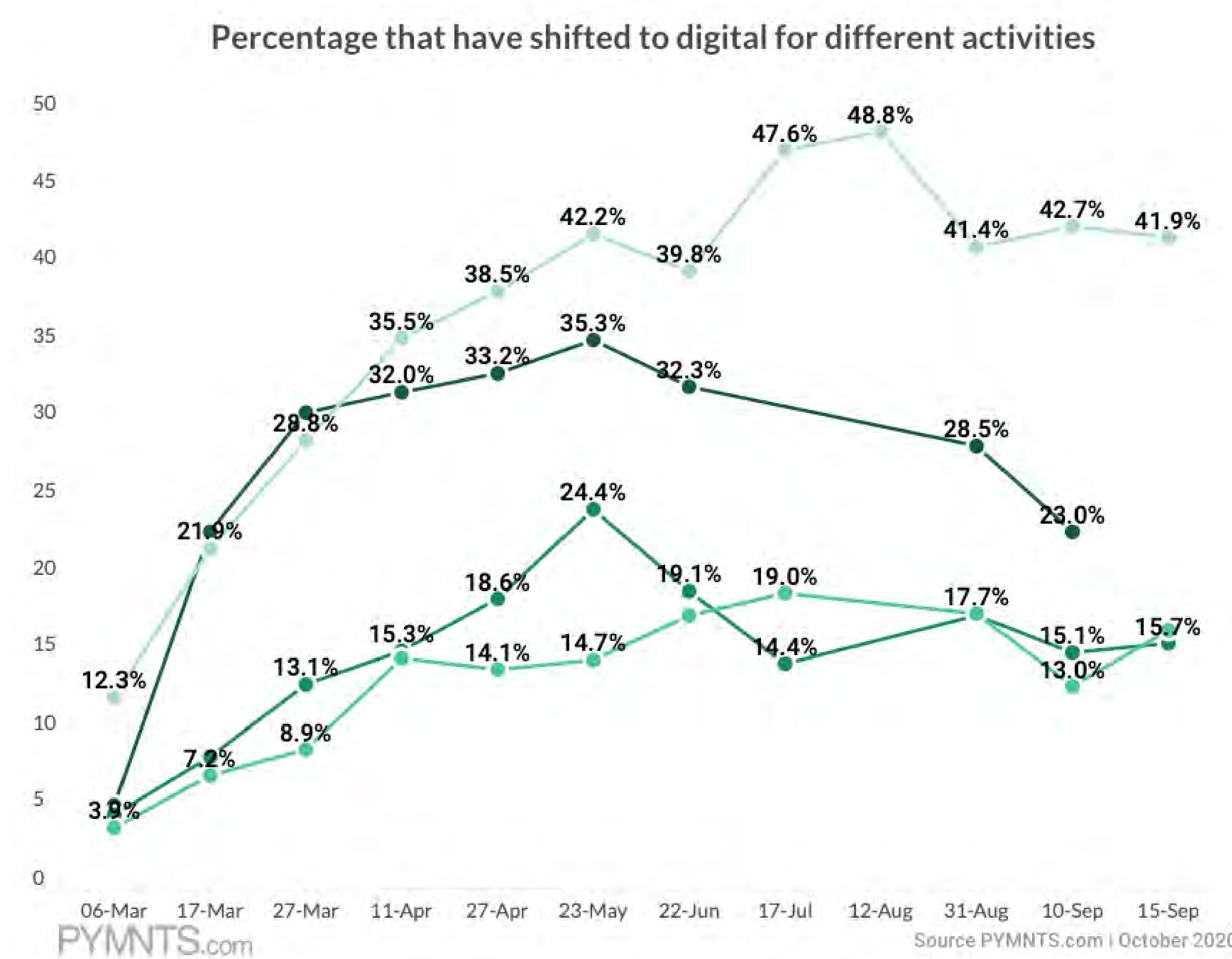
Consumers are also quite willing to put their money where their mouth is.

A third of consumers, some 70 million Americans, now report that they are very or extremely likely to select a merchant based on the availability of suitable digital, touchless offerings — a number that swells to more than two-thirds (69 percent) when adding those who said they were also somewhat likely to do so.

FOLLOW THE CONSUMER

Merchants have gotten and read that memo.

The national study PYMNTS fielded to 2,157 adult consumers between Sept. 10

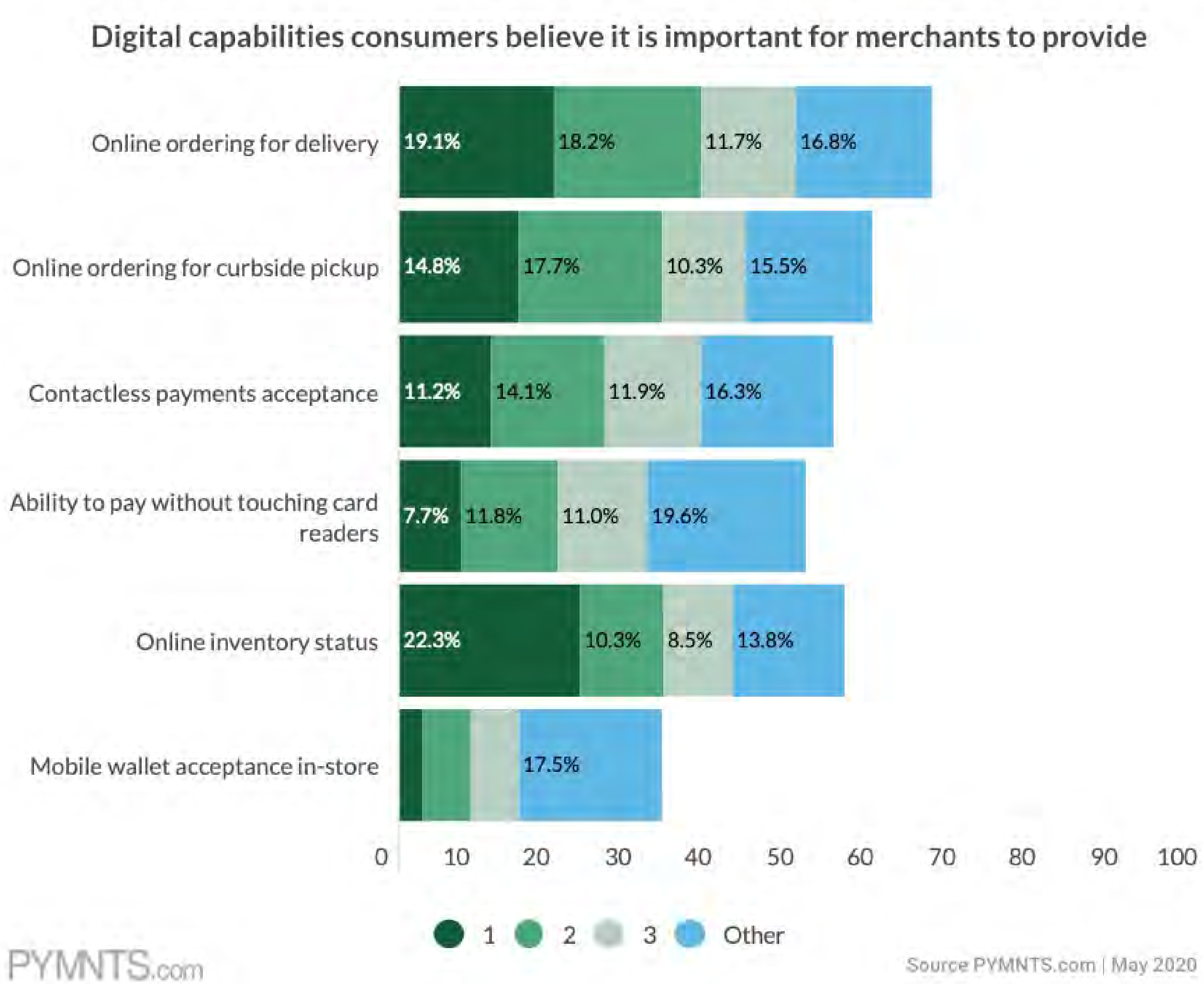


and Sept. 15, then some 181 days into the pandemic, found a consumer whose digital-first experiences with merchants have gotten better.

In fact, on average, consumers report that their experiences are a lot better.

Using digital-first channels to shop for retail products and order food from restaurants using aggregators is two to two-and-a-half times better than consumers reported just three months earlier, at the end of May. For grocery, consumers report that their digital-first and touchless experiences are now nearly two times better for that same time period.

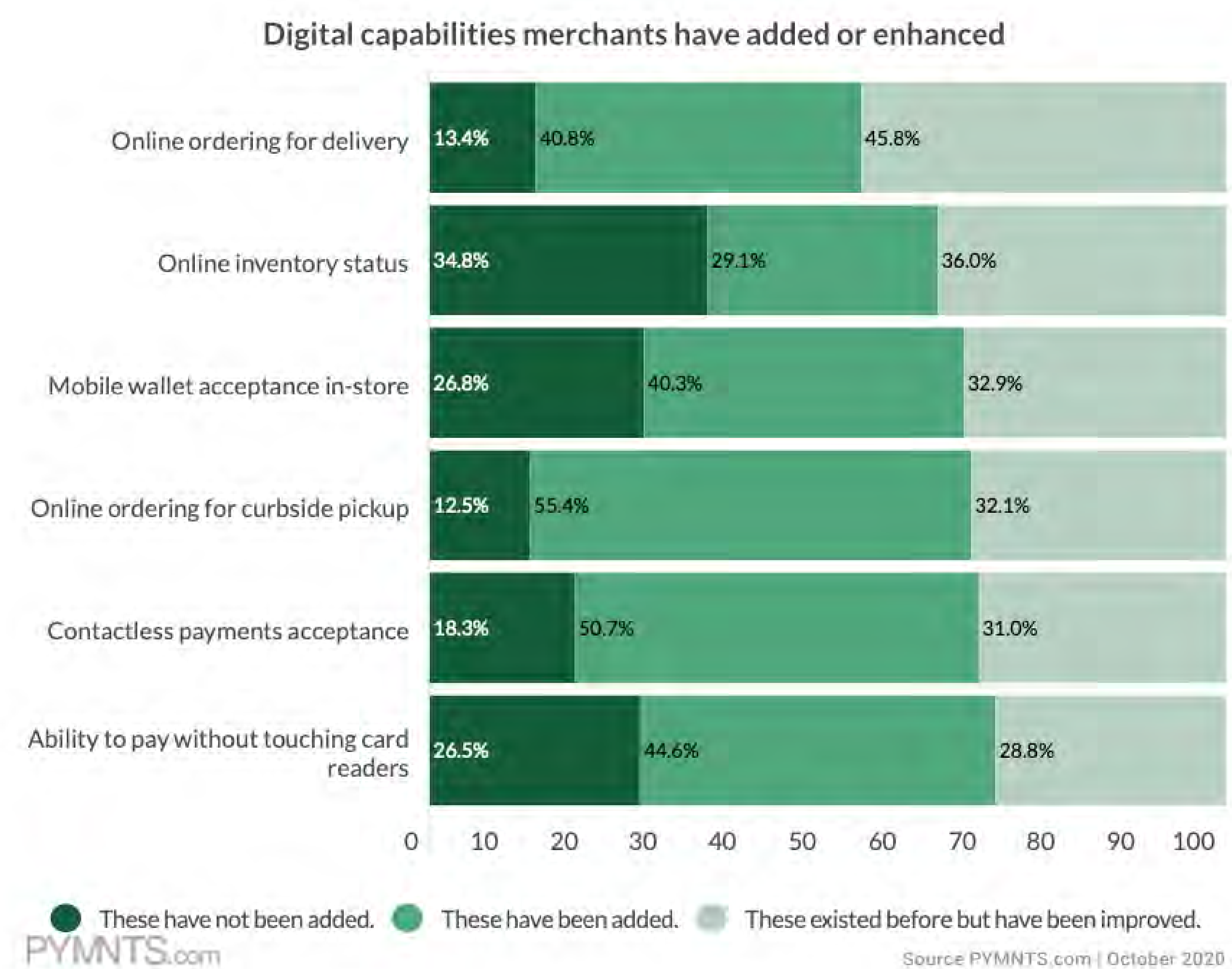
Delivery (66 percent), curbside pickup (58 percent) and inventory availability (55 percent) top the list of the experiences that consumers say they

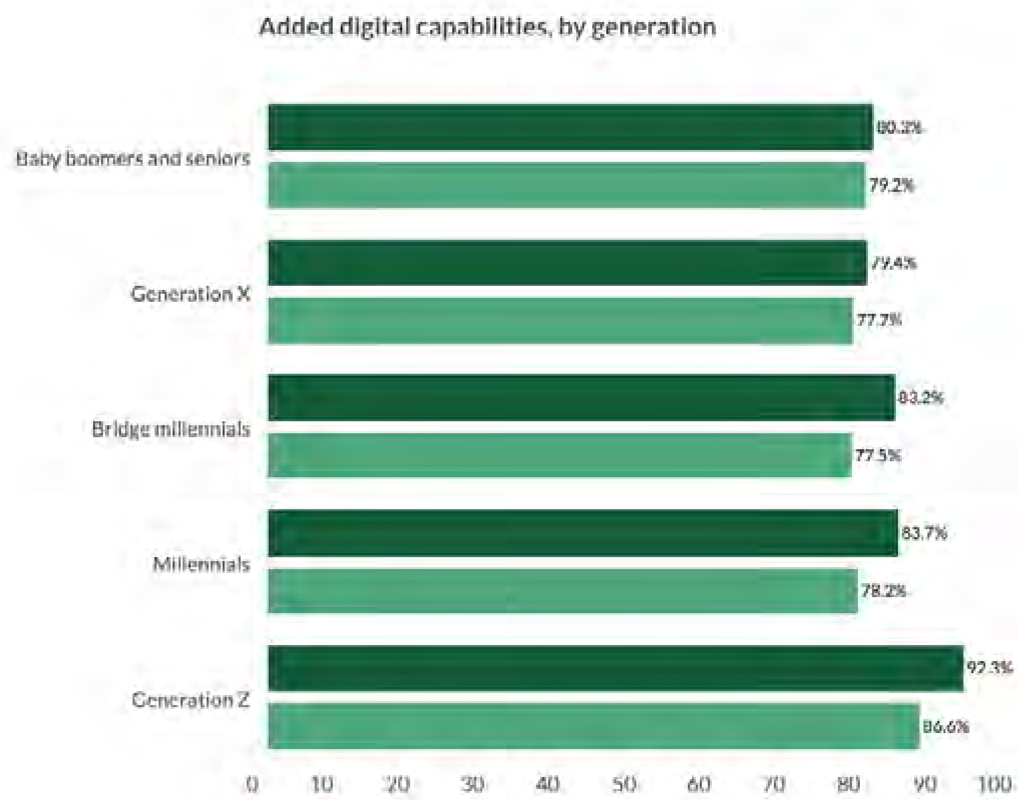


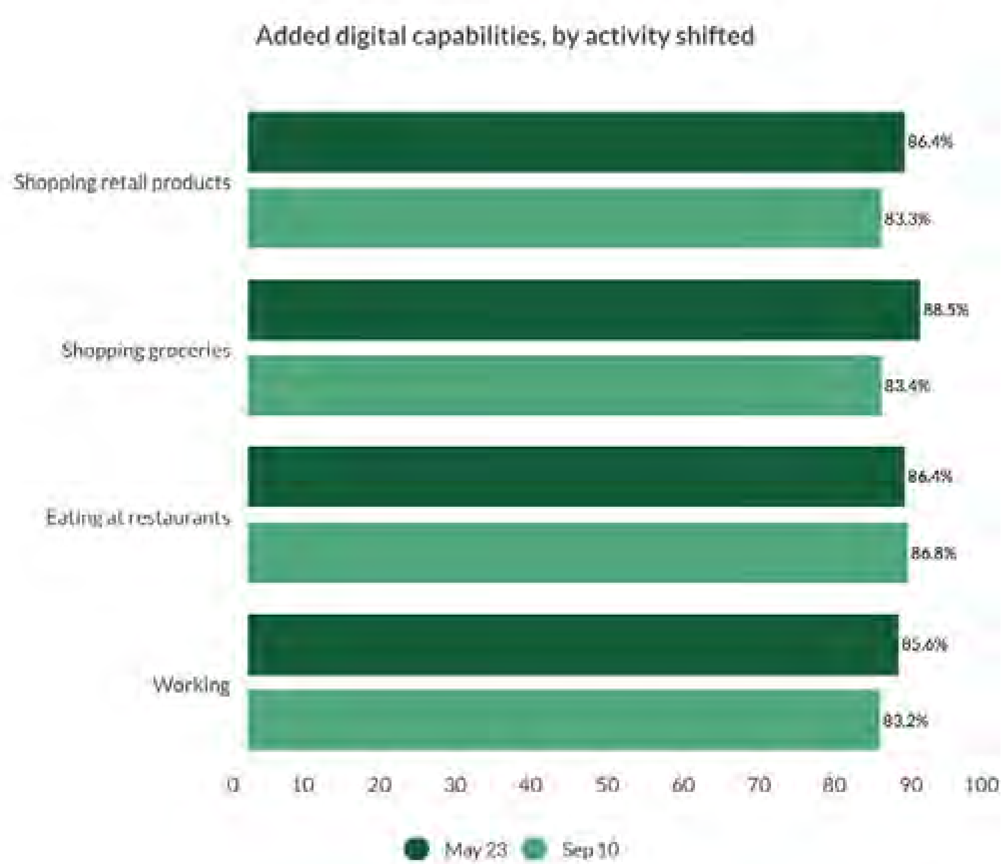
value the most. Interestingly, when asked to rank in order the capabilities of greatest importance, inventory availability tops the list. Part of reducing shopping friction is knowing whether items are available when consumers want to buy them. Lower on the list is the acceptance of digital wallets, even though consumers report more merchants adding that capability.

And they have definitely added capabilities.

Seventy-nine (79) percent of consumers report that the merchants they shop with have added or improved their digital-first and touchless experiences over the course of the pandemic, with curbside pickup (55 percent) and contactless payments (51 percent) as the two features that consumers





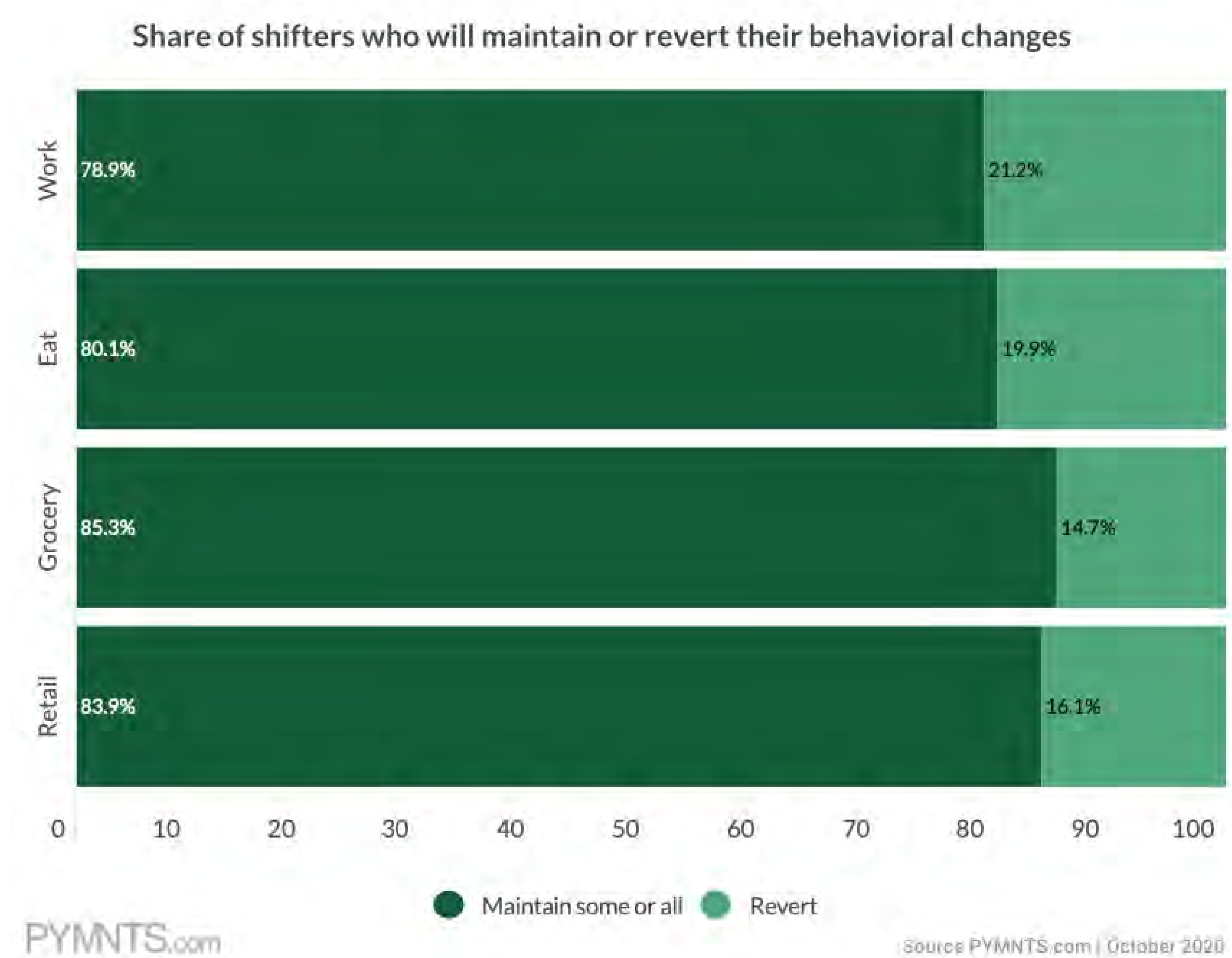


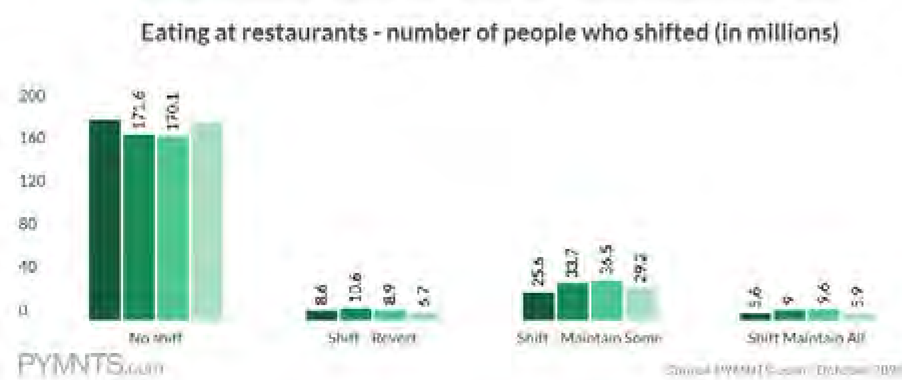
say more merchants have added as shopping and payments options.

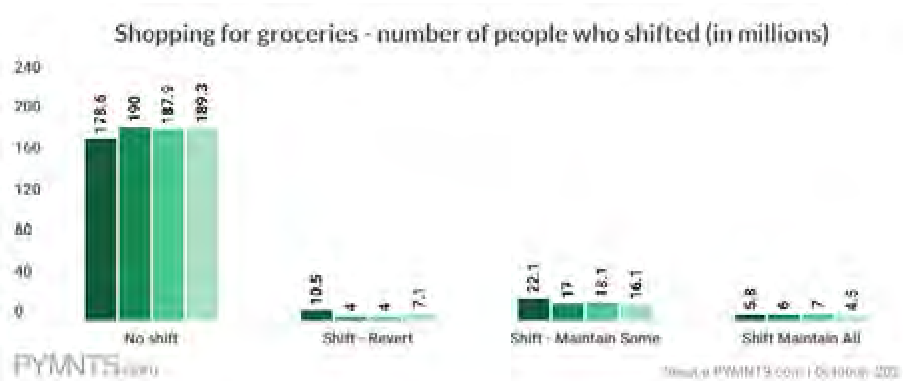
Naturally, the more digital-first and touchless capabilities merchants offer, the more likely consumers will make those capabilities — and those merchants — part of their new digital-first routines.

The number of consumers who report missing the physical store shopping experience have dropped by 20 percent since April. And as fond as consumers are of the restaurant experience, 10 percent fewer now say they miss eating at one.

What seems increasingly, perhaps even overwhelmingly, clear is that as merchants continue to add new experiences and align them to what consumers want, those consumers will have little reason to "go back."







The same goes for retailers.

In this latest study, PYMNTS finds that 85 percent, 84 percent and 80 percent of consumers who have shifted to digital for shopping for groceries, shopping for retail products and ordering food from restaurant aggregators, respectively, say they will stick with all or most of those habits moving forward, where “shifted digital” means a consumer is doing less in a physical channel and more in a digital channel for the same activity.

This is a finding that has been largely consistent over the course of PYMNTS’ 13 studies — even as retail shops have reopened and people have returned to shop in them, as restaurants have reopened and people have resumed dining in them, and as grocery stores (which remained open throughout) have become less friction-filled to shop in.

Digital-first will be how consumers engage, and how merchants reinvent themselves and their models — if they want those consumers’ business.

Based on the results of this latest study, PYMNTS estimates that now, some 84 million U.S. consumers representing some $1,025 billion of sales volume will shift some or all of their retail shopping,

some 40 million U.S. consumers representing some $112.5 billion of sales volume will shift some or all of their food ordering and some 35 million U.S. consumers representing some $144 billion of sales volume will shift some or all of their grocery shopping to digital-first channels.

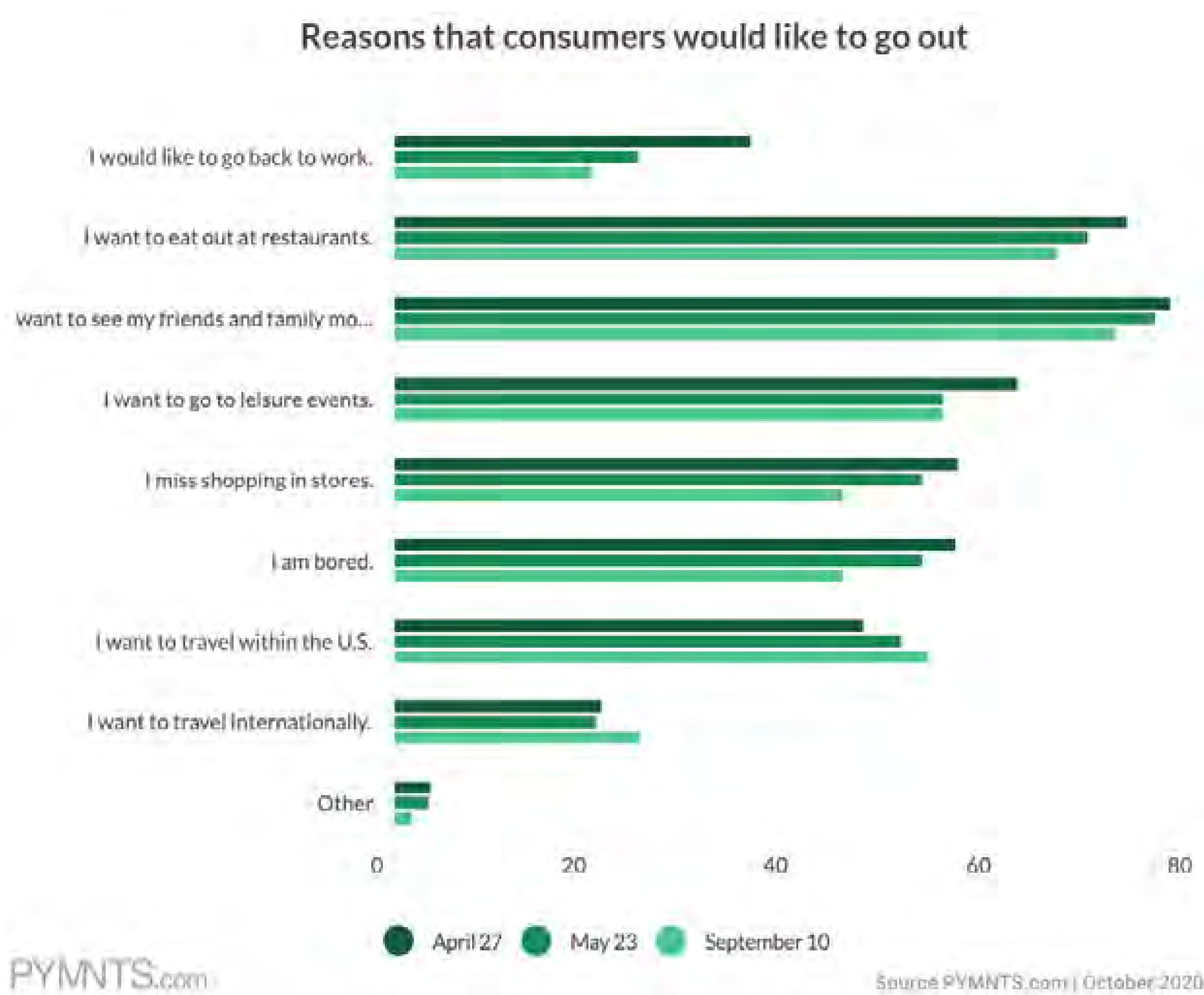
Those numbers will no doubt grow larger as the experiences offered by merchants get better and better.

HEALTH-FIRST SHOPPING HABITS

What also remains remarkably consistent is the influence of health and safety on consumer decisions about where and how they shop, and order and eat their food.

With perhaps even more conviction than at any time we have observed since the pandemic began.

The latest PYMNTS study, conducted 181 days into the pandemic, finds a

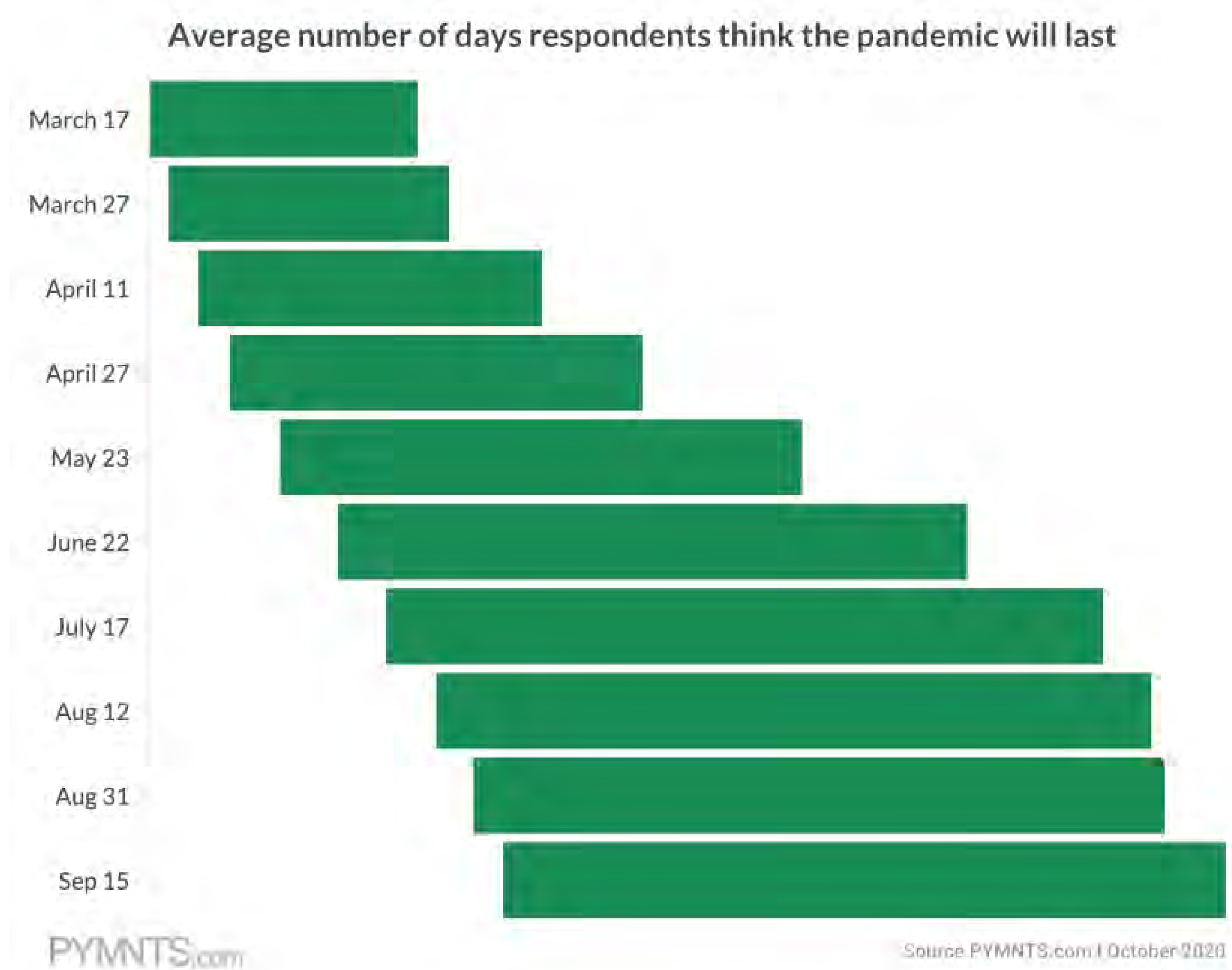


consumer who is slightly more afraid of dying from COVID as she was in April, at the height of it.

For many consumers, death from COVID has become more than a statistic reported by Johns Hopkins University, touching someone they knew firsthand or secondhand: the aunt of a co-worker, the brother of a neighbor, a longtime family friend. Even more people now know someone close to them whose family member had become extremely ill or had a terrifyingly close call.

In this study, we also observe a consumer who is now increasingly concerned about getting sick and missing an extended period of time from work.

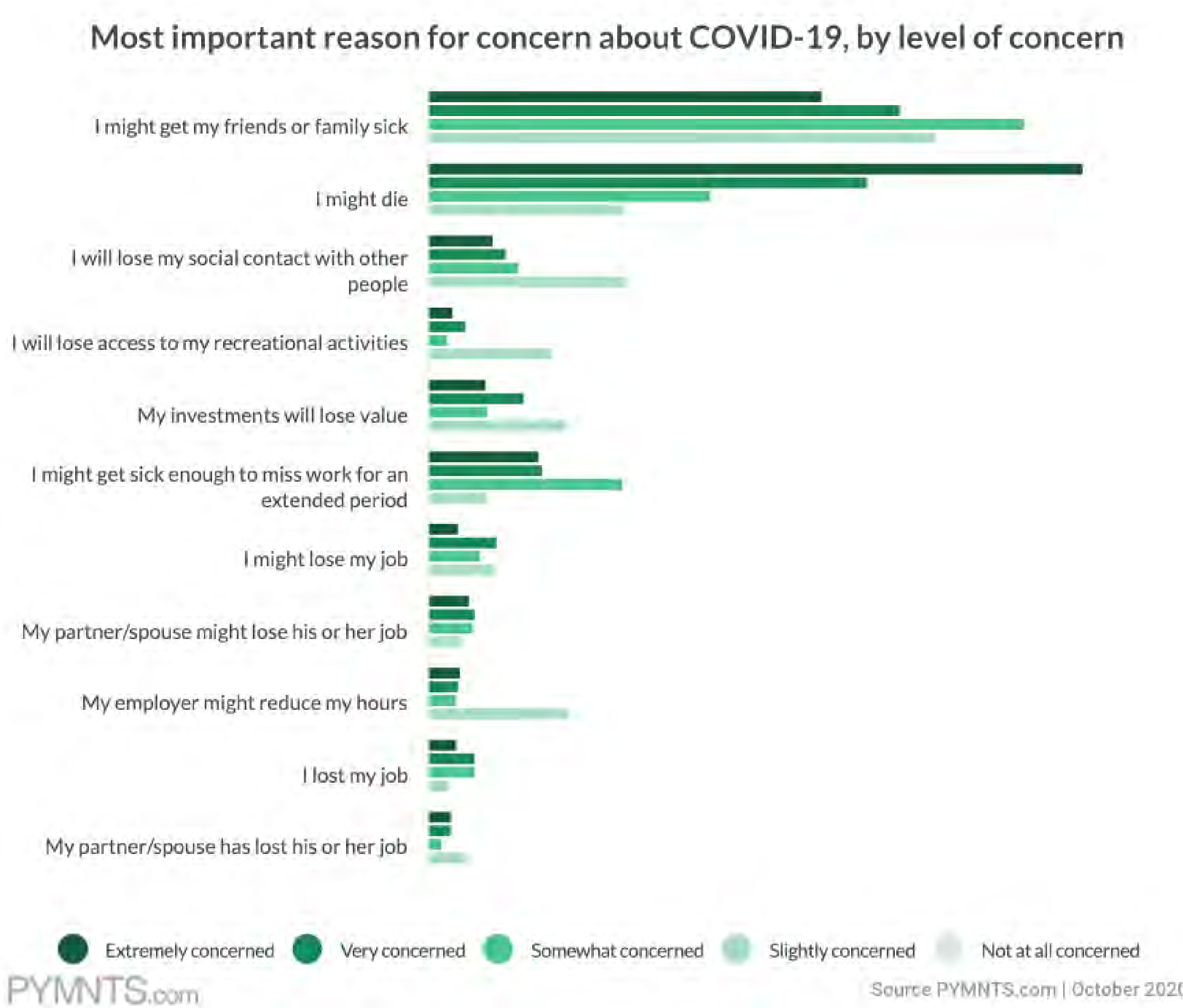
As more is known about the long-term and lingering effects of the virus for those who survive it, consumers worry about their ability to perform their



jobs, even if they get sick and recover. Those concerns are most acute for lower-income workers who lack both a personal savings safety net and options for employment should they be unable to fulfill the duties of a job they once had.

All of this contributes to a consumer whose timeline for feeling comfortable reengaging in the physical world continues to grow longer.

In September, most consumers said it would be 374 more days – until October 2021 – before they would be comfortable reengaging in the routines that defined their day-to-day activities: getting on an airplane to take a trip, going to movies and concerts, or engaging in any activity where lots of people are jammed into a single space.



That has increased 104 days since May.

In fact, the fear of crowds is the primary reason why the majority of consumers say they continue to prefer a digital-first experience for shopping for groceries (57 percent), retail products (52 percent) and even ordering food from restaurants (45 percent). That's up across the board for every one of those experiences since May as well.

DIGITAL-FIRST, THE ITALIAN WAY

Scientists say it can take anywhere from 15 to 254 days to form a new habit. For Italian consumers, it took about 150.

Italians are a physical-first shopping culture. Lack of broadband, an older population demographic, bad roads and a corresponding reluctance to put payments credentials online meant that at the end of last year, fewer than 40 percent of Italians had ever shopped online.

Between January and May, more than two million Italians got online for the first time, and 75 percent of Italians now shop online regularly. Experts project that online sales will reach 26 percent of all retail sales in 2020, up from 8 percent a year ago.

From all accounts, these digital habits are likely to stick as merchants and consumers see the speed, convenience and security that a digital-first experience can offer.

THE DIGITAL SHIFT

It's easy to lose sight of the fact that, here in the U.S., the consumer has been dropping her digital-first breadcrumbs well before the pandemic raged. Between 2017 and 2019, analysts reported that roughly 23,144 physical stores had closed. Just last weekend, the popular fast-fashion chain H&M said it will close 250 stores in the U.S. due to a decline in foot traffic caused by the pandemic. UBS reports that 100,000 more stores could close by 2025. Analysts report that as many as 25 percent of the 1,100 malls still left standing will close by then, too.

Inertia is the irresistible force that meets the immovable object of the habits that guide 40 percent of a consumer's daily activities, which took those consumers a long time to create. Disruption of that routine causes the sowing of the seeds of change. Suddenly, the actions that once defined those habits and created that good outcome are out of sync, or no longer work, or create friction.

But that alone isn't enough to produce and sustain new habits.

People also crave certainty, and need to feel confident that the disruption isn't just a temporary blip or a small break in the action that will soon right itself, but a disruption that portends the potential for a more permanent change. People still must be convinced that changing their behavior — from what they used to do to something different — will produce a better outcome, and is worth investing the time and effort to make it their new routine.

The pandemic has forced consumers to make that shift, even in places where digital isn't a well-developed skill. But today, unlike the ritual of movie theaters and stale popcorn, consumers don't have to accept what merchants are serving if it doesn't fit with their newly formed shopping and dining preferences.

Some merchants are doing better than others — the enterprise merchants, in particular, are capturing more of the consumer's attention and spend. Part of that is because they have the resources to make a quicker pivot, or maybe they think they stand to lose more if they don't. In some cases, like retail and restaurants, it's because they are open for business. Many of the Main Street businesses, which were once options for consumers, have closed or operate with limited hours and inventory.

As we have also seen, a lot can happen in a few weeks, or even a few days. In the U.S. and many other parts of the world, the virus is reemerging and positivity rates are climbing. In just the last few days, the president of the United States and many of his inner circle and senators have tested positive. So have NFL players and coaches. Colder weather will force more people indoors, which, combined with the onset of flu season, could increase the risk of contagion.

One thing we've seen consistently over the last six months is that every time we do a survey, people — in processing all of the information associated with what's going on — predict that it will take longer than the last time we asked for things to get back to normal. Given what's happening in the U.S., and given the resurgence of the pandemic in places around the world that seemed to have gotten it under control, it is possible that the old normal will never return, and that a new, digital-first normal will become entrenched.

October 12, 2020

What The Great Time Revolution Means For Consumers

The "Mighty Thor" was a household game-changer in 1908.

Invented by Alva John Fisher, Thor was the first electric washing machine to be mass-produced and sold. Until its debut, washing clothes was a tedious, time-consuming and very manual chore.

At the turn of the 20th century, few homes had running water or central heat. Doing the laundry required fetching water to fill big tubs, then heating the laundry over a coal stove. Clothes were then scrubbed by hand – a process that consumed roughly four hours of the typical American woman's day at that time.

Image source: commons.wikimedia.org

The Thor gave her back three hours and 19 minutes, since she could now do the laundry in 41 minutes.

Electric irons would soon follow, reducing the time spent ironing those freshly washed clothes from nearly five hours to fewer than two.

Those two devices – the electric washing machine and electric iron – gave women back more than six hours of the time they once spent doing the laundry.

In the early to mid-1900s, electricity would give women a new superpower: access to devices that saved them time doing basic household chores.

Electricity would also give innovators their own superpower, an incentive to design and manufacture a whole range of electric-powered appliances – irons, refrigerators, dryers, ovens, stoves, vacuum cleaners, dishwashers – that would do more than save women time "doing chores."

These devices would help women shift time once spent on manual chores to higher-value activities, and shift some of those household duties to others in the family. Electricity, and the many electric-powered inventions it inspired, would democratize household chores by making it easy for any family member to pitch in, producing a predictably similar result.

THE CONNECTED CONSUMER'S SUPERPOWER

For most of the decade of the 2010s, smartphones and other connected devices, new technology, and the internet gave all consumers a new set of superpowers to save time, allowing them to allocate the time in which routine chores got done.

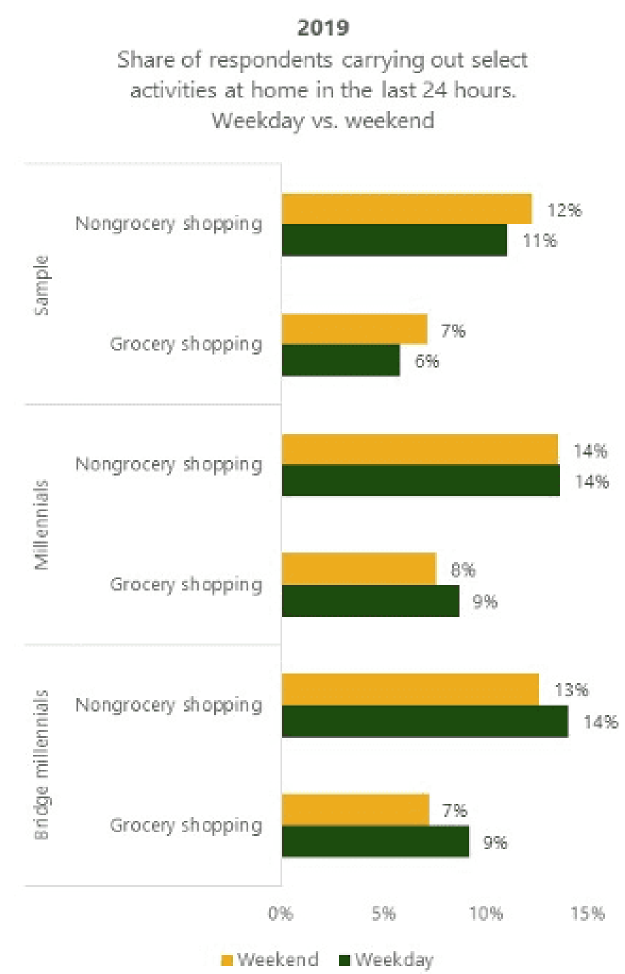
An on-the-go consumer could – and did – use mobile devices to refill a prescription while riding the subway to work, order groceries for delivery while cooking at home using a voice-activated speaker in the kitchen, pay bills using a mobile banking app while at lunch, order breakfast from the car on the way to the office for pickup, order dog food using an app while walking the dog, order a new pair of shoes to pick up at the store between meetings at the office, and shop for new clothes on a tablet before going to sleep at night. Mobile devices made it possible for consumers to compress time, and to complete routine activities while doing other things.

Over the last seven months, those devices and apps have given a much less on-the-go consumer two new superpowers: the chance to save time by moving physical routines online, and the ability to shift the days of the week once allocated to doing them.

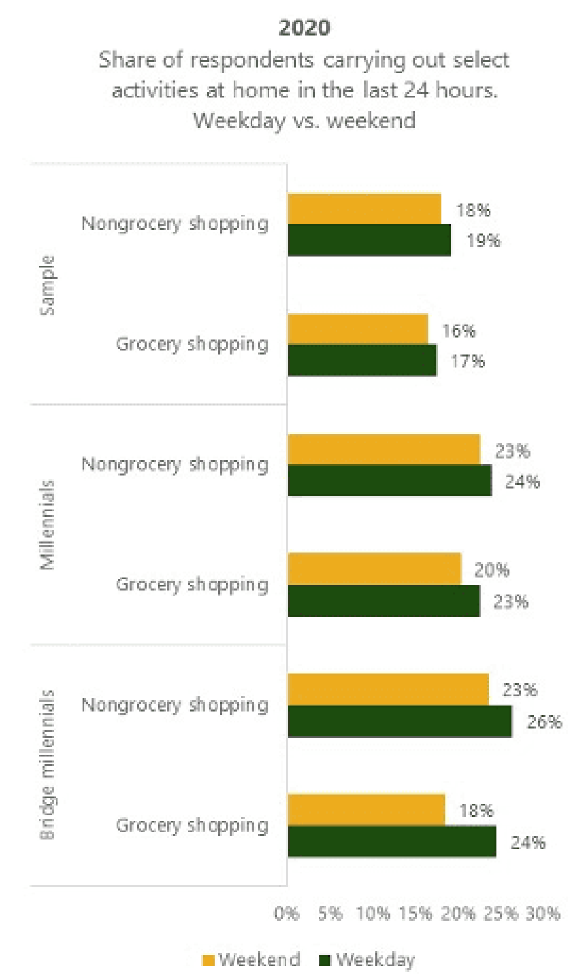
The fourth annual How We Will Pay 2020 study, done by PYMNTS in collaboration with Visa, paints a picture of a consumer who is using connected devices and apps to run the errands once done in the physical world on the weekends on the weekdays, using digital and digital-first channels.

This national study of 10,000 U.S. adult consumers conducted over a nine-day period between Aug. 15 and Aug. 23 also finds a consumer who is shifting many of the shopping and eating activities once done outside of the home during the week while on the go, to inside the consumer's very connected, safe, touchless, now very home-centric commerce ecosystem.

This study, the full results of which will drop tomorrow, estimates that 43 million consumers who once shopped for groceries at the physical store on the



Source: How We Will Pay 2019 – PYMNTS.com



Source: How We Will Pay 2020– PYMNTS.com weekends now shop for groceries during the week using digital-first channels.

Millennials and bridge millennials (32- to 42-year-olds) are the demographic cohorts who have most shifted the time and day of their grocery shopping. In just one year, we saw an increase of 167 percent in the number of bridge millennials who shop during the week for groceries, and 33 percent more consumers now buy on weekdays than on weekends using digital and digital-first methods, compared to 29 percent more consumers buying on weekdays than on weekends in 2019.

We observe the same pattern in shopping for retail products, with a year-over-year increase of 86 percent in the number of consumers shopping for retail products during the week. This is a demonstrable shift in an activity that most surveyed consumers once reported they did – and liked – as part of a social activity. In 2020, we also see that 13 percent more consumers buy retail products on weekdays than on weekends using digital and digital-first channels – perhaps troubling for retailers looking for in-store foot traffic from a consumer group with discretionary income to spend. This compares to only 8 percent of consumers buying more on weekdays than on weekends in 2019.

In the late summer of 2020, long after much of the physical economy had reopened, we now see a consumer who isn't simply using apps and connected devices to save time or make the commerce experience safer by using touchless, digital channels.

Rather, we see a consumer who is now using them to realign how they spend the 24 hours in their day, and the seven days of their week.

Consumers are making these conscious decisions about when, how and where they perform their day-to-day routines, while also reporting that seeing family and friends is the one activity they both miss and value the most.

And getting out of the house – where they now largely spend 24 hours of their day, five days a week – has become an even higher priority on the weekends.

All of this points to the potential for innovators across the connected economy to unlock new commerce opportunities for a consumer with more time, more interest and the money to spend on developing an entirely new weekend routine.

HOME IS WHERE THE ECONOMIC PRODUCTION IS

In 1934, economist Margaret Reid published a book titled "Economics of Household Production." The book was based on her 1931 doctoral thesis at the University of Chicago. Her work, for the very first time, put a value on the contribution of women's daily household activities in the overall economy.

Reid wrote that the household is both the most important economic institution and the most neglected.

That's important, she said, because the household is both a producer and a consumer of output.

Neglected, because that output is not easily measured by traditional economic metrics: Household labor is not paid, nor are the outputs of that labor sold.

In her book, Reid examined the economic impact of the work done by women in support of the household. She estimated that the economic contribution of women in 1918 to be 25 percent of U.S. GDP, which then was a whopping $61 billion.

Aside from quantifying the value of those household chores, Reid's thesis posited that creating more efficiency in household chores would strengthen and improve the economic standing of women and their families.

Image source: photoarchive.lib.uchicago.edu

She made the case that innovations in the way goods and services were produced and consumed inside and outside the household would give women more time to pursue different – and higher-value – activities. Reid cited the potential for innovations in manufacturing processes to free up women's time by outsourcing basic household chores like baking and making clothes to third parties – and for the Industrial Revolution to produce devices that would further automate household chores once done by hand.

Reid's work 89 years ago was path-breaking, and was the basis for an entire generation of work on the economics of time, and the costs and tradeoffs associated with how people spend it. It was only when Gary Becker began to pursue his own work on the economic theory of time allocation on human capital and the family structure in the 1960s was Reid's contribution to economic literature on the importance of non-economic factors like household chores recognized. Becker would go on to win the Nobel Prize in Economics in 1992 for his work in this area.

Reid died 29 years ago in 1991, three or four years before eCommerce was even a glimmer in anyone's eye, and 16 years before the world saw the first iPhone. She couldn't have imagined, of course, the impact that those innovations – and others like them – would have on how all people are now able to spend their time, and the extent to which apps and devices have further democratized the day-to-day routine of getting household activities done, and the value of the time that is saved.

Platforms like Instacart, marketplaces like Amazon, and retailers like Walmart, Target, Home Depot, Kroger, Walgreens and CVS have made it possible for consumers to shift the time spent running errands on the weekends online, and to shift their purchasing patterns to digital-first channels any day of the week.

Consumers that once spent 60 to 90 minutes going to and from the grocery store on Saturday or Sunday mornings can now spend five to 10 minutes on a Wednesday morning using the grocery list stored from their last online visit.

Pharmacies prompt reminders for prescription refills and offer free delivery, avoiding the 30-minute (or longer) round trip to pick it up. Online pharmacies make that even easier and less time-consuming.

Food can be preordered for delivery from restaurants and restaurant aggregators, providing the certainty of the delivery window without the time spent driving to pick it up. Subscription services can put many of the items purchased in the center aisles of the grocery store on auto-refill – literally reducing the time spent shopping for cleaning supplies and pantry staples to near-zero.

We can also now put a dollar value on the time consumers save when they outsource those activities to apps, platforms and connected devices.

Instacart makes a point of telling its users how much time they have saved cumulatively every time an order is placed. Consumers do the mental math when deciding to pay a delivery fee to restaurant aggregators, and when using shopping aggregator platforms like Instacart and others – and when deciding whether to pay for a Prime or Walmart+ annual membership fee.

Consumers readily pay those fees because of the value they place on their own time, and the quality of the services they get when outsourcing those services to others.

BUT WILL IT LAST?

Despite the continued use of digital channels to help consumers save time – and now, increasingly, shift how and when they spend that time – the question that remains unanswered is whether any or all of these digital habits will stick.

Many of them will – in large part because merchants are using digital technology as their own superpower, and are improving consumers' digital-first experiences.

According to PYMNTS' latest research on the consumer's digital shift, reflecting a national sample of more than 30,000 consumers, the average consumer views digital-first channels – to shop for retail products and order food from restaurants using aggregators – as far better than they did in May. For grocery, consumers report that their digital-first and touchless experiences are now nearly twice as good.

Many of these consumers will stick to those habits, in part because it is likely that many will continue to have flexible work-from-home schedules.

Research from S&P Global Market Intelligence reports that 67 percent of employers say that some or all of their work-from-home practices will continue post-pandemic. A consumer who once could only shop for groceries on Saturday – because she was working Monday through Friday – can order and get groceries delivered during the week, and can use other digital retail channels to complete routine errands without cutting into precious weekend time.

As I have written many times before, it takes a lot to change consumer habits, and the pandemic has removed much of the inertia to doing physical world activities, like grocery shopping, online. Seven-going-on-eight months into the pandemic, many of those digital habits have become entrenched, and it seems unlikely that consumers will revert entirely, or even mostly, to what they once did.

Particularly since consumers now think it will be this time next year before they become confident reengaging in the physical world – and by then, those digital habits will become their routine. Superpowers provided by the apps and the connected devices have given consumers back their precious time.

Including how they spend their time on the weekends.

The most powerful innovations are those that turn the "I have to, but I don't want to" activities into something that consumers no longer have to do, while giving them a better outcome. A consumer who once dedicated two hours every Saturday to shopping for groceries and putting them away, or running to the hardware store for the things needed to do projects around the house, has since found other, more valuable ways to use that time.

Margaret Reid would be impressed.

October 19, 2020

Saving Main Street From Its Downward Pandemic Spiral

Consumers crave certainty, and they work pretty hard to minimize the risk of making a bad choice. That's why once consumers find something that works, they stick with it. And it's why other people's thoughts and actions factor so heavily into their decision to try something new.

To describe these behaviors, author and behavioral scientist Dr. Robert Cialdini coined the term "social proof" in his landmark book, "*Influence*," which was first published in 1984.

> According to the theory of social proof, if consumers see enough people doing the same thing, **others will feel comfortable following along.**

Product recommendations are an example of social proof at work – if other people have good experiences with buying a particular product, that boosts the chances that other consumers will buy it, too. It's why recommendations are consistently ranked by consumers as one of the most important features a merchant can offer an online shopper, why merchants gladly oblige and why brands strive to make products that are consistently ranked high by consumers.

Influencers also provide social proof that wearing or using a particular brand will reduce the risk that a consumer will commit the ultimate fashion or beauty faux pas. It's why influencers use social channels like Instagram to share their experiences, why brands provide influencers with incentives to hawk their products, and why brands sometimes even send fashionistas and celebrities free stuff in the hopes that they'll wear and share it.

In physical settings, social proof leads to something else: the vibe and atmosphere that's created when a critical mass of people show up at the same place – virtually or physically – to see or do something. People are more likely to get together because they rely on social proof from others, but also because they enjoy being with lots of other people, even when they don't know them.

It's why consumers would rather wait in line to eat at a crowded restaurant than go down the block to an emptier one. Crowds send a visual cue that the food is going to be better – and so will the vibe, since so many people seem so happy being crammed next to each other at dining tables and at the bar waiting to be seated. So much so that consumers believe it is worth the wait.

It's also why many people find it uncomfortable and even awkward to walk into a store without first seeing other people milling around inside, and if they don't, they decide to keep walking. An empty store raises questions about the quality of the store and the products it is selling.

And as much as people may complain about the crowds in the stores or on Main Streets, they like being part of the hustle and bustle – and the energy it brings.

LIVING BY THE SOCIAL PROOF

Social proof – and the vibe that goes along with it – can create the network effects that drive business growth and prosperity. More consumers in a crowded store or restaurant means even more consumers will visit the crowded store or restaurant, as word spreads and people see and experience a store, brand or chef's popularity. More consumers mean more sales – and more sales means growth, expansion, jobs and prosperity for the business, its workforce and the local economy in which it operates.

Social proof can also work in reverse.

Not seeing enough consumers in the shops, malls and restaurants is evidence that not enough people think it's worth their time or money to visit or buy from them. Rather than buck the trend, consumers gradually just stop showing up – and that's the power of social proof. It's not fun to consistently be one of only a few people at the store or walking through the mall or getting their choice of table in an empty restaurant.

Before long, the network effects begin to work in reverse, as having fewer consumers means fewer sales, making malls less attractive as more stores pull out, and as shops and restaurants become ghost towns as their once-regular customers flock to the places where there is more of a critical mass and the experience feels more alive.

The pandemic and its unexpected duration have put an exclamation mark on this powerful dynamic in the physical world by accelerating the demise of the shops, malls and restaurants that were already on shaky ground in January of 2020.

But it has also put an additional burden on the establishments that were humming right along, on their way to having another great year – but were forced to close entirely for a time, then reopen later at reduced capacity.

> In the U.S. (and many other countries), **nowhere is the pandemic's impact felt more than on the Main Streets** whose existence and business model is based on daily sales and foot traffic, and the energy that consumers bring to those establishments – and to the workers at the ready to assist with their purchases.

A lack of tourists, or lack of workers milling around during their lunch hours or after work, or lack of college kids roaming the shops and the bars, or lack of enough people living in the neighborhoods feeling comfortable enough to go out to shop or eat – and happy with the experience they find when they do – has only fanned the flames of the dynamics of social proof working in reverse.

For Main Street businesses, the pain isn't the result of just one shop or restaurant closing down, since the churn of small businesses is part of the small business reality – particularly in the retail and restaurant sector. But in a vibrant economy, "for rent" signs are temporary, as new establishments with new products and new experiences quickly take over the spaces that others have abandoned.

The pain now is the growing number of establishments that have called it quits, the uncertainty of when people will feel more comfortable reengaging in the physical world the way they once did – and if or when those shuttered storefronts will be reopened by their previous owners, or new ones.

And all of that is having a ripple effect on the businesses that are trying to reverse the rising social proof that suggests no one finds those once-vibrant Main Street shopping thoroughfares all that appealing anymore.

SAVING MAIN STREET

The owner of an upscale hair salon in Boston is an example of a business living this reality.

Hair salons, of course, were shut down completely during the pandemic, and their reopening was gradual. Restrictions still require that her business – and others' businesses – operate at a much smaller capacity.

Like every other small business on Main Streets everywhere, she figured out how to make lemonade out of lemons – a particularly challenging feat, since haircuts are one of the personal services impossible to replace in a digital world. But she got creative, inventing "in a box" hair kits mailed to her customers for hair treatments and touch-ups. This product innovation has become a permanent offer for her clients who travel, or who spend time outside of Boston during the winters and summers. She was an early adopter of Zoom for client consultations, enabling her to talk through hair crises with her stylists and stay in touch with her regular customers while she waited to reopen.

Since reopening in late May, she says she's recovered not all, but a good chunk of her sales. But that's not what's worrying her now.

Her concern is the growing number of empty storefronts all around her shop, and a lack of takers for those empty spaces.

More troubling is that her salon is on Newbury Street, a fancy-schmancy shopping street in Boston.

Newspaper reports in September say that more than 55 storefronts remain vacant on Newbury Street more than six months into the pandemic.

Even more of them are closing.

Brooks Brothers, which occupied a huge footprint in the first block of Newbury Street, is pulling out. Smaller boutiques that have operated for eight or more years, or that have expanded their store locations to the once-busy Newbury Street over the last five or more years, are closing their doors.

Real estate broker CBRE reports that foot traffic, and the corresponding sales it brings on Newbury Street, is at its lowest level since the 2009 financial crisis. Real estate deals for what were empty storefronts in February remain on ice.

> Consumers are buying **different things,** buying them from **different stores** and buying them **online.**

Meg Manzier-Cohen, the head of the Back Bay Association, the neighborhood in which Newbury Street operates, says all of this presents a "dire" situation for dining and retail establishments there. No one, she says, is "running around wearing diamond necklaces in their sweats."

The foot traffic up and down Newbury Street that once drove its vibe once came from everywhere – the parents visiting their kids going to one of the many universities there, the business travelers and conventioneers, the tourists coming to visit Boston and all of its historic landmarks, the office workers nearby who lunched on Newbury Street and met clients for dinner at one of the many restaurants, the locals who ran errands at one of its many cute shops and stores, and grabbed coffee or lunch or a mid-afternoon bite to eat while doing so, the kids and their friends and families who made shopping on Newbury Street a fun weekend social experience.

Even as stores have reopened, the big chunk of foot traffic walking up and down Newbury Street hasn't returned. And it may not for a long time. Aside from the construction vehicles doing work on the streets, it's easy to find a parking spot.

The hustle on Newbury Street has lost its bustle.

THE RIPPLE EFFECT

What worries this salon owner is the impact of social proof in reverse.

She was never dependent on foot traffic for sales, but many of her clients living outside of Boston would bundle hair appointments with shopping with friends and family on the weekends, and errands during the week.

She worries that coming to Boston will now be an inconvenient and time-consuming trip for them, with nothing else to do but get their hair done and go home. The pandemic has taken the fun out of the social experience of shopping and eating out. She worries she'll lose customers over time.

The salon owner has decided to take matters into her own hands and do something to reverse the "social proof curse." She's decided to create a new shopping experience inside her salon.

Since her salon is busy and has foot traffic, she's decided to allot space in her salon for the shops on her block to sell products, in hopes that her captive audience of customers will discover and buy cool things from those merchants while getting their hair done. She wants nothing from these merchants, other than the opportunity for them to make sales and gain customers so they can keep their doors open.

And to avoid having one more "for rent" sign going up on her block.

She hopes this will encourage other salons – her competitors – to do the same up and down the street. Businesses helping businesses stay alive to give Newbury Street back a little of its hustle and bustle – one new customer at a time, even if the new customers continue their relationships with those stores online.

The most important thing to her is providing the social proof that businesses are open, ready and waiting for the customer to return.

REIMAGINING MAIN STREET

Consumer concerns over the certainty of their health and safety and that of their families have changed how they go about their day-to-day routines – how they shop and where they eat.

With many employers opting for a partial return, and not until mid- to late next year, many of the shops and dining establishments up and down the Main Streets that served them will continue to face challenges in filling the sales gaps that daily foot traffic once delivered, and on which their retail neighbors once relied to bring feet into their own shops.

Although it's not clear how much foot traffic will return once we have all the silver bullets of vaccines and therapeutics available.

We find, too, that consumers have shifted not only the channels they shop, but also when they do their shopping. More consumers than ever have shifted grocery and retail shopping from weekends to weekdays. The incidences of social shopping with family and friends on the weekends have also declined – across all geographies, including local cities and towns all across the U.S.

> PYMNTS data show that consumers have become more and more reliant on digital channels – digital-first and digital-only – to engage with merchants. **And the longer the pandemic lasts, the less likely consumers say they will revert to all of their former shopping habits.**

Meanwhile, when we come out on the other side, many people may continue working from home, as workers and employers find that doing so works out well for both.

To get the social proof, and the vibe, that made Main Streets successful, those Streets will need to change. Otherwise, some of them will have the sad fate of the "dead malls" that die because stores don't want to relocate to where shoppers don't come, and shoppers don't come to places where there aren't appealing stores. Main Streets will need a mix of stores that provide the social proof, and vibe, that made Main Streets a fun place to spend a Saturday.

It isn't too early for Main Street business associations, landlords and cities — all of whom have stakes in the successful outcome — to think of ways to get the vibe back. They share a collective fate.

Suburban Main Streets might get a boost. Main Street foot traffic may be redistributed — from urban streets like Newbury Street to suburban ones close to where more people live and work. New, more vibrant Main Streets will emerge outside of urban locations, catering to those whose daily routines now keep them closer to home — as long as they have the right mix of stores, of course. Then again, a consumer who has shifted chores and errands to the weekday will have more time to enjoy all of the things that a vibrant urban Main Street, like Newbury Street, did – and can continue to – offer.

In a recent PYMNTS study, more than two-thirds of consumers say that saving Main Street is a key priority for the shops themselves, and for the health of their local communities.

More Main Street businesses say they are optimistic about their long-term prospects, even though most remain challenged to replace all of the sales lost to the pandemic.

There's a reason for their long-term optimism.

We'll get the social proof that will get the vibe back. This will take time, since many nice stores have closed down, more will likely close, and people will stop coming. It's why there is so much urgency to reduce the health risks for consumers, so they can more quickly get back to normal.

At the same time, we must find ways to leverage the creativity and resilience of Main Street USA and develop creative ways to stem the shutdown of the stores and restaurants that people will no doubt seek out when they feel safe to return.

October 26, 2020

How Customers Fall Through The Cracks Of Digital Platforms

> **Whose customer am I? And who's going to take care me?**

Those are the questions I asked myself last week when trying to resolve an online order gone astray.

In my case, the answers were "I don't really know" and "no one," as far as I could tell.

As digital platforms decide what to do themselves, what to delegate to others and what businesses to fold in, they should make sure they can give ***their*** customers the right answers – which are: "you are my customer" and "I'll look out for you."

WON'T YOU PLEASE, PLEASE HELP ME?

I recently made an online purchase from a merchant I shop with infrequently, and used a payments intermediary to complete the transaction. The merchant processed the order efficiently, and within 48 hours I received a notice that the package was on its way. The merchant used a third-party delivery company, and I was provided with a tracking number to keep tabs on its progress.

I received a notice that the package was delivered last Wednesday afternoon – the driver signed for it since the merchant didn't require a customer signature. Later that evening, when I went to retrieve the package from where this delivery company typically leaves them, it wasn't there. I thought at the time that someone else in my household had beaten me to it and brought it inside.

Long story short, no one had – and after a thorough search, there was no package to be found anywhere.

The following morning, when I called the delivery company to explain the package was missing, they told me their records showed that the driver had delivered the package, so I should look harder for it. After checking my eyesight, it took three calls and an escalation to a supervisor to initiate a claim that the package wasn't delivered to my home and was obviously lost somewhere. I hung up feeling unsure about a satisfactory resolution, as I failed to receive an email confirmation of the claim as they had promised.

I then contacted the payments provider I used to make the purchase for help. I was told there was no valid dispute since the merchant's records showed – and the merchant verified based on information provided to them by the delivery company – that the package had been delivered to me.

So there I was, in the words of one of the Rolling Stone's greatest classic hits, stuck between a rock and a hard place: one thousand dollars in purchases unaccounted for and no clear path to getting either the package or a refund from the payments provider I used to make the purchase.

STUCK BETWEEN A ROCK AND A HARD PLACE

As someone in the business, I understood what was at play here.

As more commerce moves online, so does the incidence of friendly fraud – people claiming that packages were never delivered even though they were. PYMNTS reports on this issue frequently, and it is a real and unfortunate consequence of the world in which we now live.

But as someone in the business, I also understood the power of data to help, in this case, both the delivery company and the payments provider parse the noise to determine that I was not a fraudster.

Even though in this situation, I rather felt that I was being treated like one.

For the delivery company, looking at their data on the history of package deliveries (there are many), the fact that drivers consistently know where to leave packages, as well as the absence of disputes claiming non-delivery over many years should have made the process of initiating an investigation less friction-filled than three phone calls and 15 minutes spent online completing a claims form.

For the payments provider, as a longstanding customer with many purchases and zero disputes claiming lost packages, the data should have immediately suggested a different path than "best of luck sorting this out on your own."

After nearly two days spent messing around with this, I decided to chalk up the experience to a thousand-dollar lesson in two things: the value of dealing with a marketplace that controls the end-to-end process of order, payment, fulfillment and delivery, and the value of having a customer relationship that is clear, direct, data-driven, unambiguous – and customer-centric.

THE CUSTOMER IS IN THE EYE OF THE BEHOLDER

Putting the customer first, and making her the focal point of innovation, is how every company describes its vision and determines its product/market fit. For platforms with complex business models where multiple intermediaries serve end consumers, innovating with those multiple stakeholders in mind also becomes more complex, since all customers must derive value from it in order to keep the platform dynamics in check.

Over the last decade, platforms that serve the consumer have focused on ways to simplify and streamline customer interactions, largely by integrating more services and capabilities into those platforms – giving consumers more options within that ecosystem, and giving third parties more opportunities to reach them.

The world's abrupt, pandemic-driven shift to digital in 2020 has both amplified the potential of these platforms to create value for all customer groups and accelerated consumers' and businesses' embrace of them. It has also surfaced the challenges associated with satisfying multiple stakeholders, including payment intermediaries, each of whom may perceive its relationship with that platform and its stakeholders through a different lens.

WHO'S PAYING WHO?

In the ordinary course of doing business online, the relationship between the consumer, the merchant, the issuer of the payment credential used to make the purchase, and the company delivering the last mile of service is relatively straightforward.

Consumers don't consider themselves customers of delivery companies since they don't pay them, nor do they get to decide who delivers the purchases they make with merchants.

The delivery company's customer is the merchant, who decides to use them and is the entity that pays them. If there are too many claims by delivery companies against merchants, those lucrative delivery contracts could be at risk. It's costless for delivery companies to point the finger at the consumer, as they won't lose the consumer's business – but they could lose the merchant's business if they file too many claims for mistakes made. Who's to know? But I also wonder if delivery companies are wise to the fact that once confirmation of a delivery has been submitted, even if a consumer's signature is not required, it's nearly impossible for the consumer to win a dispute made with their issuer.

Consumers do consider themselves customers of the merchants, since they order from them and expect merchants to process, fulfill and arrange for the expedient delivery of their orders. It's the merchant who they pay on their website using their payment credentials of choice, and who they blame when things go wrong, even if it isn't their fault.

Like when their packages aren't delivered.

A recent PYMNTS study done in collaboration with PAAY suggests that 41 percent of consumer disputes with merchants are over packages that aren't delivered. Consumers attribute these disputes to mistakes for which the merchant is to blame, even if their payment issuer ultimately denies their dispute and the merchant did their job by fulfilling the order and sending it on its way.

That puts issuers in the tough position of deciding what's fair for all parties, and in the absence of the right data and a clear path, a lot of the time, they decide those disputes in the favor of the cardholder — as this same study shows, something like 60 percent of the time. The issuer's customer is their cardholder, even though they receive interchange from the merchants their cardholders transact with and care a lot about keeping their relationships with merchants strong. But issuers also worry a lot about keeping their cards top of wallet across all of the merchants that their cardholders shop — the

same consumer they've spent decades training they'll protect when interactions using their payments credentials with merchants go wrong.

Being caught in the middle of the merchant and delivery company whipsaw is why consumers get frustrated enough to file disputes with their issuers — their relationship with the merchant is also why they blame them, many times unfairly so.

It's also why FinTechs are now at the forefront of helping issuers and merchants improve the dispute process, including using technology to provide access to the data necessary to manage them in a more efficient way. The goal is to isolate real fraud (friendly or otherwise) from the instances where merchants must take responsibility on behalf of their customers and remedy a service lapse somewhere along their value chain.

Like too many bad delivery experiences from the same provider, for example.

Things can get a bit more complicated when consumers use third-party payment providers to make purchases from merchants.

Like any other merchant/consumer/payments relationship, consumers perceive their relationship to be with both the merchant and the payments provider used to make the purchase.

But here's what's different.

Payments intermediaries have two sets of customers: the consumer and the merchant, both of whom are essential to keeping their platform dynamics in balance. Consumers have the option of what credentials they register to fund the purchase that also has the potential to make settling consumer disputes that much more complicated for the merchant, for the payments provider and for the consumer.

ANSWERING THE QUESTION

Two days post-delivery saga, my package turned up at my house, exactly where the delivery company said they delivered it – unopened and intact. No explanation, no note, no call from the delivery company, no update to the claims process online. I probably won't ever know what really happened.

Thankfully, my merchandise and I will now live happily ever after.

But based on my recent experience, it's easy for me to answer the "whose customer is it?" question. No one's, really, since no one was willing to step in and help resolve my problem.

The "whose customer is it" question is now central to many of the platform dynamics at play today and the experiences that consumers and merchants have with those platforms. Delivery aggregators, for example, have the customer relationship — but when the order arrives mangled or cold, consumers blame the restaurant that prepared the order and not the aggregator who took the order and delivered it. It's one of the reasons why innovators are helping restaurant operators enable their own online delivery capabilities, and why restaurant operators are eager to sign on and control, manage and take responsibility for order to eat experience.

It's also one of the reasons why retailers are investing heavily in curbside pickup, even though their customers would prefer delivery to their homes. Ordering and fulfilling within their own ecosystem gives retailers more control of the end-to-end experience (not to mention better economics), eliminating one source of uncertainty and potential consumer disappointment.

Back in the good old days of a year ago, it was fun to speculate how much of a gamechanger it might be for retail and commerce if Google bought a logistics and delivery provider like UPS or Fed Ex to integrate delivery into their shopping, payments and commerce experience.

With all of the wrangling over Big Tech now, we can probably kiss that idea goodbye.

But it was Amazon's decision to invest in logistics – to own that first and last mile, rather than to forever outsource it to third parties – that has helped mitigate their risk of a degraded customer experience. Owning this end-to-end experience also helped to simplify and clarify who the consumer needs to contact if things go haywire. For consumers ordering from Amazon, the customer relationship is clear: it is Amazon they order from, Amazon they pay and Amazon who owns the last mile. It is Amazon they contact if problems arise. Amazon and their consumers know the answer to the question "whose customer am I?"

For consumers ordering from Amazon, the customer relationship is clear: It is Amazon the consumer orders from, it is Amazon they pay and it is Amazon they contact if problems arise. It's a big part of the reason consumers trust and use them: Amazon knows the answer to the question "whose customer am I?"

The "whose customer am I" and "who's going to take care of me?" questions are particularly relevant as Congress circles the wagons on Big Tech and threatens, among other things, to force them to divest businesses or make it harder for them to obtain new ones.

Integrating different businesses can provide predictability to consumers – not to mention give them a single point of contact to resolve any problems when they inevitably arise.

In the meantime, as innovators continue to use technology to create entirely new ecosystems and the dust settles on how regulators will respond, hopefully what won't get lost is making sure that the customer knows, without question, whose customer they are.

November 2, 2020

Walmart+ And Amazon Prime Face Off As Consumers Decide Who Gets Their Business

Membership has its privileges

was the nine-year ad campaign launched by American Express in 1987 to persuade consumers that it was worth it to pay an annual fee for one of its charge card products. Then, those privileges included travel, dining and hotel benefits, statement credits and spending reward points perks, along with preferred access to concert and theater tickets. As the slogan implied, being an American Express cardmember was the only way to unlock those benefits.

Today, the "membership has its privileges" mantra is at the core of the latest face-off between the two retail behemoths vying for an increasing portion of consumer spend: Walmart and Amazon.

It's a rivalry that, according to new PYMNTS data, Walmart could intensify with its newly launched Walmart+, as it uses a new membership model to capture more of that spend — beyond grocery, the retail giant hopes.

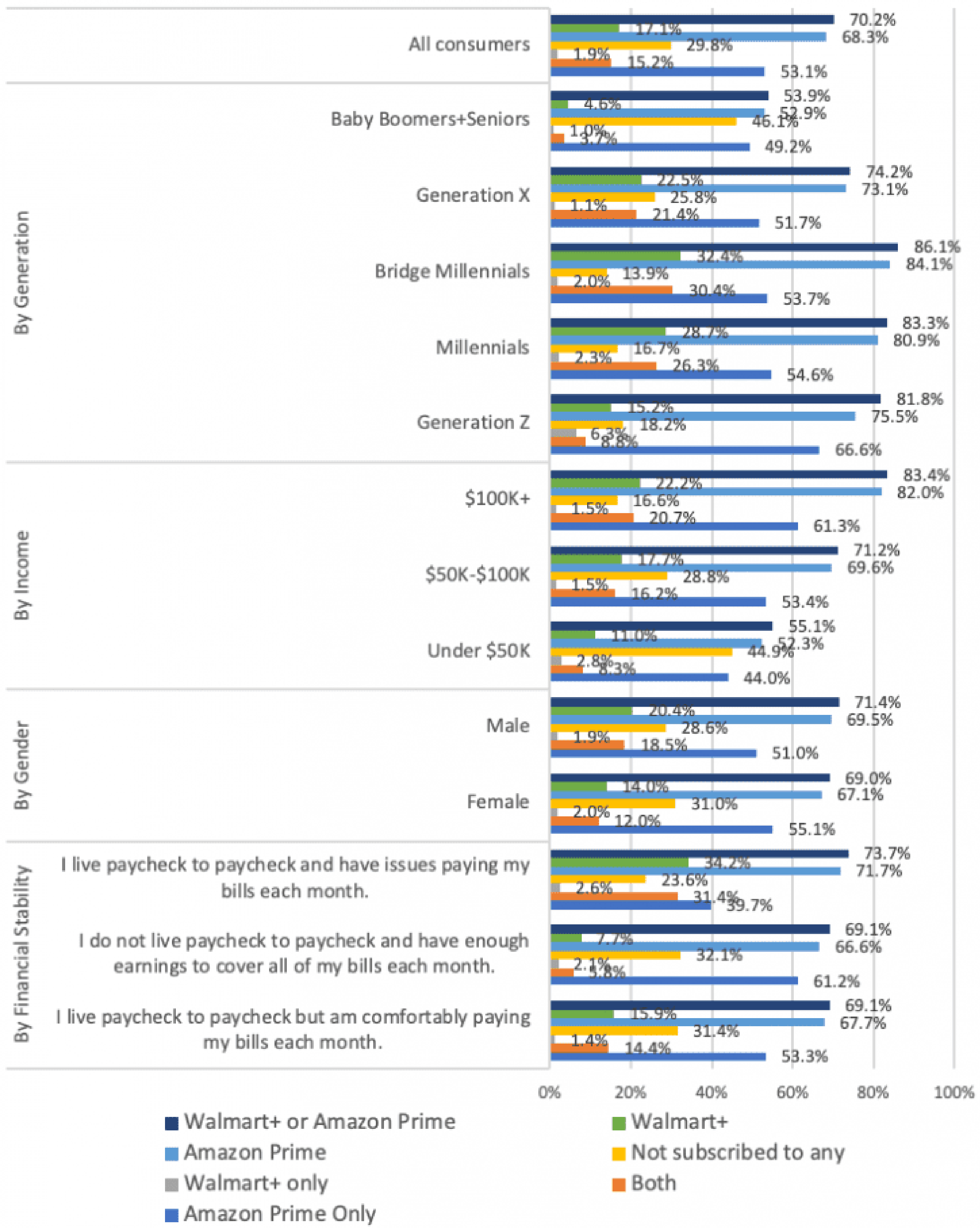
Today, grocery accounts for 56 percent of Walmart's net sales, as spend in key retail sectors such as home furnishings, apparel, electronics, sporting goods and toys is consistently shifting Amazon's way.

A PYMNTS study of a census-balanced sample of 2,165 consumers conducted Oct. 27-28 of this year reveals that roughly 17 percent of U.S. consumers report having a Walmart+ membership, just a bit more than a month after its launch. That compares to 68 percent of consumers who report belonging to Amazon Prime — a program that launched in February 2005 and now counts 150 million members globally. Of that 17 percent with Walmart+, 15 percent are consumers who already had an Amazon Prime account and about 2 percent of them did not.

Walmart+ will want to keep that 17 percent and build on it to close the gap. But it is remarkable adoption in such a short period.

What everyone, especially Walmart, will be watching intently over the next several months is how many Walmart+ members actually pony up the $98 to convert their free trial to a paid membership — and then how many go on to renew after year one. As the recent experience with the ill-fated streaming service Quibi shows, converting only 8 percent of free trial subscribers does not a viable business model make, even with $1.75 billion in the bank.

Share of consumers subscribed to Walmart+ or Amazon Prime, by select demographics



Source: PYMNTS.com using a Census balanced survey to 2,165 respondents on October 27-28, 2020

But these results also suggest that the U.S. consumer seems happy to test the waters — and none more so than the coveted bridge millennials. Those are the 47 million U.S. consumers between the ages of 32 and 42 — the first generation of connected consumers with spending power, who will also serve as the consumer spending pace car for the decades to come.

According to PYMNTS survey data, nearly three times as many bridge millennials are Amazon Prime members as Walmart+ members.

But three in 10 bridge millennials already report having both, just a month in.

Bridge millennials, along with millennials, are part of Amazon Prime's most loyal customer base. They also comprise the group of consumers that Walmart needs to woo and retain. According to PYMNTS data, 159 percent more bridge millennials and 182 percent more millennials subscribe at Amazon Prime than Walmart+.

Bridge millennials also are more affluent, another category of shopper that has eluded Walmart. Eighty-two percent of consumers earning more than $100,000 subscribe with Amazon Prime; only 22 percent subscribe with Walmart+.

That makes both groups — the higher-income consumers and the bridge millennials — the ones to watch as Amazon and Walmart go head to head in their efforts to capture and keep an increasing share of their paychecks across the major drivers of consumer and retail spend.

THE PRIME, PLUS MEMBERSHIP FACE-OFF: IN-STORE VERSUS ONLINE

Wooing those consumers may come down to two things: what they want to buy and when they really need it.

Amazon's introduction of Prime in 2005 was the shot heard across the retail landscape, simultaneously raising the bar for what consumers would come to expect from all of the retailers they shopped while emphasizing the importance of logistics in winning the consumer's business and loyalty.

Then, the promise of free, two-day shipping on more than one million products came at a time when shipping windows were anything but reliable, speedy or predictable. That became more than just a little incentive for consumers to fork over the (then) $79 annual fee and consolidate more of their shopping and spending on Amazon. Not only did consumers get their purchases in two days, but they didn't have to spend their time going to a physical store to buy them.

Amazon Prime became the catalyst for the consumer's shift to digital and for the decline of physical retail.

Fifteen years later, Prime's 150 million members globally have access to same-day, one- or two-day shipping on most of the items sold on its marketplace, and many more products and categories. That includes some 350 million products when tallying those available from third-party sellers.

Prime members in the U.S. also get same-day delivery (early days of the pandemic notwithstanding) on grocery products purchased from Whole Foods, along with access to an expanded library of streaming music and video content.

Today, the Prime annual membership fee is $119, but is lower for students, Medicaid recipients and EBT cardholders.

During Amazon's Q3 earnings report, Chief Financial Officer Brian Olsavsky reported that, more than ever, Amazon is seeing higher membership conversion from free trials, renewals and engagement (code for dollar and frequency of spend), although he didn't share specifics. Third parties report that the Amazon Prime renewal rate after one year is 93 percent, and for those who stick it out for two years, it's a nearly perfect 98 percent.

Walmart+ launched on Sept. 15 with a membership bundle that seems fairly pedestrian by comparison, even though they say more goodies are coming soon.

Today, Walmart+ membership benefits include free delivery of any order over $35 for any of the 160,000 items in Walmart stores and a 5-cent discount on fuel purchases.

Walmart+, as advertised, also includes mobile Scan and Go in-store using the Walmart app — a feature that has consistently failed to excite Walmart customers over the last six years. Scan and Go was first introduced by Walmart in 2012 and shut down in 2014, was reintroduced in early 2018, and then shut down less than six months later.

Walmart+ is betting that offering fast delivery will scratch the consumer's itch — and, specifically, the bridge millennials' itch — to get the products they need from the store closest to them as soon as the same day, provided it is in stock.

With Prime, Amazon is betting that the choice of same-day, next-day or two-day delivery (depending on the product) is a fitting trade-off for access to a bigger selection of products across many different brands and categories.

For Walmart, it's also a bet that for non-grocery products, all consumers — particularly bridge millennials — find that 160,000 products is a good enough assortment to choose from, provided that what they want is in stock, and that if it's not, a suitable substitute will meet their needs.

It is a bet not without its risks when one considers that 53 percent of units sold (and therefore bought by its customers) on Amazon in Q2 were from the third-party sellers who add depth and diversity to its product mix.

And it's a bet that going to the store is something consumers will continue to want to do. Discounts on fuel and scan-and-go features appeal to in-store shoppers at a point in time when more consumers seem to prefer ordering non-grocery products for delivery than going to — and then shopping and buying in — a physical store.

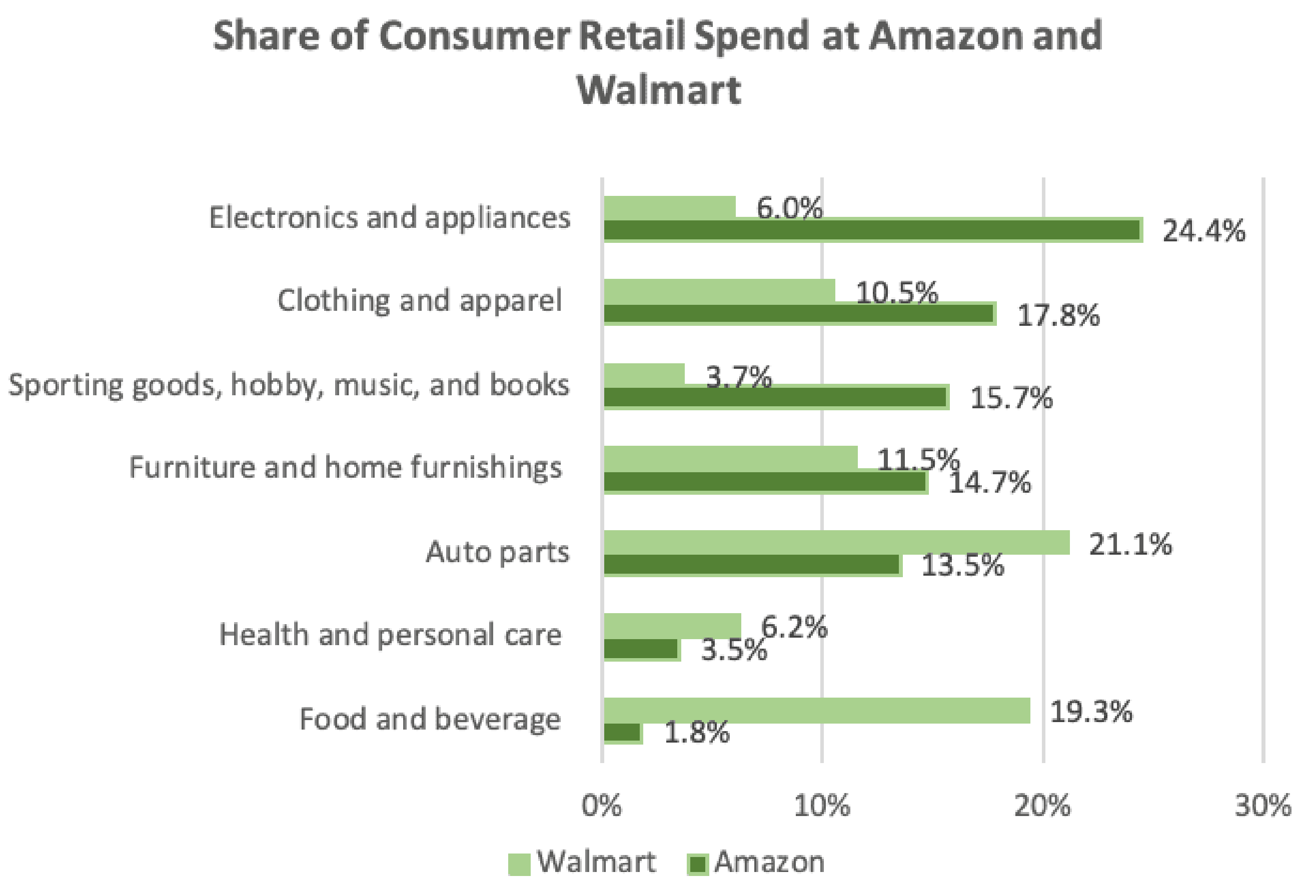
And it's a big bet that Walmart+ can fashion a bundle that appeals to the more affluent, less financially constrained consumer. PYMNTS data on the characteristics of Walmart+ and Amazon Prime members reveals an interesting aspect of their self-reported financial persona.

More than twice as many consumers who have both Prime and Walmart+ report that they live paycheck to paycheck and have trouble paying their bills each month than those who say they live paycheck to paycheck but comfortably pay their bills each month. For consumers who only subscribe to Walmart+, 85 percent more consumers report that they live paycheck to paycheck and struggle compared to those who say they can pay their bills comfortably. Twenty-five percent fewer Amazon Prime-only customers report the same.

CAPTURING THE SHARE OF THE CONSUMER'S WHOLE PAYCHECK

PYMNTS began tracking the share of consumer and retail spend for Amazon and Walmart two years ago using data compiled from a variety of third-party and proprietary sources. We dubbed the study "Whole Paycheck" — not literally, of course, but as a nod to the categories of consumer spend that Amazon and Walmart had targeted as they broadened their reach beyond the traditional retail spending categories.

For example, although it's a teeny-weeny portion of real estate overall, one can buy a modular house on Amazon. That's like the days of the Sears catalog and its sale of prefabricated homes,



Source: PYMNTS.com, November 2020

70,000 of which were sold between 1908 and 1940 for between $600 and $6,000. And a variety of She Sheds, the hottest and trendiest work-from-home, pandemic-inspired purchase, can also be purchased on Amazon today.

The acquisition of PillPack put Amazon in the online pharmaceutical business, and its addition of product insurance and extended warranties put it into the insurance business. In 2018, Amazon was reportedly in talks with regulators to launch an insurance comparison website.

Amazon now has Amazon Care, a mobile app that connects eligible company employees in the firm's home state of Washington with healthcare providers by video, text and in some cases in person. Amazon is also one of the three "anchor tenants" of Haven, the healthcare platform that JPMC, Berkshire Hathaway and Amazon all invested in as a way to reimagine healthcare for its employees.

One doesn't have to think too hard to imagine that Haven — or some facsimile of it — could become the baseline for a new healthcare delivery and payments model at some future point.

More than one-third — 56 million — Prime members stream video and music content via Amazon. Amazon reports that more than 40 million videos are accessible to viewers in the U.S., and more than 70 million worldwide. Walmart sold its interest in streaming platform Vudu in April, and currently has no streaming services in its Walmart+ bundle.

At the same time that Amazon has been investing in online capabilities and logistics, Walmart has been investing in making its physical footprint more multifaceted, giving more consumers more of a reason to step inside.

Walmart has expanded its healthcare capabilities in its stores over the last several years, more recently opening healthcare supercenters that provide comprehensive health, dental and vision care services to consumers. It's a model that many in the healthcare space consider a real threat to the classic insurance and care delivery model. Walmart was also an early innovator in incentive programs to boost adherence to doctors' visits and healthcare protocols for Medicaid patients.

Walmart also reportedly spent $200 million to buy CareZone, a tech platform that helps consumers manage and pay for their prescriptions online.

Their big moat, of course, is grocery, where Walmart stands as the country's largest grocer, but also where rivals, including Amazon and others, have been chipping away at that share, given the pandemic's impact on how consumers want to use physical stores to shop for anything.

Consumers who are fearful about shopping in grocery stores due to coronavirus concerns have taken to other outlets to get what they need — and have driven an unprecedented spike in the share of online grocery sales.

The latest PYMNTS data, collected at the end of September across a census-balanced sample of more than 32,000 U.S. consumers, shows that 17.2 percent of them now shop for groceries online, which is 13.3 percent more than those who reported shopping online in March of 2020. More than 64 percent of those consumers cited concerns over contracting COVID in those stores as the reasons for wanting to stay away; a full 86.6 percent of them say that some or all of those digital-first grocery habits will stick once the pandemic is in the rearview.

Amazon has been a big beneficiary of that digital shift, but so have other grocery chains where consumers now find it more convenient to shop online using services like Instacart's — a platform that Walmart is now pilot-testing in Southern California.

Kroger and Target have also stepped up their own investments in logistics to meet the consumer's desire for order-ahead and delivery.

And where Walmart, with Walmart+, wants to shore up a share of spend that has been flat for many years, and that now seems at risk of being the retail reinforcement that it has been for many years.

FIGHTING FOR SHARE

By the numbers, retail takes a little less than a third (30.8 percent) of the U.S. consumer's paycheck and drives 70 percent of GDP. Eight percent of that goes to food and beverage; another 5 percent goes to health and personal care. The rest — some 18 percent of consumer spend — is accounted for in the individual retail product categories where consumers have grown much more comfortable making purchases online: home furnishings, electronics, apparel and sporting goods. All categories where Amazon is consistently outpacing Walmart in its share of consumer spend.

Taking Q2 numbers as the benchmarks for now (we won't have Walmart's Q3 until it reports earnings on Nov. 17), we see a story of a consumer at the end of June whose default seemed tilted in Amazon's favor.

Take sporting goods.

In Q2, Walmart sales in the category were largely flat (from $3.4 billion in Q1 2020 to $3.6 in Q2). By contrast, Amazon added almost $2 billion in sporting goods sales, from $16.5 billion in Q1 to $19.4 in Q2. Product selection across a diversity of price points seemed to be the reason, appealing to the bridge millennials and affluent consumers who want more choice and are willing to pay more to get it.

Amazon's share of spend in sporting goods in Q2 was four times that of Walmart's — in a category that many might characterize as the most essential non-essential product category of the pandemic.

Then there is the electronics and appliance category, where Amazon's share of spend increased from 22.6 percent in Q1 to 24.4 percent in Q2 — and where Walmart dropped from 6.2 percent to 6.0 percent in Q2.

Same story.

Take home furnishings, where Amazon caught up to Walmart on total spend percentage in 2019 and continues to pull ahead. In Q2, Amazon accounted for 14.7 percent of consumer spend, compared to Walmart's roughly 12 percent. But like sporting goods, Amazon continues to pull more dollars in home furnishings: $9.3 billion for Q2 compared to $7.3 billion for Walmart, in a category where Walmart's physical store footprint should have provided an advantage — especially when, as an essential store, its doors remained open.

In Q2, Walmart's biggest percentage sales growth outside of grocery came in apparel, where it added more than $5 billion to its Q1 tally and took 10.5 percent of spend. But Amazon still outperformed in this category on a total spend basis, going from $13.7 billion in Q1 to $16.2 billion in Q2 for 17.8 percent of total consumer spend. Apparel is an area where both Walmart and Amazon have been increasing their focus — including Amazon's recent launch of its Luxury Stores and Walmart's partnership with ThredUp, which brings reCommerce into the mix for its online shoppers.

In a category where PYMNTS data show that consumers are now shifting more of their spend.

THE BOTTOM LINE: THE CONSUMER'S WHOLE PAYCHECK

Here, though, is the picture that speaks a thousand words: the share of consumer and retail spend that is Amazon's, and that which is Walmart's.

It's the proverbial horse race.

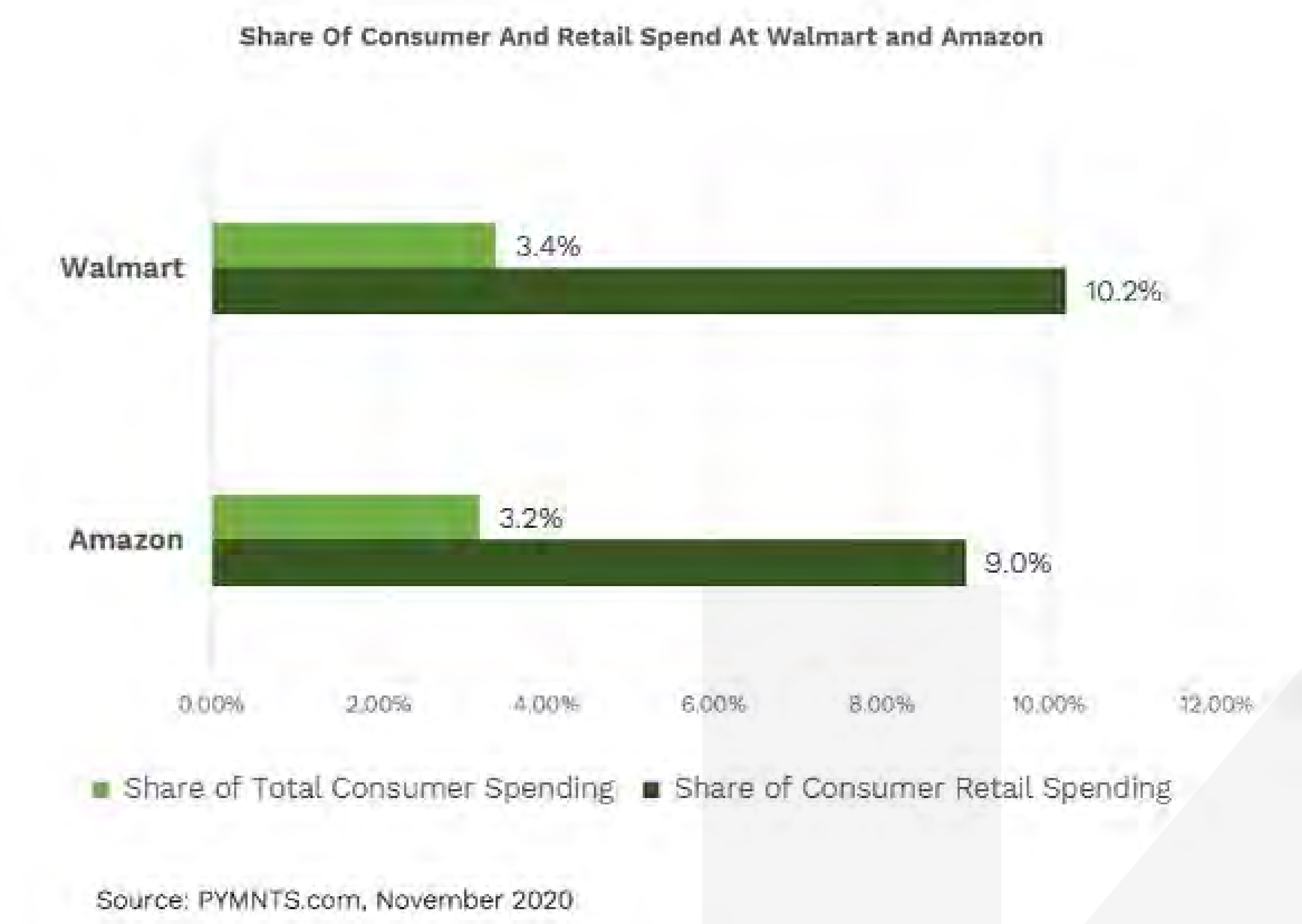
What this picture doesn't reflect, but which the full data set does show, is Amazon's momentum in the key retail categories that drive spend. What you see in this chart is puts and takes between two retail giants.

What you don't see is how Walmart's share has remained flat or declined as Amazon's share has grown.

As PYMNTS data show, Walmart+ is an opportunity for Walmart to secure the loyalty of the shoppers it now has, and to also bring new, younger, higher-spending shoppers onto its turf.

Time will tell whether Walmart+ goes beyond locking its current consumers into a model with more predictability of their loyalty and spend.

Doing that will likely require more than just piling on more features. Grocery may be Walmart's moat, but Amazon's might be Subscribe and Save — eliminating the need to buy household staples and health and beauty items —



shifting the buying experience to simply the paying and putting away experience.

The success of Walmart+ will also require Walmart to recognize that the store model as it was in January of 2020 is no longer the experience consumers want — and tens of millions of them have shifted to digital channels and to providers that give them what they want and need.

And reverse inertia — the undoing of the digital habits they've taken the time to establish and use, and have grown to like — will likely be a battle very hard-fought.

November 9, 2020

Retail 2022: Digital Taps Pent-Up Consumer Demand

It's one year from today: Nov. 9, 2021.

It's been 18 months since the coronavirus swept the world and changed everything about it. But finally, the citizens of the world are ready to re-engage in the physical world the way they did in January 2020.

A widely available vaccine and FDA-approved therapeutics have given consumers the confidence that sitting together indoors, in a crowded restaurant, carries little to no risk. Neither does cheering on their favorite sports teams in a crowded stadium or booking that long-awaited vacation with family to a faraway destination.

And, boy, after 18 months of so little human contact, are they ever ready.

> The pent-up demand for all of the experiences **impossible to replicate in the digital world** promises to be explosive.

Businesses across all facets of the economy are preparing to capture some of that demand — and spend. If they get those customers they've missed for so long, maybe they'll keep them.

For retailers, it is a time of reexamination.

Their 2022 business plans reflect the reality that the decline in physical store shopping, already well underway pre-pandemic, was accelerated in the face of COVID. The year 2021 was more or less a continuation of most of 2020, when consumers' concerns over their health trumped their interest in going to the store to shop.

And where digital and digital-first experiences delivered, literally.

Over those 18 months, from the start of pandemic-caused lockdowns, large swaths of consumers who once viewed "going shopping" as a social activity found digital to be a more than a suitable substitute for buying what they needed. Nearly eight in ten U.S. consumers found the experience so satisfying they say they'll stick with most or all of the digital-first habits they've formed over that time. Shopping for essentials such as groceries and household staples had slowly shifted to weekdays and online, as work-from-home consumers no longer had to time-box shopping in physical stores on evenings and weekends.

At the same time, consumers' needs had changed as the stay-at-home economy ushered in a subtle but important shift in shopping and buying priorities.

As such, for many consumers, replacing the physical store with digital – or a digital-first shopping experience – wasn't hard. In fact, it was pretty easy, even for the digital dilettantes or totally new-to-digital shoppers. Digital-first or digital-native retailers made it so.

Retail's own performance reflected that shift.

Online sales boomed while physical store sales slumped for many, even after stores reopened and were staffed to receive customers. Brands fast-tracked their own direct-to-consumer efforts as stores were no longer the reliable distribution outlets they once were.

The conversations in retail boardrooms and war rooms in November of 2021 will center on how to direct some of that pent-up demand their way.

Success will require a shift in their own thinking.

And it will require finally confronting the reality that even though a consumer still spends most of her money and time shopping in physical stores, she consistently finds it to be the least satisfying channel in which to shop.

THE NUMBERS HAVE IT

Released today is the PYMNTS study on the digital shopping experience as told by a census-balanced panel of 2,170 consumers and 500 merchants in the U.S.

This work, The Global Digital Shopping Index, done in collaboration with Cybersource, is part of a global effort across four countries to help retailers better understand how to align consumer preferences and expectations when shopping for retail and grocery products with what they offer today. The U.S. survey was fielded in mid-July of 2020; those results will be followed shortly by those for Australia, the U.K. and Brazil.

In the U.S., we find a consumer who no longer uses the web to inform how she shops (or where she chooses to shop) in a physical store, but as a shopping means **and** an end. More consumers — more than four in 10 — are starting and ending their shopping journeys online (including delivery to their doorstep), at the same time that fewer consumers are starting and ending their shopping journeys in-store.

The share of what we call **'online natives' has increased 17 percent since March,** at the same time that brick-and-mortar loyalists have declined 10 percent.

A key element of the PYMNTS' research is the use of statistical techniques to index consumer satisfaction across the various channels they shop.

To do that, PYMNTS examined 27 features that touch all aspects of the consumer shopping journey — everything from inventory availability to product ratings and recommendations, from refund and dispute and data protection policies to online ordering, delivery and curbside pickup, as well as touchless payments, including contactless, at the physical point of sale.

For consumers, digital channels now offer the convenience, efficiency and safety that physical stores do not. In fact, PYMNTS' analysis also reveals that the satisfaction scores of consumers shopping online are twice as high as those shopping in stores.

A great deal of that satisfaction is the result of consumers using features that increase the likelihood of getting what they want when they want it. Features like real-time inventory availability, delivery, curbside pickup, product reviews and recommendations — as well as clarity on refunds, disputes, policies on data protections and security — all lower the risk and eliminate the frictions consumers face, especially during a pandemic, when shopping in a physical store.

That's not the case when shopping in a physical store.

Once a consumer has committed to shopping in a physical store, they've also committed to selecting from what that store has in stock – or being okay with leaving emptyhanded or going to another store. Digital eliminates that risk at the same time that it mitigates consumers' concerns over their personal health and safety.

> Most likely by late 2021, and possibly a bit earlier, safety will no longer be consumers' key shopping consideration, **as ease and convenience will become the minimum standard that all retailers must meet.**

The retail success stories of 2022 and beyond will be those that use digital tools to make it more efficient for consumers to get *what they need* using digital channels, and what they want to buy via a unique and valuable in-store experience.

FROM EFFICIENCY TO EXPERIENCE

The pandemic has paved the path for consumers to bifurcate where they shop and what they buy. The top performers won't make consumers choose one path over the other.

Take groceries.

PYMNTS estimates that roughly 60 percent of the average consumer's food budget is spent on the center-of-the-store purchases classified as consumer packaged goods — the staples that line consumers' pantry shelves and kitchen drawers. These are also the products that many retailers, including the brands themselves, are making it easy for consumers to "set and forget" through subscription offerings.

Why go to the store once a week to stock up on paper towels, laundry detergent and cleaning supplies, canned goods, aluminum foil, salty snacks and chicken stock when those items can be delivered automatically, at a pre-determined frequency, to consumers' homes?

Over time, these "set and forget" options will change how consumers use grocery stores and their expectations for what they will find when they visit them — in fact, they already have. Ordering groceries online and having them delivered is now something that 12 percent of U.S. consumers do — and that number is growing. It's also something in which grocery purveyors are investing heavily to keep and grow their share of the market.

Subscribe and Save options from Amazon and subscription offers direct from brands make shopping for the products that consumers use frequently little more than an auto-refill payments experience. Data and AI will nudge consumers to order things that they have purchased before, and could likely need or want to buy again.

These innovations, and others like them, will make 'going to the grocery store' less about an errand to restock empty pantry shelves and more about discovering new brands and meal preparation experiences, buying the items that require inspection like meats and produce.

The ability to offer a seamless and secure customer and payments experience across those channels is what will determine who gets and keeps their business. The lack of one today is why consumers cite going to the grocery store as among their least satisfying physical store experiences.

FROM CERTAINTY TO SERENDIPITY

The thrill of shopping in a physical store was once about the serendipity of discovery — walking into the store to find ***that*** black dress, only to walk out instead with a blue one that is so much better.

Over the years, consumers have been more disappointed than delighted, as physical store inventory thinned out and consumers found more certainty in the endless choices available online.

It's why consumers consistently rank inventory availability as an important retail feature — although it is inexplicably, according to *The Global Digital Shopping Index,* research, undervalued by merchants.

Retailers who make *physical* a part of the *digital* shopping experience can align consumers' expectations of efficiency and certainty with their interest in using the physical store to shop in new and different ways that go well beyond buying online and picking up in-store. As enthusiastic as merchants are to offer that feature, U.S. consumers regard it as much less desirable than delivery, which is their first preference, and curbside pickup, which is second on their list.

Integrating payments, technology and rewards across both channels can deliver the best of both worlds at scale — giving consumers the chance to find and reserve items online and then to examine, try on and test them out in the physical store before completing the purchase. Visibility into those orders can eliminate the uncertainty of not having what consumers want when they arrive, while giving merchants the chance to bring in other choices or complementary items that could drive incremental sales. Innovations in augmented reality can make it easy for consumers to get product information, reviews and promotions using their mobile phones in store, creating an immersive and contextual experience inside the physical store.

Using data to more precisely understand what consumers like and have purchased helps retailers curate and tailor in-store experiences that would appeal to them, while increasing the probability that foot traffic will deliver sales and to target consumers with relevant incentives to come into their stores. Integrating that consumer history across channels creates the foundation for a relationship based on their trust and preferences, a feature set that is critical to keeping their loyalty and more of their spend.

WHAT TOP PERFORMERS ALREADY KNOW

Part of *The Global Digital Shopping Index* measures the gap between consumer preferences with what merchants offer along the 27 feature sets that consumers surveyed say drives satisfaction. Not only does this help profile the characteristics of top-, middle- and low-performing retailers, but it also offers merchants across a variety of retail segments a playbook for getting – or keeping – their top performing status.

In the U.S., more than 90 percent of the top-performing retailers offer nearly all of the 27 digital features we examined. Nearly all (98 percent) offer all of the convenience-focused features — delivery, curbside pickup — that are now required to compete for the consumer's business. Only half as many middle performers do so.

Top-ranked retailers also consider offering data privacy and security as a top priority, in addition to helping consumers resolve disputes and expedite refunds when returns are made. It's also where we find a gap between what consumers value and what retailers perceive as important.

Top performers also operate across digital and physical channels. In fact, 42 percent of top-performing retailers do between half and three-quarters of their sales in-store, nearly triple the share that only sell in-store and nearly twice the share that do less than 50 percent of sales in-store. This suggests that consumers value shopping with retailers that offer multiple channels for purchasing the items they need. Getting the best of both channels is key, provided part of that experience is a seamless, integrated and secure flow of payments and customer data across those channels.

THE PENT-UP DEMAND WILD CARD?

Sounds easy, right?

Not really. It's a tough lift for many, especially when considering what we've been saying here at PYMNTS for a long time.

> The pandemic was just oil on the fire **that burned physical retail more quickly.**

But here's the wild card.

Consumers will have been locked down to some degree, sometimes by government mandate and more often by choice, for well over a year by the time the dark cloud of the pandemic lifts over the United States, Europe and other parts of the world in late 2021. My guess is that people will be looking for any excuse to bag digital-first for physical-first, just to see people and, well, to get out of the house.

It's hard to know how many couples will wake up on Saturday morning and, instead of tapping in the Instacart order, will say, "Hey, let's go to the supermarket for old time's sake, or head out for some Main Street shopping?"

That same mindset will apply to traveling, going out to eat and other things they have missed.

Maybe that pent-up demand will be just that: a short-lived burst of physical activity.

But it will be a time for physical retailers to strike while that iron is hot, and to tap into the demand for social interactions, to do what they can to keep at least some of these consumers engaged in the physical world.

This will probably require the courage for retailers to change their business models — for supermarkets to become more like fun food marketplaces and less like places people visit to stock up the stuff they can just as easily order online and have delivered.

Execs and entrepreneurs, sitting at home between Zoom calls eating takeout meals, might want to really start thinking about how to capitalize on this pent-up demand to reinvent physical retail in a way that keeps those digital-first shoppers engaged. Best-in-class retailers will find a way to do both.

How much of the pent-up demand sticks is now largely in your hands.

By the way, no one should wait for November 2021 to start planning for the explosive growth of physical activity. We know it's going to happen. So now is the time to start thinking about a post-pandemic world where many more people have learned the digital-first way, but where there will be enough pent-up demand to make them want to get the heck out of the house and start experiencing the physical world, and people, again.

And to party like it's January 2020.

November 16, 2020

COVID Crisis: What Happens If Most People Don't Get The Vaccine?

On the same day that COVID-19 cases in the U.S. topped 10 million and hit 50.5 million globally, the world got news that Pfizer and BioNTech had successfully completed Phase 3 trials of a COVID-19 vaccine on 43,000 people — and achieved an astounding 90 percent effectiveness rate.

It was a day that medical scientists and epidemiologists had been awaiting for eight long months, marking a significant scientific breakthrough for the virus that hobbled the world. And it was a stunning result.

Not only had these vaccine trials proven an effectiveness rate of 90 percent — nearly twice the 50 percent threshold the U.S. FDA had set for approval of a COVID vaccine — but it was at nearly the same level of effectiveness as vaccines for smallpox (95 percent) and measles (97 percent), and significantly more effective than vaccines for the flu (40 to 60 percent), shingles (51 percent) and pneumonia (60 to 70 percent).

On that day, Nov. 9, 2020, the stock market hit a high not seen since February, shortly before the world would feel the brunt of the global pandemic. Investors had more clarity, and hope, that consumers and businesses could soon be on a path to resume the physical activities that grounded important sectors of the U.S. and global economy for most of 2020.

That's assuming most people got the vaccine. With a 90 percent effectiveness rate and no signs of serious side effects, who wouldn't?

PYMNTS fielded a national consumer study of 2,806 U.S. consumers on Nov. 11 — three days after the Pfizer/BioNTech news was announced. We were curious to know whether consumers had heard the news of the vaccine, whether they thought it would be effective, and whether an imminent vaccine that could eliminate their risk of getting COVID had changed their views about reengaging in the physical world.

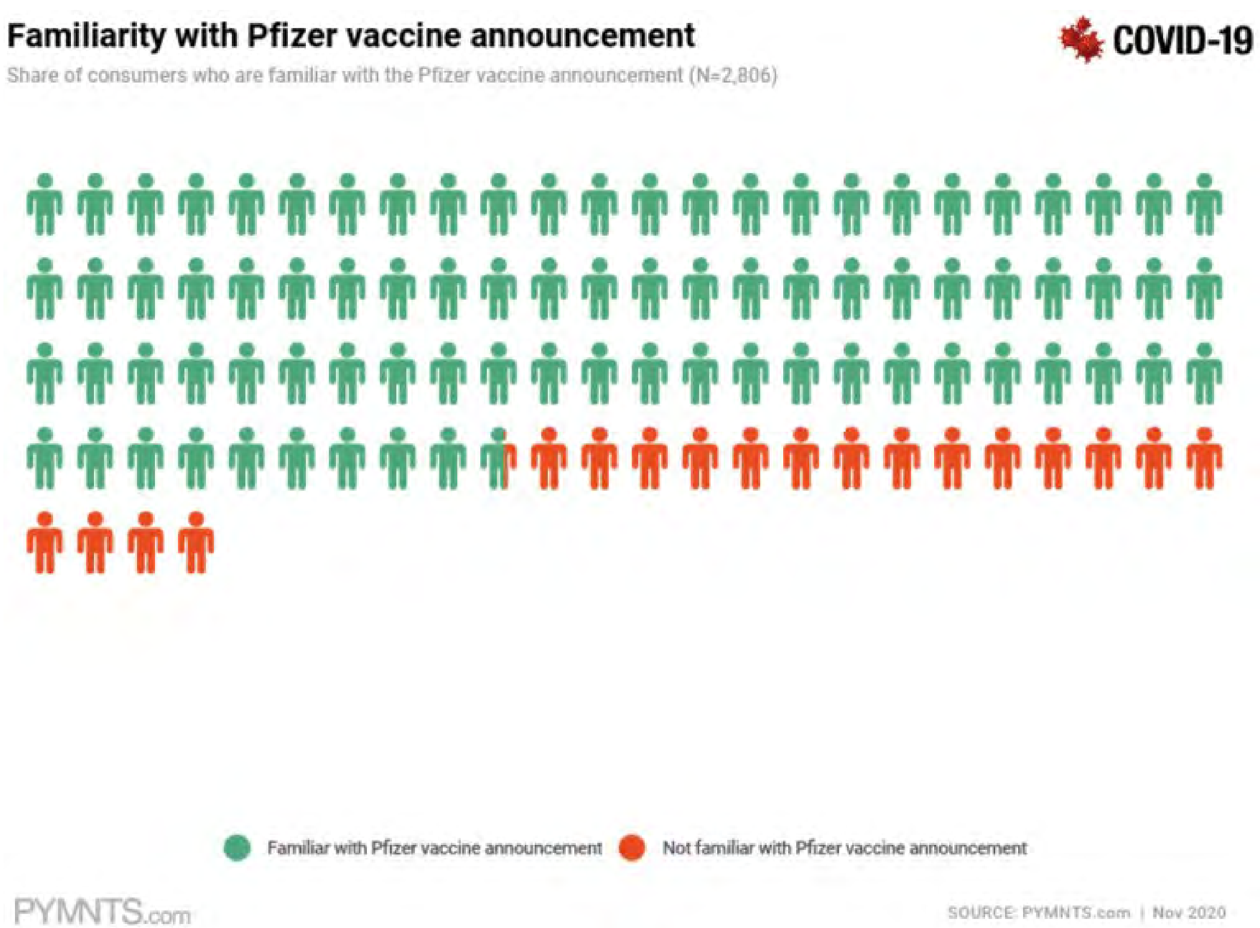
More than anything, though, this study sought to quantify how many U.S. consumers would get the vaccine based on what they knew at that time.

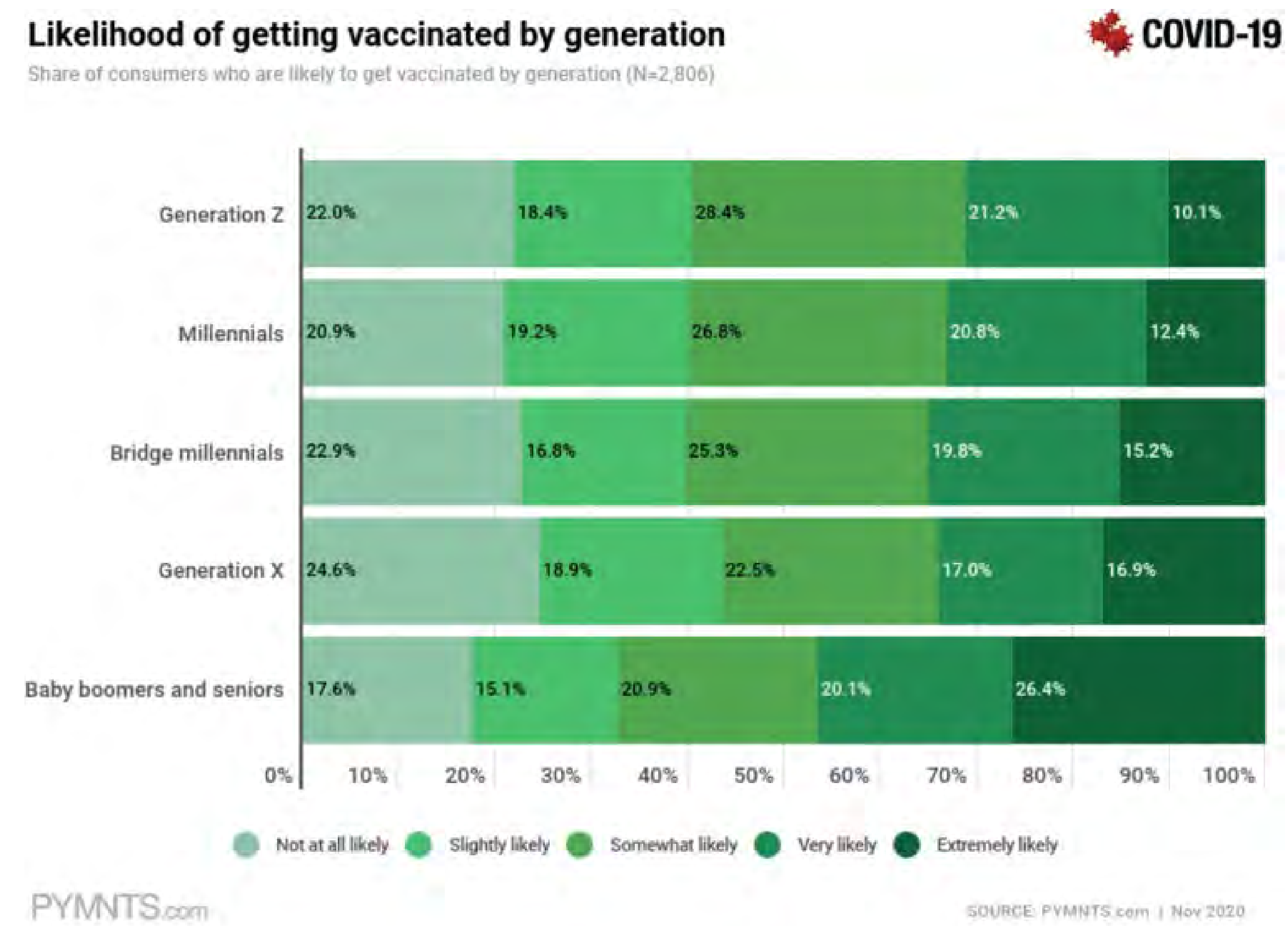
In this, PYMNTS' 14th study of a national sample of now roughly 40,000 consumers since March on their sentiment about COVID and the digital behavioral shifts it has caused, we learned a lot.

We found out that most consumers were well-informed about the vaccine news — more than eight in 10 (82 percent) said they were familiar with the Pfizer-BioNTech news. That's remarkable, given that the news had just come out.

We also learned that of those consumers familiar with news of the vaccine, just as many say they definitely won't or likely won't get the vaccine (38.4 percent) as those who say they definitely or very likely will (37.9 percent). The remainder were somewhat likely.

Across generations, PYMNTS' research found that 40 percent each of Gen Zs, millennials and bridge millennials (respondents born between 1979 and 1988) say that they either won't or likely won't get the vaccine, 25 percent more than those who say they very likely or likely will.





All of this despite the fact that nearly two times as many consumers say they believe that the Pfizer-BioNTech vaccine will be successful (33 percent) as those who believe it will not (18 percent).

And despite the fact that the most frequently mentioned thing consumers say they need to be comfortable reengaging in the physical world is a vaccine.

Thirty-four (34) percent of consumers in the November 2020 PYMNTS study report feeling this way, three times more than those who cite having a therapeutic available as the most important factor, 2.4 times more than those who say that seeing COVID cases drop is most important. This finding has remained consistently at this same level since March.

To be fair, PYMNTS queried people quite literally within a few days of the announcement. The news was still very fresh, and questions still remained — even though the medical community has publicly lauded the Pfizer-BioNTech news as a critical step toward taming the global pandemic in the U.S. and around the world.

So, we'll see whether over time, with more information and with COVID cases now spiraling out of control in most parts of the country, more people will be persuaded to get the vaccine.

Hopefully, many more.

Doctors and epidemiologists say that herd immunity is present when 70 percent of a population has immunity to a disease. To achieve that level with COVID-19, a vaccine with a 90 percent effective rate would require that 80 percent of the population in the U.S. gets vaccinated — roughly 264 million people.

With a two-dose vaccine, which is the Pfizer-BioNTech protocol, 264 million people must get vaccinated twice, 21 days apart. That presents a logistical challenge that experts have acknowledged, but insist is doable and manageable.

Turns out that could be the easy part. If 38.4 percent of the population won't get the vaccine, barely half of the 80 percent goal will be met.

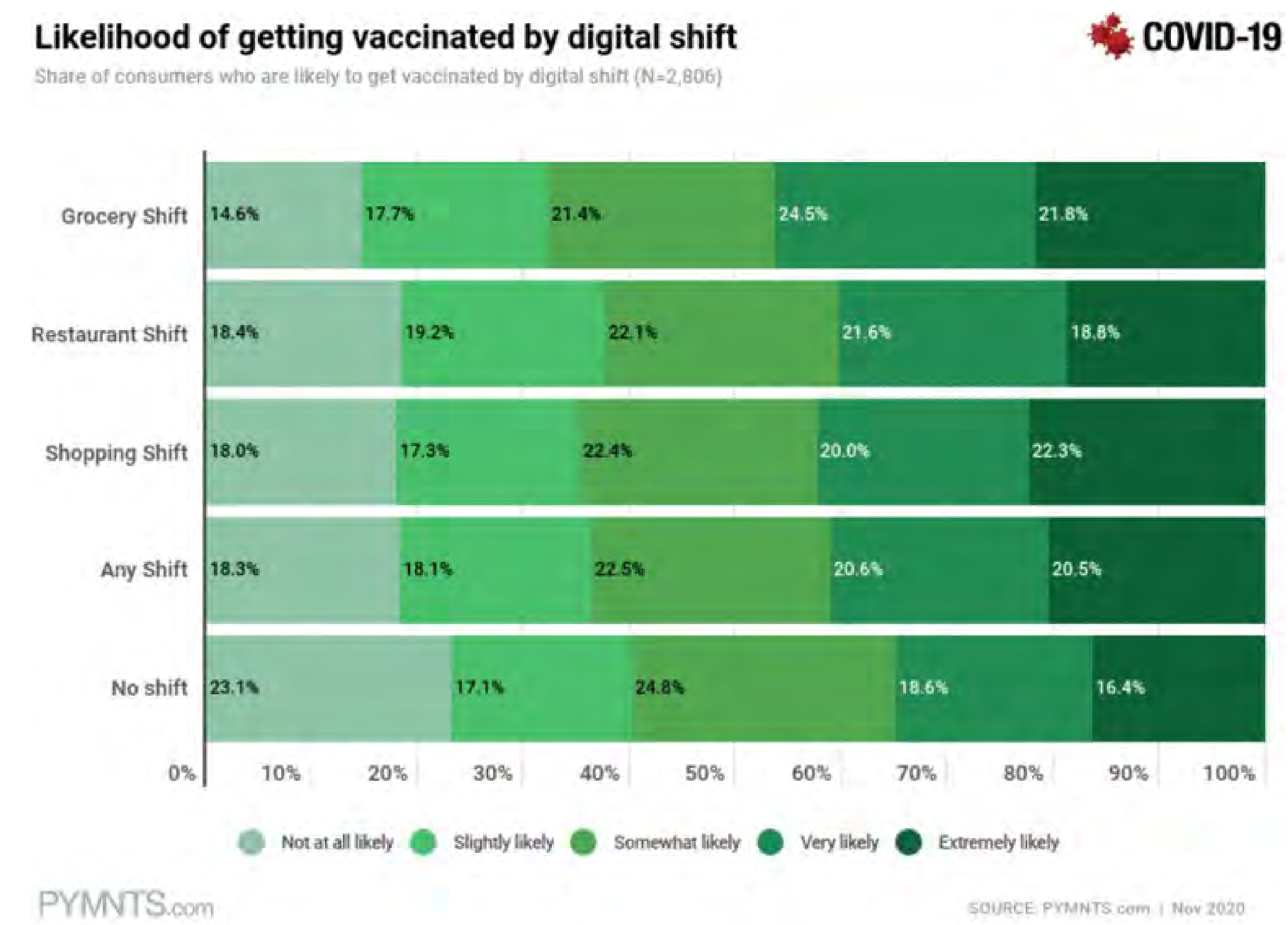
THE DIGITAL SHIFTERS KEEP SHIFTING — AND WANT TO GET VACCINATED

The PYMNTS study also tested the impact of the vaccine news — and interest in getting the vaccine — on consumers' shopping and eating preferences.

Interest in getting the vaccine is the greatest among those who have largely shifted to digital for shopping for retail products (42.3 percent), buying food at the grocery store (46.2 percent) and ordering food for delivery or takeout at restaurants (40.4 percent).

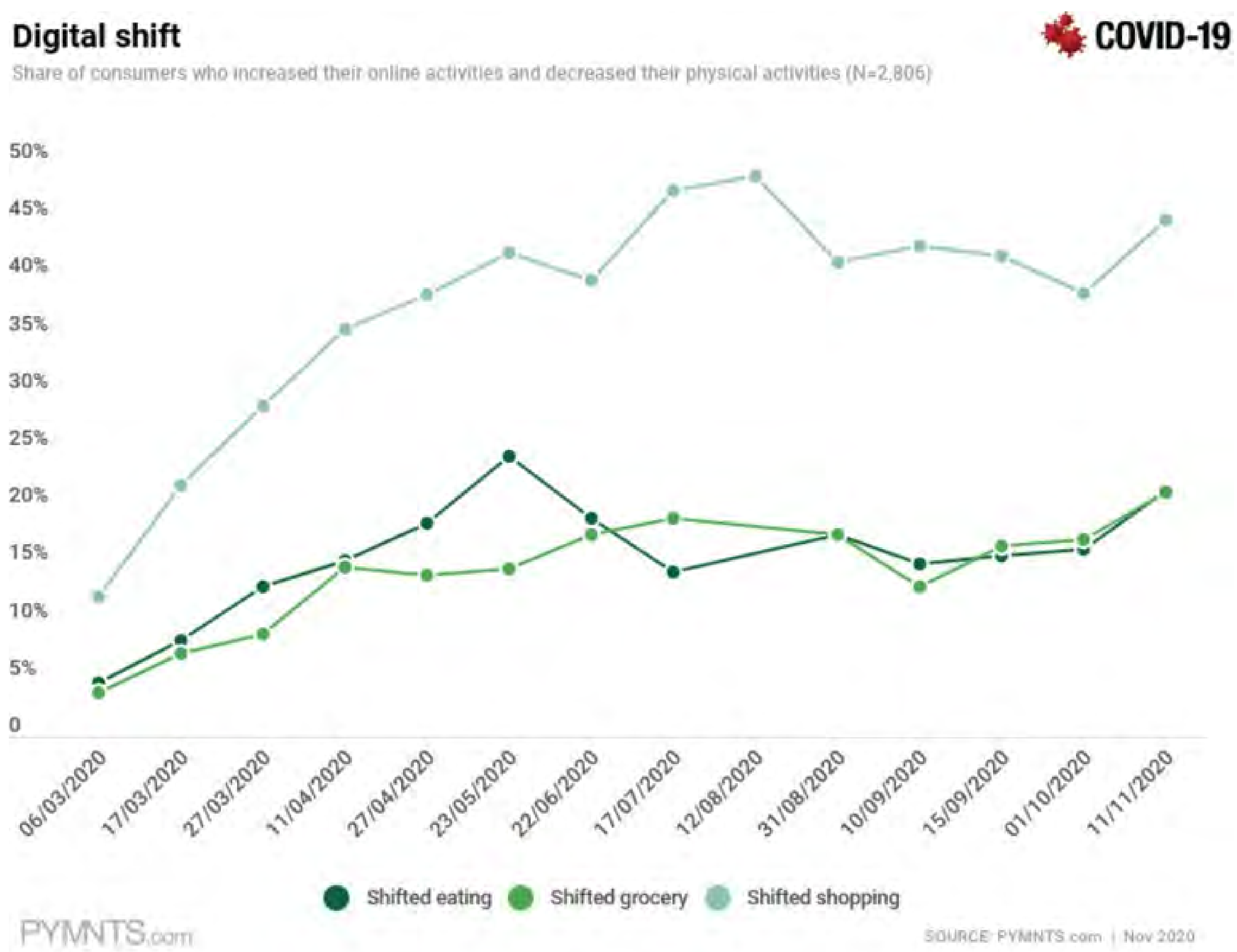
Nearly two-thirds (64 percent) of consumers who have shifted digital in one or more of those activities say they are somewhat, very or extremely likely to get a vaccine. Consumers who have shifted to digital over the last eight months have done so over fears of going into stores to shop at all, or out of a wish to minimize their encounters at the physical store when they do shop there.

These are the same consumers who are highly motivated to get the vaccine in order to reengage in many of the physical world activities that have been unavailable to them since March — those for which digital-only or digital-first is an inadequate substitute. More on that a bit later.



But even with a vaccine, these digital shifters also say they are most likely to stick with most or all of their newly acquired digital-first habits.

After eight-plus months of adapting their shopping behaviors to a more digital-first channel, we find that 47 percent of consumers have shifted their retail shopping habits to digital, and so have 21 percent of consumers shopping for groceries and 21 percent of consumers who eat at restaurants. The magnitude of these shifts can't be underestimated: Five times as many consumers have adopted digital-first habits at restaurants, four times as many have adopted digital-first habits when shopping for retail products and nearly six times as many consumers have shifted to digital when shopping for groceries since March.



Driven now by convenience and by their satisfaction with those experiences, roughly 80 percent of those consumers say they'll stick with those shifts when shopping for groceries, buying retail products and eating at restaurants even after getting the vaccine.

And they will shop in a different way.

These findings offer more proof that when these consumers re-engage in the physical world, how and where they shop and eat, and what they buy across the physical and digital channels, will be different — and will be shaped by the digital-first habits they've been honing since March.

On the flip side, interest in the vaccine is the lowest among those who have not shifted any of their shopping or eating habits to the digital world; many are lower-income individuals who continue to shop and eat exclusively in brick-and-mortar establishments, in some cases perhaps because they lack the technology or are unable to pay delivery surcharges. Only a quarter of the 53 percent of those consumers say they are extremely or very likely to get a vaccine when one is made available.

Of course, that means the people who are most engaged in the physical world and are coming in contact with each other are the least likely to get vaccinated — and are the ones who are at the highest risk of dying because of other health issues.

THE VACCINE'S PHYSICAL-WORLD BOOST

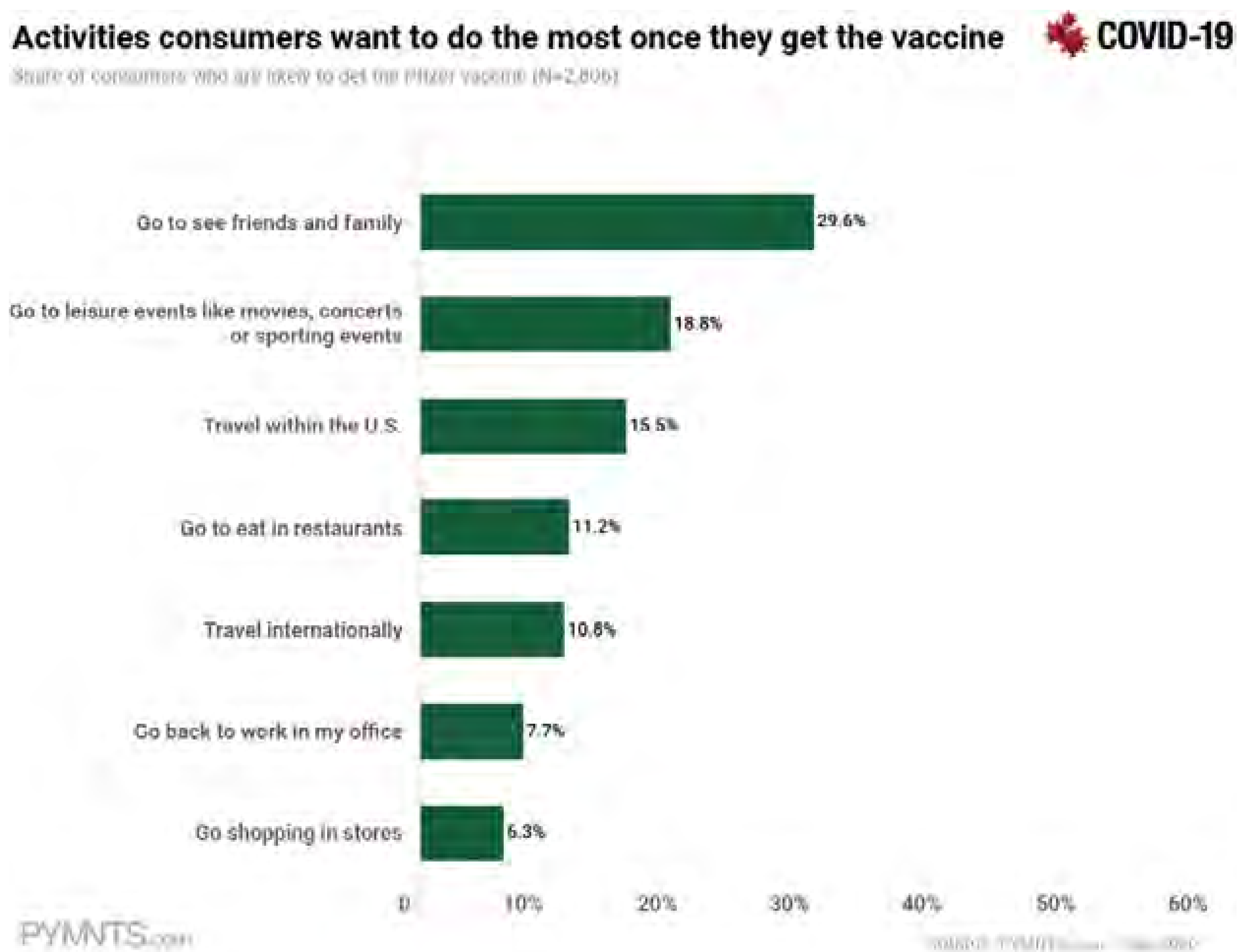
Once a vaccine is available and consumers are vaccinated, there is a long list of physical-world activities they say they are eager to resume. This list reflects the activities for which digital or digital-first has been more of a have-to stop-gap than a want-to experience — and where there's more pent-up demand among consumers to do the things that have been largely off-limits over the last eight months. These are the activities that involve social and/or physical interaction with large groups of people.

Consumers with an interest in getting a vaccine say that the activity they most want to do is see family and friends — free of masks and without social distancing requirements. Going to weddings, birthday parties, graduations and family reunions — and having family and friends over for the holidays — are all of the experiences that have been postponed or eliminated due to COVID risks. And, not surprisingly, those are the things that consumers say they miss the most.

Right behind that is engaging in leisure activities — going to the movies and live events like sporting events and concerts. Interestingly, on Friday (Nov. 13), Ticketmaster announced that it would require proof of vaccination to enter an event venue, a position it later backtracked, leaving the door open by saying that organizers might insist upon vaccinations.

Hey, if seeing one's family isn't enough of a motivator to get vaccinated, maybe going to see Justin Bieber in concert in June could be enough of a motivator. Whatever works.

Third on the list is satisfying their wanderlust to travel again, both inside and outside the U.S. This is the first time since March that PYMNTS surveys have seen an uptick in consumers'



interest in hopping on a plane to travel internationally, particularly among affluent consumers.

Slightly more important than jetting off to faraway places is eating inside a restaurant, an activity that 87.4 percent of consumers say they've done less of since March. Eleven (11) percent of consumers say that is the most important thing on their list.

Also interesting when looking at this list are the activities for which consumers largely feel that digital substitutes are suitable, and for which physical-world options may not be as important in 2021 and beyond even after a vaccine.

Only 14.8 percent and 17.8 percent of consumers say they will do more shopping in physical retail or grocery stores, respectively.

Only 6.4 percent of consumers who decreased their physical business conference attendance say they'll attend business conferences as they once did even after getting a vaccine. Working from home — and anywhere in the country — is something that more than twice as many affluent consumers who have gone to the office less since March say they want to do, but only 8 percent of middle-income and 11 percent of upper-income consumers express an interest in doing even after they are vaccinated.

Consumers have perfected their use of digital channels, using them to create schedules and routines that now comprise how they do business. Using offices, going to events and returning to stores are activities that people will still do — but differently, selectively and only when digital channels can't deliver the outcomes they seek.

WILL A VACCINE SAVE 2021?

The excitement over the availability of a vaccine has prompted many questions about when it will be available to most of the population. Dr. Anthony Fauci told Jake Tapper on Meet The Press yesterday (Nov. 15) that the U.S. could start to see general availability in the early part of 2021, and that "some return to normalcy" could be likely in the late spring and summer of 2021.

Josh Sharfstein, vice dean for public health and community engagement at the Johns Hopkins Bloomberg School of Public Health, offered a more pragmatic view last week, when he said the vaccine won't likely be available to the general population until the spring, and perhaps even the early fall. High-risk populations (the elderly, people with preconditions and healthcare practitioners) will have earlier access to the vaccine, some even as soon as December of 2020.

If that's the case, it's likely that 2021 will be a year of transition, where the population remains masked and socially distant as people get vaccinated — and hopefully, enough of them do so to achieve the level of herd immunity required to make COVID a part of our past and not a persistent part of our present.

It seems as though the U.S. consumer shares that view. Respondents in the November PYMNTS research study said it will take until January of 2022 before they feel as comfortable engaging in the physical world as they did in January of 2020. That's up from September of 2021 just a month ago.

Consumers may know something the experts don't know: that a vaccine available in April 2021 may not be a panacea.

Less than half of the adult population — 45.6 percent, to be precise — got the flu vaccine in 2019. And only 37.9 percent of the people PYMNTS surveyed were definitely or very likely to get the COVID-19 vaccine. Those who get the vaccine will benefit, but unless that rate goes up a lot, we'll be a long way from achieving herd immunity.

That could mean a tougher slog through 2021 than some experts are predicting.

And for businesses, it may mean, for better or worse, doubling down on digital-first for at least another year.

For policymakers, the stakes may never be higher. Giving people information about the vaccine, its importance and the risks (which appear to be quite low, based on what we know right now) is critical to persuading at least those in the "somewhat likely" camp that a vaccine is in their best interests.

For payments and tech innovators, the opportunity may never be greater.

If there's one thing these players know how to do, it's motivating people to take action and to use digital platforms and methods to distribute those incentives. Imagine if instead of getting a "flu fighter" Band-Aid at the pharmacy when getting the vaccine, that person got an eGift card that is spendable at the pharmacy. Or a credit to their digital wallet. Or something.

With a model that projects a death count could reach 500,000 in the U.S. by the end of February, it seems like a very small price to pay to solve humankind's massively deadly and economically costly problem.

November 23, 2020

Google's Super App Wakeup Call

In June of 2019, PYMNTS asked a national sample of 1,037 smartphone users about their interest in having a single app that would make their everyday activities easier to access and manage.

The study described the app's functionality as a more seamless way for consumers to keep tabs on how to plan, manage, spend and send their money, and to receive funds from other sources. The app would include reminders and alerts across a variety of activities — bills to be paid, appointments to be kept, deliveries to be received, important dates to remember, what friends are doing, etc. — so as not to lose track of key dates and deliverables. There would be a way to opt-in to receive personalized offers and rewards and have those offers automatically applied at checkout when shopping and paying at those merchants.

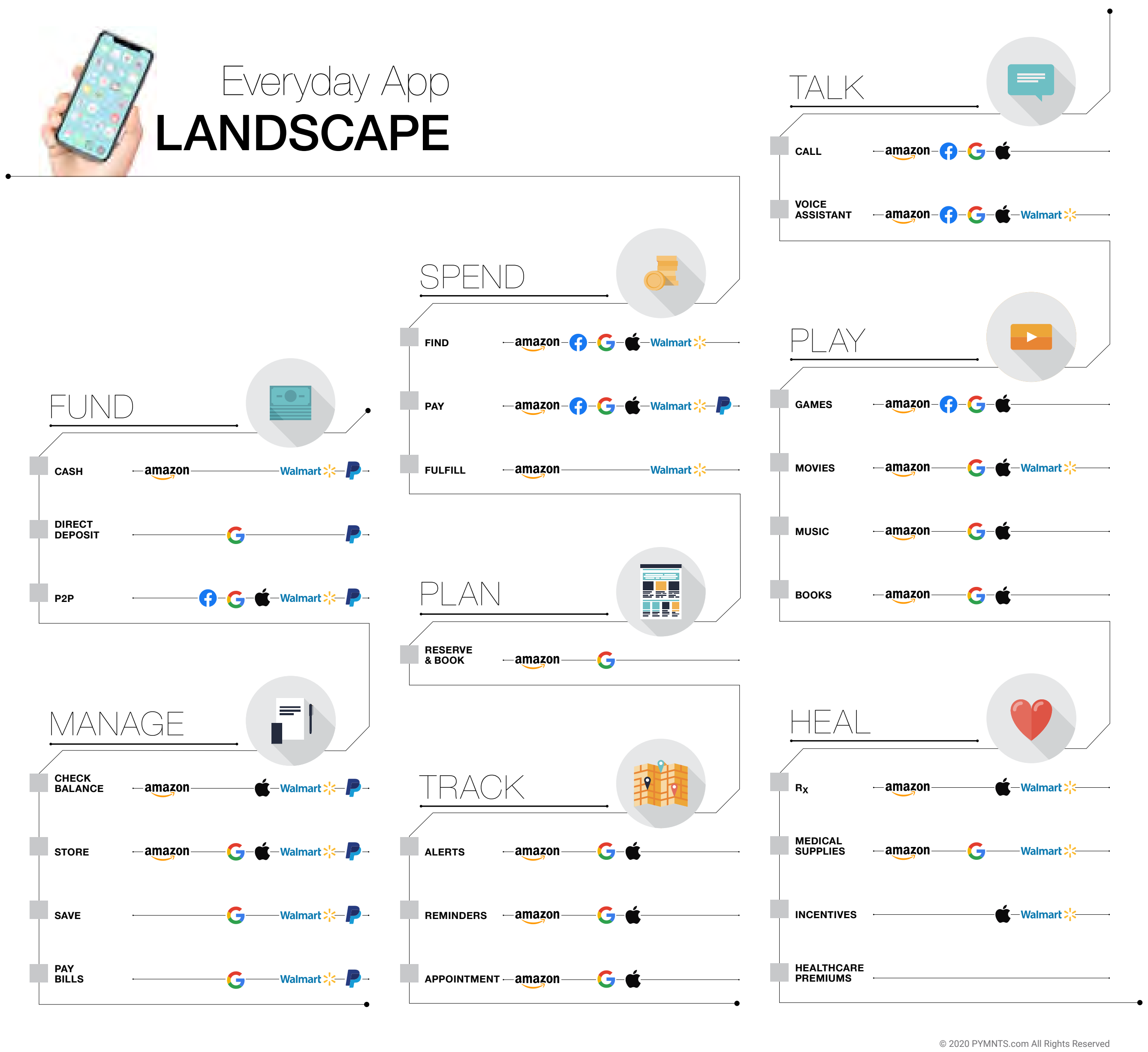
This "super app," we called it, would also include easier access to sign up for a variety of entertainment options like streaming services — games, music, books, video, live programming, restaurant and travel reservations and bookings, and healthcare services including the purchase of medical supplies, prescription drugs and other wellness services.

Most importantly, this "app of apps" would work across operating systems, channels and devices, and would be activated by voice and SMS.

At that time, many FinTech and Big Tech players had begun to integrate this kind of functionality into their own apps to keep users engaged and sticky, even if they didn't call themselves "super apps." It would be months before PayPal would announce its acquisition of the savings app Honey, and before Google would announce its Smart DDA concept with two financial institutions (FIs), adding more super app ammo to its offerings.

But even then, in June of 2019, a third of all consumers expressed a strong interest in such a super app experience, and more than half (54.2 percent) more or less said "sounds interesting, tell me more." Only 13 percent of all consumers said "no-how-no-way."

Labels notwithstanding, most survey respondents found this "app of apps" experience appealing. They said that hopscotching between apps and icons to access, track and organize all of the pieces of their everyday (and increasingly digital-first) lives wasted too much of their time.



Those with a keen interest in a super app — the one-third of consumers who said "sign me up" — said they'd trust Google (45 percent), followed by Amazon (29 percent), Apple (27 percent) and PayPal (22 percent) to deliver that experience. Facebook, Samsung Pay and Walmart all fared lower on the list.

GOOGLE PAY GOES SUPER

Last week, Google Pay introduced its redesign, including much of the functionality and user interface that consumers said they found appealing in a super app concept nearly 18 months ago. The Google Pay redesign also included the integration to their "Smart DDA" called Plex.

So far, 11 financial institutions have signed on to be part of Google Pay's Plex account program. Two are now available via waitlist for consumers: Citi and Stanford Federal Credit Union. These were also the first two FIs to sign onto the Smart DDA proposition a little more than a year ago.

Time will tell whether consumers will do what they said they might do 18 months ago. In the meantime, Google Pay's relaunch should serve as something of a wake-up call for digital wallets, payment apps and financial institutions as super apps in the U.S. get real.

And consumers will now have a taste for what it's like to live in an opt-in, integrated and personalized "app of apps" digital-first commerce ecosystem.

THE DIGITAL WALLET WAKE-UP CALL: FROM PAYMENTS TO COMMERCE

Paying for a purchase comes last — finding what to buy, getting the best deal on that item and knowing how that fits into the consumer's budget comes first. Super apps promise to make that entire end-to-end experience seamless — and to make payments an invisible but important part of that process for consumers and merchants.

To be a super app contender, then, the starting point must be commerce, not payments. First, what consumers want to buy — their starting point — and then how they'll pay for it.

We've observed this firsthand in the evolution of the general-purpose "Pay" wallets in physical stores over the five years since they launched.

What was initially positioned as a game-changer at the physical point of sale for consumers and merchants has been a disappointment.

The Pays started out by solving a checkout problem that didn't need much fixing: What happened at the end of the shopping journey in a store already worked pretty well for consumers — pre-COVID, that is. At that point, payments for purchases just had to be fast, familiar and reliable.

That's why cards — and contactless cards — still rule at the physical point of sale, and the Pays haven't made much difference.

Even in the midst of a global pandemic.

The latest PYMNTS data on in-store digital wallet usage reports that it's largely flat year over year, at roughly 6 percent. After five years, Apple Pay, the in-store digital wallet pioneer, has a large share (roughly half) of that relatively small pond, but accounts for less than 1.5 percent of in-store retail sales.

We've observed this commerce-first, payments-second trend with the rapid shift to digital that's happened in the wake of COVID-19.

Today, contactless payments in a store are being transformed into a digital-first and touchless commerce experience via digital channels — an experience that consumers say they find far more satisfying than shopping and checking out in a physical store.

COVID has accelerated consumers' interest in a digital-first or digital-only experience when shopping, and all merchants report seeing explosive growth in that channel. Today, we find a consumer who is more interested in using apps and websites to shop and then pay for delivery or pick up curbside if a physical store encounter is wanted or necessary. Consumers expect that payments experience to be efficient, integrated and invisible.

But payments have had to integrate into that commerce experience — not the other way around.

We see this same trend in the relationship that consumers have with Amazon, where the starting point is searching for what to buy and payments just comes along for the ride.

It's an ecosystem where half of online commerce now happens.

Being a Prime member gives consumers access to a growing variety of experiences inside of that expansive ecosystem — streaming services, groceries, delivery, health and fitness, and now an online pharmacy with free delivery — all linked to payments credentials that consumers don't even think about anymore when they click "Buy." All accessed through Amazon's digital and mobile front door.

We observe this with the evolution of digital payment apps that started inside commerce ecosystems like Alipay (Alibaba) and PayPal (eBay) to eliminate payment friction, but are now themselves two-sided payment networks operating well beyond those marketplaces. They enable payments

at online merchants and via mobile apps, but are now increasingly part of a larger shopping, savings and spending ecosystem. Acquisitions like PayPal with Honey and Xoom, and their partnerships with FinTechs like Acorns, adds commerce and financial services layers to PayPal's core digital payments value prop.

In a digital-first world, commerce is the experience that drives differentiation, adoption and innovation, and payments is what closes the loop.

A super app ecosystem builds that bridge and drives value for all stakeholders.

Players with digital-first as their DNA have a leg up.

GOOGLE PAY'S SUPER APP PATH

We now see evidence of this in what Google Pay introduced last week.

The Google Pay app is organized around three activities: paying friends and businesses, finding offers and rewards across the Google ecosystem, and getting insights on consumer spending, all in one place.

The integration of Plex accounts into Google Pay adds a banking layer with products created by banks and credit unions for interested Google Pay users.

Users who link bank accounts to Google Pay, Plex or others will be able to track spending habits and trends over time via an "Insights" tab, where users can search and group transactions over categories, receipts or merchants.

The app focuses on the most frequent transactions and organizes them around tabs and "conversations" that consider the individuals and businesses paid most often. The grouping functions aid in visibility, streamline transactions and track a trail of payments between parties — much in the way that a string of emails shows the progression of communications between parties, but here with debits and credits (and even refunds) presented in a single, related thread.

Google Pay also allows its 150 million users to redeem offers (through an "Explore" tab) in-app, via tap — and the discounts and promotions are automatically applied whether the transaction occurs in-store or online (the offers come directly from merchants or through aggregators). With the integration of Google Lens, Google Pay users can scan product barcodes or QR codes straight from Google Pay and make purchases. The integration with Gmail makes it possible for receipts and bill payments to become part of the transaction and spend management functionality.

Google has taken a "privacy-forward" design approach to Google Pay, and says it won't sell data to third parties or share transaction history with the rest of Google for ad targeting. The personalization setting is off by default, but users can turn it on to try for three months, and then turn it off if they don't like it. Keeping the setting turned on fine-tunes the offers presented to users.

Google Pay is also voice-activated, with capabilities available at a variety of connected endpoints and information that is synched across them.

RAISING THE BAR

The public showing of the redesigned Google Pay is less than a week old, but already there are important insights into how it could reshape the commerce landscape and the players operating within it.

The Google Pay ecosystem creates an incentive for third parties to compete for the consumer's time and attention by making their products and services innovative and unique — and for Google Pay to make it easy for new players to become an integrated part of their ecosystem and to add value for its users.

Banks who become part of Plex will create products that support their customers' payments, banking, money management and credit needs, in hopes that they will be compelling enough to become their primary bank. With Plex, Google Pay can offer consumers banking services without being a bank, and without asking consumers to trust Google as their bank. With Plex, participating banks can also tailor new banking services for businesses and merchants given their visibility into transaction and payments flows — building on what they do best, and offering consumers and businesses new ways to get and consume those services. Smaller FIs will have an opportunity to find new customers in new and different ways. Existing financial institutions will up their own games to compete.

With that competition will come innovation — and consumers and businesses will both benefit.

Merchants that become more integrated with Google Pay will be motivated to create offers and promotions tailored to the opt-in preferences of Google Pay users, potentially reducing their cost of customer acquisition and increasing their odds of making a sale. This universe of merchants also includes Shopify merchants, which are now part of Google's Shopping platform and have access to a new set of customers who opt-in to certain preferences. Any merchant found via a Google search has a shot at becoming part of a bigger, commerce-first ecosystem — and attracting the new customer eyeballs and the spend that brings.

Google Pay is available on iPhones and Android devices. In the past, iPhone users might not have thought much about downloading the Google Pay app, given that it wasn't all that useful within the Apple ecosystem. But with its status as a commerce super app, with QR code functionality that can also be used to check out in the physical store, iPhone users (37 percent of whom use Chrome as their browser, in a sign of Google loyalty) could become a lot more interested.

Less than a week in, it's way too soon to tell whether Google Pay is super enough to take off as a super app.

But it certainly sets the bar for everyone else — including Apple, whose single-use app, inside an ecosystem it keeps closed oh-so-tightly, seems so yesterday.

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December 21, 2020

Is It Time For Apple To Allow Others Access To The iPhone NFC Chip?

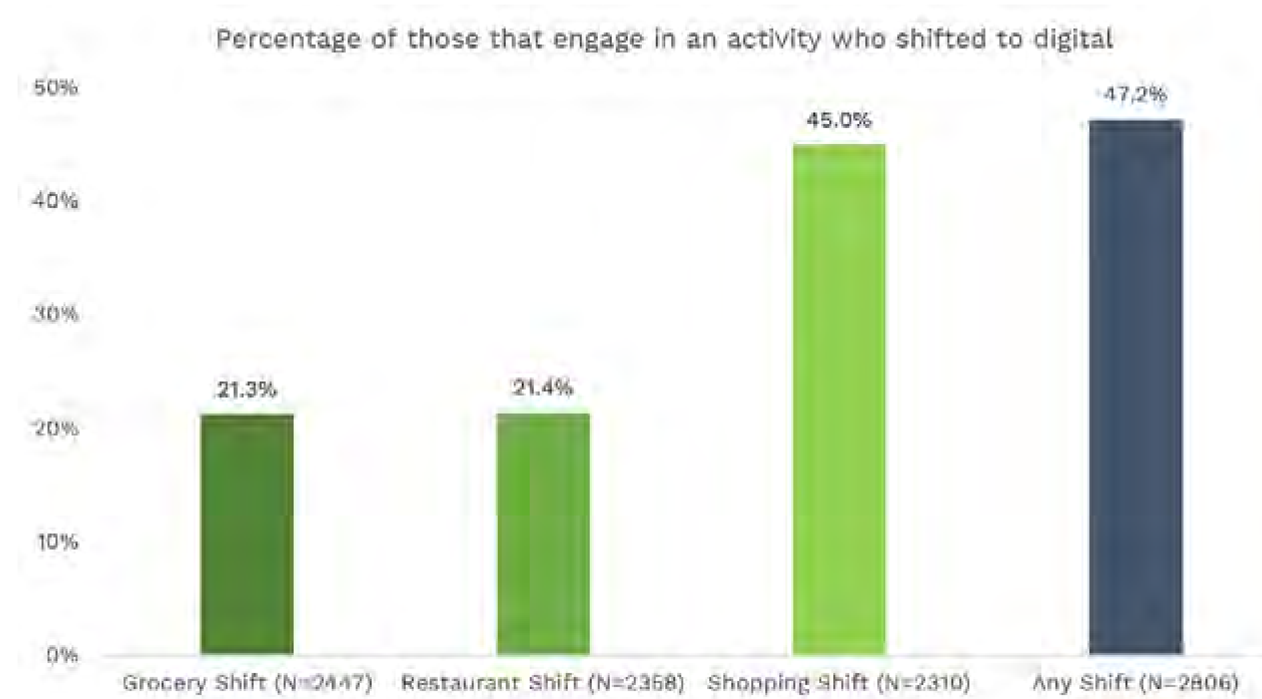
You can see it in the quarterly earnings reports this year of just about every publicly traded company and among the list of companies that have either gone public one way or the other or have filed S-1s because they plan to do so soon.

You can see it in how investors are putting money to work in both consumer-facing and B2B startups, and how startups and incumbents are forging new partnerships to move innovation faster to market.

And you can see it in the hustle by retailers and brands large and small to pivot their businesses and business models — and the disclaimers on just about every retail site starting a week or more ago that orders placed online might not make it in time for Christmas.

It's the impact of the digital-first consumer on nearly every one of the 10 pillars that define our connected economy — and the efforts of companies large and small to capture their attention and their business.

This is a consumer who, after nine long months of living in a world reshaped by COVID-19, has grown accustomed to the digital-first way of life — and likes it. The shifts that were forced when the world locked down and people realized it was safer to stick close to home, have gone mainstream out of the sheer convenience and efficiency of living in a digital-first world.

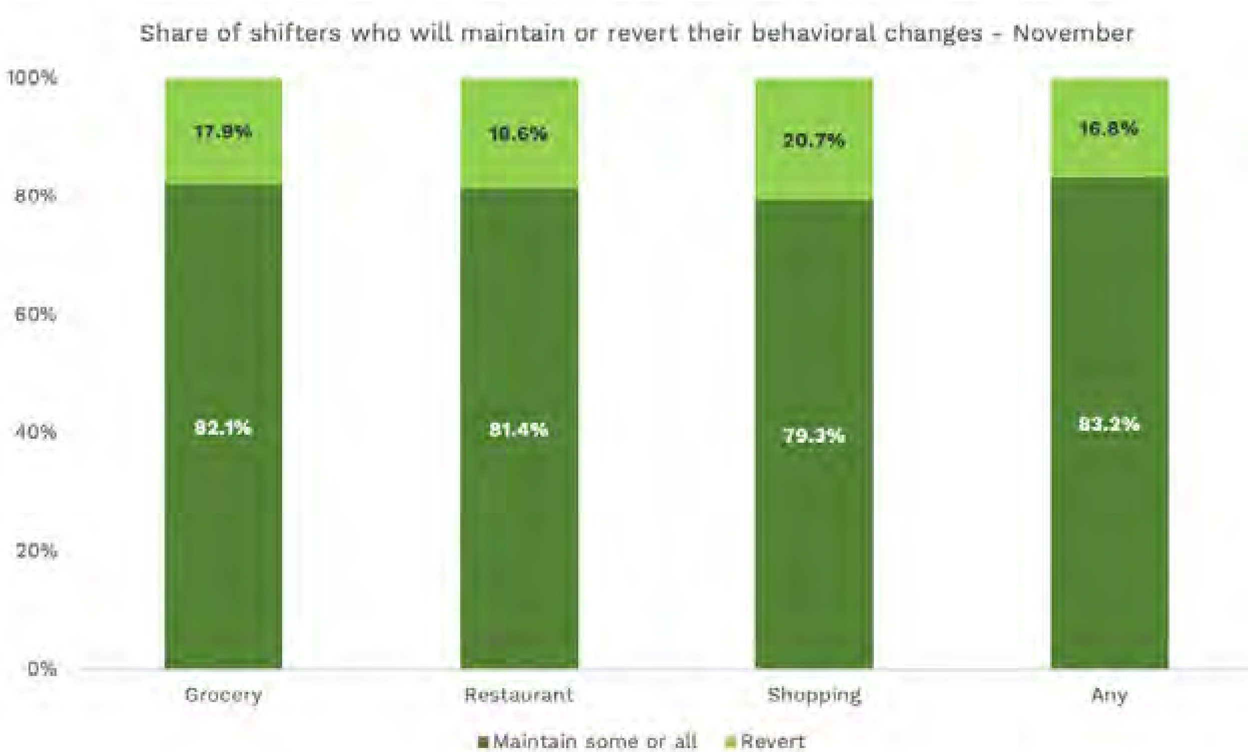


Source: PYMNTS.com longitudinal study of over 40,000 consumers (data from the most recent panel on Nov. 11)

Over the last nine months, consumers have shifted to digital methods of working; shopping; banking; having fun; staying connected with family, friends and colleagues; paying and being paid; and acquiring three of the most basic of human needs — food, clothing and even shelter — as the buying and renting of homes and apartments has become digital-first, too.

One hundred and ten (110) million U.S. consumers — 47.2 percent of the U.S. adult population — have shifted digital since March to shop for retail products, buy and eat food from restaurants, and buy food at grocery stores. This digital shift — doing less in the physical world and more in the digital world for the same activity — is based on 16 longitudinal studies that PYMNTS has conducted of a national sample of more than 40,000 U.S. consumers since March.[1]

Think about that for a minute.



Source: PYMNTS.com longitudinal study of over 40,000 consumers since March (data from the most recent panel on Nov. 11)

[1] These data are from the longitudinal studies from March 6 through Nov. 11.

In the space of nine months, nearly half of the U.S. adult population has made digital-first a way of life in some way. Almost half, 45 percent, have shifted digital to shop for retail products, and one in five to shop for groceries and order food from restaurants.

Even more compelling is that 83 percent of these digital shifters say they will stick with some or all of those digital-first habits — even when they are able to interact in the physical world without the fear of COVID, even though the majority of Americans don't think that will happen before January of 2022.

The PYMNTS data supporting the permanence of this shift has remained largely consistent for every one of the 16 studies we have done and across geographies and demographic groups. Just as many boomers have made the digital shift as millennials, and as many of those living in big cities and towns have made the shift as those living in less populated areas.

This "and-we're-not-turning-back" digital shift is the topic of conversation for many — and for many reasons — including the now bipartisan "Big Tech is Bad Tech" conversations taking place on Capitol Hill and throughout the media.

Those conversations have largely ignored the Biggest Tech company of all, Apple, and Apple Pay. Although the wagons have begun to circle more publicly and more recently on Apple and its payments stance — given the very public lawsuit over in-app purchases — large-scale efforts to challenge Apple's position on allowing anyone other than Apple access to the NFC chip haven't gotten much media bandwidth.

That may not be the case for long.

There are two physical points of sale that could become ground zero for contactless on Apple devices: the traditional terminals sitting on the counters at retailers all over the world, and the iPhones and tablets that, helped by Apple's acquisition of Mobeewave last June, have turned into POS terminals for anyone who wants to accept contactless payments.

APPLE PAY'S DIGITAL-FIRST DISCONNECT

Apple has long said that it ixnays anyone but Apple, and anything but Apple Pay, from accessing the NFC chip needed to make a contactless purchase at a terminal in a store because of security concerns.

Source: PYMNTS.com survey of 2,683 consumers conducted between Nov. 23-25, 2020

Critics scoff and say the company has stifled innovation by preventing access to the iPhones in the hands of almost a billion consumers around the world, who transact and spend more when they shop in a physical store.

Granted, it's always hard to prove a negative, but not having access to the NFC chip has likely prevented innovators from investing time and money in developing the innovations that could have made the in-store POS experience better for iPhone users. And since iPhone users skew more to the affluent, it also denied those innovators the opportunity to monetize their spend.

Critics also claim that it's hurt consumers. And it probably has.

Consumers are accustomed to using apps on any connected device because developers create apps that cross platforms and ecosystems. Many of those are payment apps used by consumers online, but not in brick-and-mortar stores without access to Apple's NFC chip.

Take PayPal, for example. According to a national study conducted by PYMNTS of 2,683 consumers on Nov. 5, nearly four times more consumers prefer using PayPal to Apple Pay online, but no PayPal user with an iPhone can use her

Table 1: Share of U.S. adults with eligible devices and sales from retailers that accept Apple Pay

	2015	2017	2019	2020 Q1	2020
Share of US Adults that have an eligible device					
% of adults that use smartphone	69.0%	77.1%	81.0%	81.9%	82.4%
Share of smartphones with correct OS	42.7%	43.5%	47.0%	47.4%	47.1%
Share of iPhones that work with Apple Pay (6 or newer)	39.2%	87.0%	89.8%	92.8%	93.9%
Share of individuals that have an eligible device	11.6%	29.2%	34.2%	36.0%	36.4%
Total estimated eligible sales ($Billion)					
Total retail sales (excluding automobiles and eCommerce) (in billions)	3,934	4,147	4,432	4,212	4,212
Share of merchants where the wallet is accepted	19.4%	23.4%	51.1%	54.3%	57.6%
Total sales from merchants that accept the wallet (in billions)	$762.7	$968.8	$2,265.9	$2,285.1	$2,425.2
Total estimated sales at eligible merchants to U.S. adults that have the correct device (in billions)					
Potential value of sales using the wallet (in billions)	$88.1	$282.7	$775.0	$822.9	$884.0

Usage Summary	2015	2017	2019	2020 Q1	2020*
(1) Percentage of eligible transactions that used the wallet	5.10%	6.90%	6.05%	4.9%	7.75%
(2) Percentage of eligible stores' shoppers that used the wallet	0.59%	2.01%	2.07%	1.64%	2.65%
(3) Estimated percentage of in-store sales where the wallet is used	0.11%	0.47%	1.06%	0.89%	1.53%
Estimated sales where the wallet is used (in billions)	$4.49	$19.51	$46.85		$64.34

Source: PYMNTS.com survey of [illegible] consumers conducted in October 2020

Source: PYMNTS.com survey of 2,683 consumers conducted between Nov. 23-25, 2020

PayPal wallet as a contactless payment method at the physical point of sale.

Apple Pay's position on denying access to its NFC chip might also not been a great idea for Apple, unless it has something else up its sleeve.

On the sixth anniversary of the launch of Apple Pay in November, a PYMNTS study of some 7,585 U.S. consumers showed that of the 7.75 percent of eligible sales in a physical store (a person with an iPhone making a purchase in a store that accepts Apple Pay), only 2.65 percent of purchases in stores that accept Apple Pay were made using Apple Pay, representing just about 1.53 percent of all retail sales.

In fact, good-old cash at the physical point of sale is preferred by consumers nearly three times more than Apple Pay. That's according to PYMNTS' study of a national study of 2,683 consumers conducted on Nov. 5.

And when PYMNTS asked 3,887 consumers on Nov. 11 2020 how they paid for their last purchase in a 24-hour period, only 1 percent said they used Apple Pay.

Could those numbers have been different if more innovators had more access to Apple's NFC chip and used Apple Pay's contactless infrastructure to create a flywheel for contactless mobile payments in-store?

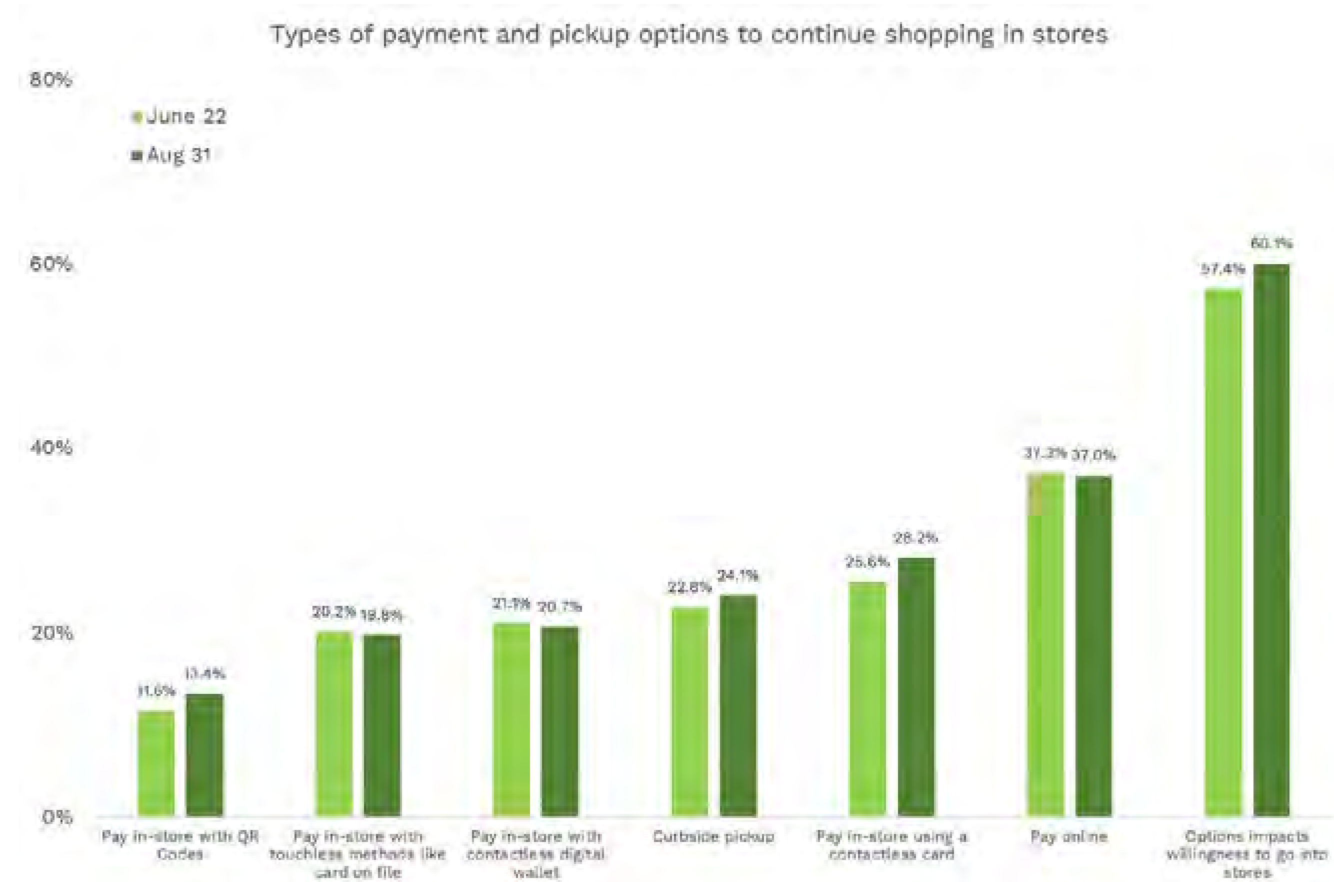
Maybe, even though the performance of any of the "Pays" at the physical point of sale has been pretty lackluster — including Walmart Pay, with its captive audience of Walmart customers and ubiquitous acceptance.

And therein lies the rub.

The "Pays" — and Apple Pay as the granddaddy of all of the mobile contactless wallets — didn't solve a problem at the physical point of sale when it launched in 2014, since cards worked just fine.

And the Pays still haven't.

It's true that contactless at the in-store POS has been elevated to an essential service for consumers who shop there. According to a recent PYMNTS study, 60 percent of consumers say that enabling contactless and touchless experiences at the point of sale is an important factor in deciding which merchant gets their business — but not necessarily contactless digital wallets. Contactless cards are regarded as decision-drivers for shopping in a physical store 7.5 percent more than using a contactless mobile wallet.



Source: PYMNTS.com survey of 2,185 consumers conducted on Aug. 25-31, 2020

It's clear from the data, at least in the U.S., that Apple Pay hasn't seen much of the COVID tailwind that has propelled the adoption, use and growth of the many digital apps players — which do more than just offer consumers a different way to pay in a store.

Further, some recent reports about Apple Pay and contactless at the point of sale are flat-out inconsistent with repeated surveys of American consumers. One even claimed that Apple Pay is the third-most-popular mobile wallet behind Alipay and WeChat Pay. I suppose it all depends on whether the definition of "popular" also means most-used. If this was remotely close to being true, Apple would be shouting those financials from the rooftops.

THE DIGITAL-FIRST CONSUMER

The weekend after Thanksgiving and the two weekends before Christmas are typically when I shop local. It can be both fun and festive. I often visit the same shops year after year, so I know the shopkeepers and they know me, which adds an important personal touch to those shopping excursions.

COVID made shopping at those stores much different this year.

Instead of visiting the shops in person, I did what some of you probably did: I shopped online and picked up my items curbside.

This year, one encounter with one small, local merchant stood out.

As I browsed her site and filled my shopping cart, I had a few questions about several items. I punched out to the live chat feature and asked my questions. Within a minute, I was chatting with the owner, who also suggested that I reconsider one of the things in my cart — she didn't think I'd like it and suggested something else instead. I took her advice, asked when I could swing by and pick up my goodies and completed my purchase online. She thanked me profusely for shopping small. I was happy to support her business.

The whole process took less than 15 minutes.

Don't get me wrong — I did miss being out and about (especially over this past weekend, since there is a lot of still very white snow here in Boston, which makes everything seem even more festive). And I pray that next year's shopping experience will be filled with that holiday hustle and bustle.

But the ability of this small Main Street shop to use modern POS technology to offer me (she uses Shopify) and her other customers a slick and efficient digital-first shopping experience meant that she got the business, and I could shop in the way that was most comfortable for me this holiday season.

She didn't care how I paid for what I bought, or whether I was standing in front of her POS terminal in the store when I did it. The most important thing was that I bought — and that she didn't lose a sale to someone who didn't want to shop and pay in her store and didn't have any other way to buy.

WHAT'S NEXT

To shop or not to shop — and to pay or not to pay — in the physical store is the trillion-dollar question being posed as the behaviors of 2020's 110 million digital shifters are becoming more clear, and as merchants of all sizes and types are pivoting to meet the consumer where and how she wants to shop.

Paying, of course, has always happened at the end of the shopping journey at checkout — but in a digital-first world, where the buying happens online, checking out means hitting "buy."

The physical store serves a different purpose, forcing a rethink of the customer's shopping journey in a digital-first world — one in which digital has become an integrated part of the physical store experience.

Yet over the last six years — and even as recently as Apple's latest earnings report — Apple Pay continues to focus on the "pay" part of the commerce experience. And contactless payments is where Apple CEO Tim Cook says he sees tremendous potential.

Unfortunately, that's not where the digital-first puck is heading — but that doesn't mean Apple isn't in the mix. One of the most successful mobile payments apps, offered by Starbucks, is an iPhone app — and people can use their iPhones in China to pay with their Alipay and WeChat Pay apps. Of course, these are on Android phones, too.

Maybe if Apple opened up the NFC chip to others, it would support more apps for physical payments — even ones that consumers could use with the billion iPhones that Apple would like to turn into contactless mobile terminals.

But, really, the digital-first puck is heading to using smartphones, like the iPhone, and other connected devices to pay in a way that doesn't involve a consumer interacting with the so-yesterday terminal at the physical point of sale or even being inside brick-and-mortar shop. Innovations that give consumers touchless payments options — card on file, QR codes — and digital wallets, and the "super apps" that cross channels, platforms and operating systems, giving them more than just a way to pay.

A future where the consumer is the point of sale and her connected devices, her personal and personalized remote control for deciding how and where to buy — where payments are invisible and just come along for the ride.

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