52 MONDAYS

BY KAREN WEBSTER

PYMNTS.com

TABLE OF CONTENTS

52 MONDAYS

The Connected Economy Roars, Buy Now Pay Later Goes Primetime, and COVID Continues

The vintage pop song says, “Monday morning, you gave me no warning of what was to be ...”

No disrespect to The Mamas & The Papas, but I do that nearly every Monday (morning).

Perhaps not warnings, but notices, alerts, signposts as to what may lie ahead. It was necessary, as 2021 has in some ways been more surprising than 2020 — and that’s saying something.

It started by framing six trendlines, and the concept of “digital-first” tied them together.

On the first Monday of 2021, I wrote: “Now, digital is the first — and in some cases the only — touchpoint that consumers have with merchants and that businesses have with other businesses. 2021 will be the year businesses recognize that digital isn’t another channel to deploy and manage, but the front door to getting and then keeping their customer relationships.”

We believed it then as now, but the speed and scale at which it’s happening still amazes.

By February, the decimated business travel sector made for a Monday contemplation. The digital shift was hitting full tilt at that point, and what was true then is just as true 11 months later: “Firms have pivoted their business and marketing practices to reflect the new status quo — using digital tools and tech to fill the funnel, shorten the sales cycle and close business.”

About two months later, streaming entertainment skirmishes dominated headlines, including ours. We also saw a broader trend as we reported on dueling VOD services.

“Like streaming’s cord-cutters,” I wrote in April, “this new retail persona — the digital shifter — is creating her own best-of-breed shopping experiences using her mobile device, using apps to order and pay ahead, and choosing the merchants who can support her newfound, digital-first preferences.”

Jumping forward two months to June found us waist-deep in the ConnectedEconomy™ — a framework for understanding a freshly digital-first world by examining eight pillars, each representing “a building block of the global digital economy that is rapidly taking shape.”

That construct, more than any other, continues to inform PYMNTS’ coverage of economies that made the digital shift out of dire need, only to discover that it offers many advantages from safety and convenience to cost savings to business efficiencies only dreamt of a short time ago.

With the dog days of summer came the first COVID variant — Delta — which renewed the worries of Main Street merchants that survived 2020 intact. Our research found that 75% of Main Street businesses invested in technology in the prior 18 months “to adapt to their customers’ expectations of a different, digital-first shopping experience — and they have the sales growth to show it.”

Autumn arrived as we revisited ConnectedEconomy™ progress, writing in October that “we now see green shoots of the connected economy everywhere as brands become platforms, platforms become connected ecosystems, payments create new connected economy opportunities and innovators use technology to give platforms a new connected economy reality.”

By the following month, we declared that “Voice Operating Systems Like Alexa Will Power the Connected Economy.” After four months of announcements, I believe it even more today.

I’ve been called a troublemaker at least once, when on one particular Monday in November, I posed the jokey (and loaded) question “Who Wants to Be a Crypto Millionaire?” It was seriously meant. Wondering about the unsophisticated crypto buyer caught up in the thrill of the moment, I said, “It’s not even clear whether they’re investing, or trading and speculating on that next big thing, meme stock or get-rich-quick opportunity across the now vast crypto economy.”

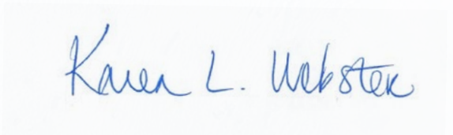
Crypto’s future is still unclear, but at least some have pumped the brakes. Smart move.

Closing out the year, there was no better topic to tackle than buy now, pay later (BNPL), the alternative credit solution that’s taking over the world. On that score, it was a shout out to traditional card issuers and rails that the new kid in town could soon be gunning for them.

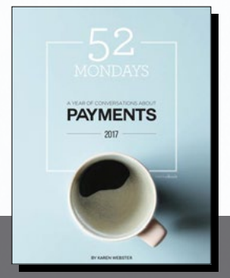
“Over time, as payments gateways enable real-time payments connectivity to merchants, as these players grow their own merchant networks and as consumers build more trust in these players, the shift away from debit cards and card rails as the alias to a new real-time payment option seems imminently doable — if not a likely outcome.” Now, we wait.

A year’s worth of Monday reflections from 2021 — Zoom, super apps, BNPL, crypto, the voice OS, the metaverse — set us up for a 2022 with startling potential.

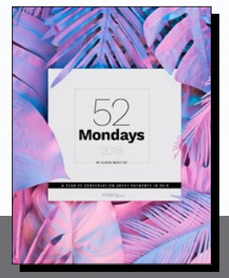
As the Zen master said, “We’ll see.”



Karen Webster
CEO | PYMNTS.com
#52Mondays



52 MONDAYS 2017
Click to download



52 MONDAYS 2018
Click to download

52 MONDAYS 2019
Click to download

52 MONDAYS 2020
Click to download

January 4, 2021

FRAMING 2021: SIX TRENDLINES THAT WILL DEFINE PAYMENTS AND THE CONNECTED ECONOMY

Let's start 2021 being provocative instead of safe with wishy-washy predictions. Karen Webster says let's drop the prefixes from commerce. Then get our heads wrapped around the fact that consumers and businesses have redefined what it means to be "convenient" and recognize that innovation in the connected economy is at a pivotal fork in the road, as players confront the changes that will add momentum to the digital-first economy and some of the issues that could hold it back.

The problem with a lot of "big" New Year's predictions is that they're really pretty small.

Most are so general that there's no way they can be wrong. Take the one about the restaurant industry getting better in 2021, or the prediction that it will be the year of takeovers in tech.

Neither one goes out on much of a limb to predict what might be coming down the pike in 2021.

Of course, there's a lot to be said for playing it safe. But there's so much more to be gained when predictions go beyond the obvious to make people stop, think, talk and debate.

What I'd like to offer today isn't a set of predictions, but rather an organizing framework for how innovation in payments, commerce and the broader connected economy will play out in 2021, and will influence changes in the years to come.

There are six elements of this framework, each of which builds on what I wrote about almost a year ago to this day. Then, I said that the widescale availability of connected devices and fast broadband all over the world, a consumer appetite for digital experiences, and access to new digital tech and payments tech would move commerce and payments to an anywhere, anytime, for anything experience.

How we live, work, pay, shop, stay connected, stay healthy, bank, travel, eat and spend our leisure time, I wrote then, would become more digital – and the lines between each of those discrete activities would converge, enabling new digital-first experiences for consumers and businesses. The physical world would have to conform to those digital preferences in order to survive.

In other words, the connected economy – with innovations across each of those areas – would reshape how business gets done, with payments as the fuel

that supports new business models and ways to monetize those new ways of engaging.

Little did I or anyone know that a global pandemic a few months later would accelerate that premise and move it closer to reality.

With that in mind, here are the six elements of my 2021 framework and what they mean for the rest of the 2020s, at least.

01

PHYSICAL WILL BECOME DIGITAL AS CHANNELS COLLAPSE AND CONVERGE.

2021 is the year to stop putting a prefix in front of the word “commerce” and digital in front of any other activity or function.

There’s no longer the need to talk about omnicommerce or multichannel. Digital and different channels are now an integrated part of the commerce experience and the consumer journey. And if they aren’t, they better be soon. No longer different in the mind of the consumer, they’ve become her de facto standard for how she engages with brands and businesses.

In fact, the lines between digital and physical are no longer blurring — they’re disappearing.

We’ve seen this evolve over 16 consumer studies of a national sample of now more than 45,000 U.S. consumers conducted by PYMNTS since March 6, 2020.

The global pandemic has shifted 110 million consumers into digital-first channels to grocery shop, eat at or buy food from restaurants, and shop for retail products over the last nine months — first because there was no other way, and now because it has become the preferred way. Nearly half of the U.S. adult population shifted to digital in nine months; even more remarkably, 83 percent of those consumers say they will stick with some or all of those digital habits moving forward.

But it’s not just shopping for food or other retail products.

In consumer research that PYMNTS will publish very soon, branch-first consumers have adapted to digital-first preferences for banking services. The branch that used to be one of the three things that defined what a primary bank was to a consumer is no longer regarded as essential. It’s digital-first, with physical used only as needed.

We see corporates, large and small, shift to digital processes and payments, as paper invoices and checks create too much friction for a workforce that will likely continue to do their jobs from somewhere other than the office in 2021 and beyond.

We see consumers paying to watch movies on the big screens in their homes — once for the subscription service that gives them access to video content, and then again to watch a first-run movie that’s available at the same time that it’s released in the movie theatres.

We see players like Amazon spending big bucks to bring more live sports online and to offer streaming services that integrate commerce and payments into that digital experience.

In sectors where service was almost always delivered face-to-face, we see digital becoming a more integral and accepted part of the consumer experience.

Like seeing the doctor. Telehealth platforms not only expand access to care, but they also expedite the

delivery of care in person only when it is absolutely essential, saving the patient and the healthcare provider time and money. One doctor told me that over the course of the pandemic, 85 percent of the requests to see a doctor were resolved satisfactorily just using the digital channel.

Like eating at a restaurant. Using apps and QR codes to pop open a menu in a restaurant, order from it and then pay for what was ordered after the meal is over was first done out of health and safety concerns — but it is becoming the way ordering and paying will be done in a post-pandemic world.

Like going shopping. Retail's use of augmented reality and video messaging platforms will become more widely available and accepted as suitable substitutes for the service and the experience of what was once only achieved via a physical shopping experience. Retail's winners will recognize that job one isn't to drive feet into the store but to drive the engagement that leads to sales across the digital touchpoints along the digital-first consumer journey.

Now, digital is the first — and in some cases the only — touchpoint that consumers have with merchants and that businesses have with other businesses. 2021 will be the year businesses recognize that digital isn't another channel to deploy and manage, but the front door to getting and then keeping their customer relationships.

02

CONVENIENCE IS NOW ABOUT SAVING TIME AND CONSUMERS AND BUSINESSES ARE WILLING TO PAY TO HAVE MORE OF IT TO SPEND ON OTHER THINGS.

Making things easy and eliminating friction was once how businesses differentiated their services and innovators hyped their solutions. Today, that's now table stakes.

Consumers and businesses define convenience differently now. It's a definition shaped by a global pandemic that has given each one a new appreciation for their time — and a willingness to pay to save, shift and pack more things into it.

Over the last nine months, PYMNTS asked consumers whether they'd prefer to have things delivered to them, made available for curbside pickup or in-store pickup. They said delivery — "bring it to me" — by a factor of three to one, even though curbside and in-store pickup are free.

The "bring it to me" economy will redefine business models.

It shouldn't come as a surprise. Platforms like Instacart, with its 750,000 shoppers in the U.S., make that tradeoff easy. Paying $6 plus tip to get groceries delivered is a small price to pay to save the time traveling to and shopping at the grocery store. It is especially convenient when those shoppers offer access to grocery stores where consumers would like to shop, but which take too much time to reach.

The same is true with restaurant aggregators. Since March of 2020, nearly a quarter of U.S. consumers used an aggregator to get restaurant food delivered to their homes, spending roughly $10 billion in fees to save the time required to prepare dinner and/or pick up a takeout order. More than just ordering out, consumers wanted to shift the time spent cooking to other valuable things, and were willing to pay delivery fees to do that.

Amazon Prime members pay $119 a year to get, among other things, free shipping — and now Walmart+ customers pay $98 a year to get the same. Between Amazon Prime and Walmart+, consumers spent $20 billion in membership fees for the ability to shop online and have things brought to them, avoiding time spent shopping in stores and getting the certainty that they'll get what they need delivered, when they want it.

When gyms locked down, consumers subscribed to fitness apps and bought Peloton bikes and Mirrors to bring fitness regimens and personal trainers into their homes. No longer constrained by going to a physical gym to work out, or tethered to a class time or workout schedule, consumers were more than willing to pay up to shift time to what works best for them, without giving up the benefits of working out.

Work from home has given consumers totally new opportunities to shift time that they once spent on the weekends grocery shopping or running errands to digital channels during the week. According to the PYMNTS How We Will Pay study, 16 percent fewer consumers now shop for retail products on the weekend, and 30 percent fewer consumers shop for groceries on the weekend, opting to have those products ordered online and delivered to their homes. These habits and patterns will likely stick as work-from-home options

expand, freeing up weekends to explore other activities with family and friends.

Payors are increasingly willing to invest in methods that move payments faster to their receivers — and receivers are willing to pay extra to get paid faster, too. Those dynamics are driving instant payments adoption, while at the same time offering senders new ways to monetize payments choice for receivers who want a faster option and don't mind paying for it.

As consumers think more carefully about their time as a currency to be spent — or saved — and their satisfaction with digital-first experiences continues to increase, businesses will be more motivated to use innovative tools, tech and payments to create new experiences that respect their time.

Knowing that they can monetize these experiences, innovators will move the service delivery paradigm away from "come to me" to "bring it to me" for any number of consumer and business activities that were once only delivered face-to-face. Digital with physical on their terms.

03

NEW INTERMEDIARIES WILL SIMPLIFY CONSUMER AND BUSINESS INTERACTIONS ACROSS MULTIPLE VERTICALS.

There's an app for that. Actually, there are a lot of them.

Consumers use *bank apps* for checking their balances and paying bills, *investment apps* for managing their money, *payments apps* and *digital wallets* to store balances and pay for the things they want to buy, *ride-hailing apps* for getting around town, *reservation apps* when they want to eat out, *delivery apps* when they want to eat in, *travel and hotel apps* for booking travel, *transit apps* for accessing public transportation, *merchant apps* for shopping, *email apps* for work, *calendar apps* for organizing schedules, *messaging apps* for texting with friends and colleagues, *social apps* for seeing what friends are up to, *streaming apps* for watching videos, listening to music and playing games, *dating apps* for finding romance, *digital content apps* for keeping up with news and reading books, *search apps* for getting information, *map and navigation apps* for getting directions, and *fitness apps* for tracking health.

Over the last decade, consumers have lived their digital lives by hopscotching between a series of icons on their smartphone home screens. Those apps, and now an increasing portfolio of connected devices beyond smartphones, have given consumers a digital front door to services that once required a friction-laden physical-world interaction.

As consumers seek a more simplified, streamlined view of their own very disparate apps ecosystems, new intermediaries will offer a more holistic way to connect the dots across the many banking, payments and commerce touchpoints consumers currently have, or might like to have.

In 2021, the one-stop-shop meets the connected economy.

Payments will become the invisible force powering the connections between these dots. More than the payment enablement of discrete verticals, though, these intermediaries will offer consumers a single place to interact with multiple, relevant services providers.

In this connected economy ecosystem, consumers continue to have choice

but have a simplified way to enable, pay for and then track the choices they make. Artificial intelligence (AI) will tailor personalized recommendations, and businesses will be motivated to innovate new services and products so that they can appeal to users who are a part of it.

The "everyday" app concept isn't a new one — in developing and emerging economies like China, India and Latin America, it is the foundation for how consumers and businesses engage inside of them, and the incentive for innovators to develop services and products that appeal to those users.

But in 2021 and beyond, it will take on a new dimension with the integration of commerce, payments and financial services as the core, especially in developed markets where many efficient banking, retail, investment and shopping platforms already exist. The innovation will be about turning separate apps into a connected ecosystem accessible across any channel and using any modality, including voice.

04

INERTIA IS NO LONGER A BARRIER TO INNOVATION — AND THE PACE OF CHANGE WILL EXPONENTIALLY INCREASE

The belief captured in the old saying "if it ain't broke, don't fix it" was the biggest obstacle to getting businesses and consumers to break with the way things have always been done. The perceived risk of trying something new was always considered a far greater downside than the potential gain of a new but unknown experience. Businesses, with conflicting investment priorities, were often forced to deprioritize anything that, well, wasn't really broken.

Sticking with the status quo worked well enough — until we discovered in March of 2020 that it didn't.

When the pandemic hit, consumers shifted digital over fears for their health and safety. Businesses were forced to adapt to a work-from-home environment almost overnight and were forced to adopt digital methods to keep their businesses running.

For consumers and businesses, the inertia that kept both from investing in and trying something new just disappeared.

In 2021, sacred cows are no longer sacred.

Pundits like to say that the global pandemic has accelerated [pick your number] years of innovation into nine months. A big part of the "why" isn't just because banks, payments companies and digital platforms had the necessary digital building blocks in place to help accelerate that transformation.

It's because there was a complete and universal willingness to put the sacred cows that once held back innovation back out to pasture.

When it became obvious that the pandemic would last more than a few months, businesses made the investments to change the processes that only worked well when people were sitting next to each other in an office. For businesses, getting paid was the catalyst, as was the urgency associated with getting a real-time read of their cash position, and putting expense controls in place for a distributed workforce.

For consumers, the fear of contagion, even to this day, keeps consumers loyal to the digital-first habits they've acquired over the last nine months, and largely out of the physical store. More than that, consumers say that merchants have upped their digital-first experiences, which makes it more effective and efficient to engage that way.

Getting over that first big hump — that big shift to digital — now gives both consumers and businesses the confidence to build on those experiences and try even more new things. Innovators, seeing these shifts and the likely permanence of some or most of them, will be motivated to create new ones that leverage these new digital foundations — and consumers' and businesses' newfound appetites for change.

05

COMMERCE WILL MOVE TO NEW ENDPOINTS AS BUSINESSES BATTLE FOR THE ATTENTION OF THEIR BUYERS.

A CEO made an interesting observation on one of the last PYMNTSTV segments of 2020. The program was about 2021 innovations and what a group of

CEOs might like to see emerge. The massive shift to digital, this particular CEO said, made him feel like he was "back in 2003," given the flood of email solicitations from everywhere and every business touting their products. There had to be a better way to organize and curate promotions, he thought — innovation was sorely needed to accomplish that.

Truer words.

Not only are our personal and professional emails now overrun with notices of sales and new offers and reminders that we have stuff sitting in shopping carts unbought, but we are also now faced with a barrage of solicitations in our LinkedIn mailboxes and across our messaging apps for the same.

The "unsubscribe" button has never been so appealing — when it actually works.

Brands contribute to this clutter because they now increasingly make entering an email or mobile number (or both) a condition for getting a percentage off their first purchase, well before the potential customer has even gotten to the product page to buy the thing they once thought they wanted. These tactics introduce friction that risks losing a sale — especially when it almost guarantees neverending emails and SMS messages from the brand.

Context is now king, as businesses' biggest competitors are all the firms seeking consumers' attention.

But consumers and businesses do want to be made aware of *relevant* offers. It's why they don't mind sharing information with brands to get more targeted ads and promotions. It's why consumers consistently gravitate to marketplaces and platforms where they have a history — where promotions and recommendations can be proffered based on past behaviors and purchases.

And it's why context and commerce are now two sides of the same coin.

The biggest competitor to any business is everyone else seeking some of the consumer's scarce attention. Getting their attention requires being relevant, anticipating their needs and providing options that may satisfy them.

It always meant being where the buyer was. But in a digital world, it means being where businesses and consumer eyeballs are. That increasingly isn't at the brand's or business' front door, but somewhere else along their buying journey.

Innovators will use AI and other methods to personalize recommendations inside the ecosystems where buyers find recommendations in the context of what they want to buy. They need to work harder to find that sliver of time, that context, in which buyers will be most willing to give their attention, instead of the raft of others screaming, like 2-year-olds, to look at them instead.

06

ACQUISITIONS WILL BE DRIVEN BY ADJACENCIES, NOT CONSOLIDATION.

In a world where Google's acquisition of Fitbit is challenged by regulators and U.S. lawmakers are entertaining a bill proposing that the only permissible merger is one between two small companies, talking about acquisitions in 2021 may seem a bit nuts. But acquisitions will happen, even if they are likely to be challenged by the regulators. Businesses will somehow persevere.

Surely there will be acquisitions (or attempts at them) that are about consolidating for scale and expanding geographic reach. See Grab and Gojek,

Walmart and Flipcart, Just Eat and Grubhub, the rumored Western Union and MoneyGram.

Where acquisitions have the potential to be much more impactful is in situations where suitors are looking to do more than just double down on what they already have. In 2021, I believe we will see attempts to acquire players that give companies a meaningful reach into one or more of the pillars of the connected economy that they lack, giving them access to tech or consumers or a new business model they would like to monetize.

Acquisitions will accelerate the reality of the connected economy.

Take Amazon. The conventional wisdom is that it will buy Target or Kohl's. Maybe. I think that a much better move would be to buy Instacart. Grocery is retail's most significant battleground, and it's where Amazon needs more firepower than it has now. Instacart not only powers the digital shopping channel for most major grocery stores in the U.S., but it also has a shoppers' network that would give Amazon things it doesn't have: grocery sales and a network of 750,000 shoppers who can double as last-mile delivery for other segments Amazon would like to monetize: restaurant delivery and local retail.

Then there's Walmart. The conventional wisdom is that it will (or would like to) buy Shopify. It clearly needs to do something to beef up its online presence and to hedge its bets against grocery sales slippage. The digitization of food stamps, which account for 4 percent of Walmart's grocery sales, now gives those shoppers other options for shopping, including Amazon. But Walmart needs foot traffic, too, since that's how it makes money. Buying a healthcare provider to beef up its existing efforts would check that box, especially as healthcare undergoes its own transformation. For an online play, eBay or Etsy seems a better fit.

Take Apple. What Apple lacks is a commerce ecosystem. It has a wallet, payments and its App Store. But it's not a commerce platform, and for Apple to be anything more than a hardware company with a bunch of me-too services offerings, it needs commerce. Those are the guys who might have their eyes on Shopify as an instant way to access global commerce with the direct-to-consumer brands that consumers increasingly favor.

Then, there's Google. Google has payments and a mobile operating system, as well as the world's largest commerce platform via search. It has enabled the integration of Shopify merchants into Google Shopping. What Google needs is logistics — control of the last mile. Here's where acquisition of UPS might make sense, especially since UPS' biggest competitor just bought ShopRunner, which is a delivery platform integrated into the eCommerce workflow.

I'll stop with the free advice now, but hopefully, you get the point.

All of these ideas are less about specific players than a framework for imagining how the connected economy will take shape over the years to come. A wildcard for this framework is what will happen to regulation — it's clearly going to be one of the big players. It's hard to know how it will trickle down through the digital economy, what frictions it will cause or what opportunities it will present. That's because a lot of places are still sorting out what they want to do and how the regulations in many different countries will interact with each other.

WHAT'S NEXT

We start 2021 with a new sense of hope and optimism, as a vaccine promises to restore normalcy to what has been anything but normal for a very long time. And its rapid development shows how science, tech and business can make the world a better place.

Today, the premise of a digitally-driven connected economy is a pivotal cornerstone for how consumers and businesses will interact. In 2021, I believe that the six things I have laid out will build on that foundation and inspire innovators to take payments and commerce to an entirely new level this year — and in the years to come.

2021 will be a year shaped by innovators who see the potential of life in a digital-first world. It will, no doubt, be thrilling to see how it all takes shape.

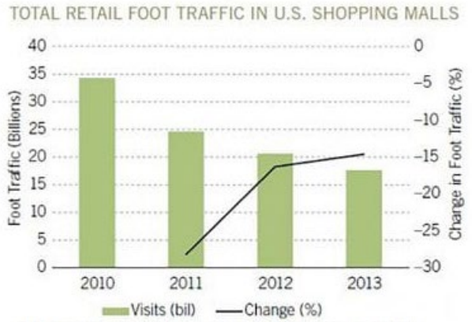
January 18, 2021

RETAIL 2021: THE FIVE THINGS RETAILERS SHOULD BE TALKING ABOUT AT NRF THIS WEEK

Every year for the last 110 years, members of the retail trade group, known as the National Retail Federation (NRF), have assembled to discuss the slate of issues pertinent to its members. This week, NRF's Retail's Big Show, as it is commonly referred to, will host a virtual version of its four-day confab, including 90 sessions and 300 exhibitors who will speak to the future of retail in a post-COVID-19 environment.

This year, the program's focus is on the future — how to move forward — with a number of high-profile speakers slated to offer their perspectives on what it will take for the retail sector to recover. A big part of the agenda is about the shift to digital in a world where, according to PYMNTS research, more than 124 million Americans have already made the digital shift for shopping for retail products, groceries and food from restaurants since March of 2020. This same research suggests that more than 75 percent of all digital shifters say they plan to keep some or all of their digital habits.

The digital shift, as PYMNTS defines it, is doing less in the physical world and more in the digital world for the same activity.



Traffic data reflects November and December traffic, and is collected from 60,000 traffic-tracking devices installed at malls and large retailers.
Source: ShopperTrak, The Wall Street Journal (Jan. 16, 2014).

Let's hope the discussion isn't much too little and way too late, but is more about how to respond to retail's COVID-19 wake-up call.

COVID-19, of course, didn't cause physical retail's steep decline — it just accelerated it. I wrote a piece in 2014, right around this time, that made the strong case for the decline of physical retail. The 2013 holiday season then began to show signs of the shift to online and digital, and away from brick-and-mortar retail. The first three quarters of 2013 showed eCommerce sales growth of 17.4 percent — already enough to chip away at physical retail's sales and the shoppers who once showed up at the mall.

To a shopper in the malls that year, the lack of foot traffic was palpable. Gone was the hustle and bustle of shoppers

milling around looking for that perfect holiday gift. The shopkeepers I asked in the malls confirmed the waning foot traffic — not just that year, but also prior years. Data assembled by ShopperTrak and published by The Wall Street Journal in January of 2014 only quantified the steepness of that decline — starting as early as 2011.

Over the years, a healthy, employed consumer in a strong and vibrant economy masked the reality of physical retail's slump. So did Census data, which still reports that 84 percent of retail spend is done in the physical store.

But as every retailer knows, it's the devil in those details that paints a far less optimistic picture.

Like this one.

Mastercard's Spending Pulse data for holiday 2020 showed that eCommerce sales were up 49 percent between the extended holiday shopping season spanning from Oct. 11 to Dec. 24. Department store sales — the poster child for physical retail sales and the anchors in the malls that once drove foot traffic and spend — were down 10.2 percent. That in itself isn't surprising, as consumers still fearful of COVID stayed away.

But those same shoppers didn't shift their spend to those stores online. For that category of physical retail, eCommerce sales grew only 3.3 percent. The gap between the department store's 3.3 percent sales growth and the overall growth rate of 49 percent are those shoppers who went elsewhere to buy what they needed during retail's make-or-break holiday sales season.

Which means the conversation about physical retail's future is about a lot more than making it more digital.

The lines between physical and digital, once blurred, have now collapsed. Retail's survival is now about making physical a part of a digital shopping experience.

And that leads to the must-have conversations about the five retail realities that transcend channels and tactics, but will decide who gets this very digital-first shopper's attention – and her spend.

> RETAIL IS NOW ABOUT
> **LOGISTICS AND THE LAST MILE.**

The "Amazonification of retail" isn't just because Amazon made it easy for consumers to find what they want to buy among the 350 million products in its marketplace and then pay for it. It's also because Amazon made it fast and easy for consumers to get what they want to buy — and for an Amazon Prime member to get it delivered fast and for free.

In the burgeoning bring-it-to-me economy, retail is now about meeting the consumer where she wants to shop — increasingly at home — and letting her take possession of those purchases at her doorstep.

PYMNTS research shows that nearly five times more consumers want products delivered to them than picked up curbside. A far less desirable option for consumers is to pick up items ordered online in the store.

It's not surprising.

Many retailers haven't mastered the logistics to make the in-store pickup experience anything but friction-filled. Whether it's having to park the car and go into the store to pick something up, or being presented with an in-store pickup option days past the time of the order, the associated hassles are causing consumers to increasingly opt for delivery — and they expect that delivery experience to be free.

Yet, as the Global Digital Shopping Index shows, retailers continue to invest in pick up in-store options because it's what they want consumers to prefer. For a digital-first consumer who's already opted to shop and pay online, it's an option — and therefore a retail investment — that more reflects the retailer's interest in getting feet in-store for an additional sale than what their customers want and use.

Forward-thinking retailers understand this, and are investing in the last-mile logistics that tap into the consumers' interest in skipping

the in-store shopping experience. Whether it's investing in their own delivery capabilities, tapping into third parties with logistics experience, or experimenting with delivery robots or delivery drones, retail's survivors will see the future for what it is — consumers who would rather shift the first and last mile of the shopping experience to the retailer, who can, literally, deliver that for them.

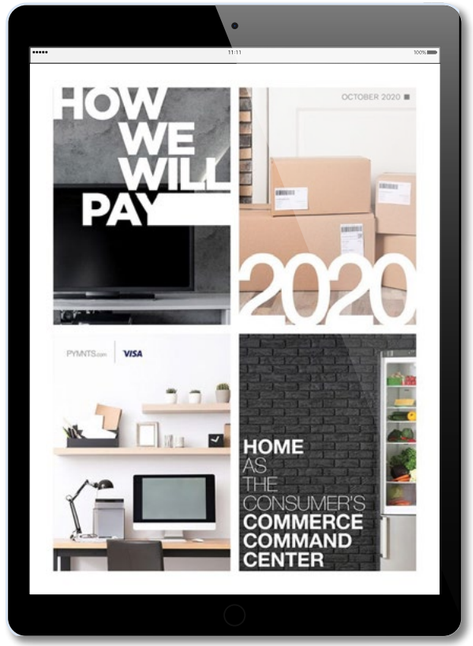
> IT'S NOT WHAT THE CONSUMER CAN DO FOR THE STORE **— IT'S WHAT THE STORE CAN DO FOR THE CONSUMER.**

Consumers have a newfound appreciation for time, and for the digital tools that make it easy for them to save that time and shift it to other, more valuable activities. Consumers also say that the digital experiences of retailers large and small have made doing online business with them easier than ever before. Retail's survivors will recognize that reality, and will invest in the digital tools and technologies that don't force consumers into the physical store, but bring the physical store to them.

That means using digital channels to make the online and in-store shopping experience seamless for shoppers, as the savviest retailers are now doing. Video apps that enable stylists, designers and knowledgeable store associates to interact with a shopper, show her things that she might want to buy, curate a room of furniture or an outfit, show her how to apply makeup, and make the store less the destination than a virtual showroom that she can engage with over Zoom. Retail's survivor will turn the in-store buying experience on its head. Rather than forcing consumers to make the sale in the store, it will enable the sale to be made in the home after a series of those video encounters — up to and even including bringing those items into the consumer's home for them to see, or maybe even try, before they buy.

Retail survivors and thrivers will invest in the apps and digital tools that eliminate friction from the shopping experience.

This year, in something of a departure from results in years past, the annual How We Will Pay study of a national sample of 6,000 consumers in August of 2020 shows a consumer much more motivated to try apps that increase the likelihood that what they buy online will fit their needs. Consumers now express a strong interest in using AR



(augmented reality) and VR (virtual reality) technologies that offer more clarity about how the things will look on them or in their homes or offices before they buy, including apps that virtually simulate how clothes will look and fit. Visual search, and voice assistants that assist with shopping, including sending consumers suggestions about what to buy, eliminate shopping friction by making a trip to the store an option, not a requirement. These options save the consumer time — and time is the currency that consumers now think long and hard about before spending it.

Retail survivors will also recognize that it's just as high of a priority to make the store more accessible to a consumer for which delivery fees make an entirely digital shopping experience too expensive and out of reach. According to PYMNTS research, the in-store shopper for retail products is lower-income, on average earning less than $50,000 annually. For those consumers, the store can invest in the apps that make the physical store more accessible — the capability to digitally order and pay ahead for curbside pickup, touchless payments to make the in-store shopping experience safer and more secure, and alternative credit options that offer a responsible way to finance bigger-ticket purchases.

> **RETAIL'S COMPETITION IS THE MARKETPLACE,** NOT OTHER CATEGORY COMPETITORS.

Okay, that might not be a newsflash. But for a retail community that still seems to find great solace in the fact that 84 percent of retail sales still happen in-store, it's certainly worth repeating.

Take Macy's — the once-iconic department store with a market cap today of $4 billion. Its biggest competitor for clothing and accessories isn't Kohl's (market cap of $6 billion) or Ross Stores (market cap of $41 billion) or the specialty retailers that once lined the malls. It's Amazon.

According to PYMNTS analysis, as of Q3 2020, Amazon had a 14.3 percent share of all clothing and apparel sales, up from 9.5 percent a year earlier, and a 42.5 percent share of online clothing and apparel sales, up from 40.6 a year earlier. (By contrast, Walmart's share of apparel is 7.4 percent for the same period, down from 10.5 percent a year earlier.)

Furniture stores — and even Home Depot and Lowe's — may compete with each other, but the competitor they're all eyeing is Wayfair, which as of Q3 2020 was reported to have a 33.7 percent of online furniture and household accessories in a category that has increasingly shifted that way.

Local consignment stores and antique shops no longer compete with each other for the supply of used clothing and accessories and the shoppers to buy them, but instead, they compete with online marketplaces like Tradesy, Poshmark, The RealReal, Chairish and 1stDibs.

Consistently, in every consumer study PYMNTS has done over the last several years about the retail shopping behaviors of the U.S. consumer, it's product — not price — that is the No. 1 reason cited for deciding where to start their shopping journey.

In an online world, where things are delivered to the doorstep, location is irrelevant. Choice is in — and marketplaces are the most efficient way for a consumer to get items, completely unconstrained by the location of the product she wants to buy.

Brands and products, not stores, will drive the search for the products consumers want to buy — even for many well-known brands for which marketplaces may also regarded as a competitive threat. Going where the eyeballs and consumers are searching with an intent to buy can be an on-ramp for their own direct-to-consumer sales and brand-building, offering one set of experiences on a marketplace and a more personalized experience on their own D2C channels — as well as a way to become part of a larger, broader ecosystem where their products may be a relevant complement. The physical store becomes less relevant as digital marketplaces open the doors much wider to new customers and potential sales.

For innovators, there's an opportunity to aggregate the longer tail of D2C brands and Main Street businesses to be found on marketplaces, and for their products to be easily searched and purchased that way — making the store a smaller part of their retail sales mix. In fact, we see it happening. Research shows that the Main Street Businesses that have embraced digital channels and marketplaces to sell their products have performed better over the last ten months than those who did not. Their physical storefronts are still open but drive less of their overall sales.

Today, that experience can be very fragmented for both the buyer and the seller – there are too many places to look, with a lack of density of buyers and suppliers to keep them interested and coming back. One of the most clever applications in retail that saw this trend before anyone else is Farfetch, a public company founded in 2007 with a market cap of $19.7 billion that created a network of independent boutiques all over the world to sell their designer clothes to anyone with a PC or a smartphone.

It's a model, and a network, that's the foundational concept for antiques and vintage home goods and accessories like Chairish and 1st Dibs and restaurant aggregators like DoorDash and Grubhub. No doubt others with the vision to do that at scale for retail will emerge.

> **VOICE** WILL MAKE COMMERCE ON DEMAND AND STORES INVISIBLE.

We've seen a steady uptick in the number of consumers who've embraced voice for commerce over the last several years, a trend that the work-from-home dynamic has only underscored. According to PYMNTS' latest research, 9 percent of all U.S. consumers have ordered something using voice as the channel, most often when making purchases of food (groceries and takeout).

Voice not only makes commerce on demand, it multitasks it. Adding items to a shopping cart while standing in front of the fridge or pantry, or asking Google or Alexa to order takeout in between Zoom calls, is fast, convenient and efficient. In fact, this same PYMNTS research suggests that voice is the

most relevant commerce enabler when consumers are engaged in doing something else — driving their car, taking care of the kids, making dinner — and a commerce enabler that 39 percent of all consumers now say they'd most like to integrate into their shopping experience.

It's also still pretty nascent as a commerce driver — but perhaps not for long. In many ways, voice is the ultimate enabler of a seamless shopping experience — one that transcends physical and even digital channels. For voice to emerge as a powerful commerce enabler, it needs to be part of a multimodal experience — where consumers speak, see and then say "buy," either via their mobile devices or computers. For the consumer, it's easier than clicking or swiping. For retail stores, it pushes the store brand to the back, the fulfillment part of a shopping experience where ordering by voice saves them time.

> **THE DIGITAL SHIFTERS DRIVE RETAIL SPEND** — AND THEY AREN'T GOING BACK TO THE STORES AS THEY ONCE DID.

Forty-one percent of retail shoppers have shifted digital since March — a steady increase over the last 10 months, now representing some 103 million consumers. And 75 percent of them say they have no intention to return to the stores the way they once did. A consumer who was already very digitally engaged has, over the last 10 months, further honed her digital habits.

These digital shifters are also retail's biggest spenders. Forty-three percent of them earn more than $100,000 per year, and are college-educated and employed. They have the means, and they have options for how and where to spend their money — and they are increasingly spending it online and having their purchases delivered.

Of course, it's not as if the physical store isn't on their radar — these digital shifters are not digital-only shoppers.

But they are the advance guard for what the retail experience will look like, the physical store when going to one is a welcome part of the shopping experience, and the profile of the retail shopper that retailers will increasingly covet.

The five realities that I laid out for physical retail may seem harsh, but its future doesn't have to be.

The lessons of the last ten months have shown how resilient the retail sector can be when challenged to think differently about serving its customers, and using new business models and methods to do so. The mistake is in thinking that the reopening of the physical economy — and we all hope that is sometime soon — will snap things back to where they were in December of 2019. Of course, there will be pent-up demand to shop in the store, but the consumer's expectation of that experience will be different.

Consumers in the U.S., U.K. Australia consistently rate the in-store shopping experience as the least satisfying, in part, because the digital tools and experience they have online are missing when they do shop in stores.

For the physical channel to remain a relevant part of the retail mix, retailers must consider that data point in their 2021 call to action.

February 1, 2021

FACE-TO-FACE V.2021: WHAT ZOOM TEACHES US ABOUT THE CONNECTED ECONOMY

An article published in the Harvard Business Review in August of 2009 posed a question that many airline and travel industry CEOs are pondering 11 years later: Will videoconferencing kill business travel?

The answer in 2009 was, probably not. The answer in 2021 is far less clear.

Eleven years ago, video conferencing tech was in a very different place, even though the technology itself had come a long way from the commercial launch of Bell Lab's Picturephone in 1964.

It was expensive — an investment that only big companies could afford to make, and mostly did so to make it easier for far-flung internal teams and corporate boards to meet without always getting on a plane.

It had the "fax" problem: The only way people could see each other was if the party on the other end had access to the same technology.

And it was location-dependent. Given its hefty price tag and IT requirements, the technology was installed in conference or board rooms and not individual offices. To use it, people had to gather in one of those rooms.

Image credit: Bell Labs | www.darkroastedblend.com

The quality was poor: Latency issues and sub-par picture resolution made it a less-than-ideal "face-to-face" experience — particularly when those without access to the tech had to join by phone or not at all.

In 2009, and over the decade that followed, the limitations of the tech meant that the most efficient way to do business was to hop on a plane to meet clients, get deals done and visit trade shows.

Even in the throes of the Great Recession in 2009, executives still

traveled, even if their budgets were somewhat clipped. According to analysts, business travel spend dipped by only about 7 percent that year. By the end of 2019, business travel hospitality globally was a $1.4 trillion sector.

2021 is a whole different story.

Eleven years and a global pandemic later, the future of business travel is unclear.

Zoom put the power of a face-to-face meeting, using high-quality video tech, into the hands of anyone who had a connected device and needed to meet a client, prospect or team member face-to-face without having to be there in person.

After the initial shock and awe of the pandemic and lockdown of the physical economy in March of 2020, it was this technology that helped keep businesses moving and remote workforces productive. Business execs discovered that they didn't have to get on a plane to move projects forward with clients, fill the sales funnel, close business or keep client relationships intact.

Even the court system shifted to Zoom for much of its work.

The friction associated with coordinating a place and time for busy people with conflicting travel schedules to meet in the same physical location was eliminated. Zoom made it possible for executives to be more accessible.

And since everyone was in the same boat — not being able to travel but with the same urgency to connect and do business — there was a mutual incentive to the tech, as well as the meetings it supported, effective.

Predictably, the segment was decimated in 2020 as government restrictions on travel, travel quarantine requirements, and executive concerns over health and safety put the vast majority of business travel on ice. In December of 2020, analysts predicted that the global market for business travel in 2020 would decline by 54 percent.

Sure, the outlook for 2021 and beyond is uncertain, but it is certainly grim. Although Zoom and similar tech platforms may not kill business travel entirely, they will hobble it materially — and those firms that depend on travelers to keep their own businesses alive.

According to a 2020 study of corporate travel managers conducted by the Institute of Travel Management, 38 percent report that business travel spending will decrease by 25 to 50 percent in 2021, while 36 percent say that it will be even more severe, with a 50 to 70 percent reduction. Eighty-eight percent cite the use of video conferencing tech as their top priority, while 80 percent cite a focus on travelers' well-being.

Chief Financial Officers likely cite the well-being of their own bottom lines, as many have seen margins helped by reduced travel costs, often without the corresponding hit to their top lines, macro business conditions notwithstanding.

Firms have pivoted their business and marketing practices to reflect the new status quo — using digital tools and tech to fill the funnel, shorten the sales cycle and close business.

Online marketplaces that were once places for buyers and suppliers to discover each other — and then do business offline — will become payment-enabled, if they aren't already. B2B eCommerce will ignite as digital tools, payments and credit offerings streamline those flows and suppliers commerce-enable their websites. Augmented reality (AR) and virtual reality (VR) technology will allow buyers to digitally kick the tires. Trade shows will not only go online, but will become vertical marketplaces — pop-up shops online, if you will — for businesses to see the latest products and then order and pay for them. Payments will make all of these B2B commerce encounters easy, efficient and secure.

In fact, it's something that the PGA has already done. More than 400 golf brands and manufacturers convened online last week to see — and buy, using B2B payments tech — the latest and greatest golf goodies for their clubs and retail stores.

Some say it will take until 2024 for business travel to snap back to 2019 levels. Airline CEOs see the vaccine rollout as the elixir for their industry and are bullish on the future of business travel, which is said to account for 12 percent of butts in seats, but 75 percent of airline profits.

But that optimism ignores the handwriting on the wall.

Their competition is no longer the other guy's airline — nor the temporary hit to their business caused by a global pandemic. It's the longer-term, secular shift to digital, led by the democratized access to a software called Zoom that has made their product less valuable.

Now, it's not that business executives won't ever hit the road again, but the friction associated with doing so will have to be worth the business outcome. And it must be good enough

to persuade CFOs that the juice is worth the squeeze.

It's just one example of the connected economy in action, showing how the power of technology, software and payments to forever change how people and businesses connect.

THE POWER OF CONNECTIONS — AND THE CONNECTED ECONOMY

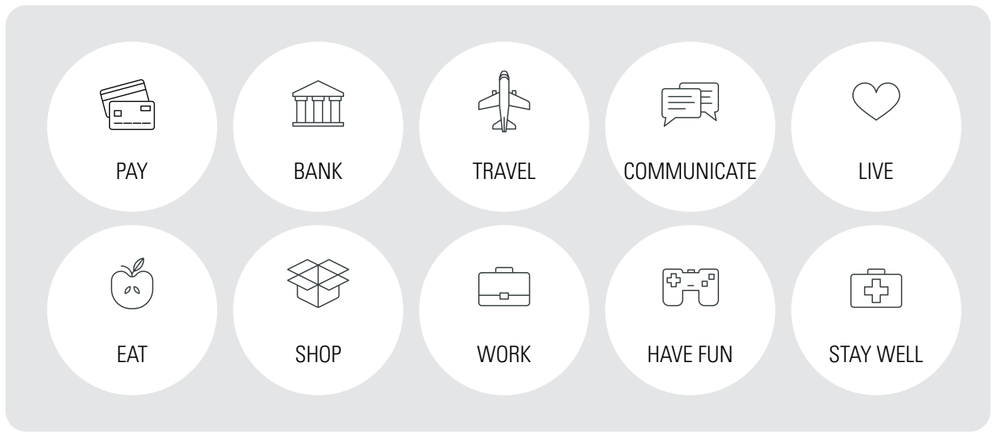
Even before the pandemic made it essential to shift to digital, what we do and how we do it was already becoming increasingly dependent on using digital platforms that make it easier for people, businesses or workers to connect — and without friction.

Every part of our lives is changing this way: how we eat, shop, pay, travel, bank, work, communicate, have fun, live at home and stay well. These 10 *pillars* of the connected economy fall into roughly three groups — even though the dividing lines between them are hardly sharp.

There are *four essential services* that people rely on to get much of the other stuff done: they have to pay, bank, communicate and travel.

There are *another five* that people use to operate a household, and to sustain and enjoy themselves. How they live is about managing their homes and daily lives. Then there's how they eat and shop. And how they work, which most people need to do in order to do everything else.

Finally, people want to stay well and live longer, healthier lives.



Each of these pillars rests on a rapidly improving foundation of technology and businesses we call *enablers*: the cellular carriers, payment networks, cloud companies, software platforms and equipment makers that power other platforms.

Gradually, we will cease distinguishing between the digital and physical worlds, as almost everything physical will be connected and powered to digital to varying degrees. The marriage of digital and physical will lie at the heart of the transformations we'll see in every aspect of our lives — and are already living through in real time.

THE CONNECTED ECONOMY'S FAST TRACK

The connected economy got a jolt in early 2020.

It was already booming following years of slow, steady growth. Then the pandemic struck. Much of the physical world shut down. And most people and businesses were forced online. This resulted in a break in the trend line, which made a big jump upward — the jump discontinuity that I wrote about last spring.

That jump wasn't just about going digital — it was about a break with the old ways that people and businesses used to connect, leading to something entirely new. As a result, many established digital platforms, including some with shaky futures, saw explosive growth. The duration of the pandemic, which now looks to be through most of 2021, will accelerate the shift to digital even faster. The convergence of the physical and online worlds will happen sooner.

THE CONNECTED ECONOMY'S MATCHMAKERS AND ENABLERS

There are four main characters, shaped by economics and strategy, that will define and drive the future of the connected economy.

Matchmakers are the businesses that forge connections. They operate platforms, such as Instacart, that enable different types of participants, such as shoppers and grocery stores and consumers, to find each other and engage in a mutually beneficial exchange, such as getting their groceries picked, packed and delivered. The physical world, from ancient to recent times, was replete with them, from the medieval bazaar to speed dating. The connected economy mainly relies on digital ones.

Time is our most precious asset. We will only get so much of it. Many of us flock to any innovator who can save our time, for better things; give us more time, by expanding what we can pack into it; or give us something in return for our time, like money or entertainment. Digital matchmakers in the connected economy often help us make the most of our scarce time. Just think of the time you've saved by asking Alexa or Google to order paper towels while doing the dishes in the evening.

Dynamic competition is what always happens in the face of rapid technological change and disruptive innovation. It is all about companies, entrepreneurs and innovators figuring out what's next and what others are up to, and making sure they come out on top and don't get destroyed. Dynamic competition is what leads to the rapid creation of new products, and ways of doing things in the connected economy.

Tech ecosystems are multifaceted businesses, often consisting of one or more platforms, possibly interconnected, that engage in dynamic competition with each other and with challengers. They are often anchored in one area where their innovations put them on top, and then use their leverage to leap into new areas and compete with other tech ecosystems.

Big Tech – Apple, Amazon, Facebook, Google and Microsoft – are increasingly challenging each other in their existing businesses, but more importantly, are trying to win the races for many entirely new ones.

The connected economy would not have been possible without ***three key enablers*** whose rapid improvements have accelerated its rapid spread through the nooks and crannies of commerce, work and living.

The oldest enabler is **digital payments.**

Putting the card credentials people were accustomed to using in the physical world in their mobile apps made it possible for ridesharing companies to provide the magical experience where they don't have to pay at the end of a ride, but just open the door and leave. The pandemic has accelerated the shift to digital, even for emerging countries where cash remains the dominant payment method, while giving businesses the incentive to finally bring the "Uber experience" to consumer and business payments.

Then there are **software platforms** that provide common services to applications and a standard environment for the applications and users. Some of these are familiar names, such as Android, but others, such as Apache, labor in obscurity in the guts of the connected economy.

The gradual convergence of the physical and digital worlds began with the deployment of 3G **cellular networks**, and then, importantly, the 4G network, which enabled people to access fast, reliable internet service pretty much anywhere, anytime with a smartphone. With the 5G networks that are rolling out, almost every place in the physical world will have high-speed internet connections, where apps and other software will be able to provide digital services everywhere, anytime.

These enablers do not provide a traditional foundation that is permanent and longstanding. Each is going through disruptive innovation, which is making them better. If history is any indication, new enablers will likely emerge, as Android did in 2008. The enablers provide a foundation that improves, shifts shapes and propels innovation on top of it.

THE JOURNEY

Our journey into the connected economy began in earnest in late 2009. 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 innovator that started the decade of the 2010s with a brand-new toolkit. Armed with new tech, mobile devices data and the cloud, they fast-tracked the shift from what was then still a largely analog world to the app-based economy that is our reality today.

That combination of smartphones and apps has changed how people and businesses interact within and across each of the 10 pillars of the connected economy.

The 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 machines, people, businesses and every possible permutation in between. In this new connected economy, we will find ourselves living in a world in which new networks, intermediaries and enablers will emerge — and change what we used to call the payments and commerce status quo.

In many ways, the last 11 years was the warmup act for the transformation that we have seen accelerate over the last 11 months — the transition from an app-based economy to one in which connected ecosystems aggregate commerce experiences and enable transactions across channels, devices and environments.

Payments is powering many of those shifts — and the new business models that have emerged.

According to the latest PYMNTS survey of U.S. consumers, 115 million adult consumers — 45.4 percent of the U.S. adult population — have shifted to digital. They are doing less in the physical world and more in the digital world for the same activity since March of 2020, including buying retail and grocery products and food from restaurants. And 80 percent of them — 92 million — say they'll stick with those digital-first habits. Not only have they broken with the status quo, they don't want to return to it. Digital payments, alternative payments and credit methods have made it easier for businesses, even those on Main Street, to transact with a consumer who wants their products, but may not want to go to the physical store to get or pay for them.

THE CONNECTED ECONOMY ROADMAP

In the first year of the decade of the 2020s, all of us were collectively left to navigate our way in a world for which there was no playbook. Times remain tough for many.

Yet, experience teaches us that opportunities will emerge for innovators to devise more and better ways of doing things in the connected economy, especially as technologies improve. They will be able to tap into the 115 million U.S. consumers — and hundreds of millions more the world over — who have become increasingly acclimated to online life, using platforms and connected devices that save them time, keep their interactions safe and secure, and deliver a far better experience.

Just take Zoom, where I started.

Yes, this is how business colleagues are working with each other, each sitting in their spare rooms, usually dressed down, sometimes in hoodies — but getting the job done, regardless of the dress code.

But it is also how doctors are visiting their patients. Zoom, along with other video platforms, is part of what's driving health tech and the move to telemedicine. Payments innovators are integrating flexible payment arrangements into those experiences.

It's how teachers and students engage and learn.

Video platforms are how retail sales associates stay connected with their clients and show them new things to buy.

And how judges hear cases and conduct pre-trial hearings and lawyers take depositions.

It's how real estate agents show houses and buyers buy them, sometimes even without ever stepping foot on the property until they buy it, and from anywhere in the world.

Video platforms are how bankers are engaging with their customers, and how interior decorators are helping clients feather the nests where they now spend nearly all of their time living and working.

And how orchestras perform for their virtual audiences without leaving their homes.

The connected economy, through innovation and the inspiring labors and ingenuity of entrepreneurs, will, in the end, make the world a better place — and will make the '20s the roaring decade that we imagined just a year ago.

It's those stories, and the connected economy framework, that will define that path.

February 23, 2021

WALMART'S BID TO GO FROM SUPERCENTER TO SUPER APP

Thirty-three years ago, in 1988, in Washington, Missouri, the first Walmart Supercenter opened its doors. The store concept itself took a page from the European hypermarkets, which had begun dotting the suburban landscapes there in the mid- to late-1960s — a vast physical store footprint that sold everything from general merchandise to groceries, offering ample (and free) parking.

When Walmart reported its Q4 2020 earnings last week, CEO Doug McMillon described a very different "super" concept at the center of Walmart's future: the "super app." He may not have used those two words, but the Connect concept — and the flywheel graphic he spoke to – is the super app notion to a tee.

Moving Walmart from a "preferred destination" to the consumer's "primary destination" is how he articulated the strategic relevance of the many spokes coming from the Walmart core: the "interrelated ecosystem" of physical and digital; the expansion of its third-party marketplace with Shopify; the focus on healthcare via Walmart Health centers; the investments in eCommerce, logistics, supply chain and inventory to match demand with supply and consumer fulfillment preferences; the promise of Walmart+; the JV with Ribbit Capital to provide banking services to its customers and employees; and the availability of BNPL options with Affirm to appeal to a new user demographic.

Walmart is not alone in seeking super app status with the consumer. The concept has become the strategy du jour for many — from FinTech to Big Tech to banks and telcos everywhere in the world, all of whom want to be the consumer's digital front door that connects them seamlessly and securely to the many adjacent ecosystems that await.

And for which payments is the key to unlocking those new commerce opportunities.

It's a big bet from a super app contender whose starting point is the physical store, and whose conviction is that physical remains a dominant retail channel — and that it can create what McMillon described as the "compelling store experience" that will keep consumers walking inside of them.

And it's a contender that faces enormous competition from digital platforms, including Amazon and others, who placed their bets in a very different way when digital was nascent and whose early adopters are today's super-connected consumers. As a result, they

are already many connected ecosystem steps and hundreds of millions of consumers ahead of Walmart.

FROM STORE TO MARKETPLACE TO SUPER APP

For Walmart, the U.S. consumer and the U.S. retail scene in 1988, the Supercenter was a gamechanger – a one-stop, 24/7 shopping destination marked by Walmart's everyday low price value proposition for the 90 percent of the U.S. population living within 15 minutes of a Walmart store. The Supercenter concept was a format and a strategy that helped catapult Walmart into becoming not only the largest retailer in the U.S., but also the largest purveyor of groceries in the country.

That is, until Amazon's online "supercenter" helped consumers trade parking lots for Amazon Prime's free shipping, vast physical store footprints for billions of SKUs from third-party sellers accessible by app or desktop anytime and anywhere, store checkout lines for one-click payment using registered card credentials, and the grocery store for online ordering and delivery and auto-refills for staples and other pantry items.

PYMNTS' own data on the percentage of retail spend and overall consumer spend has been tracking the horserace between Amazon and Walmart over the last several years — one that now reflects more or less a dead heat for the share of overall consumer and retail spending — except for one notable observation: Walmart's share of both is slipping at the same time that Amazon's is increasing.

Amazon unbundled the store and the brand (much to the dismay of many of them) from the shopping experience, and chipped away at Walmart's share of general merchandise spend, including clothing, home furnishings, toys and games, and accessories. Over the years, Amazon has evolved from an online store to an online marketplace that brings third-party sellers of traditional retail goods and potential buyers together on the Amazon platform to become what we call a dynamo: a many-armed matchmaker whose tentacles spread far and wide, adding streaming content, prescriptions, connected devices, wearables that connect to healthcare ecosystems, and connections to physical stores with Whole Foods, Amazon Go, 4-Star Stores and Amazon Books.

At the same time, Amazon added depth and breadth to its eCommerce offerings, and took the Amazon checkout experience to other sites on the web via Amazon Pay. Amazon's users can connect to all of these related services and platforms without ever leaving Amazon — which is where six in every 10 consumers start their search for what to buy. By becoming a dynamo, Amazon has laid the foundation for becoming a powerful super app.

That evolution exposed a jarring crack in the physical store armor and big digital shift that McMillon told analysts Walmart hadn't been fully prepared to address. Thus, the Connect + flywheel = super app strategy, along with the $14 billion in capex they have allocated to build it out.

But Walmart doesn't just have to worry about dynamos and super apps like Amazon. Other matchmakers are competing for a share of Walmart customer spend. In fact, every tentacle of Walmart's super app strategy faces competition from another matchmaker or dynamo.

GOING TO THE ONLINE GROCERY STORE

Take groceries — a critically important category for Walmart, one that drives more than half of their sales. In 2020, Walmart's 2020 grocery sales were $341 billion from its 4,756 store locations, including Sam's Clubs.

The competition for grocery spend used to be determined by drive time, something that Walmart's 4,756 store locations within a 15-minute drive of 90 percent of U.S. consumers had always assumed would be its moat. Until Target and others upped their grocery game, including curbside pickup and delivery. And Instacart unbundled the grocery store from buying groceries.

Instacart makes it possible for individual consumers, personal shoppers, supermarkets and consumer product companies to engage on its platform, and for a consumer to shop from stores that might have otherwise been too inconvenient to drive to — including one of Walmart's biggest competitors, Costco.

A consumer who is likely to be working from home well after the population is vaccinated is now a consumer who no longer has to allocate a weekend or an evening — and the hour or more round trip — to buy food for her family. She can if she wants to, but now she has a choice to use a variety of matchmakers

like Instacart, dynamos like Amazon and grocery stores with a digital-first portfolio like Target and Kroger.

Naturally, that's excellent for the consumer, great for the supermarkets that capture new customers and orders, and very bad for stores, like Walmart and others, as they see their grocery share slip. As more orders move online, the whole competitive dynamics of the grocery industry will also change — driven by a consumer who values her time and has a choice in how, where and when she goes grocery shopping. Including those consumers who once could only use food stamps in the store to make grocery purchases and now have online alternatives to do so.

Even though Instacart isn't a super app contender — yet — it's a big threat to Walmart's super app plans.

GOING TO THE DOCTOR ... OR THE PHARMACY ... OR THE APP

Then there's healthcare — a segment of the economy that's roughly 18 percent of U.S. GDP and whose digital shift has only accelerated over the last year. Telehealth options unbundle seeing the doctor from going to the doctor's office, and makes healthcare more accessible and affordable. According to many experts, including the physicians I have spoken with, telemedicine reduces the need for an in-person visit nearly 85 percent of the time.

Traditional providers of healthcare, along with many HealthTech startups, have aimed their tech — and creative payments options — at a consumer who is now the largest healthcare payor. Pharmacies are becoming healthcare centers with apps and integrated commerce capabilities, including prescriptions.

None of them are super apps yet, but they and every super app — Amazon, Google, Apple — are trying to get into this space, and will compete with Walmart to be that digital front door. Walmart is betting the consumer, smartphone and app in hand, will opt for a physical front door instead.

THE DIGITAL-FIRST WAY TO PAY AND BORROW

And then there are financial services.

PayPal and Google are just two examples of FinTech and Big Tech dynamos that have scaled their platforms well beyond their initial starting point of buy button and search, respectively. Both have added new products and features that provide additional value to their platform participants while attracting new ones. At the same time, they have extended their tentacles into adjacent areas and added related platforms inside of their own — including savings, investing, banking and banking-like services, deals, and even accessibility to crypto, in the case of PayPal.

Both have also added incentives to keep sellers on their platforms and attract new ones. And both have payment credentials that allow their users to engage in many different activities once consumers enter their digital front doors — including paying for purchases when shopping at Walmart and using Google Assistant to order and pay.

That won't make Walmart's super app ambition to move consumers to a new digital "bank account" a slam dunk. Establishing a new digital bank account is easier than it's ever been, but becoming the primary bank account is not without its own set of built-in hassles, like changing direct deposit and bill pay coordinates. At the same time, the percentage of the population that's unbanked is at an all-time low — 5 percent, according to Fed statistics. That means Walmart faces the challenge of giving consumers a better alternative than they have today — while contending with others with similar ambitions, including buy now, pay later players and neobanks, which are also targeting the mass-market consumer.

WHAT'S NEXT FOR WALMART AND THE OTHER SUPER APPS

The idea of a digital front door — a super app — was already an idea that more than half of all consumers found appealing, per a PYMNTS survey in the summer of 2019. Since then, the incredible growth in users and engagement seen by many of the existing super apps and super app contenders has only validated the notion that consumers want a more streamlined way of navigating the digital world.

Dynamos are riding the tailwinds of the massive shift to digital across every aspect of the economy — how consumers shop, eat, buy food, get healthcare, spend leisure time, travel, work, live at home, bank, stay connected and pay. More than just a COVID-induced reaction, more than 80 percent of the more than 50,000 U.S. consumers that PYMNTS has studied since March 6,

2020 say that some or all of their digital behaviors — doing less in the physical world and more in the digital world — will stick well past the day when people are comfortable being out and about in the physical world the way they once were.

Dynamos are not only the future — they are an emerging part of the present.

There are more than 144 million consumers who shifted digital when buying retail products, ordering food from restaurants or shopping for groceries, meaning that they are doing less in the physical world and more in the digital world for those same activities since March of 2020 — nearly 80 percent of whom also say they'll stick with all or most of those digital habits. It is they who will decide whose digital front door offers them the best access to the most relevant services that make the lines between physical and digital indistinguishable, which is how consumers now live. This is a consumer who has now been immersed in a digital-first world for more than a year and who has a different standard for how they want to engage with brands and who they trust to make those interactions efficient: saving them time, money and the friction of doing business in the physical world the way they once did.

Walmart's own evolution will be fascinating to watch. As a physical-first enterprise with digital-first dynamo aspirations, maybe it's onto something — getting an edge from physical, and using that to fend off the digital-first challengers for whom integrating physical into the digital experience seems to be an easier lift. Those dynamos have users who have already bought into the digital-first way of engaging, and have over the last year enthusiastically embraced digital life as better than the physical-world experience.

Walmart has the assets, the balance sheet and the ambition. Now, it needs to prove it can open those digital front doors before other dynamos (and matchmakers with dynamo ambitions) get there and open them first.

March 8, 2021

DIGITAL INTERMEDIARIES THREATEN THE PAYMENTS STATUS QUO

March 19 will mark the one-year anniversary of the U.S. lockdown in the face of the global pandemic. Since then, the payments and commerce headlines have been mostly about one thing: the consumer's massive shift to digital.

Mostly because it's indisputable.

And it's likely to be the biggest headline of the next year — and beyond.

In a digital-first world, checkout is no longer about a plastic card dipped at a terminal in a store — and potentially no longer the slam-dunk domain of the traditional issuers and card networks that own that experience in the physical world.

In a digital-first world, the checkout experience unbundles checkout from a physical place, shopping from a particular store (on or offline), and payment using a traditional payment method or issuer.

In such a world, it also potentially unbundles the consumer and the merchant from the players, networks and business models that have defined what it means to "check out" for the last 60 years.

NO MORE BRIGHT LINES

The collapse of the lines between the physical and digital worlds over the last 12 months has set into motion the rise of new (and the acceleration of existing) digital intermediaries, like PayPal, that have increasing control over the checkout experience — because they have aggregated large pools of consumers and merchants around the value proposition of convenience, safety, choice and the ability to save the consumer time.

At the same time, these digital intermediaries have developed — and strengthened — direct relationships with the consumers and merchants transacting on their networks, giving them tremendous influence over their own network dynamics over time.

In response to the pandemic, these digital intermediaries have focused on speed and convenience, riding the existing rails and leveraging existing payments preferences to get merchants and consumers up and running quickly in a world where physical restrictions drove many interactions digital.

But that's today.

Real-time rails, the growing influence of buy now, pay later (BNPL) networks on consumer credit choice, new technology

and the trust that consumers have built over time with these networks lays the foundations for new business models that could potentially disrupt the profit pools of the traditional payments ecosystem.

Over the next decade, it's quite possible that merchants and these new digital networks — at scale — create incentives to shift consumer payments choice and merchant payments economics within the new connected endpoints they now control.

ONCE UPON A TIME ... IN THE 2019S

It wasn't that long ago that the lines between physical and digital were pretty bright, in spite of how hard the payments industry had worked over the last decade to blur them into being indistinguishable.

Like, a year ago.

As we bid adieu to 2019, plastic cards dominated at the physical checkout, despite the ambitions of the "Pays" to replace them, and despite the growing use of digital wallets and card-on-file credentials to make online purchases a growing part of the commerce mix. As retailers and the Census Bureau were very fond of saying at the time, more than 90 percent of sales still happened in the physical store.

In brick-and-mortar stores, consumers use their plastic cards because they are accepted everywhere, and using them is fast, easy, familiar, secure and reliable.

Issuers compete for consumers' top-of-wallet preference on card features, functions and rewards. Merchants compete for sales on product and price, integrating loyalty programs into the point-of-sale experience to drive preference. Card brands court issuers to ride their rails, and open their networks for FinTechs to innovate on top of their rails for the benefit of cardholders and merchants alike. The integrity of their networks powers a safe, secure and trusted commerce experience for all of its stakeholders.

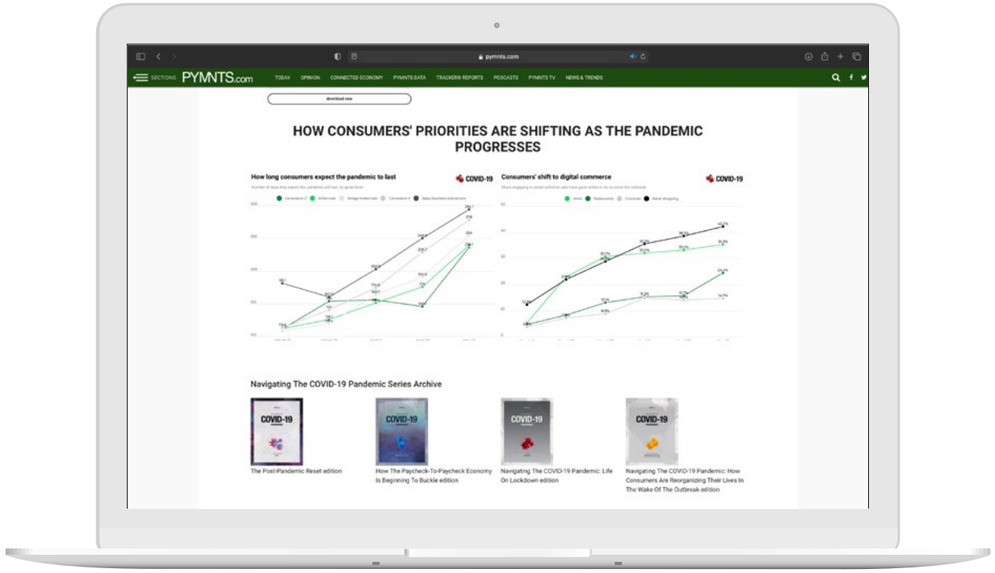
In a digital-first world, however, digital intermediaries have the opportunity — and may have the power — to change many of those dynamics, because checkout is no longer a linear path. And because there are more and more new networks emerging that are building new acceptance networks that connect the consumer and the merchant with the point of sale.

In a pandemic-gripped world, merchants, eager to make sales, jumped on the digital-first train. Even SMBs.

PYMNTS research shows that merchants invested in offering card on file, delivery, curbside pickup, digital wallets, QR code payments and alternative payment options. They added BNPL brands in an effort to attract a millennial and Gen Z audience. They used marketplaces and aggregators to move sales to where consumers were searching for things to buy and services to use.

Consumers jumped on these digital-first trains, too — and they don't seem to be getting off. In many of the studies in which PYMNTS has tracked the consumer's digital journey over the last year, consumers report using digital-first options more often because merchants have made them easier and better to use.

Better digital-first merchant experiences drive the virtuous circle of adoption and usage — and the new habits are sticking. Of the 144 million U.S. consumers who have shifted digital since the pandemic — doing less in the physical world and more in the digital world for the same activity — PYMNTS research reports that roughly 80 percent say that all or most of their digital habits will stick.



Not surprisingly, merchants have changed their workflows and product offers to accommodate a consumer with different needs and new expectations for service. Their shift from "come to me" to "bring it to me" was, in many ways, made easier by the digital intermediaries that connected merchants and consumers to these new experiences — regardless of whether the customer was ordering food, buying groceries or purchasing any number of retail items.

A year later, stores large and small are shrinking their physical footprints in favor of a digital-first model.

THE RISE OF THE DIGITAL NETWORK

At the same time, the scale of the digital networks powering these experiences, or that could potentially do so, is increasing rapidly.

PayPal reported 377 million active users at the end of Q4. Loup Ventures estimated in November of 2020 that Apple Pay was active on 507 million iPhones worldwide. Amazon Prime reports 148.6 million users accounting for 69 percent of all purchases on Amazon; that would make the number of Amazon Pay users worldwide roughly 200 million. Google Pay counts 150 million users (as of November 2020) and Google Assistant counts 500 million monthly active users. Amazon Alexa is available on 100 million devices. Square reported 36 million active Square Cash App users at the end of December 2020.

Alternatives to traditional credit cards are emerging and slowly gaining scale, chipping away at the volume that once went traditional credit card issuers' way. Affirm reports 4.5 million active users, AfterPay 13 million and Klarna 15 million.

Sure, these numbers are still modest compared to cards. But more than the number of users, though, is the momentum they seem to be gaining.

Take what's happening in what is still a small and relatively new category: BNPL. The latest PYMNTS Buy Now, Pay Later study of a national sample of 2,201 U.S. consumers conducted in early February of 2021 shows a millennial consumer twice as likely to have made her last online purchase using a BNPL option (26 percent of all shoppers who made a purchase) than the broader consumer base (13.8 percent), even though 90 percent of millennials also have a credit card. Most of those BNPL purchases were concentrated in the clothing/accessories and electronics categories.

Millennial behaviors aside, what's remarkable is the sheer number of consumers who've opted in to this new way to pay using a credit alternative over just the last year.

In March of 2020, when PYMNTS first went into the market to better understand consumers' online credit behaviors — and, in particular, millennials' use of buy now, pay later options — the story was quite different. At that time, the number of consumers using BNPL alternatives stood at roughly 4 percent and the share of millennials using them at 10 percent.

Seizing this momentum, each of these alternative credit networks is doing more to build a sticky network of consumers and merchants. They are leveraging high-yield savings accounts, rewards programs, money management tools and a growing directory of merchants that drive consumers with BNPL to their storefronts to create more preference — and volume — for a consumer who wants credit, but also wants repayment using funds on hand over a predictable, certain specified monthly term.

Analysts say that the shift to BNPL hasn't had much of an impact on the card networks — and likely won't, since the BNPL players ride the debit card rails, and card networks continue to collect network fees and interchange revenues on those transactions. That is true.

Except that could change.

But it's possible that, over time, BNPL intermediaries could shift consumers to a direct-from-bank-account model using ACH or real-time payments rails — and offer consumers an incentive for selecting that option. As these intermediaries build trust with the consumer, it is not unreasonable to think that they could or would do that and that at least a portion of consumers might make the switch.

These schemes, collectively, could also get enough traction over time to ding credit card interchange, the cornerstone of the payments industry business model for both issuers and networks. It's a long climb, but possible as these new credit networks expand the categories they serve to include higher-ticket items like travel and healthcare, cast a wider consumer net to grow their user base and volume, and/or white-label their platforms to power other digital intermediaries with BNPL ambitions.

BUT IT'S NOT JUST THE BNPL GUYS

Payments is a scale business. And when compared to the scale of the traditional payments networks, even if the numbers appear to be apples-to-oranges given the difficulties of separating the global from the U.S. percentages, these new networks have the potential to influence the future direction of payments and its current business model dynamics.

According to the latest Nilson report statistics, in the U.S., consumers have 336 million Visa and 231 million Mastercard credit cards in their wallets. Chase has issued 92 million credit cards, Citi 70.8 million and Cap One 99.7 million. American Express and Bank of America have issued 53.7 million and 55.6 million credit cards, respectively.

Any one of these digital intermediaries — Apple, Google, PayPal, Amazon — has the scale and the control of the endpoints today to influence that shift. As they scale, BNPL players have the potential to chip away at the edges.

Of course, what I have just laid out comes with a lot of "ifs.'" Mostly because they don't do so right now, and maybe they never will. And because this hasn't gone unnoticed by the traditional players that are innovating to leverage their own capabilities and scale to preserve their competitive advantage.

But there's another factor at play — and a few other players with potentially their own digital network ambitions.

Through their respective mergers, FIS and Fiserv brought issuing and acquiring/processing together on a single platform. Chase operates its own consumer/merchant network, for all intents and purposes, and has invested massively in a digital transformation aimed at streamlining the payments experience. Citi is a Google Plex partner and will connect a "smart" Citi bank account to Google Pay and a connected ecosystem of commerce and financial services experiences.

In each case, investments in real-time payment rails could also portend a future where account-to-account payments — between consumers and merchants — create new payment networks at scale. The direct connection between the massive pools of consumers and their bank accounts — with millions of merchant endpoints — could potentially disintermediate or marginalize the rails that power those payments experiences today.

WHAT'S NEXT

Once upon a time, it was only PayPal that the card networks and issuers worried about.

Today, these digital intermediaries are all about choice and giving consumers the option to attach any card credential to their account and move between them at will — removing any friction that could get in the way of a great consumer and merchant experience. Offering choice is at the core of PayPal's explosive growth in users and volume — the subject of a very public battle with the card networks a few years back. The Pays and all of the digital intermediaries, save the BNPL networks, follow suit. Part of that digital-first acceleration is because digital intermediaries had existing rails and card credentials to leverage and fast track the delivery of those experiences for consumers and merchants.

Going forward, it is the constellation of new networks, using real-time settlement rails and account-to-account transfers, AI, state-of-the-art fraud and risk management networks, standards that can integrate authenticated identity into payments that could pose a real threat to what currently exists.

Being digital-first is much easier for a platform that was born digital — and so is scaling it.

Yet, as I said, payments is a scale business.

And change in payments historically happens slowly, even as the pace of the shift to digital has accelerated so rapidly over the last 12 months.

But it may not be that change happens so slowly this time. The difference between today and a decade ago is the sheer breadth of these digital intermediaries — the number of them that have emerged and are getting scale, the payments credentials they currently have, and how quickly they are forming and growing.

Not to mention the connections they have forged with their network endpoints, and the technical savvy and trust they bring to the digital experience for the consumers and merchants that are a part of it.

Digital-first is disrupting pretty much every industry and has the potential to upend traditional firms — even the traditional payments industry.

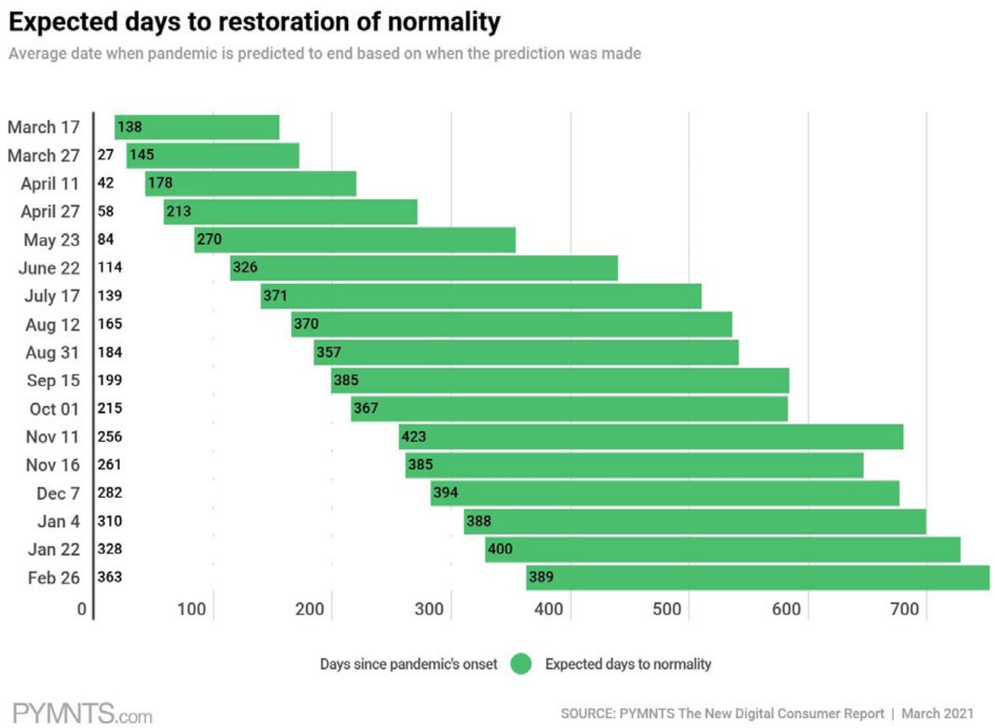
March 22, 2021

WHAT CONSUMERS SAY ABOUT THE REOPENING OF THE PHYSICAL WORLD – AND WHAT IT MEANS FOR BUSINESS

The U.S. has mobilized the largest COVID-19 vaccination rollout of any country in the world. The Biden administration has set May 1 as the date that all states will be required to lift vaccine requirements to include any adult who wants to get the jab. President Biden says he's hopeful that the U.S. will be ready to celebrate a return to normalcy come July 4. After a year of living life under lockdown, all of that is certainly welcome news.

Why, then, do most Americans still think it will take until this time next year — March of 2022 — before a return to the physical world as they left it in March of 2020 is likely?

That's one of the big headlines from PYMNTS' latest installment (the tenth) in our year-long research project exploring the impact of COVID-19 on consumers' retail, grocery shopping and restaurant behaviors. PYMNTS studied a population-based sample of nearly 22,000 consumers, starting on March 6 over a 12-month period, to methodically



measure the U.S. consumer's shift to digital for buying retail products, grocery shopping and eating food from restaurants. And to better understand when they think that the physical economy, as it used to be, will reopen.

We have consistently found that the consumer's instinct for when things in the physical world will truly return to how they define normal is generally more pessimistic than that of most pundits, governments and the hopeful speculation of the business community.

And, at least so far, it's generally more realistic.

READING THE WRONG TEA LEAVES

At the start of the pandemic, in March of 2020, when governments said the shutdown would last two months, the U.S. consumer said it would be more like August before things would reopen.

In June of 2020, when the conventional wisdom called for a reopening by the end of the year, the average U.S. consumer added about six months to that timeline. In December of 2020, they added 13 months.

Based on survey data from Feb. 26, 2021, the average U.S. consumer added another year. That's March of 2022.

(Those who have been or plan to be vaccinated said it would be a month earlier.) Definitely not this summer.

And that was their projection despite news at the time of the study that everyone who wanted a vaccine could get one by summer and that the COVID curve had started to flatten, with some states loosening reopening restrictions.

So, what's the disconnect?

For consumers, returning to the physical world doesn't seem to be based on state governments lifting restrictions, or their reassurances that there will be enough supply for all adults who want a vaccination to get one. It seems to be about the experiences that consumers will find when they remerge — and the restrictions that may still exist when they do, how many people will get the vaccine when eligible and whether variants will pose another COVID threat.

More than half (57.6 percent) of the consumers we studied say they need to see case counts come way down as a sign that "normal" will return. As many in February of 2021 say the CDC needs to say the coast is clear than did when COVID was declared a global pandemic last March.

More consumers in February (58 percent) say that the fear of getting

the virus keeps them from shopping in stores than did in November of 2020 (49 percent).

Then there's the experience they'll find when they reengage in the physical world.

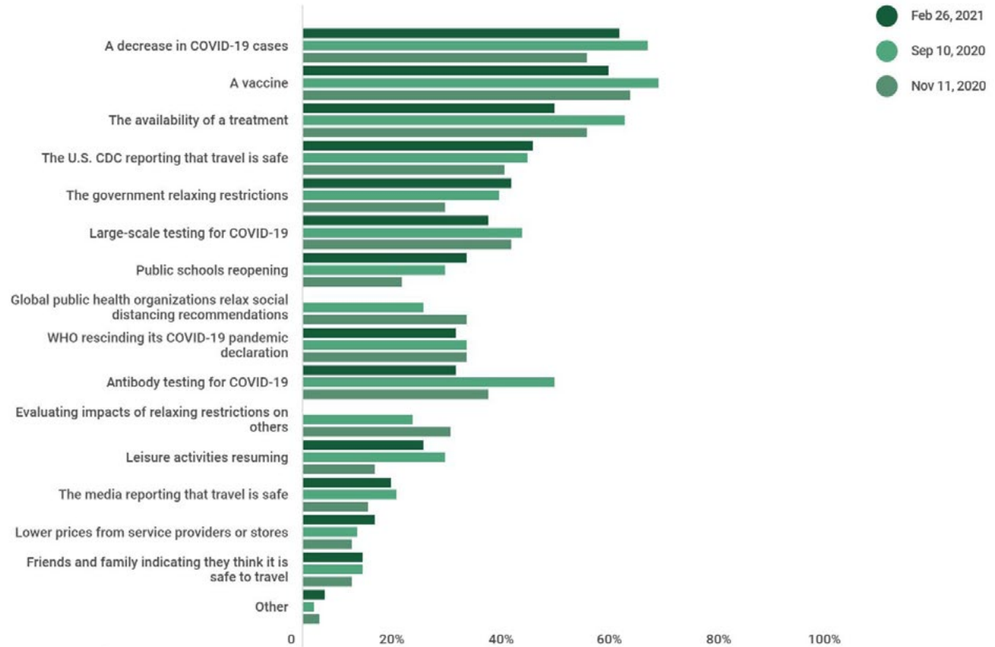
By summertime, will most store fitting rooms still remain closed or can consumers, as they once did, take clothes off the racks, go into fitting rooms and try them on? Will enough consumers feel comfortable doing that by summer even if they can?

Will reopened fitness studios still have plexiglass partitions and require masks? Will consumers be able to shower after their workouts there?

For summer vacation travel that doesn't involve visiting family and friends, will the hotels they want to stay in be open? Will the restaurants be open and room service reinstated? Given the massive

Necessary factors for the restoration of normality

Share of consumers citing select events as necessary for the restoration of normality



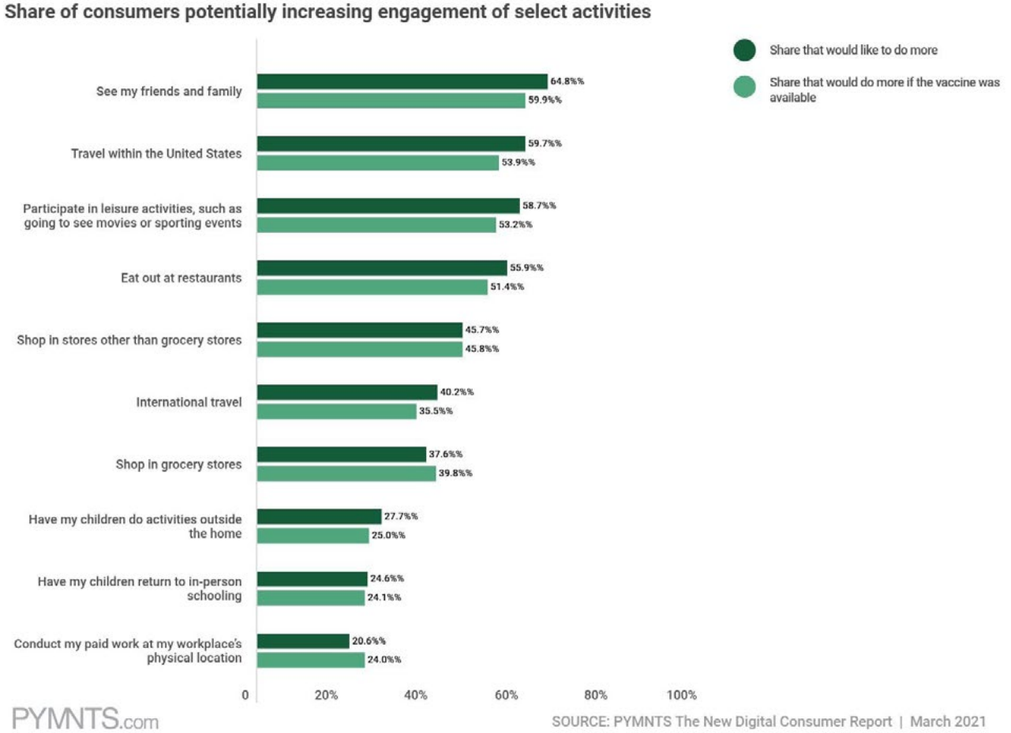
PYMNTS.com

SOURCE: PYMNTS The New Digital Consumer Report | March 2021

hit to small businesses worldwide, will the shops and restaurants on Main Streets in those cities and town be open — and those cities and towns be back to their pre-pandemic vibrant selves?

Of course, vaccinated consumers are ready to get out and about. More than 60 percent of the consumers PYMNTS studied who have been vaccinated or plan to say they are ready and raring to break free from quarantine. We've all read the stories of the vaccinated Baby Boomers and Seniors taking their post-vaccine victory laps. As more and more people get vaccinated, more and more people will be following in their footsteps and getting out and about.

It's that pent-up demand to experience the things in the physical world for which there is no acceptable digital substitute – being tourists, going to live events, eating in a crowded restaurant on a Friday or Saturday night, going to the amusement parks with the kids — that consumers really miss.



Sure, watching a live concert inside a gaming metaverse or livestreamed on a big screen in their family rooms was better than going a year without seeing any live performances — but it isn't even close to the experience of being in the live arena with thousands of screaming fans.

Even eating restaurant food at home from a restaurant is no substitute from eating it at the restaurant, even though PYMNTS research shows that 38 percent of consumers who once did that use restaurant mobile apps to order ahead and pick up to eat at home.

But more than simply reengaging in the physical world, consumers want a return to a physical world that is safe but also one that doesn't include the blatant physical world reminders that COVID remains an unwelcome intruder.

That's why most consumers believe it will take more time for them to really enjoy those experiences as they once did.

When they do, what they do will be different.

"CONSUMERS WANT A RETURN TO A PHYSICAL WORLD THAT IS SAFE BUT ALSO ONE THAT **DOESN'T INCLUDE THE BLATANT PHYSICAL WORLD REMINDERS THAT COVID REMAINS AN UNWELCOME INTRUDER.**"

WHERE IT'S DIGITAL-FIRST – AND MAYBE EVEN DIGITAL-ALWAYS

Before the pandemic, spending data showed a consumer who was more interested in experiences over goods — more travel than trinkets, more dining out than diamonds, more concerts than clothes. As the pandemic shifted consumer spend to goods, it also shifted this experience-centric consumer's focus to who and what made it easy for them to buy what they need while quarantined at home. Their attention turned to a whole new set of experiences and expectations: A digital-first experience defined by convenience and influenced by the brands that made it easy and safe to find and buy what they need.

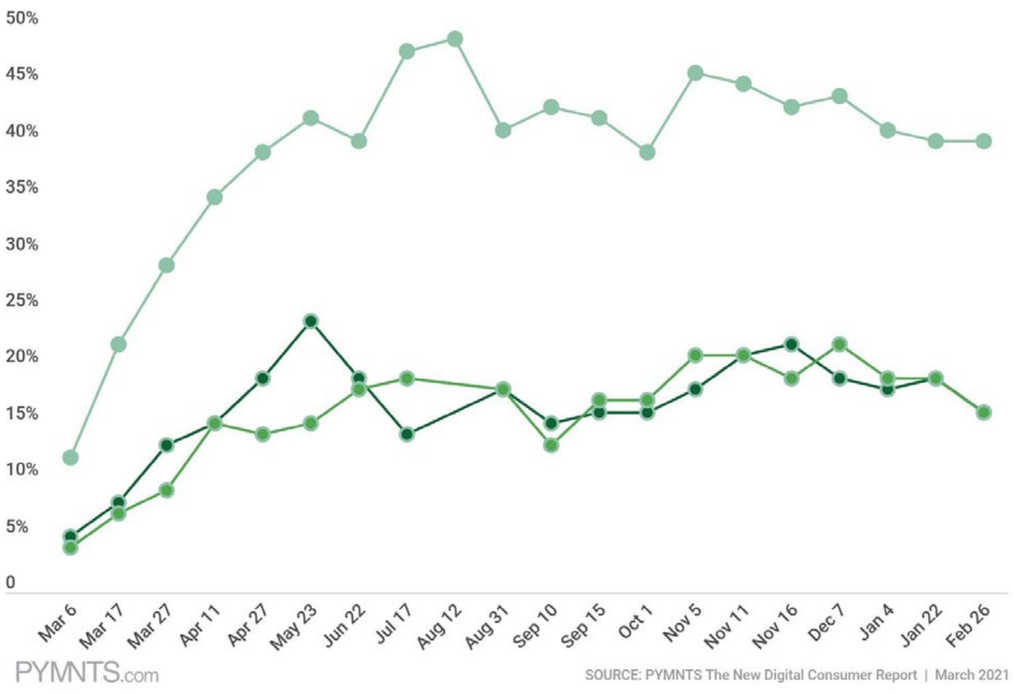
Over the last twelve months, we've watched as consumers have honed their digital first skills across all of the categories they shop and evaluated the brands that delivered the best digital first experiences.

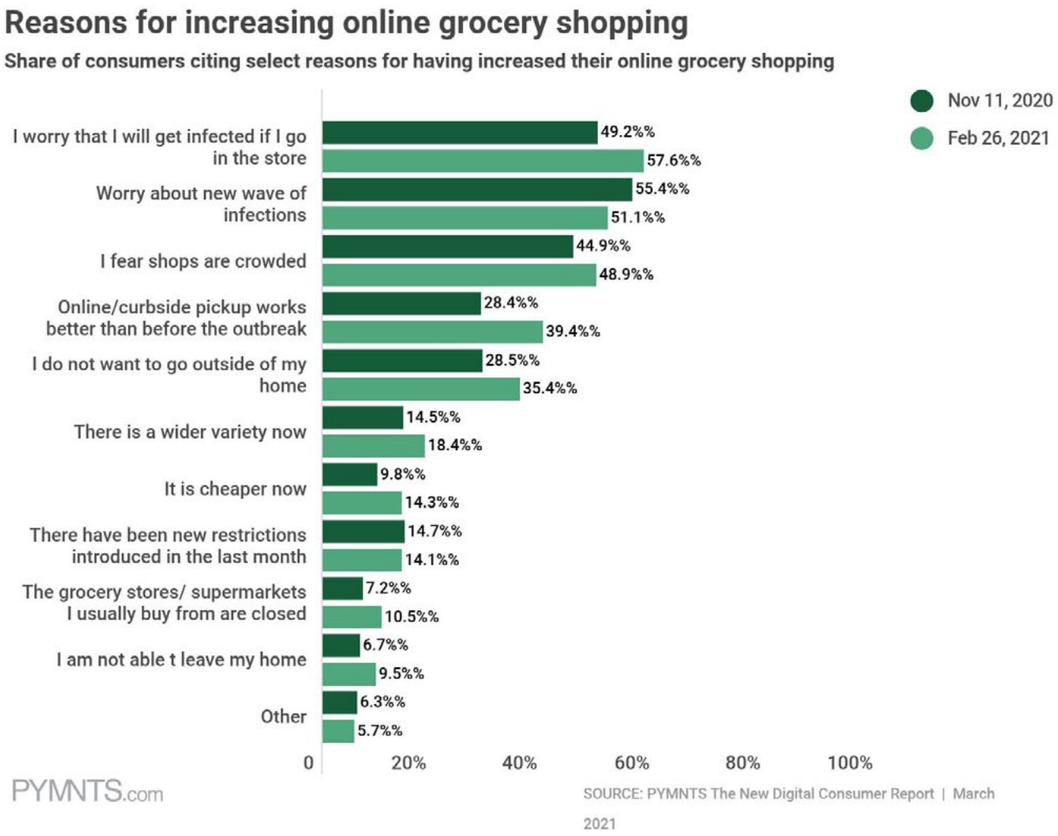
The result is tens of millions of now digital-first consumers whose shopping starting point is no longer the channel, but the product a consumer would like to buy.

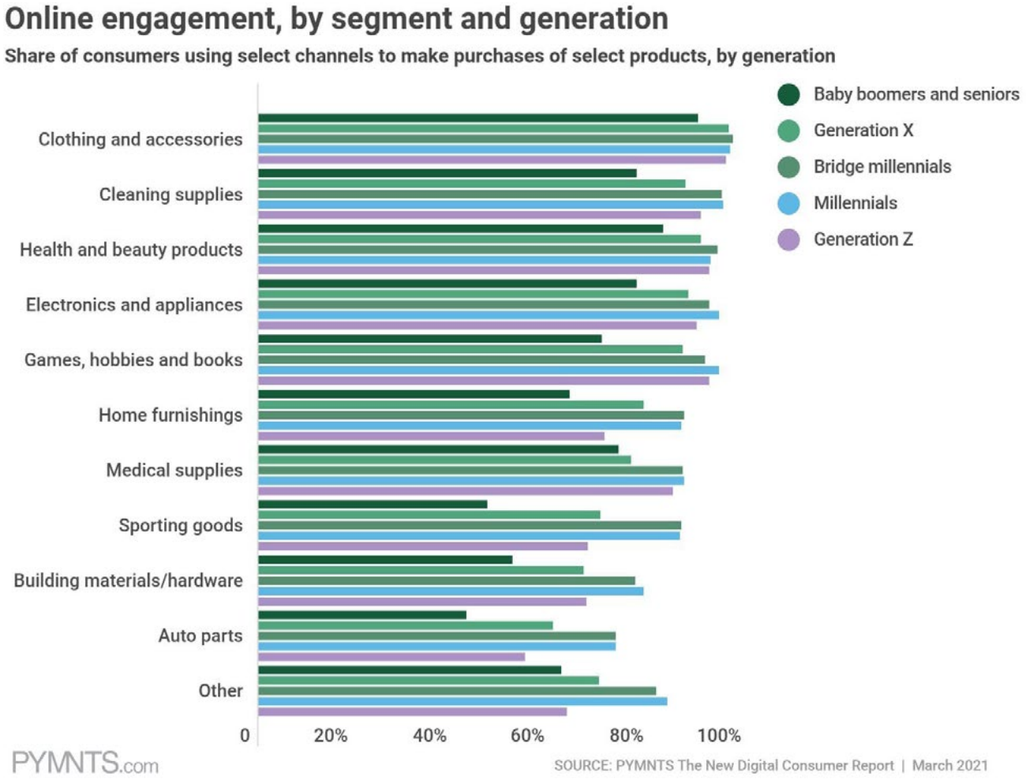
The conversation that once started with "I have to go to the store because we are running low on paper towels" has become "We're running low on paper towels."

And then a decision about the easiest way to buy and get them when they are needed.

In just twelve months' time, PYMNTS research shows that the U.S. consumer is as likely to buy anything they once bought in a physical store online. Now







nearly half of all U.S. consumers have shifted to digital channels to make retail purchases, buy groceries or eat food from restaurants.

That's consistent across generations and all purchase categories: Boomers are just as likely as Bridge Millennials to buy their clothes, electronics and even home furnishings online as they are to take a trip to the physical store to make that purchase.

There's also no guarantee that the physical channel consumers once preferred is their go-to in the digital-first world. The brands that make it easy and seamless for consumers to outsource those once-essential shopping purchases to a digital channel — and make it easy for them to move seamlessly across those channels — will get and keep that business.

While they are raring to bust loose from the limitations they've faced from the quarantine, nearly 80 percent of them say they'll keep all or more of their habits even as the physical economy reopens.

According to the latest PYMNTS research, 62 percent of consumers who now do less of their shopping in the physical grocery store say they won't revert to their in-store shopping experiences even after the pandemic officially comes to an end.

It's not just the convenience that digital channels provide that consumers like. It's the time that consumers save when they use them.

A consumer who has now delegated many of her everyday, routine purchases to digital channels can better use that time doing other things.

Like the physical world activities that they had to give up as a result of the pandemic that don't have acceptable digital-first substitutes.

THE COMPETITION FOR CONSUMER TIME – AND SPEND

Harry Selfridge, who founded the iconic British department store Selfridges in 1909, was credited with ushering in a new retail shopping paradigm. Until then,

> IT'S NOT JUST THE CONVENIENCE THAT DIGITAL CHANNELS PROVIDE THAT CONSUMERS LIKE. **IT'S THE TIME THAT CONSUMERS SAVE WHEN THEY USE THEM.**

department stores were mostly about making it efficient for consumers to buy what they needed all in one place.

Selfridge aimed to turn that idea upside-down by creating a destination defined by the experience of being in that store. In addition to making goods more accessible to the consumer, he equipped the store with things that made shoppers want to visit and then spend more of their time there — cushy chairs, restaurants, reading rooms, even a “Silence Room” where tired shoppers could relax and kick back. Selfridge wanted to turn shopping from something that consumers had to do to buy what they needed into something they wanted to do — and do more of in his store.

The silver lining of the pandemic is that it has given all sectors of the economy, not just retail, the opportunity to think deeply about how to use technology and people to create better customer experiences. How to use digital-first experiences to replace or enhance what could only once be done in the physical world. How to adapt physical channels to deliver a more personalized, relevant experience. How to use both to align with the consumer’s digital-first journey, regardless of the channel she starts or ends with.

That’s equally true for doctors and their patients, bankers and their accountholders, employers and their workforce, and retailers and their customers.

As the world contemplates the physical reopening of the economy, competition for the consumer will now take place on a different stage. In a world in which digital now influences the decisions consumers make about their time, the money they spend and who’ll they’ll spend it with, it will take more than a vaccine and a promise to reopen to get consumers fully re-engaged into a physical world routine.

Consumers want to recapture the experiences they’ve gone without for more than a year. But they also have tasted the efficiencies and value-added dimensions that a digital-first experience can provide and for that, there’s no turning back.

March 29, 2021

WE'VE SEEN THE FUTURE OF RETAIL – AND IT'S AT THE GROCERY STORE

The U.S. has 40,460 grocery stores. If you want to see how physical retail might look 20 years from now, you might want to watch the grocery store space over the next three to five years.

If, as I wrote in January, retail's success in 2021 and beyond will be defined by logistics, grocery is where we will see clear evidence of this — and where grocery stores' successes and failures will play out in real time.

In grocery, a small number of platforms at scale will emerge to influence the consumer's relationship with buying food and will power the stores' ability to serve a consumer who now thinks differently about how, when and for what she uses the physical store.

Of course, Instacart has already done this and has a big head start. Others, like Target with Shipt, are also in the fray. Meanwhile, Amazon and Walmart are leveraging their online and physical store scales, respectively. But there's room for others to try, and it will be years before we see how it all shakes out.

But what we can say for sure is that platforms like these will become the food-buying hubs for a myriad of grocery stores and food-buying experiences. They will shape how consumers want to buy and fulfill those purchases (in-store, online and pickup), the products they buy when they shop with them (new brands, meals to go, related adjacencies) and, most of all, the stores they choose to shop with.

These platforms will eliminate another consumer friction: drive time. The once tried-and-true cornerstone of grocery stores' competitive advantage will no longer be a given. Once thought too inconvenient to reach, grocery stores will become a viable part of the consumer's consideration set and will change grocery's competitive landscape — as they already have.

THE 20 PERCENT-PLUS FACTOR

Grocery is an enormous retail segment, with $658.1 billion in annual sales projected in 2021, the second-largest retail trade segment. Yet, its growth as a sector has been relatively flat since about 2016 — an average annualized growth of 0.5 percent over the period from 2016 to 2020. Grocery stores fight tooth and nail for the consumer's share of wallet in their local markets. Until March of 2020, that battle was fought up and down the aisles of the brick-and-mortar grocery store closest to the consumer.

Nearly 100 percent of food purchased to consume at home was bought as part of the weekly Saturday trek to the grocery store, and maybe one or two smaller excursions to pick up a few things here and there during the week. Grocery stores outsourced ordering and delivery logistics to the consumer, and consumers seemed okay with taking that on — organizing one of their precious weekend days around the 43 minutes of in-store shopping time, plus the commute to and from. It wasn't that online wasn't an option — it just wasn't a very good one.

Peapod introduced consumers to the idea of buying groceries online in 1989. As part of the Ahold-Delhaize supermarket chain, Peapod checked the logistics box, but at the start of that journey, the online ordering experience was largely a #fail. It's probably not much of an exaggeration to say that it took less time to go to the store and back than it did to navigate the Peapod site to place the weekly shopping order. But since 100 percent of grocery store sales were made in-store, perfecting the online channel was probably not the chain's highest priority — or anyone else's, either.

The recently shuttered Amazon Pantry service, which launched in 2014, was also an attempt to chip away at traditional grocery store purchases that added bulk items to the store shopping experience — mostly things like cleaning supplies, laundry detergent and paper towels. It was also complicated for consumers to figure out how to get their boxes filled with just the right amount of stuff, and it was expensive to fill them.

Food delivery in urban areas via suppliers like Fresh Direct started to get traction in major cities, but neither Pantry nor Fresh made enough of an impact for grocery stores to feel a threat. Walmart remained the largest seller of groceries in the U.S. and Kroger remained the largest grocery store chain (and they still do today).

Food consumed away from home was eaten at a restaurant — and most of the time, those two bright lines and budgets were thought of as separate by the consumer, since even though they both involved eating food, the experiences were vastly different.

Since the pandemic, the lines between grocery stores and restaurant food started to blur considerably, as consumers turned to digital methods to buy food that was first entirely, then largely, eaten at home. Grocery stores sold more meals to go, meal kits came back into vogue, and restaurants ramped up their online ordering and turned to aggregators to acquire and serve customers who were eager to keep some part of their restaurant experience alive.

Today, in one of PYMNTS' latest consumer studies on the grocery shopping habits of U.S. consumers, roughly 80 percent report that they still go to the grocery store to buy their food. What we need to focus on, though, is the 20 percent of consumers who are now buying more of their groceries online than they once did in the physical store — with nearly 60 percent of those digital shifters comprised of the highly coveted millennial and bridge millennial cohorts whose spending power supermarkets want to capture and grow.

When asked about the stickiness of those digital shifts, nearly 80 percent of all of these digital shifters now say that all or most of those habits will become part of their grocery shopping routine.

As consumers increasingly make ordering and logistics the supermarket's problem to solve – not theirs.

MY TIME IS YOUR FRICTION

Just because consumers are buying groceries online doesn't necessarily mean they are buying them online from their once physical store go-to — even as most grocery store chains have seen their digital businesses soar over the last 12 months.

Sometimes consumers are buying directly from specialty food purveyors, suppliers with sustainable supply chains, and/or those with a socially driven ethos and unique products that have suddenly become easy to buy online for delivery to their homes.

And sometimes those purchases are made from large CPG brands that also want to build a more direct relationship with the consumer.

© 2021 PYMNTS.com All Rights Reserved

As PYMNTS has seen in our various subscription commerce studies, consumers are also hip to the subscription trend for many of the 25 percent of the "center aisle" purchases that once took up a lot of space in their physical shopping carts. Pantry staples, cereals and snacks, which were a pain to lug to the car to load and then unload, now lend themselves easily to set-and-forget-because-I-never-want-to-run-out online purchases.

And sometimes those purchases are made from Amazon. Whole Foods sales were reported to be roughly $15 billion or $16 billion in 2020, but that doesn't account for what is a very robust "Subscribe and Save" option for many center aisle items purchased as part of Amazon's online platform.

Or those purchases are made from the once-too-inconvenient-to-drive-to supermarkets that are now accessible via the Instacart platform.

THE AMAZON OF SUPERMARKETS

Buying food online is a tricky online shopping experience. Grocery stores carry roughly 40,000 SKUs, and grocery store shoppers fill their baskets with 30, 40 or 50 products at a time from all different departments. Mastering online ordering and logistics is a complex IT and logistics effort for any grocery store, and nearly impossible for smaller grocery store operations to do at scale while still driving profits.

Amazon's purchase of Whole Foods in 2017 got the eCommerce gears spinning faster, as grocery stores feared that Amazon's platform largesse — its mastery of online and logistics — would become a threat to supermarkets with its new brick-and-mortar focus.

That's when they realized they needed a solution.

Wegmans inked a deal with Instacart that same year to power its eCommerce grocery store. A Wegmans spokesperson said the deal was about giving consumers back more of their time with delivery in less than an hour. The Wegmans announcement followed similar ones with Publix and H-E-B.

Today, Instacart powers eCommerce for 600 retailers, mostly grocery stores and nearly all of the big ones — including Kroger and Costco — across 45,000 stores with 500,000 shoppers who take online orders, then shop for and deliver them. The company reports that the stores on its platform reach 85 percent of the U.S. population.

Successful platforms find ways to eliminate friction that saves time for their stakeholders.

The Instacart platform saves consumers time because it eliminates the trip to the store to buy groceries. But it also saves the grocery store the time spent building and operating an efficient eCommerce site — which, to be successful, has to nail both ordering and logistics to get consumers to try it once, use it twice and continue using it.

In a way, Instacart's become the Amazon of Supermarkets with a twist — enabling third party sellers to share in the benefit of their platform – but giving them the ability to have their own storefront, pricing and relationship with the consumer by linking their shopping via the Instacart platform with their store loyalty program. Instacart has recently added curbside pickup and lets grocery stores use their own employees as shoppers.

Instacart makes the bulk of its revenue from grocery stores — and that makes it unlikely that its strategy is to compete with them. It seems unlikely that Instacart will risk alienating its supermarket customers by buying a supermarket chain or otherwise competing directly with grocery stores.

That's unlike Amazon, with Whole Foods, Walmart, and Target with Shipt.

Of course, as with any digital intermediary, not everyone is happy. The grocery stores that reaped the benefits of digital shopping over the last year using Instacart's platform now realize digital's growing foothold, and worry that Instacart could become a threat to the economics of their business. Grocery is a thin-margin business, and the margins on Instacart orders are lower than for purchases made in-store. More of the consumer's shift to digital and toward the Instacart platform could drive margins even lower.

Instacart has also leveled the grocery shopping playing field for consumers by eliminating the drive time consideration that once more or less kept competition at an equilibrium in those local markets. Giving consumers more choice has introduced new competition for grocery store food spend.

And that's not all bad.

Giving consumers a choice gives grocers the opportunity to find and sell to customers who were once constrained by drive time. At the same time, grocers can focus on making the physical store part of the experience that consumers find valuable and worth their time.

WHAT'S NEXT

A consumer with a newfound appreciation of her time, and whose work-from-home experience is likely to soon become a hybrid-work-from-home experience, is a consumer who is very happy to outsource both ordering and logistics to the platforms that make it easy and efficient to get grocery essentials.

Right now, that's probably via Instacart.

But new tech could give grocery stores access to the microservices they need to power their own ecosystems using localized, automated fulfillment options, as well as access to ordering application programming interfaces (APIs) that meet the consumer's high bar — potentially altering the competitive landscape once again and putting pressure on existing platforms to do more to keep the revenue side of their platform — the grocery stores — on board.

And as goes grocery, so will go the rest of retail.

If the future of retail is about logistics, imagine any one of the platforms today that have commerce and logistics mastered — and what their next moves might be.

April 12, 2021

WHEN WILL CONSUMERS CUT THE IN-STORE POS CORD?

Netflix first introduced its streaming service in the U.S. in January of 2007. It landed with a bit of a thud with analysts and pundits.

Media accounts then poo-poohed its impact, claiming that users would have to <gasp> download a piece of software onto a PC to access content, and pay more to subscribe to a service with a limited content catalog (1,000 shows) — and who'd really want to do that? Content creators would never cut deals with Netflix, they speculated, because doing so would only cannibalize their own businesses and business models. And since streaming was never going to go anywhere anyway, why would they even bother?

Some analysts concluded at the time that those frictions would only serve to boost the fortunes of Blockbuster, the de-facto brick-and-mortar leader in distributing physical DVDs. At the time of the announcement, Blockbuster's stock price even ticked up as they pointed to a "staggering" number of net new subscribers to their service in November of 2006.

We all know the next chapter of that story.

Three years later, Blockbuster went bust as streaming options moved from the desktop to mobile devices and TV sets, and digital ate the frictions of physical content distribution.

Blockbuster wouldn't be the only casualty of Netflix (or streaming). The shift from DVDs to streaming also shifted the competitive dynamics of content creation and distribution to the providers that could most efficiently deliver it to the slew of connected devices — including televisions — that consumers would use to watch content whenever and wherever they wanted. And away from the traditional and entrenched pricey cable TV providers, with their ad-ladened channels and pay TV add-ons, not to mention the satellite and other similar providers.

It's a cautionary tale — one with many similarities between the consumer's shift to streaming over the last 14 years and the consumer's shift to digital over the last 14 months.

That shift to digital, as PYMNTS defines it — doing more in the digital world and less in the physical world for the same activities, such as grocery shopping and buying retail products — is characterized by the same competitive dynamic. And just like cable's cord-cutters and cord slimmers, consumers will move away from the traditional and entrenched providers of shopping and checkout experiences to those that can most

efficiently meet the consumers' new, digital-first habits and preferences.

In fact, they already have.

Like streaming's shift away from traditional cable, it will be the millennials and bridge millennials who lead the way.

Like streaming's shift away from cable, it will be a gradual build, followed by a sharp acceleration up and to the right to those providers who deliver newfound shopping and paying preferences for these digital shifters — and down and to the right for those who can't or won't.

And like streaming's shift, traditional players will likely poo-pooh the potential of these ever-more connected consumers to put a big dent into their universe until it happens — when the momentum of their digital shift becomes a fierce headwind that many may find too difficult to overcome.

THOSE CRAZY CORD-CUTTING KIDS

Streaming's 2007 cord-cutters tell the story of shopping's 2021 digital shifters.

In 2007, Netflix and its streaming service birthed the first generation of cord-cutters and cord not-as-muchers — consumers who found a suitable and welcome escape hatch from cable's bloated bundles.

The early cable cord-cutters were the millennials — the early adopters of smartphones and other connected devices who didn't want to pay a hefty price for channels they didn't watch, because it was the only way they could watch the movies they wanted to see. By the time Netflix celebrated its 10th birthday, a study conducted by PwC in 2017 reported that 90 percent of consumers ages 25 to 34 were accessing television content via the internet. Content creators that wanted to reach those valuable eyeballs had (and still have) no choice but to jump on that streaming content train.

Over streaming's first 10 years, between 2007 and 2017, consumers could choose between multiple streaming providers — Netflix and others — to build their own best-of-breed bundles, including access to live television services from Hulu, YouTube TV and Sling. Increased competition meant that content programming got better. Televisions became internet-enabled, and Fire TV, Apple TV and Roku brought streaming content into living rooms and family rooms. Consumers could increasingly feel more confident that cutting the cable cord wouldn't mean going without the programming they wanted and needed, including sports.

And cut it they did.

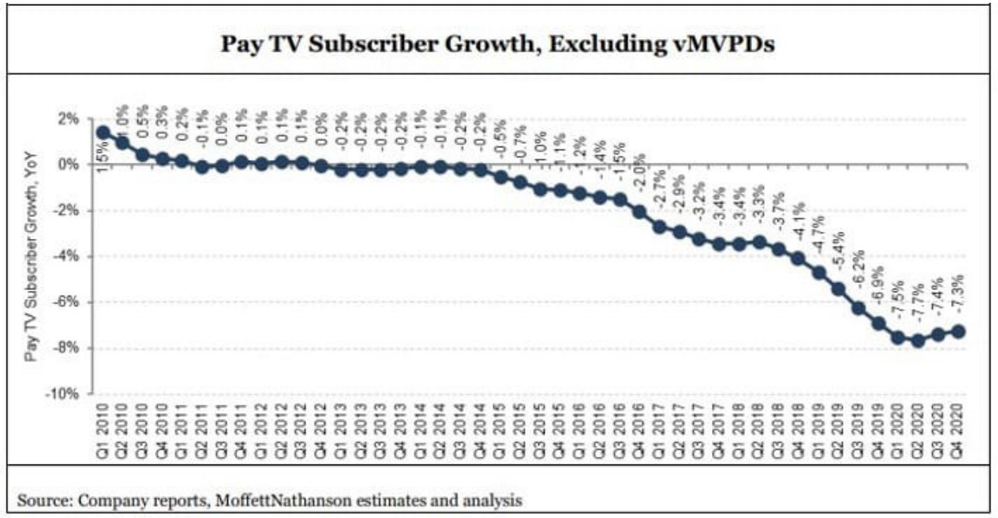
According to Pew Research, in 2015, only 24 percent of Americans were without a cable TV or satellite subscription; in 2021, 44 percent of Americans no longer have one — a nearly 50 percent decline in six years. Pew also reports that the nearly four out of every 10 Americans who don't have a cable or satellite subscription today never did — the "cord-nevers." And Pew reported that the majority (71 percent) of the 61 percent of consumers who used to subscribe to pay TV now get the content they want online from other providers — for cheaper.

Even more interesting, 45 percent of those without a cable or satellite service say they don't watch TV. Streaming, it seems, has not only given consumers more options to access and consume content, but it's also shifted their behaviors away from the content and the channels that used to define what it means to "watch TV." That includes consumers getting their local news from online content providers instead of traditional television stations, and getting their sports – once the key reason that so many cable TV subscribers hung in there – from other streaming services.

But more than the decline of cable (and satellite) TV subscribers over the last 14 years is how it happened.

DEATH BY A THOUSAND CORD CUTS

MoffettNathanson reported that 2020 was the worst year for cable TV



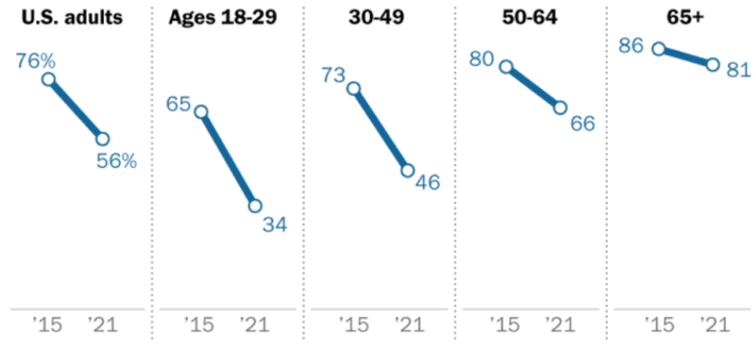
subscriber growth, with providers losing six million subscribers in a single year.

Annual subscriber losses didn't always cut so deep. In fact, according to this chart, it would take roughly eight years before the loss of cable TV subscriber growth would move beyond a sub-1 percent decline quarter over quarter. For cable TV providers, the loss of subscribers was more or less death by a thousand cuts of those cords: concerning at first, but not enough to push the full-on panic button — until a tipping point in the wrong direction in Q2 of 2015 set up what would become a steady and steeper downward spiral.

It would be the millennials and the bridge millennials who would drive much of that decline.

The share of younger adults receiving TV via cable or satellite has plunged dramatically since 2015

*% of U.S. adults who say they **receive** TV via cable or satellite at home*



Note: Respondents who did not give an answer are not shown.
Source: Survey of U.S. adults conducted Jan. 25–Feb. 8, 2021.

PEW RESEARCH CENTER

RETAIL'S DIGITAL SHIFTERS

Retail's $4 trillion question is how many of the digital habits honed by consumers over the last 14 months will stick, particularly as vaccinations are finding their way into people's arms at a record pace in the U.S. and quarantine-weary consumers anxiously await a return to the physical world.

Retailers say that eCommerce has seen a massive growth surge over the last 14 months, but from a relatively small base. Despite eCommerce driving more than $900 billion in incremental volume globally, according to Mastercard, 80 percent of sales still happens in the physical store, retailers contend. And the physical store is where consumers will return, because they have gone without shopping there for so long.

It's a little like cable TV in the 2010s.

According to PYMNTS' research of collectively more than 50,000 U.S. consumers over the last 14 months, 117 million of them have done two things simultaneously over that space of time: They have used digital channels to shop for groceries and retail products more often, and have used physical channels to do their grocery and retail shopping less often.

Like streaming's cord-cutters, this new retail persona — the digital shifter — is creating her own best-of-breed shopping experiences using her mobile device, using apps to order and pay ahead, and choosing the merchants who can support her newfound, digital-first preferences.

It isn't as if digital shifters are dissing physical stores entirely, but they are definitely using them differently.

What's more, these digital shifters are not likely to flip a switch and "go back." Nearly 90 percent say they will continue to keep their digital/physical splits intact, even as they become more comfortable getting back into the physical world. That means that a snap back to the physical world may well be characterized less by the things for which digital is an effective and efficient substitute — and more by the things for which it is not: traveling to see family and friends, going out to eat, strolling up and down Main Street on a Saturday or Sunday afternoon to shop and have lunch, or going to ballgames and concerts. That is, all of the experiences that many of us have missed so much over the last 14 months. The experiences that consumers want to have in the store and is worth their time instead of trips to the store for

the essential items they can just as efficiently get online.

Like steaming's cord-cutters, millennials and bridge millennials — the cohort of 33- to 43-year-olds who straddle millennials and Gen X — will propel this digital shift and keep it growing. Like cable TV's cord-cutters, they are the generation with spending power and a digital-first preference. Bridge millennials are the first generation that grew up with connected devices, and that defaulted to using them to shop, pay, bank, stay connected and otherwise navigate an increasingly connected economy. They are using new digital tools to shop at the merchants they love and discover — and buy direct — new brands that reflect their social and cultural preferences.

Of the 117 million consumers who have shifted digital for retail or grocery purchases, 17 percent of them are millennials and 14 percent are bridge millennials. That's a small fraction of consumers, to some, but a cohort whose spending power and digital preference looms large — and will shape the futures and the fortunes of retail.

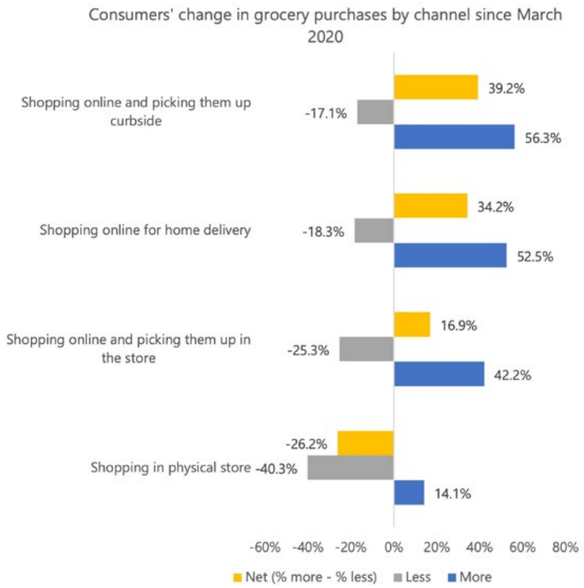
THE CONSUMER AND THE POINT OF SALE

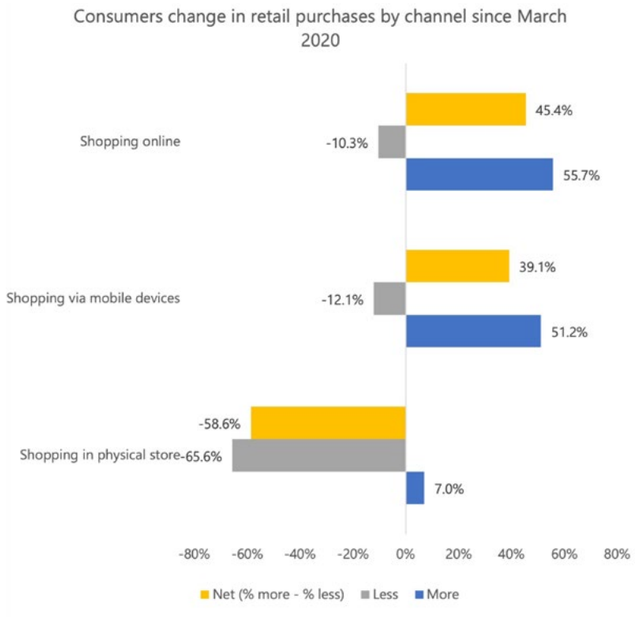
One of the most profound insights from PYMNTS' research over the last 14 months is the consumer's increasing preference for living in a "bring it to me economy," a trend I first wrote about in January of 2021. The most recent pandemic-related PYMNTS survey of 1,994 consumers conducted between Feb. 26 and March 2 underscores this trend.

As you can see from these charts, consumers shop for grocery and retail products using both digital and physical channels — the very definition of a Digital Shifter. But the net shift by shopping channel is not only more toward digital, but to the digital options that give consumers more control over the time they spend shopping and paying for their purchases: order online for delivery, and order online to pick up curbside.

Net shift is defined as the difference between consumers who did more in more in one channel and less in another.

For grocery shopping, the net shift reflects a negative net 26 percent away from the physical store channel, and a net positive shift of 34 percent to buy online for delivery and 39 percent to





Source: PYMNTS survey to 1994 US adults done between Feb 26 and Mar 2

buy online and pick up curbside for all shoppers.

For bridge millennials, that net shift away from the physical store for groceries and the shift to online ordering for delivery is more pronounced: a net negative shift of 34 percent away from shopping in the physical store more generally, and a net positive shift of 40 percent for retail purchases and a net positive shift of 36 percent for grocery purchases that are online order ahead for delivery at home.

And for bridge millennials and millennials, the ultimate touchless experience today is not going to the store to shop and to pay. They, and the devices they have within their control, have become the point of sale.

THE CONSUMER AS THE POS

For cord-cutters, the shift away from cable TV was more than just a shift away from “cable” or “satellite” — it was a break from a provider with a proprietary piece of hardware that consumers had to install and pay for to access programming. Consumers were stuck with a box or a dish — and only the programming they could get from them.

Connected devices and streaming content gave consumers control and choice — an on-demand content experience, wherever, whatever and to consume whenever they wanted. Over time, consumers used streaming more, cable TV less (and some not at all), and (before COVID-19) the movie theater to watch studio blockbusters. Consumers adjusted their bundles — more of this, less of that — established new content consuming habits and preferences and were willing to pay for having that choice.

Retail’s Digital Shifters are in the process of doing the same thing: exercising their desire for control and choice in how they shop, and how they pay for what they buy. They have more choices and options now to consider, and retailers are stepping up to provide those choices. Standing in front of a terminal to check out had already become less and less desirable even before COVID, and order ahead for pickup was already gathering momentum, particularly in the grocery and QSR channels where speed and convenience is critical. And despite the ability for consumers to use contactless cards to checkout. Contactless cards didn’t reinvent the point-of-sale experience for consumers — they just made it a bit faster, and now, more health-conscious. They still had to queue up to stand in line, and wait for the cashier to bag their items before leaving the store.

Connected devices and apps put the power of the POS in the hands of consumers and an opportunity to cut the POS cord, even when they shop in the physical store. QR codes and other app-based innovations will help consumers not only pay when their shopping is done, but also to have a smarter, more personalized shopping experience, regardless of the channel they shop and where they are when they take possession of what they bought.

Innovators understand and will seize the opportunity to erase the physical and digital shopping divide by reimagining the shopping experience and moving it to the cloud, and under the control of the POS cord-cutting digital shifters whose numbers will continue to grow — and retailers ignore at their peril.

And depending on when you started counting, that reality might arrive faster than you think.

April 19, 2021

IS COINBASE NETSCAPE 2.0? HERE ARE FIVE THINGS YOU MUST BELIEVE

Coinbase's April 14 IPO was the stock market event that launched a thousand superlatives. A "watershed moment," a "rocket" that analysts said would see its stock price double and a "landmark moment for crypto" are but a few of the headlines marking its debut as a listed company that day.

Today (April 19, before the market's open), Coinbase's market cap stands at $64 billion, give or take. Coinbase offers many services, but it mainly operates as an exchange for cryptocurrencies. The market cap of ICE, an exchange that owns and operates 12 exchanges and clearinghouses, including the NYSE, is worth only a smidge more, at $69 billion. NASDAQ, in case you are curious, has a market cap of $26 billion.

Now, exchanges haven't been notorious for having large market caps — at least, not until the Coinbase debut last week. Although the function of an exchange is vital to the overall economy, the real economic value is created by the companies that these regulated exchanges enable to raise capital and allow investors to buy and sell shares — the companies that produce products and deliver services with business fundamentals that investors use to evaluate whether to buy, hold or sell stock.

And it's that comparison — or maybe others that could be made — that makes handicapping the future value of Coinbase both interesting and challenging.

At the moment, Coinbase and the cryptocurrencies it trades seem to be speculative cryptocurrency assets. The underlying value of these cryptocurrencies is based purely on what someone else is willing to pay for it, just like gold. But the trading activity seems to be driven mostly by speculation that the value will continue to climb, or not, generating the high-margin flows that Coinbase enjoys every time someone makes a trade.

For some retail investors, the "fundamentals" used as the basis for investing are often tweets by famous billionaire crypto enthusiasts, for whom crypto investments are but a tiny piece of their overall holdings and who can comfortably weather its volatility. That said, it's been the institutional investor that has driven so much of Coinbase's recent volume, eclipsing retail trading volume every quarter since Q2 of 2019. In addition, many high-profile companies — most notably Tesla, MicroStrategy and Square — bought bitcoin to hold on their balance sheets as an investment. Big banks are now also offering to trade and custody crypto.

A Financial Times story published on April 16 likened the Coinbase debut to the launch of Netscape in 1994, an equivalent "landmark technology" that ignited the World Wide Web 27 years ago. The comparison, BTW, is being made to a landmark technology, not a valuable company. You might recall that Netscape itself wasn't long for this world.

If Coinbase is Netscape 2.0, as the analysts in that FT article infer, there are five things you must believe. And handicapping them is the secret to figuring out whether Coinbase is crazily overvalued, or has room to zoom and zoom.

MUST-BELIEVE #1

COINBASE IS A PATH-BREAKING INNOVATION THAT WILL UNLOCK HUGE VALUE.

When Netscape launched in 1994, it was a dramatic innovation that enabled regular people to easily navigate the internet, as commercial applications were just starting to take off. Early online pioneers like Amazon and eBay leveraged its technology to build web businesses where consumers could, albeit primitively by today's standards, purchase things. Netscape ushered in the age of the dot.com — initially creating value for itself by creating value for businesses that could use its technology to build their own sites.

Clearly, Coinbase is an innovative platform that has spent the last nine years building a globally regulated exchange, digital wallet and custody operation for assets that are the digital equivalent of cash. Coinbase enables investors to buy and sell and store those cryptocurrencies safely, securely and in compliance with global regulations. And unlike Netscape (more on that later), that is a huge moat not easily replicated – at least not without lots of time and at great cost.

Coinbase is an innovative enabling platform, and clearly the foundation for the cryptocurrency trading boom. Its innovation has made it more efficient, and more secure, for retail and institutional investors to trade and store a speculative asset – much like other exchanges have made it easier, more efficient and safer to trade other exotic speculative assets like gold, copper, corn and soybeans. It is also creating liquidity for cryptocurrencies whose use cases are enabling transactions on special-purpose blockchains for which there is some traction.

MUST-BELIEVE #2

COINBASE WILL IGNITE THE CRYPTO ECONOMY.

That said, igniting the crypto economy means that the cryptocurrencies on the Coinbase exchange transition from being **a digital asset** that people trade for speculation, to currencies that become the basis for how consumers and businesses transact. And not just **a way** to buy and sell goods and services, but **the way** — or at least a major way — that people do business because that is how merchants and other businesses want to be paid for what they sell.

For consumers, it means a rather big change. The consumer who today moves fluidly between cash, debit cards, credit cards and alt credit to pay for things at merchants would migrate to using cryptocurrency. For Coinbase to participate in the crypto economy and not just ignite it, consumers would also use the Coinbase wallet primarily, but not exclusively, to buy, sell, hold and pay.

That's different than how the internet economy took off with Netscape.

Netscape made it easier for developers to render websites and for consumers to navigate to them. When those consumers wanted to buy something from those sites, though, they had a variety of familiar cards in their leather wallets – and then, over time, digital wallets. The early internet innovators who tried to mint their own currency (Beenz, anyone?) found that the platform's dynamic – a new channel, new method of payment and the inherent difficulty of getting consumers and merchants on board – too complex to get off the ground, and gave up. Right idea, wrong time? That's part of what one has to believe.

That said, the ability for developers to create new places on the web for consumers to shop did give rise to a new set of payment enablers that eliminated friction from online checkout. PayPal launched in 1998, and later ignited the eBay marketplace by being a trusted intermediary for buyers and sellers to transact — first using the consumer's bank account credentials, and then over time their existing card credentials (and even more recently, funds generated by the sale of bitcoin in the PayPal wallet) as the underlying funding method for purchases. Consumer choice further scaled its consumer and merchant network growth, using the PayPal wallet as both a trusted way to pay and a store of value.

Shopify launched in 2006, and later ignited by giving SMBs a suite of

commerce tools that leveled the digital playing field — including the ability to accept the method of payment that consumers already had and wanted to use to buy things from a merchant they'd never seen or heard of before. Using existing payments credentials, with their built-in protections when transactions went wrong.

Leveraging existing payment methods also ignited Square, which launched in 2009, giving micro-merchants the ability to accept the cards consumers carried in their wallets by plugging a square dongle into their smartphone, enabling them to accept any network-branded credit card with a mag.

And Stripe, which launched in 2011 and later ignited the world of mobile commerce, made it easy for developers to paste a few lines of code into their mobile app and start accepting cards, as well as the digital wallets consumers also used to register those card credentials.

Coinbase currently has 43 million verified users with a Coinbase wallet. For the Coinbase platform to move beyond trading to transact and conduct commerce on its platform, more consumers would have to open a Coinbase wallet — and most importantly, merchants would have to accept it.

For that to happen, consumers would have to get comfortable using cryptocurrencies largely to transact — and lots of merchants would have to agree to put Coinbase alongside other marks like Visa and PayPal.

Consumers who would want to use cryptocurrencies to transact would want to use a crypto-only wallet, instead of having crypto as part of a digital wallet that has other payment credentials. Or Coinbase would have to open its wallet to non-crypto methods of payment.

MUST-BELIEVE #3:

CRYPTOCURRENCIES ARE A CURRENCY FOR TRANSACTING JUST LIKE FIAT CURRENCY AND NOT A SPECULATIVE ASSET.

For the crypto economy to ignite, consumers must stop thinking of crypto as a way to speculate (some would say gamble), or as the digital equivalent to gold where they store wealth, and start thinking about it as a method of payment they can use every day to buy things.

That's arguably tough right now, as some analysts posit that bitcoin's supply constraints will drive its value to $1 million over the next five to six years — bitcoin's value fluctuates so much day to day. And at a time when Dogecoin, which started as a joke meme coin in 2013, saw its value rise 400 percent over the last week for no apparent reason other than it was April. The volatility of these cryptocurrencies and others further fuels the speculative nature of cryptocurrencies.

All that said, consumers want to spend their crypto gains. And when they do, and then buy things using those funds, they think of it as money because it's been converted to the fiat currency they can use day to day. Making those cryptocurrency gains spendable is different than using cryptocurrencies in place of their fiat-denominated currency to transact.

MUST-BELIEVE #4:

REGULATORS EMBRACE, AND DON'T STRANGLE, THE CRYPTOCURRENCY ECONOMY.

Bitcoin has long been the scourge of regulators, who have fears over AML, KYC and bad actors that use it for their own nefarious purposes. Most of them consider crypto as a "speculative" digital asset that they tolerate, even now including China, but aren't keen on its use as a global currency. It's why regulators have very harsh words for bitcoin.

It's also why the regulators look differently, and are beginning to look more thoughtfully, at stablecoins denominated to fiat currency, in particular the U.S. dollar, and issuing their own digital fiat. Both are a nod to the power of digital currencies, regulated and stable, to potentially enable new, compliant and efficient payments use cases.

But for Coinbase to ignite a crypto economy — and for any of the players in the cryptocurrency ecosystem to participate in that potential upside — regulators and policymakers must be convinced that there are payments use cases that only blockchain and cryptocurrencies can solve efficiently and effectively. And it requires that they are okay with the speculative nature of crypto — and won't strangle the life out of blockchain innovation and all cryptocurrency assets just because it's different.

As we have seen, all it takes is for one central bank to shut it down for the ripple effects to be felt the world over. Last week The Turkish government banned the use of cryptocurrency for payments, still allowing it to be traded as a speculative asset.

MUST-BELIEVE #5:

COINBASE HAS A SUSTAINABLE BUSINESS MODEL.

Nearly all of Coinbase's revenue comes from the fees it charges for traders to trade and store crypto assets on its platform. Some analysts have suggested that Coinbase's high stock price and market cap are at risk, as new competitors, pureplay crypto exchanges and banks get into the business and drive prices down. That suggests the need for Coinbase to find new and diversified sources of revenue to blunt that risk. Ironically, it was increased competition from Microsoft (and yes, I do know well the story of the landmark antitrust case) as well as its business model that diminished Netscape's importance over time, and ultimately caused it to fade into the internet history books.

Other analysts point to the upside potential of Coinbase's global regulatory moat, its importance as a launch point in the cryptocurrency (not just crypto speculative asset world) and a valuation that should peg it less like an exchange and more like an enabling commerce platform.

Provided, of course, that points two through five above can be overcome.

WHAT'S NEXT

Innovations by the private sector in using faster, smarter blockchain technology to streamline the movement of money from person to person — and to and from any account or digital wallet — has uncovered a number of important use cases for which blockchain and crypto are slowly chipping away at the inefficiencies of once-intractable payments inefficiencies.

The question yet to be answered is how Coinbase will capitalize on that transformation, at scale, in a timeframe that investors — and the "average Joe" consumer — will find relevant. And that regulators don't throw the cryptocurrency baby out with the innovations that it and the blockchain can ignite.

For Coinbase to be Netscape 2.0, one must believe that that (a) blockchain solutions take off, (b) that those solutions make people want to use cryptocurrencies to transact for most of the things they want to purchase (c) that there is a killer app that emerges that ignites the crypto economy and (d) Coinbase supports and ignites all if it.

Points (a) and (c) seem not only plausible, but are developments we see unfolding today. Points (b) and (d) totally depend on cryptocurrencies becoming the way we pay, as distinguished from fiat-denominated stablecoins or central bank-issued digital fiat. And that consumers and businesses, en masse, think of crypto as they do any other currency and migrate to the wallets and rails that become the basis for a parallel global financial ecosystem built on crypto.

May 24, 2021

THE INSTACART WAY TO INNOVATING IN THE CONNECTED ECONOMY

Would you be surprised if I told you that as many U.S. consumers now order groceries online as order restaurant food online?

Don't be.

According to PYMNTS' latest national consumer study fielded earlier in May, which surveyed a representative sample of roughly 2,300 adults, 17 percent of all consumers reported using digital platforms such as Instacart to order and pay for groceries instead of going to the grocery store to buy food. That's a whisker ahead of the 16 percent of all consumers who reported ordering restaurant food online or from delivery aggregators instead of going into a restaurant to order and eat it. It's a statistical dead heat.

These same consumers also report using these digital channels with about the same frequency.

Fourteen percent of consumers said they order groceries online once a month using digital platforms including Instacart, as well as grocery stores that may be powered by Instacart or grocery stores that offer their own online ordering options. Fourteen percent of consumers also report ordering food online, including from restaurant aggregators such as Uber Eats or DoorDash, once a month. Maybe not surprisingly, slightly more consumers order food from aggregators once a week (17 percent) than groceries (15 percent). Consumers are using digital grocery platforms a bit more to stock up, and are using food aggregators to order what is needed in the moment.

More importantly, out of the consumers who said they are simultaneously doing more in the digital world and less in the physical world when it comes to ordering and paying for their food, roughly 72 percent said they'll stick with some or all of these digital habits moving forward – even as the physical economy reopens.

Projecting our sample to the U.S. population, there are roughly 45 million consumers — we call then them digital shifters — at the tip of the connected "Eat" ecosystem spear. And this Eat ecosystem — how consumers buy and pay for their food and where they eat it — is quickly becoming one of the most fascinating case studies for how connected economies develop, compete and scale.

Think about this for a minute.

Just 15 months ago, nearly all of a consumer's grocery purchases

were done in a physical store. And food ordered online from restaurant aggregators was a tiny sliver of food ordered online from restaurants.

As the economy reopens, platforms such as Instacart, Uber Eats, DoorDash and Grubhub are crafting strategies to preserve the digital ordering tailwind fueled by the pandemic. At the same time, traditional brick-and-mortar grocery stores and restaurants are evaluating the habits of their digital-first consumers, assessing their own digital capabilities and contemplating their options to blend digital with physical without losing control of their margins or their customers.

At the same time, consumers have a newfound appreciation for their time, and a new definition for what they consider to be a source of friction.

In March of 2020, shifting digital was more or less a false choice.

Restaurants were closed, and even as grocery stores remained open, going to one was filled with friction and consumers didn't feel safe shopping there. Instacart powered online ordering from the grocery stores where consumers shopped — or where they wanted to shop, but found to be inconvenient. The company hired an additional 300,000 shoppers to fulfill the demand and overcome the grocery store's inability to shift online without its help. Restaurant aggregators drove business to restaurants that were otherwise challenged to make sales and that had even fewer options to manage the logistics of delivery.

These digital platforms gave grocery stores and restaurants a digital-first boost by protecting the health of consumers and employees, who were able to interact with far fewer people and thereby reduce their exposure to COVID-19. Although there aren't any hard data to prove it, it is clear they saved lives and reduced hospitalization.

Yet what defined success for consumers, restaurants, grocery stores and digital platforms over the last 15 months will be different as we look ahead. As health risks fade, how consumers use these digital and physical channels in the future will be determined by how well each ecosystem participant manages the three things that shape consumer and business behavior: friction, inertia and time.

GROCERY SHOPPING: NO LONGER A NECESSARY FRICTION

Not many people say they absolutely love their trips to the grocery store, especially if that trip includes having a couple of kids in tow. Whether you live in the 'burbs or the city, it is a schlepp to the grocery store — inconvenient and a big time suck.

Grocery shopping in the store is also not an activity that digital converts are eager to resume as the physical economy reopens, even though it remains the predominant way that consumers buy their groceries.

According to the latest PYMNTS consumer study, coming in at No. 9 on the list of the top 10 behaviors that consumers want to maintain as the physical economy reopens is going back to the grocery store to buy groceries. Nearly tied for fourth and fifth on the list is ordering groceries online to pick up curbside and ordering groceries online for delivery. (The top two behaviors they would like to maintain, in case you're curious, is buying retail products online and working from home.)

Digital platforms — the store's own or the more than 350 grocery store brands and 25,000 store locations whose online experience is powered by Instacart — have saved consumers' time and delivered a great user experience.

Shopping histories save ordering time. Instacart gives consumers the option to link their store loyalty programs to their account and store choice, so ordering from Instacart doesn't come with the expense of losing out on store loyalty points — and the store doesn't miss out on the chance to capture loyalty club consumer data or build an email list of those who shop with their store on that platform.

Instacart's ad platform gives brands the ability to promote their products and offer discounts to induce purchases. Some of those inducements subsidize free shipping if consumers spend a threshold amount with that particular brand.

THE INSTACART EFFECT FOR SUPERMARKETS

Instacart eliminates the biggest grocery shopping friction of all: drive time to and from the store.

Stores that were on the consumer's grocery store wish list but were nixed because they were too far away are suddenly back in their consideration set. That includes a variety of regional brands, Costco and smaller grocery stores.

The consumer who has found and shopped these new stores and done so without the friction of actually going there is likely to stick with that

choice for at least some of her grocery purchases — unless she's had a bad experience. And that's particularly younger consumers: According to PYMNTS' latest survey, 60 percent of millennials and bridge millennials reported that they will continue to use Instacart for grocery purchases because of the convenience and time savings.

These digital-first grocery shoppers may not abandon going to the grocery store at all, but will likely shift some in-store grocery store purchases to other online, direct-to-consumer (D2C) brands with a unique product or compelling brand proposition. Or they may shift to their local specialty food purveyors, such as their local butcher, cheese shop, specialty grocer or seafood shop. Or to Amazon's "subscribe and save" platform for the bulky products and essential staples that are just easier to buy online and have delivered in order to never be without.

All of these dynamics create a more competitive grocery market. Consumers have more choice, and grocery stores have more incentives to woo consumers from more and different rivals.

When the competition for the consumer's grocery dollars is any store — not just the stores that are convenient for a consumer to drive to, and not just the brands they always used to buy in those stores — grocery stores and brands will adapt. They already have.

Desirable delivery windows will become more available, and deliveries will be on time. Policies around substitutions will be clarified upfront to avoid disputes and improve client satisfaction. Communication between the shopper and the consumer throughout the shopping experience will become more interactive and specific to customer requirements.

Grocery stores will market heavily to consumers who shop their stores via the Instacart platform to induce them to shop directly with them, even though Instacart still powers their online and delivery channel. The economics are different for the consumer and the grocer in this scenario, since one of the ways Instacart makes money is by marking up the in-store prices. Brands will compete for the consumer's spend by making offers contextual and redeemable in real time.

But the consumer's digital shift also changes the dynamics of the grocery shopping ecosystem, as grocery stores want more feet inside their stores, and want more control of the economics of their digital channels.

The "Instacart effect" for the grocery store is navigating this new shopping dynamic without creating friction for the same consumer they want to attract and retain. A consumer who is used to a friction-free digital experience with certainty about what's in stock, choice in whether and what to substitute, and the option to shop the physical and digital store in the way that best suits their preferences in 2021. A consumer who has proven that she is willing to pay for the convenience of a better digital online grocery shopping experience. A consumer who says she's not that keen to shop for groceries the way she did in 2019.

Grocery stores now face a new decision-making dynamic, too — at the same time that their inertia for change has been lowered, and the inertia for consumers making another change is now higher than before, given their level of satisfaction with their digital-first alternatives.

It's also a decision dynamic made more complex for grocery stores as the shift from current legacy systems to a native digital ordering and delivery experience is a costly, time-consuming and potentially risky big lift for grocery store execs. As is the inability to use data to better understand the behaviors of the consumers who shop their physical stores, other than knowing how much they spend and which SKUs they buy.

And few good options have emerged. For the same reasons that grocery stores don't want Amazon managing the ordering and delivery of their groceries, neither will they want another competing grocery store to do it.

RESTAURANT AGGREGATORS AT GREATER RISK

For the very same reasons that Instacart has a leg up in the grocery segment, restaurant aggregators are at a longer-term risk in their own segment.

The biggest friction for consumers over the last 15 months has been their inability to experience restaurant food in the restaurant. After not being able to see family and friends, going out to eat is consistently cited as something consumers miss the most.

Restaurant aggregators filled that void for consumers, but in so doing introduced their own set of frictions for diners and restaurants. And restaurants are much less happy with delivery services than supermarkets are with Instacart, because the economics don't work in their favor.

Consumers who order food from aggregators want their food at

a specific time — not within an uncertain two-hour window. That narrows the consideration set for consumers to restaurants that are part of the aggregator's platform, and that can fulfill the order at the time most convenient for them. With too few options and too uncertain of a timeframe, consumers may continue to order online for pickup, but using the restaurant's app or website or good old-fashioned telephone. In fact, the majority of the online orders placed today are not delivered, but are picked up by consumers, and ordered directly from the restaurant.

Savvy restaurateurs that want to avoid the costs of using aggregators have helped influence that dynamic. Not all menu items are available on restaurant aggregator sites. And many have marked up the price of the food on those menus and delivery fees to defray the cut taken by the aggregators when consumers place their orders with them.

At the same time, restaurants have new options for managing online ordering and delivery via their own systems. Cloud-based POS and ordering platforms integrate online ordering and delivery capabilities into the restaurant software systems. New ecosystems, like Google Ordering, offer a new option to fill the online order funnel by capturing and converting search traffic. In much the same way that restaurants use Open Table for bookings, QSRs, fast-casual and on-premises restaurant establishments are matching their use of aggregators to times when the business they get is mostly incremental.

For consumers, ordering online or directly from the restaurant is a familiar behavior that has been made easier over the last 15 months by the innovations that restaurant software platforms have enabled. Restaurant operators realize the power of digital, and want to keep it in the mix across the entirety of the restaurant journey – for food ordered online for pick up or delivery and at the table – to make the restaurant ordering experience more satisfying and within the guest's control. As restaurants continue to refine their own online capabilities, and new commerce ecosystems emerge to help fill the incremental ordering funnel, restaurant operators will rely less on food aggregators and use them opportunistically.

The delivery part of the experience is the void that aggregators fill today. It's also the part of the experience that others with logistics expertise and a supply of drivers could help fill.

Maybe even Instacart.

THE VALUE OF A FRAMEWORK

Frameworks are what separate good strategy from chasing trends or monitoring the competition out of context. For instance, successful matchmakers — the cornerstones of the platform economy — use the ignition framework to design strategies to get critical mass on both sides of their platform, and a business model that delivers both growth and profitability.

The framework for the connected economy adds another layer to that. It systemically evaluates how friction, inertia and time variables influence the consumers' behaviors, and therefore the structure and strategy of the digital platforms that will power it. As we have seen over the past 15 months, the inertia that was once the obstacle to change across the connected economy fell away, because it was either impossible or too risky for consumers to stick with their ingrained physical ways. Digital platforms provided access to the physical world products and services with much less risk, thereby countering the inertia. And once they made the move, they discovered that they saved time and encountered less friction.

Now it's time for entrepreneurs to apply this framework — one PYMNTS calls the FIT® Framework (for Friction, Inertia and Time) — to find the next opportunity for an Instacart to revolutionize a physical sector. Entrepreneurs can discover these by looking at places where there is significant friction for consumers and businesses, where substantial time savings can be achieved and where it is possible to overcome inertia — for consumers and the businesses that wish to serve them.

My bet is this will lead to the next decade of innovation for the connected economy.

June 1, 2021

OVERDRAFTS, MERCHANT FEES AND CRYPTO: WHY YOU CAN'T HAVE IT BOTH WAYS

Senator Elizabeth Warren's exchange with J.P. Morgan CEO Jamie Dimon on overdraft fees has been viewed 750,000 times in the first 24 hours since the May 26 Senate Banking Committee hearing that spawned it, according to a Newsweek report.

That made-for-TV moment came when Warren challenged Dimon to commit — on the spot — to refunding the $1.4 billion in overdraft fees that the bank collected during the course of the pandemic, on top of the fees that J.P. Morgan had already been refunded at the request of the consumer.

To which he flatly answered no.

Warren later took to Twitter to crown Dimon "the star of the overdraft show" as part of her ongoing media tirade to discredit the various multi-billion-dollar efforts made by the largest financial institutions (FIs) to support consumers during the pandemic. She told bank CEOs at the start of the hearing that their forbearance programs and other initiatives, including the refund of overdraft fees at the consumers' request – intended to help consumers weather the pandemic-imposed financial crisis — were "a bunch of baloney."

It's a great and timely example of how we can't have it both ways — the collective "we" consisting of regulators, policymakers, innovators, payments players, merchants and consumers — even though the narrative that we can have it both ways feeds the media beast.

And by both ways, I mean selectively targeting some for providing and monetizing services that consumers want and use, without considering the downstream impact to those consumers if those services are suddenly taken away, regulated out of existence or made too costly for service providers to support.

NEVER ATTACK AN OVERDRAFT FEE WHEN IT'S DOWN

As unpopular as it is to let facts get in the way of a great story, bank overdraft fees in 2020 were down 10 percent, reaching their lowest level in six years. The median overdraft fee was $30, according to reporting in The Wall Street Journal on May 30.

There are a few reasons why.

Consumers who worked from home, or didn't work at all, didn't spend as much money as they once did. They also

saved on commuting and other work-related expenses, and smartly banked what they didn't spend. Stimulus and unemployment booster checks added to bank account balances, and forbearance programs gave pinched consumers some breathing room to get their financial houses in order. Those who incurred overdraft fees and asked for a reversal, got it.

The NY Fed produced a report a few weeks back lauding the efforts of these bank forbearance programs, crediting them with saving consumers from undue financial hardship, improving their credit scores and giving them a chance to divert mortgage payments to pay down credit card debt without fear of credit score reprisal. That report also stated that most of the consumers who were once in forbearance programs are now successfully out of them.

There are also a lot of reasons why consumers overdraft.

Some people still use checks to make payments, and don't know when those checks will clear and hit their account. And more of them probably use checks than they realize — online bank bill payment services often pay billers with checks, creating the same consumer uncertainty. That's a flaw with the legacy batch-based, paper-based payments systems. It's a flaw that banks are investing tens of billions to remedy by moving to the cloud and to real-time, and why FinTechs are developing new apps and platforms to solve specific payments and financial services use cases.

But as payments go more digital, transactions become more abstract and harder to track. A lot more people use debit cards — including for smaller-dollar purchases that they once made in cash. Not everyone uses mobile banking — although many more do now thanks to the pandemic, to monitor those daily transactions and check to see when they post to their account.

At the same time, there is a fixed amount of money deposited in a consumer's checking account, and it's hard to know precisely when or what could trigger an overdraft. But if or when that happens, the biggest consequence isn't having a transaction denied at a merchant, although that is embarrassing — it's having an important bill payment bounce.

So then what happens?

If a consumer can make a deposit or transfer money right away, they can resubmit the bill for payment in order to avoid a late fee or service interruption.

Without immediate access to funds to cover the shortfall, a consumer can wait and pay the bill late, along with the late fee imposed by the biller. And they would risk having that late payment reported to the credit bureau.

Depending on the size and type of bill, they can tap one of several FinTechs that are in the business of providing short-term, small-dollar financing.

If they work for an employer that offers an on-demand payroll option, they can access wages earned in advance of the traditional payday.

As a last resort, they can go to a lender of last resort and pay fees for a short-term loan.

They can decide not to pay the bill, and risk losing access to the service.

Regardless, in all but the last scenario, the consumer would pay a fee to obtain access to funds, and possibly even late fees to the biller, depending on when the payment is finally made.

As they should. In each case, the provider is extending a service and taking on the risk of extending credit to give that consumer access to the funds needed to cover the shortfall.

That consumer could also allow their bank, with their permission, to overdraw their account to avoid a bounced bill payment and then pay an overdraft fee for that convenience.

Reg E now requires consumers to opt-in to overdraft protection on debit card, ATM and check transactions, and prohibits the egregious "stacking" of transactions that would have resulted in the $3.50 breakfast sandwich purchase costing $38.50 before this practice was prohibited. Banks also limit the number of overdrafts allowed in a day. Unlike billers, banks don't report overdrafts to the bureau, so it's not a ding to a consumer's credit score.

Several banks are now piloting options that extend a free grace period to account holders for making their bank accounts whole if they overdraft, and they are only charged if they miss that window. And Request for Payment — a service that will let consumers pay a bill and have it posted to their account the day it is due — is now being piloted by a handful of large billers and FIs connected to the TCH RTP rails.

The RTP program is expected to roll out more broadly this fall and is supported by 25 FIs, as well as tech platforms including Fiserv and Jack Henry. Their goal is to offer their account holders more clarity and certainty about their bill payments experience and management of their household cash flow by making a bill payment on the day it is due without penalty. How that will be monetized is still to be determined.

WHO MOVED MY BALONEY?

Many, I know, will push back and make the point that none of this addresses the fact that those whose payments are returned can ill afford to pay the associated fees. But that's a different and perhaps larger point that goes well beyond how people manage their spending, bank accounts and bill payments.

My point is that "we" can't have it both ways.

We can't at the same time demonize banks for providing and monetizing an opt-in service that consumers use when they need a short-term financial backstop, and criticize them when they do. And we can't do so without leveling the same criticism to any of the alternative service providers that solve the really big problem created when consumers don't have enough money in their account to pay a bill and then overdraw.

I'm not saying they're doing anything wrong, either.

They, like the banks, are doing what all successful businesses do: making a valuable service available to help consumers eliminate a big and costly friction — and charging a fee to provide the service.

And that's not baloney.

THE "MERCHANT PAYS" MODEL: NO SUCH THING AS A FREE PAYMENTS LUNCH

Interchange fees are the payments equivalent of the Holy Wars.

For the last 60 years, ever since the card networks established a business model that made it possible for banks (and, later, others) to issue a general-purpose credit (and then debit) card — and for merchants to accept any and all of those cards carrying their acceptance marks — they have resisted paying those fees.

Over the last decade, their resistance has come in many forms: litigation, legislation (the Durbin Amendment for Debit Interchange), regulation (in the EU, where interchange is capped), surcharging (which is now permitted in 46 states) and cash discounts.

At the same time, merchants have tried to create and launch their own payments schemes to avoid paying them — and without much success. A great oldie but goodie worth reading is my MCX Fairy Tale — complete with its own villains — which I wrote in September of 2013, foreshadowing the collapse of the merchant-centric payments scheme before it was officially shuttered.

More recently, open banking payments have become the new black for ditching interchange and enabling account-to-account payments between consumers and merchants outside of the card rails in the U.S. and the EU. Merchants, it is reported, are motivated to move forward, since it will cost them less to support those transactions.

But will it?

WHEN "FREE" MEANS MERCHANTS STILL PAY

Merchants say that with the interchange savings, they'll be able to offer rewards to their customers — rewards that more directly align with the merchant where the consumer is shopping. In order for the consumer to care, those rewards will have to be as good or better than what they get now. And as recent PYMNTS research shows, consumers aren't all that keen to opt into merchant-centric loyalty programs unless they are making high-frequency purchases (like food) from those merchants. Consumers

would rather have a more flexible and fungible earn-and-burn loyalty scheme.

Those merchant-centric payment schemes will have to offer the same frictionless refunds and dispute protections, along with the zero-liability fraud and security assurances that consumers are used to today. More generally, the wholesale shift away from cards and card rails and/or whatever method of payment consumers like and use today will have to come with the same utility and ubiquity that they are used to now.

And they will very likely have to include incentives to get consumers to switch.

All of that won't be free.

Just like it isn't free for merchants to accept one of the many buy now, pay later (BNPL) schemes that are growing in popularity today. Ironically, perhaps, for as much as merchants push back against the cost of acceptance, they are happily forking over even more money to enable this new method of payment, positioned as a way to drive new customer acquisition rather than accepting a new method of payment.

Once regarded as a niche Gen Z and millennial payments preference used by those with a distaste and distrust for traditional banks, BNPL use cases (and users) are expanding as many consumers find it to be a convenient and predictable option for making a purchase and paying it off completely over a specified period of time. For many, it is also the only credit alternative to make a purchase and build a credit history.

Over time, is it likely that many of merchants' criticisms of today's card networks will be leveled with BNPL players as the shininess rubs off the shiny new payments toy?

Probably.

BNPL players are building their own consumer/merchant acceptance networks, managing those customer relationships, and adding more (and new) services to keep their customers loyal to their brand. For several, part of that strategy includes issuing debit cards for their consumers to use anywhere they shop, and to potentially convert those purchases to installment payments once they're made. Some merchants worry that it cannibalizes their lucrative store card revenue. (It's also a false claim, as shown by soon-to-be-released PYMNTS data.)

BNPL pure plays identified a friction in the market and built a solution to address it. Merchants benefit from the sales and the referrals from the shopping directories their users access to find places to shop. Consumers like having BNPL as an option — and for merchants to keep consumers shopping, they need to support the payment methods consumers have and want to use.

Merchants keep finding that they can't have their cake and eat it, too — these new methods of payment cost merchants, just like cards, and for much the same reason: They drive incremental volume that merchants will happily pay for.

CURRENCY OR STORE OF VALUE: THE CRAZE OVER CRYPTO

Robinhood said that at the end of Q1 2021, 9.6 million of its users had established a crypto account and that three million of those accounts were opened in March. The company didn't say what percentage of its users this represents.

PayPal executives have said that allowing PayPal users to buy, sell and store crypto has driven the number of active accounts and the number of times that those users access and use them.

Retail traders, in search of a quick hit, are opening accounts and making investments in a speculative asset that they hope turns them into crypto millionaires overnight.

And why wouldn't they? Crypto multi-billionaires with the vast financial means to ride crypto's volatility tweet about its future potential. Media pundits tout that it could go to one million a coin.

Until May, it all looked pretty rosy — until the law of physics took the blooms off of them.

Elon Musk did an about-face on the coin. China cracked down on mining, and regulators and tax authorities accelerated efforts to clamp down, too. Bitcoin has lost nearly half its value so far this year, with the steepest drop coming over the period of a few weeks in mid to late May.

At the same time, enthusiasts talk about its use as a currency, even though its volatility makes it anything but suited for that use case. Bitcoin was $58,000 on May 9, on May 31 a coin was worth $35,000, and it has struggled to break $40,000 and stay there since the May 9 decline. People living in developing economies are flocking to blockchain payments denominated in dollars to avoid that sort of currency volatility.

Undaunted, some of those retail traders are now chasing the "momentum" stocks like AMC and GameStop, two that the WallStreetBets crowd decided they wanted to save from bankruptcy as a social cause. Nothing at all to do with the fundamentals of the companies, just something to do for kicks — and for their (more than) 15 minutes of fame.

LEVELING THE PLAYING FIELD — AND BANK ACCOUNTS

Many will say that making trading available to the retail investor "democratizes" access that was once unavailable. And it does. According to Charles Schwab, the retail investor who started trading in 2020, it now represents 15 percent of the overall market.

Can we assume that these newly minted retail investors understand the risk? Many say that they know they shouldn't invest what they can't afford to lose. But that's also not typically why investors invest: They don't expect to lose longer term — they expect to gain. Otherwise, they'd keep their money parked on the sidelines.

But many of these retail traders are just that — retail traders who reportedly like the volatility of crypto and meme stocks and follow the crowd. That's part of the thrill — until, of course, the money is gone. Just like the thrill at the casino.

At the moment, regulators from all of the alphabet agencies are trying to navigate these very grey areas – allowing innovation to flourish, new asset classes to emerge and new forms of payments and rails to solve real problems for people and businesses. All while protecting the consumer from the risk of something going terribly wrong along the way.

Until they do, we can't have it both ways: Volatile crypto can be a game for thrillseekers and speculators, or it could be a boring, secure alternative payment method — but it can't be both.

In fact, maybe this is a guiding principle for thinking about payments as a business, and as something to regulate: The collective "we" can't have it both ways.

June 21, 2021

HOW CONSUMERS LIVE IN THE CONNECTED ECONOMY

Over the last year, nearly everyone — 92 percent of consumers — went online to make a purchase, and more of them made online purchases (75 percent) than made them at a physical store (64 percent). Sixty-seven percent of all consumers went online to make a purchase several times a month.

Eighty-six percent of consumers went online to pay a bill at least once, while 70 percent did so several times a month. Seventy percent of consumers went online to make restaurant reservations or order food.

Almost as many American consumers used connected devices to track their personal health data (67 percent) as they did to book a trip online (75 percent). Nearly three-quarters of the population (72 percent) streamed music over the last year, and 16 percent did that every day.

Over the last year, four in 10 consumers went online to buy grocery products, and today 17 percent of consumers are shifting digital for groceries, doing more of their grocery shopping online than in the physical store. Forty-four percent of consumers used mobile wallets to receive money from family, friends or employers — roughly 20 percent more than those who used them to make purchases.

Almost everyone in the U.S. today participates in the connected economy – and across every single one of the pillars that define it.

Participation in the connected economy isn't about whether one is old or young, rich or poor, high-tech or low-tech, or how many connected devices they may own. It's about having at least one piece of tech — the smartphone — that has democratized access to the connected economy.

This is one of the many things we learned from the landmark national study of 15,094 U.S. consumers that PYMNTS conducted between April 14 and May 19 of 2021.

With this consumer research, we wanted to examine how connected consumers are now and want to be in the future, where and why they see opportunities to aggregate activities into a single "digital ecosystem," and what they want to keep separate and distinct (and why). It's a question that's top of mind as all business executives wonder how much of a consumer's digital persona is fleeting, and how much of those habits will recede as life in the physical world starts to resemble what it was like in 2019.

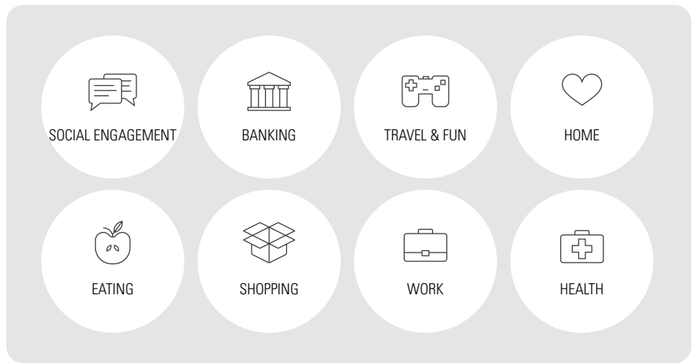
What we learned is that consumers like being connected, and most want to streamline multiple activities into a single digital channel for ease and convenience. Our insights provide a foundational understanding for every business interested in knowing how to adapt their strategies to take full advantage of this very digitally engaged consumer.

WHAT IS THE ConnectedEconomy™?

Let's do a bit of level-setting first.

As I wrote today, PYMNTS developed a new framework for examining the evolution of the businesses that rely on the internet to provide goods and services. We call this the ConnectedEconomy™.

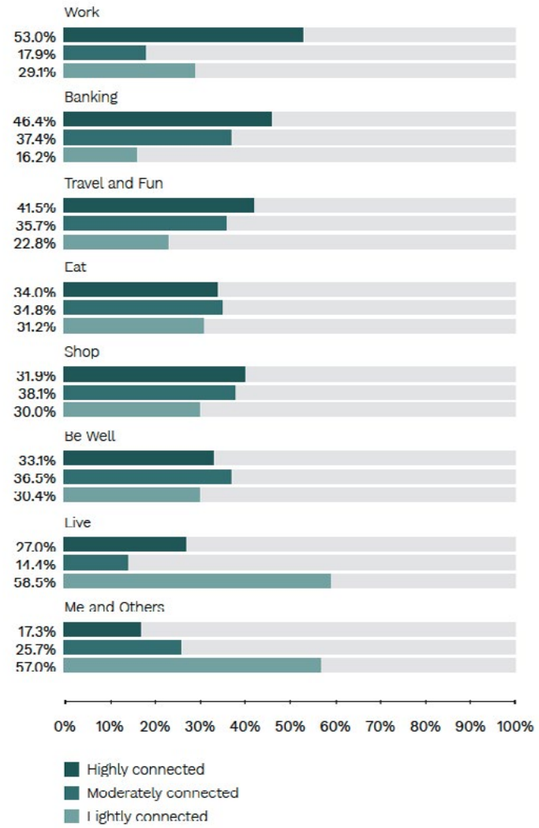
8 Pillars Of The ConnectedEconomy™



The Enablers That Power Experiences

*We measure digital engagement by the frequency in which consumers declare they use connected devices for select activities (ranging from having done so at least once to doing so consistently throughout the day), assigning a score from 1 to 10 for each activity. Individual scores are then averaged among and across pillars to construct pillar indices and the overall connectedness index. Our research considers consumers to be lightly, moderately or highly connected if their scores fall in the 0-25, 25-50 or 50+ brackets, respectively, for any pillar or in aggregate.

SHARE OF CONSUMERS WITH SELECT LEVELS OF DIGITAL CONNECTION, BY PILLAR



To organize and keep track of the developments in the ConnectedEconomy™, PYMNTS has divided it into eight pillars, each of which represents a building block of the global digital economy that is rapidly taking shape. Together, these pillars represent the segments that will define its future by the activities that represent the consumer's day-to-day life: how consumers work, pay and are paid, shop, eat, bank, travel, connect with others, have fun, stay well and live.

The pillars go well beyond the classic way that businesses are categorized and measured today. Each one represents a set of broad-based activities in which people and businesses engage to accomplish a discrete goal. More importantly, the pillars are where digital is radically redefining the activities and the outcome.

The pillars aren't standalone verticals, but intertwined with each

other, in ways that often complement one or more other pillars.

Take grocery – a vertical defined by the set of stores that people visit to buy their food.

Take restaurants – a vertical defined by the set of establishments that prepare food and serve it to consumers on or off-premises.

Take eat – a pillar that reflects the blurring of the lines between the verticals that people use to buy, prepare and consume their food. Eat is a new ecosystem that reflects how businesses and people use connected devices, apps, payments and other technologies to satisfy the consumer's very basic need to get and consume food.

For the purposes of this study, we consolidated travel and fun into a single pillar. We also learned that consumers regard payments as the pillar that enables many of their activities within and across each of them.

Fifteen thousand consumers and millions of data points later, we have the first comprehensive assessment of how consumers want their connected future to look. We analyzed consumers by traditional demographic cuts as well as by the number and types of devices they own. We categorized consumers into low, moderately and highly connected – to understand the intensity of their digital connections to these pillars, using those persona classifications to report some of our preliminary findings.

Highly connected consumers are the 29 percent of the population who use connected devices to perform a substantial portion of activities within the pillars. Moderately connected consumers are the 47 percent who occasionally use digital tools to perform some but not all activities. Lightly connected consumers are the 24 percent who use connected devices to occasionally perform a fraction of activities within the pillars.

The full report with supporting charts and graphs can be found here.

BEING CONNECTED IS JUST THE STARTING POINT

Nearly three-quarters (72 percent) of all consumers frequently use a connected device to engage in at least one aspect of their daily lives. The smartphone has democratized access to digital outlets for the most vital of all human activities: eating, shopping, banking and even monitoring their health.

Clearly, the number of connected devices a consumer owns doesn't limit participation in the connected economy – but other factors including age, income and geography may influence the intensity of engagement using those devices within and across each of the 10 pillars. Owning more connected devices simply gives consumers different options and different ways to perform activities within each of the pillars.

Forty-five percent of consumers own many more devices than a smartphone or PC – six devices on average, up 33 percent over the last two years. In addition to laptops and phones, these consumers own any combination of tablets, smart TVs, gaming consoles and/or smartwatches, using them to get different connected experiences.

Thirteen percent of consumers own even more: 12 on average. They aren't gadget collectors, since they don't buy multiple devices that do the same thing. Their connected device purchases are more deliberate and purposeful, connecting them to different experiences and for specific purposes.

These consumers have full-on embraced the notion of connecting digitally to multiple pillars for ease, convenience and security, and they want a portfolio of connected devices to make that possible.

That said, just being connected isn't the whole story – there's also the intensity by which consumers use connected devices within each of the pillars. This "effective connectivity" — the intensity as measured by frequency of use of connected devices to carry out their activities — is independent of device ownership, but highly correlated to age, income and where people live.

Younger, more affluent consumers are more highly engaged with banking, shopping and travel apps. More than half of all consumers who are connected to the work pillar are millennials. A third with high levels of engagement in travel and leisure live in big cities. Nearly half of those highly connected to banking via digital channels earn more than $100,000 per year. Forty-five percent of affluent consumers living in urban centers have ordered groceries online, while fewer (30 percent) who live in more rural locations have done the same. Although the degree to which consumers are connected to shopping and eating is the most consistent across all populations, the intensity of usage skews younger and more affluent.

The intensity of use may be influenced by other factors as well. More people living in rural locations may want to order groceries or other products online, but last-mile logistics problems may prevent that, as the necessary applications are not available or the cost of delivery is too high.

A family using online travel sites who lives in the suburbs probably has different travel needs and far fewer trips to plan than the younger, more affluent consumers living in cities and large towns. Ditto for the differences in wants and needs for ride-hailing or micro-mobility services – particularly now that more people own cars, and fewer of them will return to a Monday-through-Friday office commuting schedule.

© 2021 PYMNTS.com All Rights Reserved

TABLE 1: HIGHLY CONNECTED CONSUMERS AND DEMOGRAPHICS
Share of consumers that are highly connected in each pillar with select characteristics

	Sample	Millennials	Average age	College educated	No children	Urban citizens	Average devices owned	Average number of payment methods used
Entire sample	**100.0%**	29%	47.1	32%	62%	20%	5.4	4.0
Work	**51.8%**	50%	37.9	53%	33%	36%	7.1	5.5
Banking	**46.4%**	45%	38.3	40%	42%	29%	6.8	5.4
Travel and fun	**39.6%**	48%	36.2	42%	37%	32%	7.1	5.5
Eating	**34.0%**	33%	44.6	35%	56%	23%	6.0	4.6
Shopping	**31.9%**	34%	44.4	36%	56%	24%	6.1	4.7
Health	**33.1%**	51%	36.3	44%	33%	36%	6.9	5.6
Home	**27.0%**	54%	35.4	46%	29%	38%	7.5	5.8
Social engagement	**16.3%**	61%	34.1	51%	11%	46%	6.9	6.1

Source: PYMNTS | The ConnectedEconomy™

The correlation between age, income and the use of banking services may be as much about the lack of complexity of a consumer's financial situation as their interest in (or need for) digital access to them.

The area where we find the most acute disparity in connected activities is in the work pillar.

Although two-thirds of consumers would like to have the ability to more distinctly connect to their place of work remotely to do their work, just a third of all consumers say that's an option today. Those who are largely without that access tend to be older, lower-income consumers.

Participation in the connected economy currently tracks the evolution of digital more broadly, as well as the widespread availability of efficient digital options.

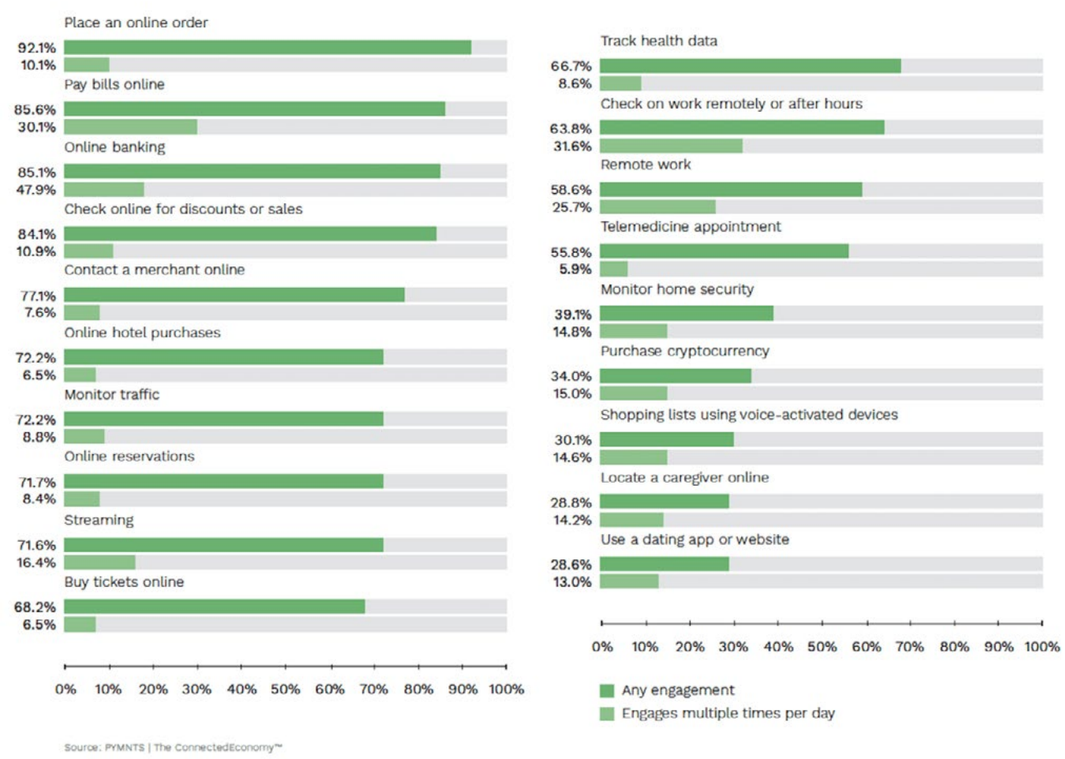
Amazon is 26 years old. It's been 15 years since 80 percent of banks in the U.S. turned on internet banking. Spotify launched in 2008 and Netflix started streaming in 2007. Starbucks introduced the world to online ordering and order-ahead six years ago. Expedia introduced consumers to online travel bookings without a travel agent in 1999.

Consumers have had more than two decades to hone their digital shopping skills online, more than a decade to get proficient in downloading and

using apps on their mobile devices, and more than five years to try new apps that blend the digital and physical worlds, like online ordering for pickup or delivery. Their use of connected experiences reflects the maturity of those digital platforms, and the ability for consumers to access them without the need for anything other than a smartphone (which is essential for some activities) or a PC connected to broadband (which is good enough for many). The ease with which consumers can use digital payments removes much of the friction from those online experiences. Intensity of use isn't device-dependent, but rather age-, income- and lifestyle-driven.

Over this same period of time, user experiences across each of these basic pillars – shopping, banking, eating, travel and leisure – have improved, as has the

A SURVEY OF DIGITAL ACTIVITIES
Share of consumers that have performed select actions in the past 12 months and that do so multiple times per day



Source: PYMNTS | The ConnectedEconomy™

availability of the apps and sites that enable them. It's why so many new-to-the-internet users, particularly older people, have been able to navigate their way online during the pandemic to order food and retail products and to conduct more of their banking activities.

As our survey data suggests, for three-quarters of the population, going online using connected devices is how consumers now manage so many of their day-to-day activities.

Not surprisingly, shopping activities are those that all consumers – regardless of their intensity of use – are the most likely to conduct digitally. Half of all consumers make an online purchase every week or every month. Meanwhile, 86 percent of lightly connected consumers have ordered something online at least once over the last year.

Remarkably, over the last year, two-thirds of American consumers have gone online to book an appointment with their doctor at least once, and 75 percent of consumers have used digital channels to access medical records or wellness data. More than half (55 percent) have ordered prescriptions online, had a telemedicine appointment and used an online portal to pay a doctor's bill.

At the other end of the spectrum is the connected home. Here, we see a bifurcation of consumer interest and the use of a more connected home, largely because it requires the purchase of additional connected devices.

Roughly a quarter of all consumers (24 percent) use connected devices to monitor home security, even though 40 percent of consumers say they'd like to.

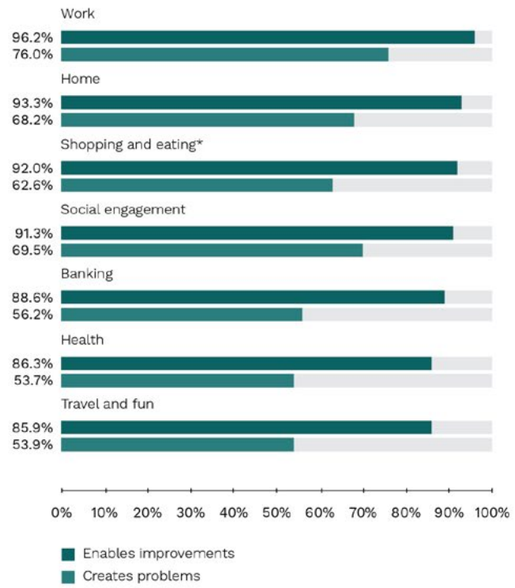
Twenty-three percent of consumers would like to use voice-activated speakers to build their shopping lists, nearly twice as many as those who actually do so today.

Interestingly, a quarter of all consumers say they'd like to make a payment using a voice-activated device, including 30 percent of those who only own a smartphone. Voice-activated apps are available today, but are perhaps not as familiar to consumers as the experience provided by a smart speaker. User experience and provider availability may contribute to the lack of usage and the subsequent lack of ownership of those devices.

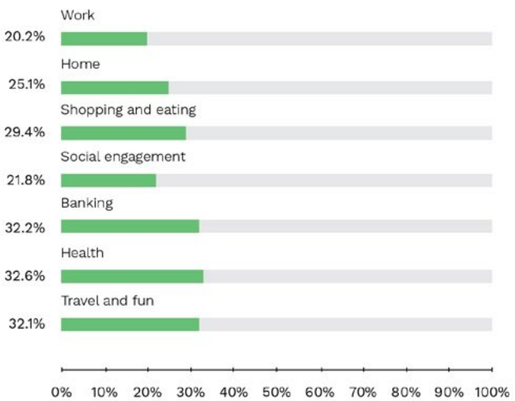
Cards – physical or virtual – also still rule in the connected economy. Although the consumer's activities may be trending more toward digital, the use of general-purpose mobile wallets to enable those transactions remains relatively low across the population, with more consumers using mobile wallets to receive money than to make a purchase

PROS AND CONS OF DIGITAL ENGAGEMENT

Share of consumers that say digital tools enable improvements and/or create problems in each lifestyle pillar



Consumers' net positive assessment of digital tools across various lifestyle pillars



* For this chart, our research combines the pillars of shopping and eating.

Source: PYMNTS | The ConnectedEconomy™

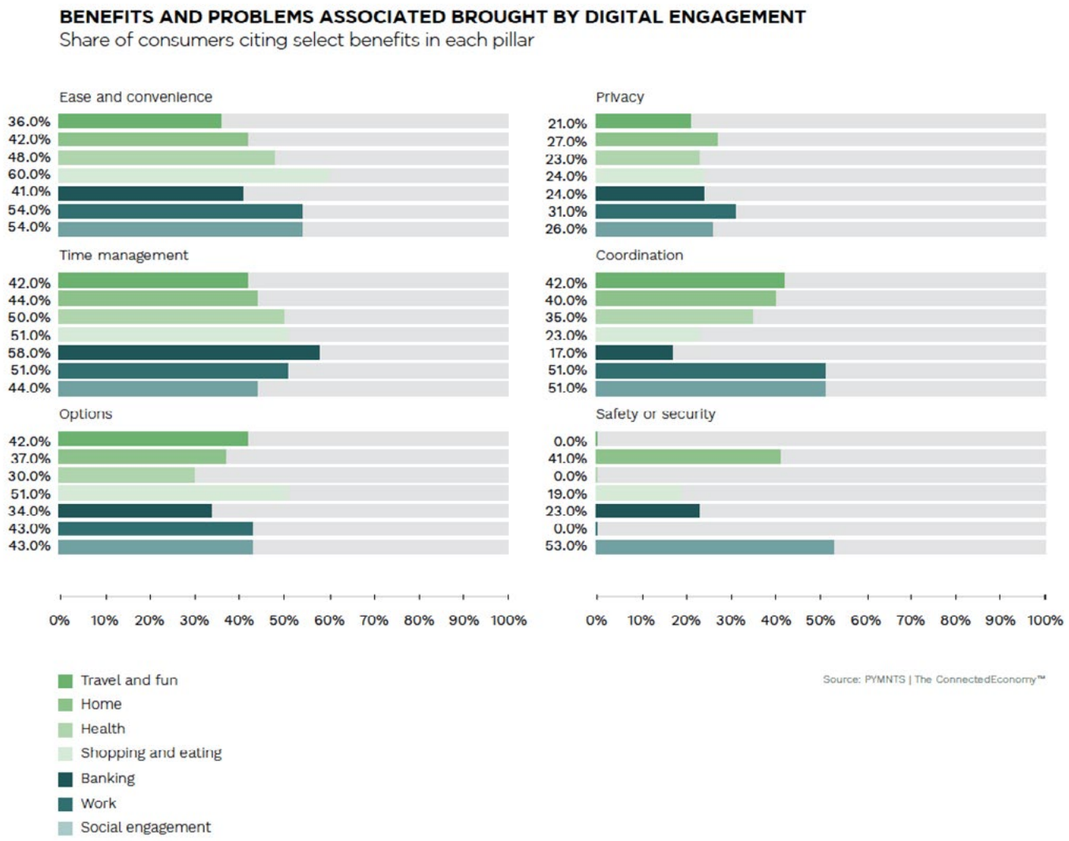
using one at least once over the last 12 months. Consumers' use of the general-purpose "Pays" lags behind the use of PayPal by a factor of five to one. More of those consumers use Venmo than Apple Pay, Google Pay and Zelle for P2P payments.

The exception are the 29 percent of highly connected consumers who regularly use a diverse set of six payment methods versus four for most other consumers. These consumers use credit cards (80 percent), followed by mobile wallets and debit cards (65 percent) and PayPal (62 percent).

The 47 percent of consumers who are moderately connected are more credit-centric (78 percent) and debit card-centric (68 percent), with mobile wallet usage at 11 percent for Apple Pay and 6 percent for Google Pay. PayPal usage by this group is 50 percent. In contrast, lightly connected consumers tend to rely mostly on credit cards, debit cards and cash, while just 10 percent make payments with mobile wallets and 32 percent use PayPal.

Consumers participate in the connected economy because the convenience and time savings vastly outweigh any problems, such as those involving privacy and security.

Consumers have reevaluated many aspects of their daily lives over the last



18 months, but none more so than the value of their time. Connected devices and apps have given consumers the freedom to decide how to use their time to accomplish routine tasks.

American consumers say they like being connected because it saves them time and makes it more convenient to accomplish activities that are largely routine and transactional in nature.

The net benefits of being connected to leisure, health and banking pillars are the greatest. Nearly 60 percent of consumers cite convenience as a benefit of introducing connected devices in their shopping routines. When it comes to banking, time management leads as the most valuable benefit of being digitally connected, at 58 percent. Transacting online is better than going to the branch.

Nearly 90 percent of consumers using connected devices for banking-related tasks cite one or more benefits from doing so, while only 56 percent say that using digital channels causes problems.

Consumers also seem to be quite realistic in assessing the downside of being connected. For consumers across all of the connected economy pillars, the benefits of convenience outweigh their concerns over security or privacy. Just as many consumers say they are worried about how much time they might waste playing around on the internet as those who worry about whether their digital interactions across most of the pillars are safe and secure.

It's an interesting finding, particularly when considering the macro conversations taking place about privacy and security today. Of course, consumers in our study did express concerns over privacy and security. Only 20 percent of consumers said that being connected has improved their privacy and security – but it's not the determining factor for why or why not consumers want to be even more digitally engaged. Consumers seem to trust that their current digital relationships are secure and that their data is private, making decisions to engage based on those criteria.

That could explain why the time savings and convenience factors outweigh issues related to privacy and security by almost two to one – particularly for the shopping, banking and eating segments. Overall, 84 percent of consumers cited time savings and convenience as a benefit at least once across all pillars, while 50 percent of consumers cited privacy and security as a concern.

That's not to say that privacy and security aren't important. As you will see later, those two concerns have a measured impact on which of the pillars consumers want to be separate from any larger ecosystem that connects multiple pillars into a single point of access.

Most consumers are connected to multiple pillars – and those connections are influenced by lifestyle and other natural synergies.

We learned that the average consumer is highly connected to 2.7 out of the eight pillars we studied. (P.S. we consolidated travel and fun into a single pillar and considered payments separately.)

The more transactional an activity, like an online ordering experience, the greater the potential for all consumers – not just those who are highly connected – to perform those activities using digital methods.

Online ordering – whether for food or retail products – is highly correlated. Ninety percent of consumers who engage in digital shopping behaviors also do so when buying food at grocery stores or restaurants.

Consumers who connect digitally to those activities are making appointments online with their healthcare providers – another online ordering-like behavior.

That said, we observe that highly connected consumers are connected to more pillars, and different patterns overlap that tend to be less transactional in nature and more lifestyle- and social-centric. These high-income, younger and urbanized consumers show a high degree of overlap in the work, banking, travel/fun, be well and communicate with family/ friends pillars.

Sixty-eight percent of highly connected consumers who use digital channels to manage their money (the banking pillar) show a high degree of connected behaviors in the work pillar and be well pillars. And because many of their activities also include others, they are highly connected to apps that enable more efficient, real-time communication with friends and family.

For most consumers, digital connections are about making transactions more efficient, which saves time and money. For the highly connected consumer, it is much more driven by lifestyle and the interactions that support a more efficient way to live their life. It is an important insight into how connected ecosystems, and the super portal concept, is likely to evolve.

Two-thirds of consumers see value in a "super app" concept, largely because they don't like having their personal information all over the web.

Most consumers believe that having more activities consolidated into a single digital app or ecosystem would be more secure and private than engaging with the multitude of discrete apps and activities that represent their digital lives today. Today's consumer is connected individually to roughly three of the eight pillars we studied, but want more of those activities connected inside of a single ecosystem, or "super portal."

For the average consumer, that magic number is five. Shopping, eating, travel/ fun and communicating with family and friends are the pillars that most consumers would like assembled into a single digital experience. That experience is also one where consumers expect payments to be an embedded part of that engagement.

Perhaps more interesting than the desire to assemble five activities into a super portal-like concept are the reasons why.

Consumers report that having so much of their personal information stored all over the web is a problem: 60 percent cite that as their top concern about engaging on the internet. Half of these consumers describe this problem as "huge."

Also concerning is the privacy of their data when it is stored with many different digital endpoints. Consumers perceive a super portal as a digital outlet that would provide more control over their data and their engagements – a single place that's easier to track and manage. The need to remember logins and passwords for all of the digital relationships they have on the web is a related friction.

At the same time, consumers expressed a keen interest in keeping certain activities separate from a super portal, even as they want a more efficient way to digitally access them.

Banking and healthcare are the two pillars that all but the highly connected consumer say they'd like to have aggregated as part of a single, super portal ecosystem. Sensitivities over access to confidential financial and health data, stored in the cloud and commingled with other activities, appear to be large and legitimate barriers to consumer interest and likely adoption.

That's not to say that consumers don't want to be connected to a more robust and efficient be-well and banking ecosystem – just not as part of a larger, single digital ecosystem.

The 73 million highly connected consumers who drive roughly 36 percent of online spend are the connected economy pioneers.

Twenty-nine percent of American adults appear to be super enthusiastic about the notion of a super portal that assembles most of their digital lives. These consumers want a single ecosystem that connects six of the eight connected economy pillars, including banking and healthcare.These are also the consumers who connect more intensely to more pillars today and who drive roughly 36 percent of online spend, not including healthcare and automotive-related spend.

Sixty percent of the highly connected consumers already use devices to track their health data at least a few times a month, and nearly half (45 percent) would engage in video telehealth consultations with a similar frequency. Thirty percent use or have used voice-controlled assistants to create shopping

lists. They have enabled their homes to be smart, and they use digital devices to perform work.

These consumers are not only the early adopters of digital experiences – and, when needed, the connected devices that enable them – but they are also more likely to be the early adopters of new payment methods.

These highly connected consumers use a diversity of payment methods – an average of seven payment types, compared to four for the average consumer. They've also made purchases in each of the connected economy pillars, including payments to family and friends. These consumers have over-indexed in their use of merchant-centric mobile wallets, PayPal and the general-purpose Pays over the last 12 months.

Consumers trust the brands that have enabled digital commerce innovation to provide a single access point to their connected economy future.

Brands that are – or are perceived to be – central players in today's digital commerce ecosystem are those that consumers report as the most trusted to provide a single connected experience. Amazon and PayPal are highly regarded by American consumers as players to enable those experiences – perhaps not surprising, given the frequency with which consumers engage with those brands today, and the diversity of goods and services they can procure when using them. Card networks in the aggregate are as well, given the consumer's brand association and familiarity with the logos on the card products they use to pay for their connected experiences. Social networks, such as Facebook or Instagram, are low on the list, as are most merchants. Banks rank near the middle of the pack, slightly ahead of Apple Pay.

This finding reflects a few different things.

The average consumer has a desire to aggregate transactional activities – shopping, eating, travel/fun, and messaging – into a single platform. When consumers think about making a purchase, booking a trip or making a restaurant reservation, they go to a merchant, Amazon, a marketplace or Google to get the job done. The highly connected consumer wants even more points of connection – the integration of health and work into a single point of access.

For all consumers, banks and banking are a plug-in to an experience enabled by another commerce-centric front-end provider. It's not that banks and the connected banking pillar aren't important to consumers – it just isn't where they engage when accessing the majority of the connected activities unrelated to tracking and managing their money today.

WHAT MATTERS

Smartphones are the consumer's remote control to the connected economy. The last 18 months have given the U.S. consumer both the experience and the confidence to leverage connected devices and digital channels to accomplish a number of routine, transactional tasks. Although different in intensity and frequency, all consumers have engaged in digital behaviors across all of the pillars that represent our digital economy. In some cases, the use of these digital channels has complemented the consumer's use of physical channels – while in others, it has replaced them.

The last 18 months have also sharpened how consumers would like to use digital channels to save time and gain greater convenience. All consumers see the value in consolidating commerce-related activities into a single ecosystem that simplifies how they access those services and use digital payment methods to enable those transactions. Early adopters of an even more tightly integrated connected ecosystem see the opportunity to take that engagement to another level, aligning how they live, work, play, bank, travel, have fun and stay well with how and where they shop and spend their money. These will be the most coveted of the connected consumer, given the spending power they will wield over the next several decades.

We will see innovators continue to leverage the existing, cloud-based tech and payments tech infrastructure created and refined over the last decade – as well as new tech like 5G and artificial intelligence (AI) – to rapidly accelerate participation in those segments where digital connections are not as well-adopted by providers and consumers. Consumers have the devices – and, in most cases, the only device they need – to enable that engagement, along with the appetite and confidence to do so.

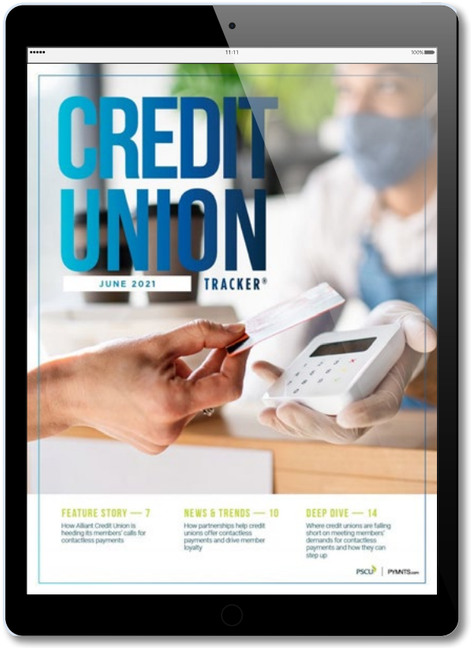
Banking and healthcare are both pillars where the potential exists to create more robust – yet for most, separate and distinct – digital ecosystems.

The question for businesses isn't whether consumers want to live in a connected economy, as there's no going back to how consumers engaged in 2019. Instead, it's whether living there influences their use of physical channels and their choice of providers that enable a new, better way to access this dynamic, interconnected world.

June 28, 2021

THE CREATIVE DESTRUCTION OF BANKING: ASPIRATION OR ULTIMATUM?

The economic principle of replacing existing business processes and models with innovative and more efficient ones is nothing new. In banking, it's more recently become a burning issue, as banks' customers and the competition have accelerated the need to think that way: a model that moves banks from an invisible utility that enables banking and payments services to a central player in how customers will enable and experience banking and payments services as part of the connected economy.



In this new model, the competition isn't the bank down the street or the one with the most convenient branches. In fact, recent PYMNTS studies now show that for the first time, consumers no longer regard physical branches as the criteria for choosing their primary bank. They're less important than they used to be – at least in terms of how consumers know and use those banking storefronts today.

The competition is the FinTech, the neobank, the mobile-first banking services provider with the slick user experience that consumers are not used to seeing in much of what they do digitally with their bank.

It's the savings app that offers DDA-like services. It's the telco that offers a mobile banking-like account for families to use.

It's the FinTech with an app for teens that teaches financial and money management skills with checking-like and savings functionality. It's the data aggregator that becomes a data and payments enabler and the next mobile-only bank.

It's the personal loan platform that buys or builds but otherwise integrates

mobile banking capabilities into their platform. It's the prepaid card that functions as a mobile bank account with bill pay capabilities.

It's the BNPL provider that adds debit cards and savings account capabilities to their app.

It's the collective competition that becomes death by a thousand FinTech cuts that chip away at the core business of the bank: attracting deposits, providing services that generate fees and lending money.

THE FIRST-GEN NEOBANKS

In reality, the notion of a "neobank" as a challenger to the existing bank model is nothing new. Neither is the phone or the PC as an enabler of banking services innovation.

The difference today, like so many other early incarnations of technology and new models across banking and payments and the connected economy, is the evolution of technology, software and devices that provide a better user experience and can scale, often globally.

The 1980s landline push-button phone was all a consumer needed back then to do business with a brand-new type of bank that didn't have branches.

Patented technology encrypted account details and other personal data so that consumers and these direct banks could do business securely via call centers. Consumers could use the ubiquitous device on their desk at work or their living room table at home to manage their accounts. Most of these direct banks – and there weren't many – offered a single banking service, usually high-interest savings accounts, given the newness of this banking concept and the friction for both the bank and the customer in managing more complex banking services using only a landline phone.

Bank-by-phone gave way to banking on the internet in the late 1990s and early aughts. Virtual banks swapped people and call centers with online engagement and a PC. But it didn't catch on like wildfire, not even after most people had PCs and fast broadband. It would take a good 15 years – until 2015 – before 85 percent of U.S. banks had online banking up and running and 51 percent of consumers were using it.

In 2021, six years hence and 13 years since the birth of the smartphone and app stores, once again it's the near-ubiquitous availability and accessibility of the phone – this time the one in the consumer's hand – that connects nearly all consumers to banking services.

And it has fast-tracked the rise of FinTechs to provide them.

Today, 86 percent of U.S. consumers say they engage frequently with a variety of banking services using digital channels, although the frequency of use – and the intensity of their engagement – may vary by age, income and other factors. This finding is from a national study of 15,094 U.S. consumers between April 14 and May 19 that PYMNTS conducted as part of the How Consumers Live in the Connected Economy research released last week.

But unlike the neobanks of old, where going digital had its constraints and built-in frictions, tech and connected devices have leveled the banking services playing field for consumers who aren't always engaging with a traditional bank when accessing banking services – particularly the stickiest and most strategic services.

Oh no – it's the neobank.

Jamie Dimon has been using the occasion of his annual letter to shareholders to sound the alarm about the threat of FinTechs to traditional banks since 2015.

In 2015, the same year that online banking penetration by U.S. banks hit 85 percent, neobanks Atom, Chime and Go Bank were celebrating the second birthday of their mobile banking apps, and Revolut, Monzo and Varo were newborns.

Three years later, in 2018, SoFi would add banking services to its personal lending platform and Acorns would do the same to its savings app. J.P. Morgan would launch its own neobank, the mobile banking app Finn, that same year – only to shutter it a year later.

In 2019, Walmart would announce the launch of a FinTech accelerator focused on digital financial services innovation for its customers. In 2020, LendingClub bought a mobile bank, Radius, and Step launched its mobile banking app for teens.

The common denominator across all of these is the use of mobile apps and smartphones to enable access to banking-like services. These FinTechs are not banks, but they function like them, with banks and card networks in the background to power the services they provide.

Those who keep count report that there are now more than two dozen pureplay neobanks in the U.S., and many dozens more that are – or will likely soon – embed banking services into their savings, investment, credit and P2P platforms. FinTechs that provide Banking-as-a-Platform services help businesses simplify the extension of banking services to their end users – consumers and corporates.

Like their 1980s predecessors, the digital-only connection and a discrete set of services get consumers on board. Their banking services playbook is fairly straightforward: Get eyeballs with one basic banking service, and then add more mobile-native features and functions over time.

For those whose app is a prepaid card with a slick mobile UX, their business models are highly dependent upon interchange fee arbitrage on prepaid card transactions via a Durbin amendment loophole, and it is that carve-out (plus venture money) that supports the payment of higher interest rates on deposits stored on those cards.

Regardless, unlike their traditional banking counterparts, digital-first wasn't a shift they needed to scramble to engineer over the last 18 months – it's how they were born. And it's how they have scaled their own growth and captured accounts over that same period of time.

HOW CONSUMERS VIEW THEIR BANKS

The U.S. consumer and her bank have an interesting dynamic.

First, she trusts her bank. PYMNTS has been doing studies of consumers and their attitudes toward traditional banks for more than five years. Nearly all – 90 percent – of consumers say they trust their bank to keep their money safe, their transactions secure and their information private. The headlines that report how little consumers trust their banks are inconsistent with everything PYMNTS has seen for the vast majority of Americans.

At the same time, she doesn't think of her bank as particularly innovative.

As we have also consistently seen in our research, consumers and FIs don't always see eye to eye on what's innovative and what might have been at one time, but is now expected as table stakes. That perception of innovation has only grown sharper over the last 18 months, as nearly all consumers have become highly knowledgeable critics of their digital and mobile user experiences.

Perhaps for that reason, PYMNTS' recent Connected Economy research finds that more consumers used mobile wallets for P2P than for paying merchants over the last 12 months. Those who did use P2P opted for third-party P2P apps, Venmo and PayPal more often than bank P2P rails, such as Zelle.

Both Venmo and PayPal have invested in a user experience that is easy, ubiquitous and instant, if that is the desire. Both have invested in QR technology that simplifies the sender experience and extends P2P and merchant payment use cases in-store. For consumers, it's become a valuable enough experience for both senders and receivers to build the P2P network flywheel and expand the P2P use cases for both sides.

Then there's bill pay.

According to PYMNTS research, 86 percent of consumers have gone online or used a mobile app to pay bills at least once in the last 12 months, and 70 percent do so several times a month. Just because they do, doesn't mean they're using their bank's online or mobile bill pay function.

More broadly, the consumer's use of bank bill pay channels has declined over the last several years, even as more consumers pay their bills online. Consumers are using old tech and biller direct channels because suitable options –either online or via mobile from their bank – aren't available.

PYMNTS' Connected Economy research also found that 90 percent of average consumers use the bank's website or mobile app when conducting banking services. But more of them use the bank's website and not the mobile app – a data point we also see when banks report the number of mobile users. (It's also hard to tell in many cases, since

not all of them report online and mobile separately.)

It's also not because customers want it that way.

PYMNTS has also observed in other consumer banking studies that consumers consistently report using bank websites to conduct banking activities because they have to.

They report that the functionality on the mobile app is too limited or not available at all for the banking services they want and need to complete. If

available via the app, they report a clunky user experience that makes it too difficult to conduct more complicated banking activities via the bank's mobile app.

THE KNOWN KNOWNS

None of this is news to the banks. What may be, is the diversity and intensity of threats now to their core business – and all at the same time.

Mobile is an area that until recently, banks have undervalued and underinvested in because they didn't think that neobanks with their mobile apps were much of a threat and particularly, not a threat to the customers that represent their core business.

It's also largely the case that that the prepaid cards with a better mobile app won't today pose much of a threat to the bank's primary customer base.

But there's the risk that these neobanks will add P2P, bill payment capabilities and BNPL options as part of their already pretty slick mobile experience. Even before that, there's the risk that more consumers will open accounts with them for specific use cases rather than using their existing bank account or opening one with their bank account because the account onboarding process is too hard. Or they might establish relationships with purpose-built mobile banks that build services around the needs of a particular cohort of consumers, and who have traded a product-first focus for an experience-based, outcomes-driven value proposition.

It's the risk that more consumers – particularly younger and more affluent 33 to 43-year-old bridge millennials, most of whom have and use credit cards today – will increase their use of BNPL options, cutting into credit card fee income even as banks sweeten the rewards pot.

And there's the desire on the part of all consumers – in particular, the highly connected, younger and more affluent consumers – to use mobile devices to perform banking services, and who might be willing to build a relationship with a FinTech brand they trust and evolve it over time.

This is also a tough transition for banks, since even moving from batch to real-time clearing and settlement remains a work in progress for many banks. According to The Clearing House, the availability and use of real-time payments remains inconsistent, even as large banks and core banking platforms are now connected. Use cases and applications that ride those rails will drive innovation at scale over time.

In many ways, banks face the same tough transition that millions of traditional brick-and-mortar retailers – with legacy point of sale systems with integrated custom software and a myriad of customer databases – now face, as they, too, suddenly shift digital and mobile. And to deliver one with a user experience that's on par with established digital and mobile players like Amazon, and mobile- and digital-native innovators at scale.

Like physical retail, the largest of the large have or will invest in making their mobile app best-in-class, and they will consider new tech, platforms and business models to accelerate that path. Grocery stores outsourced eCommerce to Instacart out of necessity, growing sales and acquiring new customers as a result – while at the same time giving customers the option to deal directly with their store. Banks may need to think outside of the box, too, as they contemplate serving a more demanding mobile-first consumer and the need to move faster in delivering on their requirements.

WHAT'S NEXT

PYMNTS' Connected Economy research shows that consumers want to live in the connected economy, make their interactions within the pillars that define it more efficient, and even streamline their interactions across many of them.

All but how they bank.

For most consumers, keeping their banking and money management activities separate from other connected economy activities is their preference. They want a more robust banking and financial services ecosystem, but one that is under their control, where their details are private, secure and shared with their permission, and not commingled with other activities.

We see the TCH RTP® network piloting Request for Payment to help banks bring bill pay back into the bank and the mobile banking experience. The opportunity for consumers to pay a bill and have it posted in real time – 24/7/365 – is potentially a game-changer for consumers, provided that bill pay details are enriched inside of the app. On that front, innovators are working with the banks to provide more transaction clarity and digital receipts, which will help.

The ability for Zelle to clear and settle P2P real-time over RTP rails can make bank P2P more competitive as network availability matures. That lack of ubiquity and certainty on the part of the sender and receiver deters bank P2P adoption at scale.

At the same time, card networks are innovating installment credit with existing credit lines for their issuers, at the same time that banks and credit unions are investing in building BNPL options. Big banks are piloting programs to make credit more inclusive by using non-traditional data sources to underwrite consumer credit risk.

It's progress, but reactive – a response to the FinTechs that are getting traction.

Banks have the trust of the consumer and the building blocks to serve as a key player at the center of the consumer's financial services ecosystem – with the potential to reimagine what that means for themselves and the consumers and businesses they serve.

Their biggest threat the single-feature mobile app that one day becomes a more robust mobile banking option. It's taking too long to recognize that consumers won't keep waiting around for them to play catch-up.

July 12, 2021

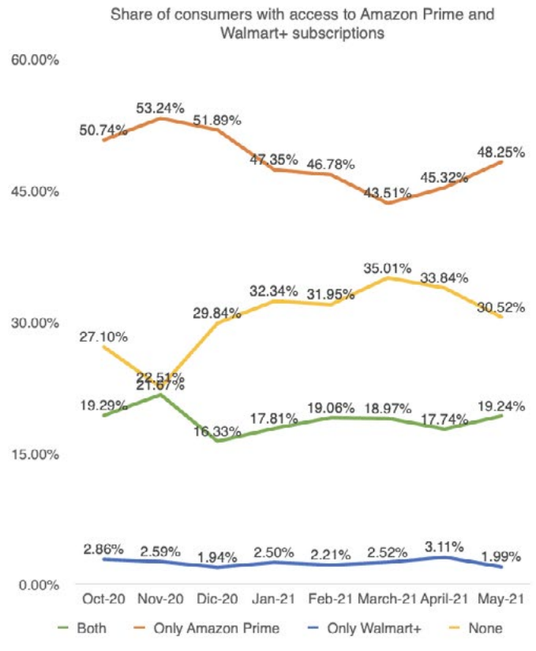
CAN WALMART+ SAVE WALMART FROM AMAZON?

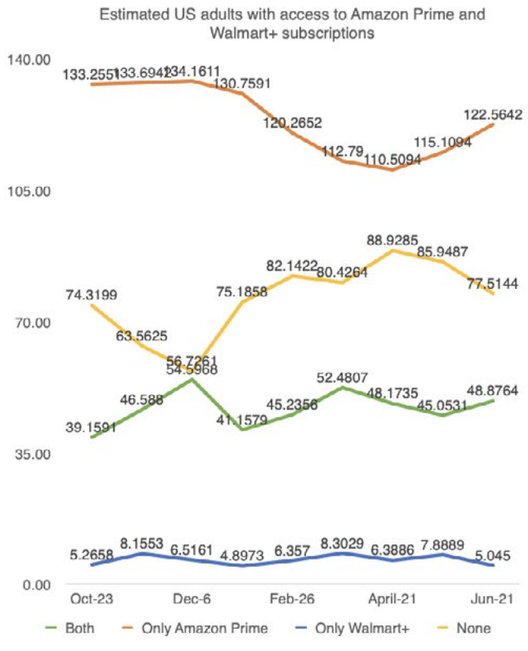
Today is Chris Cracchiolo's first day on the job at Walmart. The 19-year American Express veteran is taking over as the head of Walmart+, which is Walmart's subscription program that launched last September as a foil to Amazon Prime.

Perhaps not a moment too soon — because although Walmart has momentum, it has a long way to go to catch up with Amazon.

According to the latest PYMNTS data, a national study of 2,297 U.S. consumers conducted between June 24 and June 27, the number of Walmart+ subscribers has increased substantially from October 2020, a month after its launch, to May 2021, just eight months later. There were 44.4 million Walmart+ subscribers then and roughly 53.9 million subscribers in June 2021 — an increase in subscribers of more than 21 percent. The vast majority of that increase in subscribers, about 91 percent, consists of subscribers who are also Amazon Prime members.

As of June 2021, Amazon has 171.4 million Prime members — three times more than Walmart+.





While there's some good news here for Walmart+, these numbers are only a small piece of the story – and the challenge Mr. Cracchiolo faces.

DEAL DAY DUELS

PYMNTS fielded this study two days after the end of the dueling Amazon Prime Days/Walmart Deal Days events to understand who shopped those mega sales days, what they bought and how much they spent. Using those data, we discovered that the behaviors of users of Amazon Prime and Walmart+ Deal Days is a window into the larger issues facing America's current reigning king of retail — one that, based on our current projections, is poised to lose that crown to Amazon a little more than a year from today.

We find that Walmart is a retailer that remains largely dependent on grocery sales to boost its top line, and one that continues to lose ground in key non-grocery retail categories.

We also find that the middle- and lower-income consumers living outside of urban centers who were once Walmart's bread-and-butter customers are also Amazon Prime members who buy groceries and retail products from them. Those consumers spent twice as much with Amazon during Prime Days (a $42 average transaction) as they did with Walmart on Deal Days (a $22 average transaction).

We also learned that one in five U.S. consumers have both an Amazon Prime and a Walmart+ account, with 43 percent and 38 percent of that crossover membership comprised of millennials and bridge millennials (33- to 43-year-old) consumers, respectively. Yet we also see that more of those demographic groups are shopping Amazon for non-grocery retail purchases online for delivery to their homes.

Sixty percent of millennials who have both Walmart+ and Amazon Prime accounts made purchases from Amazon for home delivery in urban centers, compared to 55 percent of that segment who purchased online from Walmart. Half as many opted for buy online pick up at store – Walmart curbside and Amazon at lockers.

These findings also raise a more fundamental question that's now central to the political and regulatory debate here in the U.S. (and globally) about Amazon (and Big Tech more generally).

Is Amazon too big?

Or just so good that more consumers shop and spend more with them?

After all, at least in the U.S., they do have a choice — the largest retailer in the world, with a Prime-like rival offering.

SPENDING TRENDS

By all accounts, Amazon Prime Days were a barn burner for Amazon. Using our survey data, we estimate that revenues for Amazon are three times those of Walmart for its Deal Days.

More than twice as many consumers participated in Amazon Prime Days (104 million) than Walmart Deal Days (50 million). Walmart got a boost, though, because a consumer didn't have to be a Walmart+ member to participate in those deals.

The number of purchases was largely similar for both: roughly three per shopper. But the average spend per purchase was roughly 45 percent higher for Amazon Prime customers.

Before accounting for returns — which, based on our study, are projected to be slightly higher for Amazon Prime customers — we estimate that Amazon's Prime Days delivered $15.4 billion in revenues compared to Walmart+ at roughly $5.5 billion. After returns, the totals are $12.9 billion

Total estimated net spend for Amazon Prime Days reaches three times that of Walmart Deal Days

		Amazon Prime Days	Walmart Deal Days
[1]: slide 9	Number of people who participated in each event (millions)	104.0	49.9
[2]: slide 10	Average purchases made among purchasers	2.66	2.89
[3] =[1] * [2]	Total transactions (millions)	277.1	143.9
[4]: slide 11	Average expenditure per purchase ($ per transaction)	$55.60	$38.56
[5] = [3]*[4]	Total estimated spend (millions of USD)	$15,403.86	$5,548.32
[6]: Slide 16*population	Estimated number of transactions to be returned	45.15	40.59
[7] = [6]*[4]	Total value of returns (millions of USD)	$2,509.99	$1,565.33
[8] = [5]-[7]	Total estimated net spend (millions of USD)	$12,893.87	$3,982.99

Source: Amazon Prime and Walmart Deal Days Survey June 24 to June 27)

and $4.0 billion respectively — which means Amazon's sales were about triple Walmart's after returns.

The difference in sales results can be attributed to several things. One of them is a basic lack of awareness by shoppers about Walmart's Deal Days.

There was also no real incentive for shoppers to have a Walmart+ membership to shop Deal Day deals, which were available to any Walmart shopper. Non-Walmart+ shoppers account for 27 percent of all Deal Day participants. By comparison, Prime Days were only available to members.

That gave Walmart a boost. But then...

Half of the consumers in the PYMNTS study who did not participate in Walmart's Deal Days said they didn't know about the two-day sales event, and three times more Walmart+ consumers were unaware of Deal Days as Amazon Prime members were unaware of Prime Days.

Forty-four percent of Walmart+ consumers who took advantage of Deal Day sales said they did so because they were shopping anyway, and found that what they already planned to purchase was on sale.

By contrast, the biggest reason that Amazon Prime users didn't participate in Prime Days is because there wasn't anything offered that they needed to buy. For those who did, 56 percent found the deals to be "very good," and half found discounts on products they intended to buy anyway. Only a third of Amazon shoppers planned their shopping around Prime Days, and even fewer spent time tracking down the deals.

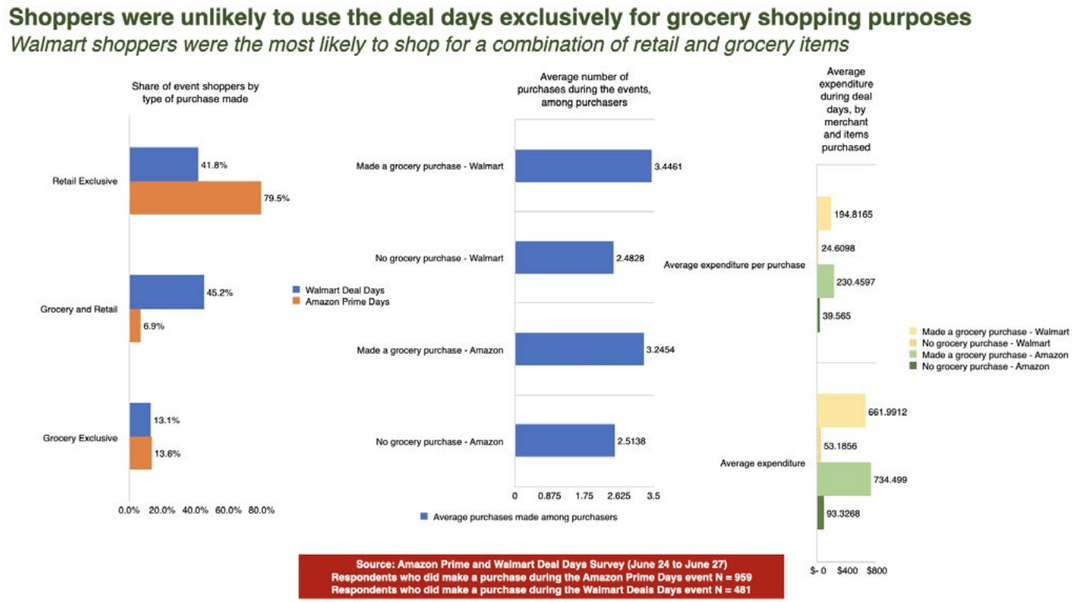
Then there is what shoppers bought when Prime Day and Deal Days deals went live.

GROCERY ISN'T ENOUGH TO FEED THE RETAIL BEAST

Grocery accounts for 56.3 percent of Walmart's total sales. And according to Walmart CEO Doug McMillon, grocery is the key driver of Walmart+ signups. It certainly was a key driver of sales for Walmart's Deal Days in June. Twice as many Walmart+ shoppers made grocery purchases as Amazon Prime members made during those sale days.

It's also where cracks appear in Walmart's retail armor.

Neither Amazon nor Walmart shoppers were likely to use either of the two-day sales events to make grocery purchases, even though both Walmart+ and Amazon Prime shoppers did buy them during those two-day sales.



In fact, twice as many Walmart+ consumers bought groceries during Deal Days as Prime members, even though the share of Walmart+ and Prime consumers making grocery purchases was the same: one in 10.

The percentage of lower-income consumers making grocery purchases with each was also similar: 6 percent of low-income Amazon Prime Day shoppers made grocery purchases, as did 7 percent of low-income Walmart shoppers. EBT acceptance by Amazon, along with discounted Prime membership status for that segment of consumers, seems to have leveled the grocery playing field, at least as far as Prime Day/Deal Days is concerned. Overall, Amazon Prime customers spent roughly 11 percent more on groceries than Walmart+ consumers over that two-day period.

It is retail sales that tell the real story.

Three times as many Amazon Prime members made retail purchases as Walmart+ customers. According to our data, purchases of clothing, accessories and electronics outpaced Walmart+ customer purchases two to one.

Walmart had a slight advantage in those categories for which consumers wanted

same-day pickup – garden materials, building supplies, prescriptions, sporting goods and auto supplies – or where shoppers wanted to inspect a product and/or products for which there is more of an impulse buy (beauty products and jewelry).

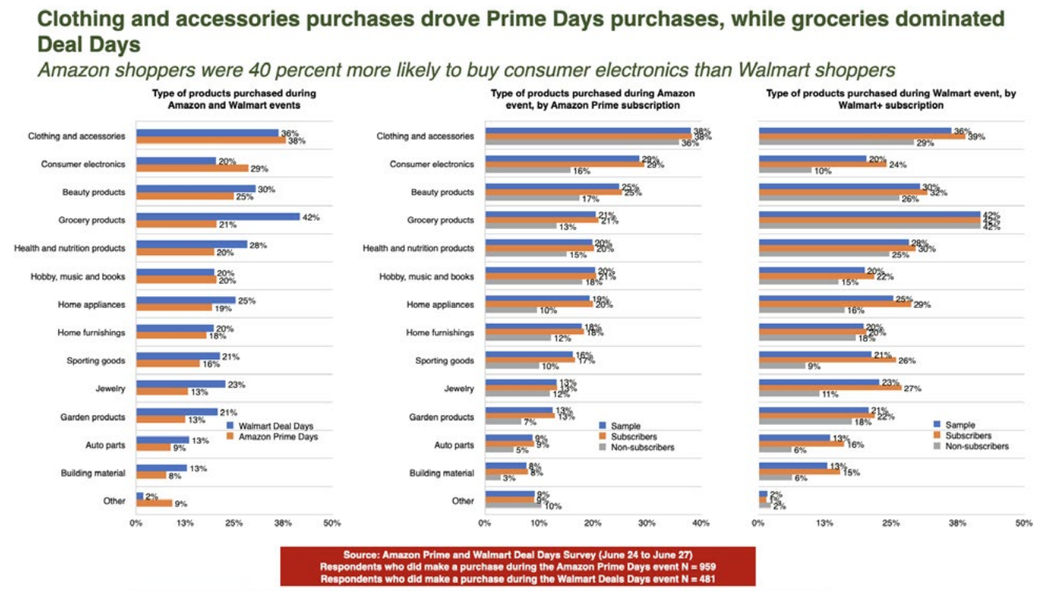
Overall, Amazon Prime customers spent 54 percent more on retail purchases than Walmart+ consumers, which boosted total overall spend for Amazon — and across all demographic groups.

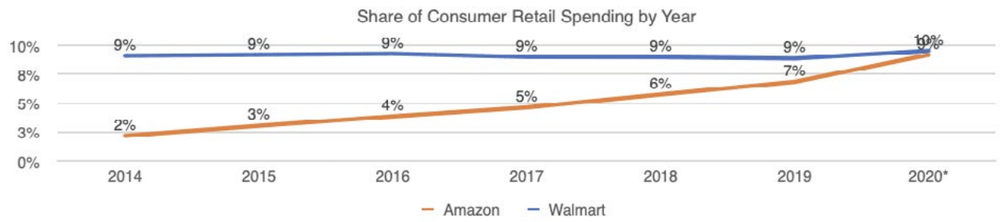
Three times as many Gen Z and Gen X, twice as many millennials and bridge millennials and five times as many baby boomer Prime members made retail purchases from Amazon during Prime Days than Walmart+ customers in those same demographic groups.

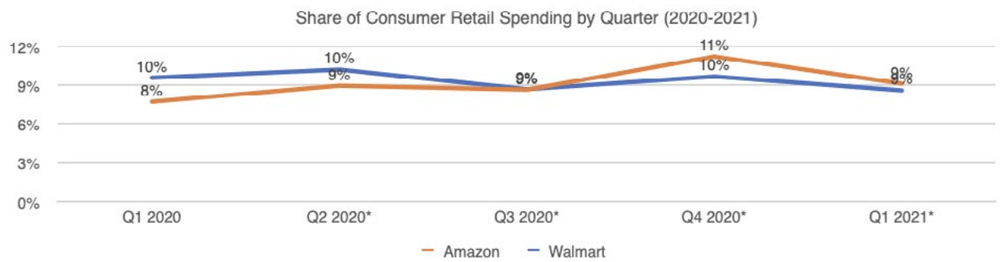
This two-day trend is consistent with the broader consumer retail spend trends that PYMNTS has been tracking with Amazon and Walmart in the U.S.

Over the last three years, we see Amazon gaining ground in key retail segments that were once the stronghold of physical retail — and Walmart in particular.

According to PYMNTS analysis, as of Q1 2021, Amazon now accounts for 9.1 percent of consumer retail spend and 3.5 percent of consumer spend. That's up from 7.7 percent and 2.6 percent in Q1 2020.







Those gains are the result of Amazon's share gain in nearly every non-grocery sector — with clothing, auto parts, sporting goods and home furnishings as its biggest category gainers. Walmart's share of grocery continues to dwarf Amazon's (even including Whole Foods). But Walmart's overall share of grocery remains largely flat at 19 percent — and has for the last six years.

Yet, it's the gain in non-grocery retail that we estimate will push Amazon to take the mantle as America's largest retailer next year.

Part of the push comes from its growing share of Amazon Prime members who once typified Walmart's core customer base: lower- and middle-income consumers, 90 percent of whom live within 15 minutes of a Walmart store. If Prime Days are any indication, they appear to spend as much or more shopping online with Amazon as they do with Walmart.

AMAZON GAINS WEIGHT IN THE MIDDLE

Walmart reports that more than 220 million consumers walk through one of its stores every week somewhere in the world, with roughly 110 million shopping in a store in the U.S. every week. That

scale, and its physical stores' proximity to almost every person living in the U.S., has always been regarded as the retailer's key competitive advantage.

The blurring of the physical and digital worlds — and the last 18 months of the consumer's massive shift to digital — has changed that competitive dynamic.

PYMNTS research shows that 68 percent of the U.S. adult population — some 171 million Americans — have access to a Prime membership. Nearly half (47 percent) of those consumers — 81 million — say they shop Amazon every week, or more often than that. Forty-two percent — another 73 million — say they shop Amazon once or several times a month. That's 153 million consumers, and growing, who shop Amazon's physical and virtual storefronts at least monthly and who buy a variety of retail products when they do.

We also know from published Amazon reports that Prime members spend twice as much as non-Prime members. PYMNTS' analysis finds that they also spend more than Walmart+ customers do with Walmart's Deal Days, regardless of their income level.

More than half of Prime members are female (52 percent), and nearly as many consumers earning less than $50,000 a year are Prime members (26 percent) as Walmart+ members (27 percent). So are those who earn between $50,000 and $100,000 (35 percent for Prime, 33 percent for Walmart+). More of those making $100,000 or more are Prime (41 percent) compared to Walmart+ (38 percent). Largely as many Amazon Prime members live in rural areas (19 percent) as Walmart+ users (18 percent), while twice as many live in small towns (32 percent versus 16 percent).

Nearly twice as many consumers earning less than $50,000 shopped Amazon during Prime Days as Walmart consumers, and they spent more with Amazon than with Walmart. Twice as many shoppers earning $100,000 or more did, too, as did nearly 2.5 times more consumers earning between $50,000 and $100,000.

The average amount per purchase for an Amazon Prime consumer earning less than $50,000 was $20.02, and for Walmart+ it was $14.16. For those earning between $50,000 and $100,00, it was $48.27 and $31.04, respectively.

Every demographic also shopped more with Prime, too, by at least a factor of 1.5 times — even as more millennials and bridge millennials report having both an Amazon Prime and Walmart+ membership. For those demographic groups, use of the Prime membership brings lots of other services, including streaming and access to voice-activated devices.

Millennials and bridge millennials over-index in their ownership and use of voice-activated devices for managing their lives in their homes, including making purchases. Thirty-six percent of this demographic have Walmart+ memberships, and 47 percent to 50 percent buy online for delivery to their homes when shopping with Walmart. Twenty-eight percent of Amazon Prime members are also Walmart+ members.

Quick access to Walmart's physical store presence appears not to be the primary driver of their relationship with Walmart.

THE RETAIL RIVALRY

Many believe that retail's biggest rivalry will be won in the grocery aisle. This study, along with our examination of Walmart's and Amazon's share of retail and consumer spend, tells a different story.

Amazon and Walmart are now competing for the same shopper — a consumer who uses digital channels to make all of her purchases, grocery and retail. When shopping at Amazon and Walmart, this consumer has access to the same methods of payment, including cash and EBT, to pay for those purchases. Amazon Prime membership is an investment that 68 percent of the U.S. adult population has made because it provides access to free shipping on most retail purchases, the windows for which are rapidly shrinking, as well as streaming services that will soon include the MGM video catalog. (Even if it tried, the chances that the FTC could block this merger are slight.) Amazon is competing for spend in a channel that provides ease, convenience and savings — the digital channel.

By contrast, just 21 percent of the U.S. population has invested in a Walmart+ membership. Since Deal Days were open to any and all comers, there seemed to be little incentive for consumers to pay for a Walmart+ account. Walmart seems to struggle with syncing up the "everyday low prices" with "even better deals with free shipping" if a consumer pays $98 a year to become a member.

According to PYMNTS' connected economy research, Walmart is also competing for spend in two segments where two-thirds of U.S. consumers say they would find value in having a

single ecosystem to aggregate those transactions: retail products and groceries.

This national study of 15,000 U.S. consumers, conducted between April and May 2021, finds that the more transactional an activity — like an online ordering experience — the greater the potential for all consumers to perform those activities using digital methods. Online orders — whether for food or retail products — are highly correlated.

Ninety percent of consumers who engage in digital shopping behaviors for retail products also do so when buying food at grocery stores or from restaurants. Two-thirds of consumers would like to have a single ecosystem to aggregate that spend and those activities.

Walmart appears to still be competing in the physical world, banking on the fact that foot traffic and groceries will continue to be strong enough to drive the top line. But our research suggests that's not enough: Walmart needs retail more than Amazon needs groceries to attract the next generation of consumers, and a more robust online channel to get and keep them. This is also the same consumer who has also found a number of other channels from which to buy their food.

PYMNTS' latest research on grocery shopping behaviors shows that 28 percent of consumers bought groceries online to be delivered, and 11 percent purchased groceries from aggregators like Instacart. Millennials and bridge millennials accounted for more than half of those purchases. For a generation of consumers who are already used to buying retail products online, shifting more of their grocery spend to those channels — including Amazon's — could spell trouble for Walmart. More — not all, but enough that visits to the grocery store are less frequent, and the basket sizes not as great because this segment of consumer, in particular, opts for subscriptions and/or online ordering for the center aisle purchases that account for a large portion of grocery store spend.

But, hey, let's not count Walmart out, and let's give its new Amex hire a chance. The ability of Walmart+ to sign up almost 54 million members in less than a year is something that Amazon ought to pay attention to, and something that many Amazon wannabees could only hope to do. If anything, the next year will be even more fascinating to watch as two players with the same "super app" ambitions use different tools and strategies to win consumers and keep them spending.

July 19, 2021

APPLE PAY LATER COULD POSE LARGER THREAT TO CARD ISSUERS THAN TO BNPL PLAYERS

The "Pay Later" pure-play stocks took a drubbing last week on the news that Apple Pay and Goldman, who partnered on the Apple Card, are doing it again to build a BNPL product.

Details are sketchy at the moment, and rife with rumor and innuendo. But, as reported, it seems in line with the typical buy now, pay later playbook: Pay in four installments, every two weeks, without interest, for smaller-dollar purchases; pay in monthly installments over a longer period of time with interest for larger purchases.

Based on what's been attributed to "unnamed sources," however, the real target may not, in fact, be the pure-play BNPL competitors, but rather the card issuers whose relationship with Apple — and Apple Pay — have been a bit strained since the start.

Many card issuers are also working on how they, too, can innovate using BNPL in-store and online at checkout with minimal friction — and with minimal risk of losing control of the customer relationship when they do. And, of course, they're all over revolving credit, which is a big source of their profits and is threatened by the BNPL upstarts.

ANOTHER APPLE ME-TOO?

It may be tempting to assume that like many other Apple "innovations" that have been late to market –Apple Books, Apple Music, Apple TV, HomePod — the "me-too" nature of the offer won't deliver enough of an impact to move the needle.

Maybe not with Goldman in the mix.

In partnership with Goldman, Apple has innovated the credit card space with Apple Card. Everything from the application process to the activation process to the user experience when using it – to the user experience when managing transactions and payments inside of the Apple Wallet — is innovative. In many ways, the Apple Card was a wake-up call to traditional credit card issuers for what a mobile "card app" experience should be for consumers.

Goldman has also been successful in building up its consumer business with Marcus as its cornerstone starting in 2016. When Goldman reported Q2 earnings for 2021, net revenues for its consumer banking business – which includes Marcus as well as the Apple Card – were up 41 percent quarter over quarter to $363 million. Apple Card performance wasn't broken out specifically.

At the same time, Apple Pay usage has remained largely unremarkable, now approaching its seventh birthday, although the details of its real performance have always been kept inside an Apple "black box." Transaction details related to Apple Pay usage online and at the physical point of sale have never been shared by Apple on quarterly earnings calls. That said, many larger merchants report scant usage in their stores — even after seven years of availability and with nearly every iPhone now activated with the Apple Wallet (more or less because iPhone users must do so in order to complete software upgrades.)

We also see that when looking at PYMNTS data over the last seven years, and more recently across the duration of the pandemic.

Seven years and one pandemic later, based on PYMNTS data from July 2021, roughly 3 percent of U.S. adults report using Apple Pay about once a week.

Over the last five months, we observe that the number of consumers who report using Apple Pay at least once in the last year at the physical point of sale as fairly flat, at roughly 13 percent of the population. Online usage at least once over that same period is up a tick — from 10 percent to 11 percent over that same period.

The conventional wisdom is that Pay Later could boost Apple Pay usage at the physical point of sale, where Apple says it has coverage at 85 percent of merchants. That will depend on the user experience in-store at checkout, which remains an unknown, and the competition it may face there. BNPL usage in-store has ticked up a bit from 4 percent to 5 percent at the physical point of sale, and has remained constant at 5 percent online over the five-month period from March to July of 2021.

THE ISSUER TENSION

What's been reported is that Apple Pay Later will give consumers making larger purchases the ability to pay in monthly installments by using any credit card in their wallet as a funding source. Pay Later users do not have to have an Apple Card, according to news accounts, but will have to qualify.

Assuming that's true (which is dangerous in the face of no known details) it would seem similar to how card network POS installment schemes are being deployed at the physical POS, which use a consumer's existing line of credit as the basis for the installment plan repayments. BNPL options could be exposed (or not) based on rules established by the issuer (in this case, Goldman) and the merchant based on available credit on that card and the amount of purchase. A consumer would make a choice and the transaction would proceed based on those options, all taking place in a matter of seconds.

Incentives could also be offered by Apple or the merchant to sway consumer choice in their direction, similar to what Apple has done to fund and induce Apple Pay usage.

Regardless, if published accounts are true, Apple Pay would leverage existing lines of credit, approved and underwritten by the consumer's card issuer, to enable payments to Apple in monthly installments that ride existing card rails.

Here's the potential rub, though.

One of the biggest points of contention with Apple Pay at launch in September of 2014 was the requirement that banks pay Apple 0.15 percent on every transaction made via the Apple Pay wallet. Banks relented over the fear of missing out on a mobile payments innovation that, at the time, was persuasively positioned as the death knell for the plastic card at checkout.

One could assume that the Apple Pay Later scheme, as currently described, would treat those transactions as any other Apple Pay transaction, subjecting them to the 0.15 percent fee, with Apple Pay in the middle of that customer/issuer relationship. Further, this installment arrangement cuts to the heart of the issuer credit business model – revolving credit and interest on balances. Although it is the credit story that BNPL startups and regulators love to hate, it is, in fact, how more than half of all credit card customers behave according to the American Bankers Association — and it's how issuers make money on their credit products to fund rewards and other features that are valued by consumers.

This could end up as an issuer double whammy: Pay Apple a fee to erode their revolving business and disintermediate their relationship with the customer by becoming the funding source for a Pay Later service powered by Goldman and Apple Pay.

It also remains unclear whether consumers would pay double interest on those purchases — interest to Apple Pay/Goldman on the monthly installment plans as well as to their issuer for the balances that are being carved up into smaller installment purchase amounts on their cards. The CFPB will, no doubt, be looking carefully at how Apple's Pay Later plan works, as they have become quite vocal about their views on the BNPL space.

Apple Pay Later instore is also going to raise more hackles over Apple's NFC policy. They have been widely criticized for not opening its NFC chip to other wallet providers, and have been the subject of antitrust investigations. No doubt, Apple's Pay Later raised all sorts of eyeballs across the landscape of wallet providers and regulators on the news last week who already have Big Tech and Apple in their cross hairs.

But, hey, if you're Apple and Goldman, a scheme like this may not be a bad place to prime the Apple Pay Later pump, even if one could argue that as it is being described today, it seems a bit of a me-too play.

PYMNTS data shows that in the U.S., the small number of Apple Pay users are employed (81 percent), college-educated (45 percent) millennials (46 percent) whose average age is 36, and are earning more than $100,000 annually (49 percent). More than half, 52 percent, have credit cards provisioned in their Apple Pay wallets.

Tapping into that demographic group, leveraging the cards in their wallet would seem to be a great way to learn "pay later" user behavior for a different Apple Pay Later 2.0 scheme down the road.

WHAT'S NEXT FOR APPLE PAY LATER

The introduction of credit thousands of years ago gave consumers an opportunity to take ownership of a product or take advantage of a service at the point of purchase and pay for it over time. The innovations in credit along the way have run the gamut from helping merchants underwrite and manage credit risk, to issuing and acceptance of a single card with a credit limit for use at millions of merchants, to offering virtual credit cards provisioned to a mobile wallet to those with different factors and rewards. In all cases, consumers had the certainty of knowing how much they could spend before walking up to a terminal in a store and checking out. Credit lines, then and now, provide that spending certainty, and consumers manage their shopping and spend using that as a guidepost.

BNPL startups have taken the 19th-century store credit model and improved it tremendously by making it transparent and accessible, and have made payment plans certain and predictable. Online, the further innovation was exposing that option as part of the decision-making process along the customer's buying journey — and before the checkout page. A would-be buyer could see that a $100 sweater would be $25 a month over four months on a product page featuring that sweater and make a purchase decision with that repayment plan in mind.

PYMNTS data shows that although BNPL users are bifurcated into two groups — the affluent customers who see it as another credit tool in the tool kit, and the lower-income consumers who don't have credit options and need it to make a purchase — they use BNPL for the same reason. It's not an aversion to credit or even credit cards, since many have them already and those who don't would like them. They use BNPL as a tool to manage their spending with certainty, knowing that at the end of the payment term, their payment obligation for that purchase is complete.

So, we will all have to wait and see how and where Apple Pay Later will make its debut. If in-store, Apple and Goldman will have to do more than BNPL startups are doing today, some even inside of the Apple Pay wallet, and card issuers are doing using the consumer's existing line of credit. Or even what card issuers could do when consumers use their card at the POS. One could imagine that issuers could message consumers seconds after checkout via their app or a text message that they have the option to pay in installments, as some do today via the online card statements.

Or online or in app, where Apple Pay Later becomes another online BNPL play, duking it out with other BNPL providers that have traction, an active user base and the need to convince its Apple Pay users who already use other options to pay online to give it a try instead.

August 9, 2021

WHAT THE SQUARE AFTERPAY DEAL MEANS FOR BNPL, FINTECH, BIGTECH AND BANKS

Square's announcement that it's going to acquire Afterpay for $29 billion just about broke the payments portion of the internet last Monday (Aug. 2). No one saw it coming, many consider it an unlikely pairing, and the premium Square is paying for the deal is a head-scratcher.

For students of platform strategy and ignition, the acquisition makes perfect sense.

Jack Dorsey was one of PYMNTS' first big interviews a few months after PYMNTS launched in 2009. At the time, Square was the white square-shaped dongle that turned iPhones into point of sale (POS) terminals and enabled card acceptance for micro-merchants.

Even then, it was Dorsey's ambition to create a consumer/merchant network with Square that could leverage connected devices, digital payments, the cloud and data to reinvent payments and commerce for consumers and the small merchants where they shopped.

Assuming the deal goes through, $29 billion and 12 years later, Square will have fulfilled its ambition of becoming that two-sided network, both online and off, and not just for small merchants — and it has the critical mass to grow rapidly.

The acquisition is an opportunity for both Square and Afterpay to scale a two-sided, multichannel payments, commerce and financial services ecosystem that also leverages Square's integrated POS platform and merchant services capabilities to keep and grow an expanded merchant base.

In theory, the acquisition provides both Afterpay and Square's Cash App users with an incentive to do more business within their newly formed ecosystem, given the added credit/debit/shopping capabilities each provides to the other. With Square's industrial bank charter, more banking and financial services capabilities will likely extend the functionality of this network over time for consumers and merchants — and grow quickly as network effects kick in. That will attract even more merchants to the platform, which will attract even more consumers, and so on as the virtuous circle spins.

It's a move that's giving every player across the payments ecosystem pause, and one that seems to take particular aim at PayPal (which, by the way, bought a pioneering BNPL network — Bill Me Later — 13 years ago for less than $1 billion.)

The question on everyone's mind now is what happens next.

The answer rests with understanding how platforms ignite and scale.

TO BEGIN AT THE BEGINNING

Twelve years ago, Square's network ignition strategy was to leverage the consumer's second-most ubiquitous payment method — the credit and debit cards consumers had in their wallets — and to build a base of the largely smaller merchants for which digital payments was elusive.

That part worked pretty well.

How many taxi drivers, flea market and farmers market vendors or other micro-merchants have you paid using your credit or debit card and the Square dongle? And then over time, at coffee shops and Main Street SMBs using their POS terminals? Lots and lots and lots, I'm sure.

Each time, you were also probably asked to provide those merchants with either an email address or a phone number to receive a digital receipt. But in none of those cases did you or any other consumer think of themselves as a Square customer — no more than you or they thought of themselves as a Verifone or Ingenico customer when paying for purchases in a store. Square was simply the device that accepted a plastic card. It never really built a consumer side from those email addresses and phone numbers.

In 2013, Cash App was introduced as a counter to Venmo — and later, a plastic Cash Card was added for offline use, as an effort to create more of that direct Square/consumer connection. In Q2 2021, Square reported 70 million active Cash App users overall and roughly 40 million actively engaged Cash App consumers in the month of June, 26 million of whom were active on the platform weekly. More recently, stimulus checks, tax refunds and crypto capabilities have added to the stickiness and popularity of that application, expanding its use base beyond the micro-merchants transacting on the platform.

With Afterpay, Square has added a consumer credit product for those 70 million active Cash App users to use at more than 18,000 online merchants in the U.S. (and the 96,000 worldwide) that accept it — giving more consumers more of a reason to sign onto the Cash App proposition.

For Afterpay, its 8.1 million U.S customers (17 million globally) can now become Square Cash App customers, as it added a Pay Now debit product and P2P capabilities to its mobile app and a new source of network effects for the consumer side of its ecosystem. It also

comes to the Square ecosystem with a user base that's pretty sticky — Afterpay says that 90 percent of its customers are repeat users.

Afterpay's 96,000 merchants worldwide also bolster Square's online merchant presence with a larger and different type of merchant, one that has remained outside the current Square merchant services platform but that Square has now signaled it's ready to serve. You might recall an announcement Square made a few weeks back about upping its POS hardware game, which followed several others hyping its integrated POS capabilities in the all-important BNPL sector: beauty and wellness.

On that point specifically, the latest PYMNTS data on BNPL penetration by category shows that 43 percent of online beauty and wellness sites offer a BNPL payment option. That same study, which will be released next week, shows Afterpay's penetration of that sector at eight times that of Affirm and Klarna, and four times that of PayPal Pay in 4.

In light of the Square/Afterpay news, success in the BNPL space comes down to platform ignition fundamentals: what's needed to create critical mass and network effects for whom — at scale — in a timeframe that's relevant, and with enough cash to outbid the competition.

THROUGH THE PLATFORM LOOKING GLASS: THE BANKS

The Square/Afterpay acquisition has accelerated the conversations for how traditional banks and card networks should be thinking about their build, buy or partner decisions in the BNPL space. For big banks, there's a further consideration: how to do that without cannibalizing their existing credit card revenue stream.

Banks have the consumers and the merchant acceptance — online, offline and in mobile wallets using their credit and debit card products. That's why acquiring a pureplay (maybe even one like Affirm) for tens of billions of dollars — with an average three-month loan value of $302 and an average of a 24-month loan of $1,302 for purchases across many categories, such as travel, for the 5.4 million consumers (as of its last earnings call) with good FICO scores — may give them pause.

Instead, the play for those big banks and the card networks might be to invest the tens of billions they'd spend to buy a consumer facing BNPL player into perfecting and accelerating their own installment programs using their existing credit lines and credit underwriting capabilities for the tens of millions of consumers they already serve. In fact, PYMNTS data shows that a third of

consumers who've used BNPL solutions have done so via their issuer's Pay Later offer.

Or for banks to consider the acquisition of BNPL players whose platforms are a complement to theirs, the credit onramp for the sub-prime or thin-file consumer who needs a three-month loan for $150 and for whom existing bank underwriting capabilities are ill-equipped to support making one. For those banks, the ability to offer a more inclusive set of credit options, then bank and expand their services to reach those customers might be especially attractive. For consumers, it's a way to get and build credit by paying off one small-dollar purchase at a time and establish a more robust relationship with a bank.

PYMNTS' data shows that although 14 percent of all U.S. consumers have used a BNPL solution over the last year, twice as many consumers with sub-prime or thin credit files have used one to buy and pay for things at online and offline merchants. Their motivation for using Pay Later options is, of course, to get credit and better manage their spending, but also to build their credit profile and improve their credit score. For those consumers, BNPL is a critical credit element that improves their eligibility for traditional credit products down the road.

THROUGH THE PLATFORM LOOKING GLASS: BIG TECH

Apple Pay and Google Pay wallets both support Afterpay's offline solution via the Afterpay Card that further expands Afterpay's acceptance at all of the brick-and-mortar merchants that accept both wallets. No doubt, the announcement by Square and Afterpay has amped up the conversation and likely the strategic path and timelines around their BNPL plans.

Although Big Tech may not bring the same baggage to the Pay Later party as big banks, they bring a totally different set of baggage. For Big Tech, the Square/Afterpay announcement creates a conundrum, since global regulators and legislators are so clearly anti-Big Tech (and anti-Big Tech buying anything).

At the same time, Big Tech would like nothing more than to create and/or accelerate the scale of their own payments, commerce and financial services ecosystem, using BNPL as a key credit cornerstone.

Any Big Tech dreams of BNPL acquisitions face increasing odds of a big double thumbs-down in the U.S., given the current opposition to letting Big Tech grow even bigger, including into adjacencies — and in other jurisdictions where the BNPL players have footprints.

That might not stop some from testing the waters to find out whether the antitrust enforcers can win in court.

Until then, Apple could be left to bet on pulling a rabbit out of its Pay Later hat with Goldman or using others like Affirm as a "powered by" solution, as it is doing in Canada for its own Apple products. And for Google to work with the banks that are already part of the Google Plex (or plan to be) product to integrate installments into GPay. Facebook's only option at the moment is to explore a powered by Pay Later solution, since even their acquisition of Kustomer is under regulatory review.

THROUGH THE PLATFORM LOOKING GLASS: CHALLENGER BANKS AND TECH PLATFORMS

For challenger banks looking to attract and retain the highly attractive millennial customer base that comprises the BNPL sweet spot, the Square/Afterpay news presents a different, but more challenging and unexpected, competitive consideration. It's also why a mash-up of a pureplay challenger bank — one with a user base, scale and without credit capabilities — and a well-established BNPL player could start to look interesting, and even timely, for both stakeholders.

Then there is a tech platform like Stripe that could find itself contemplating how and if such a combination could further accelerate its goal of increasing the GDP of the internet — creating a next-generation connected payments, commerce and financial services ecosystem that rivals what exists today — and for which a BNPL acquisition could provide a better ROI than a "powered by" partnership. The commerce platforms that have opted for a "powered by" solution — like a Shopify, BigCommerce or Adobe — are likely doing that same soul-searching, with the benefit of seeing the results of those partnerships. Shopify reported as part of its Q2 earnings that its Shop Pay installments solution volume, powered by Affirm, tripled over the prior quarter.

Integrated issuing and acquiring platforms such as Fiserv and FIS might also start to think differently about buying a capability to help scale BNPL across their merchant and consumer touchpoints to add a new payment method to their mix. Or they might accelerate their investments in (or even buy) one of the emerging pure plays that power BNPL for banks or that enable BNPL in large, high-ticket verticals such as travel and healthcare.

For card networks — and their network of network strategies — the Square/Afterpay news is both a threat and an opportunity. BNPL pure plays ride their debit rails, moving cash purchases online and at higher basket sizes. At the same time, for many of those purchases, they shift the volume destined for credit cards to BNPL rails.

THROUGH THE PLATFORM LOOKING GLASS: THE PUREPLAYS

For pure plays and their investors, the Square/Afterpay news has sparked a war room conversation with their investors and boards about whether and when to build, buy, partner or be acquired as each builds its own connected payments and financial services ecosystem anchored by a different way for consumers to get credit and repay what they owe.

PYMNTS data shows that BNPL users, when asked, like and want to use credit — particularly those who have few other options. They also don't mind revolving those balances, since that is what installment plans provide. They prefer a predictable repayment plan: equal installments over a defined time period for a specific purchase such as those jeans, that TV, that rowing machine, the must-have handbag. Consumers also like transparency of fees — which doesn't mean they expect to have no fees, but that they want clarity about what they will pay for that purchase if the term of their loan goes beyond three or four payments.

For the BNPL pure plays, their long-term ignition strategy means adding credit card-like functionality so that consumers begin to use them as they do their credit cards today. That means giving consumers visibility into how much they can spend before they get to checkout, like they have with credit lines today, and the ubiquity across merchants and merchant categories they enjoy with those cards. It means innovating the experience to create that single place where consumers can pay with money they have now on hand or plan to pay later, according to terms that help them better manage that spend and pay off their debt.

September 7, 2021

SEVEN YEARS LATER, ONLY 6% OF PEOPLE WITH IPHONES IN THE US USE APPLE PAY IN-STORE WHEN THEY CAN

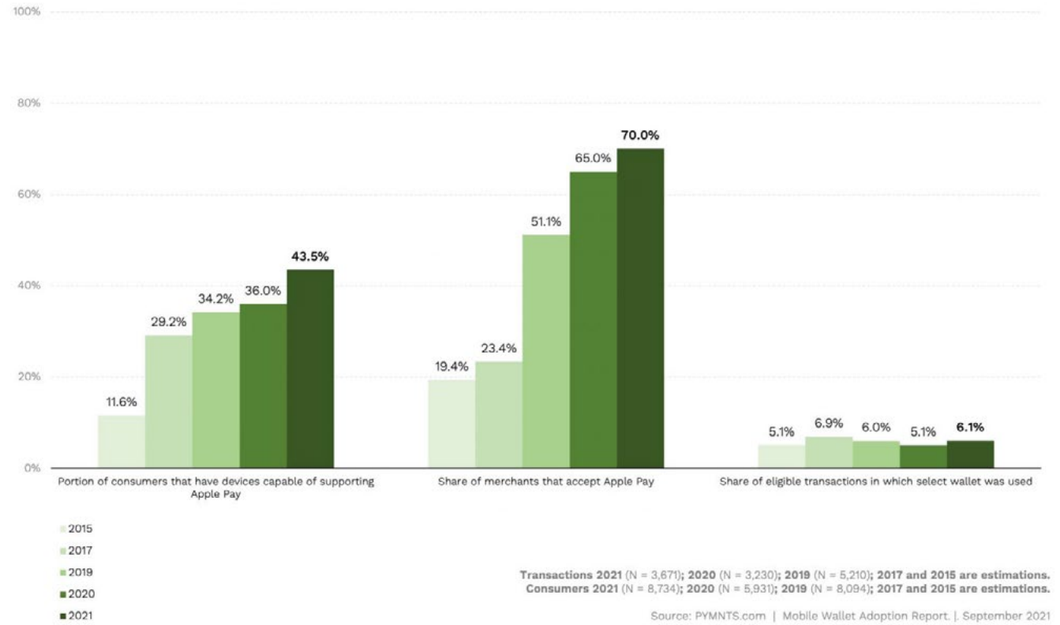
It was about seven years ago – Sept. 9, 2014 – when Tim Cook took the stage at Apple's WWDC and introduced Apple Pay.

What the world saw that day was a slick user experience that was quintessentially Apple – a mobile payments app that Cook said would replace the consumer's physical wallet and revolutionize how they paid for purchases made in the physical store.

The media and industry pundits went bananas. Reports predicted that soon, plastic cards would be a relic, and that Apple Pay at the point of sale would markedly eclipse their usage and utility.

At launch, card networks and large issuers were teed up. So, too, were a handful of large merchants that already had contactless at the point of sale, waiting for consumers to waive their iPhone 6s and 6Ss across them at checkout. In the U.S., those merchants were pioneers, as only a few in the country had activated contactless at the POS at that time.

Use and adoption of Apple Pay



Transactions 2021 (N = 3,671)**; 2020** (N = 3,230)**; 2019** (N = 5,210)**; 2017 and 2015 are estimations.**
Consumers 2021 (N = 8,734)**; 2020** (N = 5,931)**; 2019** (N = 8,094)**; 2017 and 2015 are estimations.**

Source: PYMNTS.com | Mobile Wallet Adoption Report. | September 2021

Seven years post-launch, new PYMNTS data shows that 93.9% of consumers with Apple Pay activated on their iPhones do not use it in-store to pay for purchases.

That means only 6.1% do.

That finding is based on PYMNTS' national study of 3,671 U.S. consumers conducted between Aug. 3-10, 2021.

After seven years, Apple Pay's adoption and usage isn't much larger than it was 2015 (5.1%), a year after its launch, and is the same as it was in 2019, the last full year before the pandemic.

Disappointing, perhaps, but entirely predictable.

Even now, in the age of digital-first consumers living in a connected, digital economy, Apple Pay's stiffest competition in the store, ironically, remains that piece of plastic – the raison d'etre for its development and the intended target of its super-hyped potential in 2014.

In fact, the growth in total Apple Pay transactions since 2015 has come almost entirely from more stores having contactless terminals to accept it, more people having new iPhones that can use it, and the overall growth in retail transactions.

And almost none of that growth comes from more iPhone users wanting to use it instead of plastic cards.

More on this later.

THE PROBLEM OF NOT FIXING ONE

Apple Pay faced stiff ignition headwinds on all sides of its platform when it launched in 2014.

For consumers to use Apple Pay in the store, a merchant needed to accept contactless payment. That was 19% of U.S. merchants in 2015; it's estimated to be 70% of merchants in 2021.

Consumers also had to have a particular model of iPhone to activate Apple Pay – the iPhone 6 or 6S. That was 39% of consumers with iPhones in 2015; today, that's 96% of iPhone users. To provision a card in their Apple Pay wallet, the consumer's bank needed to have an agreement in place with Apple Pay.

Those 2015 headwinds have largely been neutralized.

The one that remains seven years later is convincing more than just the early mobile payment adopters and Apple enthusiasts that Apple Pay solves a problem at the point of sale that using their plastic card does not.

The challenge is persuading consumers that the value of Apple Pay is big enough to trade off the ubiquity and utility of the plastic card they know how to use, is accepted everywhere they shop, and doesn't require using a particular device to pay for their purchase.

And proving that the value of using Apple Pay is also durable enough to become a habit rather than just a novelty of trying it once – and getting consumers to use it every time they shop in a store, and even showing a preference for those shops that accept it.

Apple Pay just hasn't been able to clear those hurdles for almost 94 out of 100 iPhone users in the U.S.

CONTACTLESS CARDS' GAIN IS APPLE PAY'S GROWING PAIN

At the same time that Apple was trying to get more consumers to use Apple Pay, banks were issuing more contactless debit and credit cards for consumers to use at the growing number of merchants that have enabled contactless transactions.

Over the last seven years, those plastic cards have also gotten smarter at the physical point of sale, as issuers, merchants and FinTechs use software to enrich those transactions. Apple Pay's competition from those plastic cards has intensified since 2014.

From the consumer's standpoint, the cards they used to dip or swipe could be tapped – just as conveniently, quickly and easily at the point of sale as Apple Pay. Maybe even more easily, as thumbprint authentication was replaced with Face ID on newer-model iPhones.

In 2015, roughly 5% of eligible Apple Pay users – those with the proper iPhones, with Apple Pay enabled, who also shopped in stores that accepted Apple Pay – used it to make a purchase.

In 2021, PYMNTS reports Apple Pay usage at 6.1%, about a 20% increase in the rate of use after seven years. Still very low.

But that's Apple Pay today.

More interesting is Apple Pay's future, one which might be foretold by examining the last 18 months of consumer payments behavior in the store.

Since March 2020, contactless and touchless have become the consumer's checkout mantra, as touching a point-of-sale terminal became a health and safety concern. If anything could have changed the trajectory of Apple Pay – and mobile wallets more generally – over the last several years, it should have been COVID.

That's not what PYMNTS data shows.

THE INCREDIBLE SHRINKING IN-STORE MOBILE WALLETS POOL

What happened instead is this.

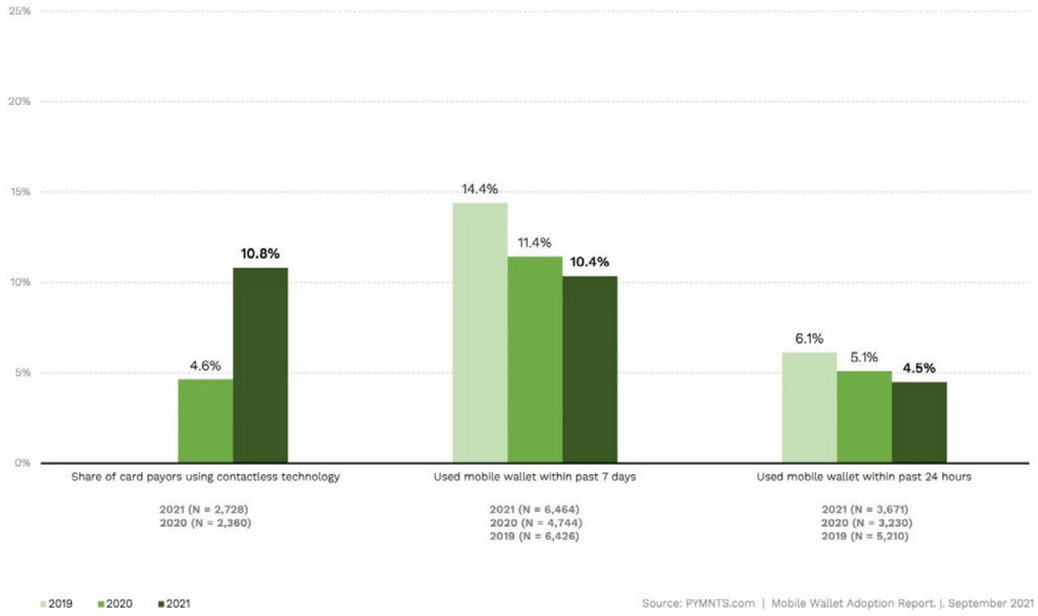
We asked people what payment methods they used to pay in the last 24 hours when shopping in a store and compared it to the same data captured in prior studies. We observe that between 2019 and 2021 cash use declined 20.1%; credit card use increased by 33.8%; and debit card use declined slightly by 7.2%.

Mobile wallet use in-store declined 26.2%.

That said, Apple Pay usage in store, to its credit, has remained steady, though small, while the other mobile wallets have shriveled. Most of the decline of the mobile wallet use in 2021 is related to the decline in use of the other "Pays" in store.

Keep in mind that what PYMNTS is measuring is what people in the store are using there to pay at checkout. For the purpose of this study, Apple Pay's and the decline in usage of other mobile pays cannot be explained by people not shopping in the store and therefore, not using it to make a purchase.

Contactless technology and mobile wallet usage, by year



Source: PYMNTS.com | Mobile Wallet Adoption Report. |. September 2021

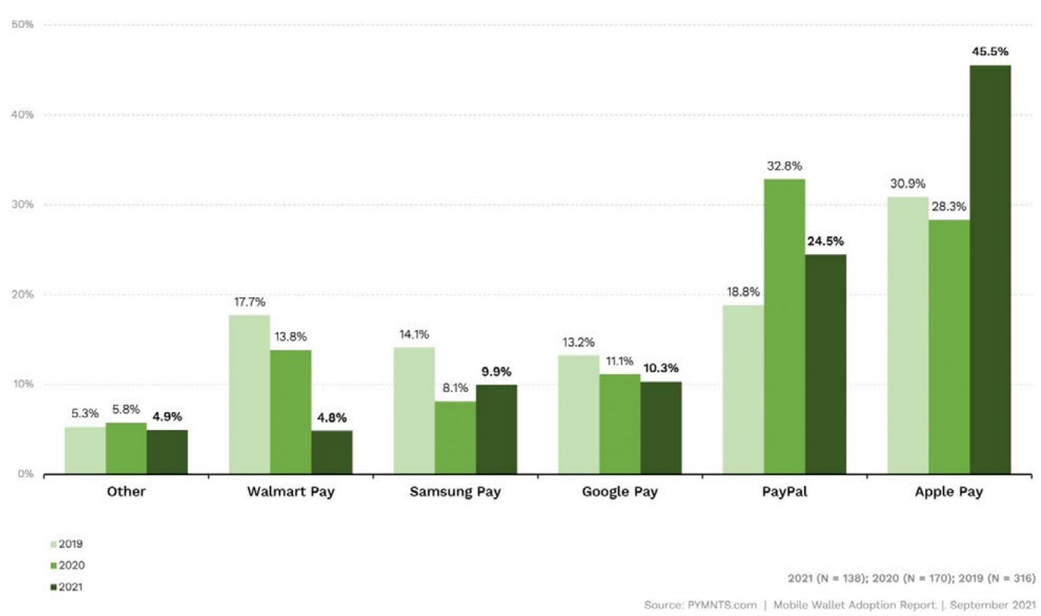
THE PROBLEM OF NOT SOLVING ONE

PYMNTS has been tracking Apple Pay adoption and usage since its launch, and has the most consistent time series marking its adoption and usage over the last seven years. PYMNTS analysis measures eligible purchases for which a mobile payments application is used – where the consumer has an eligible device (an iPhone that supports Apple Pay), has the mobile payments app set up on their phone (an activated Apple Pay account), and is shopping in an eligible store (one that has activated contactless at the point of sale).

Our goal is to document the trajectory of a mobile payments innovation that was intended to change how consumers and merchants do business in the physical store.

Today, Apple Pay remains the biggest in-store mobile wallet player, with 45.5% share of mobile wallet users. Over the last seven years, the total amount of Apple Pay transactions at U.S. retail

Share of consumers using select mobile wallets to pay for their purchase in the last 24 hours



2021 (N = 138); 2020 (N = 170); 2019 (N = 316)

Source: PYMNTS.com | Mobile Wallet Adoption Report. |. September 2021

stores has increased from an estimated $5 billion in 2015 to $90 billion in 2021.

Although that growth is commendable, it is largely the result of more people with iPhones upgrading to newer models and more merchants taking contactless payments, both leading to a general increase in retail sales – 12.9% greater in 2021 than 2019.

But to be successful, innovation must solve a problem, fix a source of friction or improve an experience that is so painful that consumers or businesses are motivated to switch.

Over the last seven years, the payments ecosystem has been heads-down focused on innovating the consumer's experience when engaging with retailers – one where payments and technology goes beyond the sameness of swapping a physical form factor at a designated place in the store for a digital one, at that same designated place when making in-store purchases.

One where the entire experience is rethought for a digital-first consumer who now views shopping as a continuum – in-store one day, online for delivery the next, online for curbside pickup the day after that. And one where payments is the glue that offers that continuity of experience across channels and retailers.

And one where not checking out is the ultimate in-store checkout experience.

THE PATH FOR APPLE PAY

There's been tremendous innovation in that regard, fast-tracked over the last two years. And although it has often involved mobile phones, it hasn't involved Apple Pay or any of the other so-called Pays. At least not yet.

Looking ahead, now that contactless penetration and iPhone upgrades have largely run their course, there are two paths for Apple Pay, both difficult. Particularly difficult since the shift in how consumers stage and pay for their transactions now reflects a digital-first shift in and outside the physical store, and where the value of mobile apps is moving beyond just making a payment happen.

Path one is for Apple, the smartphone, to take share from Android to make the eligible Apple Pay pie bigger and to ride retail's continued growth. Currently, Apple has a 52% share of smartphones in the U.S., up from 47% in 2019. That seems hard, if not pretty unlikely.

Path two is for Apple to get more iPhone users to use Apple Pay in the store.

That's something that Apple has failed to do over the last seven years – including over the last two years, when contactless payment in-store was its (and every Pay's) oyster.

Seven years in, Apple Pay just hasn't lived up to its potential for transforming the point-of-sale experience in the store. Maybe there is a grand plan that goes beyond offering users discounts to use it at checkout. But unless it does, its past is likely to be prologue – and its usage will likely be stuck at around 6% of iPhone users who like to wave their phones in the store when they buy.

At the same time, the 94% of iPhone users find other apps to use and other ways to innovate how they and their preferred merchants get together and do business.

September 20, 2021

VOICE OPERATING SYSTEMS LIKE ALEXA WILL POWER THE CONNECTED ECONOMY

Alexa and voice AI is to the connected economy what Microsoft was to the PC in 1990 and what iOS and Android were to smartphones in 2008: the operating system that will help it scale.

Microsoft's Windows 3.0 operating system turned computers with DOS and green screens into accessible personal computing devices, at scale. Eight years after the PC's debut in 1990, sales were closing in on 100 million units annually as PC manufacturers licensed the software that, in turn, drove more PC sales. Today, Microsoft maintains a 73% share of PC operating systems.

The iOS and Android operating systems, introduced by Apple in 2007 and Android in 2008, turned mobile phones (and later, tablets) into connected devices that did more than make a phone call, by providing fast, mobile broadband at scale. Developers created apps that lived in their app stores and handsets gave users access to those apps almost anywhere they happened to be. Today, Android has a 73% share of smartphones worldwide, while iOS has a 26% share. Android is heavy in low-priced handsets while Apple reigns supreme on the high end. In the U.S., it's 47% and 52%, respectively, as of May 2021.

Alexa, introduced by Amazon in November of 2014, turned a cylinder called Echo into a voice-activated device that sat mostly on kitchen counters at home and gave its users a new way to access the internet.

Unlike the Windows, iOS and Android operating systems, Alexa wasn't created to drive sales of a new category of connected device called a speaker, even though that was the device that marked its debut.

The intent was for Alexa to become the operating system for the connected economy, embedding its voice-activated operating system into the growing number of devices that were or could be connected to the internet.

In doing that, Alexa introduced the consumer to a new way of connecting with information and brands that heretofore required a touch or a tap on a keyboard or a physical interaction with a specific piece of hardware to complete a task. Alexa turned dumb devices like doorbells, curtains and faucets into smart ones when connected to them. People didn't need to "fat-finger" a screen or use a keyboard — they could just say what to do.

More than that, Alexa gave consumers a consistency of access to the many experiences that these new connected

devices made possible, powered by their own voice, and agnostic and even indifferent to the hardware that made the experience possible.

Seven years ago, Alexa 1.0 was about building the consumer's trust using a humanized voice AI application named Alexa, and discovering the hands-free power of a simple, spoken command to master the mundane.

Over time, its voice AI operating system has the potential to move consumers and businesses closer to an always-on connected commerce ecosystem, by leveraging that trust and embedding payment and identity credentials into a growing portfolio of connected devices powering new use cases that define the consumer's daily routine.

It's something that will become far more important as more and more devices get deployed through the retail and commercial physical space, penetrated by super-fast 5G.

HUMANIZING THE OPERATING SYSTEM

Today, there are more than 80,000 Alexa skills — basically, voice-activated apps that do the user's bidding — available in the U.S., and nearly 200,000 available globally, powering some 200 million connected devices.

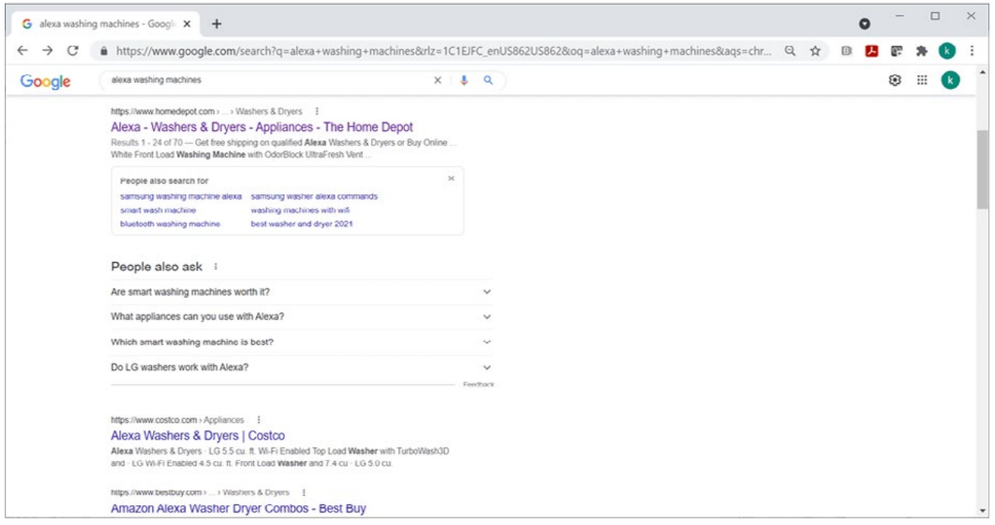
According to Amazon's website, Alexa powers everything from cameras to clocks, garage doors to guitar amplifiers, toys to timers and tower fans, home network systems to hot water heaters. Alexa can also be found in 171 car models from 26 different automotive brands. Not to mention lots of gas pumps.

Fire is technically the OS that powers Alexa, but no one other than those who develop Alexa skills talks in those terms. Its users just talk about Alexa.

Consumers don't say that it's the Echo that keeps track of their weekly shopping list or orders a pizza from Domino's. It's Alexa. It's not the Caseta lighting control that makes the lights go on and off or dim on demand, but Alexa. The Echo Show might display Ina Garten's recipe for Chicken Marbella (really worth making), but it's Alexa the consumer asks to display it. Consumers may buy Kohler faucets, but it's Alexa that they ask to turn them off and on.

None of that is lost on brands and retailers. A simple Google search for Alexa washing machines makes that point. Alexa is both a keyword as well as a means for brands and retailers to market their products and/or inventory of smart washing machines.

Alexa sells.



Including cars.

A Buick commercial featuring one of its new models goes out of its way to describe it as an "Alexa" rather than a Buick — and all because it comes integrated with its voice AI. The commercial is less about the car and more about the experience of driving it — and using the in-car experience powered by Alexa to make dinner reservations, get directions, turn the house lights on and play music en route.

ACROSS THE CONSUMER AND BUSINESS CHASM

PYMNTS research finds that 31% of U.S. consumers have a voice-activated speaker in their homes, in addition to other voice AI-connected devices like doorbells, appliances, TVs and curtains. Alexa is reported to have 68% share of the voice AI market.

PYMNTS research of a national sample of 10,000 U.S. consumers – which was conducted in April and May of 2021 – also finds that most use those devices to support the simple, mundane tasks that Alexa was intended to transform. Managing home security, controlling the lights, creating to-do lists for chores and shopping lists for grocery and food and accessing information related to their local communities top the list of ways consumers use them right now.

Surprisingly or not, 25% of consumers report using their voice-activated devices to make a purchase; another 19% haven't, but say they might. Ordering

food and groceries are among the more popular payment-enabled use cases.

That's a consistent trend.

Over the last several years, PYMNTS research has tracked a growing number of consumers using voice-activated devices to buy things. The introduction of devices with screens has helped boost those numbers, along with the availability of skills on the Alexa app on iPhones and Android phones enabling users to say and pay. Not to mention the practice consumers have with using Alexa, the confidence they have built in doing so, and their experience with Amazon payments as a secure way to transact.

Amazon has since followed consumers to the workplace.

According to Amazon, companies from Conde Nast to GE to Brooks Brothers and MicroStrategy have now integrated Alexa into their employee productivity tools, laying the foundation for a fully smart office, activated by voice and integrated across the enterprise for their on-site and hybrid workers.

Alexa is being tested in hospitals' operating rooms to run surgeons through a checklist of the processes and procedures necessary to prepare the room and the patient for surgery. It's replacing call buttons in hospital rooms for patients to use when help is needed, and to control devices in the hospital that once required a person to physically set and monitor.

Alexa is also said to support pediatric patient settings as a way to provide patients and their families with access to information and commonly asked questions about treatments and procedures, making doctor and patient encounters more efficient and valuable when they meet face-to-face.

Almost anywhere, a person's voice can now replace the need to toggle between physical devices and screens and physically interact with a piece of hardware to complete a task.

VOICE AS THE CONNECTED ECONOMY'S 'WAKE WORD'

Alexa isn't the only voice AI-activated operating system. Google and others are in the mix. More may enter, and maybe they'll even leap-frog Alexa. I don't know. Anything can happen in this intense, dynamic competition.

What I do know is that voice AI-activated operating systems are a huge development. They are the third great OS wave — yet another disruptive innovation that will unlock new forms of innovation, adding value to people and businesses.

The reason this is so important is that just about every device, everywhere, can now have an internet connection — and soon, that connection will be able to handle vast amounts of data quickly, even faster than before.

This, and similar operating systems with voice-activated skills, will power connected devices for connected consumers and businesses. And consumers, with their growing portfolio of connected devices, will want a way to streamline now discrete apps, devices and use cases into a single voice-activated command — at home, in the car, at work or anywhere else they may be.

October 18, 2021

THE CONNECTED ECONOMY TAKES OFF

December of 2019. It would be weeks before the first case of COVID-19 was diagnosed in China. And months before The World Health Organization declared a global pandemic. That month, I wrote a piece outlining the seven trendlines that would define the decade of the 2020s.

I noted that the decade of the 2010s was about an apps-based economy accessed by smartphones. The decade of the 2020s, however, would lead to ecosystems that aggregate discrete activities, sometimes accessed through multiple connected devices, and across many different, once-physical activities.

I called that vision the connected economy: one that would transform how consumers shop, pay, bank, be well, live, communicate, travel, eat, have fun and work. Consumers would spend much of their time inside just a few everyday connected ecosystems that would enable all — or many — of those activities.

Over the decade of the 2020s, I predicted that we'd see just about every device connected to the internet and capable of enabling a transaction — between machines, between people, between businesses and every other possible permutation.

New networks, intermediaries and enablers would emerge to disrupt the payments and commerce status quo, while opening new doors to those who could see the connected economy's potential and wanted to shape its future.

I concluded that the connected economy was inevitable and would happen faster than anyone might think, even though it would be decades in the making — and that it wouldn't take the entirety of the decade for it to become visible.

In 2019, my vision of the connected economy was more than a hunch on my part, or a premonition that something so terrible as a global pandemic was on the horizon. It was rooted in an intellectual framework for what has become the defining principle of the growth of the global economy over the rest of this decade and beyond.

It was rooted in how platforms work, are monetized and scale — and the role of friction, inertia and time in what problems they solve and how they solve them.

Fast-forward almost two years.

Today, multi-sided platforms not only streamline digital engagement inside a specific vertical or use case, but they make it seamless and secure for

consumers and businesses to engage across the verticals that form these new ecosystems. In the process, these connected ecosystems are redrawing the competitive landscape, mudding the once-bright lines between verticals.

Restaurant aggregators that once connected restaurants and consumers who wanted food delivered at home are now powering retail's last mile — becoming convenience stores and/or partnering with retailers so they can step in to fill that role.

Super apps consolidate the once discrete payments and mobile wallets with shopping, savings, investments, credit, promotions, deals and discounts inside a single ecosystem.

Big retailers — physical and virtual — now leverage their scale and customer base to extend their repertoire of offerings to include the digital delivery of healthcare, prescriptions and financial services.

Automotive OEMs now see cars as the ultimate mobile commerce platform as they explore the intersection of payments and new modalities, with telematics and car operating systems forming the basis of a car-centric ecosystem.

eCommerce marketplaces that once defined online shopping are being challenged by contextual platforms and new social networks, which create immersive experiences that both entertain consumers and motivate them to buy.

In October of 2021, we now see green shoots of the connected economy everywhere as brands become platforms, platforms become connected ecosystems, payments create new connected economy opportunities and innovators use technology to give platforms a new connected economy reality.

"Stay in your swim lane" no longer seems like useful advice for many who see the connected economy's potential, and aspire to take a key role in shaping it.

HEALTHCARE TAPS DIGITAL TO CREATE CONNECTED ECOSYSTEMS

Healthcare is having its connected economy moment — and it's coming from everywhere.

In April of 2020, Verizon said it was going to buy video teleconferencing platform Bluejeans with healthcare as its primary use case — competing with many of the pure-play telehealth providers already

in the market. It's now integrated with Apple Health. 5G and the availability of connected devices opens up a new channel between the patient and her healthcare providers in cases where physical provider engagement is not possible or desired. Operating room pilots using 5G and its video platform are underway, with the aim to match consumers who need a specialized surgical procedure with a surgeon who can perform it hundreds or even a thousand miles away. Talk about democratizing access to healthcare.

Walgreens is taking its physical retail footprint digital through a "be well" connected-economy ecosystem that brings retail, healthcare and financial services together in a single app. Consumers are rewarded for making healthy purchases online and in-store, providing further incentives to fill prescriptions that doctors have prescribed for them.

Walgreens has also invested $1 billion in VillageMD to open new retail clinics and further integrate physical and digital healthcare experiences into this "be well" ecosystem. Its partnership with DoorDash now makes it an on-demand provider of retail and healthcare-related products for consumers who like living in the bring-it-to-me economy.

Walmart Health and Amazon Care have both connected their retail footprints and consumer bases with physical and digital healthcare services — opening physical clinics where patients can be seen and can receive a variety of medical services, along with access to telehealth. Walmart has also launched health insurance in a few states. Amazon Pharmacy connects consumers with prescription discounts, Amazon-registered payments credentials and free delivery.

Best Buy recently bought HealthTech company Current Health, a remote monitoring platform giving doctors access to a patient's basic vitals. The Best Buy CEO foresees a future at the intersection of new connected devices, healthcare and the home, with the aim of improving the quality of care and quality of life for patients and providers.

And HealthTech innovators like Sprinter are leaning into the use of on-demand diagnostic lab services and their own W-2 workforce, comprised of what they call "Sprinters," to improve patient and provider care. Working with existing labs and physicians, Sprinters are dispatched to a patient's home to perform blood draws in advance of doctors' visits, surgical procedures, regularly scheduled treatments and other medical procedures, saving consumers and providers both time and money.

GROCERY AND RESTAURANTS CONVERGE TO BECOME 'EAT' SECTOR

In our connected economy framework, grocery and restaurant converge to become the "eat" sector. And we are now starting to see evidence that the "eat" connected-economy pillar is taking off.

Ghost Kitchen Brands and Walmart announced the expansion of their Canadian pilot to the U.S. They will aggregate food from 30 or more national chains inside of Walmart stores. Where available, the millions of consumers who shop at Walmart stores every week can now walk up to a kiosk and order ahead for takeout as they complete their shopping. Walmart wants a bigger bite of consumers' "eat" budget — beyond its current 56% share of sales that come from grocery products — and this is one way to get it.

More recently, Instacart acquired the catering software platform FoodStorm as a way to expand and streamline prepared foods and catering activities for grocery stores. This move expands the options for grocery stores to capture more of the consumer's takeout/food delivery services — a nice complement to Instacart's new 30-minute delivery window. The acquisition also gives catering operations — which were ghost kitchens before there were ghost kitchens — a way to leverage the Instacart platform (consumers and delivery drivers) and to turn their catering operations into a direct-to-consumer platform with new revenue possibilities.

CARS AS THE ULTIMATE MOBILE COMMERCE PLATFORM

GM CEO Mary Barra said at the firm's investors day last month that the future of GM would include subscription services that would rival Netflix's by 2030. At the same time, innovators such as CarIQ are turning cars into a payments form factor by authenticating each purchase using IP that binds the vehicle ID and the car operating system with a payments credential.

Car OEMs are now advertising cars by promoting what happens inside of them — the in-car experiences powered by tech, voice, commerce and connected experiences — as the brands themselves take second stage.

Online car platforms are sowing their own connected economy seeds. Last year, Vroom bought a data company, CarStory, as a way to more efficiently price cars for purchase and sale. In the future, it may even prompt new car purchasing opportunities by giving consumers insight into the value of the car they already own and what inventory is available for them to buy — all inside their platform.

After that acquisition, Vroom CEO Paul Hennessy told me how data will open the door to new ways to serve their customers better, including creating a car-centric payments and commerce ecosystem for its users. He would know — before taking the reins at Vroom, he was Priceline's CEO. Last week, Vroom announced that it intends to buy an automotive finance platform as a way to further integrate credit as part of the online buying experience.

In September, J.P. Morgan announced that it would take a 75% stake in VW's payments business, with the goal of creating an end-to-end payments and commerce experience inside the car. The CEO of JPM's Merchant Services Max Neukirchen told me that although commerce inside the cockpit was the first priority, using the car's operating system to enable an end-to-end experience — from financing the car to scheduling and paying for insurance, maintenance and other car-centric services — is on the roadmap, so to speak.

You may also like: JP Morgan's Max Neukirchen Envisions 'Delightful' Connected Economy on Wheels

THE CONNECTED ECONOMY TELLTALES IN 2019

In 2019, there were already strong signals from consumers — who were already living in a digital world — that they wanted to have even more of their digital activities simplified and streamlined. And there were the beginnings of a subtle shift in their mindset, from connected devices as fun gadgets to enablers of connected experiences for specific use cases.

Based on research that we had been conducting since 2015, we observed that consumers were already using their connected devices to "multi-task" commerce. More of them were shopping on their phones while riding the subway to work (when we did such things), ordering takeout and adding groceries to the shopping lists using voice assistants while cleaning up after dinner, and buying on their iPads while watching TV or sitting on the sidelines at a kid's sporting event.

Even before working from home became the de-rigueur workforce reality, we observed that consumers were already doing more work from home — and using connected devices and apps to shift how and when they were doing basic things, like shopping for groceries. Then, we observed that a third of the people who ordered groceries online

were doing it during the week — leaving their weekends free to do other things.

At the same time, smartphones were becoming ubiquitous and mobile internet access was becoming pervasive around the world, accelerating the move away from cash to digital everywhere — but especially in emerging economies.

There were big investments being made by innovators and traditional players in modernizing the payments infrastructure needed to power new levels of digital engagement within and across the once-separate silos — such as banking and payments and shopping — that have become the basis for forming new connected ecosystems.

There were breakthroughs in enabling technologies including 5G, AI/ML and the cloud to power new connected economy use cases, and seamless and secure movement between devices and channels.

There was also plenty of evidence that payments and new payment modalities would become the connective tissue for how the connected economy would be monetized, scale and drive value.

THE 2021 CONNECTED CONSUMER

PYMNTS is all in on the connected economy. We have put plenty of muscle into it, trademarked the term and created a patent-pending Index tracking 100 thoroughly researched, listed companies that we believe represent the connected economy's future.

In the two years since I unveiled the vision, PYMNTS has already conducted more than 40 original studies and captured tens of millions of data points that methodically benchmark the evolution of consumers living inside the connected economy, and how merchants and the payments ecosystem are responding. Our global studies are just the beginning of our journey to capture these insights, in real time. The goal is to share these insights with executives across each of our 10 pillars who want to best understand how they fit — before it's too late.

What we know so far is that consumers are already highly connected to about three of the nine pillars (besides payments). Ninety percent of consumers who use connected devices to shop also use them to buy food at grocery stores or restaurants, and also to book travel. Consumers who connect digitally to those activities are also more likely to make appointments online with their healthcare providers.

We know that the average consumer would like to have five of those nine pillars connected into a single ecosystem. Shopping, eating, travel, having fun and communicating with family and friends are the pillars that most consumers would like to see assembled into a single digital point of access. It's also where consumers expect payments to be an embedded part of that experience.

For the typical consumer, this new way of being digitally connected is about making transactions more efficient and convenient, saving them time and money. Two-thirds of consumers who like the idea of connected economy ecosystems see value in them for another, more practical reason: They don't like having their personal information stored in so many different places across the web. They view a single ecosystem as more secure, more private and more within their control.

Banking and healthcare are the two pillars where consumers just want a more efficient, single ecosystem (with the exception of highly connected consumers, who are more open to this being integrated into other ecosystems). Sensitivities over access to confidential financial and health-related data, stored in the cloud and commingled with other activities, appear to be large and legitimate barriers to consumer interest — but also represent an opportunity for innovators to create more robust and efficient be-well and banking ecosystems, and to be more thoughtful about how they design their connected economy futures.

Of course, the pandemic poured fertilizer on the connected economy and helped those green shoots to emerge more quickly and grow a bit faster. But it was clear — before anyone heard about Wuhan, COVID or the benefits of social distancing — that the seeds of the connected economy were already planted and would soon sprout.

I'm confident that this will be an exciting decade, tracking the spread of the connected economy and the disruptive innovations it will create. In fact, there's so much headroom for innovation that we'll see this happening not just through 2030, but also for many decades after that.

It's just amazing to have a ringside seat to it all — and to be at the forefront of examining how innovators all over the world change how we shop, eat, bank, have fun, travel, live, work, connect, be well and, of course, pay.

October 26, 2021

WHY PAYPAL BUYING PINTEREST WASN'T SUCH A BAD IDEA

After nearly a week of market rumors, PayPal released a short but sweet statement on Monday morning (Oct. 25) stating that it is not pursuing an acquisition of Pinterest "at this time." PayPal didn't deny its interest in Pinterest nor that a deal had been contemplated at one time. They also didn't deny that they'd bailed because of some of the bad reactions, including by shareholders, to the proposed deal. And "at this time" left the door open that maybe, someday, they could revisit the idea.

The market rewarded PayPal's statement by boosting its stock price. This is the same market that pummeled the stock last week on the rumored news. Investors thought the $45 billion price tag was too much.

But I think the markets and wags were much too quick to write this off as a bad idea.

That $45 billion investment in buying an online asset could lead to a PayPal-operated social commerce marketplace rivaling Instagram, Google and, maybe even as a stretch, Amazon.

Maybe the contemplated acquisition wasn't so farfetched. It might be a good idea — or at least one worth discussing seriously, given the evolution of the connected economy, the number of digital ecosystems that are quietly taking shape, and the shift in consumer and merchant dynamics toward more efficient, contextual and digital ways to engage.

There are at least five reasons that I still think PayPal's interest in Pinterest wasn't such a bad idea — and why maybe they should be interested, even if they weren't.

Reason #1: It turns a global consumer ad platform into a connected commerce platform – and vice versa.

Today, Pinterest reports more than 400 million monthly unique visitors globally, and 91 million monthly unique visitors in the U.S. These Pinners come to build their boards, look at what others have pinned and share ideas. According to Pinterest, 60% of its audience is female, and 45% of its U.S. audience has an annual income in excess of $100,000. In 2021, Pinterest reported an increase in both male and millennial users.

Today, Pinterest's revenues come from advertising. Despite the presence of shoppable Pins, Pinterest makes it money by selling ads to brands, whose

growth came from global advertisers looking for new eyeballs, the company's CEO reported in Q2 2021. eCommerce revenue – which is, of course, PayPal's sweet spot – has been elusive.

PayPal reported in Q2 2021 that its network has more than 32 million merchants in addition to those 400 million+ users. Its quarterly TPV of $311 billion in Q2 reflected a 40% increase year over year. More merchants means more consumers and more consumers means more merchants; both have fueled the acceleration of PayPal's two-sided platform over the last several years – and the last 20 months in particular – as the world's shopping behaviors have leaned sharply digital.

Adding Pinterest's 400+ million global users into PayPal's network could potentially rev that merchant and consumer flywheel even faster, driving more sales and bolstering the shopping cornerstone for PayPal's "super app" ecosystem (more on that later).

It's not such a crazy thought, particularly since Pinterest also reports that 80% of those who visit the network each week have discovered a new brand or product. Those buyers could use their PayPal credentials to close the loop and make a purchase, while introducing an ad network – and new revenue stream – into the PayPal ecosystem.

Reason #2: Amazon sellers – and their investors – seek new sales on new marketplaces.

Speaking of merchants, many are looking for new ways to find new customers, including many who sell today on Amazon.

According to Amazon, 58% of its sales come from third-party sellers. The average seller makes between $1,000 and $25,000 a month, the company says. Amazon invests heavily in supporting the small businesses that sell on its marketplace, and gives its buyers a diversity of choice.

And investors have built their businesses by helping Amazon's top sellers find ways to break their dependence on Amazon for the bulk of their sales.

For these brands, and many others, omnichannel no longer entails a decision to move online from offline or vice versa – it means examining a portfolio of online channels through which brands can find new audiences. These brands also include huge CPGs that want more direct relationships with their customers, and better data about their preferences to help them align product/market fit.

Over the last 20 months, investors have raised nearly $4 billion to buy D2C brands, mostly the top sellers in specific categories on Amazon. They use their money to help these brands sharpen their product and marketing focus and streamline back-office operations, to deliver the experience that consumers get from Amazon. One of Amazon's top sellers, Pharmapacks (aka Packable) will go public via SPAC with a valuation of $1.55 billion.

Both CPGs and small D2C sellers are assessing how different marketplaces and networks can deliver, providing an opportunity to be found by consumers in the context of their day-to-day engagement – including social networks like Instagram and Facebook, search engines such as Google, and marketplaces like Houzz and Etsy.

And potentially Pinterest. As part of the PayPal ecosystem, Pinterest could be a compelling alternative, as it could support an end-to-end shopping experience that converts eyeballs with payment credentials into buyers to boost their sales.

Reason #3: Payment platforms want to become commerce networks.

The ability to convert a browser into a buyer requires having the right product at the right price – but in a digital economy, it's increasingly about offering payment choice to a consumer at checkout.

Throughout the decade of the 2010s, the landgrab online was to "be the buy button" – or one of them –on the merchant checkout page. PYMNTS' latest Checkout Conversion Index reports that the top-performing merchants offer six to seven different payment options on their sites, increasing the odds that a consumer will buy if their favorite way to pay is available.

This was also the value proposition in the very beginning of the pureplay buy now pay later solution providers. The merchant appeal was about offering consumers a different way to pay – a credit-like option offering predictable monthly payments to consumers making a purchase – and attracting a new customer who wanted to pay that way.

Today, that value proposition is the foundation of the shopping ecosystems that these pure-play providers now offer. In addition to building their own merchant networks with rewards and other perks, these buy now, pay later (BNPL) providers are expanding their payment offerings to include other ways to pay – debit cards for use at any Mastercard- or Visa-accepting merchant, and even credit options beyond paying in three or four installments. Their objective is to create a commerce

network that gives consumers a one-stop-shop with a variety of payments options for making those purchases.

Square's planned purchase of Afterpay is about taking that to another level, adding a global BNPL shopping network with millions of active consumers to its SMB merchant platform, to create a new omnichannel merchant/consumer commerce network. Square merchants can accept Afterpay and attract new customers and merchants. Afterpay can tap into Cash App consumers, giving more merchants an incentive to accept Afterpay and more consumers who will want to use it.

It's likely not lost on players like Shopify, which operates a commerce-enablement merchant network, that adding a consumer network to their platform could turn Shop Pay into more of a consumer payments brand and could turn Shopify into an Amazon, Google and PayPal challenger.

Reason #4: The creator economy is growing and needs a way, at scale, to monetize its creations.

The creator economy is the $104 billion market of independent content creators, entrepreneurs, influencers and curators who use social platforms such as Instagram, TikTok and YouTube to share and monetize their passions. Not surprisingly, it's been reported that three-quarters of kids ages six to 17 want to be You-Tubers, given the earnings potential that being a creator with a social following can generate (provided they're lucky enough to catch a viral tailwind to make more than $23,500, which is the average full-time creator income).

One could say that Pinterest was about the creator economy before curating things online and having them go viral on a social network was given that moniker.

Pinterest was founded as a way for curators to share their collections with others and track the viral nature of their Pins. More recently, it has full-on embraced the creator economy, even adapting its home page to feature videos of creators sharing their favorite recipes, makeup tips and DIY masterclasses in an effort to engage its mobile audience. It sees an opportunity to help existing creators take the communities they have built, monetize their interests and bring new creators onto the platform.

To that point, Pinterest is setting aside $20 million to pay creators to post content, in addition to making it easier for creators to earn affiliate commissions from sales of the products they feature. According to its community guidelines, Pinterest also takes platform governance seriously, actively monitoring the platform for harmful, false or violent content and removing it if found.

PayPal is a payments network that makes it easier for consumers and merchants to pay for the things they want to buy. And although PayPal enables small and micro-businesses to be paid for the sales they make on other platforms, it's not a social network. Trying to build one from scratch is a gamble, given the well-known "chicken and egg" problems: Even if successful, it could take a long time and cost a lot. A Pinterest acquisition could add a well-trafficked social network to its platform, an easier way for creators on Pinterest to get paid for what they sell, and to turn more than 400 million payment-enabled users into prospects for what they sell.

Reason #5: PayPal is committed to being a super app.

PayPal has been talking about its super app ambitions publicly for more than a year. When I chatted with PayPal CEO Dan Schulman in April of 2021, he emphasized his vision for PayPal to create a safe, secure and robust ecosystem for consumers to spend, save, borrow and plan their money.

PYMNTS' research of a national sample of 15,000 U.S. consumers in June of 2021 supports such a connected economy vision. We found that consumers want a single ecosystem to aggregate and enable at least five of the activities that today are accomplished through a series of fragmented, separate apps.

Consumers want to consolidate the activities that they view as transactional – shopping at a retail store, a grocery store, a restaurant or a restaurant aggregator – into a single ecosystem with payments and payments choice as an integrated, invisible part of those transactional experiences. They also want an easy way to see what they can spend and where they can find the best deals for what they want to buy. Consumers would also like to integrate a social element into that ecosystem – keeping in touch with friends, family and others as they do today on other social networks.

PayPal launched the first version of its super app at the end of September 2021 – so it's still early days. In the PayPal super app ecosystem, consumers engage with the things that Dan told me back in April that he viewed as essential: Consumers can save, spend, plan and manage their money from the PayPal app.

The acquisition of Pinterest could take that super-app experience to a new level, using Pinterest as the digital front

door to an ecosystem that could help consumers discover an entirely new portfolio of brands and new prospects.

Payments choice, including BNPL, could become an integrated part of that experience. So, too, could deals, promotions and ads. The potential of social commerce – a concept that the industry first started talking about in earnest in 2012 – could start to gain real traction. Payments and payments choice as an integrated part of this connected ecosystem could give it traction; viral sharing would help it ignite. Buy now, pay later could become a part of that mix – a choice, not a separate solution or app.

WHAT'S NEXT

Despite my enthusiasm today for a Pinterest/PayPal combination, I should admit that when Pinterest first launched, I didn't really get it. I was never a scrapbooker in the physical world, so maybe that had a lot to do with it. And when I visited Pinterest, I found interesting things to look at, but clicking through to the sites where the Pin originated often brought me to a dead or unrelated link. In fact, just today when I visited the home page, the same thing happened. Other times, it brought me to a page that was out of date, so the featured products were unavailable.

For me, going to a place to look at stuff that I couldn't act on felt like a waste of my time, and so I stopped going.

I also found – and still do – the user interface to be too cluttered and confusing to navigate (and appreciate) the creator collections. PayPal, or anyone, would have to take Pinterest to a new level to realize its full potential.

I also found it striking that founded just a year apart, Pinterest (2009) and Instagram (2010) both saw the value in pictures and viral sharing. Both banked on social sharing, with images as the key differentiator. Both were interested in attracting and building influencers (creators) and leveraging their networks to build their own. Pinterest focused on sharing what people liked, and Instagram on sharing what people do – which turned out to be much more viral, as people used the platform to more or less communicate what they were doing, eating, wearing and buying, and who they were doing it with.

Both used advertising to drive revenue, and neither integrated payments and commerce until much later.

Pinterest's monthly unique visitors today are about 40% of Instagram's. Creators are attracted to Instagram, since that's where the eyeballs are, and it's where they can punch out to buy things they see in their feed. Speaking of the feed, it's clean and uncluttered, and the stories and posts are increasingly shoppable.

There's one more thing. We know today, right now, that there is no PayPal-Pinterest deal. But the fact that there was potential interest in the news cycle suggests more evidence that the connected economy is real – and is a strategic consideration for many of the biggest players across the digital economy.

And it suggests that more cross-platform consolidations, which will increase connectedness across those ecosystems, are the future.

And that's not a rumor.

November 1, 2021

HOW REGULATION COULD SHAPE THE CONNECTED ECONOMY'S FUTURE

In an era of explosive growth in online advertising and social media spend, media experts still say that TV advertising is the most effective way to build a brand.

Analysts report that TV viewership is up year over year – consumers average more than six hours a day consuming live programming. Ad spending on the platform is estimated to top 2019 levels thanks to the growth in connected TV (aka livestreamed) ad spend and live sports.

It's one of the reasons that I found a TV commercial airing on CNN's "State of the Union" yesterday morning (Oct. 31) so interesting.

The ad featured a guy who introduced himself as a three-year Facebook employee and a member of the company's content moderation team. He spoke of the challenges of doing his job and the responsibility Facebook feels for getting the content they publish right. It's why, he said with the utmost of sincerity, Congress needs to reform Section 230 to bring consistent publishing standards to all platforms and to provide the ability to impose liability on platforms that violate those standards.

The ad made it clear that it was paid for and sponsored by Facebook.

Section 230 is the law passed on Feb. 8, 1996, as a carve-out for internet companies to build and scale their online content platforms without the responsibility for the character or quality of the third-party content they aggregate and publish. Section 230 considers platforms like Facebook to be distributors of that content, not publishers, thereby eliminating any liability for that content – even if it is offensive, obscene, blatantly false or harmful to the reputations of people and businesses, or facilitates harmful, or possibly illegal, activity by third-party businesses or the people who post it.

It's why third-party content platforms like Yelp can post fake, unauthenticated and negative reviews without any fear of the liability for the business damage that content causes, while still capturing all of the ad revenue that visitors coming to their site reading those fake reviews generate for them.

As distributors of that third-party content, it's a business model that's perfectly legit under Section 230 today.

Critics say Facebook's interest in reforming Section 230 is just another smokescreen intended to curry favor with lawmakers and regulators under the guise of wanting to "fix" the internet's "content problem" and avert

the outright appeal of Section 230, which would leave Facebook in a world of hurt. Perhaps not so coincidentally, Zuckerberg's proposed Section 230 reform sounds a lot like the system Facebook now has in place – waiving liability for platforms that put content mediators in charge of policing third-party content, even if bad content might find its way onto the platform anyway.

Trying hard, as Zuckerberg proposes, would be good enough to uphold this new rule. Everybody gets an A for effort.

Much more interesting is that Section 230 is now a public policy debate gone mainstream.

CNN reports that its Sunday primetime programming attracts roughly 822,000 eyeballs, with 188,000 of those in the important 25-54 age slot – an important voter constituency. This is, of course, happening at the same time that Congress is actively debating the future of Section 230, Facebook's own future as a social media platform and how regulated or broken up it and many other Big Techs might end up.

Facebook's not alone. FinTech and Big Tech players are spending money on ads for a variety of topics directly related to the many largely bipartisan, regulatory and legal challenges facing them. All of this highlights the threat they likely feel from the dramatic shift in thinking among those regulators and lawmakers now.

> HOW COMPANIES INNOVATE, WHETHER EXISTING LAWS AND REGULATIONS NEED TO BE CHANGED FOR DIGITAL BUSINESSES, AND THE STANDARDS ANTITRUST USES TO DEFINE **"CONSUMER HARM"** – PARTICULARLY FOR THE DIGITAL ECONOMY – IS ALL UP FOR DEBATE.

So, too, is whether any of what's being proposed considers the reality of the platform dynamics that have driven so much of the innovation that's helped consumers and businesses over the last decade – and has gotten consumers and businesses across the world on the other side of a global pandemic without a total economic catastrophe.

There is growing evidence that the connected economy will face new proposals for regulation and changes in antitrust policy targeted to the digital economy. And that every company participating in the connected economy, and their investors, could be affected by these new proposals, for better or worse. And it's clear that there is the need for a forum for a balanced, thoughtful debate on the issues that could propel its growth and derail its prospects – to inform businesses and investors about what to look out for as they refine their business models and strategies.

THE DATA DEBATE

> ONE THING IS ABSOLUTELY CLEAR: **THE CONNECTED ECONOMY** IS THE FUTURE OF THE GLOBAL ECONOMY.

We at PYMNTS write about it every day. Every company is on its own digital journey, one that has accelerated over the last 20 months, for obvious reasons. The excitement and enthusiasm for creating new business models and ecosystems is happening across every pillar of this connected economy in real time. Investors are pumping billions into ventures with their own vision for how they fit; traditional companies are, too, while also partnering with FinTechs to fast-track their progress.

More than digitizing their own activities, companies operating at the forefront of the connected economy use tech, payments and data to reimagine how people and businesses engage to streamline those activities across once separate apps and activities. The value to consumers is speed, convenience, simplicity and security – a better and more relevant experience. For companies, it's a new way to reach consumers and businesses, monetize those interactions, and scale and grow their businesses.

According to PYMNTS' ConnectedEconomy™ research published earlier this year, based on a national sample of more than 15,000 U.S. consumers, people want to be part of a single ecosystem that aggregates at least five discrete activities today – shopping, eating (grocery shopping + restaurant ordering and takeout), payments and communicating with family and friends. The ability to easily see and manage their funds on hand as part of that experience is also regarded

by the consumers we studied as important.

Two-thirds of consumers who wish to experience such a digital ecosystem also believe they'll have more control over their data and privacy, along with more personalized and relevant experiences. One ecosystem operated by a provider they trust is better than multiple apps and passwords all over the web, PYMNTS consumer research finds.

Yet the new CFPB Director Rohit Chopra has put BigTech, FinTech and payments processors on notice that the data practices that enable this ease, convenience, security and simplicity are now under his review. The U.S. is operating in a "bit of a surveillance state," he reported in testimony given to Congress on Oct. 22. He expressed concerns that the data collected by Big Tech and FinTechs – and how that data is used to serve personalized recommendations – gives them too much influence over how people spend their money. He also said that embedding payments into Big Tech apps could be too limiting and anti-competitive, and that "speedy" growth of P2P platforms like Venmo and Square Cash could cause risks to people.

Amazon, Apple, Google, PayPal, Square and Facebook were among the CFPB's first targets for detailed responses to a lengthy data request. But they're certainly not the last. FinTechs and payments processors, here's looking at you next: Chopra told the Senate Banking Committee that both are also of concern.

What that means, here in the U.S., is that the CFPB is a regulator that innovators need to consider. Similar regulators in other countries will surely be looking at these same issues. How regulators decide what businesses can and can't do will influence how the connected economy evolves, what kind of innovation will take place and what types of business models can succeed.

BANKING AND CREDIT IN THE CROSSHAIRS

Lending, forever a CFPB hot button, has buy now, pay later (BNPL) players in its sights, too. CFPB has raised concerns that consumers don't know enough about these new credit schemes to use them prudently, and that BNPL providers don't provide enough disclosure for how they do business.

Banks, which are largely now leveraging existing credit lines to enable BNPL installment plans, might get to exhale on this issue – but not on others, including open banking, which is now part of the CFPB's consumer remit.

One of President Biden's initial executive orders back in January was aimed at making consumer banking information portable and available to third parties with the permission of the consumer. Although the banking industry is actively working with third-party FinTech data networks to enable that to happen safely and securely, existing regulation still holds banks responsible if something goes haywire.

We got a look at haywire about a month ago in the birthplace of open banking, the U.K. Then Barclays found itself the victim of a phishing attack initiated through a neobank account, Monzo. Millions of pounds of consumer funds were swiped from those bank accounts.

Also under the CFPB spotlight is small business access to credit, something the CFPB is addressing in light of the working capital constraints and overall lack of access to credit for this cohort of businesses. Across the pond, U.K. regulators passed a late payments law that requires payment to be made to SMBs within a specific window, and gives suppliers the ability to charge interest on past-due bills. Legislation passed recently in France will require that all businesses use electronic invoicing from providers they certify in an effort to improve tax payments and compliance.

HOW 'BOUT THOSE NEOBANKS?

Speaking of neobanks, the Fed Reserve issued a proposed rulemaking in March of 2021 that would modify the Durbin Amendment that was passed in June of 2011 and became effective Oct. 1, 2011. Durbin was the controversial piece of legislation that capped debit interchange at 21 cents plus .05% and .01 for fraud costs per transaction for all banks with over $10 billion in assets.

The proposed ruling would extend Durbin fee caps to all card-not-present transactions, and would also require debit card issuers to offer two unaffiliated debit networks for processing to avoid network exclusivity.

Opening the Durbin Amendment to change could also open the door to lobby Congress for a change to the law itself.

Large banks have long pushed back on the $10 billion threshold, arguing that the two sets of debit fee rules have unfairly disadvantaged their own bank offerings, including their ability to use debit interchange to offset the costs of servicing DDA accounts.

Neobanks, many of them prepaid cards with a mobile UX issued by Durbin-exempt banks in the background, use debit interchange as the business model to support their offer. A change to Durbin

that would eliminate the exemption would hit these neobanks hard.

Then there's the question of what is a bank and how it should be regulated, including the future of the FinTech bank charter. Saule Omarova, who is President Biden's reported nominee as head of the OCC, has some very specific views on the topic, including one that would make the Fed the exclusive bank for consumer depository accounts in the U.S.

THEN THERE'S CRYPTO

PYMNTS devoted an entire week to the discussion of crypto and its use in payments – and what a lively week that was. At the heart of the debate is the definition of crypto and whether its uses and use cases subject it to existing regulation.

It's a debate that's also taking place among members of Congress, the Fed and regulators, including who gets to decide one way or the other. The only point of agreement so far is that there is no agreement for how crypto should be regulated or who should do it.

The SEC says cryptos are securities, and that it should be able to regulate and enforce. The CFTC says crypto is a commodity, so it gets to have the say. The Fed says it won't ban crypto – since it, too, wants to issue a CBDC, but wants it to be regulated by someone. Some large crypto players want Congress to appoint a special crypto regulator to make and enforce (presumably new) rules. States want to make the payment of ransomware illegal, even though the FBI doesn't think that's the way to go, and Treasury Secretary Yellen now has the authority to sanction digital payment systems that enable ransomware payments in some way.

In the meantime, FinTechs make it easy for consumers to buy and spend crypto at the point of sale. Card networks do, too. New digital asset networks are aggregating all forms of digital assets, like airline miles and rewards points, and turning them into spendable currency at the point of sale. At the same time, innovators and traditional point-of-sale players make it possible for merchants to accept crypto-native wallets for payment.

TOO BIG TO BE LEFT ALONE

The current pox on all of the houses of Big Tech came several years ago on the heels of what I call the "Facebook contagion" – the Cambridge Analytica debacle in 2015 that put a fine point and a big flashlight on the data practices of the world's largest social network. From there, it became a bit of a free-for-all on any big platform that aggregated consumers and their data.

Today, there is no shortage of antitrust measures making their way through the House and Senate to rein in Big Tech. Just last week, the DOJ reported that it was investigating Visa and the financial incentives it gave to FinTechs, naming PayPal, Square and Stripe as recipients of those payments.

Senator Amy Klobuchar is leading perhaps the broadest sweeping effort, one with bipartisan support that would make it illegal for platforms to promote their own products. An important question is whether it makes sense to do that without imposing the same limitations on Walmart, Costco and Target for their digital platforms and private-label brands.

Following the release of a report in late September detailing Big Tech acquisitions, FTC Chair Lina Khan also said that her team would aggressively examine Hart-Scott-Rodino provisions that allow mergers under $92 million to "fly under the radar" without reporting them to the FTC for review. Her views, expressed in an open meeting that month, reflect her concern that in a digital, highly competitive environment, "even smaller transactions invite diligence."

These sorts of changes in how laws and regulations are imposed potentially affect many in the digital economy — not just Big Tech, but also startups, their investors and competitors of Big Tech who might not face as stringent rules.

THEN THERE'S HEALTHCARE – AND GIG WORKERS

Then there's what's happening in other sectors of the connected economy, such as healthcare and sharing economy platforms.

There are 57.3 million gig or freelance workers in the U.S. today who work for themselves and rely on digital platforms to find work suitable to their schedules. The most common type of gig workers are ridesharing and delivery drivers, although they are not the only classification. Globally, there is an active debate over whether gig workers should be classified as employees and offered extended benefits.

Recently, the U.K. Supreme Court ruled that all Uber workers should be classified as employees and be given minimum wages, paid holidays and pension benefits. U.S. Labor Secretary and former Boston Mayor Marty

Walsh believes the U.S. should do the same. Gig platforms fear that the president has the ability to declare gig workers as employees under federal workplace laws. Many states, including Massachusetts, have gig worker status on the ballot in 2022, even though a similar effort in California (Proposition 22) failed to pass in 2020.

HealthTech is an area of great potential, as technology and connected devices are truly democratizing access to healthcare providers with little more than a mobile phone. During the pandemic, analysts reported that telemedicine visits increased 38-fold, as consumers took to cyberspace to see their doctors. Experts say that the consumer's comfort with everything digital could shift $250 billion in spend to a connected healthcare model.

One of the many things that boosted the consumer's use of telehealth was a decision to waive state licensing rules for doctors to provide care and an agreement for how telemedicine visits would be billed – waivers that have now been rescinded.

Today, only 18 of the 50 U.S. states allow telemedicine visits to happen between certified doctors in one state and patients living in another, potentially cutting off access to medical care for those most in need.

WHAT'S NEXT

As the connected economy grows and sweeps across the economy, it isn't really surprising that there is intensive debate about new laws and regulations, or about how to apply existing ones to these digital businesses.

This isn't going to be all settled soon. Governments don't act quickly, and the issues are complex. But more than that, new issues will arise as new business models and technologies are introduced. Everyone who plays in this space needs to be clued into what's going on.

And many need to participate in the debate to help make sure that we strike the right balance between regulation and innovation – so that the latter doesn't suffer in the hands of the former.

November 15, 2021

MAKING ONLINE CHECKOUT BETTER STARTS AT THE BEGINNING, NOT THE END

A study conducted in 2011 by two University of San Diego professors says that people who read the end of a book first not only go on to read the entire book from beginning to end, but enjoy their reading experience more. Their research suggests that knowing what happens at the end makes the story less confusing and easier for the reader to navigate – and that "spoiled" versions of the story don't cause readers to be any less interested in the book than those who don't know the ending before they crack open the cover.

Spoiler alert.

PYMNTS' research of 2,138 adult U.S. consumers in July 2021 finds that 29% of consumers abandon their online carts at checkout at least once a week. Two of the tp reasons they don't buy are learning that shipping isn't free and finding out that what's in their cart can be bought cheaper elsewhere.

Although it's not clear whether those consumers eventually return to complete their purchase, the lack of free shipping and uncertainty over getting the best price suggests that sites and marketplaces that offer both are more likely to win their business.

Turns out that bookworms aren't the only ones who might benefit from knowing what happens at the end in order to make the experience less confusing, more enjoyable and more effective from the start.

Hopefully, you'll keep reading.

ONLINE CHECKOUT TAKES OFF – AND SO DOES CHECKOUT FRICTION

We do a lot of benchmarking studies and indices at PYMNTS that allow us to compare what happens over time. The perspective provided by these serial studies helps shape important insights that improve outcomes for businesses and investors across the vast payments, commerce and connected economy ecosystem.

PYMNTS has been benchmarking and indexing checkout conversion since 2016, tracking a proprietary, randomly selected basket of online merchants that represent roughly 70% of non-Amazon online sales. PYMNTS' analysts shop those sites and examine more than 70 features that represent possible points of friction along the consumer's path to purchase, and the dozen that our statistical models have found to make or break conversion.

The outcome of that work, the Checkout Conversion Index score, reflects a measure of checkout friction across the portfolio of those merchants. The higher the score, the better, since it reflects less friction and therefore higher conversion for those online merchants.

The latest report, in collaboration with Checkout.com, also reports the results of PYMNTS' survey of 2,138 U.S. consumers to further assess their experiences for those 12 make-or-break checkout conversion features.

In 2016, about 8% of retail sales happened online. Five years and a whole lot of payments and technology innovation later, census data show that nearly 16% of U.S. retail sales happen online, growth propelled by the pandemic and the massive shift to online purchases over the last 20 months.

Yet, the Q2 Checkout Conversion Index score is moving in the wrong direction – the degree of friction that consumers experience when shopping online over the last year has increased, not decreased. Checkout Conversion scores overall decreased by 1.1% from Q1 2021 to Q2 of 2021 – after a period of relatively steady improvement across that portfolio over the last six years. That decrease may sound small, but the fact that it didn't increase is important since we have had constant improvements, learnings and technology that should be reducing that friction.

For the PYMNTS Checkout Conversion Index, a decrease in the index score reflects a conscious shift in the priorities merchants have set for their customers' online experience – and ultimately their chances of converting those shoppers to buyers in the end. The decrease is particularly concerning since it happened so quickly – in just the space of three months – and as more and more consumers are making digital a larger part of their shopping routine.

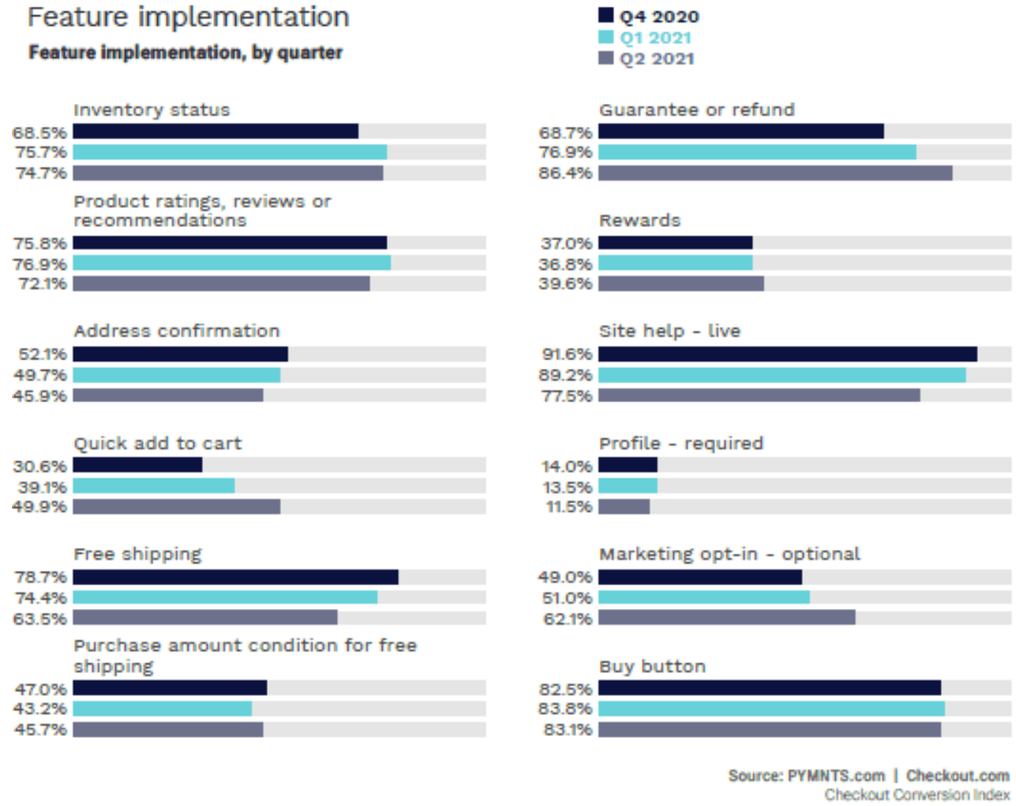
That conscious shift also results from a deterioration in the two areas that now represent the battleground for winning that digital consumer's business: good prices on the products they want to buy, shipped to them for free.

Over just the last three months, the number of merchants in PYMNTS' portfolio that offer free shipping decreased by 15% – from roughly three-quarters of all merchants to fewer than two-thirds. Over the last year, that decline is closer to 20%. At the same time, more merchants have added minimum thresholds to qualify purchases for free shipping.

FIGURE 1:

Feature implementation

Feature implementation, by quarter



Source: PYMNTS.com | Checkout.com
Checkout Conversion Index

The lack of free shipping is why nearly one-fifth (17%) of consumers abandon their carts every week. These abandonments can be very costly, particularly for new online brands.

Census data show an average of retail sales online, yet we know that in many categories – such as apparel, home accessories, beauty and sporting goods – online sales are much higher. And even higher still for the coveted millennial and bridge millennial consumer.

Further, PYMNTS research shows that roughly 30% of all consumers have shifted their shopping for retail purchases to be more digital and less physical over the last two years and that nearly everyone – 92% of U.S. consumers – have made at least one purchase online over the last 12 months.

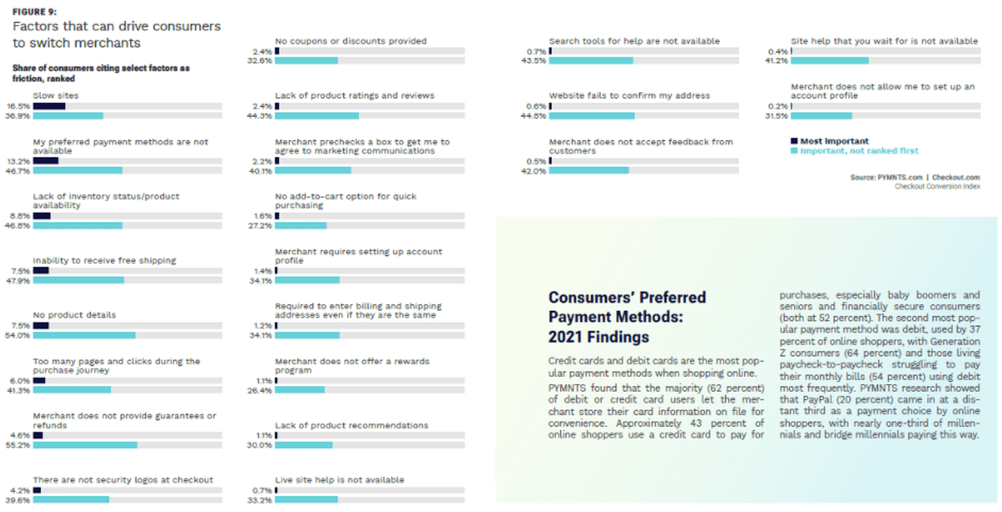
PYMNTS research shows that this coming holiday season, eight in 10 consumers plan to shop online, 15% more than those who did so in 2020. Stacking the odds against converting the portion of shoppers who will get all the way to the checkout page and not buy is risky.

Not every brand selling online has a retail storefront that consumers can visit to find what they want, get what they want and walk out with what they want – or who can buy online and pick up at the store. Once a consumer knows that a brand doesn't offer free shipping, they might not even get a shot at their future business. Those shoppers have seen the end of the book, and may never decide to read it.

But that's just for those consumers who bail at the checkout page.

PYMNTS research also found that consumers might not even get that far if it isn't clear that what they want to buy is in stock (47%), or that the method of payment they want to use is accepted (also 47%). Importantly, the study finds that whether the merchant offers product guarantees or has a clear and acceptable returns policy could compel more than half – 55% – of consumers to switch. Having to pay for shipping is why 48% of all consumers in our study would shop with another online merchant that offers free shipping.

I think we're all clear on the names of the merchants that do. And it should be quite clear that the future of retail,



Consumers' Preferred Payment Methods: 2021 Findings

Credit cards and debit cards are the most popular payment methods when shopping online. PYMNTS found that the majority (62 percent) of debit or credit card users let the merchant store their card information on file for convenience. Approximately 43 percent of online shoppers use a credit card to pay for purchases, especially baby boomers and seniors and financially secure consumers (both at 52 percent). The second most popular payment method was debit, used by 37 percent of online shoppers, with Generation Z consumers (64 percent) and those living paycheck-to-paycheck struggling to pay their monthly bills (54 percent) using debit most frequently. PYMNTS research showed that PayPal (20 percent) came in at a distant third as a payment choice by online shoppers, with nearly one-third of millennials and bridge millennials paying this way.

as defined by so many consumers who now shop online, is about logistics – about the right product being on the virtual shelf to buy, with the ability to get it delivered the next day or two days later, for free. It's also an area ripe for disruption and innovation, as new players build platforms to unlock the untapped capacity of airline passenger cargo, and the idle time of independent delivery drivers to reduce the cost of the last mile for online retailers whose names aren't at the top of the free shipping list today.

STARTING AT THE BEGINNING

It isn't all bad news.

Eighty-eight percent of consumers who shop online report being mostly happy with the online experiences across all of the merchants they shop. PYMNTS' analysis of the top-performing merchants in PYMNTS' online portfolio – across merchants of all sizes and all segments – suggests that they are in sync with what their online shoppers want. These online merchants seem to have skipped ahead to the ending of the story and integrated the features all along the shopping journey that consumers report are key to making an online purchase and remaining a loyal customer.

Perhaps the most notable improvement is in the area that is, in the end, central to checking out – how consumers pay for what's in their shopping cart. Analysis of the merchants in PYMNTS' online portfolio reflects an optimization of the checkout page for the payment methods that consumers want to use.

The bottom-performing merchants now offer more than six different ways to pay (up from five at the start of the year) and top-performing merchants offer roughly eight, down slightly from the last quarter. My interpretation of this finding is that instead of eliminating options, top-performing merchants are optimizing the payments mix to reflect what consumers use and might want to use to pay – including buy now, pay later options.

Of course, getting that far requires that shoppers like the journey itself enough to complete it, and then start another one with the same merchant.

As consumers live their lives in a more connected economy and conduct more of their shopping and transacting in that connected ecosystem, they will expect the experience to be more intuitive, personalized and tailored to their own individual shopping journey. They will expect that those ecosystems use technology to unlock the sources of value that improve checkout conversion

because they remove the friction that consumers face – and largely endure – today on the way to checking out. A shopping experience that goes beyond the low-hanging fruit like integrating relevant offers and promo codes into the checkout experience without a consumer chasing them down, and reminding consumers along the way that free shipping comes with a minimum threshold (if that's the case) to avoid surprises – and cart abandonment – at the end.

This experience will use data and technology to personalize and unlock new sources of value – like making points and unused gift cards spendable, suggesting what payment options might offer the best value for a purchase, and showing consumers options for how and where they can get the most value for what they have to spend and what they want to buy.

An integrated commerce experience that starts with knowing why consumers won't buy in an effort to persuade them to do so – from you. A process that clues in the consumer at the start of the journey that they will like everything along the way, including the final checkout page.

Unlike readers of books, consumers can't start at the end, so they need some help to make sure that by the time they get there, they not only like the ending but are glad they started the story – and tell all their friends.

November 22, 2021

WHO WANTS TO BE A CRYPTO MILLIONAIRE?

Who wants to be a millionaire?

For two decades, beginning in 1999, that was the name of one of the most popular TV game shows ever syndicated in the U.S. The show, an adaptation of one with British roots, saw a single contestant compete for the chance to win $1 million by answering a series of progressively harder multiple-choice questions read to them by a celebrity host.

The competition for getting a shot at that prize each time the show aired was reportedly intense – an initial cap of 100,000 to 200,000 hopefuls were whittled down to 300, who were further vetted until one person got a chance to take the hot seat. The odds were maybe a smidge better than the one in 14 million chance of winning the lottery, but still largely a crapshoot. Contestants knew that, but wanted the thrill and bragging rights of participating – and, of course, a shot at the million bucks.

Over the show's 20-year run, most contestants didn't go home empty-handed, but only 12 contestants, according to some reports, laid claim to the million-dollar prize.

Today's version of "Who Wants to Be a Millionaire" includes Gen Zers and millennials playing a very different game – one that anyone can play.

People can play this game on their smartphones using a variety of apps, including common digital wallets and investment apps. The game sort of includes the famous "ask the audience" (rather than ask a friend) option that was one of the hallmarks of the namesake's gameshow format.

According to a September 2021 study by Engine Insights, 59% of Gen Zs believe the way to become a millionaire is to invest in crypto. Almost half of millennials (46%) agree. Apps have turned their smartphones into the modern-day digital equivalent of slot machines, making it largely effortless to place bets on hundreds of crypto coins without knowing much about their intrinsic value beyond what others, including high-profile social influencers, say about them.

And that's exactly who they turn to for advice. A Motley Fool study in July of 2021 reported that 91% of Gen Z investors believe that social media is more trustworthy than friends, family and traditional investing sites when making their investment decisions. YouTube, Reddit and TikTok were the three most popular social media sites they used to decide whether, when and how much to invest.

All in the hopes of hitting the jackpot, winning big, feeling the thrill, having the bragging rights. The odds are just as stacked against them as they are in any other game of chance – but with potentially dire consequences as they put real money into alt coins, many of which have no real fundamentals that drive their present and future value … aside from what other people just like them are doing.

WHEN THE CROWD HAS NO WISDOM

The story of the SQUID coin might be familiar. Its value – reportedly linked to the hit streaming show on Netflix, "Squid Games" – soared 2400% in value, only to plummet to zero in the space of a few hours.

Like Tulipmania in the 17th century, investors rushed to get in as its value soared for no obvious reason, and social media fanned the flames. One investor in Shanghai, who described himself as an experienced crypto investor, told CNBC that he invested his $28,000 life's savings in the coin, only to lose it all. The only ones who apparently made any money on the coin were the anonymous SQUID coin developers, who are reportedly $3.4 million richer. The investors who lost it all have no recourse to recover their money.

So why would an experienced crypto investor – and many like him – put their entire life savings into SQUID, even as media outlets raised red flags?

Pure speculation. It seemed like a sure way to make a quick buck. It didn't hurt that 89,000 other people were doing the same thing. A clear lack of wisdom in that crowd.

Over the course of three days in January of 2021, the value of a coin that started as a joke, Dogecoin, increased 216% in value as a result of an Elon Musk tweet.

That, among other things, drove a rush of new Robinhood accounts to buy it. According to Robinhood earnings reports, Doge accounted for more than 62% of Robinhood's crypto-related transaction revenues in Q2, 34% in Q1 and 40% in Q3.

Dogecoin today – remarkably, perhaps – has a $30 billion market cap and is trading at $.22 a coin, down from a high of $.74 in May but up from $.002961 at its 52-week low. The year-to-date increase in Doge is an astounding 4,714.59%.

As I was checking its price on CoinDesk, there was a flashing advertisement promoting a $10 bonus for anyone opening an account at their exchange and buying some crypto.

Maybe I should, so that I can get in on the next big dog altcoin action.

Sadly for Doge, a new dog coin has emerged to muscle its way into top-dog position in the alt coin world, pardon the pun. Shib, short for Shibu Inu coin, is trading today at $.00004893 a coin, so it doesn't take much of an investment to buy a ginormous amount of it. A hundred bucks would buy a couple of million.

And why wouldn't everyone want to do that?

A recent analysis of the coin reports that anyone who invested $15 in August of 2020, when it was trading at $0.00000000051 a coin, would be a millionaire by now. But buyer beware. As one astute crypto analyst pointed out, it's also quite possible that Shib's meteoric rise in value could be followed by an equally sharp decline.

Want to know why there are more than 5,000 alt coins worldwide? Starting a coin is like building a casino, without the hassle of getting government permission and paying for the cement.

Investing in them is like gambling, playing the slots, buying a lottery ticket, hoping to hit the jackpot. Without any real understanding of what these coins do, why they are valuable or what's the use case for any of them. Where the only fundamentals for making the investment are what other mostly amateur investors say on social media, and whether the price is up or down at the open or close.

It's not like the real "Who Wants to Be a Millionaire," because you don't actually have to know anything, and most people don't pretend they do.

Unfortunately, though, it's often those who may be ill-equipped to lose who are drawn like moths to a flame to its allure. It's one thing for someone with savings and a steady paycheck to speculate with a couple of hundred bucks in a couple of coins – to learn, have fun and see if they might even be the next crypto millionaire.

To gamble with money they can afford to lose.

It's another thing when the fear of missing out drives those who read the crypto millionaire stories, misjudge the risks and follow the herd, sometimes right off the cliff.

WHERE'S CONSUMER PROTECTION WHEN YOU NEED IT?

PYMNTS' own research on the U.S. consumer and crypto shows an appetite on the part of the consumer to "invest" in crypto. When the study was conducted in April of 2021, nearly 30 million U.S. consumers owned crypto then or had in the past, and nearly everyone had heard of it. Only 8% of the U.S. population was unfamiliar.

Sixty-two percent of those who owned or had owned it did so to make money speculate (oh, sorry, invest). Roughly a third – 32% – did so because of a fear of missing out.

Of those who didn't own crypto – or didn't yet – not understanding how it works and how it is taxed was the biggest inhibitor. Seventy-five percent of non-crypto owners said they need to know more before diving in.

According to PYMNTS research, those who own crypto are mostly male, mostly millennials – the group who, next to Gen Z, are the most likely to believe that crypto is the road to riches – and right away.

When the "Who Wants to Be a Millionaire" game show debuted in 1999, there were 7.1 millionaires and 49 billionaires living in the U.S.

In 2021, there are lots more of both. Today, roughly 22 million people living in the U.S. have both income and assets that put them in the millionaire class, and there are 724 billionaires. For those who are curious, you can even find a list of billionaires here.

Today, there are also many more paths to achieving millionaire status than being a master in history and pop culture trivia or having a friend you can call who is.

It has been reported that nearly two million (1.7 million to be precise) people living in the U.S. became millionaires in 2020 as a result of the increase in the value of their stock market portfolios and 401(k)s and the appreciation in the value of their homes. Most of those millionaires believe their portfolios will continue to produce strong, double-digit increases into 2022.

Sadly, the same study that found crypto is perceived as the shortest route to becoming a millionaire for Gen Zers and millennials also reported a 6% decline overall in consumers' trust of stock investments and a 1% increase in their trust in crypto investments.

I'm sure these numbers ebb and flow with the performance of the market and the volatility – mostly when it goes up – of the value of bitcoin and other cryptos. It doesn't help when analysts and media pundits speculate themselves on the future value of coins – bitcoin to a million in a few years, $100,000 by year-end, and so on. Educated and experienced investors can make the right decisions for themselves and their portfolios, and if they own bitcoin or another crypto, it's likely a sliver of their overall holdings.

But younger and less experienced investors lack the judgment, perspective and discipline to make the same call. It's not even clear whether they're investing, or trading and speculating on that next big thing, meme stock or get-rich-quick opportunity across the now vast crypto economy. The number of complaints relative to the CFPB over crypto has increased markedly over the last year, and Chairman Gensler at the SEC has raised the red flag about investor protection for crypto, where today there is little.

It may be a good thing that innovators have used technology, apps and smartphones to democratize access to investing – giving more consumers the chance to put their money to work and watch it grow, while making moving in and out of investments less costly.

At the same time, it's the responsibility of these innovators and the collective payments and financial services ecosystem to not just educate consumers on what crypto is and how to buy it, but also on when it makes sense to do so and why – like after the bills are paid and savings are in the bank.

You might think that's preaching, telling otherwise smart people what to do. After all, people are free to do what they want and it's their money. Here's one reason: When Marc Cuban talked up the value of Dogecoin, and when he was asked how much he owned, he said his holdings were less than five hundred dollars. As a percentage of his fortune, it isn't even a rounding error.

Yet for the many who dove in, it was much more. For every story of a crypto millionaire, there are thousands – maybe more – who lost, and maybe even lost it all.

Maybe, like playing the slots and spending a weekend in Las Vegas, they had fun anyway.

December 6, 2021

PYMNTS LAUNCHES TechREG™ PLATFORM TO OFFER REGULATORY AND PUBLIC POLICY INTELLIGENCE ON THE DIGITAL ECONOMY

When I announced the acquisition of the leading global media and content platform on antitrust and competition policy, Competition Policy International (CPI), six weeks ago, I hinted that it was the first of a series of dedicated efforts to expand our platform and content focus on the issues that would inform the future of the connected economy.

Today, I am pleased to announce the launch of the TechREG™ platform, an initiative that will provide our readers with cutting-edge regulatory intelligence on the topics that will impact the decisions they make and the strategies they develop in the years and decades to come. We will address a wide range of topics — from cryptocurrencies to FinTechs to neobanks, from artificial intelligence (AI) to data privacy, from autonomous vehicles to telemedicine, from consumer/SMB credit to super apps, from misinformation to the metaverse. Our coverage will provide news, analysis and insights from renowned experts.

The regulation of digital technology businesses, and the underlying technologies, is emerging as one of the signature issues of our times, as every industry embraces the reality of their own digital transformation. The most obvious example is cryptocurrencies, decentralized finance and other applications built on a blockchain. But it's not only financial services and payments that will be affected by businesses that use these technologies. The internet of things, autonomous cars, wearables and many other sectors will experience exponential growth that will undoubtedly bring proposals for new laws and regulations, changes to existing ones and the need for compliance.

At PYMNTS.com, we want to make sure that our readers can identify regulatory challenges and opportunities and take informed decisions.

This initiative will be led by Aitor Ortiz, managing director for TechREG™. Aitor has vast experience in the legal and regulatory space, having worked for law firms and regulators in Brussels, Washington D.C. and Mexico. Prior to joining PYMNTS.com, Aitor was the leading legal analyst at Bloomberg Intelligence in London.

"TechREG™ is a platform where readers will find all the information to be up to date with the latest regulatory developments in FinTech, crypto, super tech and the connected economy," says Aitor, "and this will generate and enrich the debate on when and how to regulate the digital economy."

Today, our first TechREG™ initiative will launch with the newly acquired CPI platform. CPI is releasing its inaugural issue of the TechREG Chronicle, a monthly journal that will feature articles from experts on technology regulation to drive discussion and debate. In this first edition, the TechREG Chronicle has seven articles from top experts on regulation for the digital economy, including Martin Cave, David S. Evans and Randal Picker.

This week, PYMNTS will also kick off a series of interviews on TechREG TV where top-notch academics, regulators and executives will offer their views on how to deal with the most pressing regulatory issues on the digital economy. Our first round of guests include Hanna Halaburda and Xavier Vives, who have conducted extensive research on blockchain and regulation, as well as Tom Brown and Rob Hunter, top executives in FinTech and financial services firms.

The objective for TechREG™ is to be the platform where readers will find a balanced perspective on the topics and issues that will ultimately determine how the connected economy evolves the role of each of the players within it. Aitor and I look forward to working with you, hearing from you and together, enriching the debate on when and how to regulate the digital economy.

Download the TechReg Chronicle: Regulating the Digital Economy.

December 6, 2021

PHYSICAL RETAIL'S DATA DISTORTION TRAP

In 1907, Mark Twain famously popularized the saying "lies, damn lies and statistics," almost as a self-deprecating comment about his own ability to interpret "figures" when writing about them. An expression first attributed to British Prime Minister Benjamin Disraeli, today it's often used to describe the use of data to support any argument on a topic.

Take, for instance, Black Friday 2021, where consumers shopped for deals.

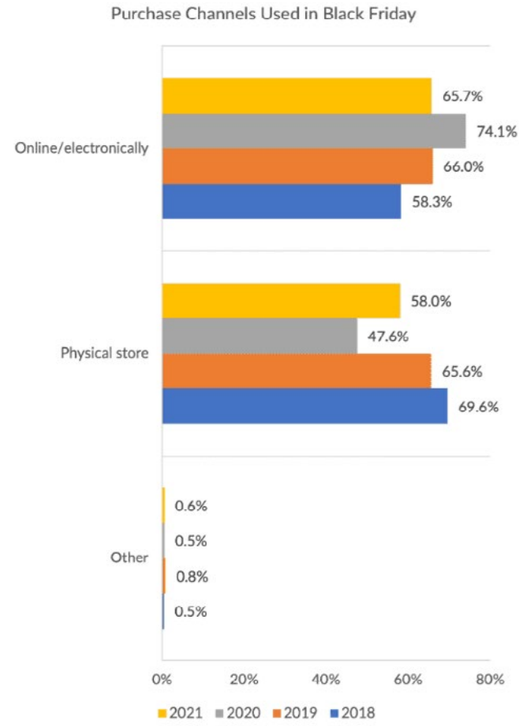
Initial reports on the heels of this holiday shopping tradition almost literally screamed "physical stores are back," showing more consumers shopping in physical stores in 2021 than they did online.

I guess that depends on how one defines "back."

As a discrete data point, and when compared to 2020, more consumers did shop in stores than online.

But that is very different than implying that shoppers are shopping at physical retail as much as they did pre-pandemic.

In 2021, according to PYMNTS' fourth annual Black Friday study, a smaller fraction of shoppers did their Black Friday shopping in physical stores in 2021 than in 2019.



In fact, in 2021, there was almost a 12% drop in shopping at physical stores on Black Friday than in 2019.

And it's not as if 2019 was a high-water mark for in-store shopping, either. Digital has been eating into holiday shopping in the physical store since 2013.

According to PYMNTS' holiday shopping research of a population-based sample of 2,060 consumers on Nov. 27, 2021, consumers say they'll do about half of their remaining holiday shopping online. And that was before Omicron and the

uncertainty associated with the severity of the latest COVID variant, which could push that higher.

For consumers, the digital shift is no big deal. It's increasing how they roll.

Consumers have become quite fluent in shopping online – mostly because the merchants they shop with have made it an easy, seamless and friction-free experience. Of course, physical retail isn't irrelevant, and consumers still shop in stores as well as online. But how – and how often – they use the physical store is changing.

Stores are becoming showrooms where consumers go to look but maybe not buy, and fulfillment centers to pick up what they bought online and need sooner than the store can deliver it. Direct-to-consumer (D2C) brands are opening physical storefronts to sell things, of course, but more so to advertise their presence in key geographies to consumers who see their brand online and can go into the store to buy or browse and bring their friends – and vice versa.

How consumers experience the physical store now will determine how they use it going forward – especially as the online shopping experience continues to improve.

THE INTEGRATION OF DIGITAL INTO THE PHYSICAL WORLD

It's not just shopping in-store that's in the crosshairs of the digital shift.

As you've read on these pages over the last two years, consumers are openly embracing the digital integration of what were once largely physical activities into their daily lives.

How consumers bank, work, shop, stay well, pay and are paid, have fun, travel, communicate, eat and live in their homes are now highly influenced by how they use connected devices and apps to engage in those activities.

But just as Mark Twain admonished, it's easy to look at the data, just as many did for Black Friday, and say that physical remains dominant in what consumers do on a day-to-day basis.

That would be misleading: In fact, it is the trap that physical retailers fell into when they kept saying, "yeah, I get this internet thing, but consumers buy 95% of retail as physical stores" — until they didn't.

Take grocery shopping, for example.

PYMNTS' latest data on consumers and the connected economy from a study conducted in November of 2021, based on responses from 3,166 U.S. consumers, shows that roughly 91% of consumers still shop in a physical grocery store at least once a month, and roughly two-thirds of consumers shop in a physical grocery store once a week.

This data also shows that 15% of consumers shop for groceries online and pick up curbside, 13% shop online and have groceries delivered, 14% shop online using Instacart for delivery once a week and 12% ordered online and picked up in the store.

Just three years ago, those online numbers are in the teeny single digits.

In the space of three years – and not just because of the pandemic and fears over COVID – online grocery shopping has become part of the consumer's grocery routine, particularly for the millennials and bridge millennials who represent the grocery store's future customers.

Take telehealth.

This same PYMNTS data set shows that roughly 51% of consumers saw a doctor, went to a clinic or received healthcare services at a retail location (think urgent care or vaccinations) and/or picked up a prescription there in the last month. Over that same period, 40% of all consumers accessed a telehealth service for their physical health, even more millennials and bridge millennials did, and 21% of consumers used a website or app to order their meds for pickup or delivery.

Telehealth has been around for more than a decade, and before the pandemic, just like digital grocery shopping, only a small handful of consumers used it. But just like digital grocery, this once largely physical activity is now moving to digital out of convenience, and because of the access to telehealth that something as basic as a smartphone now enables. Innovators are using technology to further extend telehealth's utility into the

home as the enabling platform for the in-home healthcare shift.

All this is to say that the digital economy is scaling, and quite quickly, as both a complement to and a replacement for physical interactions. New ecosystems are emerging to simplify and streamline how consumers can move easily between the online and the offline worlds.

At the same time, businesses are using technology to adapt to consumer behavior and to survive. The digital transformation helped them make it through the pandemic, and in some cases thrive. Today, technology and digital payments help businesses address labor shortages, create efficiencies and mitigate margin pressures due to the increased costs associated with running their businesses.

It's a shift that has implications for businesses, regulators and lawmakers alike as consumers increasingly make known their digital preferences – and their preferences for who delivers their connected digital experience.

THE CONNECTED CONSUMER

According to the latest PYMNTS ConnectedEconomyTM research conducted in November of 2021, 67% of all U.S. consumers are interested in living in a more connected digital economy. That's up slightly from our April 2021 study. More than a fifth of U.S. consumers say they are very or extremely interested.

Per a PYMNTS report to be released in mid-December, we are starting to see different connected consumer personas emerge and gain insight into how they may want some or even all of their daily activities integrated in a single ecosystem for ease, convenience and security.

More than a third of the consumers we studied would like to have a single app for managing their financial, bank account and payments information; one in five would like a single ecosystem for managing their shopping and entertainment activities. More consumers are concerned about linking their bank account details to a single ecosystem than integrating their health and wellness activities into one. The integration of payments into a "super app" is a feature that 47% of consumers we studied say they would find valuable.

PYMNTS research from April 2021 tells us that one of the appeals of living in a more connected digital world is the desire to control their personal information – consumers believe that being part of a connected ecosystem gives them more control over who sees what and when.

Importantly, consumers who want to live in a more connected digital economy also say that they feel their data is more secure there. Two-thirds of those with an interest in living in a more connected economy say they don't want their usernames and passwords all over the web – having credentials in one place makes them more comfortable. These are the same consumers who say they trust Big Tech and FinTechs — in particular, Amazon, Apple, Google and PayPal — to enable a more connected ecosystem, because their interactions with them have been safe, secure and private.

Clearly, consumer adoption of a digital and more connected economy will be driven by innovators who will identify discrete points of friction in the physical world and create digital solutions that solve for them. Much of this will include the efforts by startups who hope to become a feature or an enabling technology that accelerates the connected ecosystem's potential. The use of technology to make the connected ecosystems that consumers already see as valuable even more secure, personalized and robust is already evident in the number of new ventures being funded to enable and enrich these experiences.

Often, the motivation is that they will be acquired by one of the platforms or ecosystems for which they add value. That makes sense, because these platforms/ecosystems have created massive communities that these innovators could not replicate with their feature innovations, and these platforms/ecosystems can't be expected to come up with every innovation themselves. There's a gain to trade.

Lawmakers and regulators need to be careful that in their quest to reign over Big Tech, the entrepreneurs behind these innovations and the consumers who want to live in a super-app world don't end up with the short end of the stick. It may be better to figure out other ways to keep Big Tech in line than making it hard for them to develop and offer digital products in the connected ecosystems they power.

At the same time, there needs to be a balance between what was considered a "pandemic exception" such as what we see now in telehealth, and the consumer's desire to make it part of their connected world.

MEASURING THE DATA THAT MATTERS

In what will now be a monthly benchmarking of how consumers live in a connected digital economy globally, PYMNTS is building on the work done over the last 18 months to document how consumers want to live in a world in which physical is an extension of their digital experience and not the other way around – and who they trust to enable those experiences.

The goal is to establish a consistent, reliable dataset consistent with the intellectual framework that defines the connected economy, and one that reflects the inevitability of a more connected digital world.

The implications for business decision-makers are obvious, as those across each of the pillars of the connected economy plan their own strategic digital transformation and make decisions to build, partner or buy the capabilities needed to deliver what consumers now want and use.

So, too, will be its utility for policymakers and lawmakers as they wrestle with getting the balance of innovation and regulation just right – to avoid the trap of using just any data to decide the future of the digital connected economy just as it now so clearly shows its potential.

December 13, 2021

THE BUY NOW, PAY LATER BATTLE THAT'S BREWING

The invasion of 156,000 Allied Forces on the beaches at Normandy on June 6, 1944 is regarded by historians as the big turning point of World War II. The invasion that day was the result of years of meticulous planning and a strategy, Operation Bodyguard, that used deception to throw the enemy off track.

In addition to the textbook method of using double agents to leak and spread false stories, great effort went into developing plans for two landing sites that Allied military commanders had no intention of ever using for the invasion. The goal was to make these plans, and the communications about them, seem so convincing that German troops would mobilize to defend these fake sites. They did, and the rest, as they say, is history.

Ancient Chinese general and military strategist Sun Tzu wrote that all war is based on deception, the thesis of his famous monograph, "The Art of War." The higher principle, he writes, is to pursue the enemy without ever fighting.

It's a strategic principle that we could see play out over the next decade as buy now, pay later (BNPL) players, in particular, gain more traction with consumers and merchants — and use that momentum to shift consumers who link the app to their debit cards today to link directly to their bank account tomorrow.

Over time, as payments gateways enable real-time payments connectivity to merchants, as these players grow their own merchant networks and as consumers build more trust in these players, the shift away from debit cards and card rails as the alias to a new real-time payment option seems imminently doable — if not a likely outcome.

Deploying such a strategy will also be made much easier and more effective as transactions continue their acceleration online, even when consumers shop in a physical store. And when BNPL providers use incentives that come from new platform economics to persuade consumers to flip.

That will make BNPL players more of a threat to card networks as well as the banks, as the consumer bases they collectively aggregate — including PayPal, with its embedded Pay Later options — become a force too big to ignore.

That's despite the critical role that the card networks play in enabling these platforms today.

Card rails and the ecosystem that powers virtual card issuing are how

these pureplay providers got off the ground and ignited their platforms in a secure, trusted and compliant way. Absent that, it's likely that these guys would probably be stuck in the mud, maybe nowhere, but certainly not wielding the traction or the lofty tens of billions of dollar valuations they enjoy today.

But I am suggesting that there is a different means to the same end now as these players and their investors see an opportunity to recast how they turn the cash in the checking accounts of their customers into a robust payment, credit and transacting platform linked directly to them over time.

One that also doesn't carry the POS integration baggage that crushed the aspirations of payments startups in the physical card world not that long ago.

One in which real-time information about the consumer's ability to repay makes credit decisioning faster, more accurate and more risk-responsible and the core of a different credit ecosystem.

One that also provides payments choice: buy now and pay now, later or much later, streamlined and made possible within their ecosystem at the merchants they enable.

This future also doesn't entirely replace the consumer's use of credit, but certainly could put a big dent into the interest income that banks get today on revolving credit balances — and the interchange fee revenues that banks collect on credit and debit transactions, respectively (and the merchant fees for Amex and Discover).

THE RIGHT NOW OF BUY NOW, PAY LATER

There's a bunch of data flying around about how many consumers have ever used a buy now, pay later option. In a report to be released by PYMNTS later this month of 2,237 consumers conducted in early November of 2021, we find that 20% of the adult population in the U.S. — some 50 million consumers — have used a BNPL option to make at least one purchase over the last 12 months. Most of that activity happened online. A small but growing portion of consumers have used BNPL, both on and offline.

It's a remarkable acceleration in usage and adoption, and in less than two years. In May of 2020, when PYMNTS released its first study on BNPL usage in late March of 2020, we saw usage hovering at around 9%.

Consumers like using the product for the predictability of paying off their purchases in equal payments over a specified period of time. They also like the closure associated with buying X for $350 and paying off X four to six weeks later. They especially like the guardrails that they feel BNPL solutions offer against overspending.

PYMNTS research also sees an interesting bifurcation in who uses buy now, pay later products. Higher-income consumers with credit cards use it as an alternative to tying up their credit lines by breaking up payments for bigger-ticket purchases. Millennials say they use it as an alternative to the credit cards they also have in their wallets, without fear of overspending or racking up revolving balances. Millennials, bridge millennials and Gen X consumers with a credit blemish — but with the income and capacity to repay — use it to establish and rebuild their credit. For many of those consumers, it is the only way they are able to make a purchase where the payments are spread out over time.

PYMNTS research also shows that nearly two-thirds of consumers who have used BNPL over the last 12 months have or say they will increase their usage of it; 70% of non-users say they plan to try it over the next year. Repeat usage is a major growth driver in the sector, implying that clients are happy with their experience and building trust with their BNPL providers.

Merchants like it for the obvious reason: Consumers want to use it, and they see the potential for incremental sales by adding it at checkout. If anything, PYMNTS research shows that more merchants are interested in adding it as a checkout option than those who say they'd rather not. That's despite merchants paying more than the cost of traditional interchange to make it available to their customers. Just like credit cards in the early days, no one merchant wants to be the competitive disadvantage that all their rivals sell against.

Buy now, pay later is also crossing the chasm to include bigger-ticket purchases beyond electronics and home furnishings — travel, major appliances, jewelry, even antiques and artwork on marketplaces like 1st Dibs and items — and services like home remodeling, emergency appliance repairs and automobile repairs. The common thread across all of these categories and the players that offer BNPL options is the use of real-time data, and a variety of data sources to underwrite the risk and to set the time and interest rate parameters for repayment.

SETTING THE STAGE FOR CHANGE

Over the last two years, we've seen BNPL providers expand the options for how consumers can enable a pay later experience. Branded plastic and virtual cards that run over card rails, giving consumers the opportunity to turn any payment into an installment payment (subject to approval and spending limits on and offline). In addition to its Pay in 4 product, Klarna also offers a 30-day invoice option for consumers to buy online and have goods delivered, and to pay for only what they want to keep. PayPal's Pay Later option inside of its app is available to any merchant that accepts PayPal and any consumer with a PayPal account. Sezzle's BNPL platform helps consumers rebuild their credit. AfterPay was an early pioneer of in-store BNPL.

Affirm's new cash-back Pay Now product rewards consumers for paying in full at the point of transaction, with the 5% cash back deposited into a stored value account to be used later at any of their merchants. Affirm's Debit+ card gives consumers 24 hours to decide how they want to pay for their purchases: now, later or much later, depending on the purchase amount. Debit+ consumers are given a spending limit based on the available balances in their checking account — up to a max of $15,000 as of now. The Debit+ product links directly to the consumer's checking account.

Speaking of checking accounts, preliminary PYMNTS data shows that 42% of U.S. consumers have a bank account linked to a digital wallet, including many consumers who have long had their bank accounts linked to their PayPal wallets. Not that many years ago, the latter was a point of angst among card networks and issuers. Shortly after Dan Schulman took over as PayPal CEO in 2014, PayPal rolled out a new user interface to more easily enable payment choice, a strategy that has fueled its own growth over the last seven years.

But as they say, that was then and this is now. Times have changed: More players can do this, so the share of online transactions that are or could be direct to bank account is increasing across wallets and apps, while at the same time more transactions move online, including cloud-based at the store.

Here's a for instance.

Suppose that Amazon, with its exclusive BNPL arrangement with Affirm, decides to offer its 150 million-plus U.S. Prime customers better cash back and other goodies than they have now with their Amazon Prime credit card if they link their bank account to Affirm/Amazon. Maybe not so far-fetched when considering that a large portion of Prime members and Amazon Prime cardholders probably pay off their balance at the end of the month, and might find an interest-free Pay in 4 option attractive.

Or that Walmart, never a big fan of paying interchange fees, does the same for Walmart+ customers in an effort to boost the value of that membership and improve its payment economics.

Or that Afterpay, soon to be officially part of Bloc, does the same across its merchant, consumer and Square Cash networks.

Or that any other merchant with any other BNPL affiliation does some version of the same thing. Or BNPL players use the relationships they've built with their consumer and merchant networks to create a personalized payments and credit network powered by real time rails and direct bank account connections.

Now suddenly, across all of these players, there's a pool of roughly hundreds of millions of consumers, many of whom have transacted with a BNPL provider — and have built trust and an ongoing relationship with them and the merchants they shop — who are now prospects for switching their current funding source to direct to bank account.

Those hundreds of millions of consumers will only swell, as more transactions are done or staged online, more categories move to a BNPL option and BNPL players innovate their platform and offerings.

You can imagine consumers opting into a single payments and credit platform that offers a dynamic, real-time credit line pegged to what is available to spend and repay — giving its customers all the advantages of a credit line, with a predictable payment plan and without the fear of overspending.

As BNPL providers expand their offers to include pay now, later and much later, how consumers opt to pay will be invisible to the merchant – one platform, one fee, multiple ways for the consumer to settle the transaction.

WHAT'S NEXT

All of this is pure speculation on my part, and far from a slam dunk.

First, a consumer's bank account credentials are among the most precious assets they have, and linking retail payment apps directly to them is a tough sell.

Second, BNPL players run the risk that merchants will turn on the business and economic model they offer, just as they have with card networks and interchange fees.

Third, banks and card networks aren't just sitting around watching all of this unfold.

Many issuers already offer split payments post-transaction, and PYMNTS data shows that consumers like and use that option. Mastercard and Visa are enabling installment payment options at the point of sale for their issuers, and are creating new business models to enable issuers and neobanks with buy now, pay later ambitions to offer BNPL over their rails to complement their existing services.

Issuers are also betting that consumers will feel more comfortable transacting with a bank they know and trust, and a credit line they know they can use without reapplying every time they want to buy something. With the cards consumers now have, they get a BNPL option at any merchant at any time using those cards.

How this unfolds over the next few years will come down to a few things:

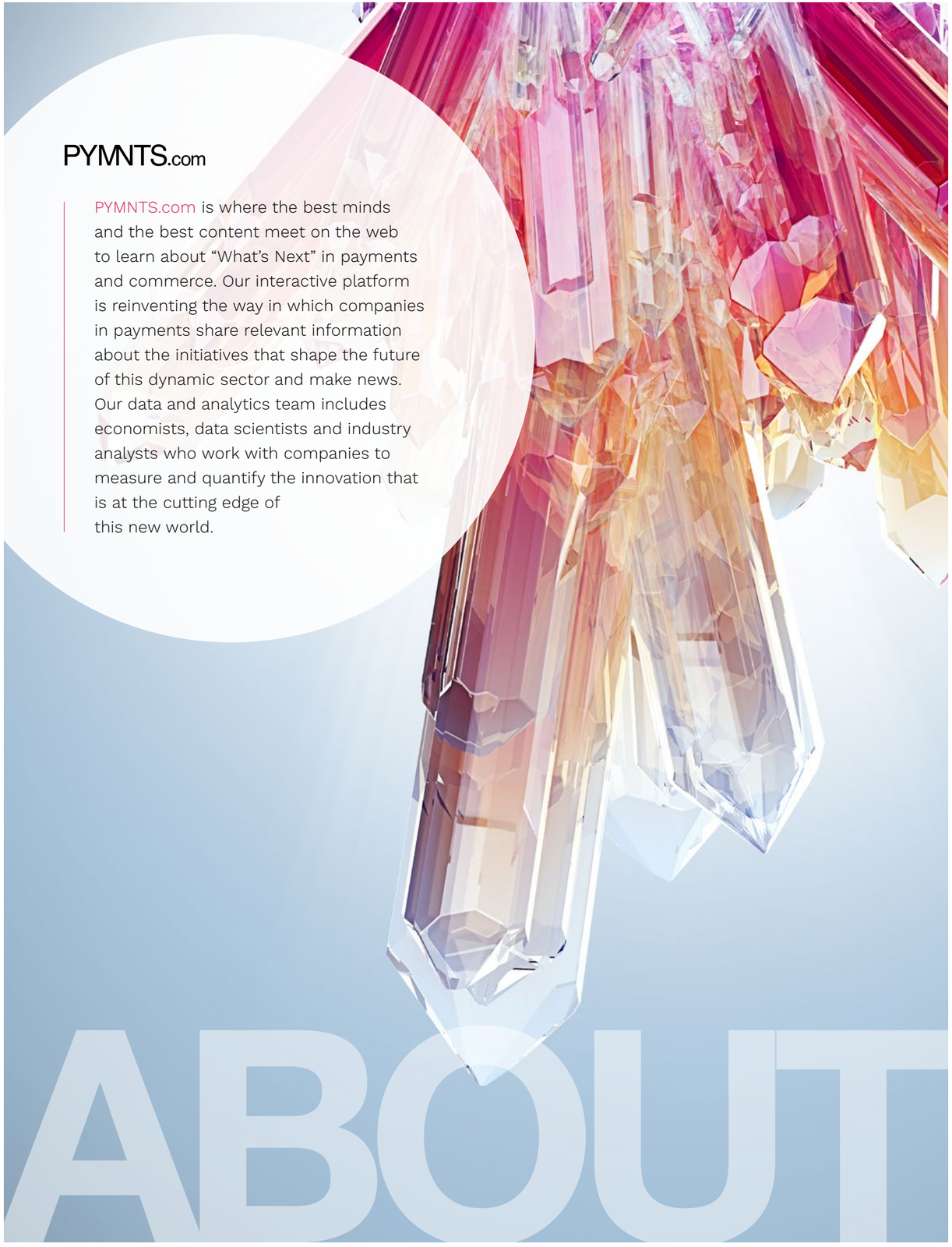
Trust. This hinges on who the consumer trusts to enable purchases tied to a specific payment plan — and in the case of the direct link to their bank account, who the consumer trusts as the intermediary to facilitate that transaction. Consumers trust their bank. So far, though, lots of consumers have trusted the new pureplay BNPL players enough to sign up and use them, and use them again.

The expansion of open banking and real-time payments for retail transactions. It's taken a decade for RTP to get off the ground in the U.S., and the use cases today are far afield from retail payment transactions. But enabling RTP payments between consumers and merchants has been a vision for at least as long, for FinTechs and banks alike. One possibility is that banks also get in on the RTP direct-to-bank-account bandwagon, and use it to enable their BNPL transactions, too.

The acceleration of online transactions, including cloud-based, in-store POS transactions. When online transactions were at 5%, retailers and issuers shrugged. At 15%, no one is shrugging anymore. It's entirely possible that by the end of this decade, 25% or more of transactions could move online in some way, creating even more of a tailwind for all BNPL providers. This just seems inevitable now, as the digital transformation creates the connected economy.

The banks and networks have a fighting chance to win the battle over consumer payments by following the pure-plays, maybe buying them, partnering with enablers that can fast track their BNPL plans and convincing consumers that revolving credit and cards have a place in their credit portfolio.

But fight they will have to.



The 52 Mondays may be updated periodically. While reasonable efforts are made to keep the content accurate and up-to-date, PYMNTS.COM: MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, REGARDING THE CORRECTNESS, ACCURACY, COMPLETENESS, ADEQUACY, OR RELIABILITY OF OR THE USE OF OR RESULTS THAT MAY BE GENERATED FROM THE USE OF THE INFORMATION OR THAT THE CONTENT WILL SATISFY YOUR REQUIREMENTS OR EXPECTATIONS. THE CONTENT IS PROVIDED “AS IS” AND ON AN “AS AVAILABLE” BASIS. YOU EXPRESSLY AGREE THAT YOUR USE OF THE CONTENT IS AT YOUR SOLE RISK. PYMNTS.COM SHALL HAVE NO LIABILITY FOR ANY INTERRUPTIONS IN THE CONTENT THAT IS PROVIDED AND DISCLAIMS ALL WARRANTIES WITH REGARD TO THE CONTENT, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT AND TITLE. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OF CERTAIN WARRANTIES, AND, IN SUCH CASES, THE STATED EXCLUSIONS DO NOT APPLY. PYMNTS.COM RESERVES THE RIGHT AND SHOULD NOT BE LIABLE SHOULD IT EXERCISE ITS RIGHT TO MODIFY, INTERRUPT, OR DISCONTINUE THE AVAILABILITY OF THE CONTENT OR ANY COMPONENT OF IT WITH OR WITHOUT NOTICE.

PYMNTS.COM SHALL NOT BE LIABLE FOR ANY DAMAGES WHATSOEVER, AND, IN PARTICULAR, SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, OR INCIDENTAL DAMAGES, OR DAMAGES FOR LOST PROFITS, LOSS OF REVENUE, OR LOSS OF USE, ARISING OUT OF OR RELATED TO THE CONTENT, WHETHER SUCH DAMAGES ARISE IN CONTRACT, NEGLIGENCE, TORT, UNDER STATUTE, IN EQUITY, AT LAW, OR OTHERWISE, EVEN IF PYMNTS.COM HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

SOME JURISDICTIONS DO NOT ALLOW FOR THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, AND IN SUCH CASES SOME OF THE ABOVE LIMITATIONS DO NOT APPLY. THE ABOVE DISCLAIMERS AND LIMITATIONS ARE PROVIDED BY PYMNTS.COM AND ITS PARENTS, AFFILIATED AND RELATED COMPANIES, CONTRACTORS, AND SPONSORS, AND EACH OF ITS RESPECTIVE DIRECTORS, OFFICERS, MEMBERS, EMPLOYEES, AGENTS, CONTENT COMPONENT PROVIDERS, LICENSORS, AND ADVISERS.

Components of the content original to and the compilation produced by PYMNTS.COM is the property of PYMNTS.COM and cannot be reproduced without its prior written permission.