52 MONDAYS

A YEAR OF CONVERSATIONS ABOUT

PAYMENTS

2017

PYMNTS eBook

BY KAREN WEBSTER

TABLE OF CONTENTS

52 MONDAYS

A YEAR OF CONVERSATIONS ABOUT **PAYMENTS** 2017

BY KAREN WEBSTER

INTRODUCTION

I guess I'm a storyteller at heart.

Every Monday, I publish a piece on PYMNTS that's my take on something that happened in the world of payments, commerce and retail the week before.

But instead of just rehashing the news, I always try to bring a bit of context to those stories that, I hope, makes them more interesting to read and my perspective a little clearer. Context, in this fast-paced world, seems often to be lost — even overlooked — as an irrelevant detail that's OK to be left off to the side.

But context is something that's absolutely essential if the goal is to have an informed, honest and spirited debate about the topics that are driving the future of commerce.

So, more than wanting to share my points of view with you each Monday, I want to start a conversation with you — a conversation that I hope prompts even more discussions with your colleagues about where we're headed as a commerce ecosystem — and why.

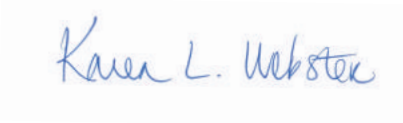
As this eBook proves, , I've written about a lot of topics over these last 12 months. 2017 has been something of an epic year. I've shared my points of view on everything from Amazon to Walmart; from bitcoin to voice commerce to millennials and their coming fintech crisis to television as commerce's next untapped commerce frontier.

John Steinbeck once wrote, "Perhaps the best conversationalist in the world is the man who helps others to talk."

My hope is that I helped play a small part in starting important conversations about the direction of payments, commerce and retail this year.

Thank you for your readership — and for the part that you play in shaping our future. I look forward to having many more conversations with you in the year to come.

All my best for a healthy, happy and prosperous 2018,



Karen Webster
CEO | PYMNTS.com
#52Weeks

P.S. A huge shout-out to the amazing PYMNTS.com design and production team who assembled this book. It is simply fabulous.

December 2017

THE COMING MILLENNIAL FINTECH CRISIS

It's not news that the 70 million people born between 1980 and 2000 — the millennials — are financially challenged. But Karen Webster says that new research out of Stanford sheds extraordinary new insight on their financial state of affairs. Only 50 percent of them will ever outearn their parents, and the picture gets worse for middle and lower middle class kids. That, Webster says, raises a whole host of questions for society and some big decision points for the payments, retail and commerce players seeking to serve them. She lays it all out here.

It's a fact.

While they enjoy many FinTech innovations, most millennials don't have a snowball's chance of earning more than their parents — ever.

How big the income gap between those 70 million people and their parents depends on a few things, including how well-heeled their parents are. Not surprisingly, hardest hit are the kids born to middle and lower middle-income families — so, roughly 70 percent of the U.S.

Stop and think about that for a minute.

It's one thing for the millennial offspring of the billionaire hedge-fund scions to fall short of making a billion because they only manage to pull down $760 million a year. No one's worried whether those 30-somethings will be able to put food on their table or make the mortgage payment.

But when not even half of millennials born to middle-class families and a third of millennials born to families in the middle to lower middle-income brackets have a shot at making more money than their parents, that suggests that we are facing a very different set of problems as a society.

And a set of problems with some very pointed implications for everyone in payments, retail and commerce whose ambition it is to capture the purchasing power of this coveted generation.

Which may end up not being all that powerful.

THE PROOF IS IN THE DATA

This is not a new topic of conversation.

In 2013, data was beginning to trickle in that suggested that the generation that made Sriracha a food group and yoga pants a go-to corporate wardrobe staple was under financial duress. That year, research reported that the typical net worth of millennials was 20 percent lower than that same age cohort in 1983 — at the same time, that of their parents had more than doubled. The concern then was not on their income or spending power but the implications that suggested for the retirement and the subsequent standard of living that generation would enjoy (or not) 30 or 40 years into the future.

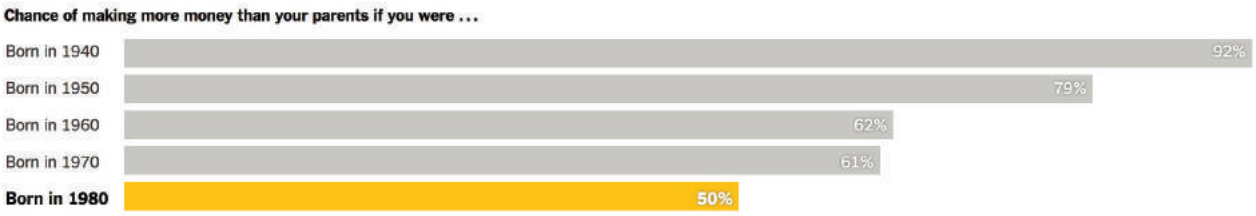
Since then, there have been dribs and drabs of insight into the millennial's financial state of play, their mountains of student debt, their love/hate relationship with money and their attitudes about work and career. But it's the recently published groundbreaking research by Raj Chetty, professor of economics at Stanford, and several other of

his academic colleagues that finally put a pin in the fact that the generation that every brand is desperately trying to woo is, by and large, broke and is unlikely to ever attain the earnings potential of their parents.

This research is extraordinary — and extraordinarily insightful — because it did something that no one else has ever been able to do: link income patterns across generations. Chetty and his team did that by gaining access to the anonymized tax returns of people in their mid-30s over a 40-year period between 1940 and 1980. The complete piece of research can be found here, and New York Times columnist David Leonhardt did a brilliant synopsis of their work, here.

The Chetty paper is worth a read, but all that you really need to know about his conclusions is summed up in two charts, courtesy of Leonhardt's column.

This one tells the earnings gap story at a high level.



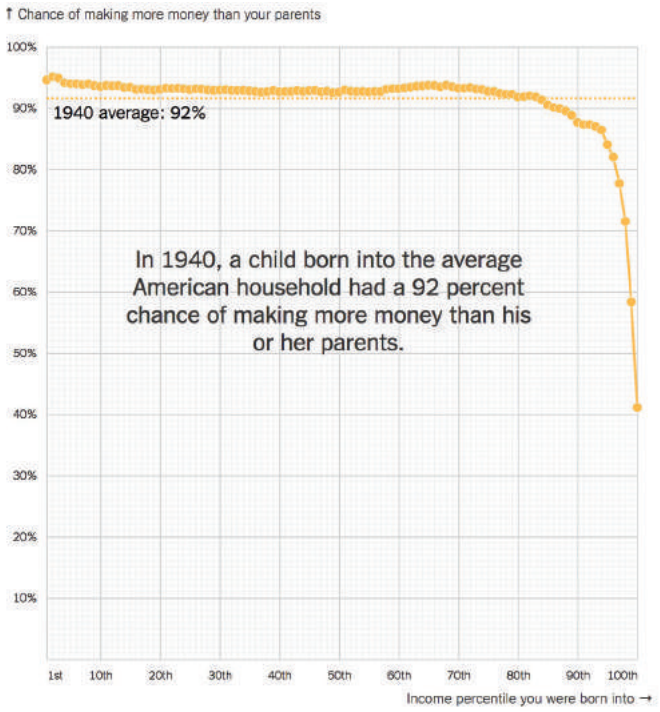
Source: nytimes.com

The news flash here is that the prospect of kids entering their third decade of life and outearning their parents has been on a slippery slope since the 1950s. Kids of parents born in the 1940s had it the best, not surprisingly, given the intersection of the Great Depression in the 1930s and the rapid expansion of the economy that followed — driven by the wholesale shift from a farm-based to a manufacturing-based economy. The subsequent ebbs and flows of the economy caused by energy crises (the 1970s) and tech revolution and globalization (the 1990s) dented those prospects a bit for boomers (born in the 1950s–early 1960s) and a little more so for Gen Xers (mid 1960s–1970s).

But that downward slide took a nosedive for the kids born in the 1980s — or what we call today the millennial generation. Overall, only half of them will ever best the earnings potential of their parents and even, quite possibly, their elder siblings.

Depending on that millennial's lot in life, even 50 percent may look optimistic.

The prospects dim for a great swath of millennials living in households with incomes that fall below $100,000 a year. That story is again best told courtesy of this chart found in Leonhardt's column.



The millennials whose parents belong to the 1-percenter club will be fine, thanks to receiving a great education at the top schools and nabbing one of the high-paying jobs that go along with having that pedigree.

But those living in middle class families — those whose household income is between $50,000 and $100,000, or 50 percent of the U.S. population — fare much worse. Only 44 percent of those kids have the prospect of making more than their middle class parents. And for the 29 percent of the U.S. population earning less than $50,000, the prospects are very grim.

The explanation for this varies, and experts say that it isn't necessarily the result of just one thing.

Some economists attribute at least part of this disappointing financial picture to an increase in the rise of single-parent households. Others attribute the problem to millennials entering the workforce during and/or in the immediate aftermath of the 2008 financial crisis. Those kids took lower-paying jobs just to have one — the undergrad in art history from Colby who took a job as a barista at Starbucks or underpaid member of a starving startup team — while others stayed in school longer since they couldn't find even so much as that. A large portion of them work as part of the gig economy, and many rather like it that way. Regardless, experts say, millennials will be hard-pressed to make up the income deficit (and pay off the additional student debt for those who stayed in school) that's been compounding over those last eight years.

At the other end of the spectrum, to the well-educated go the well-paying jobs as technology has evolved to change both the job specs and job requirements of what were once traditional businesses that employed big groups of people and paid respectable salaries.

Take the ad business.

In the days of Mad Men and even through the 1990s, selling advertising was often the domain of a slick sales guy (yes, a guy) calling on

newspaper, magazine and broadcast executives over three-martini lunches. Creative copywriters and graphic designers were left to develop the persuasive copy and appealing visuals that moved products. Measuring effectiveness was hard, if not impossible — as the famous John Wanamaker quote underscored: All brands that wanted to sell their products bought advertising, and all of them knew half of it worked, just not which half. But the only way to get anyone's attention about a product was to advertise on one of those three media channels. It was a pretty good gig.

Today, B2C advertising is increasingly a data game served by ad platforms to consumers toting digital devices who spend most of their time with their noses inside of social networks. Ads served up by algorithms created by PhDs in computer science and engineering working for massive ad platforms like Facebook and Google drive demand. Sure, there are still ad sales guys and gals that touch the brands who want to advertise, but their pitches are delivered remotely (even in a self-serve capacity) via a well-constructed, well-scripted, data-driven sales pitch. The genius data scientists get the big bucks, and the sales guys get a modest base plus whatever they can sell in the CPM-for-hire game.

All of this, Chetty points out in his paper, is coming at the same time that GDP in the U.S. is slowing and productivity gains are at an all-time low. The economy would have to post 6-plus percent annual growth to reverse this trend for the millennials, Chetty writes — something that he and most sensible economists agree would be a near impossibility to achieve.

The resulting productivity gap is something that even the brightest of economic minds haven't been able to fully explain, much less prescribe a solution to overcome. But there's no doubt that it exists and only seems to further seal the deal that millennials in the U.S. face a far different financial future than their parents and their grandparents before them.

I'll leave the debates over policy and politics on this topic to someone(s) else. Instead, I'd like to get you thinking about the implications for payments, commerce and retail for a generation of 70 million that may be strong in number but weak in spending power.

JUST THE FACTS, MA'AM, JUST THE FACTS

We've all read the same stories and heard the same anecdotes: Millennials are saddled with sky-high student debt, aren't buying cars or houses, don't have credit cards, aren't saving money and are job-hopping like there's no tomorrow.

Besides that, they're the ideal credit risk and perfect target to stake the future of FinTech, payments and retail.

Here's what that looks like, by the numbers.

The National Association of Realtors says that home ownership for those under 35 — first-time homebuyers — is down to 36 percent of that age cohort from a high of 43 percent in 2005. The age of that first-time homebuyer is also creeping up — to a single person aged 33, up from a married 29-year-old in the 1970s. This, despite rents being 38 percent higher than mortgage payments and interest rates at an all-time low.

The big problem isn't lack of want, experts say; it's the struggle to come up with a down payment, first, and then qualify for a loan, second. Thinly credit-filed millennials, with their job-hopping, gig-economy proclivities and the future earnings power deck stacked against them, leaves lenders squeamish — the same lenders that observe mortgage payments rising from 1.7 times annual income in the 1970s to 2.6 times annual income today. And since most first-time home buyers are also single, marriage and family are also pushed further out into the horizon.

No home ownership (or marriage or family), of course, means no spending by them on home repairs, or furnishings, or insurance or the raft of kid stuff that triggers a myriad of expenses on the way to owning that piece of the American Dream and raising a family.

The same holds true for car ownership, which, for millennials, is also at an all-time low. Only 26 percent of millennials have a car loan, and fewer of them are buying cars at all. When uberX and Lyft rides cost only a few bucks to get across town, the investment in buying and maintaining a car seems pointless. Those with cars are hanging onto them longer and even refinancing them to reduce their monthly debt burden.

Then, of course, there's the credit card, which accounts for 36 percent of all consumer debt and is the tool that the parents of those millennials used to finance their own American Dream. Only about a third of all millennials have a credit card — in other words, 67 percent of millennials don't. Those who do carry a balance of roughly $5,800 on their cards, and 60 percent of them revolve their outstanding balances each month, compared to 47 percent of all cardholders who do the same.

Some millennials don't want a credit card for fear of getting in over their heads, but most can't get one. Thin credit files, while typically fingered as the scapegoat, are not entirely to blame. Unlike their parents and grandparents before them who could prove an upwards earnings trajectory and, therefore, could offer banks a healthy overall risk profile when they applied for one, millennials simply can't.

Banks see these same trends. They see millennials as most likely to be high revolvers (they like that) but also among the most likely to miss payments completely (they hate that). These, of course, are the same bankers who understand that credit card debt typically peaks for individuals in the 45–54 age group — in other words, millennials a decade from now. Without cards, or the prospect of rising earnings power, issuers won't be able to count much on millennials following, en masse, that pattern of borrowing — or the revenue that results from enabling credit for them.

MORE QUESTIONS THAN ANSWERS

All of this raises a number of topics for discussion over a cup of holiday cheer these next couple of weeks.

For instance, what does it mean for a millennial to be a good credit risk? If it isn't the prospect of long-term earnings potential, then how does that change how banks and retailers think about extending credit? Or should it? Will the traditional credit card model give way to transactional credit

models where risk is decided and credit extended one item at a time? Who, then, extends that credit, and what infrastructure is needed to support that one-item-at-a-time credit authorization? Will new players emerge with different methods of aggregating millennial debt? How would credit rating and scoring agencies have to adjust to accommodate any and all of these changes?

Then, there's the bastion of the American Dream — the home mortgage. How will mortgage lending have to change? It may not be enough to simply offer millennials a totally digital mortgage application experience if the underlying facts about their borrowing profile don't change: They're not considered great credit risks given their employment idiosyncrasies, and they can't come up with a down payment. Lenders — whether they be alt-lenders or traditional banks — only lend money to people they believe will pay them back. Will that mean a shift to banks and innovators helping millennials save and/or creatively thinking about how mortgages are structured and repaid?

Banks, clearly, are thinking hard about serving this group beyond just lending to a group of customers that may be hard to serve on that score. Yet, millennials still need banking services, FinTech, digital — of course — but more basic options to act as a store of funds, possibly with options to pay down their debt and help save their money. How will this force banks to think differently about the portfolio of products that they offer to millennial customers — and price them — who may not ever use credit at the same level as their parents?

Retailers, on the other hand, must contend with the reality that only a third of the millennial customers that walk into their stores have credit cards with them. For the obvious reasons, value for money is a key driver of loyalty for millennials, as are rewards and promotions. But payment, for most of them, is more likely debit card-driven than not. And while Durbin's made debit cheaper than dirt for most retailers to accept, it's cramped banks' style when it comes time to doling out rewards when those cards are used. Will serving this group be served with a healthy dose of new thinking about how banks, digital wallets and retailers collaborate to serve this new customer and still maintain their own healthy bottom lines? Will retailers be challenged to think differently about how they extend credit to this group of customers? Will millennials take the retailer-branded debit card bait?

Food for thought: One of the most popular articles on PYMNTS.com this holiday season was the piece we did on Walmart's layaway program. Layaway became popular in the 1930s during the Great Depression and was largely disbanded in the 1980s as credit card usage skyrocketed. Is it time for retail credit to go back to the future for this demo?

A few things in closing.

First, we need to be careful when talking about "millennials" since they are not a homogenous group. Even though 50 percent of millennials won't outearn their parents, 50 percent will, and the fraction of those who hail from the more affluent households will ultimately have the spending power and means to do the things their parents did, even if they do start all of their spending a little later than their parents did. It's the other

50 percent that represents the challenge for us as a society and as a payments and commerce ecosystem — and the much harder problem to solve.

There's also the fact that the baby boomers — their parents — represent the wealthiest segment of the economy with the most disposable income at hand. As a group, they're living longer and spending well into their elder years. The eldest boomers have turned 70, and they're likely to live longer than their parents.

The millennial children of those parents, then, probably don't need to worry. Their parents will have enough left over to hand them a nice inheritance. Unfortunately, that's not true for the bulk of millennials. Their parents aren't that well-off and need what they have to take care of their hopefully long lifespans.

For all of you wishing you were still "29," maybe think again.

WILL RETAIL **BRICK-AND-MORTAR** GO THE WAY OF **'THE GREATEST SHOW ON EARTH'?**

The Greatest Show is shutting down! No, don't worry, NRF. We're not talking about your show, which kicked off last night in NY. The Ringling Bros. Circus, The Greatest Show on Earth, is folding its tents and laying off the animals it hasn't already fired. Still, Karen Webster thinks that physical retail has more in common with the circus business than meets the eye and that the demise of the once-beloved and crowded circus has some lessons for brick-and-mortar stores.

Dear Retailer:

As tradition has it, the outgoing president of the United States, Barack Obama, will leave a note for the incoming president, Donald Trump, in the drawer of the president's desk in the Oval Office. That note, as we've seen from past presidents, proffers advice and inspiration for the new guy taking the political reins of the United States.

I was inspired to do something similar as all of you gather for NRF's annual retail extravaganza and offer a few words of advice and inspiration as you struggle to adjust to your own transition of power.

Away from physical, brick-and-mortar stores to online sales.

I have to say that I find it mildly ironic that "The Greatest Show on Earth" – Ringling Bros. and Barnum & Bailey Circus — announced it was shutting down for good after 146 years, the evening before all of you gathered in New York for what you all call "Retail's Big Show."

I'll take your nervous laughter as a sign that you probably don't appreciate my profound sense of humor.

But stick with me.

Once upon a time, the circus was an experience that families eagerly anticipated coming to their town every single year. There was something exciting and mysterious about the whole gestalt of the circus that drew thousands and thousands of people to gather under its Big Top to watch its "death-defying acts." From the mile-long train car that carried several hundred circus performers from city to city that would ceremoniously roll into town to the iconic Elephant Parade that wound its way through the streets of those cities on the lead-up to its opening night, when the circus came to town, families, friends and curiosity seekers escaped the normal humdrum of their day-to-day grind to collectively "ooh" and "ahh" together.

It was an experience like no other.

That gestalt carried The Greatest Show on Earth for almost 150 years — through the Great Depression, the move from outdoor tents in more suburban and rural locations to more urban-centric indoor arenas, one of the greatest fires in U.S. history in Hartford in 1944 and the rise of television in the 1950s and 60s, which everyone said would render the Big Top obsolete as consumers turned into couch potatoes at home.

None of that even made a real dent.

But what did was, quite literally, its business model — one that could no longer sustain changing consumer preferences and Ringling Bros.' inability to react to the social pressures involving its star anchor tenant — the elephant.

I'll spare you the "elephant in the room" jokes — since this is really no joking matter.

WHY THE GREATEST SHOW ON EARTH FIZZLED

Ringling's COO said that circus attendance has dropped dramatically over the last decade, coincident with the rising chorus of charges against them about animal cruelty. Among other things, parents, increasingly uncomfortable with taking their kids to the circus amidst those charges, stopped buying tickets.

Fewer ticket buyers made tickets more expensive to cover the cost of producing the circus — with good seats selling for as much as $100. Higher ticket prices meant fewer families able to afford sitting under the Big Top — at the same time, they had more options to consider for a night out on the town with the family. Fewer butts in seats meant fewer people with whom to "ooh" and "aah," making the in-person circus experience different and less thrilling — and even a bit uncomfortable. It's really no fun "oohing" and "aahing" in a half-empty arena.

Meanwhile, the cost of delivering the circus experience continued to climb — operating the train, caring for the animals, setting up the circus in each town, defending the animal cruelty lawsuits. And since the elephant was the brand of The Greatest Show on Earth, with its brand integrity challenged, options to license it were improbable.

So was reinventing itself, it seemed.

Other options for live entertainment and other circus competitors had beaten them to that punch by devising experiences less dependent on animal acts to scintillate the crowds. The Big Apple Circus, Cirque de Soleil — to name but a few — began drawing in the crowds seeking the thrill of a live acrobatic experience delivered under the Big Top. So, too, were the performers who found show promoters and venues that could deliver an audience (and a stable paycheck).

That prompted Ringling Bros. to announce in May 2015 that it would phase elephants out of its shows by 2018. Yes, they fired the elephants!

But by then, it was too little, too late — the circus train had left the station, so to speak, and Ringling Bros. behind.

The parallels to physical, brick-and-mortar retail, you have to admit, are pretty similar.

RETAIL'S BIG SHOW

It's a dead certainty that, over the course of 2017's Retail Big Show at NRF, like so many in the last five or so years, you'll hear talking head after talking head and solution provider after solution provider touting how they can help you deal with your own elephant in the room: Amazon.

But for many of you, like Ringling, it may be too little, too late. At a minimum, they'll likely hype solutions that don't solve for the real problem that physical, brick-and-mortar retail is facing.

Starting with the fact that consumers aren't going to brick-and-mortar stores to buy stuff anymore. Retail sales really are shifting online — at a very rapid clip.

All of this gets rationalized by the "well, 93 percent of retail still happens in physical, brick-and-mortar stores" credo that, if anything, is akin to playing music while the Titanic sinks. It's a distraction that makes everyone feel better but ignores the reality that the ship is going down and taking everyone who's on it with it.

That credo is based on two things: Census data that's simply inaccurate — and has been for a very long time — and a misperception about how much impact Amazon is having on their physical, brick-and-mortar retail businesses.

THE CENSUS DATA BOO-BOO

It was about this time last year when my colleagues found the Big Census Data Error, and I wrote a piece that blew the lid off of the mistake.

After denying that they were wrong, the Census Bureau did an about-face and decided to take a closer look at its model — one which we estimate has under- and miscounted retail sales for a decade.

When you think about it, it has to. Otherwise, physical brick-and-mortar stores, like The Limited, American Apparel, Abercrombie, Sears, Walmart, Macy's, Kohl's, Walgreens, Chico's, Finish Line, Sports Authority, Modell's, Aéropostale — and the list goes on — wouldn't be closing hundreds of stores, if not closing up entirely. This, at the same time, that it's been reported that huge slugs of the 10-year store leases that are coming up for renewal in 2018 won't be renewed.

Meaning, even more stores will close.

It would, therefore, take the notion of fuzzy math to a whole new level to think that 93 percent of sales still happen in a physical store at the same time large swaths of retailers are simply disappearing — or will — because, those retailers say, consumers aren't visiting their storefronts any longer.

Then, there's the hiding behind Amazon's so-called "small" retail sales footprint.

I listened to someone on a national news broadcast last week describe Amazon's "small" $100 billion annual sales number (that was 2015 — we'll find out shortly what that is for 2016). That ignores something quite material to how Amazon sales are calculated. Statista reported (from Amazon's filings) that 50 percent of its paid units are via its marketplace sellers. The revenue that Amazon reports is its commission from the sales of those units — and not the value of the merchandise that is sold. The value of the merchandise sold is how an apples-to-apples retail sales comparison would be calculated.

So, let's say, hypothetically, that 15 percent of Amazon's $100 billion sales number is driven by the 50 percent of the units sold via marketplace sellers. That $15 billion could represent another $70 billion in gross merchandise value, which would make the value of Amazon's retail sales

something more in the neighborhood of $170 billion.

And growing like a weed.

Walmart's annual sales, you'll note, are $482 billion.

That's, of course, on top of the fact that Amazon is now, by some reports, around 50 percent of all online sales. It's been reported that it drove 31 percent of holiday online sales, too. Judging by my own highly scientific Beacon Hill trash day survey the week before Christmas (I counted the number of Amazon boxes out for trash pickup on my walk to work), for my neighborhood, it seemed more like 70 percent — seven out of every 10 Beacon Hill trash piles had at least one empty Amazon box in it.

So, the next time someone lays that "93 percent of retail sales happens in the physical, brick-and-mortar store" line or tells you that Amazon is still a tiny piece of retail sales, you might want to show them the door.

THE EYES DON'T LIE

But you don't have to be have a Ph.D. in math or economics to see that this data is just plain wrong. Just connect some of the data point dots that are swirling around the space.

First Data's Holiday 2016 SpendTrend report found that only 79 percent of holiday shopping happened in a physical store this year. But you say, that's still a big number compared to the 21 percent of sales that happened online (up from 15.4 percent in 2015). But at this rate of online growth, in three years, holiday in-store sales might be lucky to keep their head above the 50 percent mark.

And this is in an environment in which the economy is strong and people are spending money — heaven help them when the economy turns, which it always does.

Like The Greatest Show on Earth, one of retail's big problems is the anchor tenant of what was once the bastion of physical store shopping: the department store in the mall.

Department store sales got clobbered this year — down 4.8 percent, First Data said, right alongside women's ready-to-wear retailers, which declined 3.7 percent. While it didn't connect these dots in its report, I will: No feet inside the mall to visit department stores also meant no feet walking past these stores either.

Once people stop going to department stores to shop (or the speciality stores in the malls), those stores will stop carrying the merchandise that they once did since manufacturers won't value them for distribution anymore. And that will just perpetuate the foot traffic footfall, so to speak.

It's been reported that designers, like Michael Kors, Coach and high-end brands, like Prada and Gucci, are beginning to invest more in their own storefronts where they can curate and control the shopping experience, as well as the pricing practices that help to preserve their margins, arguing that they simply have too much to lose in the current environment. If the only way that department stores can get feet inside is to ply

the consumers with sales and coupons and they play along, they sacrifice margin. If they don't, they sacrifice sales to the designers who discount, while continuing to cover the increasing cost of overhead to attract fewer feet inside.

They lose, the department stores lose, the consumer loses.

And let's not forget the social impact of not having lots of feet inside of a retail store. Like the circus-goers who don't like to "ooh" and "aah" in a half-empty arena, it's weird shopping in a store that has more sales associates than shoppers. It's uncomfortable and not all that much fun.

GADGETS AND GIZMOS

There's also no doubt about it, at this year's Retail's Big Show at NRF, there will be aisles and aisles of gadgets and gizmos aimed at helping you navigate your world of hurt. Many of them are intended to give you more intelligence about what your consumers are doing inside of your physical storefronts.

Wouldn't that be a nice problem to have?

The first order of business must be to figure out whether you even have a shot at hearing the pitter-patter of little feet in your storefronts and, if you do, what's needed to help you double down on getting them there. Until then, it seems a little cart before the horse to invest in technology to help you get smarter about customers you don't have.

Instead, maybe now's the time to take a good look at your business — and your business model — and put everything on the table.

How you source and maintain inventory.

And speaking of experiences, look with a critical eye at what that means for your business. Keep in mind that some of the best ways to keep customers loyal have nothing to do with a deal and everything to do with how you eliminate a friction that gets in the way of a great shopping experience.

Speaking of frictions, examine carefully what frictions exist in your segment for you and for your customers that you think technology can help you solve. Is it an app (probably not your own)? Or the ability to be present contextually where consumers are hanging out doing other stuff (likely)? Or the ability to skip a line by not asking people to stand in one — ever (also likely)? Ask yourself what a physical storefront really needs to do and whether you need one at all — or one as big.

At the same time, thinking about how payments and mobile wallets can accelerate your goal of blurring the on- and offline worlds in a way that delivers a compelling advantage for you and your customers. Online, regardless of how that transpires for you and your customers, is a reality you can no longer ignore.

Like The Greatest Show on Earth, it wasn't that long ago that consumers flocked to your storefronts, eager for the experiences that awaited them inside. They knew your brand and trusted it and believed in the value you offered. Many of

you thought that would never change and that the impact of online and the value of that digital-only upstart in Seattle that you once dismissed as a niche player wouldn't hurt you much. And now, only a few, short years later, given their momentum and their business model, those tables are being turned.

Over the next few days, I'd encourage you to be wowed by the technology that you see, but make sure that it's grounded in the reality of the problems you have to solve. Be inspired by the people you hear and their stories of how they've used new tools and methods to solve their problems. But, whatever you do, make sure that your decisions on what to buy and what to deploy reflect the reality of today's retail environment and the imperative of reinventing it for the benefit of your customers — and your retail future.

And remember, unlike Ringling Bros., you can't fire the elephant.

Sincerely,

Karen Webster

WHAT DO **HILLBILLIES** HAVE TO DO WITH **PAYMENTS INNOVATION?**

J.D. Vance made "Hillbilly" and "Elegy" a part of our mainstream vocabulary last summer with the publication of his best-selling book, The Hillbilly Elegy. And the working class people he wrote about made their impact known when they drove the outcome of the 2016 U.S. Presidential election. But that isn't why Karen Webster invited Vance to participate in a fireside chat with her at Innovation Project on March 15. Find out why – and why innovators will want to listen in to their important conversation.

"Elegy" isn't exactly a household word — or, at least, it wasn't until June 28, 2016.

That's when J.D. Vance — Marine, Yale-educated lawyer and venture capitalist — published his memoirs, "Hillbilly Elegy." Vance's book become the layman's guide for understanding the psyche of the working class Americans whose votes singlehandedly drove the outcome of the 2016 U.S. presidential election. While Hillary Clinton won the popular vote by a margin of 3 million, it was the collective votes of the roughly 110,000 people in the working class counties in Pennsylvania, Michigan and Wisconsin who turned those blue states, red — and put President Donald J. Trump into the White House.

WHAT'S AN ELEGY, ANYWAY?

The dictionary defines "elegy" as a "poem or song to express feelings rather than tell a story" — one that often memorializes the struggles of the basic human condition.

Vance's elegy describes what it was like to grow up the child of a single mother with a drug problem (and multiple stepdads) in a blue-collar Rust Belt town that had lost its economic, social and moral compass over the years. The local manufacturing jobs that once employed families, which, in turn, once supported local businesses, had disappeared. The shuttered stores on Main Street and empty, boarded-up houses dotting the streets of his town were merely the external signs of the internal despair that Vance said defined this once proud — and proudly patriotic — working class demographic that felt that they'd lost their piece of the American Dream, forever.

Joining the Marine Corps after high school, Vance said, was his escape route to a better future — college, law school and a career in business. Yet, he wrote about his struggle to take the hillbilly out of the boy, even though he managed to take the boy out of the hillbilly (town). A fancy dinner with affluent friends gave him a taste — quite literally — for the first time, of mineral water that he thought was bad and spit out. And it also gave him a taste for what it felt like when those well-heeled colleagues disparaged the military and/or the working class in front of him, not knowing (or imagining, even) that their Yale-educated colleague was a card-carrying member of both.

In his book, Vance offers a stark look inside a complicated facet of our society and hints broadly at some of the social and public policy issues that must be addressed to solve many of the systemic issues that could improve their lot in life. He's also started a public policy firm recently in Ohio so that he can be a hands-on part of the solution.

WHAT DO HILLBILLIES HAVE TO DO WITH PAYMENTS INNOVATION?

As important as that work is, discussing this

social and public policy agenda isn't why I was intrigued by Vance and his book — nor why I asked him to join me on stage on March 15, 2017, at the Innovation Project.

It was my desire to start a conversation with him about what we, as innovators in payments, commerce, retail and financial services, can do to offer the working class — across all races and genders — their fair shot at the American Dream and the working classes of other countries a fair shot at their dreams, too.

Unlike policy issues, which take months and years of debate to get governments at the state and local levels to move even an inch — and decades after that to really know whether or not they've worked — our collective genius and passion for making the world (and the people living in it) a better place have the potential to make a difference, right here and right now.

But not just for the working class.

Although the largely blue-collar laborers working in less-skilled manufacturing or services jobs have a particular set of challenges to overcome, there's a large swath of the American population who, for the same or different reasons, also feel that the American Dream that's defined our country since the Pilgrims first set foot on our shores in 1620 is more fantasy than reality.

As I wrote recently, it's the millennials — who are earning 20 percent less than their parents did at the same stages in their lives and aren't sure anymore. And it's the middle class largely — who feel the impact of a changing labor force that disadvantages the retail and some services sector jobs that were once a predictable source of a stable income for middle class families but can no longer be counted on for either.

THE WORKING AND MIDDLE CLASS IN THE U.S. BY THE NUMBERS

I have to admit to being stunned when I looked at these numbers over the weekend.

In 2015, 50 percent of the tax filers in the U.S. made **less than** $36,000 a year — 50 percent.

Most of us living and working in our cushy, comfy bubbles in the big cities that dot the East and West Coasts — and who don't think twice about plunking down $23 for the Organic Grade B 100% Maple Syrup to pour over the gluten-free homemade Belgian waffles topped with organic blueberries that we sit down to for breakfast on Sunday mornings — don't have any idea what living at that income level even looks or feels like.

Seventy-five percent of tax filers that same year made less than $75,000 a year — that's salary,

bonus and taxable benefits. And since tax filings represent households — which often include more than one income-earner — that implies that there are an even larger number of individuals in the absolute, who, individually, have far less than that to spend each year on goods and services.

These statistics are important because income is a proxy for spending power, and spending power is what makes the payments, commerce and retail innovation wheel go 'round.

Here's what that part of this story looks like.

Those earning less than $36,000 a year drive 11 percent of spending — those under $75,000, about a third (32 percent). But unlike the 25 percent of households who earn more than $75,000 annually and have the ability to save some of what they earn, probably 100 percent of the 75 percent are spending just about every penny of what they bring home — and then some.

For some of those individuals, those annual income numbers may be the best it's ever going to get.

There's a real difference in the future — and future earnings potential — of a college-educated 23-year-old earning $50,000 as an account rep in a growing company in a growing field and a high school-educated 53-year-old earning $50,000 as a factory worker in a plant that used to pay him twice that and just laid off 30 percent of its workforce.

THE TWO FORKS IN THE HILLBILLY ELEGY ROAD

There are two possible reactions to these stats.

As a profit-maximizing venture, you might say: Why should I care about the 11 percent of people — or even the 32 percent of people — who are income- and spending-challenged and, by the numbers, largely economically irrelevant? Why not live by the 80/20 rule and double down on the 20 percent of the population who can drive 80 percent of my revenues — and weather the inevitable shocks to the financial system?

There's certainly a lot of innovation directed to those individuals and venture money behind it. Innovations that eliminate the friction of shopping online at luxury retailers, managing their investment accounts via a highly secure yet simple-to-use mobile app or enabling the wire transfer of five-figure deposits on summer vacation rentals — innovations that help the affluent spend, save and manage their money abound. And there's absolutely nothing wrong with that.

Or you might say, as a profit-maximizing venture: I'm going to care a lot about the 75 percent of the population who need different and better options to maximize that spend and eliminate the friction associated with that spend — and even do what I can to increase their earnings potential.

Fortunately, innovators over the years have actually done a lot to help there, too, blunting the impact of the decades-long stagnating wage reality for many in the working and middle class.

Even though median income grew at an anemic 2.8 percent annually since 1990, prices for goods and services over that period of time declined .01 percent a year.

The Brookings Institute has tracked the impact of innovation on prices and buying power over that period of time, and it said that the glass here is half-full, thanks to innovations in manufacturing, sourcing and the globalization of our economy. The $4,020 that a 25-year-old millennial's mom spent on a MacBook the year her little bundle of joy was born costs roughly half that today and is far more powerful. It reported that it takes fewer hours of work for a middle-income wage earner to buy a car than at any time in our history. Washers, dryers, refrigerators, irons and toasters have never been cheaper, and less than a few hundred bucks can put a powerful computer — a smartphone — in the hands of just about anyone who wants one. It doesn't take $2,000 and a MacBook to give people access to the internet anymore. Today, 78 percent of adults have smartphones and forecasts say 90 percent will have one by 2020.

Those smartphones give those consumers access to apps that can help them find the cheapest prices for the things that they want to buy. Access to eTailers, like Amazon and Jet.com, offer an online destination for the purchase of quality goods at the best possible prices. Access to online savings tools, like Acorns, Seashells and Digit, gamify savings — and work. Mega-retailers, like Walmart and Sam's Club, offer consumers a one-stop retail and financial services hub that now also includes a savings tools so that those consumers can put money aside for a rainy day.

Entrepreneurs also help the middle and working class find new opportunities to improve their earnings potential.

Marketplaces, like eBay, Etsy or letgo, make it easier to sell used goods online. Sharing economy players, like Uber, Lyft, TaskRabbit and Thumbtack, make it easier for the un- and semi-skilled working and middle class people with supply and capacity to find new buyers — and sources of income. Direct marketers, like Stella & Dot, Beautycounter and Mary Kay, help individuals — mainly women — build their own small businesess and financial independence. And a whole new crop of blue-collar marketplaces, like Job Today, are cropping up to help physical laborers find work.

At the same time, payments innovators, like Hyperwallet, have recognized the growing need for these "gig" workers to be paid sooner — instantly or same-day — and enabled that on behalf of the marketplaces they serve. Our work with Hyperwallet on the Gig Economy Index reveals that 40 percent of the U.S. population is engaged in a "gig" job, and 10 percent (and rising) rely on it for their only source of income.

Financial services players that run the gamut from PayPal, to Green Dot, to Walmart, to digital-only banks, like Chime, to alternative lenders, like Marcus and Affirm, democratize access to more traditional banking and credit services for working and middle class consumers.

IS THAT ALL THERE IS?

All of this is helping — but it isn't enough. Maximizing consumer spending power — across the board — is also about reducing the costs that consume a larger and larger chunk of their paychecks, particularly those paychecks that aren't increasing.

Health care, education and child care costs, Brookings said, is where the glass is half-full.

Those costs, it said, have increased 200 times the rate of the median income at the very same time that the quality of that service is slipping. The cost of public education in this country is massive, but it is producing generations of graduates ill-equipped to compete for the jobs that are driving the future of the economy. The cost of health care is skyrocketing at the same time that payments to service providers pegged to fixed insurance reimbursements constrain the time and quality of the treatment they deliver to their patients.

So, it's everyone's problem when more and more of the discretionary income of an already constrained working and middle class consumer is being spent on the things that, in the end, don't improve their overall quality of life.

For sure, there's no easy answer, no quick fix to the problems that directly and indirectly impact the future of payments, commerce, retail and everyone operating in them.

And that's what I want to explore with J.D. Vance about on March 15: What is our collective responsibility to make a difference in the lives of the working and middle class? And how far outside of our "traditional" payments and commerce ecosystem should we look to create partnerships that help solve some of these problems?

Should the Ubers and Googles of the world, who are investing in driverless car technology, for example, also invest in retraining the working and middle class truck drivers and maintenance workers to help support this new transportation paradigm?

Should the marketplaces powering the gig economy — which serve as their "virtual employer" — do more to provide access to the services that any other employer would provide: health care at a group cost, help with tax withholdings, savings plans, access to professional development?

Do we really understand what kind of financial services, payments and commerce innovation these 75 percenters need, and are we putting enough muscle behind solving those problems — or even diagnosing them in the first place?

Will the traditional business and delivery models suffice?

LEARNING FROM THE WHALES

What we are seeing now unfold in the U.S. isn't all that new — nor anything we haven't worked through and survived on the other side. Sixty miles south of where I am sitting today is the town of New Bedford — the wealthiest town in the entire U.S. in 1846. That year, whaling was the fifth-largest segment of the economy, and New Bedford was ground zero for innovations in whaling — better ships, better gear, an innovative compensation model for paying crew. Fifty years later, 90 percent of that industry had evaporated, for many of the same reasons our manufacturing jobs are on the decline — innovation delivered a new way of doing things. Electricity eliminated the need for whale oil to light homes, and crews trained to hunt whales weren't able to find other work. It took the towns that depended on whaling decades to recover, and some towns have never seen that kind of prosperity again. Nantucket has become a playground for the .1 percenters. New Bedford continues to struggle with an average household income that is half the average of Massachusetts as a whole.

So, then, why should we really care, you might say? This is just the natural cycle of innovation — old industries give way to new ones, and some of the workforce just won't fit.

Well, maybe that's true — and there's no point in me being preachy and telling everyone it's the right thing to do. So, let me just be pragmatic instead.

Businesses thrive in a more certain political environment — ours seems uncertain now. It's hard to have a happy stable society when so many people don't think its working for them and when the numbers speak pretty loudly that it isn't.

I think that innovators can be part of the problem or part of the solution.

J.D. and I will be joined by Daniel Eckert, SVP for Walmart Services, on March 15 — who sees 100 million of these consumers walk through its doors every week. I can't guarantee that we'll end our conversation by having all of the answers or even surfacing all of the problems.

But I will guarantee that we will give you a lot to think about as you fine-tune your strategies and plans for the year — and contemplate how to be part of the solution in the years ahead.

Click here if you'd like to be in on the conversation.

I hope you do.

"We hillbillies need to wake the hell up."

As do the rest of us.

CHANNELING RETAIL'S **INNER ANIMAL**

Grab your cuppa Joe this morning and close your eyes.

Now, imagine that you're a chipmunk, just living the life all cozy in your little chipmunk burrow. Instead of worrying about the retail industry or what those software developers are doing or why no one is downloading your shopping app, you're stressed out about food — specifically, where your next meal is coming from. It's winter after all, and you're not like those big ol' bears with their layers of fat who can sleep for months on end without getting hungry. Even though you've got some nuts and seeds stored, you're still worried about getting your three squares and making sure that the little ones have enough to eat.

Making the decision about where and when to get those three squares can be a little complicated — remember, you're just a chipmunk.

Should you go to that same old reliable place in the forest where it's always safe to assume that nuts, grains and fruits abound? Should you go at the crack of dawn, like always, when the early-bird chipmunk usually gets the worms (and other food)? Or is this the time to mix it up and look for a new spot with potentially better grub?

How you, as that chipmunk, decide those questions, researchers say, is also how consumers tend to decide what stores they visit, how often they visit them and when they decide to change things up. They say that understanding how animals forage for their food is helpful in understanding how consumers forage for everything they buy — and even what type of credit risk they are in the process.

You, the chipmunk, will make a decision based on a number of variables that are driven by your past experiences and the current state of the environment. Your decision where to go — and whether you stay a little or a long time once you get there — will be determined by how rich and lush your favorite watering hole is and how far you'll have to travel to find the next one. Since we know that you're smarter than the average run-of-the-mill chipmunk, if it's rich and lush, then you'll stay and load up, even if other neighborhood chipmunks decide to join you. Why not? There's plenty for everyone!

If there are a number of plentiful food sources nearby, maybe you'll play the field so to speak — taking a few nuts from this spot, a few baby bird eggs from the next, an earthworm or two from the next. Playing the field might also depend on the time of the year or how crowded things get at your favorite spot. If you're a chipmunk in Boston, you might not want to venture far or even stay out a long time when the weather is cold or snowy. Getting out and back to a place that is reliable to stock up — and doing that quickly — is the name of the game. And, depending on the conditions, foraging might mean that you have to use a few new tactics, like climbing a tree in order to find food since the ground is too frozen to dig into and bushes with berries on them are few and far

between. If you find consistently that too many other chipmunks have beaten you to the punch and the pickins are slim when you arrive, you'll take your little chipmunk legs elsewhere.

Your choice of where — and even what time — to forage might also depend upon how safe you feel. It's probably not a wise move to do your foraging at night when those pesky owls and raccoons — or that stupid neighbor's cat — are out doing their own foraging and you look pretty tempting. And during the day, depending on where you live, being efficient is also key in order to avoid running into the hawks circling overhead or foxes on the hunt.

But you'll make all of these decisions instinctively and predictably, following more or less the patterns that have served you well over time. You'll exploit known places until you're forced to explore — and then exploit — new ones.

Just like the consumer that every retailer and innovator hopes to attract makes their decisions about where and how to shop in the physical store.

There's some interesting data to back it up.

The most extensive research was done as part of a study conducted by MIT Media Lab Director Sandy Pentland. He and his colleagues examined nearly 16 million credit and debit transactions for more than 10,000 retail consumers over a period of three months. From that data, they drew a number of conclusions about consumer shopping patterns — and even their creditworthiness — after looking at three broad criteria: how many places people shopped and where those stores were located (diversity of spend), how concentrated their spend was at those retailers (brand loyalty) and the consistency of that behavior over time (the regularity of their shopping patterns).

What they found might not surprise the chipmunk in you.

Diversity, loyalty and regularity were all characteristics that all shoppers in their study exemplified. But consumers are, by and large, creatures of habit — far less likely to diversify their spend beyond their favorite places and far more likely not to stick to a regular schedule in doing so.

Consumers, they concluded, concentrate 90 percent of their spend in their three most preferred locations — while 65 percent of them don't stick to a regular schedule when doing any of that shopping. And as many as 25 percent of consumers exhibit such low regularity in their shopping behaviors that they suggest that it could be a far better indicator of credit standing than how loyal to a store they happen to be.

A similar study on cellphone users' behaviors, conducted by researchers out of the University of Buffalo, concluded much the same thing — but with an interesting twist. Now, while their work was done in the context of the environmental implications for city planners, it is equally insightful for retailers, when analyzed in the context of the Pentland work.

This study reported that mobile phone users spend 85 percent of their time in their three to five favorite locations — home, work, those three favorite stores. But here's the interesting insight: The 15 percent of the time that's left is spent in

a number of highly diverse locations — in which consumers spend less than 1 percent of their time each.

Here's what that means for retailers, why physical retail is in such a world of hurt and where the silver lining might lie.

Just like the chipmunk, unless something happens to change a consumer's perspective on where they'll go to do their shopping, they're going back to the places they've always gone. Predictability of experience trumps even the distance they travel to visit that store, if the goods are delivered consistent with the way it's always been done. Just because a consumer might go to the store on Saturday afternoons some weeks and Sunday mornings others, that change in shopping regularity doesn't mean a change in retailer preference.

For 90 percent of the spend that consumers make.

So, if you're a retailer, then you better the heck know who your most loyal customers are and you better the heck make sure that you keep doing what they like so they'll keep loving you. Which might mean not even investing a ton of time and money trying to steal customers away from the stores they've shown a strong loyal brand preference for by plying them with big discounts or incentives. If the Groupon experiment showed us one thing, it's that consumers might be loyal to a discount once or twice, but they always revert to the brand they love when the incentive disappears. Good money after bad is never good.

The studies also imply that keeping loyal customers loyal (and their spend with you) doesn't always require margin-eroding discounts and big fat incentives. Price and accessibility to inventory are two of the big reasons that consumers decide where to shop and concentrate their spend. Having the right products at the right prices — not necessarily the lowest prices — is key, as is the speed of getting those products to those consumers. Buy online pick up in store is popular because it gives consumers the certainty of product availability and pick up without paying to have it shipped. Mobile order ahead isn't about price — in fact, most establishments see a lift in basket size; it's about convenience and a better retail experience.

So, keeping the 90 percent of the spend intact is a pretty big deal — and where investments in keeping those consumers loyal must be focused. It's why, I suppose, Kohl's and Target both have and/or are launching mobile payments apps that cater only to those loyal customers with retailer branded cards. And why megastores like Walmart offline and Amazon online are such formidable players for retail, writ large. The brand game for both is to make sure that, within their physical or virtual walls, consumers can get the products and the service that they want — regardless of the time of day or day of week that they shop. The data suggests that it's far more likely for consumers to buy more things from a brand they know and trust that also economizes on their time than for consumers to diversify their spend across more retailers.

So, what does that say, then, about the 10–15 percent of the spend that's up for grabs — the spend that's spread across a diversity of retailers

and locations that haven't yet become a part of the coveted top three?

It's precisely why physical retail is having such a tough time. There aren't enough people spending enough of their time and money at those establishments for them to survive — when other, more fruitful options await.

Unless, of course, there's something inherently special about the experience or the product that these retailers — and those who enable the experience — can deliver that can move them up the consumer's retail hit list to number four or five or even six. When consumers divide the remaining amount of their spend across a large number of retailers, there's a great opportunity for those long-tail retailers to use new tools and data to snag the attention of a consumer looking for something to buy — and to keep buying.

Because, in the end, just like the chipmunk looking for the best way to get her three squares for herself and her family, great retail is nothing more than eliminating the risk associated with making sure that the consumer gets what they want and need when they've decided to leave their cozy burrows and venture out to shop.

SOLVING RETAIL'S **SMALL BUSINESS** CRISIS

Small business once employed 50 percent of all workers in the U.S. and created 65 percent of net new jobs. No more. Karen Webster says that for the last 30 years, the big got bigger and the small, well sorta disappeared. Changing that picture for retail, she says, isn't about listening to its "walking dead" but the innovators creating new ways for retailers large and small to reimagine – and deliver – what's next. She lays out a small business story that's not really been told – and its impact on the future of retail. Check it out.

Here's a question:
Does the U.S. have a retail crisis — or a small business crisis?

Here's an answer. We have both.

Which is why "fixing" retail must include giving SMB merchants the tools they need to compete in the very dynamic environment that now defines Retail U.S.A.

Let me explain.

THE HEARTBEAT OF AMERICA?

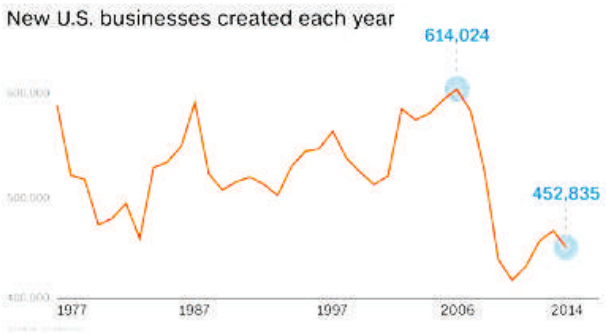
Chevrolet may use "the heartbeat of America" as its advertising tagline, but it's small business that everyone believes keeps the heart of the U.S. economy pumping. Twenty-six million strong, employing 50 percent of the workforce and creating 65 percent of all new jobs, SMBs and storefronts that line the side streets and main streets of our cities and towns are the fuel that keeps our economic engines humming, roughly 100 million Americans employed and what feeds a thriving middle class.

Well, that used to be the story line.

The truth is that America's small business engine is sputtering and has been in a gradual decline for the better part of the last four decades.

That somewhat revised storyline has also been somewhat of a well-kept secret.

Between the late 1970s and the mid-2000s, like the sun rising in the East, the U.S. could count on between 500,000 and 600,000 new businesses



opening every year. Things went off the rails, not surprisingly, in 2008 — courtesy of the financial crisis.

But unlike the comeback stories of past recessions, small businesses haven't come back this time. After a high of 614,024 SMB openings in 2014, the Census reported that only 452,835 firms were started in the U.S. that year.

Only, you say, but that's not too shabby — and at least it shows forward progress, right?

Economists don't think so.

They're troubled by these numbers because they believe we've had adequate time as an economy to get the SMB growth engine revving again. And they fear that the impact on the vitality of the local economies that this void has created won't be fully felt for a decade or more.

Of course, business openings are just one part of this story: Business exits (AKA failures) are the flip side of that small business coin — and where those same dismal scientists say there's even more cause for concern.

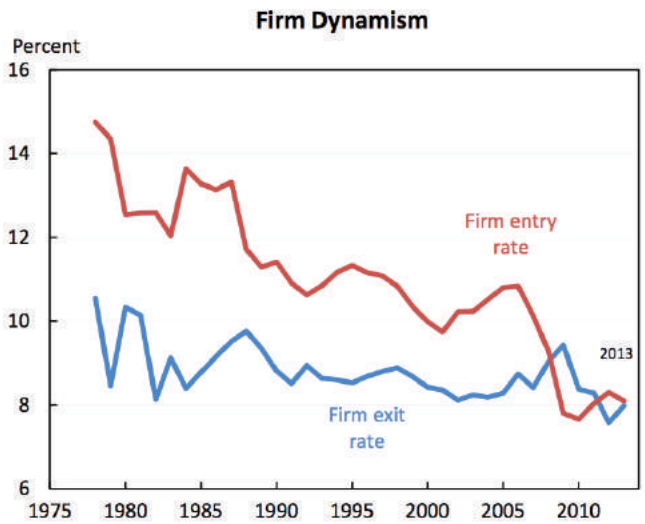
Small businesses are also risky businesses, and the Small Business Administration tells us that 60 percent of them won't make it past their first birthday, never mind reaching their second, third or magic five-year milestones. Only a third, they say, will ever cross into double-digit territory and celebrate a decade of being in business.

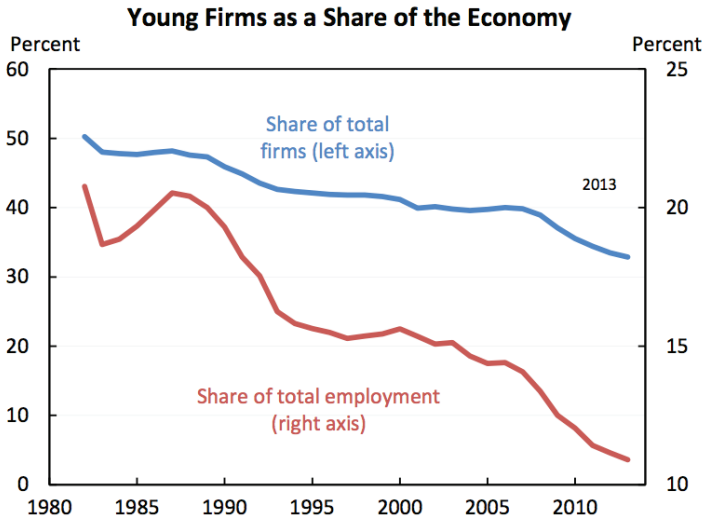
Historically, that failure rate was eclipsed by the sheer number of new business starts each year.

More businesses opened than closed — until 2008. That year, for the time in more than 30 years, SMB closings outnumbered openings — and by a big margin. That year, the country was left with a deficit of roughly 100,000 small businesses. And that trend line really hasn't reversed course all that much since then.

Taken together, this marks a very different small business scene in the U.S. today — one that Jason Furman, the chairman of President Obama's Council of Economic Advisors, detailed in a speech he delivered in Chicago last fall. In addition to telling the story of small business in a 30-plus year tailspin, he also burst the bubble of of small business as the employment engine that it was once touted to be.

In 1982, he reported, firms that were five years or younger accounted for roughly 50 percent of all firms and a fifth of all employment. By 2013, those numbers had deteriorated — and by a lot. Those same tenured businesses accounted for





Source: Beyond Antitrust: The Role of Competition Policy in Promoting Inclusive Growth Jason Furman Chairman, Council of Economic Advisers

only one-third of all firms and only one-tenth of all employment.

And in a lot fewer places than they used to be.

Census data reports that, in the early 1990s, 125 counties in the U.S. collectively generated 50 percent of the new businesses in the U.S. — a period of time that followed the late 1980s recession. In the aftermath of 2008, only 20 counties — most of them rimming major cities and tech hubs — drove 50 percent of small business formation.

The mix of these businesses is also very different. The businesses that we track and profile in our Store Front Index — the home remodelers, salons, spas, small retailers, delis, coffee shops and restaurants that contribute to the health and vitality of the local communities — are not only declining, they're not even getting off the starting blocks. No small businesses in those areas means no SMB jobs in those markets. Brookings reports that the 100 largest metro areas in the U.S. had recovered all of the jobs lost in the 2008 recession — plus, added 6 million new ones. The rest of the country, **combined**, added 300,000.

The same economists who paint such a dismal picture of small business are also hard-pressed to pinpoint precisely why the once-vibrant SMB sector in the U.S. has suddenly dimmed. But parsing through the many reports on this topic, there are a couple of clues that emerge, ranging from an onerous regulatory environment that makes it harder, longer and more expensive for new businesses to get started (even retail storefronts), to banking regulation that has cut off the supply of capital to small businesses, to what I call "The Darwin Theory" — the survival of the fittest.

Economists increasingly point to a concentration of businesses now across just about every sector. Furman, in his speech, said that an Economist report published in 2016 showed that the top four companies in more than 40 percent of the 900 industries they examined controlled more than a third of the market. That was up 28 percent from just two decades earlier.

So, what does this all have to do with retail?

The "crisis" in traditional retail is one we've documented very well over the years — flagging the issue of retail's death spiral some three years ago when reports about the decline in foot traffic over the holiday season in 2013 surfaced. While it was easy to chalk things up then to the financial crisis and the consumer spending hangover that resulted, we dug deeper and discovered the enormous shifts in buying online from physical stores that had been underway. And, like the turmoil facing small business, also unreported.

Department stores, sporting goods stores, specialty retail, jewelry, books and music — the list goes on and the shift online more dramatic by the year. The percentage of sales lost by those physical store franchises can be seen not only in the pretty charts and graphs that we produce and share on a regular basis but the ongoing drumbeat of the national and regional store closings for those brands that can no longer keep up.

And just like every other industry, there's concentration. More than 38 percent of the market

is the domain of 50 large firms, up 11 percent from 1997.

But maybe that's the good news.

Call me crazy, perhaps, but I'm looking at the glass half-full here and pointing to the 62 percent of the market up for grabs — ready to be reinvented by the creative minds of entrepreneurs who can tackle the retail sector now with an arsenal of tools and platforms that help level that playing field and give them a fighting chance.

In 1997, or even 2007 or 2008, there weren't very many well-developed aggregators to help small merchants with a great product or a service be discovered by a customer in their 'hood.

Or marketplaces where a retailer with something to sell had a place to get tons of eyeballs on those products. Or for buyers and suppliers more generally — tradespeople, hair stylists, therapists, fitness classes — to find each other and do business.

It also wasn't easy for any of that to happen in reverse. There weren't platforms that made it easy for online retailers to easily extend their product selection to include unique products and services from a myriad of independent businesses and to become their own marketplaces.

There weren't easy ways to innovate retail business models. Today, subscription commerce platforms make "box of the month" businesses a manageable reality. Installment credit options also help convert more shoppers to buyers by financing a single product — instead of having to rely on a credit card.

There also weren't eCommerce platforms that made putting up an online storefront easy, cheap and professional or advertising platforms that made it possible to serve targeted ads to likely buyers. It also wasn't easy for consumers to check out online (hey, it still isn't perfect — we have a long way to go), particularly when doing so on their mobile devices, or acquirers who did more than just throw a terminal on the counter and a rate card at the owner and wish them good luck.

But SMBs today have all of those options — and more — thanks to a cadre of innovators who see the power and potential of giving them new tools to start and grow their businesses — at the same time, contributing to the health and vitality of their local communities.

It's that optimism, that belief in the power of how small and medium and large retailers take advantage of these innovations to transform retail, that is one of the reasons that we, at PYMNTS, were inspired to create National Merchant Day.

We believe that the future of retail won't be defined, or even inspired, by retail's "walking dead" — so, why bother to listen? National Merchant Day (NMD) is our annual focus on the innovators and innovation that will help the storefronts that line those main streets and side streets of our local communities survive by giving them a hands-on way to experience how innovation can create new models and new experiences that delight consumers and strengthen the retailers eager to embrace it.

After all, every large merchant started out as a small one.

Starbucks was a single storefront that didn't even brew coffee back in 1971. Shake Shack was a food cart in Madison Square Park when it opened in 2004. Clover Food Labs was one food truck with a Square reader in Boston in 2008. Sunglass Hut was a kiosk in a Miami mall in 1971, and H&M was one store for decades after it first opened in 1947.

Sure, for every Shake Shack, there are 1,000 Shake Teardowns. But we can't wait to meet the merchants on Thursday who are committed to delivering "what's next" in retail and the innovators who share that view of the future.

So, I hope that you'll join me on Thursday in giving all of the innovators who are dedicated to defining "what's next" a shoutout — especially those small and medium-sized merchants who are jumping in with both feet your gratitude and support. And if you're in the City — New York, that is — stop by. Who knows — maybe you'll meet the next Shake Shack or Jet.com or Amazon.

You'll, for sure, meet the innovators determined to give them life.

#NMDNYC

THE AMAZON EFFECT ON... PAYMENTS

We spend a lot of time talking about the impact of the "Amazon Effect" on traditional retail's current misfortunes. But there's another "Amazon Effect" which goes largely ignored, and which could be even more disruptive. As we heard Amazon's VP of Payments, Patrick Gauthier, tell me last week at The Innovation Project, Amazon is thinking well beyond the "buy button" to a new commerce interface that has the potential to put the company in the middle of commerce every place a consumer wants to buy, using the most natural buying interface there is — THE VOICE.

Just not paying for those purchases using the digital payments methods you're all hawking right now.

The other "Amazon Effect?" — the Amazon Effect on Payments.

Happy Monday.

First, a little context.

THE AMAZON EFFECT ON RETAIL

You know the typical tale of woe told by many of retail's walking dead all too well by now. But let me add my two cents.

It's a story that portrays Amazon as a powerful online force. But it's a narrative that its storytellers still say offers hope from the Census Data — which, at last count, reported that about 92 percent of retail sales still happen in physical stores. This story is told despite reports of massive store closings in the face of falling foot traffic — down 50 percent since 2010, by some estimates — and the sea of red ink that has come to define traditional retail's bottom lines.

As PYMNTS.com readers know, the Census Data on retail sales underestimates online sales. And for some categories, the in-store/digital split is jaw-dropping. Books, office supplies, apparel and sporting goods show online sales that approach 30, 40 and even 60 percent for those same categories in retail sales. Even grocery sales are starting to shift online — admittedly a very tiny increase at about one percent in 2016 — but which are projected to grow by double digits as it becomes more convenient for consumers to trade buying bulky commodities like paper towels and laundry detergent in a store for a more convenient online experience that ships those items to them instead.

Some of that shift is truly the Amazon Effect on retail. Since every story needs a protagonist, it's easy to cast Amazon in that role. But the subplot to this story is that many retailers aren't really giving people a reason to go to their stores anymore. The stores that used to be showrooms for the latest and greatest merchandise have become graveyards for stuff that hasn't sold (aka stuff consumers don't want until it is marked down

to next-to-nothing prices). Consumers have lost their incentive to make the trip to the store since there's nothing new to see and, therefore, nothing new to buy — so why bother?

Quite naturally, the good brands say "Why bother?" too and shift their focus to the places that consumers now go to shop.

In some cases, that's their own branded physical stores or websites, where they can control the experience and the merchandising. The rise of the direct-to-consumer retail model is exploding, with 40 percent of all manufacturers now using this model to reach consumers.

It also occurs via the many new digital marketplaces that have become the modern shopper's department stores: sites like Net-A-Porter, FarFetch or Moda Operandi that aggregate brands and curate outfits in a virtual storefront where merchandise is refreshed daily.

And Amazon.

Those still living under the delusion that designers would rather cut off their limbs than sell on Amazon might want to take a quick spin over to Amazon Fashion. There, you'll find contemporary designer brands like Michael Kors, Stuart Weitzman, Ray Ban, Vince, Theory, Rebecca Minkoff, J Brands, True Religion — to name but a few — selling the very same products sold in their stores and/or on their very own websites, right there on Amazon Fashion. Making sales has a funny way of getting brands to buy in — pun intended.

All of this, of course, is happening at the same time that online sales are growing at triple the rate of in-store sales — according to latest Census stats, 14.3 percent last year against in-store sales growth of roughly four percent. Sure, that's rapid growth on a small base, but a base that, as I mentioned earlier, is delivering a world of hurt to some sectors already. And it's growth in a channel that's coming at the expense of traditional retail's operating margins — by some estimates — slicing those already fragile margins by as much as 25 percent.

Concurrently, Amazon appears to be cornering the share of those online sales. Last year, the company captured 53 percent of the overall online sales growth in 2016 and accounted for 43 percent of all online sales.

Amazon is also reshaping consumer's expectations for retail service. For instance, Amazon Prime customers get their orders in two days, and they get it shipped to them for free. Free shipping in traditional retail isn't really free at all — it comes with a price tag measured by twice as many days as it takes Amazon to ship products to a consumer. So it's not too surprising that more and more consumers start their buying journeys on Amazon. Our research of more than 2,000 consumers in 2015 reported that 55 percent of all consumers started their search on Amazon. A year later, it wouldn't surprise me to find that number well north of 60 percent.

Additionally, Amazon Payments is moving off Amazon to other retail sites to offer those consumers the benefit of their one-click checkout experience. Sites that accept Amazon — 10 percent of the top 1,000 retail sites by our last

count — eliminate checkout friction by prompting check-in, using the familiar Amazon log-in. Bypassing the retailer's own log-in entirely, once consumers are ready to checkout, they're one click away, using their registered Amazon card and shipping preferences pre-populated.

And, finally, all of this is happening at the same time that Amazon's building an entirely new voice-activated ecosystem — Alexa — that's intended to recast the consumer's commerce experience. Alexa and her ecosystem is not only intent on taking commerce anywhere that a consumer is able to access her, it's using Alexa to make commerce contextual and conversational, ushering in an important, yet subtle, shift in the commerce experience for both consumers and brands.

Alexa abstracts the buying environment by transforming it into a relationship between the consumer and the brand a consumer wants to buy via a friendly interface named Alexa. Not a consumer and a website. Not a consumer and even Amazon's website. But a conversation that consumer is having with Alexa about buying something.

"Hi, Alexa, I want to buy a pair of black suede Louboutin's — the ones with the 3.5 inch heel in a size 35 — who has them in stock?"

"Hi, Karen, (she knows me via voice printing) I see they're in stock at Saks in Boston for pick up today; Neiman's only has the higher heel in stock, but they can be shipped out tomorrow. ChristianLouboutin.com has them in stock, and if you buy from them today, they'll ship them overnight to you at no charge. Which do you prefer?"

With Alexa in that scenario, Neimans and Saks and Mr. Louboutin don't have to co-mingle their merchandise on Amazon, or even have the Amazon button on their site to enable that purchase. All they need is a skill inside of the Alexa ecosystem.

And if consumers want to buy that way from Alexa, why would those brands and those retailers say no?

Which brings me to the "Amazon Effect" on Payments.

THE AMAZON EFFECT ON PAYMENTS

Today Alexa is a voice on the other end of a growing list of devices: at home via Echo and the Dot, on the road with Amazon Tap — even in the car and in the browser.

And as of last week, Alexa's on the iPhone via the Amazon app — one of the most downloaded and used apps in Apple's app store.

RBC Capital Markets issued a report two weeks ago that estimated the size of the Amazon Alexa market. They project that by the year 2020 — just three years from now — there will be 128 million Alexa Echo, Dot and Tap devices globally and 500 million active Alexa users via those devices. This is exclusive of users who access Alexa via apps in the car, the browser, the Amazon app itself or the many other hardware/software environments

that will likely emerge over that period of time. Alexa, as we've observed, is a fast-moving train. Two years ago, there were less than one thousand skills on Alexa; last year this time there were five thousand; this year there are more than eleven thousand.

Those users, RBC says, are also using Alexa to buy stuff.

As part of their analysis, they surveyed Amazon customers to ask about their interest in using Alexa to shop. They found that 17 percent use it already — my guess is that's mostly food delivery or the purchase of simple things from Amazon itself. RBC believes that the percent of commerce attributed to Alexa will only increase and will drive incremental sales of existing Amazon customers by 15 percent, simply because it's easier to shop using her. They estimate that incremental lift to be $5 billion a year.

That's $150 million more than the entire annual revenue of Under Armour in 2016.

That's also not including what might happen if everywhere Amazon was accepted off Amazon Alexa went along for the ride.

What does all of this have to do with payments, you ask? Well, it all depends on who's answering.

If you're an issuer or a card brand, you're probably not sweating all that much yet — but hold that thought. Amazon users register those cards on file today, and where Amazon and Alexa go, those card credentials follow and are used to make those purchases.

If you're one of the "Pay" players, you might be sweating — and sweating a bit more now that it's quite apparent that Amazon and Alexa want to meet consumers and commerce anywhere they might want to do business. Remember when everyone was worried about Apple as the big, bad payments and commerce gatekeeper? Today, that powerful new intermediary is Amazon.

Think about it. How does one get to use Amazon on a site off Amazon? By checking in with an Amazon account. How does one get to order Dominos from Alexa? By first registering an Amazon account with them. Those same Amazon accounts that don't today include any of the mobile wallet "Pays" that Apple, Android, Samsung and PayPal would like consumers to use when ordering pizza from Dominos online.

Amazon, like any other merchant or merchant services platform, will make decisions about payment methods on the basis of what adds value to their consumer experience and eliminates friction. Retailers too. If consumers aren't using the "Pays" to shop online today — which with the exception of PayPal they really aren't — not being able to use those Pays with their Amazon accounts or Alexa is something consumers won't even notice they're missing. Retailers won't care either.

There is one exception — and another player whose name starts with an "A."

If I were Alipay, I'd be investigating short-term rentals in Seattle and not leave until a deal to allow Alipay to become a payment option inside of Amazon was done. For Alipay, it's a key merchant win for the Chinese consumer who seeks

alternatives to Alibaba's online marketplaces to spend their growing piles of disposable income.

For Amazon, it's the fastest way to close in on a billion consumers — Amazon's existing 300 million, plus Alipay's 450 million, plus the hundreds of millions of others that Alipay is enabling (like India's Paytm) who like to shop and spend a lot online. It's also Amazon's back door into China via a powerful Chinese company that's struggled to succeed outside of China. And who, in the face of the MoneyGram uncertainty, might like to put a big score like this in the win column.

Access to those consumers, of course, is also a new incentive for merchants to play with Amazon — on Amazon, off Amazon and with Alexa. New consumers with money to spend is just what the retail doctor ordered too.

Making, at least for now, a bit of a gloomy picture for the Pay Players who, for Amazon, just represent a layer in between the cards on file that their consumers already have registered with them and a friction-free checkout.

THE AMAZON EFFECT ON PAYMENTS

Some have said that the real risk to payments is Amazon flipping all of its many cards on file to DDA-accounts on file. I doubt it. Why create friction for consumers, when they can, instead, create friction for the card networks and issuers to negotiate better deals?

Look no further perhaps than the new Visa-branded, Chase-issued Amazon Prime Card that runs over ChaseNet, as one example.

I got one when it was first introduced. It's a great-looking card, has amazing cash back benefits, and, given the economics of the Chase/Visa deal, I'm sure with very competitively priced terms that favor Amazon. Terms that are part and parcel of the ten-year deal that Chase and Visa signed — now 4 years ago. Terms that will likely serve as critical thresholds as negotiations between the networks, the Pay players and Amazon happen over the next three to five years. Deals that will likely include the same sort of "tariff" that Apple set when it launched Apple Pay. And perhaps a new business model that provides an incentive for me, in my example earlier, to pick Saks over Neiman's — funded by the issuer or the network. All setting the course for commerce for the decade to follow.

Unless, of course, a serious rival to Amazon emerges. At the moment, it's crickets in that department, despite a few players out there with the scale and assets and potential to change the field of play. If you're reading this and you're one of them, now might not be a bad time to let the world in on your plans. Otherwise, the only commerce playing field that might be left are the ones in the space that Bezos has decided not to pursue. Mars and the moon are already taken

MARCH 27, 2017

THE REALITY OF RETAIL DARWINISM

TWENTY-SEVEN YEARS AGO MARKED THE END OF A SHOPPING ERA IN BALTIMORE. THAT WAS THE YEAR — 1990 — THAT BRICK-AND-MORTAR RETAILER HUTZLER'S SHUT ITS DOORS FOREVER AFTER 132 YEARS IN THE RETAIL BUSINESS.

The Grand Dame of retail in that town, my hometown, wasn't just a store: Hutzler's was a shopping experience. When its customers walked through its doors, they were treated to unbelievably personalized service and a vast but curated selection of exclusive merchandise. When they walked out, they held tightly to the brand cache that came from carrying a shopping bag emblazoned with the Hutzler's name.

As a longtime customer exclaimed when the store closed its doors, "Hutzler's was like your mother; they took care of you." In 1990, everyone living in Baltimore, having grown up shopping at Hutzler's brick-and-mortar clothing stores for just about every significant event in their lives, grieved like they'd just lost someone special.

I reflected on this story as I was preparing to speak to a group of retail executives last week — since, like most middle-class kids growing up in Baltimore, shopping at Hutzler's was just what you did. It was where moms took their little girls to buy their Easter and Christmas finery and took their little boys to buy their Oxford shirts and navy blue blazers. Its shoe department selection and service rivaled any department store of its era.

I thought the Hutzler's department store was an appropriate metaphor to spark a conversation about the state of brick-and-mortar retail today — and what we might learn from the decline of those retail Grand Dames who exist no longer. It's a fitting case study to uncover important insights and reflect on the crisis that traditional retail and, the department store in particular, is facing.

And debate an ending that may also be both similar and inevitable — and perhaps even the right outcome — for the many traditional retail brands who now struggle to reinvent themselves and survive.

Retail's Golden Age

Hutzler's opened its doors for the first time in 1858 on the corner of Howard and Clay Streets in downtown Baltimore. One of the "Big Four" department stores that occupied the same block in downtown Baltimore — Stewart's, Hochschild Kohn's, The Hecht Company and Hutzler's — the department store then was a modern marvel of merchandise selection and presentation all under one roof. Retail sales were good. Women went shopping in dresses and hats, men in suits and ties. Shopping was an enjoyable, somewhat leisurely and very social, experience.

Hutzler's prided itself on being a retail innovator from the start.

Its stores had passenger elevators with elevator operators, gigantic display windows and a refund policy that gave customers back their cash if they returned items they no longer wanted — even if those items weren't bought from their store. They had a restaurant, the Tea Room, that served homemade Maryland classics, like Crab Imperial and Lady Baltimore Cake, that not only attracted shoppers but nearby businessmen for lunch.

Hutzler's was the first store to create a one-price policy in retail sales that eliminated the common practice of haggling with sales associates — and with it, the inequities over what its customers would pay for the same item.

They also curated merchandise that tapped into what consumers wanted to buy at that time. Hutzler's boasted, for example, that its fabric, button and lace department rivaled anything that existed outside of New York. What may seem quaint and anachronistic by today's standards, their approach responded to a pretty important consumer trend in the late 19th and early part of the 20th centuries: the rise in popularity of the sewing machine and the desire of middle-class women to wear different clothes every day. By 1900, nearly all middle-class women had sewing rooms in their homes, using them to make clothes for themselves and their children. Hutzler's wanted those women as their customers.

During the Great Depression, Hutzler's also responded to the economic hard times upon which many of its customers had fallen. Hutzler's Downstairs, described as a thrift store with Hutzler's standards, opened on the lower level of its downtown retail store in 1929. It carried a line of discounted merchandise, but not just any discounted merchandise — merchandise that came with the Hutzler's imprimatur for style and quality.

That customer intimacy was the foundation upon which Hutzler's built its business — and its financial strength — for its first 90 years. It invested time, money and effort into building and securing those relationships. Someone, for example, was assigned to read the newspaper daily for notices of customer (or family member) deaths, births and engagements — and then send personal handwritten notes, sometimes even accompanied by a small gift to those customers.

Hutzler's launched a free, same-day delivery service for its charge customers who wanted the convenience of "charging and sending" their bundles home. And for women who drove to its downtown retail location from the suburbs and parked in their parking garage, sales associates

voluntarily carried their bundles so that women didn't have to juggle both their shopping bags and their kids on the way to the car.

Hutzler's focus on the customer could also be seen in its retail merchandising strategy.

Buyers worked with brands to source and then sell exclusive labels and clothing lines. It also launched new, popular and first-to-market products in their stores, always in limited supplies to engender immediacy and scarcity and always with the idea to use those products to bring people into the stores to buy those items and other things while there. In the 1970s, Hutzler's began staging a series of festivals in their downtown store, featuring items from a variety of European ports of call to keep women coming into the store to explore — and buy — those one-of-a-kind products.

Hutzler's sales were legendary and widely coveted because they were held only twice a year. Its annual Centennial Sale featured markdowns of existing merchandise. But it was the annual Occasion Extraordinaire sale that created the desire for people to stand in line for hours before the store opened to get their pick of that sale litter.

OE, as it was known, required a rigorous curation of merchandise on the part of Hutzler's buyers, well in advance of the sale. Items made available for the sale had to be approved by management first and offered at a minimum of 20 percent off. Often these products were sourced from other parts of the world and specified only for this sale. One of the privileges of being a Hutzler's charge customer was access to this sale two days before it was open to the public.

Life was very good for the Hutzler's family and its eponymic department store.

Until, suddenly, it wasn't. At all.

THE CHINKS IN THE ARMOR

Hutzler's saw the same data that everyone else did in the 1950s and '60s and responded to the economic reality of its shoppers moving to the suburbs. It expanded its footprint accordingly, opening its first suburban location 80 years later in the affluent suburb of Towson, Maryland, in 1952. Between 1952 and 1981, Hutzler's opened nine other suburban locations.

It also kept investing in its downtown flagship store, given its significant contribution to the bottom line at the time. It was also an asset that the Hutzler's family valued immensely.

And it was also a decision that would ultimately set the stage for the death spiral that would deliver Hutzler's demise.

The late 1960s and 1970s was a time of great social and economic upheaval in Baltimore. Civil unrest drove those who once lived and shopped downtown to the suburbs. Over a 40-year period, from 1950 to 1990, Baltimore City's population decreased by nearly 214,000 people — with 119,000 residents leaving the city in the decade between 1970 and 1980. Another 51,000 left between 1980 and 1990. Those who used to shop downtown and frequent downtown clothing stores also stopped going.

At the same time, the Vietnam War created a wave of activism against "The Establishment." Young people turned their backs on, among other things, the retail clothing stores where their "establishment" parents shopped.

The two-year recession that started in 1973 saw the post-WWII economic boom come to a screeching halt. The rise of the two-income family during that period introduced time pressures that didn't exist before. Women entering the workforce had no time for leisurely shopping trips to Hutzler's downtown store or even any of its suburban retail locations.

At the same time, discount department stores came marching full-force into Baltimore's suburbs. Caldor, Two Guys, Korvettes, Epstein's, Luskin's — to name but a few — appealed to this cash-strapped, time-starved shopper under the rubric of more value for less money. Those stores were a short, easy drive away — with free parking in vast parking lots.

Hutzler's, not unlike its other "Big Four" compadres, began to see its sales suffer because of these shifts — and saw it happen most dramatically at its downtown flagship store, which once drove the bulk of its revenue. In 1968, the downtown store delivered $22 million in annual sales. Nine years later, in 1977, those sales had been gutted by 50 percent.

But despite the lack of customers and the lack of sales there, Hutzler's doubled down on investing in its downtown location. While three of its Big Four competitors cut back and ultimately closed their downtown operations in the late 1970s and early 1980s, Hutzler's invested millions in the renovation of its flagship store — one they affectionally called the "mothership." That renovation was completed in 1985 in the hopes of bringing its suburban customers back downtown as part of the city's bigger plans for urban renewal and redevelopment.

Five years earlier, in 1980, Hutzler's opened a new store near the city's brand new, tony Inner Harbor in an effort to appeal to a female business customer shopping on her lunch break. A smaller format store, it featured luggage and work-appropriate clothing lines for men and women.

Neither delivered the impact that the Hutzler's team had expected.

The limited selection of merchandise combined with competition from the newer boutique shops in the Inner Harbor area meant the store failed to grab the attention of that female shopper on her lunchbreak. And the Palace Store was stocked with merchandise at price points that might have appealed to a suburban shopper thirty years before, but was well out of the reach of the urban dweller with far less money to spend.

THE BEGINNING OF THE END

Keeping the downtown store afloat in the midst of the macro social and economic issues that retailers were facing in the late 1960s through the 1980s drained the profits made in Hutzler's other suburban stores. That meant less cash all around with which to buy the more exclusive merchandise that the loyal Hutzler's shopper was accustomed to buying.

Hutzler's had no choice but to change its merchandise mix to reflect both its cash-strapped reality and, it thought, the shopper's demand for more reasonably priced goods. But that only confused its loyal customer base, who no longer knew what Hutzler's stood for, while failing to attract new customers who had already established other store preferences.

With retail sales suffering, Hutzler's was forced to close stores and sell off real estate assets, notably the land upon which the parking garage adjacent to its Towson store was located. The Towson store was the last Hutzler's store to close in January of 1990.

Ironically, perhaps, that location is home to a mega Barnes & Noble that will close in May of this year. None of the other stores referenced in this piece exist anymore — none of the discounters that challenged Hutzler's and none of the department store rivals who tried to, either.

The one exception in this retail sector is the Hecht Company, one of the Big Four that was acquired by The May Company in 1959. The May Company, with its scale, was in a better position than the other family-owned and operated businesses to put substantial capital into the Hecht Company franchise in Baltimore, even propping up its downtown location as a lower-priced competitor to Hutzler's over the years. The May Company merged with Federated Department Stores in 2005, and, in 2006, the last remaining Hecht Company stores in Baltimore were converted to Macy's.

And we all know Macy's ongoing retail struggles.

LESSONS TO BE LEARNED

There is a lot we can learn about retail today from the Hutzler's story — and why traditional retail stands where it does right now.

The shift from urban shopping to the suburbs is not unlike the shift from physical to digital.

Hutzler's made a critical mistake when trying to navigate that shift: It assumed that people would always prefer shopping downtown. Even until the end, the retailer was convinced that they could always lure shoppers back to the place that they loved, but found too late that different customers with different preferences didn't value the same things. Undaunted, Hutzler's continued to invest in that physical asset — even at the expense of its other locations — until it was forced to sell off all of its assets to pay the bills.

The shift in consumer preferences brought about by the changing economic and social mores is no different than the shift being driven today by the changing preferences of all consumers who

value a different retail shopping experience — and define loyalty very differently.

Millennials don't want to shop at the stores that their parents shop any more than we wanted to at their age, unless it's e-commerce giant Amazon — where they even buy their clothes. Their litmus test isn't what name brand is on the masthead, but whether a store can offer them value for the money and the products they — and not their parents — want to buy. Hutzler's banked on the fact that their brand alone was enough to keep customers coming — and once they came, they'd find what they wanted. In the end, it wasn't even nearly enough.

The allure of the discounter at the expense of Hutzler's sales is no different than the allure of the discount today.

Retailers, and particularly e-commerce retailers, have trained the customer that there will always be a sale. So, like good students, consumers wait until they get a promo code that's better than the last promo code they were offered two days before. The days of anticipating a sale and the execution of strategies that advocate the exclusivity and scarcity of merchandise at full price as a lure for shoppers is long gone.

The allure of the experience of shopping at Hutzler's is no different than the experience that everyone seeks today when they shop.

Serendipity was the experience that Hutzler's created for shoppers when times were good — the anticipation of not knowing what that shopper might find until she walked through the door and started to navigate the store. More than its other Big Four department store companions, Hutzler's built its reputation on outstanding merchandising and curation and the joy of finding something special. It was what made shopping fun and the experience consistently enjoyable. When its financial condition kept it from delivering that experience, consumers no longer had a reason to visit. Today's traditional retailers don't offer their shoppers that serendipity either. Supply chains and business models force financial constraints that, in turn, don't offer consumers the merchandise variety and frequency and uniqueness, which should give them incentive to shop their stores.

RETAIL DARWINISM

The problems are real, and the solutions are tough.

As a result, some retailers live in denial, clinging to the "92 percent of sales still happening in physical retail" fantasy, while at the same time watching e-commerce sales rise and shopping foot traffic plummet dramatically over the last seven years.

Some want to blame e-commerce leader Amazon for commoditizing retail rather than face the reality that when consumers aren't offered a choice in physical locations, it's just easy to buy from Amazon or another online retailer. And that brands, knowing this, adapt their own retailing strategies accordingly, reserving their best and most complete selection for the channels where they get traffic — via their own physical or virtual stores — or marketplaces where there is a steady and reliable stream of eyeballs.

Some just fiddle while Rome burns, implementing new technologies in an effort to make paying for stuff easier in their stores, when their real problem is getting consumers interested enough to buy from them in the first place.

But none of them, at least not publicly, will admit that maybe the best thing to do is to milk the asset for what it's worth while the getting is good, and acknowledge that, like Hutzler's, nothing lasts forever. Sell off valuable assets, like Sears has done with Craftsman, or real estate, like Macy's is doing.

And recognize that they can't reinvent themselves … so perhaps they should stop trying.

After all, businesses, like people, die. Only 13 companies on the Fortune 500 list are more than 150 years old: banks, insurance companies, consumer products companies and one retailer — Macy's. And nine out of every 10 companies on the Fortune 500 list in 1955 — when it was first launched — have disappeared.

That's not all bad. It illustrates the vitality of business and the power of innovation. It shows what happens when we make room for strong, bold ideas that scale and usher in new paradigms. It demonstrates the ability of those strong companies to respond to the shifts in the markets that they grew up with — instead of the struggle that comes when growing into those markets from a totally different starting point.

Especially when that reinvention happens too late in the process to change the outcome.

In his book about the history of Hutzler's, Michael Lisicky recounts a story of family heir, David Hutzler, who received a package delivered to his office by a mailman shortly before the Towson store closed. The mailman was said to have remarked to Hutzler, after he had expressed his profound sadness to him over the course that the family business had taken, "but you did pretty good for 135 years."

Maybe that's not such a bad perspective to have.

WHY **MOBILE ORDER AHEAD** ISN'T ABOUT **PAYMENTS**

Allow me to tell you a little story about mobile order ahead in the QSR space.

Two aspiring entrepreneurs, between gigs, began kicking around a few new ideas for a business. Food was a segment they thought was a natural to explore, for the obvious reasons — people have to eat. But more than that, there were secular changes afoot, influencing the consumer's relationship with food and where and how they were buying and eating it.

And, with change, came an opportunity to reinvent and disrupt, they thought.

The pair also observed how the lines between cooking/eating at home and ordering food out/eating food somewhere else were blurring, at key times of the day — morning, midday and dinner time. They also observed how quality, price and convenience were a priority for consumers, but recognized that delivering that three-legged stool would be challenging, especially during those peak periods.

Now, by their own admission, these two weren't experts in the restaurant space, having dabbled a bit in it but never working in it for extended periods of time. But that didn't stop their wheels from turning.

They decided that the trick to innovating in the space and delivering what consumers wanted could be accomplished by being efficient — first by limiting the menu to a few desirable, but high-quality, items and then organizing food sourcing and prep around those items. Keeping the food quality high and prices low could be accomplished from those efficiencies — producing higher-than-industry-average operating margins and, they hoped, higher-than-average customer satisfaction too.

But their secret sauce, if you will, was to leverage a popular new consumer device that consumers had fallen in love with and that could take their restaurant efficiency and service idea to another level. They felt that they could use that device to expedite the ordering process — finally putting in place the third leg of their three-legged stool: service delivered efficiently, outstanding food quality delivered at a great price and an innovative consumer touchpoint that initiated the order.

That three-legged stool became the foundation for their business, one that revolutionized the quick service restaurant segment when it was introduced. Consumers were treated to consistently great food at affordable prices that they could order in advance and pick up at a restaurant later — minutes later, in fact.

Ushering in mobile order ahead in the QSR space for the first time.

In 1948.

WHERE MOBILE ORDER AHEAD GOT ITS ROOTS

Well, to be precise, that was the year that automobile order ahead was born.

The year was 1948, and the establishment, as some of you might have now guessed: the famous In-N-Out drive-thru. Its founders, Harry and Esther Snyder, were babes in the fast food woods at the time, but they wanted something meaningful to do with the rest of their lives after WWII ended. The biggest contribution that the restaurant industry made to them at that point in their lives was bringing the two of them together — Harry met Esther at the restaurant she was managing after her stint in the Navy ended.

The notion of "fast food" then was not new — A&W opened the first such establishment in 1919, but White Castle (Anyone out there remember those?) was actually the first place to use a standardized food production process and menu to create an efficient food preparation process that made it possible to prepare and serve food at low prices, without wait staff. Theirs' was a place where, for the first time, customers could walk in and see their food being made and walk out with a bag of burgers in hand.

But it was the consumer's love affair with the automobile that drove the Snyder's, and others before them, to think differently about how consumers might want to order, be served and then decide where to eat their food.

Cars, of course, are the access device I am referring to — an innovation that drove version one of fast food ordering: the drive-in and the carhop. Carhops were more than just a marketing hook and novelty — they were an integral part of a restaurant operation designed to keep restaurant costs low and operational efficiencies high. Sending carhops to and from customers' cars to get orders and deliver food was the best way to serve more customers, with fewer staff and smaller restaurant footprints. No waitresses and no indoor seating, but lots of carhops and a standard menu of burgers, fries and shakes would deliver higher customer satisfaction and restaurant margins. Not to mention incredibly fit carhops.

But the Snyder's wanted to take this notion further and put their chips on the American consumer's growing love affair with the automobile and how they were using it in their daily lives.

After the war ended, and thanks to advances in car manufacturing, cars were no longer a luxury owned by the fortunate few. By the end of the 1940s, car ownership was ticking up — and by the end of the 1950s, nearly 40 percent of all American households owned one. And drove them around — a lot.

That gave the Snyder's their big idea and ushered in version two of fast food ordering: Instead of a drive-in where people drove their cars into a parking lot and a carhop took their order, they wanted to have customers place their own orders — in advance — and allow them to pick that order up a few minutes later without ever having to get out of the car and go inside a restaurant. They thought that combination would deliver consumer convenience and operational efficiency, provided the order was linked to a menu that was limited

which the food prep stations inside were teed up to deliver.

So, with an investment in a two-way intercom system, In-N-Out was the first establishment that let customers pull up, look at a menu, place their order, drive a few feet further to a window to pay for it and then drive away with food in hand — ready to eat wherever consumers wanted to eat it, including home at the kitchen table. This system would serve lots of consumers anytime, especially at busy periods, more than could be served in a more traditional sit-down or walk-up-and-order establishment.

The basic problem that the Snyder's wanted to solve nearly 70 years ago is what's fueling the innovation now taking place in the QSR/fast food space today: reducing the friction in how consumers order and get their food, especially during the peak breakfast, lunch and dinner hours.

And why the first places these establishments are investing to deploy that innovation today — and have now for a few years — isn't how customers are paying for their food.

It's how they're ordering it.

The very same problem that the Snyder's observed and solved for in 1948.

MOBILE ORDER AHEAD AND EFFICIENCY — 2017 STYLE

Spending on eating out has grown steadily since 2000. At the start of the 2000s, only 39 percent of food spend happened outside of the home. By the end of 2016, that number had grown to almost 44 percent and is likely to continue to rise.

Total spending on fast food is growing too. Of the total money spent on food outside of the home, fast food accounts for roughly $228 billion of it, a 5.3 percent gain over 2015.

Like the 1940s and 1950s, when the notion of fast food was just coming into vogue, convenience and price remain the key drivers for why consumers desire and eat it. Everyone from two-income families to millennials to single parents to retirees crave the convenience of popping in (or driving thru) a McDonald's, Taco Bell, Chick-fil-A — or name your favorite — and grabbing a good meal for a great price — often multiple times a week.

Analysts report that 7 percent of Americans eat at a QSR establishment daily; 50 percent visit a fast food restaurant, on average, twice a week; 70 percent do three times a week and 80 percent do at least once a month. A segment that was once the brunt of bad jokes about questionable food quality has upped its game by making its food healthier and adjusting its menu options to reflect the changing American consumer palate, while keeping prices affordable. The American Customer Satisfaction Index reports a satisfaction score in the QSR sector in 2016 of 79 (on a scale of 100), up 2.6 percent from the year prior.

The highly coveted millennial group is a key stakeholder that QSR's want to attract — and for a very good reason: They eat out at fast food and fast casual restaurants a lot. Studies report that millennials eat out three to four times a week and

spend 44 percent of their total food dollars at those establishments.

This is all coming at a time when the QSR industry is facing a lot of headwinds.

First, competition is coming from all directions. Local and regional ethnic food chains, food trucks and specialty food chains are popping up in big cities and small towns alike, catering in many cases to those who desire a healthier fast food option. Grocery stores have expanded to include prepared food sections that offer traditional lunch and dinner fare. So do the mega-Walgreen's — the one near our offices in Boston carries frozen yogurt and sushi, along with a whole selection of prepared sandwiches and salads. Amazon Go, when it opens, will reportedly have the same sort of lineup.

But regulation is imposing new guidelines that increase cost of operations. Labor costs are on the rise as healthcare costs and the mandated federal minimum wage increases drive up the cost of business. This comes at the same time that the pressure to produce a great product without raising prices materially is also increasing.

With labor costs at roughly 30 percent (and even more at some establishments) and food costs at as much as 30 percent, QSR operators are turning to technology and innovators to help them solve one of their biggest pain points: making it easier for their customers to place and pick up their orders.

A PICTURE IS WORTH ABOUT 20 PERCENT MORE IN AVERAGE TICKET SALES

Gas station and convenience store operator, Sheetz, was a pioneer back in 1997 when it introduced touchscreen ordering in all of its stores. By giving consumers a visual of what they could order, the Sheetz CEO said at the time, the sales of things that consumers ordered increased. Sheetz management also found that it was easier to introduce new menu items — and have them sell. When people could see a visual of something new on their touchscreen board, their sales results reflected a willingness of those customers to give it a try. And integration with their point of sale expedited payment and checkout.

Fast forward a couple of decades and the sea change advances in technology and access devices that now exist.

Online ordering via the desktop and the mobile phone has had the same effect. Eat24's CMO was reported as saying a few years ago that online orders deliver more bang for the restaurant operators' buck, because people are reminded that they can order more than what they might be able to remember or ordered last time. What might have been an order for a pizza and a coke in a store, he remarked, ends up being that same pizza with some appetizers and a six-pack of soda thrown in.

For both Sheetz and Eat24 restaurants, the key benefits were increased order size, new sales through new customers who might have been tempted to give them a try and the operational efficiencies that came along with the ability to

serve more customers and process more orders with fewer in-store staff.

But it's the combination of mobile devices, apps and integrated payments that now take the remote ordering concept to a whole new level — which delivers the execution of that three-legged stool the Snyder's built their business around in 1948 and puts it on steroids: service with exceptional efficiency, great food at good prices and an innovative consumer touchpoint at a time when fast food establishments need a whole lot of help improving their bottom lines.

Today, where mobile order ahead is deployed, it's upping customer spending, helping operators gain new customers and enabling the efficient delivery of food ordered this way by reducing the time spent filling those orders. Mobile order ahead and mobile pay opens up a whole new lane, if you will, that can process more consumers in an hour than can be done trying to hustle consumers through the ordering and checkout line in a physical store. This "Second Restaurant," as the Chipotle CFO once described to analysts, added $500 a day in extra sales to some stores, with multiples of that in others, just because of the efficiencies that fulfilling orders in a more streamlined fashion creates.

Mobile order ahead is also prompting a rethink of store footprints. How much space needs to be allocated to offline orders versus online orders and fulfillment, decisions that can free up operating spend and reallocate labor costs, — and even whether people are needed at all. Starbucks is testing a mobile-only concept store in Seattle that will shed light on how many, if any, people are needed to checkout customers. McDonald's, who's also testing mobile order ahead, is trying out a centralized order-taking center for its drive-thru orders, reducing the need for staff in local stores.

Some variations of the mobile order ahead and mobile pay concept that use subscription business models can expand the sheer capacity of orders produced in an hour by a factor of five, resulting in the ability to even offer food at lower than "list" prices, because of the ability to increase order throughput.

The more sophisticated mobile order ahead and mobile pay apps remind users to place an order and use predictive intelligence to suggest what a consumer might like to order. That same intelligence can be used to time shifts and drive specials and traffic when operators need it — during slow times of the day and days of the week. And those platforms can even open up new revenue opportunities so brands can promote their offers at precisely the time when the consumer is about to make a decision.

Of course, the ability to embed payment into this experience is what makes it so incredibly appealing and frictionless for the consumer and possible for the QSR operator to enable. Just like Uber solved for the friction — first, of getting a reliable car service, and then second, having to pay for the ride once completed — mobile order ahead and mobile pay is fulling that same one-two, friction-filled punch for consumers who want to use those establishments, and for fast food operators to offer.

I thought this story was important to tell for a few reasons.

First, what's old is really new again. Times may change, technologies may change, but the same fundamental problems seem to stand the test of time. That means when thinking about the problems that you're solving for your customers — whoever they are and in whatever segment they may operate — it often helps to think deeply about the fundamental frictions they are encountering and need to solve to keep their businesses vibrant. And then where integrating payments can take the value proposition up a few levels.

Second, solving for these higher order frictions is what drives massive shifts in traditional industry segments. In the restaurant space, innovations in the ordering process is changing the way that consumers now expect to interact with the places they now go for their breakfasts, lunches, and soon, every meal they eat away from home. Soon consumers will come to expect mobile order ahead and mobile pay to be a de-facto part of their QSR experience.

Restaurant operators, the smart ones, are all over this and are putting the pieces in place now to get on the right side of the shift. Chipotle's CFO remarked that while 66 percent of orders they fill are eaten away from their restaurants, only 7 percent today are made outside of their restaurants. They see nothing but upside by working hard to move more of their customer's business that way.

Like the Snyder's did in 1948 when they opened the consumer's eyes to a whole new way to order and consume their food, innovators today are giving the modern-day restaurant innovator the tools to create and deliver that three-legged stool of efficiency, food quality and innovative consumer touchpoint. Today, consumers are using the devices that they have adopted in droves and love to use: their mobile phones and tablets and the voice-activated assistants, such as Alexa, Allo, Siri and (soon) Bixby, and apps like Waze that will enable mobile order ahead at Dunkin' Donuts.

And proving even further that everything old is, indeed, new again, soon even via the device that may have started it all: the (now connected) car.

AN INCONVENIENT APPLE PAY TRUTH

The WSJ article last week, finally, told the story of Apple Pay's failure to meet the hype generated at its launch. Karen Webster writes that the story they told isn't news at all, but one that PYMNTS/InfoScout data on consumer adoption and usage has told for the last 2.5 years. But it does, she posits, raise a bunch of new questions at a critical point in time for Apple Pay. Like whether, this time around, Apple should pay the banks and the merchants.

Let me tell you a story about global warming and mobile pay — Apple Pay in particular — and what they have in common.

Let's start with Al Gore. Al Gore's interest in global warming started when he was an undergrad at Harvard University.

While there, he studied with a professor who was one of the first, in 1957, to measure carbon dioxide levels in the Earth's atmosphere. That body of work suggested that global warming was the likely future result of the oceans' inability to absorb excess levels of CO2 generated by the projected growing use of fossil fuels. Fossil fuels — such as coal, natural gas and oil — generate nearly 90 percent of all human-produced CO^2.

That topic, and Gore's interest in environmental issues more broadly, became the cornerstone of his career as a senator and his legislative agenda as President Clinton's VP — with mixed success. The data backing up his claims was challenged and politicized by growing concerns over job losses at home and possible trade wars with developing nations that were among fossil fuel's heaviest users.

Gore's 2006 movie, An Inconvenient Truth, was his attempt to take his story to a different audience — the lay consumer. In it, he shares the data used to support the same environmental concerns and likely "planetary emergency" that he had begun raising 17 years earlier.

"I've been trying to tell this story for a long time," Gore says at the beginning of the movie, "and I feel as if I've failed to get the message across."

It's a message he continues to share every opportunity he can — now with new data points to support his thesis. As our keynote speaker at our first Innovation Project 2013, Gore managed to traverse the connection between commerce and global warming. His exchange with Russell Simmons that year on the topic sort of brought down the house.

You had to be there.

In the ten years since Gore's crusade, consumers and innovators alike have taken his call to action to heart and have done everything from paying more attention to recycling, to pouring investment capital into renewable energy and electric cars.

The "inconvenient truth," though, wasn't so much the story Gore was telling — and had been for many years — but the broader conversations that it started and the realities that very powerful stakeholders were forced to address as they listened.

Which brings me to Apple Pay and The Wall Street Journal's article last week on its hype not living up to its hope, 2.5 years after its launch.

The WSJ's article is dated April 6, 2017, and cites Apple Pay's struggle to get adoption because of consumer concerns about security and sales clerks' confusion over how to instruct consumers to use it.

Better 30 months late than never, I suppose, and somewhat ironic to have this story told now by one of the outlets that helped to fuel its hype, even after it became increasingly clear that the bloom was falling off the Apple Pay rose – and not long after its start.

Just three weeks after we released our latest quarterly mobile payments adoption study results, it was made astonishingly clear that the already disappointing Apple Pay performance was being taken to a new level: Consumer adoption and usage moved from flatline to decline.

Coincidence? Or is it simply impossible not to tell the non-hyped Apple Pay story any longer?

You decide.

The Inconvenient Apple Pay Truth

Despite being the most adopted general purpose instore mobile wallet in the market, our research over the last 2.5 years suggests that Apple Pay isn't used much.

Consumer adoption — consumers with the right phones and the app in a store that accepted it and who tried it once peaked in March of 2016.

Consumer usage — consumers with the right phones and the Apple Pay app shopping in stores that accepted it and who used it more than once peaked in March of 2015. Nearly 49 percent of Apple Pay users (48.6 percent) told us in March of 2017 that the reason they don't use Apple Pay is because they're happy with their existing payments methods — up from 37 percent two years earlier.

And even though we've seen a slight uptick in security concerns (15 percent in March of 2015 to 20 percent in 2017), we've also seen steady declines in users telling us that their reasons for not using the app have little to do with knowing they can or how to do so in the store.

After watching what consumers do and reporting what they've said for the last 2.5 years, we can also safely conclude that Apple Pay's lack of usage isn't for the reasons the WSJ's story cited, either — it's not because consumers don't think it's safe to use Apple Pay or they are confused about whether they can. And, at least in the stores in which I've shopped, sales clerks seem well-versed and helpful.

What we see from our data is that consumers with phones that have the Apple Pay app and who shop in a store that accepts it know they can use it, know that it will work and 80 percent of them feel safe doing so.

They just think what they're using instead – the dowdy plastic card – is just fine – and have decided not to use Apple Pay.

They've simply chosen not to use Apple Pay.

For Apple Pay, that means that the storyline can no longer be "just give it time and consumers will come around." The inconvenient Apple Pay truth is that not enough consumers see the value in it, so 19 out of every 20 people who could use it don't even bother anymore.

No consumer interest means no merchant interest. No merchant interest means no partner interest to prioritize Apple Pay over something else — at a time when partners have plenty of other options.

All of this, of course, is coming at the most inconvenient time of all for Apple Pay — when contract renewals for the app are being re-upped. Apple is hoping the banks don't turn the negotiating tables on them and pull, well, an Apple.

An Inconvenient Truth: The Hype Machine Is FINALLY Slowing Down

Now the WSJ weren't the only ones to jump onboard the Apple Pay hype machine in its early days — as they aptly reported in their story, it was in overdrive from the very beginning.

This is why we decided to track, as accurately and consistently as we could, Apple Pay adoption and usage from its earliest introduction into the market. At its launch, Apple Pay was clearly the mobile payments shot heard 'round the world,' and we wanted to see how consumers would respond — especially those critically important early adopters with the potential to drive its critical mass.

Our quarterly studies, done since November of 2014 in collaboration with InfoScout, didn't simply ask consumers what they **might do**, but observed what consumers with the right phones shopping in the right stores **did** the moment a transaction was completed. Did they or didn't they use Apple Pay for that transaction, we wanted to know — and we asked enough consumers every quarter to make it credible: some 4,000 consumers every quarter and in March of 2017, just shy of 8,000 consumers. We reported results every time we did those studies — and we did those studies eight times. In between, we wrote a raft of commentary highlighting Apple Pay's growing headwinds.

It's why we could report, with confidence, two years ago, that the Apple Pay adoption was a very slow roll – that now seems to be moving backwards. And its device/technology-driven (not app/cloud driven) everywhere in the U.S. strategy created obstacles for consumers and merchants from the start.

Not enough people with handsets and devices and not enough of a concentration of places to use it created an ignition problem of massive proportions that even the biggest technology company in the world would have a hard time overcoming. Critical mass and scale are the lifeblood of payments innovation — Apple Pay set itself up to deliver neither.

But the root of Apple Pay's ignition problem wasn't only that. Its failure to solve a pressing consumer problem in a market where payment via a plastic

card works fine every single time that a consumer walks into any store and up to a countertop terminal to pay became its Achilles' heel.

Red flags that we talked about from the start. There's even a whole chapter in Matchmakers: The Economics of Multisided Platforms, published in May 2016, that takes you through a powerful lesson in platform ignition failure, using Apple Pay as the case study.

After the initial "gee whiz" of the early adopters wore off, Apple Pay began experiencing the adoption/usage decline that has accelerated since March of 2015.

And now, **everything's different**.

The Inconvenient Truth: Apple Pay's Share of Spend Is Low

The WSJ, in their story, featured quotes from Eddy Cue, the Apple SVP who looks after the services side of the business of which Apple Pay is a part. He was quoted as saying that Apple Pay "will eventually replace cash, debit and credit cards as the primary payment system."

What Cue didn't offer were numbers — number of users, share, of spend, transactions and, most importantly, dollar volume — which would help to support his claims. Aside from the vague "users and transactions increasing five and sixfold" that we've heard repeatedly in earnings calls, we've never seen anything specific publicly shared by Apple on Apple Pay.

We thought we'd update some of our back- of-the-envelope calculations about adoption and usage and share of spend – and here's where we come out based on our data set. We admit, these are crude, and would be a lot better if Apple released real data.

But here goes.

Number of Apple Pay Users

In the U.S., there are 207.1 million smartphone users, and 44.5 percent of those users — or 92.5 million — own iPhones. Of those, 74.1 percent own a handset capable of supporting Apple Pay (6 and higher). Our Apple Pay survey tells us that 21.9 percent of that subset of iPhone users have actually tried Apple Pay, so the number of iPhone users who have tried Apple Pay once is **15.0 million**.

In terms of regular users, again from our study, we know that 18.4 percent used it more than once. That puts the pool of regular Apple Pay users using Apple Pay in physical stores at **12.6 million**.

That's 12.6 million active users after 30 months in market.

Apple Pay Share of Spend

Here are a few assumptions that we've made:

- We know that stores Apple reports as accepting Apple Pay have $420 billion in annual sales. We come to that number by acknowledging that $392 billion is derived from the stores who are part of the Top 100 retailers — the rest is an assumption based on remaining spend at other smaller merchants.

- We assume that people using the Apple Pay app in those stores spend, on average, what other consumers spend.
- Using that $420 billion, we start doing the math:

1. 1 percent of people have iPhones, and 74.1 percent of those have iPhones that work with Apple Pay, which means that 32.7 percent of people have the right kind of iPhone with the right handsets. Multiply that by $420 billion in sales and that equals $137B of potential sales by Apple Pay users.

2. We know from our data that Apple Pay is used in 4.03 percent of all eligible transactions. That means that Apple Pay is driving $5.5 billion in transaction volume, exclusive of motor vehicles and gas stations. That's about .10 percent share of retail spend.

	Total Sales per Census	Apple Pay Share
Estimated Apple Pay Transaction Value		
- Retail and Food Services	**5,504**	**0.10%**
- Retail and Food (Exclude Motor Vehicle)	**4,374**	**0.13%**
- Retail and Food (Exclude Motor Vehicle & Gas)	**3,969**	**0.14%**

We can push the assumptions around here and there, but no matter how you cut the data, using any number of assumptions — and based on a data set that reflects 2.5 years of consistently surveyed consumers about their Apple Pay usage — Apple Pay's share of retail spend appears to be really small.

If it were bigger, more merchants would be doing more to accept Apple Pay, and more of them would be doing more to drive consumer usage. I've heard more than one large merchant tell me that given its low usage and low share of spend, they're either not as interested in making Apple Pay a priority and/or see no reason to promote its usage in favor of other methods that can drive incremental usage by adding more consumer and merchant value.

If Apple Pay's share of spend were larger, we'd know — because Apple would tell us. At the end of March, Apple released data on the success of Beats, and in December, Eddy Cue told the media that Apple Music was well past 20 million users.

There have only been crickets when it comes to Apple Pay and reporting data on Apple Pay usage — even as recently as last Thursday.

Apple Pay data may be the most closely guarded Apple secret since the invention of the iPhone.

An Inconvenient Truth: Time Is a Currency That Matters

Cue, in his interview with the WSJ, posed the question whether it "matters if [Apple Pay] gets there in two years, three years or five years? — Ultimately no," he was quoted as saying.

As all of you students of platform ignition know, time really does matter, especially in the dynamic payments space where time is perhaps one of the most critical currencies there is. The longer it takes to get traction, the more risk there is that someone or something else will — and at your expense.

Especially when you're nearly three years in and not much has happened to move the needle in any meaningful way.

And when you're trying to convince banks to stick with you and keep paying.

And make the case to the investor community that you're going to rock it with services revenue that's predicated on Apple Pay being a bit hit and taking 15 percent from issuers.

And when foot traffic in physical stores — where you've staked your claim — is cratering at the same time online payments have exploded, including the use of apps to pay for things that consumers would usually purchase in physical stores. While Apple Pay was working hard to sign up in-store merchants, cloud-based apps were busy signing up merchants in segments where feet were going inside physical stores and leveraging their cloud-based roots to get traction by offering consumers the chance to save time by ordering and paying for something in advance. And getting acceptance online.

And when other players have used those 30 months to build a consumer base that they can take to merchants desperate for shoppers and spend.

And when online acceptance marks are publicly disclosing the number of users that they have onboard, and cloud-based mobile wallets with a broader value proposition are too — and appear to be soundly eclipsing the Apple Pay user base.

And when consumers, including the early adopters who've given up using it with regularity, are now presented with other options in other channels where they've formed their own shopping habits over the last 30 months, and that Apple now must work very hard to bring onboard.

And when the ecosystem of payments sees that Apple, by virtue of its experience with Apple Pay, has lost some of its power to drive deals and hard bargains from the position of strength that it had this time three years ago.

Back in 2014, Apple could demand 15 basis points from banks that were hoping to get on the fast-moving Apple Pay payments innovation train. Right now, large banks have a pretty strong case for reversing the deal with Apple — and even ask Apple to pay them a few basis points for providing access to their cardholders.

The inconvenient Apple Pay truth is that if Apple is really playing the long game, they might have to be willing to pay for it. And, while they're at it, give merchants some incentive to push it.

Let the next three years of Apple Pay payments begin — without the hype this time.

Also, check out Mobile Wallet Adoption: Where Are We 2.5 Years In?

These statistics were originally presented on March 15th at Innovation Project 2017 by Karen Webster, CEO at PYMNTS.com.

APRIL 17, 2017

WHY **FACEBOOK'S PAYMENTS STRATEGY** ISN'T ABOUT PAYMENTS

If you want to know how and where a company will strategically spend its time, money and efforts, then look no further than how it makes its money. So, Karen Webster says, tomorrow when Facebook's F8 Developer Conference kicks off, don't be surprised if payments isn't the star of their show. Which, she says, makes Facebook and payments a massive opportunity for everyone in the payments ecosystem. Confused?

If you want to know how and where a company will strategically spend its time, money and efforts, then look no further than how it *makes* its money. So, tomorrow when Facebook's Developer Conference, dubbed F8, kicks off, don't be surprised if payments isn't the star of the show.

EXCEPT FOR WHEN…

For that, you'll have to read on. I've read that cliffhangers that build slowly are all the rage now.

Named after Facebook's infamous dusk-to-dawn, eight-hour Hackathons, F8 is an annual confab intended to give developers a look at new tools that will help them reach and engage the 1.9 billion and 1.2 billion unique people who now visit Facebook every month and every day, respectively.

Over those two days, it seems a near certainty that those developers will hear more about the things that Mark Zuckerberg laid out in his F8 keynote last year: how to make video more plentiful and engaging, how to use AI to make user experiences more meaningful and personalized, how to use AR/VR to create new user experiences and what Facebook is doing to give the 4 billion people in the world who don't have internet access today the chance to get it inexpensively.

All things intended to support Facebook's core mission of "giving people the power to share and remain open and connected."

Those people also include advertisers — and giving that group of people the ability to share their messages supports another core Facebook mission: generating a return for their shareholders.

Those are the people who generate Facebook's revenue. So that will make the star(s) of the show tomorrow those things that Facebook can do to tie those people ever closer to its ecosystem — without alienating the users who spend nearly an hour every day scrolling through their news feed and whose eyeballs they monetize.

From Social Network to Advertising Network

Facebook may still be described by its users as a social network, but it's far from that — 13 years after it was launched and five years since it went public. Facebook is a gigantic advertising platform, the second largest in the world behind Google. Facebook's total 2016 revenue, at $27.6 billion, was almost entirely the result of selling ads to brands that wanted to get their message in front of its massive and highly engaged user base. (By way of comparison, Google's ad revenue was $79 billion in 2016.)

Payments accounted for a relatively paltry $753 million in revenue by comparison, down from the $849 million the year before. The decline of 11 percent year over year didn't exactly blow much

of a hole in Facebook's bottom line or dampen investor interest.

What would — and has in years past — is falling short on Facebook's ability to feed the ad beast. When Facebook announced that it was dangerously close to running out of ad inventory on its platform last fall, its share price dropped sharply. That's because the market rightfully pegs Facebook's biggest adversary as Google and its competitive playing field as advertising.

Not payments.

That didn't stop everyone — and maybe even Facebook at one point — from thinking that Facebook wanted to be a payments platform. Once upon a time and back when "FarmVille" and"CityVille" were the rage, payments drove an interesting revenue stream for Facebook. Millions of people buying chickens and cherry trees for their FarmVille farms, in turn, sparked a payments ambition — remember Facebook credits? But once gaming moved to apps, Facebook lost those eyeballs and that revenue stream and, appropriately, any interest in creating a new form of currency for the Facebook platform.

Its vision of turning Facebook into a giant shopping mall where people would shop and pay on the Facebook platform never materialized either. Remember Payvment and the social commerce movement? The notion that brands could launch Facebook storefronts and turn hundreds of millions of Facebook fans into buyers flopped, too. Consumers didn't want to shop on their social network, and those storefront operators — even those with tens of thousands of fans — found that unless they bought ads that directed people to those storefronts, Facebook's news feed algorithms made conversions abysmal and the ROI unappealing. Even selling gift cards on Facebook fizzled.

But if one needed any further proof that "getting into" and monetizing payments inside of Facebook was an experiment that has long outlived its strategic purpose, one need to look no further than Facebook COO Sheryl Sandberg's response to an analyst question about buy buttons during February's Q4 2016 earnings call.

"The core of our focus is still very much focused on ads and how we can do ads at the product level," was her answer.

A strategy that means that Facebook has moved away from thinking of itself as the place where commerce happens and payment is monetized **inside** of its ecosystem — but as an ecosystem that builds contextual and targeted ad-driven experiences that engage its users and direct them off Facebook to the brand's website to buy.

Because advertising — and not payments — is how Facebook makes it money. And their own website is where brands want their users to conduct business.

Facebook and Its Massive Ad Engine

It makes perfect sense.

Platforms — the ones that scale and survive — figure out ways to build and monetize their platform assets. Facebook's assets are its users,

the data they share about themselves and the time that they spend soaking up content in their news feeds.

Facebook, therefore, knows a lot about its users — and that knowledge is highly monetizable as their ~$20 ARPU suggests. Facebook keeps track of every post their users like, every group they belong to, every update they make to their favorites, every change in their status, every comment they make and about what or who, places they tag and people with whom they are tagged.

Facebook enriches that data set — which is already pretty valuable — with information from data aggregators. Data on users' income, marital status, loans, mortgages, credit cards, how much their house is worth, where they were born, where they went to school, how many kids they have and their ages, what kind of car they drive, where they work and the town in which they live (and much more) is mashed up with information Facebook gets from sites that its users visit that have the Facebook sharing button and what those users are looking at and clicking on. Facebook can then offer advertisers more than 1,300 attributes to reach a very relevant set of eyeballs.

In the Belly of the Facebook Ad Beast

Over the past several years, Facebook has innovated on how those brands can grab their targeted user's attention. Dynamic ads on Facebook allow brands to present a carousel of their products from their product catalogue inside a user's news feed. Facebook's newly launched travel CityGuides give users information on what's happening in cities like Boston and allow them to book hotel rooms and make other travel arrangements. Facebook reports that for brands using these dynamic formats, recall increases 20 percent and awareness by as much 11 percent.

Facebook's Canvas product turns product ads into app-like experiences and gives advertisers new ways to showcase them. Western Union reported a 13 percent increase in brand recall and affinity and a 7 percent increase in purchase intent when such a campaign targets Hispanic consumers.

Shopping on Instagram offers brands a way to engage with users and show them new and/or curated products. Launched last fall as a trial, last month, that trial was expanded from its 20 pilot set of brands to many more brands. Kate Spade said that their customers loved the ability to seamlessly move from information to inspiration to purchase; one pilot retailer reported a 33 percent lift in conversions.

And in every case — via dynamic ads or Canvas or Shopping on Facebook — those conversions and sales lifts were measured by users who clicked through those ad experiences and off Facebook to the brand's own websites to complete the purchase.

What's Next

The opportunity for brands to engage with Facebook will expand as soon as Facebook expands the reach of its ad exchange — the Facebook Audience Network, or FAN — beyond Facebook and innovates the formats in which

brands can promote their products and services on its platform.

Last month, Facebook announced its partnership with Amazon to take FAN off Facebook by leveraging Amazon's header-bidding system to expand its inventory off Facebook. That partnership will help Facebook compete more effectively in the display ad business and give its brands the chance to be featured in those ads. It's also a pretty big shot across Google's bow, who's now the de facto king of the header bidding business.

Video is another area of growth for Facebook — and another direct hit to Google's YouTube. Facebook has said that it will focus its efforts, at least right now, on the 90-second spots that include advertising after 20 seconds has been watched. Those ads will also allow consumers to punch out to brand websites to make a buy. Video ads were cited as a success story in Facebook's Q4 earnings call, as driving double-digit increases in brand recall and brand awareness for the launch of Hershey's Cookie Layer Crunch and Nielsen data reported and a 3.5 percent lift in sales for Motorola when used in support of a new product launch.

Now, here's where the crescendo starts to build.

More than 90 percent of Facebook's users access it via mobile devices that direct those users to a mobile website. And we all know what happens when users end up on merchant sites via their mobile devices to make a purchase.

Checkout fail, a large number of times.

And that failure to convert a click to a sale is one of the reasons why Facebook ad rates are so low.

Payments and payments innovators can help.

What should be clear is that Facebook's interest isn't to payment-enable Facebook and commerce inside of its ecosystems, because payments isn't how Facebook makes its money.

But it could make more of it if it found a way to streamline the checkout process once users clicked off a product page and onto the website of the brand.

And that's where payments and the payments ecosystem can help – and the opportunity for the payments ecosystems as gigantic as the advertising opportunity that Facebook is enabling on its platform. Optimizing the payments experience for the brands that Facebook users interact with will help Facebook create even more value for the brands that turn to them to generate their leads. It will also increase the value of the Facebook advertising platform by more closely correlating clicks to sales — and giving Facebook the ammo it needs to increase the rates that it charges advertisers.

And from what our Checkout Conversion Index reflects, there's a lot of work to be done by the brands to make their checkout process smoother.

Facebook has proven that it can lead the horse to water. Now it's up to the payments ecosystem to get it to drink.

But What about Chatbots and Group Payments?

Yes, Facebook made news a few weeks ago when it launched group payments, and a year ago when it launched chatbots and payment-enabled them inside of Messenger.

Here's my take on both.

Messenger has enabled P2P payments since July 2015 and that wasn't about payments either. P2P payments are free to users and so are group payments — not exactly a monetization opportunity. But what is: creating a network inside of Messenger that would make Messenger more valuable to advertisers. Messenger is now starting to test ads inside of Messenger.

Chatbots, well, I think you know where I stand on those.

Yes, there are tens of thousands of them, and yes, some 30,000 of them are also payment-enabled. And no, not a whole lot of payments activity is happening inside of them, because, even by David Marcus' admission, they are overhyped and they underdeliver.

I'll spare you my "Poncho the Weather Cat" story.

Chatbots though, TechCrunch reported, will also make their debut at F8 (mostly, they say) as a way to keep groups informed of such mission-critical information like whether Dustin Pedoria's hit was a home run recently. Chatbots, in my book, still have a long, long way to go — and like with anything else, are up against some stiff competition with a running head start — and where time and consumer patience in putting up with the not-so-intelligent chatbots inside of Messenger could quickly turn the tide against them.

I'm thinking here about voice-activated ecosystems and Amazon's Alexa — but that's another column for another Monday.

But, hey, even Facebook needs its moonshots — it bought Oculus Rift, didn't it?

APRIL 24, 2017

ANT FINANCIAL'S GREAT MOBILE PAYMENTS RACE

The most memorable thing that came out of the 1959 movie, *A Hole in the Head*, was its 1960 Oscar-winning song, "High Hopes," sung by Frank Sinatra. If the song title doesn't ring a bell — after all, it was 1960 — perhaps its lyrics might:

> *"Just what makes that little old ant,*
> *Think he'll move that rubber tree plant.*
> *Anyone knows an ant can't*
> *Move that rubber tree plant.*
> *But he's got high hopes,*
> *He's got high hopes,*
> *High apple-pie-in-the-sky hopes."*

The song was intended as a metaphor for the many conflicts facing the film's protagonist (played by Frank Sinatra) and his determination at the end of the movie to overcome them.

These days, it seems an appropriate theme song for Ant Financial, as it works its way around the world, piecing together the assets that could turn it into the largest mobile financial services network in the world.

WHY THAT NOT SO LITTLE ANT THINKS IT CAN MOVE MOBILE PAYMENTS

Before there was Ant Financial, there was Alipay and the Small and Micro Financial Services Company.

Alipay launched in 2004 as an escrow-based online payment method for Chinese consumers in need of a way to safely pay on Alibaba's eCommerce sites. It's become the cornerstone of a massive online financial services ecosystem.

With Alipay, as the service evolved, users could shop on and offline, send money to other people and pay bills. But with more Alipay users came more opportunities to extend the scope of its payments services.

Today, Alipay users can open a money market fund, get a line of credit, build a credit profile via its credit scoring service, purchase and manage their investments, bank via its digital bank, buy insurance and even participate in online equity crowdfunding. Nearly 70 percent of all online buying in China happens via Alipay and in a growing number of offline merchants via QR codes.

That portfolio of services was branded the Small and Micro Financial Services Company and spun out of Alibaba in 2011. Three years later, that spin-off was rebranded Ant Financial.

"The word 'ant' embodies the strength of 'small' when all working towards a common goal, and the hope that Ant Financial will bring a new future through small and beautiful changes to

everybody," said Lucy Peng, then CEO of Ant Financial in 2014 when the announcement of the rebranding was made.

The "everybody" that Peng was referring to then was the Chinese consumer whose shopping and buying was largely happening inside China.

Today, "everybody" includes the 120 million Chinese consumers who travel outside China to shop, often for luxury goods. Last year, those Chinese consumers spent $215 billion on things purchased on shopping excursions outside of their home country, including 40 percent of the world's luxury goods.

And, increasingly, the "everybody" also includes people living in just about every other developing market, who, like the Chinese consumer in 2004, may not have ready access to financial services products and who want to transact digitally — and now have mobile phones that can help them do it.

As for small, Ant Financial today is anything but.

At its last capital raise in 2016, Ant's market cap was pegged at $60 billion; a Hong Kong investment bank recently put it closer to $75 billion. By comparison, the market cap of American Express is $75 billion; Discover is $26 billion; Mastercard is $121 billion; PayPal is $53 billion and Visa is $221 billion.

But it's Peng's words — "the strength of small when all working towards a common goal" — which foreshadowed the Ant Financial strategy we now see unfolding on a global scale.

THE ALIBABA/ANT FINANCIAL PLAYBOOK

Take a bunch of developing markets with relatively undeveloped online payment and financial services options;

Add to that a critical mass of citizens in those markets with mobile phones, an appetite for transacting online and an interest in conveniently conducting a variety of financial services transactions online;

Then, invest in or acquire outright the leading mobile payments and commerce players in those markets and

Fold in the ability of the Chinese consumer to shop anywhere in the world using the payments credentials she is most familiar with — Ant's.

That's the Ant Financial global mobile payments playbook.

In 2015, Alibaba and Ant invested $680 million in Paytm, India's mobile payments scheme, giving it a 40 percent share at the time. Last month, they poured another $177 million into it, upping its ownership stake to more than 50 percent. Just last week, Softbank — Alibaba's largest shareholder — was reported to be pondering a $1 billion investment in Paytm, which sources say could allow it to hive off its separately branded Paytm eCommerce marketplace. It's also been suggested that having a Softbank investment that large in Paytm could assuage regulator concerns over China's possible lock on the Indian market — Paytm currently has 200 million users in India. In December, a company vice president said that Paytm was doing more transactions — 7 million

a day — than all of the combined debit and credit transactions in India.

The story in India gets even more interesting as there's some speculation that some of that Softbank investment could be used to fund Paytm's acquisition of Snapdeal, the online marketplace in India that is also said to be exploring a sale to Flipkart. Alibaba, Softbank and Foxconn made a $500 million investment in Snapdeal in 2015.

In 2016, Ant invested an undisclosed amount into Thailand's Ascend Money, the digital payments method used to make purchases on its parent company's eCommerce marketplace serving Thailand, Vietnam, Cambodia, the Philippines and Myanmar.

In February of 2017, Ant Financial invested an undisclosed sum into Mynt, giving it a "substantial minority interest" in Gcash, a leading mobile payments player in the Philippines with 3 million users. Like Alipay, Gcash provides an array of services to its users — payments, P2P payments, bill pay, online shopping. Mynt, its owner, also offers loans to people and merchants.

Also in February of this year, Ant invested $200 million in South Korea's Kakao Pay — a mobile payments player that's installed on 95 percent of phones there and reports 48 million users. This investment comes as Kakao Pay looks to expand its payments services to a broader portfolio of financial services and to offline merchants.

In early April, Ant bought helloPay, the largest mobile payments network in Southeast Asia, and immediately rebranded all of its mobile payments properties: AliPay Singapore, Alipay Malaysia, Alipay Indonesia, and Alipay Philippines. HelloPay was the dominant payment method inside of the Lazada marketplace, Southeast Asia's largest eCommerce platform, serving eight million consumers in a region that is home to 600 million consumers.

Lazada made its own news last week when it announced a partnership with Netflix and Uber to compete with Amazon's entry into the South Asia market, by bundling streaming services and Uber VIP services into their eCommerce platform offering. Alibaba invested $1 billion in Lazada in 2016 to shore up the logistics and operational efficiencies it needed to compete more effectively in the region.

In August of 2016, Alipay and Ant inked a partnership deal with Ingenico to enable offline payments for merchants serving the 10 million Chinese tourists who visit Europe. Ingenico says it's made it easy for merchants to enable Alipay at the point of sale by embedding Alipay into its payments gateway.

In October of 2016, Verifone and Alipay announced a similar deal, expanding the ability for Alipay to be easily integrated into payment terminals in all of the 150 countries that Verifone serves, including the U.S.

Separately, Alipay has been knocking down merchant deals that align with the Chinese consumer's shopping habits: acceptance at airport duty-free shops, which are heavily trafficked by Chinese shoppers, and a variety of travel and booking sites.

This is all wrapped around Alipay's ePass announcement in 2015, which made it less cumbersome for any online merchant to add Alipay to its list of payments options.

And, if Ant secures MoneyGram, it will have access to MoneyGram's consumer base, digital assets, 350,000 global physical agent network, base and two billion bank accounts that they currently have access to in order to send and deposit remittances. That acquisition, while approved by the MoneyGram Board, still must clear CFIUS and DOJ reviews.

What seems clear, however, is that Ant is organizing an interoperable global mobile financial services network targeted at those living in economies not well served by the existing banking system. Those would be the same 2.5 billion people that the card networks are organizing their assets and infrastructure to serve too. Lucy Peng said as much in a visit to Silicon Valley in December, suggesting that Africa and Latin America are next on their list.

If past is prologue, that will likely mean a partnership or an acquisition with an existing player in the region that can bring them consumers — a baseline — from which to build.

NOW WHAT AND WHAT'S NEXT?

When Alipay was a payment method inside Alibaba serving the Chinese consumer shopping on Alibaba, the competition for the Chinese consumer was taking place on a different level — inside China for local merchant acceptance. The global card networks could participate in Alipay only if they could get cards into the hands of Chinese consumers. But until recently, they were flat-out denied participation in China.

Banks had to issue cards on the state-owned China Union Pay network. Some Chinese consumers had Mastercard and Visa cards they could use outside China, but not inside. As a result of a WTO ruling, the market was technically opened two years ago, but the global card networks still don't have approval to operate. Once they get that, the road is long to get banks to issue the cards and consumers to have and use them.

That means that the global card networks aren't likely to get much of a slice of transactions in China, including as cards in Alipay wallets, anytime soon.

Which makes the competitive playing field now all of the developing countries where the global networks have little penetration — and everyone is trying to figure out how to ignite mobile payment systems.

Like in India, and like with Paytm.

WHO'S REALLY GONNA MOVE THOSE RUBBER TREE PLANTS?

Ant's multi-billion dollar investments outside China could help it leapfrog the global card networks by creating an interoperable mobile financial services network that enables consumers to pay merchants — and merchants to be paid — without globally branded plastic cards and POS devices.

And to provide all of the services that Ant Financial offers its Chinese consumers today — credit, banking, and investing — to those players inside those countries, while leveraging the massive base of 450 million users it has amassed inside the protected walls of China.

But that doesn't make success, for Ant, a slam dunk.

First, there's been many a Chinese company with the same global ambitions but pretty much zero success outside their domestic market — see Xiaomi, Tencent and Baidu as Exhibits A, B and C — as well as Alibaba's investment in ShopRunner and eCommerce marketplace 11 Main, which closed a year after it opened.

The largest and most successful Chinese companies are state-owned and controlled by the government — which makes the government their largest shareholder. With that kind of control comes unfettered access to capital and a funding engine that both fuels their growth and keeps competition at bay inside China. But what is Advantage China inside China doesn't necessarily translate outside its borders.

Interbrand's research reports that consumers living outside China remain skeptical of "Brand China," given its reputation for cheaply produced and sometimes dangerous products of lower quality, as well as a general lack of strategic understanding of what consumers outside China need and want.

Avoiding those mistakes seems top of mind for the Ant Financial team.

The Alibaba IPO gave them cash to invest outside China, and their balance sheet gives them assets to borrow against to get more. Ant's IPO this year will only add more money to the pot.

To avoid the "made in China" syndrome, Ant's decided to acquire native brands in the countries they're targeting, whose brand reputations and customer footprints they can leverage — and burnish.

Before Ant invested in Paytm, it had considered setting up their own shop — a decision they later squashed. It's also one of the reasons the MoneyGram acquisition is so appealing. MoneyGram would give them a global asset with a globally recognized brand that can be leveraged for other purposes. If the deal goes through, I doubt they'll rebrand MoneyGram — or at least not for a while.

But Ant's success — and its ability to operate at scale on a global basis — will also hinge on one other very important thing: the economic viability of the developing economies that they are entering and how long it will take those countries to generate any meaningful transaction volume.

Which makes the place to watch the future of Ant Financial as a global mobile payments and financial service challenger unfold is India: a market where we're all watching the emergence of a mobile payments and financial services economy in real time, thanks to the Prime Minister's demonetization efforts last November.

THE PLACE TO BE — AND BE SEEN: INDIA

Paytm and Ant Financial are betting big on the Indian market. But so are the card networks who've invested in and launched an interoperable QR code solution — BharatQR — that will streamline offline merchant acceptance and person-to-person money transfer for RuPay, Mastercard, Visa and American Express payments credentials.

Once a consumer downloads the mobile banking app, a payment can be made by scanning a QR code at the merchant. The money is transferred from the consumer's bank account to the merchant account without the need for a card swiping terminal — or a plastic card. There are 14 banks now set to enable BharatQR and a steady stream of banks to follow in the next several months.

At the same time, Paytm is plowing millions into its own QR code-based system, one that is incompatible with BharatQR. Paytm says that its QR code platform will soon reach 1 million merchants and is putting feet on the street to sign them up — some 10,000 of them, it's been reported. Paytm's strategy seems to be a ground game to get merchants on board who may feel less compelled to adopt BharatQR if their customers already have and use a Paytm account — and vice versa.

Clearly, the stakes are high for the global networks — whose lives would be a whole lot easier in the absence of Paytm's deep Ant Financial/Alibaba pockets.

They're also pretty high for the one that's betting the farm on becoming one.

Ant's new CEO, Eric Jing, said in November of 2016 that Ant is building an open ecosystem to provide financial services to over two billion users in 10 years.

As we watch the situation in India take shape, it will be fascinating to see how partnerships are formed — and with whom. Does "open" include the card networks whose account credentials could reasonably be stored in an Alipay/Paytm wallet? Or PayPal? And what about Amazon, who's said to be investing close to a billion dollars a year to become the dominant marketplace in India? Then there's Facebook and Messenger and the various commerce opportunities that both are pursuing.

In addition to watching a greenfield mobile payments system develop and scale, looks like we'll all have a bird's-eye seat to view how the competitive playing field there — and globally — develops too.

FACEBOOK'S MYSPACE PROBLEM

Could fake news and horrific videos in the Facebook news feed create Facebook's MySpace moment? It's the question that Karen Webster ponders this week, saying it's not as far-fetched as it may sound. It's also a case study that Facebook CEO Mark Zuckerberg knows all too well, since he was there to pick up the pieces when MySpace cratered in 2009. See what you think.

Social media giant Facebook has a problem — and it's a lot bigger than whether it can "adapt to the world it created" in the face of the fake news that's run rampant on its platform and the series of deranged individuals who now use Facebook Live to broadcast hideous acts of violence.

It's whether it can avoid having those issues jeopardize its viability as a platform that advertisers want to pay Facebook to be a part of.

All it would take is enough advertisers deciding they don't want to risk having their brand associated with bad stuff — or enough consumers that advertisers value deciding they don't want to come anymore — to send Facebook slowly, but surely, into the downward spiral that has sent many platforms into oblivion.

It's not as far-fetched as it sounds, even for a behemoth as large and as powerful as Facebook. Brands have lots of other platforms at their disposal to help sell their wares and convert eyeballs with an intent to buy into paying customers.

Like Google and Amazon — the two platforms Facebook is competing head-to-head against for share of eyeballs and, therefore, share of those brand's wallets.

Perception That Becomes Reality

The fragility of platforms — and, in particular, those that started life as social networks — is a story that MySpace knows all too well. It's also a story that Facebook's founder, Mark Zuckerberg, knows pretty well, too, since he was both a witness and a benefactor of MySpace's virtual demise.

Founded in 2003, MySpace was the most popular social network of all time, from 2005 to 2008 – and the highest trafficked site on the web – even higher than Google was in 2006. MySpace kick-started Zynga and Farmville, while carving out a niche as a place for users to discover music and new artists while they were making new friends. Even Kim Kardashian had a MySpace profile (kimsaprincess) — and still does.

The beginning of the end for social media pioneer MySpace can be traced back to 2006 when Connecticut State AG, Richard Blumenthal, began an investigation into the degree to which minors were exposed to pornography on Myspace, and reports of sexual predators using it to solicit innocent teenagers for sex began to emerge. That started the avalanche of investigations — and over the ensuing two years, more than 40 State's Attorneys Generals launched similar investigations. In 2008, MySpace agreed to clamp down on the elimination of sexual predators from its network and in 2009 said it shut down 90,000 such profiles on its site.

But it was too little, too late.

By then, MySpace had developed a reputation as the site where perverts hung out. Parents were warned to keep their kids off it. Advertisers began to pull back. Management's attention was consumed by the crisis and battling the regulatory and legal issues that arose. The apparent inability of MySpace to filter out such unseemly people and content was said to only reinforce its public perception as the skanky place on the web that was unsafe to visit.

And, since MySpace attracted a lot of seedy people, it also attracted seedy advertisers who wanted to reach those people. That became too much for brands that had invested millions in cultivating a more wholesome image.

Hold that thought for later.

In December of 2008, comScore reported that Myspace had nearly 76 million monthly uniques and put $800 million of ad revenue to the bottom line. One year later, in 2009, ad revenue dropped to $470 million, as users fled that platform at the rate of a million a month. Two and a half years later, in 2011, monthly uniques had plummeted by more than half to 34.8 million, and ad revenue was south of $184 million — driven in large part by what founder Chris DeWolfe described as "gross-out ads," showing people with bad teeth and egregious belly fat that drove clicks and revenue at a time when the platform needed it the most.

Those ads, and the overall platform reputation, also drove away the more valuable targets that advertisers had hoped to reach. The demographic of the MySpace user had devolved to males with annual incomes of less than $25,000.

The CEO of one of the country's largest advertisers at the time summed it up well: "Advertisers, in general, have some difficulty with content and environments that they perceive to be edgy, especially when the audiences that they value are available in environments that are less edgy."

Like Facebook.

Mark Zuckerberg was happy at the time to swoop in and move up as MySpace slid down. Facebook burnished its reputation as the "safe place" to hang out with real friends that users had to confirm to become part of their network. Facebook overtook MySpace as the most popular global social network in April of 2008, as measured by unique visitors, and in May 2009 in the U.S.

And much of its advertising and gaming revenue along with it.

Faking It Until You Can't Make It

Pew published a study in June of 2016 about where U.S. consumers get their news. And it made news when it did.

Of the more than 3,000 consumers surveyed, 42 percent said they get some of their news from Facebook; 18 percent reported Facebook as their **only** source of news.

Given the concentration of eyeballs on the Facebook news feed and the trust upon which the social network was built, 75 percent of those reading fake news on Facebook thought it real. Headlines like those reporting that then-President Obama had signed an executive order banning the Pledge of Allegiance from schools and Pope

Francis endorsing Donald Trump for President were shared millions of times. And they were left on the platform for long stretches of time before being taken down, only to be replaced with more of the same.

Fake news flourishes because it pays well.

Fake news publishers say they can collect a cool $10,000 a month. They also say it's pretty easy to do, including spoofing public-facing domain names so that they look like legitimate news organizations, such as CNN.com or ABCNEWS.com. Said one publisher focused on pushing the limits of fake news as far as he could, ads he created using his real URL that sounded like something "his ten-year-old" wrote were approved in 13 minutes, at which point he promptly went back into edit mode to change the public-facing URL to CNN.com. He also said that he'd never attempt anything close to that with Google AdWords, who'd "laugh you right out of your account."

Once fake news ads are posted and fake URLs in place, Facebook's platform does all the heavy lifting to push that content viral, as it gets liked and shared and reposted across millions and millions of news feeds.

More recently, fake news has been tragically one-upped by the use of Facebook Live as a medium for sick people to broadcast heinous and despicable acts of violence to the world. When Facebook Live was introduced in 2016, Zuckerberg touted it as a way to give people the ability to "be themselves," using "a great medium for sharing raw and visceral content."

It certainly doesn't get more raw and visceral than beheadings, suicides, gang rapes and gang violence and the murders of grandfathers sitting in their cars and babies by their fathers. The world doesn't want or need to see any of those people being themselves.

Not surprisingly, Facebook's been criticized heavily for leaving fake news to find its way throughout its network of billions of users without interceding in a timely fashion, and for leaving horrific videos on the site for hours before taking them down. Facebook currently relies heavily on user complaints, which it then says it investigates with 24 hours, to make a call for whether content should be removed.

But when 75 percent of the people who see fake news posts believe them, it obviously takes a very long time for someone to flag such a dispute and for the post to be removed. In the case of the videos, it was reported that the murder of the Thai baby by its father was shared 371,000 times and took more than a day to take down.

All of this comes at a time when advertisers have been told by Facebook that their metrics for the last two years have been overstated and the deletion of fake user accounts by Facebook has caused many brands to see their (once obviously inflated) number of fans diminish dramatically.

And where questions have arisen over the incongruity of Facebook's ability to suppress nudity, ads for guns and a number of other things that it deems inappropriate for its platform — and does very well — but not the fake news that even its publishers say is easy to flag or the "visceral" content that no one should be forced to see.

Where Trust Matters

As I wrote before, Facebook is no more a social network today than Macy's is a thriving department store, even though each held those labels at one point in their histories. Facebook is a massive advertising platform that became massive because it created a trusted network of friends who brought their trusted social networks with them into the network.

Today, everything Facebook does and every decision it makes is about how many eyeballs it can drive to advertiser content so that they can monetize those eyeballs. It's why I wrote that Facebook could give a lick about being a payments network — and why it cares a lot more about being a channel that drives eyeballs who click through to a brand's website where that consumer can then buy. Facebook pockets gobs more money that way then it could ever do processing the payments that happen once a consumer decides to buy from that click.

It's what also makes Facebook incredibly vulnerable now.

MySpace lost its ground to Facebook when its users and influencers lost faith and confidence in its platform as a safe and trusted place to be and turned elsewhere.

Facebook was that safe place.

The question facing Facebook now is whether it's a platform that users can continue to trust to deliver good content and advertisers feel supports their brand image. Is Facebook at risk of having an ad overload in the news feed — including the onslaught of fake news that continues to perpetuate there — and the general unease over whether a video of a mass shooting is one scroll away of keeping its most valuable users from checking Facebook less often than they used to? Or are concerns over the volume of fake and/or unsavory and/or violent content at risk of having advertisers more actively consider alternatives?

The answers to these questions seems to be no so far, but all of this is relatively new still to Facebook. Its management team is still sorting out how it will respond. We'll hear more when they report earnings this week. Perhaps that is one of the things that Mark Zuckerberg asked the good people of Ohio when he joined them for dinner at their home over the weekend.

What's Next?

This is all coming at the same time that a few other things are swirling in advertising and commerce platform-land.

There's a growing cacophony of news now over the addictive nature of technology and how our general obsession with it is damaging to our well-being. There are endless calls from authors and academics and even technologists to "detox" by minimizing the time spent trolling the web, playing games, liking posts and clicking on mindless videos. Adam Alter's new book, *Irresistible*, dedicates 340 pages to the topic. And while I think everyone agrees that unplugging completely is unrealistic and not even something people want to do, weaning oneself from channels that no longer provide valuable information or feel safe to visit is not much to ask or hard to do.

People don't really need to check the latest Dodo video of the baby elephant climbing out of the river sandwiched in between fake news about the Queen of England dying, but they do need to buy things, they do like to comparison shop and find it very valuable to locate stores that have the things in stock that they want to buy.

Enter Google and Amazon.

Google last week crushed earnings, reporting that its 20 percent increase in advertising revenue was driven by mobile search. Consumers are turning to it as they are on-the-go to find places to eat and shop, compare prices and locate the products they want to buy. That's good news for Google, who is working hard to remain relevant in a world in which people more than ever — nearly 60 percent of the time — start their search for what they want to buy on Amazon.

Speaking of Amazon, they had a pretty good day at the earnings parade too, reporting a 23 percent increase in its core eCommerce business, with some sources independently reporting that it now has 80 million Prime members, at the same time Alexa is becoming the most popular belle at the Virtual Assistant Ball.

Brands, as they contemplate how to reach buyers with a mobile device and an intent to buy, have some very powerful players to which they can turn to scratch that itch.

It took MySpace less than three years to go from being the top dog to runt of the litter. Rupert Murdoch bought Myspace in 2005 for $580 million; in 2011, it was sold to a consortia that included Justin Timberlake for $35 million.

A perceived loss of trust in Facebook as that "safe place" on the web for users and advertisers is the most serious issue that it has confronted in its 13 years of existence. It's also one that the regulators are watching carefully too. Facebook is clearly a much different platform than MySpace, with orders of magnitude bigger and stronger and many more assets — such as Messenger, WhatsApp and Instagram — that are all growing users and advertisers. And has clearly done a tremendous job of screening out the kind of content that contributed to MySpace's demise.

But fake news and live violence, including murders, is unsavory, particularly when Facebook has put so much emphasis on its news feed as the trusted repository of content from its trusted social network.

MySpace is a cautionary tale of what happens when users lose their trust, and the advertisers who want to reach them follow them, taking their checkbooks with them.

And of how much less time it takes to slide down the mountain than it takes to climb, step-by-step, to the top of it.

AMAZON'S RETAIL SWISS ARMY KNIFE

At the ripe old age of 120, the Swiss Army knife holds a unique place in retail.

The same family who founded it in 1897 still owns and run it today — all descendants of its founder, Karl Elsener.

Many of whom are also named Karl.

Karl's (the first) innovation put a spring on the handle of a folding single-blade knife that was the standard Swiss Army issue in the mid-1880s. That innovation made it possible for more tools to be added because they could be accessed from both sides of the handle without adding more bulk to the knife itself.

So, in 1891, Swiss Army soldiers were given a knife that contained a knife blade, can opener, corkscrew, screwdriver and scraper that all folded neatly into a small wooden handle.

Yep, a corkscrew — allegedly to make the knife more appealing to Army officers.

Karl's vision of giving that folding knife more functionality by making the design more soldier-friendly drove the company to innovate further. Today tool attachments make it possible to have more than 300 different knife combinations and for a diverse group of customers, including moms and jetsetters. There are knife combinations that include everything from tweezers and toothpicks to saws and screwdrivers to laser pointers and LED lights and even encrypted flash drives with a fingerprint reader. The Swiss Army knife's manufacturing process is said to be so meticulous that only one in 10,000 knives is ever returned.

Its design is so unique that it's on display at the Metropolitan Museum of Art.

And it's so indispensable that, according to owners, it's something that's always with them.

Testimonials from Swiss Army knife owners detail a myriad of daily use cases (the all-important task of removing poppy seeds from one's teeth after eating lunch, for example.) Others vow that "Someday I'm sure my Swiss Army knife will save my life, [so] I always have it with me, even when sleeping."

Some recount situations in which the knife has saved lives — like the time that a 73-year-old owner of one freed a passenger from a burning car by using it to cut her seatbelt, just in case. Swiss Army knives are standard issue today by NASA to every astronaut.

And what better testimonial could there be than when TV good guy, MacGyver, famously said, "Give

me duct tape, string and a Swiss Army knife, and I can fix anything."

Which brings me to the news that broke late Friday afternoon (May 5) when photos of a new Amazon Echo device with a touchscreen were leaked.

Reach Out And Touch ... Amazon And Alexa

Now, the idea of an Amazon Echo with a touchscreen is not exactly new — it was reported in November 2016 that mega e-retailer Amazon was working on such a device — whose code name is said to be the Amazon Knight. At the time, it was attributed to Amazon's growing interest in using a touchscreen to enable Amazon Alexa-powered VOIP phone calls.

The reports that have flooded the tech cyber airwaves since Friday have more or less focused on that as its intended killer app — along with the ability to stream video from Amazon Prime in the kitchen while making dinner or, as one news account suggested, asking Amazon's Alexa to show the kids what a real kid looks like.

All interesting, but not top of my list as Amazon Knight's killer app.

What's at the top of the list? Shopping, I believe. And, if and when it rolls out, the Amazon Knight app will underscore Amazon's longstanding conviction that the reinvention of retail is about redefining what it means to be an omnichannel retailer

Personally, I'd like to think that the Amazon Knight was inspired by my oft-repeated fantasy use case for Alexa over the past couple of years: "Alexa, I'd like to buy that black dress on page 485 of this month's issue of Vogue."

Alexa then tells me what retailer has it in my size, confirms that I want to buy it, charges it to my card on file with Amazon and has it shipped to my home to arrive the next day.

In the case of Amazon Alexa + Amazon Echo with Touch Screen, Alexa could take that even further.

Alexa could send me a picture of said dress to confirm that it's the one I really want. With Echo Look, Alexa could offer advice about whether it will look good on me based on the video profile I have stored with her. Then, I could buy it or ask her for another recommendation for something that might look even better.

Just like any good sales associate would — or should — do in a physical store.

Disintermediating traditional retailers — and forcing brands to decide how to become part of Amazon's ecosystem or risk losing sales.

Over time, Alexa might also be able to help with this sort of request: "Alexa, I remember searching for a pair of white linen wide-leg pants a few days ago. Can you find them for me?"

At which point she does so, pops the picture onto the screen, and then allows me to place the order. All while delegating the tedious and time-consuming task of surfing the web while I'm multitasking — making dinner, getting ready

for work in the morning or writing my Monday column.

Disintermediating traditional search — since Alexa becomes the consumer's proxy for how search happens on and off Amazon.

In these use cases, Amazon plus Alexa plus Echo plus Echo Look plus Knight could deliver the best of what physical retail has to offer — plus the endless product selection that online has to offer — and at the total discretion of the consumer. The store and the brands come to her via a medium she likes and uses and from a brand that she trusts and increasingly uses to buy the things that she used to trek to a store to buy — 24/7/365.

Take a look at this chart from Statista:

It presents the results of a survey of 762 consumers done over five days in March 2017. More than half (56 percent) visit Amazon at least weekly, with 17 percent saying that they visit Amazon daily.

That's astonishing, particularly since this was a random week in March and not around a holiday where shopping and gift buying could skew the results.

Now take a look at this chart, which shows the change in retail employment over the January 2014 to April 2017 period:

It paints a sobering picture for retailers.

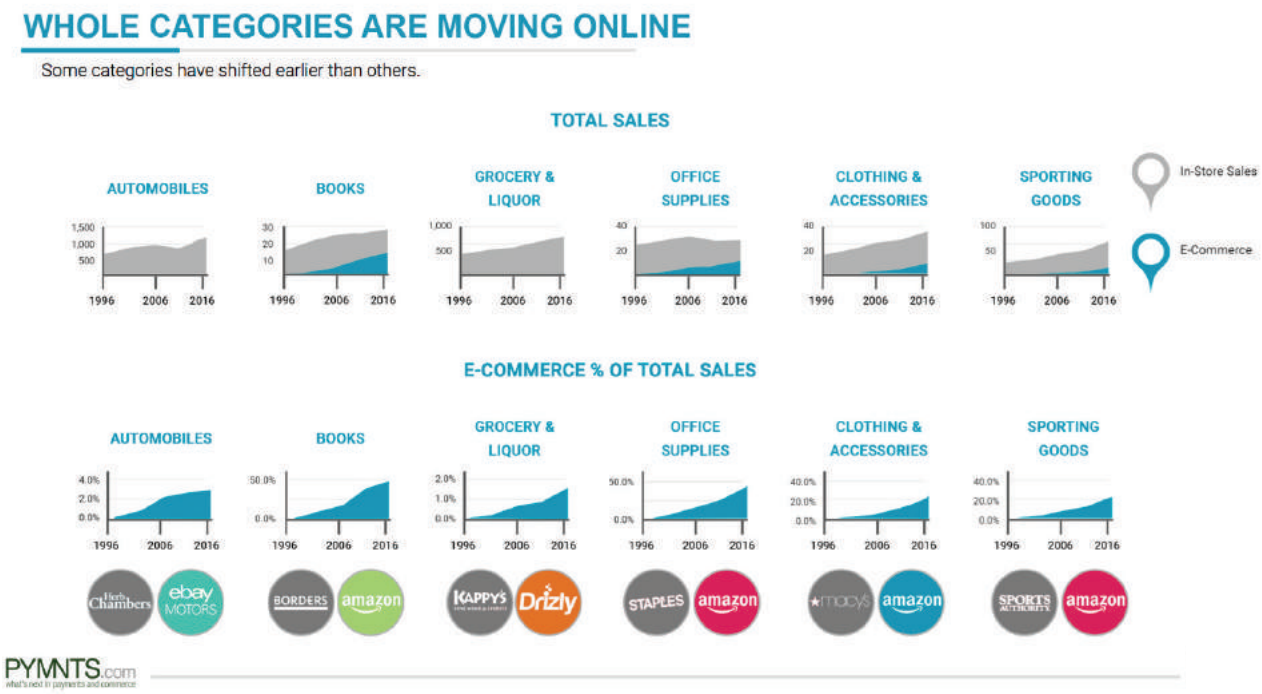
Despite the robust job numbers reported last week by the U.S. Department of Labor, retail employment remains in a deep funk, accounting for only 2.8 percent of all jobs added. Department store employment has stayed flat, a stat that is somewhat misleading given the loss of nearly 60,000 jobs in the sector earlier this year and ongoing losses over the last several years, as this chart illustrates. Consumers aren't walking

into physical retailers like they used to and buying stuff from them, so retailers don't need a lot of people to staff stores they don't operate any longer or to service consumers who've stopped shopping with them.

It's also reflected in the steep and steady decline in physical retail sales, despite physical retail's best efforts to bolster online sales.

In its last quarterly earnings call this past February, Macy's told investors to expect a year of declining sales, after reporting a more than 2 percent drop in sales year over year. It was the company's sixth consecutive quarter of declining sales. We'll see what happens on Thursday when it reports Q1 2017 earnings.

Now take a look at this chart, from work that the PYMNTS.com Data Analytics group did documenting the shift in sales online in important retail categories:



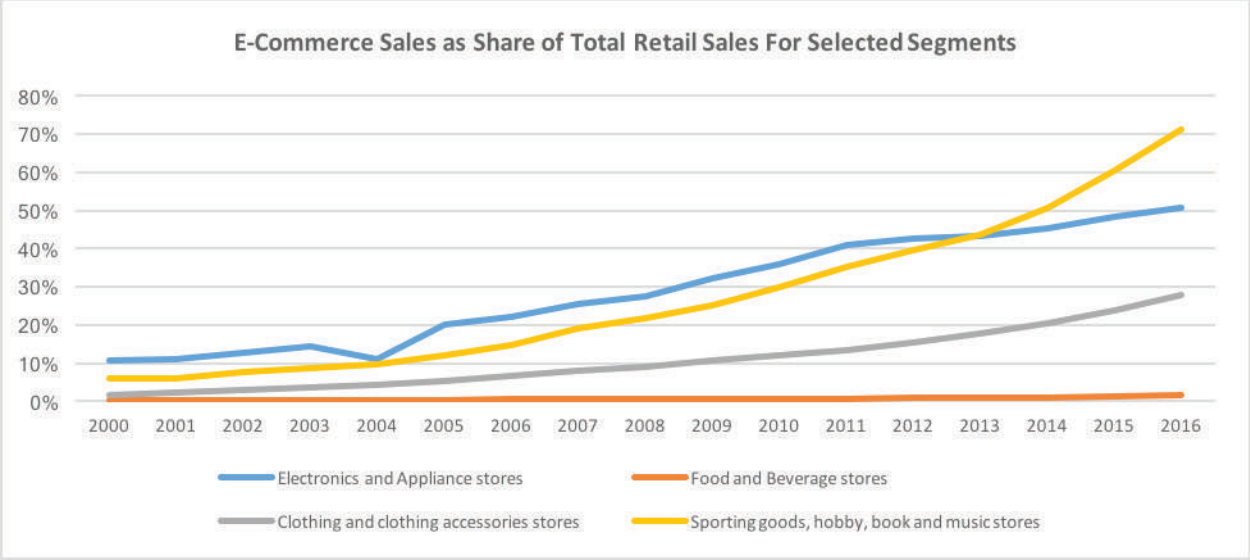
If you're a traditional retailer, this won't make your day.

Whole categories of retail are shifting online — and at an accelerating clip.

Online book sales are nearly 50 percent of all book sales. Office supplies are the same story. Sporting goods are approaching 30 percent, as is apparel.

Most of this shift started to hockey-stick in about 2012 — even using census data on retail sales that we know understates by as much as a third for the past 10 years the impact of online to physical retail.

Yes, starting five years ago:



Five years later, it's like watching a set of retail dominos fall, category by category, as Amazon captures more and more consumer spend by making it easier for consumers to start — and end — their search for what to buy with them.

It also explains why a player with less than 4 percent of all retail sales in the U.S. (we estimate 3.7 percent excluding auto and factoring in the gross merchandise value of Amazon's marketplace sales) has made such an impact on retail overall when, since as everyone in physical retail still likes to say, 90-plus percent of retail still happens in a physical store.

Amazon's 3+ Percent Retail Tipping Point

Book sales were retail's bellwether.

Amazon picked books to start since it was a product that everyone buys. Over time, it's shifted the purchase of books online by making them

easy to buy and offering a vast selection, including their own "private-label" books published by their own publishing operation.

It blew a big hole in physical booksellers' sales, shrinking bookstore's retail footprint dramatically when it had less than 20 percent of that market a decade or so ago.

Today, at more than 40 percent of all book sales and nearly two times that of online book sales, no one in their right mind would even think about opening a book store, unless for the sheer love of books — and then, only as a hobby. And as an independently wealthy hobbyist, at that. With the opening of its Amazon bookstores, Amazon will compete vigorously with Barnes & Noble, the last retail bookstore chain standing, and probably independent bookstores, too.

Amazon's retail Swiss Army knife has been taking shape for the last two decades.

Today, it's an enormous marketplace that gives consumers lots of choices about what to buy. Products from third-party sellers are roughly 50 percent of all units sold and increasingly include name brands and designers such as Stuart Weitzman, Michael Kors, Tory Burch and even Gucci. Amazon's growing stable of private-label products from consumables to apparel expands that product set even further — and at better margins for Amazon.

Amazon's invested in logistics, including deals with post offices around the world, to get those products to consumers quickly and in many markets the same day.

Amazon's one-click payment eliminates the friction from buying online and has expanded to include a growing number of third-party sites and its own physical locations.

Its co-branded card products deliver rich rewards for shopping on Amazon — 5 percent cash back on the Visa Chase product, for example.

Amazon's removed consumer uncertainty over buying from it by offering the lowest prices — and proving it — by giving consumers visibility into the discount from the list price, along with product reviews and recommendations.

It's put some purchases on auto-pilot by prompting recurring orders on items that lend themselves to being refilled in a specific period of time.

It's done all of that by competing in categories where Amazon can most easily leverage the commoditization of retail merchandising and in categories and products that most people buy: sporting goods and clothing and apparel.

I did a search for the Nike Air Relentless 6 Running Shoe while writing this piece and found quite a few places that carried them — all very nicely presented in the Google shopping carousel. But right below that display was an ad for Amazon, showing multiple colors and price points. It wasn't a hard choice for me to click that link and, in less than two minutes, put a pair in my cart, buy them in one click and have a Tuesday delivery confirmed.

With addition of its latest set of tools — Amazon Alexa, Amazon Echo, Amazon Echo Look and Amazon Knight — Amazon has the capacity to deliver the one thing that consumers say they still value from the physical retail experience: personal service and recommendations from a trusted sales associate.

Who happens to be named Alexa.

The Consumer's Indispensable Amazon Retail Swiss Army Knife

Physical retailers have it tough today. Their business model and big investments in real estate make it hard for them to adjust to the new set of online retail expectations that consumers now have and the competition that Amazon has created as a once digital upstart.

It's also not clear that physical retail can adjust in a timeframe that's relevant to its own survival or that it should even try to do anything more than milk the asset at this point. The risk it faces is one even greater than Amazon's stealing share — it's being shut off by the brands that it once counted on for sales and foot traffic in stores.

Those brands just aren't there anymore — or if they are, they're offered in very limited supply, giving consumers one less reason to visit and brands even more of one to follow those consumers where they now shop.

Amazon.

But it's not only the future of physical retail that's up for grabs.

Amazon's retail Swiss Army knife includes tools that give FedEx and UPS a big headache as Amazon builds out its delivery expertise. Digital wallets are getting one now, too, since they realize that penetrating the Amazon payments fortress is largely impossible. Brands will develop one over time as Amazon hones its manufacturing capabilities and becomes a private-label competitor. Tech giants like Google and Facebook are no doubt getting migraines as the competition over ad dollars will only intensify as Amazon uses tools like Alexa, Echo and Knight to concentrate even more search via its now growing and very contextual commerce platform.

Amazon also has two other big and very powerful tools that are part of its retail Swiss Army knife.

One is the consumer who likes and uses Amazon.

When consumers want to buy something, our research shows that more than half the time, they start with Amazon. Every eCommerce platform that's tried to compete with Amazon head on has failed to get any traction — from eBay to ShopRunner, which made its deliberate shot across Amazon's bow with free shipping across all participating merchants. Walmart and eCommerce site Jet.com are making a run for it, but it remains to be seen whether Marc Lore, with Walmart behind him now, can pull it off. Jet.com wasn't exactly crushing it as a standalone entity and has a long way to go to match Amazon in terms of site utility and product depth and breadth.

The other is investors.

It's been the topic of longstanding debate why investors were happy to look the other way when a 20-year-old company failed to produce operating profits — and consistently operated tens of billions of dollars in the red.

This is why.

Investors bought into the notion that it was OK for Amazon not to make profits but instead to make big investments in redefining retail for a digital world. Amazon makes profits today from its cloud operation and from retail verticals where there's a lack of viable competition off Amazon, like books, and it can drive a growing majority of consumer spend.

It only took 10 years for Amazon to totally change how books are bought and sold. The question for traditional retail is whether it's at the halfway point and, if it is, what it's going to do over the next five years to change an otherwise inevitable outcome.

And if it isn't, and if Walmart can't pull it off, who — if anyone — will capture a significant share of retail as the move from offline to online storms on?

SNAP AND INNOVATION THAT GOES OLD SCHOOL

We've all heard the phrase "don't reinvent the wheel" — a metaphor for not wasting time perfecting a perfectly good idea that's stood the test of time, and for which improvements would add no material value. Wheels, to take the metaphor in its most literal sense, haven't been reinvented over the last thousands of years — they're still round — but they have been refined and improved continually.

But that hasn't stopped innovators from trying.

Remember back in 2013 when someone did, literally, try to reinvent the wheel and make them square? They never got traction — ha ha — proving the metaphor has merit, especially when taken literally.

So I'm here to suggest that the best strategy for payments and commerce innovators may be not to reinvent the wheel — so not to fundamentally change something so much that it is a totally new invention — but to take a look at something much more fundamental and use modern tools and technologies to make it better.

Refine, not reinvent.

And I'd like to use the company founded by Miranda Kerr's new husband, Evan Spiegel, to make my point.

Snap has been beaten about the head and shoulders ever since it reported its first quarterly earnings a little less than 30 days ago. Following the news that its revenues failed to meet Wall Street's expectations ($149.6 million versus $159 million), that user growth has slowed (8 million new users representing 36 percent growth versus 52 percent growth) and that it would post a $2.2 billion loss (in part, due to a $750 million payout to Ms. Kerr's husband), the stock dropped 20 percent.

The company that crushed its first day of trading on March 2, 2017, by closing at a 44 percent premium over its opening share price, has recovered from its post-earnings plunge. While still off its post-IPO high, Snap's market cap today is $25 billion.

Not bad for a company that's younger than my border collie , Annie (she'll be seven next week), and just started selling advertising in 2014.

So, before we write it off, 90 days after its IPO, remember that Facebook hit the skids shortly after its IPO in 2012 — and has recovered — so well that its market cap today is $445 billion.

But I'll leave the stock market pundits to handicap Snap's stock performance. My interest in Snap was to dig into the business by looking at its S-1 (isn't that what all of you guys do on summer weekends?) to observe how innovative companies, like Snap, get off the ground.

I started by asking a few avid Snap users how they would describe Snap — and why they like it.

Nearly all of them said the same thing: Snap is a social network — and I like it because all of my friends use it.

I found that fascinating because that's not — at all — how Snap describes its business.

In fact, observing how traditional social networks operated is what prompted Snap's founders to create something different. Yes, Snap is about giving friends a place to share updates about what they are doing. And attracting and scaling a networked user base of friends is critical to monetizing its platform, but Snap doesn't see itself as a social network in the same way that Facebook does.

Snap, on page one of its S-1 — and quite clearly on their website — describes itself as a "camera company."

As in "Snap Inc. is a camera company."

Period. Full stop.

Here's the rest of Snap's stated mission.

> *"We believe that reinventing the camera represents our greatest opportunity to improve the way people live and communicate.*
>
> *Our products empower people to express themselves, live in the moment, learn about the world and have fun together."*

Yes, they used the word "reinvent" but sit tight for another few hundred words, please.

When I mentioned the camera mission statement to the avid Snap users I spoke with, I got a lot of scrunched up, puzzled faces in response.

Of course, they use Snap to send pictures to their friends — but thinking of Snap as a camera company?

That did not at all compute.

The Camera Part of the Snap Story

The first camera was invented in 1816 by a Frenchman, Nicéphore Niépce, whose wooden box could produce a picture that took a very long time to develop. Snapping pics of people or anything else in those days required hiring a photographer, having him come to a location and get his gear and his subjects ready and then processing those photos for in order to get a single picture.

It would take nearly 100 years for George Kodak to turn the camera into a consumer product that produced a "snapshot" — a picture Kodak described as capturing a spontaneous moment in life. The Brownie camera that he first launched in 1900 — and which remained popular well into the 1960s — put that opportunity into the hands of consumers for the first time.

But as Snap notes in their S-1, taking a picture in the early days of the camera was anything but an opportunity to capture a spontaneous moment.

To do that, the camera needed to be within arm's reach every minute of every day, loaded and ready for action — which nine times out of 10, it wasn't. And since capturing moments in pictures was a novelty, people wanted to keep all the pictures they took.

So, they had to be perfect.

That meant that snapshots became a series of highly posed, "say cheese" moments painstakingly staged by moms and dads and aunts and uncles and grandmoms and granddads while on family vacation, at birthday parties, at the holiday dinner table, graduations, first communions, baseball games, weddings and reunions — you name it.

I'm sure you have hundreds of them to prove my point.

Taking those pictures was also pricey. The cost of the camera, the film and developing the film made picture-taking expensive, which also made holding on to all of those pictures a priority.

So, before the smartphone hit the scene, just like the very early days of the camera, photos were taken to record moments worthy of being memorable — moments that were also mostly planned and posed.

The camera, now a standard feature on every smartphone, has become, Snap's founders say, the starting point for smartphone-centric products, since they can be used to convey much more than the written word. Images provide context, convey emotion and, they say, give friends the best opportunity to share something in the moment. The smartphones that are always with consumers today can finally enable the spontaneity that George Kodak envisioned 117 years ago.

Millennials, more than any other generation, have embraced that notion with both thumbs. It's been estimated that millennials will take more than 25,000 selfies in their lifetime, and they spend about an hour each week working toward that goal. Snap's user base — 62 percent of whom are between the ages of 18 and 35 — create 2.5 billion Snaps each day and use a number of creative tools to enhance how those Snaps look before they're shared with their friends.

So, did Snap reinvent the camera, or how friends use their smartphone cameras to communicate with each other?

The Trusted Communication Part of the Snap Story

Talking face-to-face with friends is an honest and authentic exchange of feelings and emotions between trusted parties — without being judged. Friends feel comfortable saying things to each other that they'd probably never say to strangers or want others to know they've said. Friends also trust each other to keep conversations private — knowing that the spoken word once uttered, disappears and can never be recovered.

Snap's founders, in their S-1, state that today's social networks have thrown the notion of trusted, private conversations between friends to the wind. They believe that since social networks were founded on the notion of permission-less, viral sharing and creating a permanent record

of the words or photos posted that are intended to be shared, they could never be a place for the authentic exchange of feelings between people.

What those networks offer instead, Snap says, is a collection of posts that position people the way they want to be seen. So, instead of authentic posts and expressions, social network users get a carefully curated look at the person who's posting — or no posts at all.

"Making deletion the default and permanence an option" is how Snap would recast the notion of a place where trusted friends could share their most honest of feelings — and do it using pictures that provide a rich context as a backdrop. Knowing that messages would disappear within seconds of opening them, Snap said, would encourage a free exchange of photos without fear of reprisal, being judged or being perfect, since they were being sent between trusted friends.

At the beginning, Snap's disappearing message format was seen as a magnet for sexters who would find the disappearing format ideal. But Snap's founders say theirs was a solution to a problem that consumers didn't know they had but that they had gleaned after asking 18 to 24-year-olds what they liked and didn't like about the existing social networks they used.

What they learned was that everyone loved sharing photos, but no one loved the inability to remove a photo of themselves that someone else might post of them that they didn't want posted.

So Snap set out to get the most self-photographed generation in history on board by creating a trusted place where friends could share their most authentic feelings and thoughts by sharing photos. In other words, replicating how those private exchanges happened in the physical world — but inside of an app and using photos and a couple of words to do it.

But wait a second — how original is *this*?

Well, it isn't, as Snap's founders readily admit. For about 125 years, the main "social network" was the telephone network. People used the phone to communicate with friends. By and large, people expected that their conversations would be private (the big problem was party lines where noisy neighbors could try to listen) and would disappear once they hung up. But, generally, people didn't worry about being recorded, unless they were caught up in really bad stuff that got a private detective or the government on their case.

And, before the telephone, telegraph messages and private letters were pretty private too.

So Snap took the "old way of doing things," which everyone seemed pretty happy with, and just made it better. It didn't reinvent the notion of people communicating privately between friends without a record of that conversation, they just made it better by using new technology and tools that consumers were already using to communicate with each other.

And in doing so, they pointed to a feature of existing social networks originally viewed as a virtue — but that soon became a vice and source of friction: sharing user-generated content without their permission.

The Making Money Part of the Snap Story

Snap admitted when it started that it had no idea how it would make money. So, it did what most consumer-facing, two-sided platforms do — build up a user base. Snap also admitted it was slow going at first, given the newness of their idea. But once Snap got a critical base of users, they began to play around with a number of monetization strategies — something that its latest earnings report shows is obviously still a work in progress.

Snap makes money through advertising, having long abandoned its initial thought of charging users to add "premium" filters to their photos. When presented with that option, consumers simply didn't use them and also stopped using Snap to send photos to friends. Bad idea when the idea is to create a network of friends.

Today, Snap makes money when publishers pay them to reach their users. That ad revenue comes in many flavors and has evolved over the years. It now includes Sponsored Creative Tools, Stories and Snap Ads, which include a video strategy that was initially met with resistance by advertisers.

But here again Snap decided to adopt something that worked really well in the physical world: television advertising.

TV advertising is really effective. The ads are generally entertaining — that's the only way to keep people from getting up to raid the fridge — and people hate them a whole lot less than online ads, which have gotten creepy and intrusive.

So, this camera company that's not a social network has worked to recreate "TV advertising" on mobile devices.

Snap recognized that all eyeballs were shifting away from television and desktop to a mobile-first environment — a shift that was more pronounced in the 18 to 24 demographic, who Nielsen reported spend 35 percent less time watching any television at all in any given month than that same age group did in 2010.

Snap also recognized that consumers — even millennials — liked watching video ads as long as they were funny and creative. That meant that advertisers had a product that consumers, even millennials, liked but didn't have an audience to show it to despite their massive ad spend in the television segment.

Snap approached advertisers with their story of millennial engagement, and advertisers bought in, but balked at the idea that they'd have to reformat those ads for a vertical format.

Snap held its ground, proving through tests that consumers viewing video in a vertical format meant more consumers watching ads through to the end. Holding a phone vertically is the most natural way to consume content. And it also held its ground on the type of content that it allowed publishers to put on its platform. You'd be hard pressed to find "fake news" on Snap.

But did Snap really reinvent TV advertising? Or simply give advertisers a new place for consumers to consume the ads they were already creating?

The What You Can Learn Part of the Snap Story

Perhaps you think I'm parsing words, and one (wo)man's reinvent is another (wo)man's refine — and that investors pay more for companies that reinvent instead of refining.

Point taken.

But call it what you wish.

Snap didn't invent a new camera — okay, there are those video specs which no one seems too enthusiastic about — but they identified a number of frictions that prevented millennials, most particularly, from engaging with their friends online via existing social networks.

Creating that experience was about replicating the things that friends valued most when communicating face-to-face: privacy, non-permanence and the ability to be authentic and honest in what was said — and use a better wheel, called the mobile device, to make it better.

Doing that allowed them to refine a better wheel for advertisers too — the ability to create entertaining TV-style advertising that consumers always enjoyed watching but just didn't anymore since they are abandoning television.

Ironically, by doing all of this, they really did reinvent the notion of the modern day social network —turning an online social meeting spot for any "friend" to share content about "friends" into a private place for communicating with those they know and trust, in much the same way as they would if they were together face-to-face.

What can payments and commerce innovators learn from this?

Well, that reinventing something doesn't always mean that consumers will like it or that it will end up creating the outcome for which you had originally hoped. Sometimes reinvention creates more friction, which may be what happened with social networks, and maybe what happened with mobile payment schemes that were as fast as cards but couldn't be used at as many places.

Sometimes the best future is starting with the best of the past and making it better. Which is what Snap believes it's doing with ephemeral communications and TV-like advertising.

At about the same time that George Kodak was showing the world what a camera could do, most of the people who bought those cameras went into their favorite store and bought it from a salesperson who knew their name and just put it on their tab. They walked out, camera in hand, bill to be settled later. They had the nirvana of payments experiences way back then.

Some might have even gone home and called their friends to tell them what they just bought.

Without leaving a trace.

AMAZON

AND THE ART OF (THE GROCERY) WAR

Let me tell you a story about the art of the grocery store war, one that Amazon and supermarket Whole Foods just took to the next level.

Chinese general and military strategist, Sun Tzu, was all about winning when the competition was fierce and the stakes were very high and he wrote a book to prove it. His thirteen-chapter book written in the 5th century B.C. – The Art of War – lays out his very strategic approach for how to do that. This 2,500-year old best seller was first translated into English in 1910 and has influenced the actions of military leaders, business executives, political figures, trial lawyers and sports team coaches in modern times.

Tzu's core principle for winning at war may at first sound counterintuitive – it's to avoid big battles. Instead, he believed, attacks on the enemy should be so carefully and strategically planned that one strike should be capable of destabilizing them – you win and they lose because they're incapable of fighting back. Doing that successfully, he wrote, requires a discipline of thought and a precision of execution: understanding the enemy and their vulnerabilities, having clarity about the outcome long before an attack is made, honing and keeping good sources of intelligence, having all of the troops united and aligned, and staging short, but decisive attacks.

And the element of surprise.

"In conflict, direct confrontation will lead to engagement, and surprise will lead to victory," Tzu wrote. The element of surprise not only catches the enemy off guard (obviously) but those who are capable of carrying out such a well-executed surprise attack, Tzu believed, are also much more capable to seize the opportunities created as the enemy retrenches amidst the chaos.

The announcement of Amazon's intention to acquire Whole Foods for $13.7 billion on Friday, June 16, 2017, clearly took the idea of using the element of surprise to a new level in grocery retail.

A surprise because Amazon has never acquired anything that costs more than $1 billion.

A surprise because Amazon has always used digital tools and technologies to crush existing brick-and-mortar retail and shift those sales to digital channels.

A surprise because no one ever expected Amazon to buy a beleaguered 431-store brick-and-mortar grocery store chain whose sales per square foot were second only to Costco in 2015, but with a business model that's now under attack from competitors who've taken a bite out of their once strong but very pricey organic food foothold.

A surprise, because it's much more about changing how consumers spend the roughly 12 percent of their household budgets allocated today to groceries and food – food eaten in the home and food eaten in restaurants – than going head to head with grocery stores.

And Amazon is doing it at precisely the moment in time where consumers are shifting that food spend and adjusting those grocery food shopping and eating preferences.

The acquisition of supermarket Whole Foods did what Tzu said the element of surprise always does: destabilizes the competition as rival grocery stocks tanked. It also gives Amazon the opening it needs to leverage the assets they've assembled to reshape how and how much consumers spend on food, while the rest of the grocery sector is back on its heels figuring out what to do next.

And while the restaurant segment may not yet know what's about to hit them.

Or mobile wallets, either.

Amazon's Walk On The Wild Grocery Side

This is a plan that PYMNTS readers got a sneak peek about two years ago.

In April of 2015, I wrote a piece about whether Amazon would do to grocery what they did to books – demolish the large chain brick-and-mortar grocery stores into oblivion. My piece was motivated by three things: the launch of the Dash Wand, the voice-activated device that could scan barcodes, add those items to a shopping list and be fulfilled by Amazon in April of 2014; the launch of Amazon Pantry that same month and year; and the launch in April 2015 of the Dash buttons that everyone thought was an April Fool's joke.

All products available only to Amazon Prime Members.

I wrote then that Dash buttons and Amazon Pantry could accelerate the shift online for frequently purchased commodities and that Dash buttons and the Dash Wand were clever ways to contextualize that ordering because they were literally within reach of the places in the home where consumers used those products. Amazon Pantry even gamified the purchase of commodity products online by asking consumers to fill boxes with the items they wanted to purchase.

I also posited that this could also change the way consumers went grocery shopping and where they might go to do it. My theory then was that if Dash buttons caught on and expanded to include more brands, and if consumers got used to the convenience of having the big bulky stuff delivered to the house, they'd stop using the grocery store to buy those things.

And maybe stop going as often.

Instead, their visits to the grocery store would be to buy the things that they wanted or needed to inspect – produce, meats, dairy and frozen foods – instead of everything they needed to buy on a weekly basis. I also suggested that consumers might even change where they shopped to make those purchases – produce at the local farmer's markets, meet at the butcher, fish from the fish market, etc.

Two months later, in June of 2015, Amazon launched Echo with Alexa after a closed pilot began in November of 2014. Amazon immediately opened Echo and Alexa to developers by making

its SDK available to anyone who wanted to create a voice-enabled skill.

Including the ability to build a shopping list of things that could be ordered on Amazon and shipped home in two days or less.

Since then, as part of its grocery efforts, Amazon has:

- expanded to include 250 Dash Buttons that can fetch anything from Rogaine to batteries to a slew of salty snacks, to colored pencils to scented wax candles;
- expanded the number of items and brands that consumers can order from Amazon Pantry;
- launched its Dash Replenishment Program, which enables refills of commodity supplies like fabric softener, water filters, printer cartridges, pet food, etc. for connected devices like washers or water purifiers or printers, that connect to their Dash API.
- expanded its same day grocery delivery – Amazon Fresh – to multiple cities and dropped the price from $299/year to $14.99 a month;
- partnered with the USDA to allow food stamp recipients to use their EBT cards to buy groceries online starting in 2018;
- subsidized the cost of Prime Membership by 45 percent to anyone with an EBT card;
- integrated Alexa with Amazon's Prime Now services so that tens of thousands of items, including liquor, can be ordered and delivered in 2 hours; and
- integrated Alexa into the Dash Wand and giving it additional functionality such as building ingredient lists from recipes.

All of this has happened at the same time that Amazon has added tens of millions of consumers to its Prime rosters.

Piper Jaffray's 33rd annual research on teens published this month reports that 82 percent of households with annual incomes of $112,000 are Prime members, and 69 percent of households overall are too. If that's correct, and assuming that there are 125 million American households with 2.53 people each living in them, that would put the number of American consumers capable of tapping into a Prime Membership using any one of the various devices and channels that are now available to them to order from Amazon at 174 million.

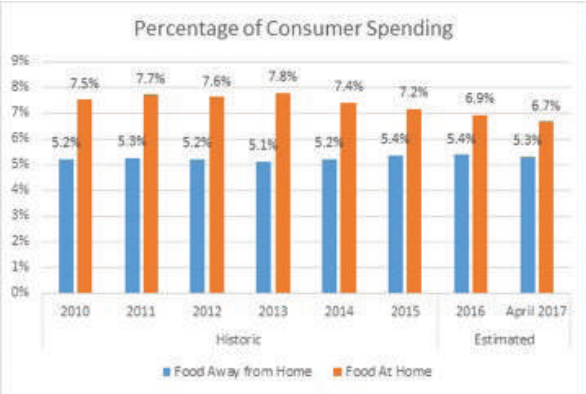
To Eat At Home – Or Not To Eat At Home? That Is The Question

Bloomberg reported in 2015, that for the first time since 1992, Americans spent more eating out then they did eating in. Fueling that trend, were the millennials, the generation that loathes cooking and cleaning up so much that they have stopped eating cereal because it requires washing the cereal bowl and spoon, once done.

What a difference a year makes.

A Reuters/IPSOS study of 4200 consumers in January of 2017 reports that a third fewer consumers are eating out as often as they once did. Nearly two-thirds – some 62 percent – report the reason for that shift is cost.

The rising cost of labor has driven restaurant menu prices higher at the same time that food prices and inflation are at historic lows. Reuters reports that the cost of eating out increased 2.4 percent while the cost of eating at home has declined by 1.9 percent.



This is at the same time that foot traffic to restaurants has flatlined – zero growth in 2016 – has been that way since 2009, according to NPD.

The competition for that overall food spend isn't coming only from people deciding that it's cheaper to buy groceries and cook at home.

Supermarkets, eager to get more feet inside of their stores and blunt the impact of on-demand food delivery services have turned to prepared foods as a high-margin alternative for those who prefer the convenience of having someone else cook the food that they can take home, heat up and eat with the family and kids.

NPD reports that 40 percent of Americans purchase prepared foods from their grocery store, including millennials, who haven't yet developed a taste for grocery shopping. NPD says that consumers made 2.4 billion such visits to grocery stores accounting for $10 billion in consumer spending in 2015. Moody's says that that one in every 10 meals eaten every day are prepared food bought from a grocery store to eat at home.

Millennials, a group who eats out more than 3 times a week and spends 44 percent of their food budget doing so, have suddenly discovered that the restaurant-quality prepared foods section of their local grocery store may be a healthier alternative to the fast food, delis and pizza joints that have typically been their go-to. And cheaper too, as they realize that not only is the cost of eating out getting more expensive, but so is spending $8 to have a $12 meal delivered to them. Twenty-four percent of millennials shop at Whole Foods already.

From "Whole Paycheck" To "Whole Food" Spend

Some have said that the acquisition of Whole Foods will give Amazon an opportunity to slash its costs and reduce prices so that they can cater to a less affluent group of consumers.

While cost reduction thru purchasing and logistics and inventory management efficiencies seems like a no-brainer, it's unlikely that Amazon will use Whole Foods to go down-market. As fulfillment centers to deliver to a variety of customers, including those who may not visit Whole Foods today but who buy groceries from Amazon today, likely. To get those same consumers into those stores – not so clear. Still, the Whole Foods acquisition is likely a significant building block in dominating grocery shopping and spend. Even

though Walmart grocery shoppers won't be fleeing anytime soon to Whole Foods, Amazon's move has probably deeply unsettled folks in Bentonville.

Others have said that this is just another of Amazon's big retail experiments without any clear sense of how they plan to optimize that asset, inferring that Amazon's focus on grocery since 2014 has been sort of a wild and crazy crap shoot too. I think that Amazon knows exactly what they want to do with Whole Foods – and why they were quick to write a $13 billion check.

Amazon has been collecting data on how consumers buy groceries since 2014. Over that time, they've obviously seen much of what our recent study with Visa on the use of connected devices to buy and pay concluded: consumers go grocery shopping today because they have to buy food but they find the experience unproductive, and time consuming. They want options to ease the pain.

Nearly two-thirds of the ~2600 consumers we studied – 64 percent – went to the grocery store in the seven days we asked them to keep their diaries and 48 percent bought groceries online during that same period. Only 41 percent ate out.

All of these consumers own a smartphone and 75 percent own more than four connected devices. Fourteen percent own a voice-activated device and many of those devices are Amazon's since they've been in the market the longest.

Nearly 70 percent want to use connected devices to improve the efficiency of their shopping experience – the devices they have now and those that may still be in the lab. Fear of learning how to use them when they hit the streets isn't a problem, consumers told us, and using those devices to buy groceries is top of their list.

Including using them to "auto pay" in a store when they go. In other words, The Amazon Go experience.

Amazon, with Whole Foods, has the chance to use all of its many connected end points to those consumers to remove the friction from grocery shopping – and capture a big chunk of what consumers spend to eat as they do. This move is the classic – and highly disruptive – blurring of the on and offline worlds: the one-stop shop for buying groceries in store, or buying them online, or asking Alexa to build a shopping list, or deliver freshly prepared foods on Mondays and Thursdays at 530 for dinner with the kids, or Saturday at 3 for the cookout with the neighbors.

And the blurring of how much consumer's spend to eat – all linked to the one payment method that ties all of those options and end points together – Amazon's – in the store and online.

It's possible that Amazon and Whole Foods could accelerate the growth of the grocery category that's said to be a hook for getting millennials into grocery stores – a concept that analysts have dubbed the Grocerant. These stores sell groceries but are anchored around the delivery of a variety of food experiences – cooking lessons, expanded selections of prepared foods and separate places where those foods can be eaten in the store with friends – or taken back home.

Taking a chunk out of restaurant sales as they do.

And although it might be a while for the true "auto pay" Amazon Go experience to be operational at scale, it might not be as long before we see the Amazon's physical book stores payments experience in full bloom. Those bookstores use bar codes on shelves that can be scanned for details on pricing and even for ordering and paying. Bar codes are de rigueur in grocery stores – store shelves and products all have them – codes that can be scanned on items that can be added to a shopping list for auto checkout with Amazon – no POS encounter needed – and even delivered a couple of hours later.

Taking a chunk out of mobile wallet and mobile pay shares along the way – but not just at Whole Foods.

If Whole Foods and Amazon are successful in reshaping the grocery category to overlap with some aspects of food more typically consumed outside the home, then the next element of surprise to hit will be felt in other physical supermarkets, other online outlets for buying groceries, fast food/QSR, pizza joints, and all of the many aggregators that today deliver food to people who don't want to cook.

Maybe Amazon will reconfigure the Whole Foods store footprint to include food marketplaces, where smaller, specialty players are brought into the Amazon ecosystem and given a chance to sell to a captive audience of buyers in search of a healthy and unique food experience, just like they've done online.

Many of the same places where mobile wallet and mobile pay providers have spent time cultivating acceptance and usage given the frequency of spend in those places. Sure, Whole Foods accepts most digital wallets today, but Amazon Prime members won't ever see a checkout lane or a terminal.

Just like consumers say they want it.

When Bezos started Amazon online in 1994, he started selling books because it was something that all consumers bought – CDs followed for the same reason. So, it shouldn't come as a surprise that his big jump into physical retail is in a category that follows that same philosophy: all people have to eat and they generally do three times a day.

What he'd probably say, though, is that the element of surprise with the Whole Foods acquisition isn't so much about beating the competition, but observing what consumers want and then giving it to them. But if that also means destabilizing the competition, then all the better.

THE END OF THE UBER EXPERIENCE?

Friction is something that I talk and write about a lot. Its abundance in payments and commerce is what inspires innovators to challenge a friction-filled status quo and create something new. But friction can also be what sidelines those who set out to eliminate one friction, only to create newer, more onerous ones in the process.

I'm sure all of you have your favorite examples of those — and I've written about many of them.

Part of the complexity is that what bugs one person or business may not necessarily bother anyone else.

For an innovation to successfully solve the "friction problem" and scale a business, it must first identify problems that are big enough — and that seriously bug enough people — for consumers or businesses to ditch what they do today and move without turning back to that friction-free alternative.

That can be complex — just ask consumers.

The Experience Project did last year. It asked its 67 million members to submit a list of 100 things that really bugged them. This once-free social networking site, over the course of the 11 years it existed, assembled millions of people who freely shared their experiences with each other and the entirety of the web. The list of 100 things in life that drove them crazy was one of them.

Some of the things on those lists seemed awfully personal ("My ex-boyfriend" or "When you are forced to eat disgusting food"), while others seemed a little petty ("People who bore me"). One made me pause ("People who tell long, boring stories and can't tell you are bored"). You'd tell me if I bored you, wouldn't you?

Other things like "[getting] stuck behind someone walking slowly in a narrow area" or "That woman who always parks her van so that it blocks the driveway to my kid's school pick up area" or a favorite for all of us payments fans "[going] to the grocery store, load[ing] your cart with groceries, scan[ing] all of your stuff and realize[ing] you forgot your debit card," are annoying but don't rise to the level of the mega friction-filled experiences that might motivate a would-be innovator to quit her day job and give up her life to solve for it.

Two that didn't make anyone's list last year surely are — and were.

Trying to get a taxi in any big city around 4:00pm in enough time to make your flight home.

and

Calling the taxi dispatcher at very-early-o'clock in the morning, and well in advance of needing a pickup for that trip to the airport, only to have the taxi never show up.

Those things probably didn't make anyone's list because that's a friction that Uber's founders identified in 2009 and solved when they launched the Uber carsharing app.

B.U. (Before Uber), those two things created enormous friction for anyone needing a ride to a meeting or to the airport or anywhere else — and who needed to get to their final destination on time. And for those whose only options were taxis (cheap but totally unreliable) or black cars (expensive and required scheduling well in advance) or driving (time-consuming, inconvenient and pricey in a city that was not the passenger's home town), most people were forced to trade one miserable set of frictions for another.

Before Uber in Boston, where I live, trying to get a taxi reliably wasn't only friction-filled, it was infuriating much of the time — something that a study conducted by the city of Boston in 2013 on the taxi industry bore out. The study was published one year after Uber set its drivers loose on the road in Boston and taxi drivers collectively stomped their feet over the fact that Uber was cutting into their business. The report's objective was to create a fact-based analysis of the state of the taxi industry, and to highlight areas for improvement.

The citizens of Boston didn't need a government report to tell them what was wrong, because taxi service in Boston was pretty pathetic.

The report pointed out that for anyone with the hope of getting a cab in 20 minutes or less between 4:00am and 2:00pm in Boston, had a 10 percent to 30 percent chance of being out of luck. That was on a day without bad weather, something Boston never has. Haha. For those leaving the office at 6:00pm or a restaurant after dinner at 8, 9 or 10:00pm and who had hoped to grab a cab in 20 minutes or less, half the time you could, and half the time you couldn't.

In other words, it was a total crapshoot that required stepping into the street and raising one of your hands to hail a taxi while crossing all of your fingers on the other.

For those who wanted to improve the odds and call ahead, well, that didn't make much of a difference. The report concluded that 78 percent of those would-be passengers were connected with a taxi — and only 87 percent of that 78 percent could count on a pickup within 20 minutes of the call.

About those dispatchers.

The odds that a driver would even get one of those calls increased significantly if that driver wanted to come to your neighborhood or it was a long trip (and the fare high enough) or the driver had paid the dispatcher to move him to the head of the line when those calls came in. While the report said that greasing the palms of dispatchers didn't happen *that frequently* they said it was enough of a problem that it needed to be further examined.

Let's say that you were lucky enough to get a taxi after all of that. When it came time to pay, somehow those credit card terminals in the back of the cab never seemed to work. Drivers made it clear that they preferred cash and even offered

to drive riders to an ATM to get it. Passengers experienced an uncomfortable couple of minutes in the back of the taxi trying to pay — adding even more time to what had already been sunk into the trip.

Customers who didn't like the way they were treated were given lots of very good information about how to complain — websites, plaques inside of taxis with numbers to call — and the promise that all complaints would get a response. In about ten days. Customers, said the report, typically waited three times longer to get a resolution, mostly because the process was set up to slow-roll things: ten days to respond after that an offer to talk about a resolution during a two-hour window set aside on a specific day of the week.

I mean, what's not to love about that customer service, right?

Boston taxis certainly excelled in one thing though: creating uncertainty for its passengers.

Uncertainty about how long it would take to get a taxi — or if they would at all.

Uncertainty about whether the taxi they were climbing into smelled like the driver's last meal or had been cleaned and vacuumed in the last three years.

Uncertainty about whether the driver was paying more attention to the road they were driving than the cell phone conversation they were having while driving.

Uncertainty about whether there'd be a hassle at the end of the ride over payment and "broken" credit card terminals that "worked the last time — I am not sure why it's not working now."

And even the uncertainty whether complaints made would ever be resolved — and to the satisfaction of the consumer.

So, in drives Uber with a ridesharing solution that solved for the one friction that bothers people more than any other and motivates them to make a permanent change: uncertainty.

With Uber, passengers had certainty about when their car would arrive since they were given a pickup time, could visually track their car's progress and communicate with the driver as they were making their way to the pickup.

With Uber, passengers had certainty about the quality and cleanliness of the car into which they were getting.

With Uber, passengers had certainty that at the end of the ride they could hop out of the car without the payment mumbo jumbo that just about every merchant ever since has aspired to replicate.

Not surprisingly, the people of Boston took to Uber like tourists take to the Cheers Bar when they come to town. And not surprisingly, it didn't take long for Uber to put a dent into the taxi business here.

In 2015, three years into the Boston Uber experience, a TechCrunch study reported that taxi ridership had declined 22 percent in the first part of the year, and revenue by 25 percent. In March of this year, *The Boston Globe* wrote a story about

the union stepping up its pressure on Mayor Marty Walsh to "do something" about the plummeting value of a taxi medallion. A taxi medallion in Boston in the B.U. days fetched $700,000; today, it's worth roughly $100,000.

Now, it's the "do something about it" hue and cry that surrounds Uber at just about every turn — and puts the Uber Experience at risk — for consumers, for drivers and for the company itself.

"Do something" that, if the taxi owners have their way, would reintroduce frictions that would make Uber look more like the dysfunctional taxi industry than making the dysfunctional taxi industry look more like the option that people all over the world would rather use, if given the choice.

Regulators are being pressured by taxi owners who've seen the economic impact of having a competitor with a better service that consumers liked better enter their space. The archaic medallion business model that once all but guaranteed an unlimited financial upside by limiting supply is failing everywhere in the world. Taxi owners who thought they had the supply side part of their business locked up never considered the demand side of the equation — and what would happen if a new carsharing supplier entered the market that gave them a better experience. Once Uber did — and did — their economic model began to unravel as demand and supply shifted the other way.

The latest regulatory shoe to drop for Uber is the recent European Court of Justice (ECJ) preliminary ruling on Uber's legal right to operate in the EU. The Advocate General — a judge who tees up a decision for the rest of the judges and whose views are usually accepted — made news when he decided that Uber is more like a transportation company than just a digital ridesharing app.

Because of that decision, the European Commission has to leave it to each country to decide the future of Uber (which, in most of those countries, is the UberX equivalent) based on their own transportation regulations and labor standards. The first country in line will be France, which has long claimed that Uber is illegal, and in 2015 accused Uber of engaging in "economic terrorism" by providing a service that consumers apparently liked and used enough to cause a 30 to 40 percent drop in taxi revenues. If the ECJ adopts his decision or something close to it, each EU country can decide to ban Uber altogether, or, you guessed it, make sure Uber suffers all the same frictions as those good old taxis.

Meanwhile Uber's drivers are complaining.

They want to make more money and be relieved of some of Uber's rules. In an effort to respond to the barrage of recent PR problems facing Uber, interim management has moved ahead with a number of things that are intended to address driver's concerns — being paid when rides are cancelled and for waiting longer than five minutes for their passengers to hop in the car.

And adding in-app tipping — the one thing that may have the potential to do more damage to Uber by destroying the Uber Experience that its passengers have grown to love than any regulator anywhere in the world.

People don't like tipping in any circumstance, which is a decidedly American thing. People don't like it because it creates uncertainty — uncertainty about how much to tip, when to tip and what happens when you don't. When Uber launched, one of its selling points to passengers was that the fare was all inclusive — tipping was an option. Passengers just hopped out of the car once they reached their final destination. That didn't stop many passengers from slipping cash to a driver when it seemed appropriate though and many, including me, did.

But last year, tipping as an option started to feel a little less optional and more like the elephant in the car that no one knew how to address. Uber drivers began putting signs in their cars suggesting tips were appreciated. That began to create uncertainty for passengers since they didn't know what to do — tip or not tip — and what would happen if they didn't. Blog posts circulated about drivers rating down passengers who didn't tip. Consumers, particularly Uber Black customers, who were already paying more for the service and did slip a $5 or $10 spot at the end of ride now wondered if that was now an added expense to the trip. Tipping just made the end of the ride a little more awkward because the passenger wasn't sure whether hopping out of the car without any fuss or muss or hassle — the Uber Experience — was still the right thing to do.

And where there's uncertainty, there's friction.

Uber says that it's designing the tipping feature so that passengers can still hop out of the vehicle without having to tip and that they have 30 days to add one. They also say that it will have no reflection on individual ratings since drivers won't know who tipped and who didn't — only that they got a tip.

As a passenger, for some reason it sure doesn't feel that way.

For an innovator who showed the world what it was like to create a truly delightful, friction-free experience — one that was worth paying more for — it seems like passengers are all of a sudden taking it on the chin — and from all sides.

Regulators would like to see Uber to behave more like the taxis they happily ditched for Uber. If they are successful then passengers are stuck with the worst of all worlds — the same lousy taxis and Ubers that are forced to operate like they do. Let's hope they're not.

And now, Uber wants to shift some of the cost of dealing with its latest PR issues to the passengers who've helped them build their business – in 300 cities worldwide – and stuck by them thru it all because they truly love the service that Uber provides.

Viva la friction!

And damn the consumer, I guess.

CONFUSED **EU** REGULATORS **SLAM GOOGLE**

Does anyone else find it even mildly ironic that Google was just fined $2.7 billion in the EU for dominating an area that it doesn't dominate? Karen Webster does, and she says that the European Commission was so focused on the online search for products over the last seven years that they failed to see that consumers increasingly don't start their product searches there. Missing that forest for the trees, she says, has some sobering lessons for all innovators.

Nobody can pinpoint the exact origin of the phrase "Can't see the forest for the trees," but that hasn't stopped countless people all over the internet debating its proper citation, grammar and philosophical interpretation.

Where there appears to be common ground, however, is in what the phrase means: Being so focused on the details of one thing can cause people to lose perspective and miss a much more important and relevant bigger picture — often at their peril.

It's also a great metaphor for what we just witnessed last week when the European Commission found Google guilty of anti-competitive practices over its Google Shopping product and levied a record $2.7 billion fine on them.

This ruling comes seven years after an investigation was opened into these alleged "anticompetitive practices" (November 2010) and two years after Google was formally charged (April 2015).

The saga is well-documented, so I'll spare you the lengthy narrative. The Cliff Notes version is that a bunch of tiny websites convinced the Commission that Google's Shopping product put them at a disadvantage when consumers were searching for products. Google Shopping is the little carousel of product images that consumers see at the top of Google's search results page and for which marketers pay to be there.

These little guy sites, who pushed the Commission to open an investigation in the years leading up to 2010, had some big help — Microsoft.

Suspend disbelief for a minute, if you will, that Microsoft is anything but a little guy, but they do operate a little guy search engine, Bing. In 2010, Bing had just rebranded from Live Search and was being criticized in Europe for not doing much to upgrade the user experience aside from having a new logo on the search results page. It was reported in the news at the time that consumers who might have been persuaded to try Bing after hearing of its rebranding were left disappointed — and might never come back. Analysts said that it lacked basic features that searchers wanted. Back then, Bing held less than a few percentage points' share of the online search market across Europe.

The little website guys, egged on by big guy Microsoft with its little search engine Bing, managed to convince the European Commission in 2010 that there was reason to believe that Google was manipulating its search algorithms to provide favored placement via Google Shopping. It claimed that Google did that because it made money when it did. Little guys without the budget to pay for such a favored position on Google, they said, never had a shot at getting anyone's attention — and that was a very bad thing for little guys,

since there was no other competition for product search.

Ignoring the fact that there was competition for online search — it just wasn't very good, and consumers didn't want to use it.

And since no one used Bing to search for much of anything, little guy websites found Bing generated no traffic for them. Since the little guys didn't really generate that many clicks on their sites — period — they never had much of a chance to rise in the rankings on Google. And, as a little guy, they said they were unable to afford to buy ads to drive clicks to improve their position — so they were stuck.

Big rich tech giant Google smashing poor little guys (and one big rich guy with a little guy search engine and a grudge). It was music to the European Commission's ears.

It didn't take long for everyone else to pile on.

Five years later, there were formal charges filed against Google and four more investigations opened — including a pending case on Android and its bundling of Google apps in exchange for the free use of its mobile operating system.

Culminating in the record $2.7 billion fine, which Google says it will appeal.

Good luck with that, since that Commission hardly ever gets reversed.

The trees in the Google Shopping case that the European Commission saw were online searches conducted by general search engines like Google and Bing. Looking at those trees, they saw that if consumers only used search engines to find new products — and since Google has a dominant share of online searches and since they charge money for advertisers to appear in Google Shopping — they must be doing something harmful to consumers.

But they missed a pretty big forest when they did that: the emergence of other aggregators that have become the starting point for consumer product searches that are increasingly not via Google (or Bing).

In 2015, the year that formal charges were filed, we asked 2,000 consumers where they started their product searches. Search engines came in third.

Who do you think came first? (And your first two guesses don't count).

Amazon.

Amazon drove nearly 60 percent of the product searches for our consumer sample and for several good reasons: It was easy to buy from Amazon (one click and free shipping for Prime members), and Amazon had amassed a massive roster of products thanks to the addition of Marketplace sellers to the mix.

Merchant sites posted second at 48 percent — consumers who bought stuff at a merchant went back to that merchant when they needed more. Search engines came in third at 40 percent, and many of those 40 percent may have used Google to locate an item, only to click over to Amazon to buy it. Social media posted fourth at 25 percent.

Google Shopping is Google's attempt to blunt the Amazon effect on their business and to compete with Amazon for the product searches that it has been losing over time. It also appears to be getting the attention of brands, who, themselves, have their own worry beads out over the Amazon Effect on their businesses. According to Google's Shopping Benchmark study, 2016 was the first year that marketers spent more on shopping ads then text-placement ads; representing about half of their marketing ad budgets.

But the forest that the Commission missed is much thicker than that.

It includes Facebook who, with Google, are now the two big dogs in the mobile advertising dollar game — some 85 percent of all mobile ad dollars are now divvied up between the two of them. Facebook would like very much to be the consumer's first stop for news and content, shopping and even that occasional friend update every now and then. It's actively courting businesses, brands and publishers into their walled garden of two billion active users.

Then there's all the messaging apps who, too, would like to become the one-stop shop for their users for everything, including the products they buy. Messenger has more than one billion active users and hundreds of thousands of commerce-enabled chatbots all there for the searching. WeChat has nearly one billion active Chinese consumers who spend an average of an hour and six minutes a day inside the app — talking, sending money and buying products. Snap with Stories and Sponsored Filters hopes to make product searching — and buying — contextual; Instagram with hashtags and shoppable products has the same ambitions.

The forest also includes a growing roster of vertical aggregators.

Houzz is the go-to for home remodeling and decorating ideas, Airbnb for hotel room alternatives and now airfare and other travel options, Seamless and Grubhub for food ordering and delivery, StubHub for tickets, OpenTable for restaurant reservations, Farfetch for designer fashions from boutiques everywhere in the world, Thumbtack for household repair services. The list goes on.

The forest in 2015 — the year the charges were filed — had also seen a new green shoot: the voice-activated speaker.

That development ushered in a whole new era of search for products and everything else — via an intermediary named Alexa delivered by a voice-activated speaker named Echo. Since then, we've seen Google with Google Home, Microsoft with Cortana and Apple with HomePod, enter the market and have heard rumblings that Alibaba and Samsung will give the voice-activated speaker game a go too.

One could argue that in 2010, when the investigation was initiated, seeing this forest wasn't very easy. But five, six years and seven years later, it is — and was — as crystal clear as the ocean off Turks and Caicos any day of the week.

With its ruling, the European Commission made it clear that they were so focused on the online search engine tree that they missed a dense, green forest of product search alternatives and the perspective that would have provided. A perspective that, if they had cared to look, might have delivered a different outcome, including initiating formal charges in the first place.

As is often the case in situations like these, there are many ironies.

Any hope Microsoft had of this helping Bing was dead before it started. The game to win in 2010 or 2015 wasn't desktop search, it was mobile. Talk about not seeing the forest for the trees. There, Microsoft and Bing are nowhere, and it's unlikely that Cortana will save the day either.

There are the regulators.

The commerce space is moving fast, and regulators are the first to acknowledge that. Yet, in this case, they were the first to apply decades-old rules and definitions to the market dynamics for which those rules have long since outlived their relevance. Seven years in tech is a lifetime, and the job of the regulator used to be about standing watch over consumers to make sure they weren't being harmed by all the innovations that were blasting their way into the market. It's hard to find the consumer harm in 2010, in 2015 and today, when consumers, if anything, have many more options to find products, many more access devices to help them do it and factual evidence that online search doesn't have the hold on product searches that the regulators claim it does.

For Google, does anyone but me find it ironic that it's being fined for being dominant when it isn't for online product searches anymore?

Google is the go-to for online searching — it's why it's vaunted to the status of a verb. Google's business model — make search free to the user and charge advertisers who want the certainty of favorable placement — is no different than how any other platform business model makes its money: One side gets services for free, and the other side pays to reach them. Consumers search for free — brands that want certainty about getting those eyeballs on their product pay for those eyeballs. There are strategies that brands can do to get noticed, but it isn't just about rankings on search engines anymore — it's about being all the places where consumers are looking for *that* thing and making sure that you're there. That's Google, but a whole lot of other places now too.

Then there's Yelp, whose CEO had a grin ear-to-ear upon hearing the news. Yelp was also one of the big "little guys" (at two billion annual unique visitors) who claimed to be hurt by Google Shopping's practices. In a letter to the Commissioner, in June before the verdict was rendered signed by Yelp and several other U.S. companies, the company wrote: "We have watched Google undermine competition in the United States and abroad. Google operates on a global scale and across the entire online ecosystem, destroying jobs and stifling innovation."

Is now a good time to talk about the Google/Yelp deal that fell apart in 2009 and the bad blood that's been brewing ever since?

There's nothing like a jilted suitor — and, it appears, the inability to find a buyer ever since, to make things touchy. The Wall Street Journal reported in May of 2015 that Yelp had retained a banker and was looking for a suitor, given its high operating costs, declining users and revenue and an anemic stock price. But why do that when you can invest in complaining to regulators that might pay out better than investing in innovation and providing a good product? Yelp might get make some money from suing Google for damages based on the Commission's findings.

For the tech innovators or any big company that's invested billions in building a company, watch out.

It might not take anything more than a couple of cranky companies to complain about what you've built after years of blood, sweat, tears and billions of dollars that they say has kept them from being just like you. It might take a while, but five, seven, ten years later, you might get your shot, since the regulators will break up or break those big guys down to look just like you. Exhibit A — Uber — as I wrote earlier. And in the EU, look no further than PSD2 and the regulators' push to allow licensed innovators access to the billions of dollars of infrastructure that the banks have invested in over the years for chump change so that those innovators can now get access to their customers and their data and compete against them.

Competition used to be about the best (wo)men winning by coming up with great ideas, working their butts off, convincing investors to give them money to expand and dreaming of becoming the next Uber or Facebook or Google or Stripe or Square by giving it everything they've got. Now, it seems to be about making sure everyone gets a trophy — and, in the EU at least, the regulators giving out the prizes.

SAY HELLO TO THE NEW RETAIL INTERMEDIARY

"There is also no question that doing business with [XXX] can give a supplier a fast, heady jolt of sales and market share. But that fix can come with long-term consequences for the health of a brand and a business."

I'm sure that most of you reading that quote today would ascribe those XXXs to Amazon. Along with similar quotes about XXX killing Main Street and jobs and becoming an evil monopolist.

It's not a bad assumption, either, given the many media accounts of Amazon's MO for putting the big squeeze on wholesaler prices so that it is the cheapest guy in the online town. One such article, recently published in Salon, reports that the firm's "predatory" pursuit of discounts from brands that wanted to be part of the Amazon platform were driving those firms' profits to unhealthy low- or even no-margin situations, that they claim force many smaller retailers to close up shop.

So, would you believe me if I told you that the quote was from an article published 14 years ago, in December 2003, by Fast Company — about Walmart?

Believe.

The Retail Predatory Pickle

The article was written as sort of an exposé of Walmart's supplier negotiating practices, using a $2.97 gallon jar of Vlasic pickles as its main character.

The $2.97 price was negotiated as part of a deal that the storied pickle maker made with Walmart in the mid-to-late 1990s, a price that was also less than what most grocery stores had priced a quart size jar. At $2.97, the price for this mother of all pickle jars of whole cukes (it weighed 12 pounds) was so low that the article claimed that both Walmart and Vlasic were making "only a penny or two" on the sale of each.

As the story goes, Walmart put the squeeze on Vlasic to commit to that price point, even though tests done before the launch showed pickles flying off the shelves at a price slightly north of three bucks a jar. Walmart said no, and since Walmart was 30 percent of Vlasic's business, Vlasic stood down, hoping that this loss leader would pull through on the sale of other Vlasic products that consumers would buy once inside a Walmart store.

And boy, did the people buy the pickles!

In fact, consumers bought more kosher dills than any one person could humanly eat. The great American pickle promotion at Walmart was

reported to have moved 240,000 ***gallon jars*** of pickles each and every week at Walmart's 3,000 stores, driving tons of foot traffic to Walmart. Walmart and Vlasic made the prices of pickles so insanely cheap that if people wanted to buy pickles, Walmart was where they went to buy them.

It also, unfortunately, created something of a real pickle for Vlasic.

Consumers bought pickles all right, but they stopped buying the kind that Vlasic makes money on — what they call "the cuts." Why buy smaller jars of those pricey pickle slices, spears and relish when those same consumers could be kept awash in pickles for the low, low price of $2.97? If the pickles got yucky before all 12 pounds of them could be eaten, NBD, just run back to Walmart to buy a brand new 12-pound jar for that everyday low price of $2.97.

Vlasic execs continued their pleas to raise prices to cover what was becoming a real double edge for their company: record sales and sales growth but shriveling margins. Consumers changed their pickle-buying habits — chopping and slicing and mincing those $2.97 jars of whole cukes instead of buying them ready-made. Vlasic told Fast Company that they were finally permitted to raise prices when Walmart said they'd won the pickle market and could now slowly raise prices.

Shortly thereafter, in January of 2001, Vlasic filed for bankruptcy. Its pickle and BBQ sauce business was bought by Heinz later that month for $195 million. At the time, Vlasic held a 24 percent share of the pickle and condiment market to Heinz's 3 percent. As the Fast Company article points out, Vlasic's business had a heap of other issues that drove it into Chapter 11 status, and the great gallon-jar pickle caper was likely one idea hatched by them to pump up the brand with the hopes of pulling through the sales of higher margin pickle products.

Today, that same gallon of pickles can be bought at Sam's Club for $4.18.

Hold that thought for a minute — it will become important later.

Ironically, the reason that Vlasic was willing to do that deal with Walmart in the first place was to access the 100 million consumers who visit a Walmart once a week and spend 7.5 cents of every dollar with them when they do. For Vlasic, Walmart accounted for 30 percent of their sales and was thus a very important channel to the customer. Walmart, as a powerful intermediary between Vlasic and its customers, negotiated accordingly.

And it wasn't just Vlasic that Walmart put the squeeze to — it's just about everyone, including the players in our own payments world, where Walmart is legendary for driving a very hard bargain for how much they are willing to pay in interchange (zero is the best, and they'working on it) and even what payment methods they'll accept in their stores.

Walmart's comeback to anyone who pushed back was simple: Don't sell your stuff in our stores. We promise everyday low prices, they say, and can drive a ton of customers your way — remember that 90 percent of the U.S. population lives within 20 minutes of one of our stores.

But, they continue, for us to live up to our brand promise of giving our consumers a good deal, you need to give us a good deal. And, you need to be operationally efficient. We know that serving 100 million consumers every week can crush a business, so if you can't adapt your own processes to avoid that from happening, then we can't do business together.

It was pretty much take or leave it. And lots of people took it — and still do.

This gave Walmart tremendous power — which made the company a threat to suppliers, whose margins it cut into, and Main Street, who couldn't compete, and all those people who worked at those Main Street brick-and-mortar stores. That's what pundits talked about a lot back in the 1990s and much of the 2000s.

But back in 2003 when that article was written, Walmart was just the latest version of an intermediary that aggregated brands into a single place that made it more efficient for consumers to buy goods from a variety of different brands — and for those brands to reach a critical mass of would-be buyers.

Department stores did that in the late 1800s, when for the first time, consumers didn't have to hoof it up and down Main Street to buy the things they needed from individual merchants.

Shopping malls took that model a step further in the mid-1950s by making it possible for a collection of stores to be assembled under the same enclosed, climate-controlled roof for the convenience of a shopper. Mall of America, the largest in America, has 520 shops and 50 restaurants, attracting 42 million people — a year. Woodfield Mall, outside of Chicago, and one of the most visited malls in the U.S. aside from Mall of America, pulls in 27 million each year.

Each of these intermediaries has their own rules of play, too — sell us stuff a price at a low price so we can mark it up and make a profit or pay us rent and a share of sales so that we can cover the costs of bringing consumers to your front doors and make sure that they can park for free and stay a long time.

But until Walmart, none of them had anywhere near the depth and breadth of consumer reach — and, therefore product distribution — and potential to drive buyers into their welcoming arms. Walmart offered brands — in one week — the kind of consumer foot traffic that it would take even the biggest mall in the U.S. — never mind one of the 520 stores there — two and a half years to see.

That is, until Amazon.

Amazon's Hard Bargain

Amazon is the latest generation of intermediary that does what all retail intermediaries have done before it: assemble a bunch of things for consumers to conveniently buy.

And do that so efficiently that every other retailer now complains that their business is damaged.

Since its debut in 1995 as an online bookseller, Amazon's captured roughly 5 percent of all retail

sales (excluding autos — about 3.5 percent if you include them) in the U.S.

Amazon's Prime customer base of 85 million (before any new additions from last week's Prime Day) visit Amazon two to three times a month and spend twice as much as non-Prime customers when they visit. Those 85 million households cover about 215 million people, assuming that one membership covers the average American household of 2.53 members. Just about everyone who wants to buy from Amazon with a guarantee of two-day free shipping, more or less, can.

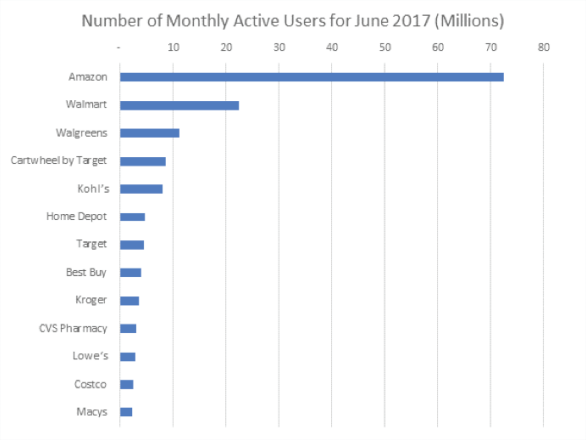
Amazon has taken the friction out of shopping — on or offline — by offering consumers more than just a convenience — it offered them certainty.

Certainty of price — the lowest or close to it — the certainty of selection — adding more brands and sellers by the day — for Prime members, the certainty of a two-day delivery and at checkout, the certainty of an easy, one-click experience.

That certainty means that Amazon is often the starting point for consumers when they want to buy something. In a separate study that we did in 2015, nearly 60 percent of consumers told us that they started their product hunting on Amazon, with a traditional search coming in third at 40 percent.

That certainty translates into app usage that dwarfs even the largest and oldest brick-and-mortar retailers.

According to the latest App Annie data for June 2017, Amazon's monthly active users beat out



everyone pretty handily, and its nearest competitor, Walmart.com, by a factor of nearly three.

That certainty can be seen in its share of online spend. Amazon today accounts for just about one of every two dollars spent online and shows no signs of slowing down.

And, unlike most other retailers — clicks or bricks — the panorama of products that Amazon has assembled gives consumers a reason to visit them every day.

Not once a week to buy groceries, but today, when that consumer realizes that the paper towel supply is running low. Not once a month when it's time to shop for clothes, but today when that consumer wants a new pair of Kate Spade sandals the day after tomorrow to pack for vacation. Not once a summer to get ready for the endless summer cookouts, but three or four or five times to buy summer placemats and garden planters and serving plates and other accessories for outdoor entertaining.

Meet the New Boss, Same as the Old Boss – Sort of

Amazon is a very new generation of intermediary, one with its roots in digital across now any number of connected access points: online, in their app and via a collection of voice-activated speakers.

And soon, in physical form with the acquisition of Whole Foods.

Amazon's ecosystem of products, including music and movies, is now available to consumers across a number of Echo devices, including smartphones via its app and inside a number of existing products. Analysts say that Amazon and its 70 percent of the voice-activated speaker market — in less than three years — is already lightyears ahead in innovating the most natural interface for shopping — using one's voice to ask a personal assistant to fetch them what they need. In fact, 14 percent of the consumers we surveyed as part of our How We Will Pay study with Visa say they own one, and 42 percent of those with six or more connected devices, including a voice-activated speaker, said they use it to buy things.

Amazon, as this new generation of digital intermediary, creates some interesting dynamics — and decision points for retailers.

If you're a brand like a Nike or a Kate Spade or a Stuart Weitzman that relied on the more traditional intermediaries like a department store or even your own branded storefront in a shopping mall to drive traffic, being inside of Amazon's ecosystem could up the odds of getting a sale.

And by a lot, since mall traffic is on the decline, dropping more than 8 percent in 2015 and more than 6 percent in 2016. Since consumers already use the brand name as part of their shopping search – I'm looking for Kate Spade sandals — being part of Amazon offers Prime members something that those malls and stores can't deliver now — more than 70 million eyeballs a month and two-day free shipping, if someone decides to buy.

If, on the other hand, you're a store that makes its living aggregating a bunch of those brands, you could be in a world of hurt.

Our research shows that consumers do start their searches with a store about 44 percent of the time, but it's not always the case that the process of search leads to a sale at that merchant. And, as the interface for shopping becomes voice, that probability will diminish even further. It's hard to imagine someone asking Alexa to search Macy's for a Ralph Lauren shirt; they'll just skip the Macy's part and go right to the Ralph Lauren shirt.

The "hard bargain" that Amazon will drive for those brands is that part of their ecosystem is rooted in what they believe makes for a great consumer experience. In some cases that will be about being the cheapest guy in the online town — like Walmart and pickles — so that they can raise prices later or produce their own higher margin private label version of it. Part of the reason investors are so bullish on Amazon is because they expect that it will do both — since it already has.

In 2003, the Fast Company article made the point that the only thing worse than doing business with Walmart was not doing business with Walmart.

More stories followed about Walmart ruining retail and ruthlessly forcing the shuttering of generations-old mom and pop stores. Stores did close, but something else happened too: Retailers and brands were forced to think differently about their business and how to attract and retain customers in that new era of retail. Those who could, did and survived.

Fourteen years later, the storyline seems the same — only the names have been changed to reflect the changing of the retail intermediary guard. Where people once talked about Walmart, they now talk about Amazon — how they're forcing retailers one by one out of business, how they're dominating retail to the point where no one else can compete and how they're forcing retail into one narrow, Amazon-branded box.

And just like before, we'll see the same retail cycle repeat itself:

Stores will close, brands will disappear and those stores and brands who can think differently about how to attract and retain customers will survive and even thrive.

Like Walmart, Amazon is changing the face of retail by changing the expectations of what consumers will get when they go shopping. In many ways, those consumer expectations are no different than they've always been: being able to efficiently buy the things that they want to buy at a competitive price. But in a digital world, those consumer expectations now include getting those items shipped to their homes in two days and for free, without a lot of checkout friction along the way, and doing that anywhere they happen to be: commuting, while watching TV, in bed with a glass of wine after a long day at the office.

So, retail – meet the new boss – same as the old boss, sort of.

WHAT'S FAST AND SLOW AND READ ALL OVER?

Innovative ideas are inspired by smart people who see problems and have the conviction, capital and courage to come up with new ways to solve for them.

Take faster payments.

One such innovator recognized the vast commerce potential that could be unlocked if new technologies were used to move money and messaging between people in near real-time. The grandness of his vision and success, with a proof of concept, prompted him to reach out to the U.S. government to share his ideas. His ask, at the time, was nothing more than to meet again once he rustled up some capital and a few like-minded innovators to further flesh out his idea.

They agreed.

A year later, he returned — innovation in hand and rock-star engineer by his side. The ask was then for a small amount of money to fund a pilot and test the idea at a larger scale than current resources permitted. This innovator secretly hoped the government would be so enamored with his innovation and its potential to transform commerce (and any number of other uses cases) that they'd want to own and operate it. They left that meeting with enough money to get their pilot up and running, and soon had the proof they needed to support the use of this technology on a national scale.

With success in hand, they returned to ask for more funds to scale further. This time, the U.S. government took a pass.

Private investors, though, took notice and doubled down on the idea, raising the money needed to build out the infrastructure, standardize the tech and commercialize the idea. Soon, firms began popping up all over the country, filling in the pieces of the ubiquity puzzle essential for an interoperable network to operate at scale.

With those tailwinds behind them, it didn't take long for one innovator to start rolling up other players in the market, buying patents, adding to the roster of rock star engineers to refine the tech, and operate what had quickly become an interoperable and ubiquitous network for instant messaging and the movement of money first nationally, then globally.

The year was 1837.

The invention was the telegraph.

The innovator was War of 1812 naval war hero, captain Samuel C. Reid, who had successfully used an early version of the telegraph in battle and saw its potential for much, much more, including commerce.

The rock star engineers were first Samuel B. Morse and later Thomas Edison, who perfected the technology to power this instant messaging system. That system made it possible for messages about the movement of money to be sent and received in near real-time and innovated how trades were settled on stock exchanges.

The company that commercialized the idea and consolidated the market to establish the first global faster payments network was Western Union in 1851. Western Union launched its national money transfer, which provided fast payments between people and businesses, in 1871. The telegraph was also used to settle interbank transfers for the Federal Reserve System in the early 1900s.

Between 1866 and 1910, Western Union fought bitterly with the federal government over who should own and operate this network now that it was up and running and ubiquitous. After Western Union (and others before them) had taken the risk, invested in building out a successful network and keeping it cutting edge (at the time), and proving its value across a variety of use cases, the U.S. Post Office decided it was time for them to run it.

After all, they said, the Post Office was in the business of delivering messages at scale.

By stagecoach and on horseback. In about eight days coast-to-coast on a good week.

I'll leave it to you to ponder the many ironies here, including the dearth of innovation that's come out of the Post Office since the days of the Pony Express. Personally, the Pets Forever stamps rank pretty high on my list.

Now, on Friday, 150 years since the birth of faster payments (version 1.0) and a whole pile of global payments innovation later, we were given a look at the Federal Reserve Board's view of our faster payments future here in the U.S. That's when it released its 64-page executive summary of its ten recommendations for faster payments, made by a 300-person task-force (it used to be more than 500!) who've been working on those recommendations for the last three years.

One-hundred-and-fifty years later, it's a little déjà vu all over again, as the famous American philosopher, payments guru and baseball legend, Yogi Berra, would have said.

After the public sector and countless innovators have taken the risk and invested tens of billions of dollars over decades — innovating payments and building ubiquitous global payments networks that consumers and businesses use and trust because they safely and securely move trillions of dollars a day all around the world — it appears the Fed would like to have banks and nonbanks pony up billions more to fund and build a system they, the Fed, would like to operate.

That's the punch line, really, if you read between the artfully crafted lines written on those 64 pages.

Yes, the Faster Payments Task Force recommends the U.S. system of faster payments be market-driven and governed by the industry. That is recommendation number one.

And it's a good one, since that's what's always worked best in practice.

But recommendation number five is for the Fed to "determine the optimal design of and implement a 24/7/365 settlement service to serve the needs of the faster payments system…and level the playing field."

Recommendation six is to "explore and assess the need for the Federal Reserve's operational role(s) in faster payments" in order "to support ubiquity, competition and equitable access to faster payments in the United States. In addition to providing for a settlement capability, such roles might include provision of directory services, transaction processing, network access, security and/or cross-border payments" should said stakeholders fail to agree on standards, policies and procedures.

As anyone who has ever tried to arrange a meeting that involves food and includes more than two people understands, it's really tough to get consensus on even the little things — never mind getting 300-plus stakeholders representing an entrenched payments and commerce ecosystem about how a new, faster, interoperable, ubiquitous fast bank-account-to-bank-account payments scheme should look and operate.

Oh, wait, you didn't realize that was the underlying M.O. of this effort?

For years, the Fed's payments folks have been wracking their brains to figure out a way to remain relevant in a digital payments world in which it was becoming increasingly less so. As innovators and governments all over the world have demonstrated, those who can do (innovators), do, and those who can't convene multi-year humongous member task forces (governments).

That's what started in the U.S. back in 2014.

The Faster Payments Task Force was formed by the Fed under the rubric of avoiding the government mandates, which drove faster payments everywhere else in the world, so the U.S. could instead create a new market-driven and industry-led payments scheme.

In the two years since, a lot of people have put in a lot of hard work — not to mention invested a lot of their time — showing up at meetings and discussing the ways in which payments can and should move more efficiently between people and businesses in the U.S.

Many of their recommendations are perfectly rational and sensible — really inarguable, in fact.

Who could argue the need for secure and trusted payments rails?

No one, since that's what we have in place and use today — which isn't to say payments rails, like everything, couldn't be better.

And the need to have those rails keep pace with the growing cyber threats and technologies for authenticating users in a digital world?

No one, since that's what those who operate global payments rails today are investing in and deploying today.

And the need for ubiquity?

No one, since without it, new payments schemes struggle, and many use cases are DOA.

And standards that support interoperability?

No one, since that's the bedrock for how our payments schemes operate today — standards continue to evolve as digital and connected devices present new use cases and the need for those standards to be modified or developed.

But, to do that all under the rubric of faster?

That's where I get stuck.

So, it's a bit of a puzzle, then, as to why, and why now, the recommendation out of the Task Force is for the ecosystem, especially the banks, to plow billions into building something entirely new — and then asking banks to spend millions (or billions, depending who you ask) more connecting to that something new — all in the name of faster (that is the first criteria on the list) and without a business model that would give any of those banks an incentive to do any of that?

Maybe there will be something in the big forthcoming report, but the 64-page summary doesn't say anything about a business model for participating and the ROI for anyone to sign on.

Building a new set of payments rails is one thing.

Getting all of the banks to sign on is quite another. And, when I say all, I mean all. Ubiquitous means all, or certainly almost all, of the 13,000-plus FIs that exist here in the U.S. have to be connected to the new system for it to work.

And those banks won't if the new scheme pays them nothing — or next to it — while threatening to cannibalize other revenue streams like wire and debit and credit interchange. "Free" in exchange for "keeping deposits" sticky isn't exactly setting the world on fire on the P2P side of payments. Setting a sensible business model seems critical.

And, since "free" is a business model the Fed seems to like — and could, as the operator of the settlement network, decide is the price — the question then becomes who does pay to pay to operate the network, since it isn't going to be the consumer.

It's also a puzzle that we'd even look to the Feds in the first place to drive payments innovation. Governments, overall, have really only driven one big innovation, and even that was done to fill their coffers. The Kingdom of Lydia is often credited with coming up with the first government-issued, standardized method of payment — the coin. Other governments ran with this idea because they saw they could turn a tidy profit by issuing coins whose metallic costs was less than the face value of the coin.

But that innovation was a really long time ago — 750 B.C.

Back at home, the Fed, though, did play a big role in propping up the paper check for much of the 20th century. So there's that.

But none of the innovation that's moved payments forward over the last 50 or 60 years has come out of any government or central bank anywhere in the world.

The government, as I said earlier, didn't create the world-changing faster payments version 1.0 (money transfer via the telegraph), but you can't

blame the fed since it didn't exist then. But the Fed did exist when the charge and credit rails were introduced, back when the first initiatives aimed at #KillingTheCheck were made a couple of decades ago with the debit card. The Fed didn't see the need for people to conduct commerce on the web and create digital payments schemes that would allow them to do that. And the Fed's been largely in reaction mode to innovations around digital currencies, distributed ledger technologies, risk models, tokenization, biometrics and the many other things that innovators and established players have been investing in and experimenting with for many years to move payments, and all that surrounds it, forward.

Instead, this week starts the next phase of the work focused on making things faster, when, thanks to the efforts of innovators — many of whom are members of the Fed's own Faster Payments Task Force — have leveraged existing rails and innovated on top of them, and made a lot of headway in checking that box. Two years later, faster really isn't the driver of payments innovation today — making payments predictable, smarter, digital and efficient is.

In the two years the Fed has been examining this issue, innovators have gotten the job done. NACHA has implemented ubiquitous Same Day ACH with credit push and will implement phase two with debit pull in the fall. The card networks are powering instant disbursements. Innovators have invested in and launched schemes that enable instant payout to any form of payment a consumer has and wants to use to receive funds. Perfect, no, but they are actually in the market helping make payments faster.

So, while the Fed convenes more task forces, innovators will continue to do what everyone in the ecosystem wants to see happen: investment in modernizing existing rails, building out new capabilities and devising new business models that give consumers and businesses the safe, secure, predictable, efficient, smarter, ubiqituous and, when needed, faster payments experience they want and need to drive the next generation of commerce forward.

Because innovation in payments waits for no man, not even The Man.

If, by the way, if the Fed really wanted to make payments faster, they'd #KillTheCheck. That alone would give us much faster payments, on average. The paper check clearing system is the biggest drag on faster payments in the U.S. to date — and, just like that, we'd have the $22 trillion dollars' worth of paper checks that still float around the system each and every year instantly turn digital.

And we have the rails and the innovators we need in place today to manage that transition — safely and securely, via ubiquitous and interoperable rails.

Recommendation number one. #KillTheCheck.

Then come back to me and we can talk about faster payments.

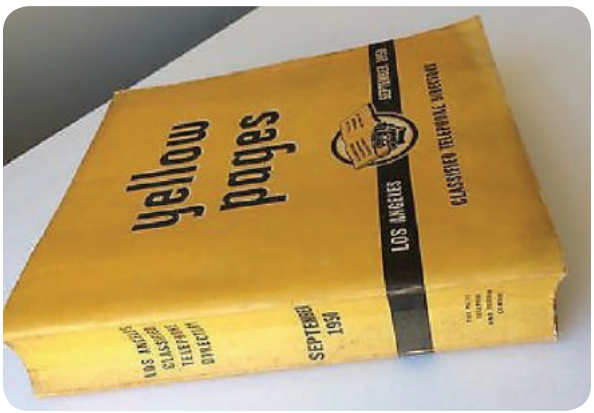
JULY 31, 2017

THE MISSING **'M'** IN FACEBOOK **MESSENGER**

Some of our most important innovations have happened by accident.

In 1928, Sir Alexander Fleming left his lab for vacation without cleaning up. He returned to find a lab filled with gross petri dishes that had to be thrown away — except for one that he noticed looked different. That one was home to the staphylococcus virus, plus a small patch of mold which the virus had not penetrated. The petri dish led Fleming to the discovery of penicillin, a scientific breakthrough that won him the Nobel Prize in Medicine in 1945. That mistake has saved countless lives since.

In 1883, a printer in Wyoming was about to print the Cheyenne telephone directory and discovered that he had run out of white paper. He kept on printing using the yellow paper he had on hand, instead. Reuben H. Donnelly turned this mistake into a new business idea three years later when he launched the first directory with white pages for residential listings and yellow ones for businesses. Years later, the Yellow Pages became its own stand-alone volume.



Those printed tomes that landed with a thud once a year on the porches of consumers everywhere in the world assembled a list of businesses by category (electricians, plumbers, restaurants, lawyers, dentists, doctors, stores, etc.) and was the primary way that people used to find and contact those businesses. Back in the day, the Yellow Pages were so thick that they did double duty as booster seats for kids at the dinner table (at home and in restaurants), and they were what mothers gave their young daughters to balance on their heads to ensure that they had perfect posture while walking. Yours truly used to sit on them in the back seat of my grandmother's Cadillac so I could see out the windows — a clear violation of every conceivable automotive passenger safety standard, if only they had existed at the time.

As a platform, the Yellow Pages were free to consumers. In the days of only landline phones, the local phone companies had a record of all phone numbers connected to businesses, and all businesses were given a free listing. But to stand out in a sea of thousands of pages and hundreds of entries for any one category, businesses would work with Yellow Pages ad reps to create ads — once only black and white and later, color.

The Yellow Pages has evolved to keep up with the digital times, and today is actually (and maybe a bit unbelievably) one of the most searched-for sites on the internet. Their website reports that 60 million visitors a day (down from 70 million

in 2012) visit yp.com, that they have 500,000 advertisers on their digital platform and drove $1 billion in ad revenue last year.

The print edition, also more unbelievably, still exists — although its shape and size has diminished considerably. Here's the last one that arrived at my home in Beacon Hill in Boston last year, which as you can see is now even smaller than my seven pound, 13-week-old Scotty puppy named Charlie.

I found this stuffed away in the kitchen pantry on the very top shelf underneath a few other things that I also never use. Charlie, on the other hand, is thrilled to have been introduced to a thick stack of paper to sink his very sharp baby teeth into.

Aside from using it as a way to show you my new pup (yes, I still have Annie the Border Collie), why the history lesson on the Yellow Pages? Well, it has to do with Facebook's earnings last week and, in particular, what was said and not said about its Messenger app.

Facebook Messenger, as you know, is led by David Marcus, who left PayPal as its CEO in June 2014 to take this new gig. At the time, he said the move was prompted by his reports of not having any fun being the head of a publicly traded company and his desire to join one where he could apply his mobile experience to bring a bigger impact to more people with a smaller team.

And to position Messenger to become, as Marcus articulated just a few weeks ago, just like "the Yellow Pages," where people and businesses can search and find each other "without a phone number" and do business.

And just like the Yellow Pages, Messenger's future is one punctuated with a number of question marks.

Messenger — the Topic of Conversation

On Facebook's earnings call last week, there were high fives all around for the social media giant's Q2 results: active users that topped two billion, daily active users of 1.3 billion, revenue up 45 percent, profits up 71 percent and mobile driving a stunning 87 percent of ad revenue, just to highlight a few. Facebook CEO, Mark Zuckerberg, also mentioned as part of his prepared remarks that Facebook was planning to accelerate its investment in Messenger so that it could "move faster" to drive activation and acquisition — and monetization, which he emphasized was in "early days."

Not surprisingly, Facebook Messenger then became a key topic of conversation in the analyst Q&A. If ad revenue growth on Facebook was likely to slow down because there were no more places to stuff ads in the News Feed, analysts wanted to better understand Messenger's role in potentially filling that hole. One analyst even remarked how rare it was for any company with an active user base of a billion not to have both a monetization strategy and the associated revenue that goes along with it.

Mark Zuckerberg's response to that and the many other questions that day was consistent: Messenger is not a "near-term overall Facebook growth driver," adding that because other messaging platforms had succeeded in creating a robust ecosystem — and social media website had succeeded in monetizing Facebook and Instagram — Facebook was confident that "over the long term [Messenger] will get there too."

The analyst's questions followed several media roundtables held in the weeks prior. During those sessions, Marcus provided an update on Messenger's progress, including new features that had been launched and the impact of bots on consumer engagement on Messenger. It was in one of those interviews that David Marcus made the Yellow Pages (for businesses) and White Pages (for people) analogy, saying that if the phone were invented today, people wouldn't want to use phone numbers to make contact. Instead, he said, people would use digital contact pages that they'd find in one convenient, searchable place.

A place that he and his team would like for Messenger to become.

[Let's set aside for a minute the fact that back in the ancient days of landline-only phones and the White Pages, Ma Bell didn't decided on its own to publish everyone's name, address and telephone number. People paid extra to have an unlisted number. Nowadays, given a choice, most people don't want to be easily contacted outside of any shared/permissioned network or relevant context.]

So, making Messenger "that one place" will be tough since it will require a shift in how consumers think of and use Facebook, think of and use Messenger, think of and use their messaging platforms — not to mention Messenger's ability to devise a plan that aligns with all of that.

Bragging and Broadcasting

It wasn't long after being a place online where college kids could find and meet other college kids on campus, that Facebook became a big megaphone for broadcasting all of the stuff that people wanted to brag about to their social media network. It also didn't take long for News Feeds to be flooded with pictures of kids' graduations, family vacations, class reunions, Dad finishing the marathon, Mom celebrating a birthday or friends getting married.

Stuff that was personal but not stuff that was private.

Facebook's big megaphone added another layer almost out of the gate: the ability for brands to serve ads. Today, that means to the 1.3 billion people who tune in daily to check their News Feed. So, now, in between seeing pictures of your

friend's summer pool party, Facebook users can get the lowdown on J.Lo and A-Rod from People magazine, heart-tugging animal rescue stories from dodo.com, videos of Gwyneth Paltrow giving herself a facial using her Goop products, ads from a host of retailers and recipes being made from the Food Network.

Messaging platforms are very different.

People use them to exchange more private information between two people or small groups who know each other and want to communicate away from the mongrel hoards online. Texting someone is more immediate but it's also more appropriate when sensitive things are being communicated between friends or family members, regardless of how time-sensitive they are.

Brands have started using text messages, with the permission of their customer, to communicate the status of a delivery, confirm orders, remind them of doctor's appointments and refill prescriptions. Friends use messaging platforms to send links to their friends to buy things that they think they might like, or give directions on where to meet for drinks. OS-based messaging platforms now also make it possible for consumers who are talking about dinner plans to make a reservation on OpenTable, hail an Uber or even order a pizza while having that conversation.

Unlike email or even the Facebook News Feed, it's pretty unlikely that you'll get bombarded with solicitations from brands you haven't given permission to contact you, since regulators don't take too kindly to those who do. Messaging ecosystems, as a result, are cleaner because they have a ton less spam — and a ton more content user-relevant.

But that separation of personal but public/private hasn't stopped many, including Marcus and Messenger to set their sights on creating that "one place" where existing friends can chat with each other, and people and brands who aren't can find and reach out to make friends.

Just like Tencent has done successfully with WeChat.

There's only one problem in trying to replicate that model outside of China today: WeChat started in a very different place. China is culturally quite unique, and consumers everywhere have a lot of other options.

Tencent started life as QQ — an instant messaging and gaming platform — on the desktop. Its base was an established network of people who interacted with each other there. When Tencent made the move to mobile and the WeChat app, it had to persuade QQ users to download the WeChat app and use it. But they did — because that network of friends in China had no other alternative if they wanted to enjoy all of the benefits they had when using QQ. Over time, more features and functions were added to that ecosystem to create "that one place" where Chinese consumers could talk to their friends and make new ones, talk to brands they like and find new ones and buy from them on and offline.

Like Tencent and QQ, Messenger's challenge when it separated from Facebook was also getting consumers to download the Messenger app — and hoping that their friend's network

would too. When Messenger was on Facebook, it was pretty easy to punch out to chat with those Facebook friends while staying inside Facebook's ecosystem. Friends could see who was active and start a conversation.

But Facebook friends who were also close enough friends to interact with each other on a regular basis also had other ways to reach those friends: phone-based messaging apps, LinkedIn, email and the many other competitors that had popped up to pull people off Facebook — like Instagram, WhatsApp and Snapchat. It was a tough sell for Facebook users — at least in the developed markets that Messenger has said are quite important to them: the U.S. and the U.K. — to make the switch. Not downloading the app didn't mean losing touch with people with whom they wanted to stay in touch, it just meant using one of the other channels they already had in place more often. Messenger then became one less thing for people to have to manage and check.

Yet Messenger had another hurdle to clear.

Consumers in developed markets also view their "one place" to do all of those things as the ecosystem of apps that they access on their mobile phones. It's true that consumers don't download a lot of new apps, but they do download the ones they want to use — Uber, Amazon, walmart.com, Chrome, PayPal, Yelp, their banking app, OpenTable, Facebook, Instagram, WhatsApp and, yes, Messenger to name but a few. And they use them in the context in which they feel best suits their needs — to talk to friends, broadcast what they're doing to big groups of people they haven't seen in years, discover new products and places and interact with brands and buy from them.

Changing that behavior and expecting people to shift to Messenger as that starting point for the discovery of people and brands and the conduct of commerce seems like a tough hill to climb — regardless of how many bots are enabled there for eCommerce.

And, I think, regardless of how long Facebook says it is willing to invest for that to happen. Time, in this day and age, is a currency that innovators — even established platforms like Facebook — must manage wisely.

Now, that's not to say that there won't be an intermediary that consumers will use as "that one place" to simplify the many activities that today they use many apps and their phones to do for them. That's because they do that now. They often use Amazon as the starting point for commerce. Google as the starting point for search. And native messaging apps, Instagram and WhatsApp to talk to their friends. Conversational interfaces like Alexa and Allo and Bixby and Cortana that connect people with people and brands and businesses with people seem to be the interface that consumers want to use to access all of those various brands and apps and websites. Because that's what consumers not only say they want, but are actually using.

That also happens to be where businesses are allocating their development budgets as well. The bot bubble (for commerce in this instance) seems to have burst — something that I predicted last year.

All that said, since 2014, when Marcus joined, the number of active Messenger users has more than doubled, and it is one of the most widely used apps worldwide, although it faces a lot of competition everywhere in the world. Moreover, many of the people that I have talked to who use it do so for specific reasons: to communicate with international friends or to communicate with a network of friends with whom they only interact with on Facebook.

Messenger's recent efforts seem to replicate what other platforms have already done, Snap-like filters, for example. And efforts to make it easier for brands on Facebook to have a place for their customers to conduct commerce seems more like something that is in the best interest of Facebook and not the consumer, who's just trying to get a question answered or a product purchased. And putting ad efforts like with its mothership, Facebook, inside an app that people use for talking, and not being advertised to. It's a risk, but one that Messenger seems willing to take, since monetization by any other name seems quite illusive.

What's interesting now, three years later, is the decision that Facebook made to make Messenger a separate app and to make it impossible for users on Facebook to access it unless they downloaded Messenger. Marcus has said that if they didn't take that step, they'd never establish Messenger as a separate platform. A platform that, I suspect, Facebook decided to make their bridge to commerce.

WeChat's roots in being a social network — and the lack of other options for its users — made it easier for them to make the leap from sending messages and playing games to buying stuff and ordering taxis. Facebook was never able to cross that chasm, despite many efforts. I wrote a couple of years ago that the reasons people in developed countries, at least, came to Facebook (at least then) was to stalk their friends, not to buy from the brands they might have liked way back when.

And further, that consumers didn't trust Facebook to be "that one place" for commerce — a data point that our connected commerce study confirmed in May. Only 8 percent of consumers view Facebook as the place that they trust to enable a connected commerce experience for them.

Will the prospect of toggling off Facebook to transact on Messenger change any of that? Color me dubious. I don't think that Messenger is going to become like WeChat or anchor a commerce ecosystem for Facebook or become a huge advertising engine on its own. There just doesn't seem to be that one thing that will make Messenger that one place consumers will decide to make their own.

WHAT WALMART PAY **KNOWS** THAT APPLE PAY **DOESN'T**

A lot of exciting things have happened in payments — and commerce, more broadly — over the last three years.

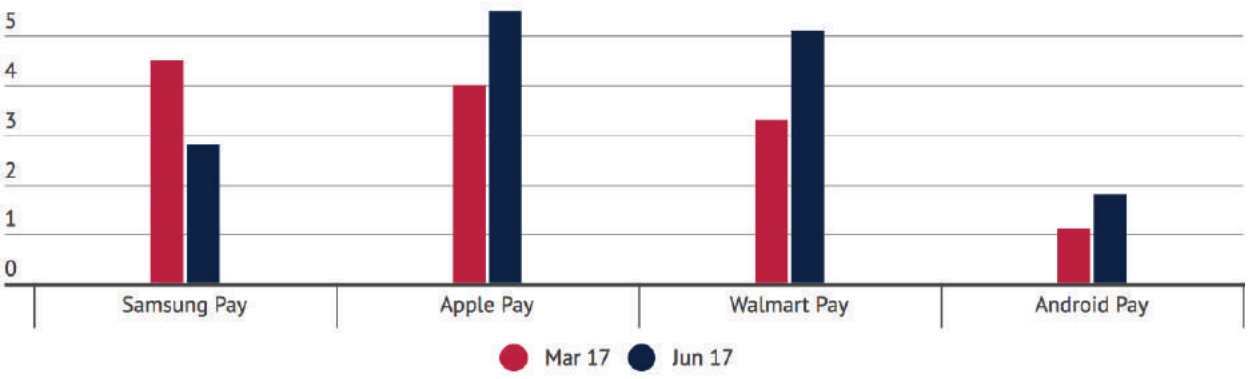
- **PayPal became pals with the card networks and their issuers.**
- **India demonetized its currency and put digital payments adoption into overdrive.**
- **Amazon ignited conversational commerce with Alexa and the portfolio of apps and devices that now have her at the consumer's beck and call.**
- **Selfie Pay became a real thing.**
- **Walmart bought Jet.com to beef up its eCommerce business.**
- **Paying gig workers faster has given the gig economy a real boost.**
- **Disbursements is moving us closer to the day when we can really #killthecheck.**

Efforts on the part of the payments ecosystem to **fight the fraudsters** have managed to decrease the rate of online fraud by about a third.

But here's one thing that the last three years hasn't done: increase the consumer's appetite to turn their smartphones into a digital payment form factor when they check out in a physical store.

In fact, the results from the latest PYMNTS/InfoScout Mobile Payments Adoption and Usage study over nine quarters concludes what now sounds like the same song, different verse: Consumers largely haven't been given a good enough reason to remember to use them, even though when they whip out their plastic cards to pay for something in a store, they often have their phone in their other hand.

Mobile Wallet Usage

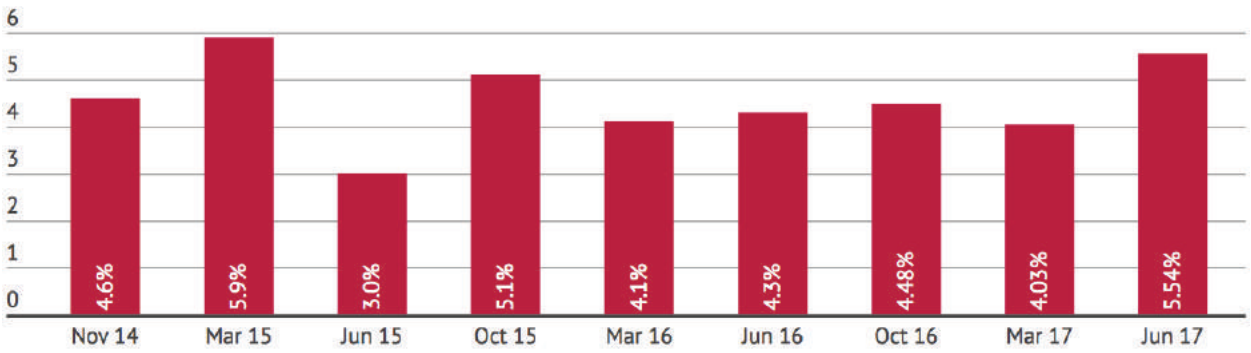


Let's be clear what we mean by usage: It is the percent of people who have the payment method on their phone, who pay at a terminal where they could use that method and then who actually use it to make a purchase.

That reluctance to ditch the leather wallet for the digital version is despite the proliferation of NFC-enabled terminals for the [Fill-in-the Blank] Pays that need NFC to initiate a payment, which is a pretty sobering reality for the "granddaddy" of all the Pays — Apple Pay — despite Apple CEO's Tim Cook's ebullient shout-out to Apple Pay in its latest earnings report last week.

Apple Pay may be, to quote him directly, "by far the number one NFC payment service on mobile devices, with nearly 90 percent of all transactions globally." But that's a lot like saying you're the best of all the C students in a class of C students: It's still a class of C students.

Apple Pay Usage



After almost three years — with all of the hype and all of the investment in advertising and promotion — Apple Pay seems unable to consistently crack 6 percent usage in the biggest payments market in the world.

Our results show average usage over nine quarters to be about 4.5 percent. And while it has hit a high of 5.9 percent, and did hit 5.5 percent this past quarter, the trend remains flat despite the increase this quarter.

At this point in its lifecycle and hype-cycle, it begs the question: Can it ever break that ceiling?

At the end of June, when we went back into the field, 24.5 percent of respondents said they tried Apple Pay for the first time, up from 21.9 percent in March. And 5.5 percent said that they used it to pay for a purchase, up from 4 percent in June — but off its high in March of 2015.

It's hard to know if that's the start of a consistent upward trend or another blip, but statistically it

looked like just another random blip along a pretty dismal trend line. When we asked consumers how often they used Apple Pay to pay for something in a physical store, they did so about 18 percent of the time. That stat hasn't budged since March and has been on the decline since October of 2015.

There is one exception to this story: Walmart Pay.

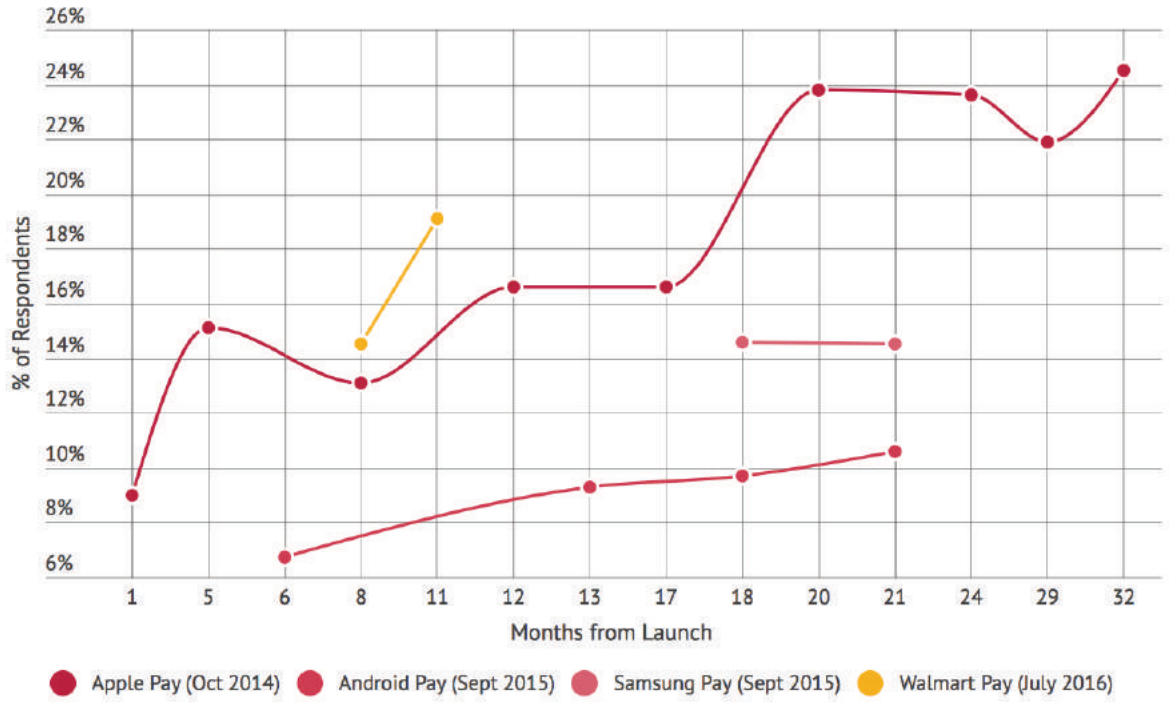
Since March, we've seen the first-time use of Walmart Pay increase by 31.7 percent to 19.1 percent of respondents. And of those who have the app on their smartphone and use it to pay, there was an increase of 53.5 percent to 5.08 percent of respondents.

What's interesting about that jump isn't so much the jump itself, but the speed at which Walmart Pay is turning those who try it once into those who use it again. Usage, at 5.03 percent, is after only a year in market and only slightly less this quarter than Apple Pay's 5.5 percent, now closing in on year three.

Frequency of usage with Walmart Pay also tells an interesting story.

Nearly 50 percent (47.2 percent to be exact) of respondents who shop at Walmart said that they used it every time they could — only 6.6 percent said that they never thought to use it at all.

Now, that's not to say that Walmart doesn't have its work cut out. Walmart Pay's biggest competitor is cash — which was what consumers said they used when they didn't use Walmart Pay — and what many of them do use when shopping there. Ditto EBT cards, which can't yet be registered to a digital wallet for payment. Those are two big and important hurdles that Walmart Pay must clear.



But what appears to have made Walmart Pay sticky isn't the ability to pay using the app at the store — but rather the portfolio of value-added solutions wrapped around the act of paying at checkout.

But even that isn't checkout in the traditional sense of the word.

Walmart Pay's QR code actually authenticates the user before the checkout process begins, at which point the consumer can then put her phone back in her purse. The process of applying coupons, promos, Savings Catcher rewards and gift card balances (if any) kicks into high gear in the app, prompting any and all of those options for the consumer to choose from before checkout is finalized. Walmart Pay also enables mobile order ahead for groceries with curbside pickup, buy online and check out in-store using cash and now a series of financial services, including savings.

All of that is a world apart from where Apple Pay started in its quest to win the in-store payments game — and it's not even where it appears to be heading.

Integrating store-specific loyalty programs into Apple Pay sounds great — until you get to the part where the checkout experience still requires standing in line to get to the counter to check out. At that point, as our survey respondents have told us consistently, using a card works just fine, especially since the EMV experience at checkout today in most stores is pretty fast.

But I hear you saying, wait, Tim Cook made the point during the earnings call to say that three out of every four Apple Pay transactions happen outside of the U.S., where he remarked that "infrastructure for mobile payments has developed faster than in the U.S."

Even though the backwaters of payments innovation, the U.S., (if I were reading this to you, you'd hear this said with a healthy dose of sarcasm) may still be a few years away from contactless terminal ubiquity, it's been reported that 52 percent of merchants in the U.S. can accept an NFC-enabled payment, including lots of those long tail merchants like coffee shops and delis that operate integrated point-of-sale terminals, such as Clover and Square.

Unfortunately, what once might have been a good scapegoat for Apple Pay's lackluster performance here in the U.S. — and frankly was an early criticism of mine about their ignition strategy at launch — isn't the reason Apple Pay isn't knocking the socks off U.S. consumers.

But what about those other global markets that are driving 75 percent of Apple Pay's transactions?

How much volume is Apple Pay driving, and where are consumers using it?

Is it in the U.K. for transit use cases, where contactless transactions are crushing it?

In Australia, where the big banks were trying to block Apple Pay, since they don't want to be locked into Apple Pay's 15 bps at the expense of their own contactless mobile wallets?

In Japan, where it's been hard for any mobile wallet over the last 15 years to gain any traction,

and where it seems that Apple Pay's strongest use case, like the U.K., is transit?

In one of the new markets like Sweden or Denmark where digital payments are a way of life, but so are popular in-country schemes like Swish and Dankort that today have broad consumer adoption and usage?

The short answer is that we don't know, and we might not ever.

The likely answer is not much, since if it was material, Apple would be talking about it.

Case in point: Even when Apple broke out drivers of its Services revenue in their earnings report last week in response to an analyst's question, they gave a nod to everything but Apple Pay. And no one else asked.

What seems certain though is that it won't be in China, where Apple is betting its future and where Apple Pay as a mobile payments solution is bombarding users with promos and freebies out the wazoo to get them to give it a try.

As the second largest economy in the world, it's understandable that Apple has made China a top priority. There's only one problem: China has not made Apple a top priority.

Apple, as a company, has lost sales in China since 2012 and was down 10 percent last quarter after declining 14 percent the quarter prior. Apple has a ~9 percent share of handsets in China, and 0 percent share of payments (I think they rounded down!), according to a terrific piece of research done by China Channel. In China, Apple is considered a luxury brand — but is now one of many handsets that Chinese consumers can buy that allow them to access the most important thing to Chinese consumers: WeChat and all of the chat and games and commerce capabilities that its ecosystem enables.

According to China Channel's report, 67 percent of Chinese consumers use Alipay or WeChat Pay's QR codes to pay in a store, 22 percent use UnionPay cards and 11 percent use cash (and zero use Apple Pay). When 4,000 Chinese consumers were asked to choose between WeChat and Apple Pay, 88 percent chose WeChat — only 4 percent chose Apple. The Apple apps ecosystem that's such a draw for consumers in other economies has little appeal to the Chinese consumer who gets all she needs from WeChat.

It seems equally hard for Apple in India, too.

With 1.3 billion people and GDP growing at a 7 percent clip annually, Apple maintains a 3 percent market share of the smartphone market, according to Kantar, in a market that is dominated still by feature phones. Of those 1.3 billion people, 70 percent live outside big cities, and 93 percent of those rural villagers have never conducted a digital transaction.

So, what's wrong with that you ask — especially given the fact that two-thirds of the population are under 35?

Price points and competition.

The average price paid for a smartphone is $155 — Apple's plans to manufacture smartphones in India have suggested that they will retail for $455.

Cheaper and high quality smartphones made by Chinese OEMs now have 51.4 percent of the market in India — growth that is up 142 percent since last year. Mobile wallet schemes, spurred on by demonetization and independent of the hardware that enables them, are well in flight. Paytm, backed by SoftBank and Alipay, has 200 million users and growing. Oxigen, MobiKwik, PayU/Citrus Pay, along with the PayPal/card network partnerships and card network Bharat QR code schemes all have a running head start too in a market where the phone hardware, largely, is just the host for a digital payments capability that makes the financial lives of that Indian consumer better and easier.

So, what does this all mean?

After nine quarters of tracking 8,000 consumers a quarter, it seems that the verdict is in.

Consumers in the U.S don't want a new way to pay at an old checkout experience.

What they want instead, including iPhone owners, is a new experience that removes the inefficiencies in how they pay for things they want to buy in those stores. They view connected devices as their ticket to those new payments experiences.

In other words, what consumers want is a new way to pay at a whole new checkout experience.

The blurring of the online and offline worlds — and the opportunities that creates for reinventing the way consumers shop and pay, which I've been writing and talking about since 2010 — isn't just talk. It's how consumers expect their digital payments experience to be delivered.

It's also what consumers are using.

Mobile order ahead, just to take one example, is crushing it at the brands that have embraced it, driving more than 50 percent of transactions during peak times and increasing the average order size by 20 percent.

And it will also determine the so-called mobile "wallet" winners and losers. Here in the U.S. and everywhere else in the world.

In fact, it may already have.

THE GREAT ONLINE INNOVATION PILE ON OF 2017

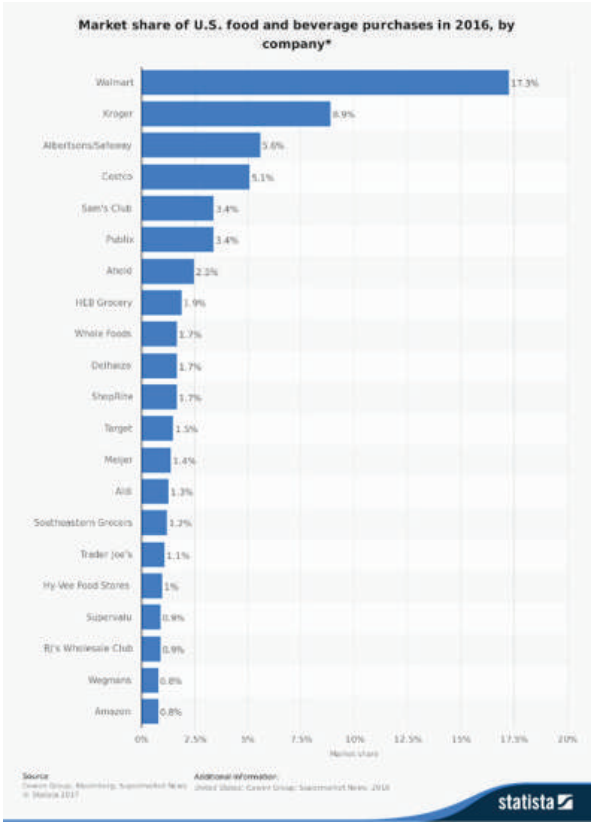
There seems to be an awful lot of piling on these days on the big online platforms.

STARTUPS ARE PILING ONTO FACEBOOK, CLAIMING THAT THEY STEAL THEIR GOOD IDEAS.

As *The Wall Street Journal* reported last week, the founders of live video chat service, Houseparty.com, said ***they thought*** they were being invited into Facebook's offices last year to discuss a potential acquisition. Shortly after that meeting, the article says they were told by Facebook that talks would proceed no further. Then, the House Party team says they all of a sudden started to see Facebook's own promotion of a standalone video chat app that will launch this fall. The WSJ story suggested that Facebook CEO, Mark Zuckerberg, is so obsessed with losing ground to anyone, including a slew of small startups, that he has set up an internal surveillance program that "actively monitors" what said startups are doing so that Facebook can track and then "squash" the competition.

Traditional grocery stores are piling onto Amazon, claiming the acquisition of Whole Foods will tip the balance of grocery buying power in Amazon's favor.

This one is particularly amusing. Take a look at this chart, which lays out grocery chain market share. You will observe grocery, as a retail category, is very fragmented. Walmart has the largest market share at 14.2 percent, the next biggest player is Kroger at 7.2 percent. If you are having trouble finding Whole Foods, I'll help you. They are down near the bottom at 1.7 percent. Amazon you'll have no trouble finding, since they reside at the bottom at an .08 percent share.



But two short years ago, article after article was piling onto Whole Foods as basically the biggest loser in the grocery sector. Its "Whole Paycheck" image combined with the rise in availability of organic foods in more traditional grocery stores put pressure on its stock, which was in

the dumper, and the management team to do something to turn things around.

The news that Amazon would buy Whole Foods in June caused the collective media to suffer a mild dose of amnesia (and the market share realities to been thrown to the wind) after having harangued Whole Foods for two years to get its act together. It was enough to set a series of reports in motion suggesting that Amazon/Whole Foods would use its combined whopping 2.5 percent share of grocery to disrupt the balance of power in the grocery industry, post acquisition. The narrative over these claims of anticompetitive behavior has escalated to include discussions by Members of Congress to ask the Justice Department to review the merger on those grounds. You don't even need to be an antitrust expert to get that this is a baseless claim.

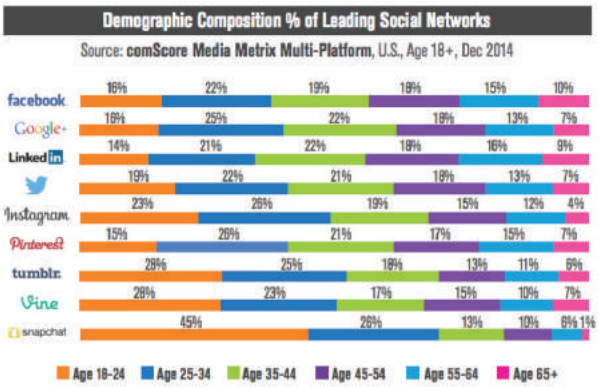
The regulators in Europe piled a $2.7 billion fine onto Google, claiming that their product carousel ads created an unfair advantage to small guy retailers who didn't have the money to advertise.

I'll point out that those retailers did, apparently, have the money to hire lawyers.

I wrote a whole piece about this several weeks back, where I did a bit of my own piling onto the EU for the reality-challenged arguments behind the fine and its new regulations of Google. Somehow the folks in Brussels missed the fact that Amazon has become a massively successful search destination for product search. They seemed to be living in the last decade, when people really did just use Google or Bing to look for products.

The media is now doing all kinds of piling onto Snap, claiming that they're not worth the paper the IPO was printed on.

What a difference two years makes. In 2015, the tech media was gaga over Snap and its ability to corral the so-called most valuable eyeballs in media: the millennial. This comScore chart shows that audience breakdown and made the tech press and event circuit rounds in force. Media companies, in the meantime, shoveled tens of millions into Snap in the hopes of selling to a generation whose brand loyalty is about as fleeting as Zsa Zsa Gabor's affection for each of her nine husbands.



That year, the stories about Snap were those of a hotshot, good-looking cool kid startup, Snapchat, taking on aging social network, Facebook, by giving those highly coveted millennials a mobile app to hangout and chat where their parents couldn't find them. Investors put $2.65 billion into Snap since it started in 2012, and its IPO in March of 2017 raised $3.4 billion more.

Since opening its performance to public scrutiny via its now-public filings of its financials, the stock

has lost more than 21 percent of its value. And the once-adoring tech and analyst community have turned ugly. Even its lead underwriter, Morgan Stanley, sent a note to investors that began with "We have been wrong …" and downgraded the stock shortly recently.

A venture that was once seen as Facebook's biggest threat is now viewed, five months after its IPO, as toast at the hands of the company that two years earlier was viewed as highly vulnerable because of it. Ignoring, of course, that in its first months as a publicly traded company, Facebook lost about half of its market value and struggled to convince investors for more than a year of its ability to skate to where the puck was going — mobile.

It's Not Easy Being Big

All of these stories, which are just the tip of a very deep iceberg, emerged over the last few months and fueled an insatiable media spin machine by ginning up the modern day David and Goliath stories of which that people just can't get enough.

We all know the Biblical story of David and Goliath: Little boy named David, armed with only a slingshot and a few rocks, topples big heavily armored, sword-carrying evil giant named Goliath and saves the day for the Israelites. David did the deed by catching Goliath off guard: using a slingshot and a rock and not a sword to cause him to topple — then slaying him by using Goliath's own sword.

It's an inspiring story — and one that gets many an innovator out of bed to fight the good startup fight, even in the face of insurmountable odds. Harvard Business School professor, Shikhar Ghosh's research says that three out of every four venture-backed startups die, and 95 percent of them fail in the sense that they never deliver the expected return on their investor's capital.

It's also a metaphor that only works well if the competition is so cut and dry that it's easy to define.

Which, given the complexities of today's commerce ecosystem, is neither.

A Goliath by Any Other Name

Google and Amazon and Facebook and Apple are all competing with each other — and many other Goliaths — over eyeballs and the revenue that follows them. They are all competing in an ecosystem where there are multiple Goliaths to slay at any given moment.

Take Google.

When Google was just about search, its competition was Bing and a few other now-forgotten search engines. But today, Google is "just a search engine" in much the same way as I am just a female. Today, Google's competition is everything from Amazon for product searches and virtual assistants living in voice-activated ecosystems and hardware, to Facebook for mobile

ad spend, to Apple over operating system share for Android and app developers for Google Play, to WeChat for eyeballs worldwide and all of the many digital acceptance marks for Android Pay as it strives to give users a new way to pay.

When Facebook was just a social network with a clever ad model, its competition were just other social networks, like MySpace. But Facebook was never "just" a social network. Facebook — and now Instagram, Messenger and WhatsApp — are all duking it out with Google for mobile ad dollars and search, Snap for millennial eyeballs and engagement, Amazon for commerce — and, if rumors are correct, virtual assistants and the hardware to host it, publishers for eyeballs on News Feed content and WeChat and every other messaging platform, for messaging.

Then there's Amazon.

When Amazon was just about selling books online, its competition was the physical bookstore. But Amazon has long since blown past its days of selling books and CDs. It's a commerce platform with a marketplace of sellers that is competing with traditional retailers who don't want to cede their place in retail to Amazon, Google and Facebook for search, Apple and Google for voice-activated ecosystems and developers, Microsoft for cloud computing, every digital wallet for payment on and off Amazon and Netflix for streaming content.

Snap used disappearing messages to capture the millennial's attention — and her network. Its vertical format for photos and videos — consistent with how people hold their phones — was its differentiator and became the lure for advertisers who wanted to reach this hard-to-reach demographic. But Snap is a P2P network that just happens to use video and photos as its hook. It's competing now with Venmo, Zelle and Square for P2P payments — and commerce more broadly, in addition to Instagram and Facebook for ad dollars and, it appears, investors who now suddenly don't think it has the chops to scale as fast as they had once believed.

Survival of the Fittest

The Great Innovation Pile-On of 2017 seems to ignore the reality that no one player will emerge as "the winner" — as much as it's what everyone wants to read about. It's just not that kind of world anymore.

Facebook, Amazon, Google, Snap — and the many, many more that I didn't highlight — are fighting for position against not just one competitor but many, given how their platforms have evolved over the years. Leveraging their assets and extending their platforms and finding new ways to innovate in an effort to keep a consumer with more options than ever to find stuff and buy stuff and share stuff and communicate stuff happily inside their own ecosystems is their only ticket to survival.

And, the more that the cloud and digital payments and connected devices expand the range of players and options for reaching that same consumer, the harder it will be to pick out the Davids from the Goliaths in the crowd.

The Great Innovation Pile-On of 2017 also ignores three other things: Nothing is forever, there are no sure things and sometimes things come full circle.

Sears was traditional retail's Goliath until Sam Walton and Walmart emerged as retail's biggest player in the 1980s. Walmart was the big Goliath before Jeff Bezos and Amazon used a slingshot to bring online shopping and one-click buying to consumers and topple Walmart's once-vaunted position at the top of retail's pecking order.

Nothing is forever.

Now, Amazon announced a month ago that it would sell Kenmore products on its platform, and the share price of Sears did something it hasn't done in a while — move up. Amazon and Walmart are both vying for their piece of the retail pie, including one of Amazon's latest volleys to team up with Sears.

Somethings things come full circle.

Looking back, there is one thing that seems certain about Goliaths. They eventually fall. And new Goliaths take their place. Microsoft was the king of operating systems, and as of 2005, Microsoft was the player that everyone thought was going to own the smartphone market and battle it out with Blackberry for the number one seed. Both of them never saw Apple and Steve Jobs, the David that at the time was all about iPods, coming.

That was only twelve years ago.

There are no sure things.

SHOULD FACEBOOK BUY EBAY?

People talk a lot about the tech giants that got their start in garages.

Larry Page and Sergey Brin started the GOOG in friend Susan Wojcicki's garage in 1998. Jeff Bezos started Amazon in his Bellevue garage in 1994. And perhaps the most famous garage startup story ever is that of Bill Hewlett and David Packard and the garage they rented in 1939 to start the electronics company that would later bear their names. That garage is now a private museum and is listed on the National Register of Historic Places.

It turns out a lot of other important tech giants got their start in a more respectable part of the house — the living room.

That's where Reid Hoffman hatched the idea for LinkedIn in 2003 after inviting hundreds of his friends to create online profiles to get his idea for a professional online networking site off the ground.

It's also where Airbnb, quite literally, got its start. After hearing that a big conference was coming to San Francisco and that hotel rooms were totally sold out, two 27-year-old guys, who were living there in 2007 and struggling to pay rent, bought three airbeds and turned their living room into a makeshift bed and breakfast. Six days and a website called airbedandbreakfast.com later, three people had paid Joe Gebbia and Brian Chesky $80 a night to sleep on those air mattresses on their living room floor and eat the breakfast they cooked for them the next morning. Airbnb was launched a year later.

Over Labor Day weekend in 1995, Pierre Omidyar wrote the original code in his living room for the company that would later become known as eBay. "AuctionWeb" was the name of the site, and its first listed item wasn't a Pez dispenser but a laser pointer that Omidyar had purchased for $30 and later broke. He advertised it as broken, set the starting bid at $1.00 and watched the bidding frenzy begin: The pointer sold for $14.83. Omidyar was said to have been so stunned that someone would actually pay money for a broken laser pointer that he became convinced that an online marketplace where people could buy and sell collectibles — even broken ones — held great promise.

Almost twenty-two years later, another startup founded in 2004 in a living room (of sorts) — a dorm on the campus of Harvard University — could end up being eBay's most promising buyer ever: Facebook.

From the Living Room to the Basement

For much of its first decade, eBay was on a roll.

Two years after the successful sale of that broken laser pointer, Omidyar raised $6.7 million from Benchmark Capital and changed its name to eBay. A year later, in March of 1998, Meg Whitman was

hired as president and CEO. In September of that year, eBay went public.

On its first day of trading, eBay closed at $53.50 — nearly three times its target share price. Four years later, in 2002, eBay announced that it would buy PayPal for $1.5 billion dollars in an effort to eliminate the friction associated with paying sellers for their stuff, which, unbelievably, was done by check most of the time.

Almost overnight, eBay became the "it" site for collectors and bargain hunters — the "Craigslist killer," as it was called — expanding internationally to 27 countries. In August of 2001, The Industry Standard published a piece describing the firm as "unstoppable," given its power as a platform that simply facilitated the sale of goods between buyers and sellers without taking possession of any inventory. They wrote then that "what started as a quaint auctioneer of useless collectibles has grown into a commerce powerhouse … arguably the only large, unquestionably successful consumer internet survivor."

In 2004, Fortune published an article lauding eBay as the fastest-growing company in history eight years in — faster than Dell or Microsoft had grown over a similar period of time. That piece chronicled eBay's growth from its humble beginnings of $5.7 million in revenues to $3.2 billion in just an eight-year span of time.

But it would be over the next four years that eBay would find itself increasingly pulled into a riptide of changing market dynamics.

Consumers were getting tired of auctions, which made it harder to attract and keep sellers. Consumers also found eBay's site difficult to navigate because of its clunky search function — not exactly a great characteristic when a key driver of success is finding the right item quickly. Consumers also began complaining about the quality of goods sold to them and the relatively poor customer service they received when they reported that the items they purchased weren't the real deal.

Sellers had their own complaints about payment terms, which they said were too high. Sellers also grumbled and fretted about the sharp drop-offs in traffic to their pages and sales as a result of buyer auction fatigue and the growing crop of competition from other online players — including Amazon — that offered new products at a discount on a site that was easier to buy from and navigate.

So, eBay set in motion a number of things in an attempt to blunt the impact of these shifts and to bring new buyers and sellers into the mix.

The auction model was largely disbanded over time in exchange for a "Buy It Now" option and fixed price listings. E-Bay acquired online ticket exchange, StubHub, in 2007. And, in 2011, eBay acquired eCommerce tech platforms GSI Commerce and Magento to create more synergies with the online retailers that were its customers.

Speaking of online retailers, eBay went all out to court them. In 2012, eBay CEO John Donahoe, who had taken over from Meg Whitman in 2008, more or less told retailers that "Amazon is your enemy, eBay is your friend" to persuade them to upload their product catalogues to branded eBay storefronts. That year, it was reported by Reuters that 50,000-plus stores in the U.S. had done so,

including Home Depot, Neiman Marcus, Lowe's, JCPenney, Barnes & Noble, Best Buy, Target and GNC — all using eBay as a way to sell inventory that hadn't moved in other channels and could be sold at a discount to eBay's buyers.

At the same time, consumers found other places online to buy the things that eBay's marketplace had once dominated.

Etsy, founded in 2005, had grown from a place online that only hosted artisans selling one-of-a-kind handmade goods to a destination for buying vintage collectibles. Online consignment shops like The RealReal, Poshmark (both founded in 2011) and Tradesy (founded in 2012) became the destination for women (mostly) who wanted to scratch their luxury, high-end designer consignment itch, given the quality of the merchandise they listed. Gilt Groupe and Rue La La, both founded in 2007, sold new designer merchandise at deeply discounted prices with inventory replenished daily. Zulily, founded in 2009, became a favorite platform for moms who wanted to buy stuff for their kids and loved the surprise of seeing new selections and flash sale options every day.

Meanwhile, stalwart eBay-ers really didn't know what to make of eBay anymore.

Its once seemingly impervious reputation as the go-to for quality collectibles of all kinds — a reputation that eBay was simultaneously working hard to shake — seemed a bit tattered. Collectibles now included too much junky stuff that stretched the definition of "vintage" or "antique."

Buyers that were attracted to eBay to buy new merchandise — clothes, electronics, toys — found themselves comparing those deals with a number of other online sites, including Amazon, that offered better prices, in some cases, and better and more predictable delivery windows, too.

Yet eBay's marketplace problem had been largely masked by the performance of the entire portfolio of businesses that eBay had bought and had been built up over the years — PayPal and StubHub in particular. Post the PayPal split, it became the only thing on which that analysts and investors focused. (eBay also spun out eBay Enterprise in 2015.) Seven months after the eBay/PayPal split, eBay's disappointing earnings performance drove a 13 percent sell-off in its stock, with analysts citing marginal growth in both revenues and active buyers.

Unfortunately, eBay has had a tough go of it ever since.

The company has seen five straight quarters of declining consumer spend — now at $41.30 per month and dropping. During its Q2 2017 earnings call, CEO Devin Wenig reported that revenues from its marketplace grew at a modest 4 percent and that two million active buyers were added last quarter, bringing its total to 171 million active buyers worldwide. Wenig also reported that StubHub, which had always been the counterweight to eBay marketplace's slowing growth — accounting for approximately 9 percent of sales and 34 percent annual growth — saw its own performance soften: GMV (gross merchandise volume) was down 5 percent and revenue was up only 5 percent, due to increasing competition and a secular slowdown in the events

business. While, on average, the eCommerce sector overall has seen a gain of 46.4 percent year to date, eBay's seen gains of only 18.7 percent.

And eBay's operating margins seem headed in the wrong direction, too: down from a high of 50 percent in 2012 to 38 percent in 2016 to 20.5 percent in eBay's Q2 2017 earnings call. That was down from 23.8 percent from the same period a year ago. Margins have taken a hit at the hands of investments in marketing, seller services and the core product to keep sellers on board, new buyers coming and existing ones spending. Many believe that initiatives like its newly launched Price Match Guarantee on 80,000 deals worldwide will only add more pressure to those softening margins.

The bright spot? Classifieds: a small but growing part of the eBay platform worldwide. Reported revenues of $216 million for the quarter were up 6 percent, Wenig said, on strong traffic and user engagement.

Exactly the type of business that Facebook has been trying (unsuccessfully) to ignite since 2004.

From the Basement to the Penthouse?

Facebook has had eCommerce ambitions from the get-go.

It created its first "marketplace" for classified listings in 2007. It was a long and largely unsuccessful slog for seven years, with a business that failed to get any significant traction at all. It was shuttered in 2014.

Facebook Stores was launched in 2009 as a way for online retailers to sell to the fans who "liked" them. Or so they thought. The agency-driven campaigns that retailers spent a fortune funding, on the premise that fans would easily convert to buyers, found they didn't even convert to fans. Only 4 percent of consumers who liked a brand as a result of a campaign ever returned to that brand's page again.

But so what, you say, since 99.5 percent of user engagement happens in the News Feed anyway — and a "like" is the ticket to getting content in the News Feed. Well, not exactly.

What Facebook Storefront shopkeepers didn't know at the time (this was before Facebook went public and its algorithms were explained) was that Facebook's algorithms kept that from happening. The only way to reliably get into the News Feed and get noticed by users was to buy advertising and hope that enough consumers saw an ad, clicked and then clicked again to buy.

Most users didn't.

Stores have evolved over the years to include buy buttons and partnerships with players like Shopify in an effort to expand the ability for users to "buy" from those Storefronts. And eCommerce has evolved, as well, to include promotions to buy inside the News Feed from retailers who advertise there. But commerce revenues from those efforts on Facebook appear unimpressive, given that Stores/Storefronts and revenue from commerce sales overall have nary a mention on most earnings calls.

Facebook Gifts was launched in 2012, which sounded like a logical slam dunk for a social platform. The feature reminded users that it was a friend's birthday or other special occasion and a selection of gift cards was presented for that friend to send. But in a case of execution gone badly, at launch the only thing that a user could do was send a physical gift card, sort of defeating the whole point of surprising someone on the day of their special event. A year later, Facebook bagged physical gift cards for virtual ones, but by then the bloom was off that commerce rose. Facebook shuttered Gifts in August of 2014.

In the fall of 2016, Facebook decided to take another swing at Marketplace, launching with a service that the tech press described as "the friendlier Craigslist." This P2P marketplace lets people buy and sell the stuff they don't want anymore — clothes, furniture, collectibles, toy, tickets, even items from retailers — just like Craigslist.

And eBay.

A Match Made in Commerce Heaven?

Last week, Facebook and eBay announced a partnership to show eBay's Daily Deals on a separate tab in Facebook's Marketplace section to select mobile users. As part of this test, Facebook users can see the deals but are pushed to eBay's site to complete the purchase. A few days after than announcement, Facebook said that it was expanding Marketplace to 17 countries throughout Europe and many of the same countries where eBay also has a presence and Daily Deals.

Facebook has found commerce to be illusive because people never came to Facebook to shop — and, according to our own research, don't trust them to power their commerce experience. There's something about a social network and storing payments credentials to buy things on a social network that doesn't — and apparently hasn't ever — sat well with consumers.

But that hasn't mattered much to Facebook, since being a commerce kingpin wasn't its focus. The company has crushed it as an advertising platform and managed the shift to mobile extremely well. According to eMarketer, Facebook will pocket nearly $34 billion in digital ad spend in 2017, and Facebook and Google will account for 46.4 percent of all global digital ad spend this year.

But Facebook and analysts are worried about an impending ad revenue slow down as Facebook runs out of places to stick ads — the News Feed is all out of inventory. Messenger, the once-hailed wunderkind of commerce and chatbots, hasn't moved the needle much (any?) when it comes to commerce. Even Facebook CEO, Mark Zuckerberg, told investors on its last earnings call that Messenger isn't moving to a monetization model nearly fast enough. As I wrote a few weeks ago, I'm dubious that it ever will.

That means that Facebook will have to look for new ways to monetize its user base and diversify its revenue risks. Commerce may now be one of the opportunities it wants to pursue seriously. Perhaps leveraging its social networks across all of its platforms around a Marketplace model could be one of those logical paths to explore.

If the past is prologue, it's not likely to get there without a lot of help.

But eBay could provide that help at the same time Facebook solves several of its own problems: attracting quality sellers and buyers and getting them to transact on its platform.

Two billion people a month and 1.3 billion people a day hanging out on Facebook could increase those odds — attracting eBay buyers that might not have ever considered them an option and sellers who might be intrigued by the possibility of being seen by the largest concentration of human beings ever assembled online. It's not as if eBay isn't growing or adding new active buyers to its platform — it's that its growth is slowing and has been slowing for quite some time at the same time. And at the same time that the cost of attracting new buyers and sellers is increasing — and so is the competition for both sellers and buyers.

A partnership with Facebook could change that equation, reducing some of its marketing and product investments to bolster its margins. And eBay also comes with a growing global event ticketing business: StubHub acquired Ticketbis last year, and a built-in global buyer and seller base. A partnership with eBay also comes with something else: a number of seller tools and features that also leverage PayPal's seller services portfolio, including payments, working capital and a global shipping and returns platform.

With a market cap of $37.2 billion and falling, the company could be the ticket for Facebook to get into commerce for real. Perfect — no, because of all the flaws I just talked about. A no-brainer — no, because taking one property that is struggling and combining it with another that hasn't really gotten commerce off the ground isn't a sure thing either.

But it is likely to be a lot cheaper for Facebook to build off eBay's assets, reputation and client base than continuing to build its own commerce capability on a global scale. And it's a whole lot cheaper than buying Amazon — by about $440 billion. The marriage could be a win for eBay, too, which needs a shot in the arm and could get it from a partnership with Facebook's enormous global user base, that can also drive commerce on a local level too.

Now, this is just me talking, after thinking about the eBay Daily Deals/Facebook mashup on one of my morning runs. Plenty of players partner up and a transaction never happens — and most of the time one was never contemplated in the first place.

But this one doesn't necessarily sound that farfetched either.

Who knows, maybe if Facebook "friends" eBay for life, its third Marketplace revival could be the charm.

AMAZON'S WHOLE FOODS **WHOLE PAY PLAY**

Fanny Fern was the highest paid journalist in the country in 1855 because of her "witty and irreverent" tell-it-like-it-is style. Fern — a native of Portland, Maine — was paid $100 a week by The New York Ledger to produce columns about life in America to keep middle class women reading their paper.

Fern was both a feminist and an early suffrage supporter. One of her most famous adages — "the way to a man's heart is through his stomach"— is also perhaps one of the more notable and quotable examples of both her wit and irreverence when remarking about the male species at the time.

Irreverence and wit aside, Fern's adage seems to have stood the test of time and love for 162 years — 80 percent of women still say that feeding a man is the best way to hook and keep him.

Food and love are also at the heart of Amazon and its now officially cleared acquisition of Whole Foods. How things play out could give Fanny Fern's adage a decidedly modern and competitive twist: T*he way to Amazon's food commerce heart is through the stomachs of its Prime members.*

Of Food and Stomachs

When the news broke last week that Whole Foods would lower prices for some items, starting today, in their stores, it sent grocery stocks reeling. They lost $12 billion dollars that day.

Focusing on how the Great American Kale Sale could make kale great again (btw, kale is sooo 2016 — Whole Foods didn't even have it as a top food pick for 2017) and how it could put pressure on grocery stores to lower their own prices is like talking about whether it was a good idea to rearrange the deck chairs to make the Titanic look nice on the way down.

It's the wrong thing on which to focus.

What is, though, is how Amazon will materially gut the three things that grocery stores thought would keep them competitive: their private label brands, their shelves of organic foods and their loyalty programs.

Of course, lowering prices is a tactic, but one that's less about signaling that Amazon wants to make Whole Foods wholly more affordable and more about getting consumer feet inside those stores, buying the cheap kale, bananas and organic eggs — and then lots more stuff once they get there. Remember, Whole Food's year-over-year same-store comparisons had been off for seven quarters before Amazon decided to buy them. Those lackluster figures were one of the reasons that Whole Foods' investors started getting grumpy about two years ago. Getting feet in the stores and grocery spending is pretty important.

But it's also about giving consumers a taste of the Amazon experience when it comes to full-service grocery, including the purchase of prepared foods, yoga mats, natural personal products and flowers in the physical grocery store. And the trusted and recognizable yellow Amazon logo and messaging that they'll likely see when they walk through the doors.

It's about signaling that Amazon Prime customers will soon get lots of benefits when they use their Prime accounts — a.k.a. Amazon Pay — to check out (or to check-in?) at Whole Foods. And how that enormous — and enormously Prime loyal consumer base — will shake up how, when and where all organic food — not just groceries — is purchased, paid for and eaten.

But mostly it's about how everyone from payments players to logistics and delivery providers, grocery stores and CPGs (consumer packaged goods), local restaurants and QSRs (quick service restaurants) and independent local food markets will soon feel the ripple effects of Amazon's grocery flywheel.

From my perch anyway, Whole Foods is a lot more than just Amazon's grocery play — it's Amazon's flywheel into local retail, restaurant and services.

Which makes it time for every one of you guys reading this to huddle in your war rooms to figure out your next moves.

The Platform to End All Platforms

For a company that didn't start life as a platform, Amazon has sure mastered the art of platform ignition.

And no, Amazon wasn't always a platform.

What started out in 1995 as a place online to buy books that they bought and resold (not a platform) has become the world's most powerful eCommerce platform twenty-two years later. Amazon's done that by creating a marketplace that attracts sellers by giving them access to lots of buyer eyeballs and services like Fulfillment by Amazon, working capital and the ability to add the Amazon Pay button to their website. More sellers pull in more buyers who buy lots of stuff at better prices that they can get in two days — and sometimes even faster than that. Amazon's Marketplace now accounts for 50 percent of units

sold and (at last count) 80 million consumers fork over $99 a year to be a Prime member in exchange for two-day free shipping and access to lots of other things, including video and music streaming.

As I've written before and so many times, all of these things together — plus all of the things that they've added over the years — have recast the consumer's expectations of all retailers: low prices, expedited delivery and an always-changing supply of products from which to choose. In Amazon's case, that's now more than four hundred million SKUs (stock keeping units).

The so-called "Amazon Effect" that everyone talks about isn't because of the share shift that Amazon is driving — since Amazon, overall, accounts for less than 5 percent of all retail, excluding auto — but because retailers that don't deliver to Amazon's standard don't get their business, or as much of it, anymore.

When it comes to the "Amazon Effect" and groceries, those of you who follow me regularly also got a sneak peek into my thinking about their grocery game plan in April 2015 after Amazon launched Dash buttons and I wrote a piece asking whether Amazon would do to grocery stores what it did to bookstores (I said yes by changing how consumers buy groceries and use grocery stores). And then again, a few months ago when I commented specifically on the implications of Amazon's bid to buy Whole Foods (to change how consumers buy all their food, not just the groceries that they take home and use to prepare meals).

Now that we have a peek into what Amazon has said they plan to do with Whole Foods, it seems that it is now all of that — and then some.

Blurred Lines in Aisle 17

According to the USDA, U.S. consumers today spend nearly 10 percent of their income on food — 5.3 percent on groceries that they buy and bring home to cook and then eat and another 4.3 percent on food that they eat out. Those lines have gotten increasingly blurry over the years as busy families and not-all-that-interested-in-cooking millennials ratchet up their grocery spend on ready-to-eat/convenience foods.

Amazon, with the Whole Foods acquisition, will make those lines blurrier, still.

The USDA reports that 26 percent of a consumer's food budget is now allocated to those ready-to-eat/convenience foods — a.k.a. fast food bought at QSRs. In an attempt to siphon some of that spend back to them, grocery stores have beefed up their selection of prepared foods. According to NPD Group, in 2015, 40 percent of consumers bought prepared foods there. They also report that sales of prepared foods at grocery stores have increased 30 percent since 2008, accounting for 2.4 billion trips to the grocery store in 2015.

Today, Whole Foods devotes a fair amount of real estate to prepared foods and will likely sharpen its focus there going forward. It won't just be other grocery stores that will potentially feel the prepared foods competition — QSRs will too, as consumers opt for a "healthier" set of options

at Whole Foods, quite possibly delivered to their homes by Amazon trucks for free as part of a Prime membership.

Meal kits will feel the slow burn, too — see Blue Apron as Exhibit A. Meal kits sound great until they arrive and the consumer realizes that the "kit" part of it means that they still have to cook, wash the pots and pans and be content with portioned meals with no leftovers.

Amazon Fresh will likely play a starring role in making that shift — and the blurring of the lines — more pronounced now that Whole Foods is officially in the tent. It will be interesting to watch what, if anything, happens with the annual fee, the roster of participating players and the pricing of foods offered.

And, how prepared foods from Whole Foods will be priced to make them more appetizing to consumers.

The Price Is Always Right

Speaking of pricing, Amazon has already proven that it's mastered the pricing game on both national and private label brands.

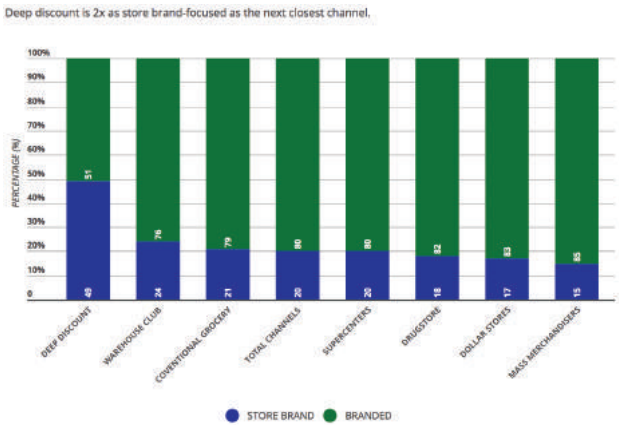
Amazon's pricing algorithms are legendary, although no one outside Amazon really knows how they work. What's certain is that Amazon constantly monitors the prices of goods sold by competitors and what products are selling. They then take action on seeing that data. So, it's not uncommon for Amazon to drop the prices of items that are selling well to less than what competitors sell it for or raise prices on the things that aren't — sort of a reverse supply and demand to get consumers hooked. Most consumers either don't notice or don't care on an item-by-item basis, and, if they do, they're happy to trade off a couple of bucks for the certainty of delivery in two days, for free.

Now, with Whole Foods, Amazon has roughly 40,000 new physical grocery SKUs to monitor and play with, accordingly — and use to sharpen its pricing of grocery products sold on Amazon today through Pantry, its Dash buttons and offline in their physical stores.

When Private Labels Become Very Public

Private label brands were once viewed by most consumers as the brands for people who couldn't afford to pay for "name brands." No more. Today, 80 percent of consumers say they see no perceptible difference in product quality between the two.

Not surprisingly, private label strategies rank at the top of the grocery store survival list.



The intersection of consumer preference and the chance to offer consumers cheaper products without taking a hit on margins has caused grocery stores to expand those parts of their businesses. Nielsen says that roughly 21 percent of traditional grocery store SKUs are private label brands, increasingly driving more consumer spend. The Private Label Manufacturers Association (PLMA) claims that more than 50 percent of consumers bought more store brands from grocery stores in 2016 than they did a year ago — saving about a third of their spend on basic grocery and household items.

Amazon got into the private label game in 2009 and since then has introduced more than 20 private label brands. In each case and category, those private label products have quickly gained share on national brands. For example, 1010data reports that 94 percent of all batteries sold online are sold via Amazon. After only a few years, Amazon's private label battery brand now accounts for a third of all online battery sales.

A little more than two years after Amazon introduced private label baby wipes, 1010data also reports that Amazon holds a 16 percent share of the market, just behind Huggies (33 percent) and Pampers (26 percent), and has grown 266 percent year over year.

Private label is also a big deal for Whole Foods. In 2014, Whole Foods' private label 365 brand accounted for roughly 13 percent of its sales. Amazon said last Thursday that it will begin selling the Whole Foods 365 line online. There, no doubt, we'll see Amazon's powerful pricing engine rev up to compete with both national brands and grocery store private label brands.

Analysts at SunTrust Robinson Humphrey project that over the next five years, the sale of Amazon's private label brands could reach as much as $20 billion — and that was before the Whole Foods buy.

Taking a Swipe at Loyalty

Grocery stores have long used loyalty programs as a lure to get consumers to shop more frequently at their stores. Nearly 80 percent of grocery stores have a loyalty program in place. But having a loyalty program hasn't necessarily kept consumers loyal. Only 18 percent of consumers say that they're totally loyal to a single grocery store, with the vast majority of people reporting that they more or less play the field.

This has been confirmed by the fact that half of all U.S. shoppers travel to three or more stores to get their grocery and household items.

One loyalty program that has kept consumers loyal is Amazon Prime. Amazon Prime members shop more frequently (raise your hands if you've ever bought more than once a day on Amazon and thought nothing of it) and spend more than twice ($1300) each year than what non-Prime members spend ($700). It's been reported by retail consultancy, Magid, that roughly two-thirds of Amazon Prime members are also Whole Foods customers. Analysts have suggested that's a bad thing, since it's not necessarily a big net add for Amazon Prime.

I think that's a glass very much half empty way to look at it.

Amazon has hinted that Amazon Prime members will get special goodies in the form of savings and other services at Whole Foods "down the road." These are the same consumers who are loyal to the brand, shop at Amazon and currently shop at three grocery stores, on average.

If just half of those consumers sifted just a third of their grocery spending to the combination of Amazon and Whole Foods, well, you do the math.

That's the power of a platform.

Learning from Books(stores)

When Amazon started life as a bookseller, it was about selling things online that consumers didn't need to inspect to buy. A book on a shelf at Borders or Waldenbooks or B. Dalton or Barnes & Noble all looked and read the same way as that same book did at Amazon.

Only cheaper.

The more successful Amazon became at selling books cheaper online and getting them delivered fast, the less able physical bookstores could compete. Since 1994, almost all of the major bookstores have closed — names of shops you probably know and often frequented: Atlantic Books, B. Dalton, Borders, Crown Books, Lauriat's, Hastings Entertainment, Kroch's and Brentano's and Mr. Paperback. Borders even tried the "if you can't beat them, join them" strategy in 2008 and used Amazon to sell their books online.

They went belly up in 2011.

Barnes & Noble, the last man sort of standing, has shriveled to a mere semblance of itself, with a stock trading at $7 and change, off from a high of $28 in July of 2015. It operates 633 stores now, down from 726 in 2011, with reported plans to close more than 197 stores over the next three years. Independent booksellers have taken a hit, too. By the end of 2009, the American Booksellers Association reported that only about 1,651 of the more than 4,000 independent bookstores that existed in the early 1990s still had their doors open.

In 2012, in a bold move to meet Amazon on its home technology plus bookseller turf, Barnes & Noble CEO, William Lynch, told *The New York Times* that it had become a "technology company" — flashing the chain's newly minted eReader, the Nook, as proof. Unfortunately for Lynch and his franchise, it was too little technology about a year too late. Euromonitor reported that 2012 was the first year of the great eReader sales decline. Sales of eReaders dropped by more than 40 percent between 2011 and 2016.

But that really didn't matter a lick to Amazon, who'd long since turned the Kindle device into an app that anyone could download to their existing tablet or smart device in 2010. And it's a pretty good thing they did. Despite our digital proclivities, it seems that consumers still prefer their physical books — Pew reported in April of 2017 that only 28 percent of consumers read an eBook, compared to 65 percent who read the real deal.

Over that same period of time, independents tried to fight back too — and for a while it seemed like all was lost for them, too. But a funny thing happened on the way to buying books: The

independent bookstores began to emerge, recast as smaller format stores catering to the needs and tastes of the local community, educators and families. In July of 2017, The American Booksellers Association said that the number of independent bookstores had swelled by more than 700 to 2,320 across the U.S., with more waiting in the wings.

But, there's a "but."

These smaller footprint stores do offer more than just a place to buy a book. Sometimes they double as office space in the back with a retail space in the front to sell books for a business owner who loves books and wants to subsidize the office rent. Other times, they're a part-time job for a book lover intent on creating a destination using books and coffee and food and events to appeal to the local community.

But neither, as its owners contend, means that they will succeed as measured by dollars and cents.

"If joy is the only metric of success, and I think it is, it has been successful — and I am enjoying the ride," remarked one such bookstore owner.

Which is not exactly a ringing endorsement for the profit-making potential of these independent bookstores.

Their survival will depend on the local communities' interest in changing the way they buy books today — from a shop close to where they live and where they can buy a book and walk home with it that very day — but from a more limited, curated collection at a higher price.

The End and the Beginning

The acquisition of Whole Foods by Amazon was an important step in moving Amazon into a world where consumers like to see and inspect the goods they buy before they buy them. It's one thing to buy a book online or a box of Tide laundry detergent online, since a Tide is a Tide is a Tide.

But it's another when picking out steaks for the grill or tomatoes and lettuce for a salad.

Or, yes, even kale.

Amazon could never get there online even though food, like books, is something everyone buys. The Whole Foods acquisition was a right place/right time opportunity for them.

But as Whole Foods is looking to shed its "Whole Paycheck" reputation, Amazon plus Whole Foods is looking to capture the consumer's whole spending on food. "Whole Paycheck" aside, Whole Foods has also earned the reputation for being a pretty hip and happening place to shop for food. They've ditched the standard grocery store Musak for lively tunes, and the people who work there are friendly and helpful. Some Whole Foods have even created spaces where people can buy prepared foods and eat — and in those stores, it's also become a place to meet friends and hang out and eat.

Amazon is the master at knowing how to leverage its assets — its data on prices and what consumers are buying, its Prime members who are always getting new reasons to stay Prime — to shape consumer preferences and their expectations of retailers.

The combination of a hip and happening grocery store with a data and technology-savvy retailer is a recipe for not only disrupting grocery sales, but changing how local retail looks — and even how competitors view and use their services.

Whole Foods with Amazon could become logistical hubs for local grocery stores, just like Fulfillment by Amazon is a fulfillment option for a number of physical retailers. Existing delivery services like Door Dash and Instacart could find themselves displaced by Amazon's delivery operations. Whole Foods' physical stores could, themselves, become marketplaces for local food purveyors as they set the bar for what charting a "grocerant" looks and feels like. Whole Foods could even become the next generation of "supercenter" by hosting complementary retail storefronts inside its stores for those who'd rather trade a huge showroom for the chance to be in front of its loyal and high-spending Prime customer base.

Including Amazon's own bookstores.

All linked to an Amazon account that makes buying easy and payment so frictionless that consumers don't even think about it anymore.

For Amazon and Whole Foods, this is just the beginning of their journey to change how consumers buy food.

For grocery stores, it's just the beginning, too.

And if the past is prologue, there will be margin-crushing price wars followed by waves of store consolidation followed by a winnowing of brands that are too small to survive or too stuck in the middle to compete. We'll see grocery brands invest in technology in an effort to get to parity. But by then, Amazon will have likely moved on to the next frontier — using AR and VR to shop at the store via their phones or just having Alexa on speed dial to do all the heavy lifting.

With the Whole Foods acquisition, more than opening upon a handful of bookstores, Amazon has taken the retail wars into the physical world using Whole Foods as its physical retail flywheel. Be happy if you don't own a supermarket chain. Be worried if you own any other large retail business — or sell branded consumer products.

Especially if you do it on the local level. There may be riches in the local retail niches, but it just may take some digging out of a few deep retail ditches to find them.

SEPTEMBER 18, 2017

WHY REGULATION WON'T FIX CREDIT REPORTING AGENCIES

Some of the most memorable television commercials of the 1970s and 1980s were those promoting E. F. Hutton's brokerage services. When its tagline, "When E. F. Hutton talks, people listen," was spoken in those commercials, everyone in the room stopped, turned to look and listened with rapt attention to the person who uttered those words.

The person speaking never revealed what E. F. Hutton told them, but the implication was that it must have been awesome, since the people in the commercials looked pretty well-heeled. Here's a funny example that sets up an exchange between two business executives on an airplane.

Thirty years later, I find their tagline a rather fitting metaphor for the Equifax data breach and the flurry of headlines made by everyone who now wants to take them — and their two credit reporting agency compadres, Experian and TransUnion — out to the regulatory woodshed.

Nowhere is this outrage more deafening than the halls of Congress, where member after member now demands that executive heads at Equifax be placed on chopping blocks and massive regulatory changes across the credit reporting industry be made. Senator Elizabeth Warren (D – Mass.) has strongly hinted that the agency she birthed in 2008 and opened for business in 2011 — the Consumer Financial Protection Bureau (CFPB) — should be given the authority to do even more. The credit bureaus were included in the CFPB's scope of oversight in 2012, and she's asked the agency to let her know what additional power it might need to better regulate the credit reporting agencies going forward.

I'm sure they are quite busy making their list and checking it twice.

But why now, just this week, is everyone so outraged and so willing to talk tough about the credit reporting agencies in the name of consumer harm?

Here's a theory.

Consumers have been complaining bitterly about credit reporting agency practices for decades. More recently, their complaints have been made more transparent, thanks to the CFPB's consumer complaint database. But as consumer complaints about those agencies have escalated over the years, policymakers have seemed happy to let The Big Three run fast and loose. Government agencies, like the FHA, Fannie Mae and Freddie Mac require a minimum FICO score to qualify for a loan, and 90 percent of mortgage lenders use FICO scores to do the same. FICO scores are based on a credit scoring model using data from one of The Big Three agencies — Equifax, TransUnion and Experian.

As a consequence, we have three credit reporting agencies operating today, who are largely free to do whatever they want with the data they have — consumer complaint database be damned.

The Big Three *sell* that data to anyone who'll pay for it, adding to their multibillion-dollar annual revenue streams.

They keep how they collect all the data they have on consumers a secret, locked *inside an opaque black box* that consumers have to pay to open if they want to see inside more than once a year.

And, in the case of Equifax, they make that consumer data *vulnerable to compromise* — an egregious lapse in security for a company that is, above all, an information and data repository.

All of this happened because The Big Three operate in an environment with political barriers to entry so steep — given the many agency requirements to use a FICO score and how reliant most lenders are on using it — that it's largely impossible for viable competition to emerge, challenge them and get scale.

There aren't many markets where consumers actually have little to no other choice, but this is one of them.

So, only after almost every single adult in the U.S. now has their information available for purchase on the Dark Web — using bitcoin, of course — do we have policymakers screaming loudly, championing change, vowing to help the consumer who's been telling them — and the CFPB — for years there's something really, really, really rotten in the land of credit reporting.

The Credit Score

Establishing creditworthiness — and having a reliable way to validate it — is the bedrock of any thriving economy. The notion of a credit bureau — a place where a consumer's financial information could be housed and accessed by lenders — started in the U.S. in 1899. That year, two grocery store owners opened a small business to help merchants trade financial information that would make it easier for all of them to access that information and make lending decisions.

That business was called The Retail Credit Corporation.

It would take 71 years for Congress to listen to the complaints of consumers about the information that credit reporting agencies collected about them and pass the Fair Credit Reporting Act (FCRA) in 1970.

Until that time, employees of those agencies — and there was really only one, since TransUnion wasn't founded until 1968 — were given free rein to collect a wide range of information on consumers. Consumer credit reports back then included information about marital and medical status, sexual orientation, political affiliation, drinking habits and other details completely outside what was necessary to make a decision about an individual's ability to repay a debt.

The Retail Credit Corporation was also free to sell that data to anyone willing to pay for it, and many did.

In the 1960s, consumer advocates claimed that these highly personal "credit" reports were

interfering with a consumer's ability to access a variety of services that had nothing to do with getting credit, including employment. The FCRA that was passed in 1970 gave the Federal Trade Commission (FTC) power to regulate access to that data, assure its accuracy and establish parameters for what data was collected and to whom it was reported.

Five year later, in 1975, The Retail Credit Corporation would change its name to Equifax to rebuild its image after its shady information collection practices had been exposed.

It would take another three decades — 2001 — for the FCRA to be amended further to give consumers direct access to their credit reports for a "fair and reasonable" fee. Since then, subsequent amendments to the FCRA gave consumers the right to get their credit report for free once a year, to remove inaccurate and certain derogatory information and to limit who can access their data.

The credit score itself, the FICO score, was an innovation brought to market in 1989 by the Fair Isaac Corporation. Their software models created each score based on the data that the credit reporting agencies reported to them. Credit reporting agencies got their data from lenders. FICO's innovation was to use software and algorithms to create a standard and consistently calculated measure of creditworthiness so that lenders could more reliably make decisions about the creditworthiness of each potential borrower.

So, What's the Problem?

Given the changes in regulatory oversight, in theory, one might think that consumers should all be living happily ever after today.

They are not.

Since 2012, the CFPB's consumer complaint database has collected 1.1 million complaints across a wide variety of financial services issues. Its February 2017 report, posted on its website, highlighted credit reporting complaints.

That report noted that of the 1.1 million complaints it's received, 185,717 of them were about credit reporting agency practices — about 18 percent of all consumer complaints. Another 12 percent of complaints had to do with debt collection agency practices.

Maybe you think that doesn't sound so bad. Not even 20 percent of consumers have a beef with The Big Three. Peeling back that onion tells a different story, however.

The CFPB reported that the average number of monthly complaints received about credit reporting issues was 3,523. In February 2017, that number was up 24 percent to 4,620. Only complaints about mortgages (4,193) and debt collectors (6,904) topped it that month. They also reported that complaints about credit reporting agencies and debt collectors were consistently ranked in the top three, month after month.

The CFPB's complaint database also tracked the companies with the highest number of complaints. The February report showed Wells Fargo in the lead, followed by Equifax, TransUnion and Experian in that order. Equifax and the other

credit reporting agencies were consistently among the top five.

Roughly 143,000 of the consumer complaints about the credit reporting agencies — or 77 percent — were about inaccurate data showing up on their credit reports. That inaccurate data ran the gamut from data that was wrong, wasn't expunged, corrected or updated as requested; data about other consumers that wasn't supposed to be on their reports and requests to access their credit reports from companies they didn't recognize.

The rest of the complaints were related to customer service issues, including excessive wait times to speak with a customer service representative, not having updated information corrected in a timely fashion and difficulty understanding what was needed to correct an error on their report that the agencies had made.

Listening with Only Half an Ear

In January of 2017, the CFPB fined TransUnion and Equifax $23 million over marketing schemes that lured consumers into paying monthly subscription fees for access to their credit reports. In Equifax's case, that included giving consumers "free" access to their data only after they watched an ad (for which Equifax was being paid money by an advertiser). The fine was mostly consumer restitution, with a small piece paid in penalties to the CFPB.

In March of 2013, Experian was fined $3 million for a variation on that same theme.

All fines levied and all of the complaints logged were over practices that the FCRA prohibited The Big Three from doing: making it hard for consumers to access their credit reports and making it difficult for consumers to correct information that the credit reporting agencies had wrong.

Not getting that information right has consequences that are far greater to consumers than the fines the credit reporting agencies have to pay. Bad data can make getting credit impossible or extremely costly for consumers. An FTC study reports that one in five consumers has an error on her report, and those errors will cost one in 20 of those consumers in the form of higher interest and carrying costs on their loans.

Meanwhile, The Big Three credit reporting agencies have little incentive to care.

Why should they work hard to satisfy the consumer when they have a virtual lock on the data that stands between a consumer and her loan, as long as a FICO score is required to get it? Why make their process transparent to consumers or bust a gut to get things corrected when there's no competitor operating at or near scale nipping at their heels to force them to step up their game?

And, it's a drop in the bucket for these multibillion-dollar monopolists to get a superficial slap on the wrist and microscopic fines when there's no existential reason for them to change their business practices.

The great irony here is that consumers have been complaining about credit reporting agencies for decades.

It was their complaints 50-plus years ago that led to the creation of the FCRA in 1970 — after ten years of consumer advocates raising alarm bells. And it's been transparent to policymakers since 2012, when there became a source of truth called the CFPB consumer complaint database, that credit reporting agencies are one of the top three places that consumers say they consistently feel the most pain.

Instead, policymakers have doubled down on advocating wholesale changes in how prepaid cards, payday lending and arbitration rules work today — topics that are consistently lower on the list of consumer pain points.

While consumer complaints with credit reporting agencies averaged 3,523 each month, the CFPB reported that monthly complaints about credit cards, payday loans, prepaid cards and money transfers averaged 1,692, 421, 212 and 166 respectively. Complaints about credit reporting were more than two times that of credit card complaints, about nine times that of payday loan complaints, more than 12 times that of prepaid card complaints and 20 times that of money transfer complaints.

The CFPB also reported that complaints about payday loans have shown the greatest percentage of decline — at 26 percent — across all categories they monitored.

The other great irony is that policymakers also seem determined to pick fights with tech companies over a variety of alleged wrongdoings. The same tech companies on their target list that also consistently top the consumer's list of most beloved, trusted brands, and whose apps and services are among the most used by consumers: Apple, Google, Facebook and Amazon, to name but a few.

Kinda makes you wonder why.

The Catalyst for Change?

I went to Equifax's website this morning, and on their home page was a headline for their KYC (Know Your Customer) and AML (Anti-Money Laundering) services that said this: What's Keeping Your Compliance Team Up At Night?

I think we all know the answer to that question now.

It's probably fair to say that the Equifax hack is to consumer authentication what Target was to EMV at the physical point of sale: a catalyst for change. Companies who come in contact with consumers in the name of commerce, payments, retail or other financial services are now moving digital identity verification to the top of their lists to protect themselves and their consumers from the inevitable wave of digital identity fraud that's about to hit them — and could crush them if they don't.

And just like the shift to EMV, the ecosystem of payments and financial services companies will come together to meet this challenge — in this case, with a running head start of tools and technologies and innovators and platforms prepared to help meet this challenge head on. And since data and risk modeling is no longer the domain of three players and a credit score, innovators are building businesses around the

notion of honest finance and complete consumer transparency into how credit decisions are made and how much credit will cost them — and slowly gaining traction with consumers and retailers.

But here we are — the most horrific breach of highly sensitive consumer data ever recorded in the U.S., the OPM hack notwithstanding — with policymakers focused on how to regulate these three monopolists within an inch of their lives instead of focusing on the much bigger problem.

We don't need more regulation. After all, The Big Three were regulated by the CFPB and the FTC, and look where that got us.

What we need is competition.

Figuring out how to make credit reporting competitive — where consumers actually have a voice to discipline credit reporting agencies that provide bad service, no innovation and risky behavior — and giving lenders options that would foster a more dynamic marketplace won't be easy, but that's what policymakers, and others, should be working to solve.

We have the pieces and players in place to create a competitive playing field; we just need policymakers to let them play.

DOES AMAZON PLUS KOHL'S EQUAL RETAIL'S FUTURE?

Pulitzer Prize-winning American poet Robert Frost was famous for using rural country metaphors when examining important philosophical issues of the modern world.

Little known fact, perhaps, is that Frost was a man whose life straddled two of today's most active centers of innovation. He was born in San Francisco and would spend his early childhood years there. After his father died, Frost moved with his family to Boston and remained there until his own death in 1963.

Frost penned many famous poems, including President John F. Kennedy's inauguration poem in 1961, but perhaps none so relevant to the many innovators toiling away in the cities of his birth and death as "The Road Not Taken."

Written in 1916, the poem memorializes the story of choice — in this case, the choice made by a traveler who had approached a fork in the woods and decided to take the road less traveled because it was "grassy and needed some wear."

Critics have debated for decades the subtext of Frost's poem: Was the traveler's choice impulsive? Or was it made by an independent nonconformist with the confidence to overcome whatever unknowns he might encounter?

It's also a decidedly fitting metaphor for the many choices retailers must make as they stand at a critical fork in their own roads: how to collaborate or compete with Amazon.

More and more large retail brands have taken the road that today seems a lot more traveled than it used to be: collaboration by way of creating storefronts on Amazon. In 2016, Gap CEO Art Peck said that he'd be "delusional" not to consider selling on Amazon — and he did. Nike and Amazon announced a partnership in June of 2017 to do the same, and Sears made news a month later when it decided to sell Alexa-powered Kenmore products via Amazon.com. These announcements follow moves made much earlier by brands such as Michael Kors, Gucci, Tory Burch, Vince, Kate Spade and Stuart Weitzman — just to name a few — to sell their products on Amazon, too.

It was the announcement last week of Kohl's partnership with Amazon to use its physical store network to accept returns from Amazon customers that introduced a new twist to that choice at that retail fork in the road. That announcement followed news earlier in September that Amazon would create its own storefront inside Kohl's physical stores to sell its line of Alexa-powered devices.

The partnership news started a chain of media reports describing Kohl's decision as a "deal with the enemy" and the "wrecker of brick-and-mortar retail" by a player (meaning Kohl's) down on its luck.

Kohl's, like many of its mass merchandising cousins, has seen its stock price suffer as foot traffic and sales have declined dramatically over the last several years. Kohl's stock hit a high of $79.07 in April of 2015. By June of 2015, it had lost more than half of its value, trading at $35.32. At the close of the market on Friday, Kohl's stock was trading at $46.07 a share.

More interesting than its rise in stock price is how the market views Kohl's choice to take a retail road much less traveled — and, from my perch, how it will redefine what it means to be an omnichannel retailer.

Are Retailers Ready for Omnicommerce?

Being "omnichannel" is important to every retailer. It's why digital pure plays like Bonobos and Birchbox have opened brick-and-mortar storefronts and BarkBox is selling its boxes at Target. It's also why physical retailers have invested heavily in "going digital" and creating mobile apps. And why Walmart acquired pure plays like Jet.com, Bonobos and Modcloth. The ability to meet consumers across all touchpoints they shop is what drives most retail agendas today, regardless of the channel in which the retailer first started. Distribution and reach is the name of the game.

We've been tracking the readiness of retailers to do just that — to be, what we call, "OmniReadi," in collaboration with Vantiv — for more than two years. Each quarter, we examine more than 150 variables essential for delivering a seamless consumer shopping experience for more than 100 physical retail brands — department stores, specialty retail and mass merchandisers.

We've built a statistically rigorous model that takes that input and produces a benchmark score across all of those merchants, as well as specific retail segments. We weigh that scoring to reflect the portion of retail sales overall that each merchant represents and the statistical relevance of each variable in creating an optimal omnichannel experience.

What we've learned over that time is interesting and relevant, especially for the Amazon/Kohl's team-up.

As important as the omnicommerce experience is for all retailers, most are a long way from delivering it. Not for lack of trying — since we have seen some progress at the margins — but in delivering on the variables that will pack the biggest punch for them and the consumers they serve.

Like any Index though, the story isn't so much in the wild swings in the benchmark score itself. In fact, the swing between the first benchmark score of 63.5 and our last report of 67.6 was only 6.5 percent. The real stories are found inside sectors, categories and the variables that influence the omnireadi performance of individual merchants.

For instance, we've observed:

- a narrowing of the readiness gap between large and small merchants over the last 12 months, as even smaller retailers understand that remaining relevant means being omnireadi;

- an emphasis on readiness in the areas that help consumers feel more in control of information about their spending at those retailers, including access to their purchase history across channels, the need for price consistency across channels, and the ability to use coupons and promo codes across all channels; and

- an emphasis on solving for a few key points of friction for consumers, including the ability to return products bought online to a physical store and get refunds there, even if purchases were made using a digital wallet.

When Consumers Talk, Do Omnichannel Merchants Listen?

Last summer, we asked consumers to weigh in on their satisfaction with the "omnireadiness" of the merchants they shop. Two weeks ago, we released the results of this work: the OmniUsage Index.

There are more than 190,000 data points that went into creating the Omni Usage Index, including data that helped us identity three distinct shopper personas. I hope you will take a peek at all of them when you have a chance.

The OmniUsage Index was produced after asking 2,000 consumers who shopped at large retailers and 2,000 who shopped at smaller retailers to tell us about their shopping experience with each merchant. We did that while it was still fresh on their minds — the moment they left the store they shopped. For purposes of the study, smaller is somewhat relative, since we examined only mass merchandisers, department stores and large apparel chains. Even small in these categories can seem large when compared to the stores that line Main Street, U.S.A.

We asked consumers to tell us why they shopped that store, how often and why they do and to rate their level of satisfaction with the features and functions that represent a best-in-class omnicommerce experience with that merchant.

What we learned put a big punctuation mark at the end of physical retail's well-documented challenges and reflected the potential wisdom of Kohl's move to take that retail road less traveled — and Amazon for offering the option.

Let me tell you why.

Unhappy Creatures of Retail Habit

There's really no other way to say it: Consumers aren't satisfied with how retailers serve them at any of the touchpoints they shop: brick-and-mortar locations, mobile app or browser.

As we first reported in May, more than 80 percent of consumers find shopping in physical stores frustrating, unproductive and a waste of their time — despite shopping at physical stores more often and spending more of their money there.

We found consumers to be equal opportunity critics, though. In that same study, consumers report shopping online slightly less friction-filled — but with a bigger potential, consumers believe,

to improve their overall shopping experience in the long term.

The OmniUsage study measured the relationship between the friction consumers say they experience and their satisfaction with the merchants they shop.

As you might expect, consumers have a higher level of satisfaction with larger retailers than their smaller counterparts — but with consumer satisfaction benchmarks at 44.7 and 34.7, respectively, having a higher level of satisfaction seems a bit relative.

The story when told by the characteristics of the shoppers — those who shop mostly online (16 percent of our sample) or those who shop in mostly brick-and-mortar retailers (36 percent) — isn't much better.

For those who say that their primary interaction with that merchant is online, the consumer satisfaction benchmark is 42.2; for those who shop primarily at brick-and-mortar retailers, it's 36.9.

The 49 percent who can be defined as true omnichannel shoppers — toggling between physical and digital channels with the same merchant — report a consumer satisfaction benchmark of 41.3. More than 80 percent of consumers know that the merchants they shop have a mobile app, and 50 percent of them have downloaded it.

The biggest drivers of their lackluster performance reflect a failure to know the consumer across all shopping touchpoints — and in such a way that it's obvious to the consumer: the inability to personalize offers and recommendations based on their history and behaviors and the inability of consumers to use the same method of payment regardless of the channel used.

Here's looking at you, digital wallets.

This poor performance doesn't seem to keep consumers from shopping at those retailers. Habituation is what drives consumer shopping behavior and spend at the physical retailers they visit today.

A staggering 94 percent of them who shopped large stores and the 86 percent who shopped smaller stores say they do so because they've shopped there before. Seventy-five percent of consumers who shop larger retailers and 52 percent who shop at smaller ones also knew what they wanted to buy before they went inside to shop.

Most of the spend from the consumers in our study is concentrated among a handful of big brands: Walmart, Target, Amazon, Costco/Kohl's and Macy's round out our big five.

Maybe some of you may not think that's much of a new story.

After all, most consumers have today and have always had a handful of stores that are their "go-to's" because they know that store, are confident in the quality and availability of what they typically buy at that store and it's in a convenient location. And it's often those big names and big brands with scale that are easy to access and offer a wide variety of things at a good price.

What's interesting is the degree to which mobile devices with GPS and the myriad of innovators pushing coupons and offers and even push notifications hasn't changed consumer behavior much at all, even if an offer is pushed to that consumer when they're within striking distance of a retailer.

And that's the third big insight: Consumers make their decisions about what they want to buy — and where — well before they get to the store. Promotions and offers marketed to them when they've started their shopping mission don't say them. Only 3 percent and 5 percent, respectively, of consumers said they visited the store they had just left because an offer or a promotion drove them there; even fewer than that (2 and 1 percent, respectively) did so because they searched online and discovered a new place to shop.

More generally, fewer than half (43 percent for both large and small stores) chose a brick-and-mortar retailer because of a special promotion that was sent to them, and fewer than 40 percent (38 percent and 30 percent) did so after receiving an offer.

Payments habits, it seems, aren't the only ones that are hard for consumers to break.

And for retailers, and the ecosystem around them, to change…

The Retail Road Less Traveled

If you're one of the top five retailers in our study, you might be feeling pretty good right about now.

Entrenched consumer behavior, even if there are big omnichannel misses, keeps a large majority of your consumers coming back. They know you and know what you offer and have decided you're the one before they get to the front door. Even deals and offers doesn't lure them away. Consumers don't like taking the road less traveled when shopping. Change means risk, and risk means uncertainty, and uncertainty costs time and money. In today's busy world, and with many consumers living paycheck to paycheck, that's the kind of risk consumers actively seek to avoid.

Or, then again, maybe you're squirming a little bit because you know that Amazon and Kohl's is a matchup with the potential to go well beyond Kohl's serving as a logistics hub for Amazon returns and a showroom for Alexa.

Making it easy for Amazon Prime customers to pull into a Kohl's location — which doesn't require navigating malls and mall parking lots — checks an important omnichannel box Amazon lacks: buy stuff online, make it easy to return to a physical store that's convenient to the consumer.

It's also a chance to convert the non-Prime customers who shop Amazon and Kohl's and prompt them to spring for a Prime membership. Amazon returns inside Kohl's stores will also be a reminder to those Kohl's customers who already shop at Amazon to shop there even more, since returns are easy peasy at a retailer they visit anyway. Maybe Santa Amazon will even gift Kohl's customers a discount on a Prime membership; you never know.

The hope for Kohl's, of course, is the potential to monetize the big-spending Amazon Prime

member feet that accompany those returns. This new source of foot traffic might even entice brands to design exclusive experiences in Kohl's stores to get those customers to buy their merchandise too.

Including Amazon, with its own private label products: apparel, kids clothes and its Essentials products, inside Amazon-branded storefronts staffed with Amazon sales associates.

That's, of course, what's happening already on a limited basis. Kohl's is dedicating real estate inside its stores to sell Amazon/Alexa-branded products. Amazon sales associates will demonstrate and sell — and install — the suite of Alexa devices that will power an Alexa-enabled smart home, enabled via Amazon Pay and an Amazon Prime membership.

Speaking of Amazon Prime, Prime members drive 57 percent of Amazon's North American revenue, and adding more fuel to that revenue pump is important. And Kohl's customers seem like prime (haha) targets — shoppers are largely female (80 percent) with an annual income of roughly $70,000. Nearly a third live in households with annual incomes of $100,000-plus.

Perhaps it's now clear why Amazon and Kohl's, together, has the potential to put a brand new spin on the convergence of digital and retail channels and how to serve customers at those many new touchpoints.

Playing with Payments

What we also know from our study is that consumers complain when they can't use the same method of payment across all the channels they shop. So, too, is knowing that they're getting the best deal without having to stay on top of the retailer at every turn to be sure.

It's been reported that there are 25 million active Kohl's charge cards in circulation and that roughly 60 percent of Kohl's sales are generated by consumers using those cards. Consumers buying things inside the Kohl's app can't use any other payments product when they do make a purchase.

At the moment, Amazon doesn't allow consumers to register store cards other than its own — it never needed to do so.

Nor does it allow a consumer to register another digital acceptance mark — it never wanted to (and probably never does).

Amazon's omni ambitions seem quite clear — in its own branded bookstores, with its Alexa-powered experiences, using its Pay Places order ahead and soon its Olo-powered restaurant delivery programs and what's likely to evolve at Whole Foods — Prime membership and Amazon Pay are the keys to delivering consumer value.

Kohl's ambitions seem clear too: delivering value through its high-margin, store-branded payments product, giving the best deals and offers to customers bearing those store-branded cards.

Will the combination of the consumer's trust in and use of Amazon help Kohl's break the habit of

consumers who shop at their competitors and get them to switch?

Is Kohl's a possible outlet for Amazon-branded products — including groceries such as canned goods, laundry detergent and other staples that don't require refrigeration? Kohl's new CEO, it's worth nothing, comes from Supervalu foods. Just how far will the Kohl's and Amazon omni-experiment go — and what role will payments play in creating a smooth consumer experience for both?

It's far too early to know or even speculate.

For now, all we know is that purchases of Alexa devices inside Kohl's stores will be made the same way they are now: paid for via Amazon Pay inside the Amazon mobile app. Purchases of everything else bought inside the store will the paid for the same way that Kohl's customers pay for things now, including the use of its store card.

How that might change will depend on how much uptake there is of Amazon's offer to accept returns at Kohl's, whether any increase in foot traffic results in increased sales for Kohl's and how effective Kohl's is as an incremental sales channel for Alexa and Amazon Prime memberships. It's certainly not out of the question to consider that an Amazon app could be enabled to check a consumer in when she walks into Kohl's and to check her out via that app when she leaves with her purchases or is divested of her returned goods.

Now's probably a good time for retailers, payments players and innovators to take stock of the retail — and omnichannel — landscape and plan what's next, keeping in mind that Amazon is already about five moves ahead.

We'll see how it all unfolds soon enough. The upcoming holiday season will be as good a litmus test as there ever could be for watching all of this happen in real time — and will answer the question: Have Kohl's and Amazon, together, ushered in the new breed of omnichannel retail?

And was Kohl's decision to take the retail road less traveled, indeed, a wise choice?

Unlike the traveler in Frost's poem, for Kohl's, taking the road well-traveled probably wasn't really much of an option anyway.

WHO'LL RULE THE FUTURE OF COMMERCE?

Commerce intermediaries are nothing new.

In fact, they are at least 557 years old.

The first commerce intermediary to operate at scale was Istanbul's Grand Bazaar, which opened for business in 1460.

The Grand Bazaar was the mastermind of the ruling Ottoman Empire, which thought that organizing thousands of merchants into a single location for shoppers to visit would establish Istanbul as an important trading center, boost economic development in the region and add to the ruling party's wealth.

For centuries, it did. The Grand Bazaar served as the primary commerce hub for most of Europe and Asia. It didn't hurt that the Ottoman Empire spanned three continents and controlled access to the commercial roads throughout Asia and Europe at the time. Quite literally, all roads having anything at all to do with commerce more or less led to the Grand Bazaar.

That market power gave the merchant guilds who organized trade inside the Bazaar license to set the rules of engagement for the merchants who wanted to be part of it. The head of each guild was a ruling member of the Ottoman Empire and decided if a new guild could be opened inside the Bazaar, how many and what sellers would be permitted to participate and where in the Bazaar those shops could operate. It also standardized pricing and hours of operation.

All jewelry sellers, for example, had to set up shop on the same street and sell their products for the same price. Sellers were competing not with each other but on being one of a curated selection of merchants selling a product that shoppers couldn't easily get elsewhere — all inside a one-stop shop where those buyers could efficiently conduct other business.

That worked well.

Until it didn't.

The Bazaar That Suddenly Didn't Rule Them All

Earthquakes in the late 1890s weakened the Bazaar's physical market structure that had already begun to feel the destabilizing impact of the growth of the textile industry in Western Europe decades earlier. Advances in technology improved the mass production of textiles there and gave rise to new merchant centers outside Istanbul. Suddenly, shoppers had more options to buy the same things at more competitive prices closer to home.

That newfound competition gave European merchants the ability to become tough negotiators with Bazaar sellers on price and delivery, often slow-rolling the sale of raw materials to the sellers who needed them to produce items sold in the Bazaar. Less inventory and new sources of competition at more competitive prices also slow-rolled buyer visits to the Bazaar. Fewer buyers meant fewer sales for merchants. Fewer sales drove sellers out of business, and a growing number of empty stalls forced rent prices way down.

The Bazaar's most serious blow was the capture of Istanbul by the Allied Forces during World War I. That further opened commercial access to other commerce centers, formed the Republic of Turkey with a new regime and moved the government's capital from Istanbul to Ankara.

And so went the Ottoman Empire.

Having lost its position of market power and influence, the Grand Bazaar was forced to reboot, and sellers had to adjust. Buyers, they discovered, still came to the Bazaar, given its iconic status as a commerce center, but the profile of that buyer was different.

Instead of the merchant crowd making the trip to buy things at volume to resell in their shops, buyers were mostly tourists — taking in the sights and buying as many things as their luggage and bank accounts would permit. Sellers began vigorously competing on price and merchandising. Advertising, promotion and personalization became essential buyer acquisition tactics.

Sellers also demanded more from the Bazaar itself to satisfy this new type of buyer, prompting renovations that added restaurants and modernized restroom facilities over the decades to come. The emphasis shifted to doing what was needed to make the 250,000 or more tourists who traipsed along its 67 streets and more than 5,000 shops every day feel welcome and want to spend money — buyers who those sellers might never see again.

In 2014, the Grand Bazaar was named the world's No. 1 tourist attraction after hosting — and selling to — 91 million visitors from all over the world that year.

Just three years later, the future of the Grand Bazaar once again hangs in the balance.

With tourists as the primary buying trade, the Bazaar faces a new kind of threat. Concerns over terrorist attacks, military coups and the Russian ban on charter flights into Turkey fueled a drop in tourist visits to Istanbul by at least a third. That decline shaved more than 1 percent from Turkey's GDP. Many Grand Bazaar shop owners say they've lost as much as 80 percent of their business and don't know how much longer they can hang on.

The Grand Bazaar and its diminished importance as a commerce intermediary is a rather fitting analog for the very uncertain future facing many of today's established commerce intermediaries.

The Uncertain Certainty of Commerce Intermediaries

The modern-day department store, the intermediary that's aggregated brands and buyers in a single physical location for more than 160 years, and the modern-day shopping mall, which has done the same for the last six decades, has steadily lost foot traffic, sales and profits to online competitors since about 2010. Fewer buyers means fewer sales, which means fewer available dollars to buy inventory. Less inventory means fewer things for buyers to buy — and ultimately fewer buyers. Fewer buyers means that brands no longer find those outlets useful for distribution. The escalation of this now seven-year-old death spiral in just the last two years — from May 2015 to June 2017 — has wiped out $230 billion in market value off the top 20 traditional retailers.

Meanwhile, legacy pure-play digital marketplaces, like eBay, who once held sway, struggle to remain relevant.

Facebook, OfferUp, Tradesy, The RealReal, Etsy, 1stdibs and others have muscled their way into the "recommerce" category eBay put on the map when it launched the same year Amazon did in 1995. Aggregators like Wayfair, Houzz and One Kings Lane curate products and services that cater to niche segments, like home furnishings and accessories, and give consumers other options to purchase the new and vintage/antique items that eBay and/or traditional retail once upon a time had locked up.

Search, once the online gateway for consumers and brands to discover each other, now holds short shrift to Amazon, where 60 percent of consumers now say they start their searches for what to buy. The big question is whether those who still use Google to discover new products buy from the stores that Google helps them discover, or if it merely becomes a price and product comparison data point for what those searchers end up buying on Amazon.

Sharing platforms like Pinterest, which has assembled 200 million monthly active eyeballs, struggle to eliminate the friction between enthusiasts who pin the things they like and site visitors who want to buy what they see — and monetize commerce. That makes it hard to attract serious sellers.

Deal aggregators like Groupon and LivingSocial assemble local offers that drive consumers to purchase goods and services from local businesses. Ditto with mobile apps that promise price matching or automatic refunds in an effort to attract buyers and eliminate the fear of missing out by buying too early. The hope in both cases is to convert a deal seeker into a loyal customer — the reality, however, remains less clear.

Meanwhile, buying products inside messaging apps, where captive audiences of consumers abound and where inserting commerce into those interactions sounds like a no-brainer, has also failed to gain any significant traction.

Apps as commerce gateways have stalled too.

Although consumers train their eyeballs roughly three hours of their day on apps on their mobile devices, most users concentrate their time on just 10, which include social (Facebook, Instagram and, to a lesser degree, Snapchat),

music (Pandora, Spotify), video (YouTube and Netflix), utilities (Gmail, Chrome) and messaging (Facebook Messenger, iMessaging). Generally, consumers aren't as app-happy as they once were, with comScore reporting that 51 percent of the population downloads exactly zero new apps each month.

When it comes to shopping apps, it's not much different. Consumers really only spend significant time on two: Amazon, with more than 70 million active users each month, and Walmart with 22 million, according to App Annie data. After that, the drop-off in average monthly users is as steep as the grade on the slopes of Austria's Kitzbühel Streif.

Then, of course, there's Amazon, which has become the dominant online marketplace for the purchase of products — including those once only bought in a physical store, such as groceries, food, clothing and soon prescription drugs. The stats of its Prime members, now about half of all households in the U.S., are well known — they spend two times more as non-Prime members and nearly three-quarters of them shop there at least twice a month.

Like the Grand Bazaar in its glory days, buyers coming to Amazon know that they can buy what they came to buy, from sellers that have the inventory, at a price that's competitive. Prime members can get those goods delivered in two days and, in some cases the same day, for free.

That certainty keeps those buyers showing up, attracts new ones and makes it appealing to sellers who want a piece of the action. About half of all products sold on Amazon come from sellers who are part of its marketplace. Over time, Amazon has captured more than 50 percent of all book sales, is approaching 10 percent of apparel sales and is nearly a third of sporting goods and toys — while representing only 5 percent of all retail sales, excluding automobiles.

The purchase of Whole Foods Market, and the simultaneous launch and expansion of its own private label brands, is already disrupting the $600 billion-plus grocery market — online and offline. What it means to be an omnichannel grocer is now being defined by Amazon, and traditional grocery stores have seen their own market caps shrink by about $12 billion, according to analysts, since the Whole Foods acquisition.

Amazon and Whole Foods, though, are just getting started.

With Amazon Restaurants and Pay Places, Amazon's share of the consumer's food and entertainment budget has the potential to swell further. Amazon's announcement last Friday that it's likely to offer the online purchase of prescriptions sent CVS, Walgreens and Rite Aid stocks down sharply.

All of this is happening against a backdrop where a consumer changes her behavior only when something is seriously broken.

When consumers visit a store that doesn't have what they went there to buy, they move online to save time and avoid frustration. Or, as I wrote a few weeks back, they continue to visit the stores they always have, even if they don't love that merchant's ability to serve them across all of the channels they shop with them. The avalanche of

real-time and geo-targeted promotions and push notifications from competitors hasn't moved the needle much in the direction of the competition.

The devil the consumer knows seems better than the devil she doesn't.

Up until now, though, the battle of the commerce intermediaries has been mostly over online versus offline — whose app gets downloaded and used, who's delivering the least friction-filled checkout experience inside an app, who's got the best curated products and can assemble the most buyer eyeballs.

And all where access to the device of choice for the consumer is the smartphone and apps or the mobile-optimized sites she uses.

In this world, commerce intermediaries use a variety of tools and technologies to get the attention of the consumer — push notifications remind consumers they're within striking distance of a store with a sale, buy buttons short-circuit checkout abandonment, email marketing lets a consumer know that new merchandise is in or a sale is starting, with text messages from sales associates with pictures of new products.

But that's not the set of commerce intermediaries or the access device that will drive commerce tomorrow and effect every player that touches it — and in ways that we've not seen in a very long time.

Commerce Intermediary Redux

A decade after the launch of the iPhone, and twenty-two years after the birth of Amazon, we have thousands of apps, hundreds of aggregators, millions of merchants, dozens of digital payments players and thousands of innovators working overtime to optimize for the mobile commerce experience.

That's happening at the same time that consumers are being introduced to an entirely new way to access the brands they want to buy.

This new way uses voice activation and a virtual assistant connected to an ecosystem that powers a set of connected devices that can embed commerce into venues and ignite use cases that extend well beyond the phone: speakers, speakers with screens, portable speakers, cars, appliances, wearables and televisions — just for starters.

These new commerce opportunities are fresh and new. They satiate the consumer's appetite to have commerce mesh seamlessly within their day-to-day lives. They drive consumers to buy and use a suite of artificial intelligence-enabled (AI) devices that can power them and remove the tedium and frustration associated with shopping and paying today.

That burgeoning consumer demand will encourage developers to turn their attention away from mobile apps — since no one downloads them anyway — and to create skills or optimize websites to enable access to those virtual assistants and the new ecosystems they command.

These new commerce intermediaries will disrupt the existing commerce ecosystem, because they will disintermediate key parts of it.

Say Hello to Disintermediation

Voice searches, like online searches today, will start with a product.

"I need a new pair of snow boots; it's Boston, and winter is coming."

My virtual assistant might ask me a few qualifying questions about my requirements, show me a few styles with high ratings and prices on a speaker with a screen or maybe even send me a link to open in an app. Maybe I'll even send her a picture of a pair that I've seen in a store window on one of my morning runs and ask her to find them for me, since I don't remember the name of the store and didn't get close enough to see the brand of the boot that caught my eye.

I'll pick out what I like and ask her to place my order while I'm doing other things — cooking dinner, taking Annie or Charlie for a walk or going to work.

Never once have I asked my virtual assistant about the store selling those boots or what payment method I want to use.

That's because my assistant already knows that, has my payment credentials registered and is able to authenticate me — using a variety of methods — depending on where I am and the device I am using to interact with her.

She has decided for me what store will fulfill my purchase. Maybe my virtual assistant offers me a certain option if that store has paid to prompt her to make one — or has a deal with a local outlet that's convenient to me so that I can pick up those boots or have them delivered in an hour.

Or offers an incentive to use a particular payment method that she is able to monetize in some way.

Otherwise, the store didn't carry much weight in my decision about what boots to buy.

What did was the ability of my AI-enabled, voice-activated personal assistant to save me time, allow me to connect with her in a number of ways — via an app on any smartphone or a slew of devices that she now powers — and to get me what I wanted without a lot of friction, securely. And maybe offer me a few extra incentives that made an already great experience that much better.

In this scenario, brands trump retailers, unless they are one in the same or I am offered an incentive of some kind to make them part of my decision process. Payment methods are influenced by the personal assistant I am using. So what if she doesn't take my favorite digital wallet; I have issuer-branded cards — and one in particular that I've already registered with her anyway that I am perfectly happy to use. Devices become interchangeable commodities that I toggle between since the magic of the virtual assistant is the combination of software and services that get me what I want.

But that alone won't get these virtual assistants to scale — and scale is critical for success.

What will is the ability to tap into and leverage an existing ecosystem of buyers, with registered account credentials, and sellers that offer products that consumers want to buy across platforms — operating systems, handsets, devices and shopping channels.

In doing that, these new commerce intermediaries won't simply further blur the lines between the online and offline worlds of commerce; they will make operating at that intersection commerce's new imperative.

As things stand today, that puts two players in the pole position — the two commerce intermediaries that might just be the only significant intermediaries left standing:

Amazon with Alexa and Google with Allo

Google's suite of product releases signals they're dead serious about leveraging Android, which runs most smartphones in the world (sorry, Apple), massive advertising networks and online search platforms, deep learning/AI expertise and a monthly active Chrome user base across the iOS and Android platforms — all to make Allo a relevant player in commerce's next big frontier.

Google's tie-up with Walmart to enable voice shopping via its devices is a tacit admission that competing with Amazon online via online search and a single device called Google Home isn't cutting it.

And Walmart's admission that it needs one.

It's entirely plausible that Walmart's physical footprint, the 100 million buyers who visit Walmart every week in the U.S., its Jet.com and related online assets (including Walmart.com), its growing loyal Walmart Pay user base and roster of third-party sellers — all accessible via Allo at the beck and call of a consumer across a number of devices — could pave the way for an entirely new commerce experience for consumers and participating sellers.

Amazon and Alexa — well, that's something that I've written extensively about, and often. But Amazon's starting in a totally different place — and with a totally different consumer: 85 million largely affluent consumers in the U.S. who know it, use it and spend a lot of money with it in the pursuit of commerce. A report published last month says that 76 percent of voice-activated speakers sold so far are Alexa products. Analysts estimate that 15 million units are now in homes, up from 10 percent at the start of the year. And Amazon's new deal with Sonos captures the high-end speaker market that Apple had hoped to secure with the HomePod (when was the last time you heard Apple talk about the HomePod?).

Amazon's proven that it can successfully scratch the consumer's online itch. But its acquisition of Whole Foods and its more recent tie-up with Kohls is also a somewhat tacit admission that having a physical footprint in retail remains relevant — and they're using them to, among other things, sell more Echo devices.

Voice commerce and the intermediaries that they are spawning are still very early days. But everyone who touches commerce in any way must think seriously about life in a world that could very well

be driven by the consumer's relationship with her virtual assistant — and those two commerce intermediaries that could determine your relationship with that consumer.

Remember, those who thought online would never amount to much or who are playing catch-up with mobile are out of business or struggling to survive. Those who pooh-pooh voice as impractical — and who can't see where the combination of voice and visually connected devices will take consumers and commerce — are doomed to the same fate.

Whether you are a payments player, a digital wallet, a retailer or one of the many solutions providers that touch or power a commerce experience, if figuring out where you can play — and where someone may not want you to play — isn't top of your 2018 strategy, then there won't be much to celebrate in 2019 and the years to come.

The Grand Bazaar, hundreds of years ago, never saw it coming.

And I bet the merchant guilds never thought the Ottoman Empire would collapse or that one day all roads might lead to Alphabet and Amazon, either.

WHY IT'S TIME TO SHUT DOWN CRYPTOCURRENCIES

Two innovators approached a well-heeled investor asking for money. Their sales pitch was very convincing. They told this investor that their innovation was so incredibly cutting-edge that only the hopelessly uninformed would fail to recognize its value. The innovators said that they had picked him because he was smart and forward-thinking enough to see the potential. The investor, who prided himself on being and looking very smart, gave them money.

The innovation sold to this investor was related to textiles, design and the fabrication of clothing. Their beta version was a suit they were making just for him. A launch date was planned.

On the day of its public debut, the innovators prepared the investor's new suit and dressed him. Crowds had assembled for the launch. The investor's team members ooh'ed and aah'ed about it before he stepped outside to show it off, remarking on the incredible innovation he was about to unveil. Out the investor went, proudly showing the world the newest innovation in clothing design and manufacturing.

It was immediately obvious to the assembled crowd that something was very wrong, but the fear of being cast as "hopelessly stupid" kept anyone from speaking out. Eventually, someone said what everyone else thought and knew: The investor's new suit was nothing more than his birthday suit. Only after that one person said something did everyone feel it was okay to chime in and remark that the investor had been duped.

The story, as I'm sure is now clear, is the famous Hans Christian Andersen children's fairy tale, "The Emperor's New Clothes," published in 1837.

It's a storyline with some very strong parallels to the cryptocurrency stories being told and the investments they now garner.

The Crypto Has No Clothes

The ability to use an anonymous single currency to power a decentralized, permissionless distributed ledger operating over the public internet, where miners compete to solve the math problems that enable the processing of transactions, is a remarkable innovation.

In concept.

Like the Emperor, investors are eager to get a piece of the innovation that cryptocurrency advocates, which investors and enthusiasts strongly and forcefully defend as the future of our global financial services system. These early advocates have stimulated a vast amount of investment into this vision: $1.7 billion has been invested into bitcoin/crypto-related ventures over the last eight years.

Anyone who disagrees, however, is immediately dismissed as lacking the intelligence needed to understand the potential that these new

currencies will create, free of the legacy shackles and stifling regulation that they say keeps innovation in financial services way too low and the cost of moving money around the world way too high. They are deemed stupid, Luddites or just too freaking old to know that crypto is the future just like the internet was way back when.

Innovators, who see the willingness of many to invest in building this new future, take the money. They build applications that run on top of existing cryptocurrencies — mainly bitcoin — and create new ones; today there are more than 1,000 offspring of bitcoin. Innovators also find new use cases for these new currencies, including Initial Coin Offerings (ICOs), to raise money to fund innovation outside the realm of existing securities regulation.

Bankers and corporates, who already feel vulnerable to FinTech innovators and are told they're behind the curve, convince their boards to invest time and money creating crypto prototypes. Not doing so only cements their image as stodgy, lumbering corporate Neanderthals destined to die, they say.

Few people speak out. When they do, they are publicly slammed as too fearful of being disrupted to open their eyes to the future — and not visionary enough to see the great potential that crypto-powered networks will deliver.

Others, observing the strong public rebuke, wonder if they really are missing something. Venture capitalists (VCs), after all, are the visionaries who see and invest in a future that most don't have the capacity to recognize, so there must be something to it.

So, everyone keeps investing in the buildout of a new global financial services network, moving money between endpoints outside what exists today. Even though, deep down, something doesn't really feel right about the notion of a global financial network — that moves trillions of dollars around the world every day — built on top of an unregulated global currency like bitcoin or Ethereum.

The Need for a Balanced View

I wrote a piece a few years back that told the side of the bitcoin story that wasn't being told. I was compelled to write it after the din of bitcoin as the cornerstone for "the internet of money" reached a ear-piercing decibel level — an oversimplification of what I thought was the complexity of safely moving money around the world and even how the internet works.

In those pieces, I acknowledged bitcoin was an interesting, even fascinating, innovation, but not the salvation of our global financial system — not even close.

The points that I made in those pieces then remain the same today and extend to the cryptocurrencies that have cropped up since. And they remain especially true now, three years after observing the growth of bitcoin, which remains the kingpin of cryptocurrencies.

No one believes in the merits of a global cryptocurrency, except bitcoin zealots.
The notion that central banks will give up

monetary control of their fiat currencies for a global cryptocurrency, especially bitcoin, is just not happening, so we should stop talking about it. Even economists who never agree on anything, agree on that. Besides, a currency that swings between $1,000 and $5,000 over the course of two years, and between $3,000 and $5,000 in the course of a few weeks, isn't exactly a good basis for operating a strong and stable foundation for a global financial system. Even the miners making $7 million a day processing bitcoin believe it's a bubble and don't understand why it's trading so high.

JPMorgan Chase CEO Jamie Dimon's point last week at the IMF Conference in Washington, D.C., that the only economies that embrace bitcoin are those ruled by corrupt and oppressive governments, like North Korea and Venezuela, is right on the money.

To take an example, researchers at FireEye report that North Korea's President Kim Jong-un loves bitcoin and crypto because of the anonymity and ability they give him to operate outside regulatory oversight. It's also ideal for money laundering and the purchase of raw materials to build nuclear weapons and skirt UN sanctions while still engaging in trade.

Bitcoin has only two proven use cases after eight years: criminal activity and speculation.
I honestly don't understand why this continues to be dismissed in the face of mountains of evidence to the contrary. In the eight years since bitcoin has been a currency, transaction volume in the support of legitimate commerce is virtually nil.

People use it to speculate — buying and holding it in the hopes that it will appreciate, like they buy and hold other commodities. (Yes, of course, I wish I had bought it at $10 and sold it at $5,000. I bet a lot of people also wished they'd invested in Bernie Madoff's funds and sold while the getting out was good, too.) They also use it to move money out of countries where strict currency controls exist. And, of course, criminals use it to grow their businesses.

Bitcoin's innovation — anonymity and irrevocability — have taken the friction out of crime. Hackers take over computers and demand ransom in bitcoin. The dark web's thriving ecosystem — all fueled by bitcoin — is where criminals shop for anything they want to buy in the pursuit of illegal activities: stolen financials, personal information, military grade ammunitions, illegal drugs, sex slaves and more. Bitcoin not only makes it easier for criminals and terrorists to buy those things; it fuels a growing demand for their supply.

—This is why bitcoin, unfortunately, has gotten scale — it found a use case that feeds both buyers and sellers. It's also why so many blockchain use cases rely on it, because it now has an ecosystem to support its scale. To think that any other cryptocurrency would even come close is implausible. At least I hope so. *Bitcoin's core principle of anonymity is anathema to operating a safe and secure global financial system.*
Regulators require that financial institutions (FIs) know their customer — and for good reason: so that they don't become unwilling accomplices to money launders and terrorists. Those who say algorithms and machines can take care of that should tell that to the policymakers and regulators

who've observed foreign governments buying ads and posting fake content on social networks or criminals and terrorists that use marketplaces to set up fake storefronts to launder money. All further begging the question about the relevance of cryptocurrency beyond using it to do things that cannot be lawfully done with fiat currency.

Bitcoin is anything but fast or free.

Bitcoin's scale has taken a toll on how quickly transactions move across its network. Today, it takes roughly an hour for a bitcoin transaction to settle, up from ten minutes not that long ago. Transactions that exceed the capacity of a block — and block sizes are limited — get stuck in a queue until the miners give it the all-clear. And that's still on relatively small volume. The notion that bitcoin is going to power a global financial network that moves and settles trillions of dollars in real or near real time is implausible.

Bitcoin is also anything but free. Miners now expect a fee for their work and won't process transactions for which they are not paid. That means that those costs are passed down the ecosystem to end users. There's no such thing as a free lunch, even in the land of bitcoin.

Bitcoin's infrastructure is highly concentrated and not all that secure.

Processing bitcoin requires enormous computing power. Miners, understandably, set up shop where the cost of power is cheap. As a result, bitcoin mining is concentrated in two countries: China, with 60 percent, and Georgia, with 15 percent of bitcoin processing power. The U.S. has a 3 percent share, with the remaining 20 percent spread across the world. The notion that we are going to build an entirely new global financial system that moves trillions of dollars around the world every day on top of a processing infrastructure based in China and Georgia seems a non-starter.

The rising value of bitcoin has made exchanges prime targets for hacking, and thus has made hacks there quite lucrative. The Mt. Gox hack netted $500 million, Bitfinex $72 million, Bitcoinica $460,000, Bitfloor $250,000 and Bitstamp $5.2 million. South Korea's Bithumb hack last summer — the exchange that serves 75 percent of the South Korean market for bitcoin — resulted in tens of millions of dollars lost for the 30,000 customers affected. Even the wallets that store bitcoin are vulnerable.

The FBI reports that some $28 million in losses were reported to them in 2016, triple what they saw in 2015. But that's only what's reported. It's hard to imagine a money launderer or terrorist emailing the FBI to let them know they were hacked and lost money. That means that no one actually knows how much money has been lost to hacking, but the anonymity and irrevocability associated with bitcoin transactions means that the money lost is also irrecoverable.

The use cases bandied about for alt currencies like bitcoin lack an understanding of how money moves today.

An interview with the head of the International Monetary Fund (IMF) reported a use case for cryptocurrency as making it possible for women in developing countries to use mobile phones to conduct commerce safely. But that's already happening today — without bitcoin and without cryptocurrency. M-Pesa, for example, has been

in market in Kenya for a decade. Today, with 26 million users who've sent and received 184 billion Kenyan shillings over the last ten years, government officials and regulators report that Kenya "runs on M-Pesa." FYI: 184 billion Kenyan shillings is nearly $1.8 billion in USD, using nothing more than a feature phone.

M-Pesa's original use case was to digitize the paper currency that was once sent back home to villages via paper bags and buses. M-Pesa would have never ignited but for the ability to convert digital money into the currency that people are able to spend in their local markets. Setting up agent networks to convert digital money into the cash they would use to pay merchants ignited M-Pesa. That's all to say that thinking women in Africa or any developing country get value by receiving money in cryptocurrency fails to understand the problems that paying them in crypto creates. Not only does it subject them to the volatility of the underlying crypto, but also forces them to find a place where they can exchange it for a currency that a merchant in their village accepts.

Africa isn't the only developing market where efforts to digitize, move money and settle transactions is happening without cryptocurrencies. China has, in effect, digitized money with Alipay and last month made news by shutting down its cryptocurrency exchanges. India is using QR codes, existing rails and its own fiat currency to enable digital payments between people in the aftermath of its demonetization. Western Union moves money, settles transactions all over the world — and in developing economies — and has for more than 160 years without needing cryptocurrencies. As do MoneyGram and Xoom and PayPal. You get the point. This stuff all happens today and has for decades — digitally — without the need for crypto.

Cryptocurrencies are also being heavily scrutinized by banks and regulators everywhere in the world, including some of the countries that one might have thought would be open to the idea. In Russia, China, Vietnam and Bangladesh cryptocurrencies are already illegal or being banned. Singapore is shutting down the bank accounts of those dealing in cryptocurrency, and the head of the Singapore Cryptocurrency and Blockchain Industry Association said that he's heard reports that the same holds true for banks in FinTech hubs.

Then, of course, there are the ICOs fueled by the emergence of cryptocurrencies and the ability to create one out of thin air, outside existing securities regulations.

With an ICO, an innovator who wants to raise money issues a cryptocurrency — a token — in exchange for a promise that the token will be worth more than its face value someday. The volume of money poured into ICOs is nothing short of staggering. Pitchbook reports that ICOs have raised $1.3 billion so far this year, while $634 million in venture money went into crypto-fueled startups over that same period. And why should VCs invest more when they can wait to see what ICOs, if any, end up creating viable companies?

ICO investors don't get equity or even a real measure of the return on their investment, but as one investor said, they do face a sizeable risk losing all their money. All except for hedge funds, which seem to be getting rich on ICOs. They

buy tokens at a discount and resell them for big profits almost immediately. Their actions, some say, just give the unsophisiticated retail investor false confidence, which reprise concerns by many of a bubble that, when it bursts, could make the Dotcom crash look like a speck on the head of a pin.

Cryptocurrencies and the ability to innovate financial services are conflated — suggesting that one is not possible without the other. Satoshi Nakamoto's innovation was a distributed ledger network powered by bitcoin running over the internet. The unsavory nature of bitcoin gave rise to alternative distributed ledger schemes powered by new cryptocurrencies, such as Ethereum or XRP.

And it assumes that innovation of financial services globally, including real-time settlement of digital assets, is only possible if a cryptocurrency is inserted into the mix.

It also begs the question: why?

While bitcoin and ICOs command the headlines, innovations are emerging that take the best of distributed, permissioned, secure and private ledger technology and digitize assets issued by regulated financial services companies and governments to enable transactions in near real time. This concept decentralizes the ability of anyone who's a part of this network to digitize such assets — including stocks, loyalty points and contracts — and to move and settle them in near real time, globally, at scale. And it does it within existing secure and compliant environments using the fiat currencies of the endpoints in between those transactions.

If it sounds a lot like how global card networks operate, it should. In an interview that Visa's Founder, Dee Hock, did with *The New York Times* in 1981, he said, "Visa is a device for the exchange of value. In short, it's the next thing to money." As global networks, Visa and Mastercard both coordinate the operation of decentralized, distributed, secure and compliant private networks of issuers, cardholders, merchants, acquirers and processors to enable the settlement of card transactions between anyone on a global scale. They used technology and computing power to create the framework for the payments ecosystem that now powers global commerce.

When Steve Jobs launched the iPhone in 2007, he didn't feel compelled to rebuild mobile broadband as part of his product scope. He leveraged existing infrastructure and built on top of it. As the iPhone gained momentum, those ecosystems and that infrastructure evolved too — from 3G to 4G and now soon 5G to remain relevant and to monetize their place in that ecosystem.

The conversations we are having now about bitcoin and cryptocurrencies seems to have lost sight of the problem that needs solving as we look at the evolution of global financial services and the networks that power them. No one will argue that things could be more efficient — and that the ability to digitize, secure, make smarter and settle digital assets in real or near real time is worth exploring — and has a great potential upside.

But does that require bitcoin to do it? Or one of the thousand cryptocurrencies issued by unregulated entities that create new networks to operate?

Only if you want to build something that operates completely outside the current global financial services ecosystem.

I have no doubt that I'll be told by thousands how wrong I am.

That's okay, though; I sort of like the company I'll be keeping.

FACEBOOK:
TOO BIG TO GOVERN?

In December of 2008, Lindsay Ronson tried to log into her Facebook account with a new password — one she had recently created after experiencing, she said, numerous attempts to hack her account. She was presented with a message telling her that her account had been disabled.

Confused, she followed the link provided to Facebook's FAQ page for more information. There she eventually discovered — after many more clicks — that her account was disabled for violating Facebook's terms of service by using a fake name.

Lindsay Ronson, aka Lindsay Lohan, took to Myspace to air her complaint.

There, she said the reason she used a "fake" name on Facebook was because too many others had claimed her real name and created fake Lindsay Lohan profiles with it. Using the last name of her partner at the time, Samantha Ronson, was the only way Lohan felt she could share real Lindsay Lohan updates with her true Facebook friends.

Her account was eventually restored by Facebook, where it coexisted at the time with, *The LA Times* reported, 14 other accounts with similar account names and pictures of Lohan.

The Facebook Fakes

Tomorrow (October 31, 2017) Facebook executives will make their third trip to Capitol Hill to answer more questions surrounding the use of its platform by the Russians to influence the outcome of the 2016 U.S. Presidential election.

The topic of discussion is the ability of Russian operatives to establish more than 470 fake profiles and spend $100,000 buying 3,000 ads promoting fake news. This reportedly took place over the course of nearly two years: June 2015 through May 2017.

Facebook acknowledged in a post by its chief security officer that there were such ads present on its platform focused on "divisive" social issues, including gun control, immigration, gay rights and race, rather than advocating candidates by name.

Citing a March 2017 U.S. intelligence report, *Time* provided insight into some of the tactics used by Russian operatives to spread fake news to Facebook users — plans, these intelligence officers said, were five years in the making.

For instance, they reported that a (male) Russian solider established a fake identity as a 42-year-old American (female) housewife to create a following and then spread messages about political issues at the center of the U.S. election that would be shared. *The Wall Street Journal* reported yesterday that of the 470 fake accounts — this being one among them — the six Facebook has disclosed so far were shared a total of 340 million times. Collectively, these 470 profiles distributed viral content that reached a massive number of eyeballs over that timeframe.

In September of 2017, Facebook announced it would overhaul its policies for disclosing the sponsorship of election ads and hire 1,000 more humans to its review process.

For Facebook, the question now is whether all of this is too little, too late.

And whether it's even serving up a solution to the right problem, as Facebook has become the unregulated platform that 45 percent of Facebook users — in the U.S., that's two-thirds of all Americans or some 90 million people — say they get their news and information from.

But I'm not writing today to debate the political or social or moral issues of fake news impacting our election.

Instead, I'm writing about the important lessons in platform governance that Facebook's fake news issue raises.

And why it's critical to manage the inevitable tensions between how platforms make money, the expectations of their investors, the interests of their stakeholders and, ultimately, the trust placed in the platform by those stakeholders — before the government tells you how they see it all working out.

Walking the Platform Governance Straight and Narrow

Facebook launched in 2004 as an open platform for the free exchange of information among its users that, soon, would be monetized by advertising to those users.

From day one, Facebook wanted to establish itself as a trusted, safe and credible place for friends to visit and feel comfortable sharing updates and pictures.

And, one suspects — given what was going on at Myspace at the time — to be regarded by its advertisers as a trusted, safe and credible place to advertise their brands.

Facebook created a number of things to instill that trust.

The social media platform required an authentic identity to create a user profile to minimize the use of fake accounts that were pervasive on its competitor's website, Myspace, at the time. It also gave users the ability to decide who could become part of their individual social network and post updates that could be seen in their News Feeds.

Facebook also created a strict process for monitoring content to keep pornography and inappropriate content off the site. Users could flag content they perceived as unsavory. Facebook moderators monitored the site for violations and blocked such content. Users could block other users whose content they no longer wanted to see or even "unfriend" someone, too.

But as an advertising platform wrapped around a social network, the Facebook News Feed soon became populated with a mix of ads targeted to users based on their interests and demographics. The more users interacted with those ads, which have increasingly taken the form of content and

video ads, the more users saw those ads and promotions and others like them.

Facebook's successful shift to mobile made its News Feed front and center of the Facebook user experience — one with which its 1.3 billion daily active users now spend 35 minutes a day on average interacting. That combination of mobile plus ads and content in the News Feed has driven the value of the Facebook platform and mobile ad revenue to record heights.

Last quarter, Facebook reported that mobile ad revenue drove 87 percent of its total ad revenue, up from 84 percent a year earlier. A Needham & Company analyst described Facebook and its Instagram, WhatsApp and Messenger properties as "mobile advertising monopolies," while others call it and its 2 billion worldwide users and $516 billion market cap a "remarkable success story." The day following its Q2 earnings report, Facebook's stock was trading 7 percent higher at the market's opening bell.

Facebook also acknowledged in its Q2 earnings call that the News Feed as the source for ad revenue is approaching its available and acceptable limit of inventory of ad-sponsored content, which has accelerated its efforts to monetize WhatsApp and Messenger in new ways.

But getting those platforms to parity with the mega giant that is the Facebook News Feed is a long haul. For now and for the foreseeable future, it's Facebook's News Feed that will drive the bulk of how Facebook makes its money.

Hard Times at the Facebook News Feed

Fake accounts on Facebook are nothing new.

In a SEC filing made in August of 2012, four months after its May 2012 IPO, Facebook reported that nearly 9 percent of Facebook profiles (83 million of the 955 million active users) were fake — defined as inappropriate, duplicate or misclassified accounts. Concerns from investors over the impact of fake accounts potentially overstating its advertising reach — and thus its ad revenue potential — pushed the stock price below $20 at the time, down more than 50 percent off its IPO price of $38 just a few months before. Facebook deleted those 83 million accounts.

Five years later, after evidence of U.S. election tampering via fake accounts, Facebook said it removed "tens of thousands" of fake accounts prior to the German election and 30,000 fake accounts before the French election, as well.

Spoofing links and altering headlines isn't new either.

In September of 2011, an article appeared on Search Engine Watch that laid out step-by-step instructions on the ease with which to create fake news on Facebook using real news sources and logos. The examples in the article were ways to create silly, harmless headlines intended to get a laugh — news like "so and so from this or that company has just been knighted for being cool," but appearing as if that "news" had come from a legitimate news outlet.

It was the same technique used four years later to create some of the election-oriented fake news stories.

In July of 2017, Facebook eliminated the preview link capabilities that made this headline spoofing possible for anyone but accredited publishers.

In mid-October, Facebook COO, Sheryl Sandberg, promised lawmakers that Facebook would fully cooperate as part of the Congressional investigation of alleged Russian involvement in the U.S. election. Following her testimony, Sandberg also emphasized the importance of preserving Facebook as a "free and open platform," saying that "the responsibility of an open platform is to let people express themselves" and adding that [Facebook] does not "check the information that people put on Facebook before they run it."

Yet they do.

It's still not possible to post pornography on Facebook. Remember the outrage over the removal of the iconic Vietnam War "napalm girl" photo in September of 2016? Facebook reconsidered and reinstated the photo after its users — and the community at large — urged Facebook to let the world see and share an important moment in history.

What's amazing is that a site that has been so successful at stamping out nudity has failed to deal with so many other ways in which their platform gets sullied.

In an attempt to perhaps preempt regulation, last week Facebook CEO, Mark Zuckerberg, outlined steps that Facebook will take to create "more transparency" around the political ads that run on Facebook, which includes labeling them as political ads and requiring that the identity of the sponsor be disclosed, much like it is today for politically driven TV and radio ads.

It's not clear whether lawmakers will be satisfied with those voluntary concessions. Many still want to know why it took so long for Facebook to identify a problem that went undetected for nearly two years, and why action was taken only when there was mounting and nearly indisputable evidence that its platform was used to circulate fake news created by the Russians.

The Honest Ads Act now circulating through Congress has bipartisan support and will force more stringent disclosures for political ads running on any social network. But, as it now stands, it does nothing to address content that isn't obviously political ads but sensational content from real people — or divisive content from fake accounts like the Russian soldier posing as a housewife, with a big social following amassed over time and whose messages go viral.

Remember, the intelligence reports suggest that the election tampering was a plan five years in the making.

Here and around the world lawmakers are circling the wagons, asking questions about the unregulated nature of a platform as big as Facebook that has the attention of 1.32 billion people every day — where, in the blink of an eye, a post can be shared — unfettered — and impossible to pull back before it has reached millions and millions of people

And where, Facebook has proven, there is a will to eliminate offensive and questionable content, there's always been a way to make it happen.

One wonders whether, in the absence of public and political pressure — including the pressure to regulate the living daylights out of them around the world — Facebook would be as quick to right the platform governance issues that it seems to have overlooked on its way to getting to scale.

It's a lesson in platform governance that its once-competing social network, Myspace, learned the hard way.

Myspace was also established as an open platform for the free expression of musicians and artists. But it became a place for sexual predators and pedophiles, where inappropriate, often pornographic, content flourished. The ability to use fake identities made it easy for people to masquerade as someone else on that site. Myspace, under pressure to drive ad revenue, let almost anything go, devolving the site to what some called a "digital ghetto." Users, increasingly soured by the mix of off-putting content and parents who refused to give their kids access, no longer trusted Myspace and left in droves.

No eyeballs meant no ad revenue; no ad revenue meant no viable platform.

What was the biggest social network in the world in 2006 sold in 2011 for $35 million.

The squeeze put on Myspace by the State AGs to get its act together and monitor the site for child predators and other bad actors in the mid-2000s isn't what shut it down. What did was a big competitor named Facebook and the loss of trust of its users — all driven by Myspace's failure to put their interests first.

Today, Facebook's problem seems not too dissimilar from the "too big to fail" dance that banks now enact with regulators — too big with 2 billion users worldwide (and growing) and too complicated now to even begin to know how to regulate.

So, it will be a race to see if Facebook can step back and get its platform governance mojo in check before governments around the world do it for them. Doing that will come at a cost for Facebook, but so will regulation that changes the nature of what it was founded to do — and interferes with all of the innovation that it and platforms like it are positioned to create.

WHAT THE BOOK OF THE MONTH CLUB CAN TEACH RETAILERS ABOUT TAKING ON AMAZON

Thousands of little brown boxes of books, delivered by the post office all over the U.S., are sent every day to book lovers, who eagerly await the chance to dive into their latest literary indulgence

Getting those books doesn't require going to a bookstore. Most purchases were recommended by experts, often celebrated authors themselves, who curated lists of great reads or debut authors to pick from. Convenience, plus the advice of experts to help shorten that list of books, has become the winning formula for book lovers, the authors who want to reach them, the intermediary that brings those two together and the business model that made the captive audience sticky.

That winning formula saw its debut not in 1995 when Amazon began selling books online, but in 1926, when advertising copywriter Harry Scherman founded The Book of the Month Club (BOMC) with a monthly membership subscription model.

It's a model that has also, over the last five or so years, given birth to a variety of new digital commerce platforms interested in creating their own captive audiences for expanding the application of subscription commerce beyond digital goods to products. It's a model that, along with selling products, gives those platforms a chance to build valuable data assets that can also better understand member preferences — and leverage the economic benefits of the predictive model it creates and enriches over time.

A model that, some 92 years later, is even hoping to revive the business that first put it on the map.

Subscribe to Be a Member

Scherman was convinced in 1926 that the only thing holding book lovers back from reading was easy access to the books they'd most like to read. Book lovers, he theorized, would love owning the books they read, if it was easy and affordable. In 1926, that wasn't exactly accomplished by hopping in the car and zipping to the mall or firing up a Kindle to buy a must-have read online.

Back then, if someone wanted to read a book — never mind buy it — they went to the library. Walking in, they hoped they timed their trip well enough to get the book they wanted, and, walking out, they hoped they'd have the time to finish it before it was due back into the loving arms of the librarian.

If someone wanted to buy a book, their only option was to hope for the best at a local gift shop or drugstore. There, they were forced to pick from a small number of popular hardcover titles that the store had the room to display. Bookstores then were neither widely available nor easily accessible.

Observing that, Scherman decided to tap into book lovers' desire to be part of a "club" that gave them access to the great reads they'd want to buy and keep in their homes. His innovation was to leverage the most efficient delivery method available at the time — the friendly, familiar and

reliable mailman — and to build a mail-order, subscription-based, membership business around it. Each month, members of the BOMC were offered the chance to review and then buy from a curated selection of recommended reads that could be sent directly to their homes.

His initial hook was an offer to purchase four popular titles for one dollar. With books at the time selling for about ten times the price of a $0.20 movie ticket, that was a good deal. Anyone who did that became a member of BOMC. Then, each month thereafter, members received a catalogue featuring a selection of curated picks and were given a few days to review and send in their selection. If they did nothing, they would get the featured selection shipped to them automatically. Members paid full price for whatever they bought, plus postage, and were required to buy four books a year to remain a member in good standing.

BOMC's sales and distribution model turned out to be a big hit.

By the end of its first year in 1926, BOMC membership ranks grew to 46,539, with reported sales of $500,000. By the beginning of its second year, BOMC membership had more than doubled to 100,000 — all the result of word-of-mouth promotion.

Part of that promotion was members raving about easy access. But it was more than that, too. Members valued easy access to a high-quality selection of books vetted by experts with a knack for discovering famous authors before they became famous. Being a member of the Book of the Month Club meant getting access to debut novels written by those up-and-comers with the ease of mail-order delivery.

When BOMC launched in 1926, it did so with Ernest Hemingway's first novel, "The Sun Also Rises." In its tenth year, one of BOMC's featured picks was a book by a relatively unknown author, who won a Pulitzer Prize a year later and whose novel remains today the second most well-read book besides the Bible. That author was Margaret Mitchell, and that book was "Gone With the Wind." In 1978, BOMC put now-bestselling author Nelson DeMille on the map by making his first book, "By The Rivers of Babylon," its featured pick. DeMille and his publisher publicly acknowledged that its BOMC debut made the book an instant bestseller.

The Book of the Month Club ad in a 1971 edition of Esquire Magazine (Kirk McKoy / Los Angeles Times)

Over the years, having those titles on display on bookshelves in living rooms and family rooms across the country became status symbols, an incentive for members to keep buying, while motivating their non-member friends to become part of the club, too. That success delivered economic bargaining power that BOMC leveraged to its advantage for the better part of its first fifty years.

The popularity of the books offered by BOMC drove sales of those same titles at bookstores, which, naturally, authors and their publishers loved and from which they reaped the financial rewards. BOMC parlayed the power and influence of its membership model in selling books on and off its platform to keep its string of securing first dibs on marketing rights intact, paying publishers handsome upfront advances for that privilege. They did that because they had developed a keen sense of what their members bought and wanted to read. That dynamic also made it easier for BOMC to recruit more authors and drive down the prices they paid for books. Those discounts were passed on to its members, which kept them happy and encouraged them to buy even more.

Nearly 30 years later, in the mid-1950s, BOMC evolved its model further. Its feature pick was discounted, and any additional books purchased could be bought at an even steeper discount. BOMC reported selling 5 million books a year then, while boasting that it had placed more books in private homes than the total number of books that existed in all public libraries and universities combined.

Any kid growing up in the 50s, 60s and even the early 70s probably has fond memories of watching their mom (usually) pore through the BOMC catalogue to make her picks. And then watching her wait for the mailman to deliver a little brown box filled with her very own copy of Jacqueline Susann's "Valley of the Dolls" or Arthur Hailey's "Hotel" — knowing well the bragging rights that went along with getting them first (and at a discount).

The BOMC Boomerang

The rise of television, the mass distribution and rising popularity of the paperback format, malls with bookstores, supercenters like Walmart and Costco emerging as important outlets for selling books in the late 1970s and early 1980s — all these things began to take a toll on BOMC membership.

As did the rise of Amazon in 1995 and the ease of buying books online at a steep discount. All at once, all three of BOMC's core value propositions were leveled and its business model set adrift.

Mail order went the way of the typewriter — a quaint relic of a very different time. Convenience and price were being redefined on Amazon's terms. Curation took a back seat to the blockbuster bestsellers that then dominated book sales. A string of acquisitions and takeovers followed, as did the dismantling of the panel of experts that once gave BOMC its unique edge. By 2001, BOMC saw its membership ranks shrink by 50 percent to roughly 700,000, diminishing by another 50 percent in the years that would follow.

Today, BOMC is taking a page out of its old playbook to revive its brand and keep pace with the times.

New BOMC members can sign on for free. A panel of author experts chooses five selections each month, which can be purchased for $14.99 each; subsequent books can be purchased for $9.99 each. Selections include a mix of bestsellers and debut authors, once again buffeting its allure to book enthusiasts interested in discovering new and interesting reads. Shipping is free. Members

also have a choice in what's sent to them, along with an option to skip a month without a penalty if nothing suits their fancy. Social media is used heavily to recruit new members and keep existing ones engaged. Members accrue rewards for purchases made and any new members they recruit. BOMC executives say that they are pleased with membership growth so far.

This 92-year-old model is at the core of what others more recently have emulated and are using to turn today's more traditional subscription commerce business on its head.

For these businesses, the exchange of value is an introductory offer of a product that is priced quite low. Often that product is for a brand that's exclusive to that platform. Buying that product is a condition of becoming a member, which then unlocks other VIP benefits. Those benefits include products tailored to members based on very specific information they have provided about what they like, what size they are, how they will use the product and more.

But here's where things begin to look quite different.

Like BOMC, rather than of getting a box of "surprise" products each month, members are presented with options specific to their preferences that they then can purchase. What members see are the selections tailored to their preferences — people who like red won't be shown orange; people who say they wear a medium won't be shown extra-small or extra-large sizes. All selections are also often vetted by experts, and some even include celebrity endorsements.

With more members and more purchases from those members comes more intelligence about member preferences. More intelligence helps these platforms better anticipate demand, source products and manage inventory and the costs that follow, which delivers even more value to members in the form of better, often unique, inventory offered at lower prices.

The really good subscription models make it easy for members to know that the initial purchase means they've signed on as a member and can cancel membership at any time. The hope, though, is that they won't, since what they see each month reflects the things they'd be more likely to buy, at prices that reflect their VIP membership status.

The really, really good ones don't make consumers buy anything at all and proactively skip a month to remain a member — creating a trusted buying environment that encourages members to purchase more and more often.

It's also very different than what most box-of-the-month clubs offer today.

Thousands of "box-of-the-month" retail products seem to follow the same formula: lure consumers in with an offer to get the first box dirt cheap or even free, then pay a monthly fee to get another box each month. Box contents are determined after subscribers answer a few qualifying questions. Based on those answers, consumers receive a box of surprises that more or less meets those general criteria. If the consumer doesn't like what's been picked, they can send the box back or, in some cases, opt to keep it at a discount. Sometimes, but not always, those kits are filled

with unique brands only available from that box-of-the-month supplier.

These subscription businesses make their money by placing bulk orders for a zillion red shirts in a variety of sizes — or hundreds of pounds of bananas or hamburger-shaped dog toys — and then hoping enough customers are OK with getting their monthly box of surprises long enough to eke out a profit before they cancel.

Offering subscribers that choice and putting the customer in control is something that our Subscription Commerce Conversion Index measures every quarter and is shown to have a material impact on whether a subscription business keeps or churns customers. It's why streaming services fight hard to produce original content and give consumers a lot of options to choose from, or duke it out to earn the right to have new releases available first on their platforms.

TechStyle's Kate Hudson's Fabletics athleisure clothing is one brand that's using a membership model to change the way women buy what they wear to work out. The company has amassed 1.5 million members in the two years it's been in business, and its members buy from the brand three times a year, on average. Assuming a $50 order for every purchase — there's free shipping on any order over $49.95 — Fabletics' annual sales could reach several hundreds of millions of dollars a year. According to its CMO, Shawn Gold, the company has plans to expand membership privileges to include complementary products and services, like fitness memberships, increasing its revenue streams accordingly.

That's just one example.

When it comes to selling retail products one box and one month at a time, giving consumers a say in what they buy before they get it in the mail is a trend worth watching. Getting that model right offers a way for businesses to build a customer base in categories that consumers find attractive today — consumers who appreciate the convenience of easy access and delivery and the appeal of a unique, curated selection of quality products offered to them at discounted prices.

It's also a way for those businesses to capture data about their members' preferences, which can sharpen their competitive advantage and help them compete in a world where most U.S. households belong to Amazon Prime but still value the curated selections that Amazon with its size and scale doesn't address.

It might even be a bit ironic that the business model Amazon unhinged in the late 1990s could help retailers compete effectively today when they use it.

It's also a model that retailers don't have to be a box-of-the- month club to consider. It sure would be nice if the VIP memberships that many retailers dangle in front of customers tailored offers based on VIP member preferences, instead of blanket discounts on everything or selections based only on what they might have purchased in the past.

WHAT WALMART'S **RESURGENCE** MEANS FOR RETAIL AND **THE "PAYS"**

Accomplished public intellectual and post-Keynesian economist John Kenneth Galbraith was well-known for four things.

He didn't think much of math and science — rather unusual given his choice of a profession that uses complicated math formulas to communicate.

His economic principles were what inspired President Lyndon B. Johnson to kickstart the now-controversial "War on Poverty" program in the 1960s — a series of programs intended to end poverty and racial injustice.

His height: At nearly seven feet (6'9"), Galbraith was really tall.

And his tendency to be highly quotable.

Galbraith was a prolific writer. Over the course of his 97 years, Galbraith penned 48 books and thousands of essays on a variety of topics. His memorable lines in speeches, class lectures and interviews were drawn from the millions of words he wrote, which reflected his beliefs and were laced with a heavy dose of sarcasm.

For instance, economics, he once said, is a useful form of employment for economists. And that the only function of economic forecasting is to make astrology look respectable. Meetings, he also said, are indispensable if you don't want to do anything.

He also remarked that in politics, it's admirable to have a short memory.

I'll leave the color commentary to you.

But whether you think short memories are admirable (or even necessary) in politics, people more generally do seem to suffer acutely from them.

That malady appeared to be an epidemic across most of the web last week, brought on by news of Walmart's Q3 earnings.

The same media that had declared Walmart a lethargic, brick-and-mortar victim to Amazon's nimble, eCommerce prowess is now Walmart's biggest fan. In the course of just three days, we've gone from Walmart the slumbering retail giant to Walmart the savvy retailer that's now Amazon's number one rival — one that's even making Amazon sweat — well-positioned to challenge Amazon's retail rampage.

Of course, the Amazon/Walmart rivalry has always made for good media sport.

It's a topic that I've written a lot about over the years — mostly in the context of what it will take for anyone to offer a viable counter to Amazon and Walmart's opportunity to leverage its assets, acquisitions and partnerships to become the foil for Amazon's reinvention of the retail landscape.

The strategic volleying of tools and tactics between them has been truly fascinating to observe over the years.

Walmart was down for the count, given its lack of a strong digital presence, until it bought Jet.com for $3 billion in 2016 and later acquired a few niche eTailers, such as Bonobos and ModCloth. Ever since, Walmart has consistently grown its digital presence each quarter — most recently posting a 50 percent increase in digital sales quarter over quarter in Q3.

Amazon has brought physical retail to its knees and grabbed billions of dollars from bottom lines by crushing it online — until it bought brick-and-mortar grocer Whole Foods last summer for $13 billion. In a strategic move to capture a retail segment that everyone shops, the acquisition also came as a tacit admission of the importance of brick-and-mortar locations in competing effectively in key aspects of retail, like food, even as Amazon now drives almost half of all online spending.

As the strategic volleying continues, Amazon and Walmart will no doubt draw on tools and tactics that reflect their own unique retail street cred, the vantage points they bring from their respective starting points and the important gaps they need to close.

Central to those decisions will be the one tool that they have in common: their own merchant-branded mobile wallets and the power to use them to shape consumer behavior and influence how retail unfolds over the next several decades.

First, There Was Amazon

Amazon not only coined the term one-click checkout, but filed a patent for it in 1997 and secured it in 1999. The ability for a consumer to click and buy anything she wanted on Amazon without the hassle of line after line of forms played a huge part in cementing Amazon's presence as a dominant retailer on the web.

It still does.

Amazon's familiar yellow buy button is synonymous with giving consumers the ability to buy millions of products online at low prices and to have them delivered to their doorsteps in one or two days for free. Amazon's use of data to make sure their prices remain the lowest (when it wants them to be) is legendary. That "Amazon Effect" is why more than 60 percent of consumers start their product searches there, and why in some categories — like books, office supplies, sporting goods and even apparel — Amazon has captured a big swath of consumer spend.

Amazon's also tried to grow Amazon Pay off Amazon.

Amazon Pay can be found on 10 percent of the top 100 online retailers in the U.S. It is how consumers shopping at Kohl's this holiday season will pay for the Alexa products they want to buy there, and how consumers pay for the things they buy at Amazon-owned eTailers, like Shopbop. I'll also bet my incredibly cute little Scottish terrier pup, Charlie, that Amazon Pay will very soon find its way to the point of sale (POS) at Whole Foods.

Amazon also lets shoppers load cash into their Amazon Pay wallets at retail outlets, like 7-Eleven, giving cash-centric consumers the chance to shop on Amazon. Amazon's even one of a small number of retailers tapped by the U.S. government to allow food stamp recipients to use Amazon to buy groceries online when that program launches.

Amazon has launched a co-branded credit card — Amazon Prime Rewards Visa Signature Card — that offers 5 percent cash back on all purchases made on Amazon, 2 percent on restaurant and fuel purchases and 1 percent on everything else. Amazon's betting that Amazon Prime users will standardize on that card for their purchases, like Discover cardholders have done using a similar product.

It's also not possible to add a third-party wallet to Amazon Pay — not today and probably not ever. But it is possible to link a checking account, which bumps the anxiety card networks once had with PayPal to a whole new level.

And, of course, Amazon Pay is the only way to buy with Alexa across its portfolio of voice-activated devices, including Amazon's app on any mobile phone.

And Then There Was Walmart Pay

Walmart Pay has been in the market for about a year and a half. The pilot that was launched right around this time two years ago completed its full rollout to all U.S. stores in June 2016.

Over that one-year period, Walmart Pay has achieved a level of usage and adoption it's taken Apple Pay more than three years to reach, but not consistently maintain. Our ongoing research on the topic of mobile payments adoption in-store shows that a staggering 50 percent of Walmart customers say they use Walmart Pay — which can be added to any smartphone — every time they can. None of the other Pays has even achieved half that number.

Walmart Pay's usage and adoption stats are a result of the consistent experience it offers consumers across all of its stores and inside the Walmart app. Walmart stands for everyday low prices, and its Jet.com acquisition gave it access to a pricing algorithm that calculates prices in real time, based on basket size and what's been ordered.

Those stats are also a reality because Walmart Pay began as more than an easy way for Walmart's customers to pay for the things they wanted to buy.

Via its Savings Catcher program, Walmart Pay keeps track of prices and customer savings, used and unused gift cards and receipts and enables pharmacy refills and peer-to-peer (P2P) money transfer. It also allows consumers to load cash so they can shop via their mobile phones.

Walmart Pay drives the order online and pick-up grocery experience that has helped to keep its grocery customers sticky and to acquire more Walmart Pay users. The feature that is now available at roughly 1,000 Walmart stores will be expanded to more than 1,000 more in 2018. It was also cited by CEO Doug McMillon in his Q3

earnings remarks as an important driver of online growth last quarter.

Walmart Pay also enables Walmart's newly launched Mobile Express Returns program, reducing the time it takes to return an item purchased online to one of its stores to 30 seconds.

Walmart has its own credit card too, and linking that card to Walmart Pay offers 3 percent cash back for purchases made in November and December. Even though PayPal, Chase Pay, Visa Checkout and Masterpass are all available for consumers to use on Walmart.com, it is not possible to link anything but a network-branded debit or credit card — including Walmart's own credit card, Walmart's eGift/gift or prepaid card — to Walmart Pay. It's also not possible, at least right now, to use Walmart Pay on Jet.com, Bonobos, ModCloth or at Sam's Club — but we can bet that the retailer will evolve to include its mobile wallet as a payment option in time.

However, it is possible to use Walmart Pay to shop and buy using Google's Virtual Assistant. Instead of building its own hardware, Walmart Pay is leveraging Google's platform to drive its voice-activated commerce channel forward.

Will Wallets Drive the Future of Retail?

Today, there's no consistent method for a consumer to pay across all the shopping channels she frequents.

It used to be.

The same plastic cards were used to pay for things at any physical store.

It was consistent when consumers shopped online too: consistently horrible.

And that leveled the playing field.

Awful compared to a little more or less awful wasn't enough to keep consumers from shopping online or playing the field when shopping online, however. When they were doing it in front of a big screen and a big keyboard, consumers put up with it.

In fact, Cyber Monday was all but created to embrace that awful eCommerce experience — dedicating a whole day for consumers to use their desktops and broadband connections at the office to make the pain of buying things online a little more tolerable.

But that's not the case anymore.

Without beating the in-store digital wallet dead horse even more, we all know why consumers continue to default to the plastic card — or increasingly use their mobile app or browser to transact remotely or complete purchases in a physical store.

It's familiar, it's consistent and it eliminates friction.

Online, consumers now recognize the difference between sites that are awful and sites that are not. And they increasingly point their thumbs to retailers that have integrated mobile payments into a shopping and buying experience that does

more than help them pay for what they want to buy.

For retailers that offer that experience — and for consumers who use it — Pay means more than just transacting. For the consumer, it means the assurance that they're getting the best price without hunting down promo codes, that they're getting what they ordered in two days for free and that any rewards, discounts or coupons are automatically accounted for.

All those reasons are why payments are and will remain an important cornerstone of Amazon's and Walmart's retail strategy — an advantage that accrues to them as they build out their retail ecosystems. When a consumer clicks "pay," they know they're getting more value with less friction. Amazon and Walmart know they've increased their odds of making a sale and creating an unbreakable habit between them and the customers who increasingly default to their sites and use their method of payment to shop.

So, what does that mean for any retailer that's not Amazon or Walmart or any digital wallet that's not Amazon or Walmart Pay?

It means that it's time for digital wallet providers to think beyond the buy button to become a platform that creates and enables the same kind of integrated payments experience for other retailers.

It also means thinking deeply about how to leverage mobile and digital payments to target the segments where retailers' pain points are most acute — those places that consumers frequent daily, weekly, monthly — not just every now and then. And how to deliver more value than simply checking out with the remote payments experiences consumers now use increasingly to order their coffee from Starbucks, their lunch from Sweetgreen or their dinner from GrubHub. And to enable that same consistent, value-based experience across the many retailers they visit.

But with Walmart and Walmart Pay and Amazon and Amazon Pay methodically expanding their ecosystems online and offline, there isn't a lot of time for other retailers, and other Pays, to sit back and keep thinking about how to get it done.

Or how to get started

WHAT SPONTANEOUS COMMERCE CAN TEACH ONLINE RETAILERS AND PAYMENT PROVIDERS

In January 1950, William Applebaum published a piece in the *Journal of Marketing* about the buying behaviors of consumers in retail stores. At the time, Applebaum was the director of Marketing Research at the Stop & Shop supermarket chain based in Boston. The research he presented in that paper, however, was conducted a dozen years earlier — over the five-year period between 1932 and 1938 when he was employed at Kroger.

Applebaum's interest then was to better understand the who, what, when, where, why and how of those consumer behaviors. His observations, now some 67 years later, remain central to today's modern-day retail marketing, merchandising and promotional strategies.

For instance, he observed then that urban dwellers shop and buy differently than their more rural counterparts and that store merchandise and amenities must reflect those differences.

WILLIAM APPLEBAUM

Applebaum also observed that the person doing the shopping was buying things influenced by other members in the household, even those without any direct purchasing power themselves. He said to know what consumers will buy meant understanding the profiles and interests of those influencers, even children and household pets.

He concluded that a consumer's loyalty to grocery stores was fleeting, often price-driven, and influenced increasingly by the availability of amenities like parking and store credit.

He also wrote that efforts to influence when consumers shopped for groceries (as a way to manage congestion in stores) was ineffective — that consumers had their own schedules and expected stores to adapt rather than the other way around.

Applebaum's research also revealed that consumers shopped at multiple stores for groceries, observing that they often used one store to buy "dry goods" — staples — and others to buy "wet goods" — meats, produce and dairy — even if all of those items were sold in the same store. That behavior, he said, put all stores at risk to losing customers to competitors, and that smaller specialty players (in those days, the milkman) still occupied a very important place in the grocery store retail mix.

Yes, the future of grocery as foreshadowed 67 years ago. And now brought to you by the makers of Amazon and Whole Foods.

Applebaum ended his paper by outlining an important piece of unfinished business — a call to action for researchers to understand better the impact of promotional advertising in influencing a shopper's intent to buy the things that weren't on their shopping lists when they walked into the store.

Research into the effectiveness of in-store signage and displays, demonstrations and "sales talks" — the banter of friendly cashiers and sales associates — he felt was historically too "flawed" to be reliable.

Yet too important an area of understanding in how to increase sales to be ignored.

Or walk past the attractive displays situated at aisle endcaps.

Or when offered as part of live cooking demonstrations or left out as samples for shoppers to try while cruising the aisles (hopefully hungry), which appeal to both the shopper's visual and olfactory senses.

Scientists say these unplanned purchase decisions happen when the frontal lobe of the human brain responsible for a human being's higher order decision jumps into action and decides it's the thing to do.

For instance, my frontal lobe decided last week that I couldn't live without buying Cook's Illustrated Best Ever Recipes magazine at the Whole Foods

---

What Is an Impulse Buy?

Impulse buying is defined classically by researchers as an unplanned decision made by a consumer to buy something in the moments just before the purchase is made. For retailers, it's always been defined as an important source of incremental sales.

These impulse buys have historically been associated with the collection of relatively inexpensive but high-margin items displayed at grocery stores checkouts while consumers wait the six or seven minutes, on average, it takes for the person in front of them to get through the line.

checkout — a purchase I had no intention of making until I saw the scrumptious-looking dish on the front of the magazine.

I'll bet your frontal lobes have decided that you needed to throw that package of gum or mints or chocolate candy bar or lip balm or magazine that you never intended to buy onto the counter or the conveyor belt during one of your last grocery shopping trips too.

More broadly, the data suggests that there are a lot of frontal lobes hard at work in grocery stores.

These types of unplanned purchases are said to account for 1 percent of all grocery spend — and in the U.S., that's more than $6 billion annually.

But what I now am calling Spontaneous Commerce isn't just happening at grocery stores and is starting to influence what consumers buy and how they buy them.

A 2013 study suggested that the average consumer spends a little more than $118 a year — or nearly $115,000 over the course of her lifetime — on impulse purchases — things one never intends to buy.

In addition to the typical roster of food, candy and magazines, consumers say they buy clothing, toiletries and even shoes that way now. On Black Friday this year, 35 percent of consumers surveyed by Statista said they made unplanned purchases of clothes, and 24 percent made unplanned purchases of games while shopping in stores that day.

Spontaneous commerce is often prompted by many of the same visual cues that have always set the consumer's frontal lobes in motion: putting things that are typically high margin and/or not terribly expensive and/or not complicated to buy at or near the places in stores that consumers pass by often and/or are forced to stare at while waiting in line.

Today, however, impulse buyers are as different as the things consumers buy — and those distinctions come with an important difference.

A difference that, if well understood, can help retailers drive incremental sales in important new ways.

Who's Buying What on a Whim?

Researchers who've studied unplanned shopping behavior have classified impulse shoppers into four distinct buckets. All share one common characteristic — the item or items they buy aren't planned in advance — but these buyers don't always buy something that's totally new to them.

The *hybrid impulse shopper*, for instance, knows generally what she wants to buy but makes her final decision on the basis of price, coupons and other inducements in the moment. Think of this as the shopper who knows she wants to buy a black sweater but decides what type of black sweater and where to buy it on the basis of the store that offers her the best deal.

The *recall impulse buyer* sees something that she probably buys a lot but hadn't planned to purchase

on that trip to the store. This is the shopper who sees mozzarella cheese on display in the produce section while buying tomatoes and remembers there's no more at home.

There's the *purist*, who sees something totally out of the normal buying experience but buys it anyway regardless or need or familiarity with the product. This is the woman who buys a bottle of bright red glitter nail polish at the cosmetics store checkout but never paints her nails. Researchers say that these purchases often come with a heavy dose of regret, given the degree to which they depart from the consumer's typical buying pattern.

Then, there's the *suggestion impulse buyer*, the person who sees a product for the first time, imagines a need for that item and then buys it. This is the guy who's at the hardware store buying drill bits and throws jewelry cleaner into the bag so that his fiancée can keep her new diamond engagement ring sparkly.

Now, it's no accident that all the examples I highlighted happen in a physical store.

Roughly 80 percent of spontaneous commerce happens there. Retailers are using a number of tools and technologies and data to improve their chances of putting just the right items at just the right places in their stores to increase the likelihood that consumers will buy stuff they suddenly can't live without.

But retailers also have their bottom lines set on combining their understanding of the types and behaviors of impulse buyers with the growing number and usage of online channels and mobile apps used by consumers to up the odds that a consumer will take the bait.

Retargeting has always offered retailers the chance to nudge those hybrid buyers into buying the things they once looked at — often taking their chances by appealing to their price/coupon sensibilities to close the deal, even though click-through rates remain low.

Recommendations prompt those who may have never thought to try a particular type of product to do so, by making those unplanned purchases feel safer by reminding consumers that others like them with similar purchase patterns gave it their thumbs up.

Retailers appealing to the purists or hybrid types have taken a fancy to promoting *"buy online, pick up in store,"* since more than half of consumers buy more when they pick up their purchases — often buying things they hadn't intended to before walking in.

Subscription commerce has mechanized the many so-called recall impulse purchases at a particular online retailer for as long as that item is used.

The ability to *buy things in context* — products viewed in the Facebook News Feed, presented as a shoppable ad on Instagram, shown as a hanging green tag on a product in Houzz, presented inside a messaging app or accessed by a link in a blog post describing a new or popular product — has introduced a world of new environments, giving consumers a way to discover and then buy something that was never on any of their shopping lists while they were actively shopping.

In each of these eCommerce examples, payment plays a starring role by making the purchase of those things easy, efficient and secure.

New research now emphasizes the importance of where — and what — payment choices are made known to consumers in those moments.

Two MIT professors, Drazen Prelec and Derek Dunfield, published a paper three months ago that examined the habits of consumers when shopping online. Like Applebaum decades before, they wanted to better understand the relationship between payment, a shopper's purchase intent and incremental sales to the retailer.

As part of their work, they created an "Amazon-like" marketplace with millions of products for consumers to choose from and gave consumers access to it. The consumers who were part of the study used their own money to make their purchases.

Prelec and Dunfield have previously conducted research on consumer habit, what they describe as the "pain of paying" and the availability of credit products in enabling those purchases. This particular study concluded, perhaps not surprisingly, that access to a credit, and not a debit card, eliminates the pain of paying by reducing uncertainty over whether a consumer has funds available to complete an eCommerce purchase.

But it was their findings regarding spontaneous commerce — or a consumer's unplanned purchases — that I found most intriguing.

In those cases, their research concluded, the difference between making an unplanned purchase and not making one depended on when consumers are shown what payments methods are available to them to make that purchase.

If a consumer knows at the time of what Prelec and Dunfield describe as the "fully reversible" purchase intent that they can use credit to make an unplanned purchase, they will make that purchase. If they are not shown those payment options until the consumer is at the "irrevocable payment decision," their research concluded they will not.

Signaling that credit and/or payment methods that enable a purchase with a form of credit at the same time consumers are presented with an option to buy is the digital equivalent of aisle endcaps and stacking the checkout lane with gum, candy, mints and magazines.

It's also a finding that we observed the last time we published our Checkout Conversion Index. Letting digital shoppers know, as far forward in their online shopping journey as possible, that there is a digital checkout option available to them increases that online retailer's conversion rate.

Like a lot of things in payments, commerce and retail, what's old is often new again — but with new tools and technologies to improve and accelerate the outcomes.

Like William Applebaum observed with his research in 1932, and published 18 years later, knowing who's doing the buying — and for whom — is table stakes for any retailer. Convincing consumers to walk out of a store having bought things not on their shopping list was something he was convinced was the retailer's holy grail.

More than 67 years later, and in the fastest-growing retail channel there is, we're now beginning to understand the role of payments in helping retailers get there.

With perhaps the simplest insight of all — letting consumers know they can buy using a method of payment that eliminates their "pain of paying" when their shopping intent first surfaces, not after they've already decided that they can't.

WHY THE NEXT BIG CONNECTED COMMERCE PLAY IS TELEVISION

No doubt you've heard the news: People aren't watching television anymore.

That may leave many of you who left for the office this morning having watched a half hour or so of morning network or cable programming — who probably spent some part of your weekend parked in front of the television watching sports, "Saturday Night Live" or "The History Channel" — wondering if you're an outlier, or just too old and set in your ways to change your habits.

But then again, maybe you think it's not you; it's those crazy, cord-cutting, mobile-centric, social network-tethered 18 to 24-year-olds who've given television the boot.

That might not be a crazy assumption: Reports from Nielsen reveal that television viewership by that demographic has declined more than 40 percent since 2010 and is off 11 percent year over year for the older half of millennials aged 25 to 34.

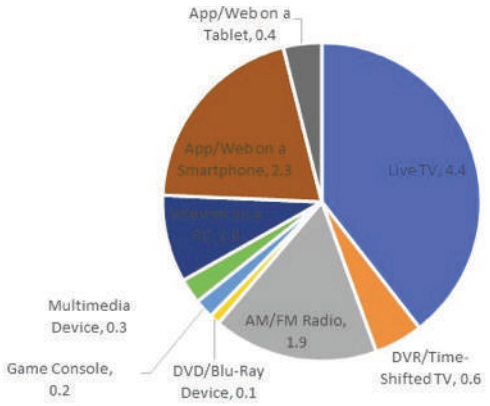
But why then, you might ask, are so many pure-play eTailers, whose target audience is the millennial — like The RealReal and Rent The Runway, new marketplaces like OfferUp, deal aggregators like Groupon, alt lenders like SoFi and alt lending platforms like LendingTree — buying pricey blocks of airtime on CNN and CNBC to promote their brands?

And why do card networks and banks continue to hire actors and spokespeople to blanket the airways with clever ads that tout the merits of using their products?

Because President Donald Trump isn't the only one who spends four — and sometimes as many as eight — hours a day watching television.

The Great Television Viewing Fallacy

According to 2016 Nielsen data, consumers in the U.S. spend 4.4 hours a day watching television and 1.9 hours listening to AM/FM radio



Yes, you're reading this chart correctly. Of the 11.1 hours people spend each day consuming media, about twice the amount of time people spend with their thumbs on their mobile devices and inside apps is actually spent watching television.

But that's not even the best part.

In a new study of ad-supported media and the attention economy written by economist and author (and PYMNTS chairman)

Dr. David S. Evans, 4.4 hours is just how much time consumers *actively engage* with television programming.

In other words, sitting right in front of their TVs, watching them.

If one were to include the time a television is on "in the background" — while those same consumers are cooking, putting groceries away, cleaning, getting dressed, getting kids off to school, answering emails — the number of hours spent nearly doubles.

And, that, says Evans, adds up to a lot of time.

Based on his estimates, consumers spend 174 billion hours *actively* watching television — in other words, it's the main thing they're doing — and 311 billion hours when they also include time spent passively engaged with this medium — in other words, when people have the boob tube on while they are mainly doing other things, like feeding the kids.

That's **174 billion** out of the 437 billion and **311 billion** out of the 779 billion total hours that people either spend engaged actively, or actively and passively engaged with all forms of ad-supported media.

At 311 billion hours, that means consumers spend more time actively and/or passively engaged with television than the 308 billion hours Evans reports they spend at work.

So, although it's true that younger millennials watch less television than they used to, they're still actively watching two hours and seven minutes of it a day, according to Nielsen. Their older millennial buddies are actively watching about three hours, and big brother and sister Gen Xers are up to about four and a quarter hours a day. Their baby boomer parents and grandparents watch just about as much, if not a little more, than they always have — six and seven-plus hours a day, respectively.

That's why, according to eMarketer, television still accounts for more than a third of all ad spend ($72 billion of $206 billion for 2017) in the U.S. and why eTailers interested in building a brand continue to use television as an important part of their advertising mix.

And why, with every TV rapidly transforming into a smart TV that has a connection to the internet, television is positioned to become one of the most powerful connected commerce platforms in the U.S. — and in other developed economies where people spend more than half of their leisure time watching TV.

Television as a Contextual Commerce Platform — the 1960s Version

It all began with the Veg-O-Matic.

The idea of using television as a call to action to get consumers to buy in that moment was the brainchild of inventor and gifted pitchman, Sam Popeil.

In the 1960s.

Popeil set up shop in New York in 1937 and then later in Chicago in 1941, where he invented a slew of household gadgets — like potato peelers and cheese slicers. Selling those gadgets was done by sending salesmen into stores to set up tables to demonstrate and then sell those products. His salesmen also sold door-to-door to housewives with an interest in saving time when preparing meals.

Two of Popeil's more popular inventions, the Chop-O-Matic and the Veg-O-Matic, created a big problem for his team of traveling salesmen. They found it hard to carry an adequate supply of vegetables for the number of demonstrations they had scheduled each day, which meant the product was not able to be demonstrated properly and consistently.

That gave Popeil the idea to record a video of the product in action, so that in-home demonstrations featured Popeil's persuasive sales and demonstration techniques by way of video instead of live, in-home demonstrations by his sales team.

All the while, salesmen continued to make sales, which gave Popeil another idea.

If people still bought his products after seeing a video of the product, why not take that demonstration video and broadcast it to a much larger, in-home audience — using the most popular digital medium of its day: the television.

Popeil started buying remnant ads that would run at odd hours at $7.50 a minute in the early 1960s. Each demonstration ended with a call to action — with the infamous "operators standing by" to take orders for what consumers just saw over the course of 30 seconds and had to buy.

And buy they did.

At $3.98, the Chop-O-Matic sold more than 2 million units in its first year. The Pocket Fisherman, a collapsible fishing rod priced at $19.99 when introduced in 1973 by Popeil, sold 2 million units in its first year too.

The debut of the Pocket Fisherman also ushered in another new concept — installment payments. The $19.99 purchase price was offered to consumers to be paid in three easy installments.

Popeil and the company set up by his son Ron, Ronco, were the pioneers of direct response television and gave the remnant television ad space a new lease on life. Their "O-Matic" product line was soon followed by many other gadgets — the Egg Scrambler, Food Dehydrator, Smart Rotisserie, women's stockings that never got a run, smokeless ashtrays and even spray hair in a can — an invention created by Ron to cover his bald spot.

Popeil and Ronco paved the way for many others, who saw an opportunity to pitch products directly to the consumer using the power of television.

Chia Pets, those famous sets of Ginsu Knives, Suzanne Somer's ThighMaster, the Clapper, the Total Gym, George Foreman's Grill and the must-have Snuggie are all some of the more infamous examples of products sold in this manner.

Before you laugh, the direct response infomercial market is a $250 billion commerce market — and growing.

Five hundred million Chia Pets are sold each holiday season (at $19.95 each, the Trump version is the latest in its Presidential series), the ThighMaster raked in $100 million for Suzanne Somers, the Total Gym a cool billion for Christie Brinkley and Chuck Norris and, in 2015, Snuggies were a $500 million business.

Some 44 years later, the Pocket Fisherman is alive and selling well. A vintage Pocket Fisherman can be purchased on eBay for $0.99, and a new and improved version is listed on Amazon.com for $24.99. Currently, it's out of stock at Walmart, where it can be bought for $18.88 when they get some more.

This year, my personal favorite is the Sock Slider — a plastic contraption that makes it a cinch to put on socks and then collapses into a shoehorn to make it a cinch to put on shoes. There's still time to order if you're looking for that all-important stocking stuffer. Who doesn't know someone who needs a Sock Slider for Christmas?

Even if you don't, the commercial is worth watching.

In their very early days, payments for these gadgets was done via checks sent in the mail, and the operators standing by were the only way through which orders could be placed. Over time, these infomercials went digital and multi-channel — with operators complemented by their own (as well as third-party) websites, like Walmart and Amazon, and in-store displays at stores like CVS, Walgreens and Bed Bath & Beyond.

Payments today are complemented by credit cards, mobile wallets and even Amazon Pay.

Television as Contextual Commerce — the 1980s Edition

My late grandmother lived in Florida and developed an obsession for buying what my mother called "knick-knacks" in the late 1980s and 1990s. It was then that Grandma began to amass the largest collection of Capodimonte we'd ever seen. The little porcelain swans and vases, flower bouquets and figurines were everywhere in her home. Capodimonte soon became her favorite presents to give and, quite frankly, our least favorite presents to receive.

Grandma, we'd ask, where are you buying such, um, interesting stuff?

Home Shopping, she would say, at which point she'd direct us to the television to see what the hosts were pitching at that moment.

For my grandmother, and others like her, shopping via television was both a novelty, something to occupy her time, and a way to feel a sense of community with the hosts and the other shoppers who'd call in and talk about their shopping experiences.

I also happen to believe my grandmother liked the visits from the UPS man who delivered her treasures as much as she liked watching the show and buying things.

Taking the 30-second infomercial of the 1960s and turning it into a live, interactive sales pitch, where on-air hosts sold products, was the brainchild of radio station owner Bud Paxson in 1982.

It was all inspired by a can opener.

In 1977, one of Paxson's advertisers ran into financial problems. Instead of paying his balance in cash, that advertiser paid Paxson in can openers. Turning those can openers into cash was left to one of Paxson's on-air personalities, who took to the radio airwaves and sold the entire inventory of can openers for $9.95 each.

If can openers could sell on the radio for almost $10, sight unseen, why couldn't lots of other stuff that people could see and interact with in real time sell on television?

That silver-tongued, on-air personality who moved countless can openers became the first Home Shopping host in 1982, selling 75,000 products in over 20,000 hours of live programming. The Home Shopping Network (HSN) went national in 1985, and its competitor, QVC, went live a year later.

Like Ronco and Popeil, over the years HSN and QVC went multi-channel and used the internet to complement their televised pitches. In 2017, QVC bought HSN for $2.1 billion dollars so they could consolidate their largely independent cadre of loyal patrons. According to company filings, in Q1 2017, HSN reported that its 5 million shoppers purchased 13 times each year and that 90 percent of their sales came from repeat customers. QVC's 8 million customers shop 25 times each year and account for 92 percent of their sales. Those repeat shopper rates are more than double what Internet Retailer (IR) reports as the shopper repeat rate for the IR Top 500 (39.2 percent).

Today, QVC and HSN, combined with their 69.4 million visits, represent the seventh most-trafficked online retailer, ahead of Macy's.

Television's Smart, Connected Future

There have been a few attempts over the years to take the notion of direct response television to the next level.

Seventeen years ago, when the commercial internet was just a toddler, innovators thought that the intersection of the internet and television viewership would happen, quite literally, on the TV screen itself. A feed running on the side of a television show required the use of remote controls to "shop" the products promoted in those feeds — a clunky experience that never got much, if any, commercial traction.

In 2010, Bluefly launched QR codes, as did HSN in 2011, so that viewers could use their phones

to link to product pages for purchases. Both efforts were shuttered not long after they started, owing to the clunky technology that created a bad user experience, along with tedious integrations required of the brands.

Since then, the direct-to-consumer concept has evolved very little beyond its early days of campy infomercials and continuous live programming with operators standing by.

The infomercials have become more sophisticated — and longer — with some now using a full 30-minute segment, complete with celebrity endorsements and hosts. The Home Shopping product selection has expanded and diversified to include celebrity products like Mariah Carey's jewelry, Sheryl Crow's clothing and Beyonce's hair stylist's hair care line, to name but a few.

Consumers today who want to buy the things they see on television — the products the stars in their shows are wearing or using or the products they see in the ads they are watching — do so via the mobile devices that are with them as they watch TV; they can google and search for them on Amazon while the show continues.

That has the potential to change, and rather dramatically: As more televisions connect to the internet, the mobile apps users like to access are now available to them on the big screen.

Nielsen reports that going into the 2017 television season, of the 125 million households in the U.S., 118.4 million of them had at least one television in their household. That's up 1.6 percent from the prior year. At the end of 2016, roughly 36 percent — or more than 42 million of those households — owned a television that was connected to the internet. Analysts report that 59 percent of all televisions sold in the first half of Q1 2017 were smart televisions, up from 50 percent the year prior.

At the same time, Netflix reported in June of this year that it had more than 50 million subscribers — more than cable television. Amazon's streaming service is available to all 80-plus million of its Prime Members here in the U.S. And Hulu is a distant third, with 12 million subscribers.

It's possible to watch Netflix and Amazon Prime and Hulu on these smart TVs, and some 42 million households have the ability to do so today.

And, of course, that's what many people do. Those who don't are watching programming on lots of other devices, like game consoles, PCs and tablets, that are now being substituted for big screen TVs.

But — and here's the key thing — these new streaming players are doing this over the internet, which connects them and those viewers directly. Unlike operators standing by and 1-800 numbers, they have the internet and their apps.

And they are doing this globally.

That's a lot different than the cable companies, satellite providers and (this still happens) over-the-air broadcasters who don't have a direct internet connection with the consumer for the programming they are pushing out. And who tend to operate in national, and often regional, footprints.

Right now, the streaming players — particularly Netflix and Amazon — are all about paid subscriptions with no ads.

I don't think that's a long-term situation, however.

Like any digital pure-play that enters an analogue world, Netflix and Amazon both understand the importance of commerce in their digital worlds. Both have the payments credentials for their users on file, available for them to make purchases for the products they see and may want to buy in the context of the programming their customers are watching.

On their big, smart television screens.

Or any other device that happens to be streaming entertainment from these providers.

Either of these companies, or a new one in this fast-growing area, could introduce an ad-supported — or commerce-supported — model that either subsidizes the cost of providing programming or provides an additional revenue stream if they do.

In fact, given its growing commerce empire, this seems like a more interesting thing for Amazon to be doing than just competing with Netflix for streaming eyeballs.

Today, roughly 18 percent of all television viewership happens online. But like most other shifts, there's momentum, and it's growing. The long run could be a world in which television is provided via streaming over the internet, but with a much richer commerce layer than the uninspired one cable and satellite providers have been able to serve up.

It's a massive revenue and commerce opportunity for a medium that sucks up more time than people spend at work.

ABOUT

PYMNTS.com

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

DISCLAIMER

The PYMNTS eBook: Fifty-Two Mondays A Year Of Conversations About Payments 2017 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.

You agree to indemnify and hold harmless, PYMNTS.COM, 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, from and against any and all claims, actions, demands, liabilities, costs, and expenses, including, without limitation, reasonable attorneys' fees, resulting from your breach of any provision of this Agreement, your access to or use of the content provided to you, the PYMNTS.COM services, or any third party's rights, including, but not limited to, copyright, patent, other proprietary rights, and defamation law. You agree to cooperate fully with PYMNTS.COM in developing and asserting any available defenses in connection with a claim subject to indemnification by you under this Agreement.