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BY KAREN WEBSTER

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OFFER A DEEP VIEW OF PAYMENTS **PAST AND FUTURE**

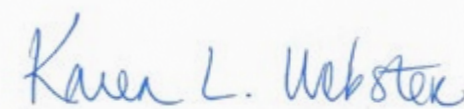
Mondays have a bad reputation, and that's understandable. The magic of the weekend is fading into memory, and sometimes even the strongest coffee has a hard time sparking the engine needed for the workweek ahead.

But Mondays have a different meaning here at PYMNTS – and for me. It's the day we publish my weekly column about the latest trends in these industries we all love. They are not just columns, however. They are part of an ongoing conversation about the deeper currents that drive payments and commerce – data-supported views about what's working and what's not, what's happening and what's to come, where the blind spots might be and how to prepare for the future.

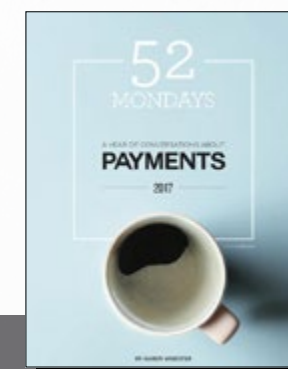
That future is taking on prime importance as a new decade dawns. The 2020s promise to bring about a convergence of the technology and innovations that have defined the last 10 years – to bring about new disruptions as the web shifts into higher gear, mobile becomes ever more popular and vital, homes and automobiles become hotbeds of commerce, and Big Tech firms face significant political and policy challenges and redefine themselves for the new decade. New ecosystems are being created as the old methods, in many cases, start to fall away.

52 Mondays 2019 is the third annual edition of those columns. Think of them, perhaps, as a kind of first draft of history for forces that are not only shaping the global economy, but also daily life. They are presented in the order published – giving you, more or less, a mini payments and commerce time capsule for 2019.

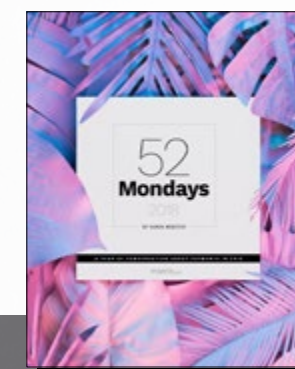
Enjoy! And, as always, happy Monday.



Karen Webster
CEO | PYMNTS.com
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January 7, 2019

2019: What To Take Forward And What To Leave Behind



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Welcome to the first Monday of 2019.

According to the Chinese calendar, 2019 is the “Year of the Pig” – which may not, at first blush, inspire much excitement for the 358 days ahead of us. It’s almost as bad as saying it’s the “Year of The Sloth” – since, let’s face it, pigs are not typically prized for their wisdom, energy, vision or leadership qualities across the animal kingdom.

Chinese tradition, however, takes a different view.

Pigs are considered practical, yet fun-loving and blessed with good fortune – as measured by their very generous girths. So, if Chinese tradition can be believed, the year ahead will be one of pragmatic good fortune, delivered with a side of good humor.

Animal metaphors aside, 2019 is a year that should inspire excitement, along with great anticipation, across the expansive payments and commerce ecosystem: It’s the bridge year between the decades of the ‘10s and the ‘20s.

That makes it the most important year of the last decade.

This is the year that everyone takes a critical look at the innovations they've pursued over the last decade to decide what's worth taking forward into the decade of the '20s and what's best left behind in the decade whose door will close 358 days from today.

Naturally, I have a few thoughts.

LEAVE MOBILE PAYMENTS, EMBRACE AMBIENT COMMERCE

I'm glad I got your attention.

And, yes, this likely sounds blasphemous from someone who's been beating the [mobile payments](#) drum since 2005, well before the iPhone and the App Store changed how consumers, retailers and payments players all use mobile devices.

That just makes the point much stronger.

Consider this.

Icons and apps as an interface – first to the internet and, later, to commerce via digital payments – have been around since 1980. That was the year Apple introduced the first Mac, the Lisa, and a new shortcut for accessing work on the desktop.

Thirty-nine years ago, they weren't called icons, nor did they have the functionality of apps as we use them

today, but their purpose was the same – little “document windows” on the desktop screen that functioned as shortcuts to working documents.

Those document windows gave birth to the icons that today serve as the predominant shortcuts to apps on mobile screens, which have blurred the lines between the digital and physical worlds for going on four decades now.

We have seen the power of those icons on those devices over the last decade: [52 percent](#) of all internet traffic in 2018 came via a mobile device. That's up from 50 percent in 2017 and 43 percent in 2016.

Commerce via those mobile devices has ridden those connected device coattails, except at the physical point of sale, where adoption has been a long, four-year slog that has never amounted to much.

In 2018, it was estimated that roughly 45 percent of all digital purchases, and 40 percent of all commerce, was done via the mobile device. That's up from 35 percent in 2017.

Mobile handsets have made commerce possible anywhere a consumer, handset in hand, wants to buy something.

Soon, that may seem so last decade, as commerce will be all around us.

In fact, it already is.

Software platforms are taking commerce to new worlds, independent of any single device to provide that point of entry.

Devices with chips can flag problems and alert consumers or businesses of the need to replace a part or call a repair technician.

Washing machines can calculate the number of loads and estimate when laundry detergent needs to be ordered – and auto-order it.

Refrigerators can reorder food when sensors detect that quantities are low. [Wearables](#) – watches, shoes and clothing – can alert users to the need to replace them while providing tips on diet and exercise.

[Cars](#), today, have the capability to meter usage for insurance premium billing, and to order (and pay for) food and fuel from in-vehicle systems.

Payments are and will be embedded in each of these experiences, enabled by an intermediary that will authenticate the user or the user's device and enable secure, private and interoperable commerce experiences.

We won't be talking about mobile payments at the end of the next decade, because consumers won't need mobile

phones to enable those connected, very contextual commerce experiences.

That suggests those who today are dominant in enabling mobile payments via those devices may soon find themselves at risk.

[Voice](#) will be a huge catalyst for this ambient commerce shift. As an enabler to commerce, its adoption rate is staggering across all ages and demographics. That's because voice is the most ubiquitous commerce access device in the world.



The [How We Will Pay](#) study, done in collaboration with Visa and published

last fall, made this point quite vividly. Twenty-eight percent of all consumers owned a voice-activated speaker – and that was before this holiday season, when Amazon and Google reported millions more.

Perhaps more stunning was how many of those device owners used them to make a purchase – more than a quarter of them across all age groups. For bridge millennials, those consumers between the ages of 30 and 40 who are the first generation of connected consumers with spending power, those percentages are even higher: 31 percent own a voice-activated device, 55 percent of whom used it to make a commerce purchase in the week we asked them to report on their purchasing experiences.

This is, of course, a mere four years after voice-activated devices were officially introduced by Amazon and Alexa through the [Echo device](#). It has taken only four years for more than 25 percent of the population to own and use a voice-activated device, half the time it took for 25 percent of the U.S. population to adopt broadband. It's taken just two years for 10 percent of the population to use them to make a purchase.

It's a stunning development – and those who shun voice and voice assistants as an important commerce enabler won't

need until the end of the next decade to find the door shut on themselves.

In other words, pay no attention to [the notion](#) that voice assistants are these clunky, friction-filled technologies that have reached their peak. Sure, it may take a few years for the interoperability to get sorted out – but the last time I counted, a decade does have 10 years in it. In the payments and commerce world, that's not much time at all.

Naturally, maintaining the privacy and security of transactions initiated via voice is critical for consumers to continue to ride this wave of innovation: Those concerns were expressed by more than three-quarters of the 2,758 consumers we studied.

But those concerns haven't stopped consumers from using voice to access these new experiences, because they trust the primary enabler of those voice-enabled purchasing experiences – today that's Amazon – as well as the underlying payment methods they use to make those purchases, which are network-branded credit and debit cards.

If you believe that commerce will shift from the mobile phone to any device that a consumer interacts with as she moves from the home to the car to the office to the store to the movies to the restaurant and then back home again, then 2019, for many players, will be the

year in which they must decide how to leverage their mobile and digital assets to exist in this new, ambient commerce world.

They'll have to.

Amazon announced on Friday that Alexa is now in [100 million devices](#): that's 100 million voice-enabled, connected point-of-sale endpoints, in addition to the millions of mobile phones that now have the Alexa app downloaded. Consumers associate Amazon with commerce, Alexa as their virtual assistant. Amazon Pay, if they even think about it at all, is how they pay for what Alexa helps them buy.

Google, with Google Assistant, recognizes this shift, too, and is making its own moves in the space with branded devices and integrations with consumer product brands. But it has a lot of work to do to catch up with Amazon and Alexa, whose reputation has been built over the years on commerce and purchasing, not on search and information.

This shift from mobile payments to ambient commerce means that the decade of the '20s won't be dependent on devices, but will be driven by an intermediary – an intermediary that can connect the consumer to any device and any commerce experience that is relevant for them at any moment in

time. And that will muddy even further the brand waters of bank, payments and retail brands that feel invisible today in a mobile payment, mobile phone-driven world.

In an age in which convenience trumps price and even product selection in some cases, it's the consumer who's pulling brands in the direction of this ambient commerce world. The consumers we studied in the How We Will Pay survey want the ability to buy things while doing other things: cooking, cleaning, watching the kids, watching TV, commuting, working, traveling. Mobile devices and the payments so closely aligned with those experiences today will give way to a commerce and payments experience that is just there, waiting for a consumer's command, something that looks and functions quite differently than what we know and use today.

And who knows? Perhaps icons on mobile devices will revert to what they were some 40 years ago: pointers to what we are doing or have done, not enablers of what we want to do.

LEAVE POS, TAKE REMOTE PAYMENTS

"I'm going to the store" means something very different today than it did a decade ago.

Then, it meant that a consumer was out to discover what to buy, and then buy it, at that store. Today, it means that a consumer, if she goes to the store at all, walks in already knowing what to buy – and most likely only because she can snag a deal.

And, increasingly, she is paying for those purchases in advance.

For many time-starved, convenience-driven consumers, going to the store creates friction. Part of that friction is checking out.

The POS has been under attack for the better part of the last decade, as the acquiring ecosystem has tried to navigate the shift away from terminals that simply enabled payments acceptance and toward integrated POS systems that offered retailers more business value.

All of that said, much of the last several years has also been characterized by efforts on the part of those retailers to upgrade existing POS systems to enable chip and contactless card transactions in response to the network’s liability shift. Today, some 59 percent of POS terminals in the U.S. are now EMV-compliant. [According to Visa](#), more than half of all transactions done in a physical store are done at a terminal capable of taking a contactless payment.

All of that work was happening at the same time that more consumers were using order-ahead to avoid walking up to a cash register to check out at all.

And at a time when consumers are walking into physical stores less often, even to shop for the products that were once only possible to buy in the store, like groceries, prescriptions and clothes.

We studied 4,900 commuters in the fall to better understand how mobile devices and apps are influencing how people shop, and therefore, how they are using stores to check out. Of those customers, 8.9 percent used a mobile device to buy groceries, 24.6 percent used one to pay in QSRs and 30.5 percent used a mobile device to pay for clothes.

Last month, we studied consumer shopping and buying behavior while commuting to and from work. Of the 5,349 commuters we studied, 15 percent of them told us that they ordered ahead to pay for groceries, picking up their purchases curbside. In fact, 73 percent of commuters said they used mobile or voice-activated devices built into their cars to connect to the internet while on those trips. Eighty-five percent made purchases of food, gas, parking or other retail totaling some \$230 billion during those round-trip commutes.

Today, with their mobile devices, and in an increasingly voice-activated, ambient commerce world, consumers are in control of how they want to buy and pay for things.

Checkout lines will soon become passé, and checkout will become a non-event.

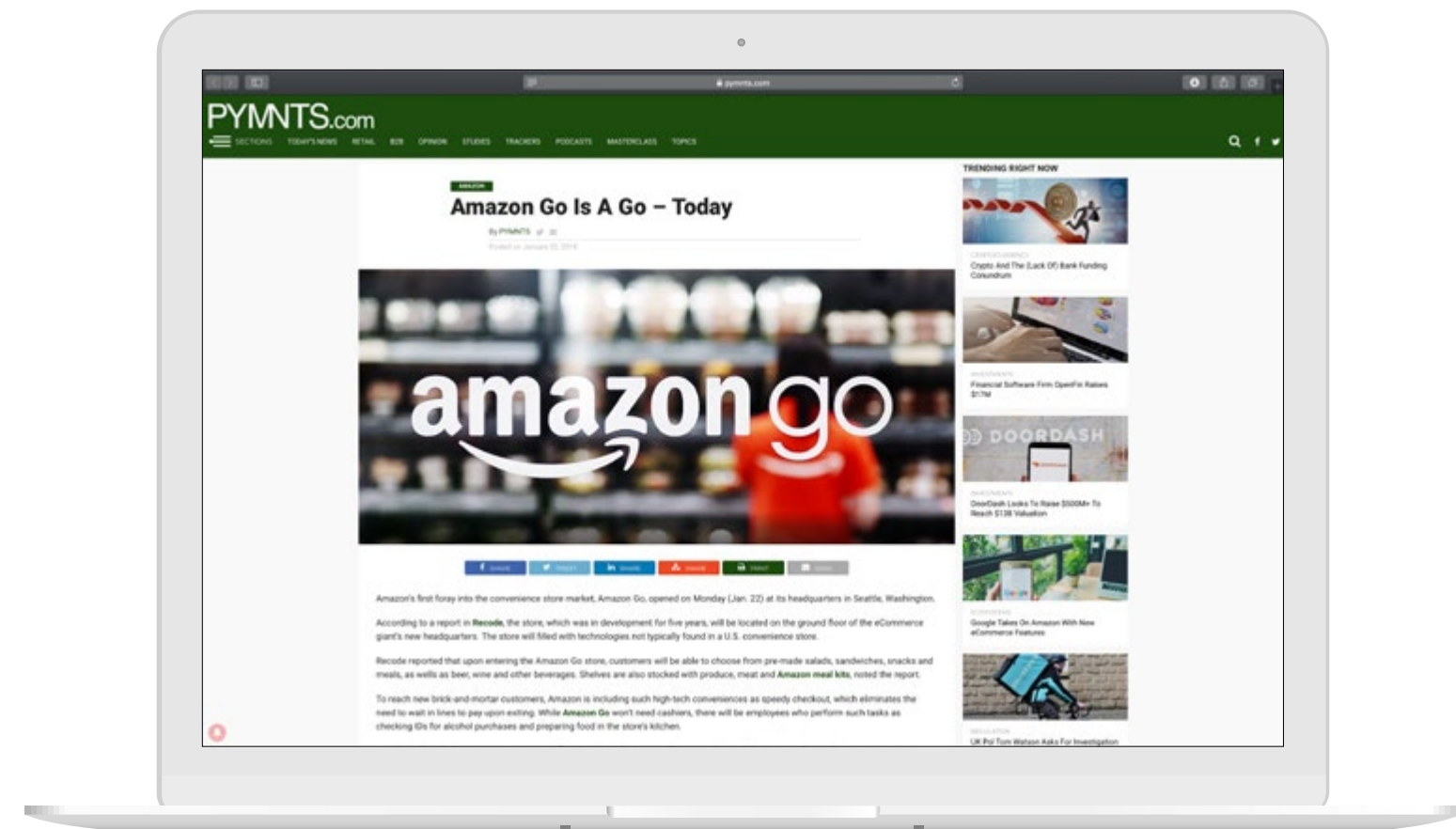
Paying for things will happen online for pickup in the store later. It’s an experience that retailers are embracing and investing heavily in. Every dollar invested in what is being called “curbside commerce” is a dollar invested in outsourcing delivery to the

consumer rather than to a third party, which improves retailers’ margins while keeping consumers sticky.

Checkout will happen as the consumer is shopping via smart shelves and apps on devices that consumers carry or wear – mobile phones, watches and who knows what else – that have already checked her in and authenticated her at the same time.

See [Amazon Go](#).

Checkout at a terminal might not even require any device, but instead will



use an alias like the shopper’s mobile phone number to link to an intermediary that can authenticate the consumer at a POS and send the transaction for authorization. It’s an idea that PayPal tried a decade ago, but today Amazon seems poised to enable at any place that accepts Amazon Pay – like Whole Foods. Already today, an Amazon Prime member can activate Prime member rewards by using the mobile number linked to the Prime account.

The implications for retailers and payments players over the next decade will be profound. Aside from the obvious process shifts for retailers, there will be a shift in how stores are staffed and consumers are serviced.

Consumers won’t need, or frankly want, salespeople in the store to push products or check them out when they’ve made a selection. Instead, they’ll want to tap services personnel who act more like personal assistants or knowledgeable product specialists to answer their questions, advise them on specials and deals, and offer payment options and other incentives to establish preference – all in an effort to build a trusted relationship with that customer.

Increasingly, this will take the form of virtual assistants, who, with the aid of AI, will be well-suited to offer

personalized recommendations and handle payment and checkout like any good personal assistant would do. Stores, used more and more to fulfill purchase requests, will need to stock up on services and support personnel who can make that experience seamless and efficient.

Consumers, not stores, will decide how they want to check out and where – and will do so increasingly via devices and environments that maximize the use of their time and enable payments via the way they want to pay.

LEAVE CHAOS, TAKE ATTENTION

Growing up, I knew I was in big trouble when my father used my first and middle name in a sentence.

And when he did, it sure got my attention. C’mon, admit it, it was probably the same for you.

It’s been said that the sweetest sound any person can hear is the sound of their own name. (Except when it is immediately followed by their middle name, as explained above.) It suggests a familiarity, an intimacy and a respect for the other person – and a knowledge about who they are, their preferences and, often, even those preferences in a relevant context.

Using a person’s name as a proxy for making that personalized connection gets their attention and builds trust in a way that a more general greeting – “hey, you over there in the navy sweater” – could never do.

To reach a consumer or a business today, you need to get their attention. That means using their name, but also using insights that can link their name to a personalized interaction.

Getting there isn’t so easy, though: It requires sifting through the 2.5 quintillion bytes of data created each and every day across all of the physical and digital touchpoints consumers encounter to find those relevant nuggets of knowledge.

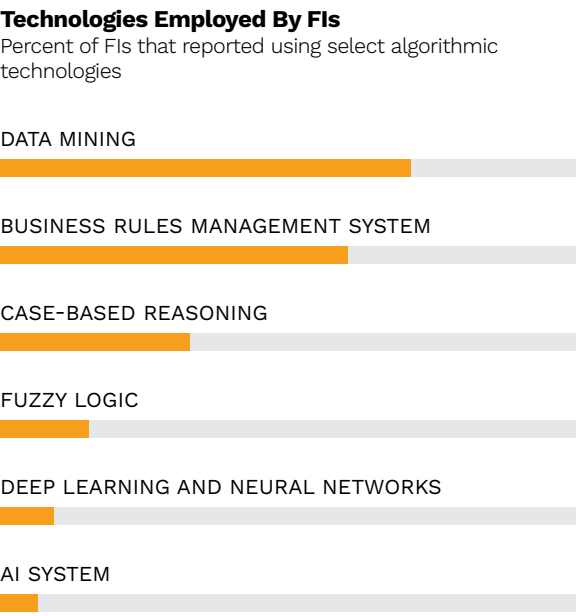
But it’s worth the work.

A [Salesforce study](#) conducted in 2017 reported a 26 percent sales lift in AI-enabled interactions that used the person’s name, business context and purchase history to create a more personalized experience – even though those personalization efforts drove only 7 percent of all visits. The moral of the story is that it’s far better for the bottom line to know and convert a small number of highly qualified leads than to waste time sorting through a huge batch of tire kickers to find one buyer.

The ability to create those personalized experiences, however, remains elusive. [A study of marketing professionals](#) in 2018 suggested that although 88 percent of marketers say their customers expect a personalized experience, only 12 percent of those marketers report being very satisfied with their ability to deliver it.

That’s not surprising.

The same holds true for executives we studied across the FI ecosystem last year, in collaboration with Brighterion, and surprisingly in a sector that has made huge investments in tech. Fewer than 5 percent of all FIs reported using AI – true AI – to personalize offerings to their consumers, manage fraud or even allocate resources to collecting debt from consumers with the capacity to repay.



Most FIs, as with most players across payments and retail, still use supervised machine learning and rules-driven models to surface recommendations and influence actions. But those static tools do little to drive a relevant action at an appropriate point in time, whether the goal is to stop fraud or to offer a line of credit to a worthy consumer or SMB at some point in their digital journey.

Unsupervised AI tech is a powerful tool that can, finally, help innovators across payments and commerce to navigate the chaos of unstructured data to gain intelligence right down to the individual level, predicting with a high degree of confidence how that one person might respond to an offer or how that one fraudster should be stopped.

The next decade will be about using AI in this way to unlock the power of one and ignite an era of dynamic personalization that maximizes customer satisfaction and enterprise profits – leaving behind the AI impersonations that rely on a person’s name, and little else, to attempt those connections.

LEAVE BIG BANG, TAKE INCREMENTAL IMPROVEMENTS

I must admit, I am fascinated by Elon Musk’s Hyperloop. The notion that

a pneumatic tube, barreling at 700 mph through an underground tunnel, could turn a six-hour drive between Los Angeles and San Francisco into a 35-minute ride seems awesome to me. It is a \$6 billion creative engineering marvel that, it’s said, could take its first passengers in three years.

From LA to San Francisco.

The Ted Williams Tunnel in Boston, by contrast, gets me far less excited, even though I use it a lot. Part of the infamous Big Dig project, it is a 7.5-mile-long tunnel that cost \$1.3 billion to build in the mid-1990s. Roughly 55,000 vehicles use it to get in and out of Boston every day.

The Hyperloop is “big bang.”

It’s incredibly innovative. It’s fun to talk about. It could be transformative.

It also requires that we change everything about transportation as we know it – and on a grand scale, and over many, many decades – in order for it to be useful and practical. That’s assuming, of course, that enough consumers can overcome the fear of being strapped into a pneumatic tube that travels underground for 35 minutes at 700 miles per hour.

The Williams Tunnel is incremental improvement.

Stories of organized crime and officials on the take notwithstanding, there’s nothing that salacious or exciting about the Williams Tunnel. It was built using existing materials and tunnel engineers – state-of-the-art materials and engineers, of course, but all stuff that was available at the time. It accommodates the cars and trucks that people drive today.

When the tunnel opened, it alleviated the congestion in and out of Boston, once done via tiny, two-lane tunnels built in 1934 and 1961, and the stress level of commuters tremendously. It used to take somewhere between 30 minutes and 90 hours, with no way of knowing, to go from Cambridge to the airport. Now it’s a reliable 10- to 15-minute trip. There is a huge gain from an incremental improvement – even better if you have a senator, like we had in Massachusetts, Senator Kennedy, who can get people in other states to pay for it.

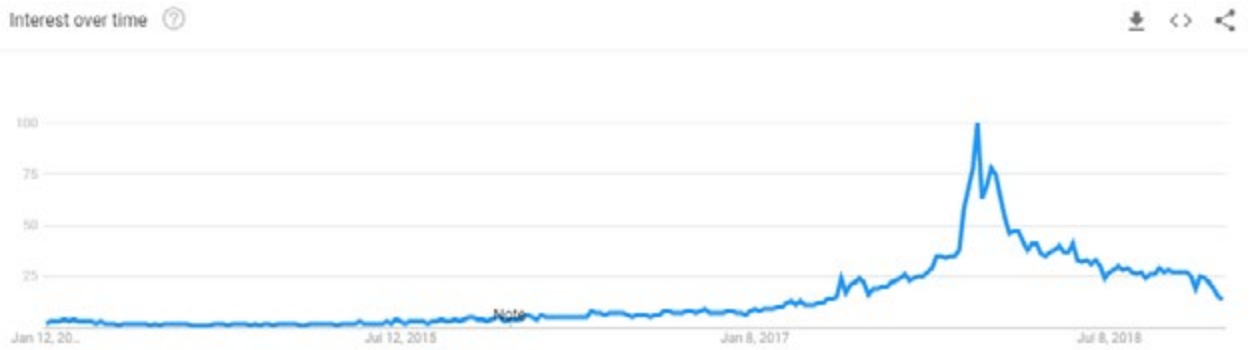
It’s a relevant analogy for the innovations of payments and commerce today – and what we should think hard about leaving behind at the end of this year.

People, of course, love the hype of the big bang.

The lure of crypto as an alternative to fiat currency is intoxicating – “it’s just like the internet of money,” its advocates still profess – even in the face of the massive [crypto bust](#) that was one of the biggest stories of 2018.

The hype machine has turned instead to “the blockchain,” as if it is a thing. It isn’t – as known by you longtime readers of my writings, and now maybe even by those who used to search on Google to get more scoop on it. Its interest, as measured by searches, appears to be going in a different direction than the PR hype machine might suggest.

Ironically, the proof may be in the press release.



Of the [200 press releases last year](#) that announced blockchain innovations and project launches, only 10 were ever followed up by subsequent press releases announcing the wonderful outcomes of those launches.

Many of the largest players who tried it, at the suggestion of their boards, have privately said that not much of anything, aside from the initial PR hype, has come from it.

It sure hasn't done much for IBM, which staked the farm on blockchain tech as the driver of revenue going forward.

But that has not stopped advocates from stating that blockchain and blockchain tech are the most important development of all time in moving money from point to point around the world. In fact, it occupies many 2019 predictions lists.

What we're seeing at the start of the new year is that in many cases, the louder the noise and the greater the number of press releases, the less likely the emperor really has any clothes.

There's a reason for that: Building on top of legacy systems delivers results faster.

Apple didn't need to build its own mobile network to innovate with the iPhone; it could rely on cellular carriers around the world. Amazon didn't need to create another internet to ignite

digital commerce. PayPal didn't have to build a new financial services ecosystem to enable payments transactions on eBay.

That's the lesson for payments and financial services sectors: You don't have to ditch everything that exists to extract new value from it. In fact, it's quite the opposite: Big-bang innovations are too much work, come at too great a cost, pose too great a risk and require too much rework from a compliance, regulatory and interoperability standpoint to make the ROI one that management and the board can comfortably swallow.

So, while big-bang innovators continue to beat their press release drums about how good things might be one day, incremental improvements that build on existing systems continue to move the needle.

Look no further than Visa's plan to acquire Earthport, Temasek's [\\$100M investment](#) in Flywire, SWIFT with gpi to enable real-time and cross-border money movement, Ingo and its on-demand disbursement network, PayPal's and Hyperwallet's ability to push funds to sellers on demand, Mobeewave and its ability to turn any handset with an NFC chip into a POS device and the many, many others whose innovations leverage what's right in front of them to

move payments and commerce leaps and bounds forward.

In 2019, read big bang stuff for fun, but embrace – and fund – innovations that leverage what already operates at scale to deliver a more valuable experience for your customers.

LEAVE FREE-FOR-ALL, TAKE GOVERNANCE

Governance is a word that became very popular last year – and for all of the wrong reasons.

Instead of talking about how good governance has been crucial to the operations of strong platforms for millennia, we've been barraged with how one of them has traded good governance for an "anything goes" attitude.

Governance, of course, is a fancy word for rules. Without them, and the strict enforcement of them, platforms will simply self-destruct.

Facebook is the poster child for governance gone wrong, with a policy for letting everyone – almost without exception – do, say, or show whatever they want on the social network. Zuckerberg and team are learning just how costly that lack of governance has been for their brand and their shareholders.

And, unfortunately, it could be quite costly for everyone that the regulators have clumped together as "Big Tech" – who, they believe, all play fast and loose with their consumers' data just as Facebook has.

Facebook's reluctance to rein in bad behaviors over the years started with bullying and live shootings, and hit a high note last year with fake news, Russian meddling and the Cambridge Analytica breach. The company ended 2018 amid reports of suffering hacks and granting favored access to users' data without their permission.

Facebook has lost [\\$154 billion](#) in market value over the last year, much of that coming in the last six months of the year.

All of this comes at the same time that regulators are getting very tough about making and enforcing rules they think are missing in regard to the collection and use of consumer data on their platforms.

The [GDPR](#) in the EU is no joke, with strict rules and even stricter penalties that could hobble even the largest of companies. These regulators will waste little time in making examples of those who don't play by their rules, with Facebook, understandably, at the top of their hit parade.

Stateside, regulators and lawmakers seem united in their efforts to protect the safety and soundness of the platforms that gather and use consumer data. The risk, however, is that regulators and lawmakers who are unfamiliar with how platforms work could be the ones making rules about how they think they should.

That means it's time for platforms to get serious about governance and to not use free-for-all, let-a-thousand-flowers-bloom behavior to rule how their platforms operate.

Uber did it with their new CEO, who took a no-tolerance policy to “bro culture” that drove platform actions and behaviors. Card networks do it with operating rules that keep bad actors from using their networks to do bad things. Apple does it by keeping apps out of the App Store that don't meet their standards. PayPal and others have done it by closing accounts of those engaged in hate speech.

It's not always easy to do, and it requires constant vigilance. And regulators today impose rules and frameworks to protect the integrity and soundness of our financial systems, as they should. But unless we also want lawmakers and regulators to impose their views of how platforms should govern themselves, 2019 is the year that

we should make platform governance a key priority, and leave laissez-faire far, far behind.

LEAVE FRICTION, TAKE CERTAINTY

Nearly 5,000 words later, perhaps the most important predictor of success in the decade that we will face in 358 days is to leave friction behind – and to innovate in a way that creates certainty for the end users of that innovation.

It sounds like such a simple thing, yet a lack of certainty has deviled many an otherwise incredibly slick payments and commerce breakthrough – and the presence of it has ignited many more.

Who would have ever thought that picking up a car via a high-tech vending machine could even be a thing, until Carvana's founder decided that consumers would gladly trade off dealing with a car salesman to walk up to a vending machine to pick up a new car they bought online.

Who would have ever thought that consumers would trust that taking a picture of a check via an app would deposit it immediately into their bank account without a trip to the bank, until mobile banking and instant money networks put that capability into the

hands of consumers – and they saw it work.

Who would have ever thought that today, in the age of digital payments and high tech, that 52 percent of all businesses still use paper checks to pay their suppliers, until businesses found that moving to digital was too much work and created too much uncertainty over the ROI.

Who would have ever thought the physical store that was once critical to how consumers bought things would be less relevant, until consumers started using mobile devices, Amazon and, now, voice-activated assistants for a better and more convenient experience.

FINALLY, TAKE NOTHING FOR GRANTED

Ten years is a long time – but, in many ways, it is no time at all.

Just ask BlackBerry. Soon after it launched in 1999, it became the king of personal digital assistants – and once it had voice, it became king of the smartphones. It took a decade to hit its peak: In 2010, [by its own reporting](#), BlackBerry was used by roughly 37 percent of the smartphone population. Just three years later, its market share was sub-2 percent.

It was the iPhone that turned “crackberry” addicts into iPhone lovers.

Over the last decade that the iPhone has been in existence, more than a billion units have been sold, and Apple was the first company to achieve a [trillion-dollar market cap](#). Apple, with its iPhone, appeared unstoppable.

The last four years, however, has seen cracks in that armor for anyone who has been looking, along with longtime PYMNTS readers. Over that time, there was a lot of smoke and mirrors from Apple's CEO about how awesome things were, with a refusal to offer much specific data beyond how many iPhones were sold.

Until that didn't start to sound so awesome.

Last year, Apple decided that it would [no longer report](#) the number of units sold. Its last earnings report offered even more vagaries about Services revenue, even as Services was touted as the driver of future company revenue.

Then, just last week, [Tim Cook](#) revised guidance in advance of upcoming earnings about iPhone sales, citing the U.S.-China trade wars as a driving factor. The stock took a huge hit, with its market cap dipping below \$700 million on the news.

But the trade war isn't to blame. iPhone sales have suffered in China for a long time, as Chinese consumers buy high-end handsets that are cheaper but have just as much functionality, as well as a rich Android apps ecosystem.

This comes while big players in Apple's app ecosystem are pushing new users to sign up for their services outside of the App Store. Both Netflix and Spotify have been testing signups outside of the App Store since August. Netflix made the announcement in late December that all new users would be directed to sign up on the Netflix website. Analysts say the Netflix move will cost Apple some \$257 million in revenue. I think the more important point is that Netflix just poured cold water on any of Apple's plans to try to impose fees on more apps or increase its fees on existing ones.

Now, it appears that in a world in which mobile plus payments gives way to ambient commerce, Apple – and its blockbuster iPhone – is at risk of losing ground. That's despite being first to market with a voice assistant called Siri and a mobile payments platform called Apple Pay, both of which have failed to cross the commerce chasm in any meaningful way.

You could make the same case for Facebook, which rose to dominance after Myspace imploded, caused by — how 'bout that for déjà vu all over again — a lack of governance to keep bad actors off its platform. It took eight years for Myspace to go from king of the social network to social network albatross, which then-owner Rupert Murdoch unloaded for \$35 million in 2011.

As Facebook goes into its 15th year, one must wonder whether, over the next decade, the cornerstone of its social network empire will face its own unraveling, brought upon by its inability to do exactly what it said it would do when it was founded in 2004: serve as a safe and trusted place for the world to connect.

So, as you prepare for the journey that is 2019 – perhaps one of the most important journeys of the entire next decade – perhaps taking nothing for granted will be the most important takeaway over the next 358 days.

The CEO of Intel was once quoted as saying “today is so yesterday.” Before you know it, today will be the last decade.

January 14, 2019

Why The Physical Store Model **Is Dead**



It looks like we can finally have a serious conversation about the impending [collapse of physical retail](#) in the U.S.

All it took was a 160-year old retailer and a \$34 billion kick in the stomach to the retail sector to get everyone's attention.

[News last week](#) that Macy's profits would take an unexpected Q4 nosedive set off a retail stock market shock wave that wiped \$34 billion in value from the sector. But it wasn't just Macy's that got out over their skis about the prospect of a blowout holiday sales season with an employed, confident consumer ready to spend. Kohl's and JCPenney, along with other specialty retailers, reported the same lackluster holiday performance in what is still considered the sector's make-or-break quarter.

Of course, last week was also the [long-anticipated swan song](#) for the nation's second oldest U.S. retailer, Sears, which

found itself standing at Chapter 7's front door.

Analysts who think of Macy's as the bellwether for middle-America shopping and spending trends blamed some of the retailer's gloom and doom on consumer skittishness over the stock market's roller-coaster ride in the weeks preceding Christmas. A fire at Macy's distribution centers, they said, also hurt inventory availability.

Although both could be contributing factors, that isn't what ails Macy's – or any of the traditional physical retailers who have spent years now trying to convince the world that it, as a retail channel, isn't dead.

THE DEMISE OF PHYSICAL RETAIL

Maybe it isn't.

But the traditional physical store model, which is how most everyone today defines physical retail and measures its

sales, pretty much is—and has been for the last several years—on life support.

It doesn't even take 10 words to summarize physical retail's current malaise: Retailers missed the digital forest for the physical trees.

And that was, in large part, because they relied on bad data to make bad assumptions about how and where consumers would shop. Bad analysis that also helped blind many to the obvious.

To save physical retail, anyone who wants to operate a physical store must convince consumers that it's worth their time to—how's this for an insight?—go there to shop.

That won't be a slam-dunk for traditional retailers.

That's because they've trained consumers over the last half decade that walking into a store isn't as nearly as satisfying or productive an experience as shopping online—and not necessarily from those same traditional players.

THE DANGER IN THE DATA

I wish I had a dollar for every time I've heard someone say this:

“Physical retail isn't dead – 90 percent of all sales today happen in a physical store.”

At the same time, we read the reports of year-over-year declines in foot traffic, see nearly 11,000 store locations shutter since 2017 and have 200 million square feet of unoccupied retail space in [malls](#) and main streets up for grabs.

Flawed Census Data reporting, combined with wishful thinking, fuels that now familiar talk track.

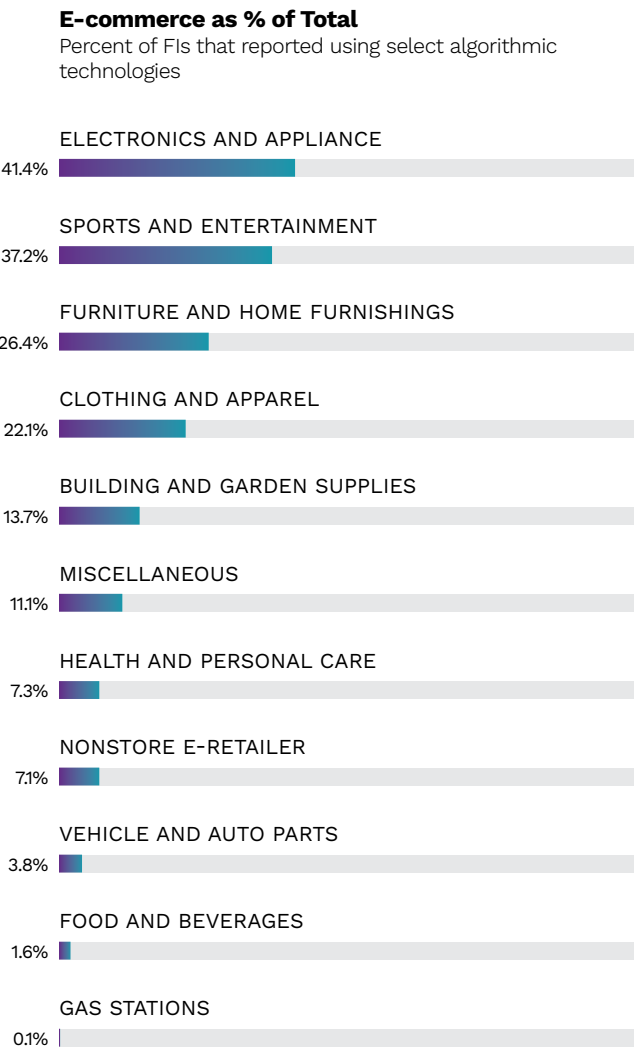
The myth of physical retail's largesse, as perpetuated by that inaccurate Census Data, is a [story that we uncovered](#) almost three years ago to the day. Part of the problem is that the Census data doesn't appear to be very reliable; the other part of the problem is that the Census does not report the data they do have in a way that would actually shed light on what's happening in retail.

What's really steered people wrong is focusing on the average percentage of **all** retail sales that are online, and ignoring what's happening in key verticals. It's like saying that on average, there are no canaries in the coal mine, so no worries.

Even though there were canaries in some important ones.

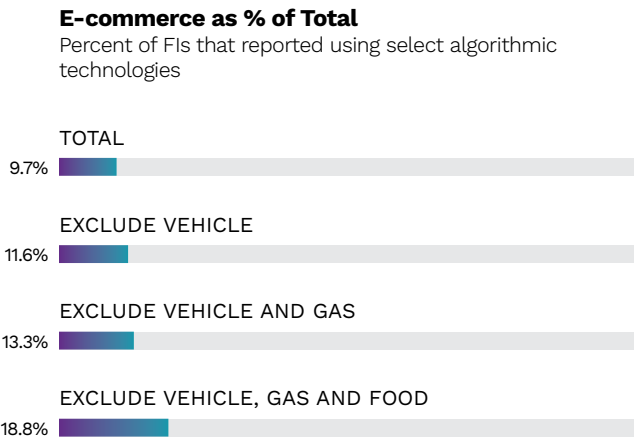
Take a peek at these numbers which we've put together using a combination

of Census and other data sources we used to build our own models. I'm also pretty confident that clothing or sporting goods or electronics retailers aren't talking about how 90 percent of retail sales are still happening inside their stores – if they're even happening at their stores at all.



Then there's how Census counts retail sector heads.

If one were to remove auto, restaurants and gas from their totals – as we did – you'd get a different number. Instead of nearly 90 percent, nearly 80 percent of all retail purchases are made in the physical store.



Of course, one doesn't have to be a data scientist with fancy data models to know that people are shopping at physical stores less than they ever did.

All it takes is shopping at a physical store over the last four years and talking to the salespeople working in them to observe that there's not a whole lot of shakin' going on inside of them.

Aided and abetted by mobile devices, apps and payments and logistics innovations have substantially improved the consumer's digital shopping experiences. At the same time, their in-store experiences have gotten less reliable. Consumers, who prize time as their most precious asset, want both

convenience and certainty when they shop.

Visits to a physical store don't always deliver either.

So, consumers don't think twice about buying online the things that used to be physical retail's exclusive domain: clothes, jewelry, sporting goods, electronics and, increasingly, home furnishings and even auto parts.

Consumers have widened the physical/digital retail shopping divide.

PYMNTS' study of [2,600 U.S. consumers](#), which we conducted in the fall of 2018, makes this point stunningly clear in two categories where physical stores should have an advantage: clothes and beauty products. The ability to touch and feel and try on and sample should deliver an in-store advantage.

Yet only 42 percent and 34 percent of consumers who bought clothes or beauty products, respectively, over the seven days we asked them to document their shopping and buying behaviors said that they did so in a physical store.

We observed similar patterns this past holiday season.

PYMNTS' study of 1,000 consumers, which we did the day after [Black Friday 2018](#), reported that 40 percent of the consumers who shopped on Black

Friday said they did so from their couches. The 60 percent who went to the store did for one reason: They were certain that if they did, they'd snag a doorbuster deal.

In both situations, our samples statistically represented the demographics of the U.S. adult population. Those consumers told us that the physical store was third on their list of preferred shopping channels, with desktop or mobile being one or two depending on what was purchased.

READING THE RIGHT RETAIL TEA LEAVES

[Amazon](#) has long been regarded as physical retail's big bogeyman, the online behemoth that got a nearly 20-year hall pass from Wall Street while reporting no profits, and with the luxury of subsidizing its retail business and all of the Prime member goodies with profits from other parts of their business, like their AWS cloud biz.

I guess every sad story needs a bad guy.

But consider this.

When Amazon was founded in 1994, most retail was done in the physical store.

Amazon started with zero customers, zero brand awareness and a very ugly

website with a clunky user experience, by today's standards.

Amazon sold one, and only one, product: books.

And it did so via a channel that was not at all conducive to a digital shopping experience.

[In 1995](#), when Amazon first launched and sold its first book, the most popular website home pages got just 20,000 to 30,000 visits a week, since only [14 percent](#) of the U.S. population was online.

Then, only 42 percent of U.S. consumers had ever heard of the World Wide Web, and the most popular way to get online was the dial-up modem, which some people had used to access AOL. [Here's what that sounds like](#), for those who'd like to take a walk down memory lane – or for the millennials reading this who have never known anything but 3G.



It would take [two minutes and 30 seconds](#) to load a web page.

Not exactly a great user experience.

It would take another 12 years – until 2007 – for half of the U.S. to have broadband at home. And another seven – until 2014 – for more than half of the U.S. population to own a smartphone.

It's not surprising that retail dismissed digital – and online shopping via digital channels – as a small, and perhaps insignificant, part of the consumer retail experience.

But forward-looking innovators, of course, knew the digital world would only improve, and that it was just a matter of time before more people would have access to [broadband](#) at home and own their own mobile phones that could connect to the internet.

And they knew that when more people did, there would be more demand for better mobile devices and faster network speeds to enable those digital commerce connections. And that would drive more demand for more and better apps that would increasingly blur the digital/physical worlds.

Payments innovators saw the mobile, digital future, too, and invested in ways to remove friction at checkout. And they knew that more apps with better payments experiences would sell more smartphones, perpetuating the virtuous cycle of digital commerce innovations.

Between 2007 and 2014, Amazon's net retail sales grew explosively, making it the leading eCommerce player – 20 years after Amazon was founded. The now-defunct Sears occupied the fifth spot and Macy's was No. 8, with web volumes that were growing but that were dwarfed by the sales volumes driven by the feet walking in and out of their stores.

Unfortunately, those data points also dwarfed the impact that digital and mobile would have on retail's status quo, and the relevance that consumers would place on the role of the physical store in this new digital world.

At the end of Q4 2014, [Census reported](#) that online sales were roughly 6.5 percent of all retail sales, up from 5.8 percent in 2013, totaling \$308 billion. You can also find tons of articles that talk about online being only a few percent of retail sales, and about online being overhyped and the death of physical retail just hysteria.

It's hard to believe that was only four years ago.

THE GREAT PHYSICAL RETAIL STORE PARADOX

Over the last several years, retailers have spent hundreds of millions of dollars on attempts to get consumers

inside of their stores. They host fashion shows. They bring in experts to demonstrate new products. They use sports figures and celebrities to hawk brands and products. They install magic mirrors in fitting rooms to make trying on clothes more efficient. They give salespeople iPads that offer tips on what to pair with what or how to use specific products. They offer in-store only sales and promotions.

When NRF opens tomorrow, the trade show floor will be loaded with even more innovations designed to do the same thing. There will be new ways to detect shoppers when they cross the store threshold, and robots to greet them and help them find things in the store. There will be new in-store [AR and VR](#) experiences to induce purchases there.

Only time will tell if that is all too little, too late.

Physical retail is now facing the same uphill climb that Amazon and other e-tailers faced when they launched in 1995, with one big difference: The digital trendlines are moving in the same direction today as they were then, but the tailwinds aren't at their back.

This shift to digital from physical has happened very quickly in a sector that accounts for \$4.2 trillion in consumer spend. In 2008, the year after the iPhone

was introduced and the mobile, digital revolution was truly unlocked, [Census reported](#) that physical store sales were at roughly 97 percent.

At the same time that retailers (and their consultants and analysts) were reading the Census Data tea leaves and thinking it would be another 20, 30 or 40 years before eCommerce would become more than a speck on the head of a pin, consumers were accelerating their use of mobile and digital channels for making retail purchases.

And getting very accustomed to the certainty and convenience of finding what they wanted to buy online, and getting it when they needed or wanted to have it.

And they were growing very frustrated with the uncertainty they found when going to the physical store – and cutting back on those trips.

Stores don't have the inventory they once did. Nor the prospect of getting it any sooner than if the consumer ordered it online at home.

Options to buy online and pick up in store are mixed – the dozen or so times I have tried to use it, what I found was a two- to three-day wait.

Walking into a store to find something to buy isn't that much fun anymore, because there are so few consumers in

the store shopping – even around the holidays – and so few things to choose from.

The salespeople in those stores aren't always helpful – or are, at the other extreme, much too helpful, since consumers in the store are such an increasingly rare sighting. Regardless, most salespeople don't have complete visibility into the consumer's shopping history to make the experience productive.

No inventory plus no shopping vibe makes the physical store a dull place to shop.

And the negative feedback loop between all of them leads to the death spiral.

A CHANGE COULD DO PHYSICAL STORES GOOD

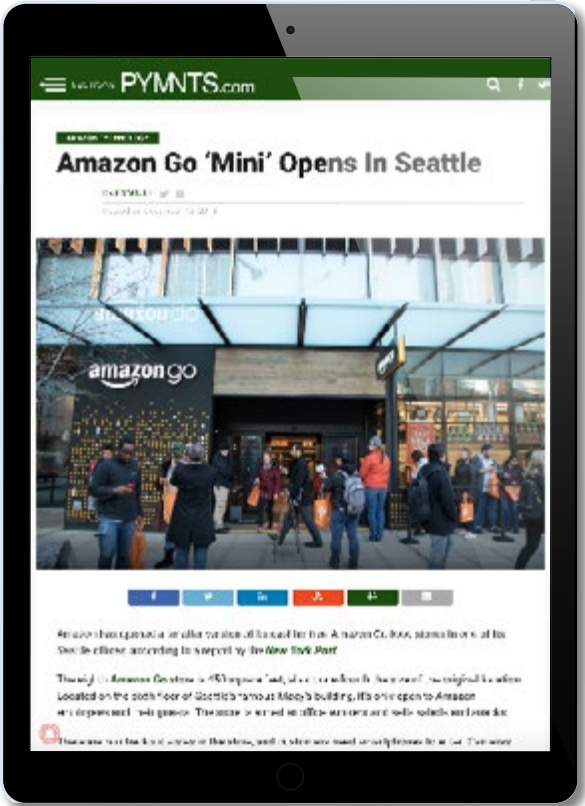
Getting consumers to change their thinking means getting retailers to change theirs about the role of the physical store.

Investments in [click-and-collect](#) can get consumers part of the way there. But even that isn't a guarantee that consumers will buy more stuff when they get there – or that they will ever step foot inside. The convenience of curbside pickup and lockers that don't require stepping into the store or even

picking up at the store put consumer convenience first – as it should be – and plying consumers into the store second.

Several years ago, I wrote that the future of physical retail as a category, and the physical store as its consumer touchpoint, will follow the path that traditional media has taken: those with scale or those with rich but narrow niches will survive.

Those with scale will use it to get the inventory and logistics and delivery efficiencies that satisfy consumers across all of the channels they shop – and build their digital chops.



As will those with narrow niches – the local clothing atelier or designer brand who can marry a unique selection with exceptional customer service – because the experience they offer will be quite different.

The great undifferentiated, unwashed middle will shrivel up and die.

Innovations in how consumers use connected devices to order ahead for pickup or use QR codes to avoid checkout, and/or pairs that with smaller-format stores and in-store tech that makes shopping for a few items efficient and seamless, have already changed the consumer’s mind about how they want to use the physical store.

Physical retail definitely isn’t dead. Just take a look at [Amazon Go](#).

But physical retail in the future will look a lot like media: mainly new players using technology and new business models to do things in new ways.

January 21, 2019



The Big Tech Canary

In The Faster Payments Coal Mine



There's a canary in the faster payments coal mine.

It flew in on Dec. 14, the Friday before the week before Christmas, so you might not have noticed.

That was the day that an advocacy group, [Financial Innovation Now](#) (FIN), submitted [a public comment letter](#) to the Fed in response to its proposal to create and operate a real-time payments system in the U.S.

FIN members include [Amazon](#), [Apple](#), [Google](#), [Intuit](#), [PayPal](#), [Stripe](#) and [Square](#).

The letter cited what has become the all-too-familiar talking point about the state of faster payments in the U.S. – that the country is woefully behind everyone else in the world, and our competitiveness is at risk.

The letter highlighted the role of faster payments as a panacea to financial inclusion problems in the U.S. (where almost everyone is now banked) and made the case for why the Fed was positioned as the best player to operate a ubiquitous, interoperable real-time payments network – even though the Fed doesn't have a great track record at payments innovation ([#killthecheck](#)).

Here's where the canary flew in.

The letter highlighted that access to the payments systems today is

only possible through incumbent intermediaries – the banks and the card networks – which have not kept pace with the needs of consumers and businesses.

In addition to the delay in giving people and businesses access to funds, FIN members claim that working through those intermediaries causes increased risk and costs, given the legacy nature of the current financial systems infrastructure.

The Fed's real-time payments proposal, according to FIN, will address these issues with a new, modern and interoperable system.

FIN also recognizes that getting the Fed's interoperable network up and running will take some time, so in the interim its members would like to have direct access to the Fed's national payments settlement system. This access, the letter says, will eliminate the bottlenecks of working through intermediaries while extending the reach of real-time payments to those who need it.

Currently, access to the Fed's [Real-Time Gross Settlement](#) (RTGS) system is limited to financial institutions that hold deposits.

So, net-net, FIN members will have the Fed's faster payments back moving

forward – but in the meantime, over the many years that it will take to build and launch such a system, they want the Fed to let them sidestep the banks by granting access to its RTGS to further faster payments for their stakeholders.

Now, whether the letter is anything more than a well-crafted move to strengthen FIN members’ negotiating positions with the banks and card networks over fees remains to be seen. It doesn’t require a huge investment to throw up a basic website, write a letter and put key stakeholders on notice – publicly.

And maybe move the Fed in their preferred direction.

It may also change the conversation about [faster payments](#) in the U.S.

Suddenly, the Fed is no longer the convener of 500 stakeholders to build consensus about how to move faster payments forward in the U.S.

Now, at least in the eyes of FIN members, the Fed may hold the key — or some would like it to — for providing potentially cheap and easy access to bank accounts without the banks being much involved.

That suggests that putting the Fed front-and-center in the U.S. bid for faster payments isn’t about making the country’s financial services and

payments system more competitive (and BTW, does anyone have any evidence that the lack of a real-time payments system is holding us back?). Rather, it’s about making banks a cheap public utility – for FIN members and others who want in – for accessing depository accounts.

In the Fed’s faster payments world, access to the deposits could be made free, or could be set at whatever price the Fed decides is fair.

In that world, the “legacy players” whose infrastructure has built the massive customer bases and driven the massive growth and market caps of the FinTechs over the last two decades could become the dumb pipes of payments.

WHEN FASTER IS ONLY PART OF THE STORY

FIN members, of course, are the same players that financial institutions lose sleep over, given their growing presence in a payments ecosystem that has become ever more digital, and the trust these players have gained with consumers and businesses over the last two decades.

Their support of the Fed as the answer to all that ails [faster payments](#) seems particularly well-timed.

It comes at a time when the global tailwinds have, unfortunately, moved in the direction of faster payments by central bank regulatory fiat.

And at a time when the prevailing opinion has become that, more or less, the only way to get faster payments done is for the regulators to make banks do it.

It also comes at a time when the vast majority of banks in the U.S. have resisted throwing their support behind TCH, which has been trying for the last several years to get its real-time payments alternative off the ground. Other than the biggest banks, few have signed onto its faster proposition – and without ubiquity, it will go nowhere.

Oddly, the push for faster payments also comes at the same time that payments in the U.S. are moving faster than they ever have.

It didn’t take a regulatory proclamation for [Same-Day ACH](#) to become ubiquitous in the U.S. – it has been since the fall of 2017.

NACHA was able to get all 13,000 banks in the U.S. on board because it offered a solution for use cases where same-day was essential. An efficient, cost-effective business model that hasn’t (yet) cannibalized other bank revenue streams provided a way to monetize the

service. It isn’t real-time, but it seems good enough for a lot of use cases.

The card networks enable [instant payments](#) today, too.

Mastercard (Send) and Visa (Direct) use their debit rails to push instant funds into the accounts of consumers and SMBs, and are enabling access to instant funds around specific use cases for FIN members today.

Debit rails are fast and they are cheap.

Our latest study of disbursement use cases for more than 9,000 consumers suggests that using the debit card as the alias (instead of phone number or email address) was preferred by 84 percent of all consumers. We posit that is for two reasons: Debit cards are easier for a consumer to produce than a bank account number to enable an instant deposit, and consumers trust having the debit card as a layer in between the businesses paying them and the money sitting in their accounts.

Naturally, innovators are leveraging Same-Day ACH and push payments capabilities to innovate along a variety of new services and solutions. NACHA reports that a growing percentage of healthcare claims are now using SDA rails instead of checks – one giant leap toward putting [checks](#) out of business.

Then there's Square's new business debit product, [Square Card](#). It pushes merchant sales for Square sellers instantly, and for instant use, to a Mastercard-branded debit product, for which Square gets interchange fee revenue. Visa and Ingo Money announced something similar for SMB merchants several months back.

In other words, innovators – as innovators are wont to do – are using new tech and their own creativity to bridge the regulated, secure legacy systems in place today with new ways to create value in a dynamic, digital and on-demand world.

Could it be better? Sure – but then again, everything can always be better.

THE NEED FOR MODERN RAILS

So, it's not as if we're all sitting around waiting for the day that we finally get a [real-time payments](#) system to unlock new sources of innovation for the ecosystem. Payments already move pretty fast across bank and payments rails today.

But as longtime readers of PYMNTS and of my columns know well, faster is only one piece of the overall value of making or receiving a payment. A payment is the embodiment of good funds to an authenticated buyer and supplier, along

with the detailed data that travels with it. Truly instant payments require a system that can do that without any margin of error, because instant also means irrevocable. So even if banks have access to instant payments, there are strong reasons to slow them down to eliminate fraud for themselves and to minimize plain mistakes by their customers.

Many of the obstacles to faster movement of payments today are the result of legitimate controls for fraud and [AML](#), and of the safety and soundness of the banking system.

The Fed, of course, cares deeply about this. Any proposition to create a real-time payments system and/or allow access to its network will be made with the safety and soundness of our financial systems front and center.

Today, that means the faster payments advantage remains with the banks and the card networks, because they already move money fast today – and they do it across regulated rails trusted by consumers, businesses and the Fed. Their rails are also ubiquitous, connecting to every person and business in the U.S. with a banking relationship, which is most people in the country today.

But that doesn't mean the decades-old legacy systems that exist today

in the U.S. shouldn't be modernized. They should be. Getting there in any meaningful and productive way will also mean giving up the talk track of only making payments faster and instant, and instead focus on creating a modern and agile system that provides value to consumers and businesses by leveraging the good of what's already in place today.

It means that it's time for banks and card networks to think a bit differently about real-time – and what it will take to get there.

And it means being extra careful about [faster payments](#) initiatives that become a way for firms to free-ride on the efforts of the banks to sign up and service their depositors.

January 28, 2019

Merchants Gone Wild: **The Surcharge Edition**

Since about mid-December of 2018, checking out in the stores here in Boston has become even more of a hassle.

Never mind the people who start rummaging around in their purse or wallet to pull out their cards after stepping up to the checkout counter. Or the chatty person who strikes up a conversation with the only cashier on duty while the rest of us cool our heels.

Now, once I get to checkout, I'm asked if I want a bag – and if I do, will I pay 10 cents for it?

This newfound friction is the result of the City of Boston passing a bill that bans plastic bags and gives merchants the right to charge for ones made of paper. Yes, I know that for many of you, especially in California, this is old news and standard operating procedure – but hear me out.

These encounters are all the more ridiculous when staring down at a counter filled with a bunch of items that could only be carried away in a bag.

I say yes, because ... well, what else is there to say?



Of course, it's not the money – after all, it's only a dime – but it's the extra hassle at checkout. The extra step, the extra decision to be made, the time that it takes to add the charge and get the bag, since it's not a given that everyone will want it and pay the 10 cents.

At that moment, all the speed and convenience of making [EMV](#) faster and activating tap-and-go at checkout goes *poof*.

Soon, consumers in many states in the U.S. may find themselves faced with another checkout hassle: merchants adding a cost that covers their processing fees.

Only, unlike the paper bag charge, it won't be optional.

And it will be a lot more than just 10 cents.

THE BAN ON THE BAN

The specific issue that I'm referring to is merchant surcharging – a fancy term to describe the fee charged by merchants when consumers use network-branded card products to pay for their purchases.

The ability for merchants to [surcharge](#) in the U.S. is nothing new.

Card networks, under pressure from regulators, modified their rules in 2013

to allow merchants to surcharge – basically ending the ban – under very specific conditions and with very tight parameters for how to calculate that surcharge. The card networks left it up to the states to decide whether or not to allow its operating merchants to do so.

Although many states allowed merchants to surcharge, most merchants haven't taken advantage of the ability to slap those fees onto consumers.

Similarly, most merchants have stopped asking consumers to produce a "cheaper" card or cash to pay for their purchases. Merchants, especially in an increasingly tough retail environment, just want the sale. And they know that giving consumers a choice in how they want to pay is priority number one, two, and three for making sure that happens.

But surcharging as a topic of conversation in the U.S. has been given a new lease on life ever since the New York State Supreme Court [decision ruling that merchants could surcharge](#) — thus overruling legislation that prohibited them from doing so.

According to the decision, merchants can surcharge because it is their right, under the Freedom of Speech Act in the Constitution, to tell consumers that they can – and they will, if the consumer

uses a network-branded card to pay them.

The ban on the ban has kick-started a whole new conversation about how merchants can find a new pot of gold at the end of their checkout rainbow.

And, I hope, a whole new conversation about what happens when regulators mess around with rules established by the card networks to prevent merchants from engaging in the bad behaviors that can harm consumers.

Because when they do, consumers can get hurt.

And then regulators are forced to backtrack.

For proof, we need look no further than the two markets that many in the payments industry regard as leading the pack in payments innovation: Australia and the U.K.

INNOVATION BY ANY OTHER NAME

Surcharging has been permitted [Down Under](#) since 2003. Yet the ACC, the Australian regulator, had no choice but to put the hammer down when merchants there used the ability to surcharge to effectively gouge consumers. Rather than just passing along the cost of the processing fees,

some merchants added hefty charges just to get more money from consumers who wouldn't resist.

Those practices pressured the regulator to put [strict rules](#) in place in 2016 for large merchants – and in 2017 for smaller merchants – that prohibited such excessive fees and provided instructions on how to calculate them.

Yet the bad behavior persisted.

Last summer, the Australian regulator put merchants on notice when it publicly admonished [Cruisin' Motorhomes](#) for allegedly charging consumers more than was permitted under the rules – and fined them \$12,600.

The message that the regulator intended to send to merchants?

Break the rules and you'll pay the price.

Across the pond, until about this time last year, merchant surcharges had been [alive and well in the U.K.](#) since 1991 – yet merchants infrequently used them. It wasn't until 2011, when a complaint was filed with the U.K. regulator, that the practice of merchant surcharging was put under the microscope –mostly because of the practices of travel operators that layered on excessive fees at the end of the traveler's booking process.

The complaint that started the merchant surcharge backlash was brought by a traveler who amassed a £48 processing fee for one leg of his family vacation. The result of that complaint was a toughening of the surcharge rules in 2012 – but apparently, they still weren't tough enough.

The U.K. regulator was forced [to ban the ban of the ban](#) – reverting to the card network operating rules that prohibit surcharging – starting in January of 2018, since merchants continued to play in the grey areas that only perpetuated instances of consumer harm.

Perhaps most frustrating for online consumers was the practice of “drip pricing” – a ruse that only presented consumers with the merchant surcharge at the end of a transaction, after the time and energy of searching online for the cheapest prices and lowest fares was expended.

A 2012 survey presented by the U.K. Office of Fair Trading's (since renamed the CMA) chief economist revealed how damaging these practices were for consumers.

More than half thought they could have found a cheaper alternative, had they known the total price upfront – 44 percent of consumers would have shopped elsewhere. Nearly three

quarters of consumers surveyed (74 percent) said the total price should have been presented upfront, and 39 percent said the extra fee was much higher than they had expected.

Consumers felt confused, and also betrayed.

PUTTING A PRICE ON CONSUMER TRUST

Back here in the U.S., the potential impact of merchant surcharging has the potential to do much more than harm consumers – it could also throw a real wet blanket on the frictionless checkout experience that payments innovators, and the entirety of the payments ecosystem, has been setting out to achieve for the better part of the last decade.

Imagine a world in which consumers are told that if they use a card at checkout, they will be charged 1 percent of the purchase price. That's a relatively abstract concept until the consumer gets to the counter at the store or the checkout page online and sees the charge. At that point, they'll have no choice but to go along with it or find a merchant that doesn't tack on the extra fees.

But just because merchants can charge the fee doesn't mean they all will.

I've noticed that in many Boston stores now, I'm not charged for a paper bag. When I ask why not, I'm met with the following response: “How else are you supposed to carry the stuff out of the store?” Maybe they've added the 10 cents into the cost of something else I've purchased, or maybe they're eating the cost of the paper bag, since giving consumers bags has always been part of the checkout experience.

All I know and care about is that I am not hassled at the end of checkout by the bag/no bag stutter step.

Many on the side of merchants in the surcharge debate say it's a clear sign that [interchange fees](#) will go the way of the dodo bird, since passing the fees onto the consumer will only force them to be set lower.

I seriously doubt it.

It's more likely that consumers will start to push back on merchants that charge them to use the cards they have always used to pay for things at their shops, online or off. They like the value they get when they use them, and the convenience of acceptance wherever they shop. They also know that the card networks and issuers put rules in place to protect them if a merchant's system is ever compromised.

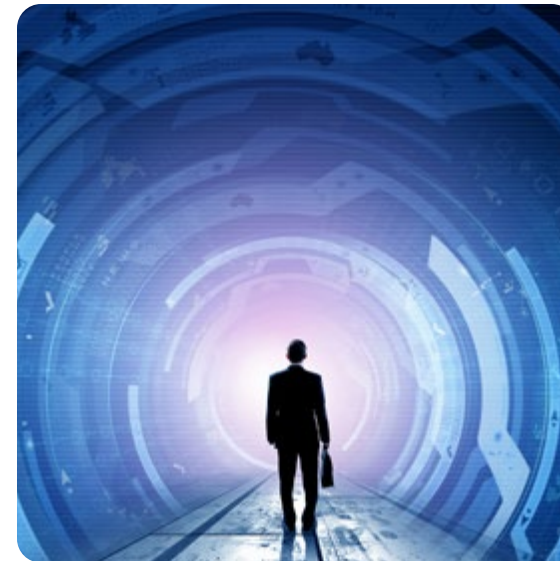
This brings me back to the card network ban on merchant surcharging to begin with.

It was obviously pro-consumer, because it prevented merchants from doing precisely what they did in the U.K. and Australia. [Card networks](#), like all platforms, must worry about all their stakeholders and prevent bad behavior. Their rules are designed to do just that.

That's a good thing, and regulators should applaud it rather than condemn it. More than anything else, those operating rules help ensure consumers' trust in the payments ecosystem. Without them, as we have learned, innovation – and all of the great benefits that come along with it – can grind to a halt.

February 11, 2019

Could Online Intermediaries Control The Physical Point Of Sale?



The year is 2039.

The youngest of the [bridge millennials](#) – those 30- to 40-year-olds who today represent the first generation of connected consumers with spending power – will be having their mid-life crises at the age of 50. And the 60-year-olds will be telling the world that 60 is the new 30.

By then, it might be.

The year that even a decade ago seemed a lifetime away is only 20 years from now – and will be here before we know it.

After all, for many of us, 1999 seems like it was just yesterday.

The influence of the increasingly [connected consumer](#), including the highly influential bridge millennials who have already embraced many new

connected commerce experiences, will have a profound impact on how consumers buy and pay for things over those 20 years.

In 2039, buying and paying for something will be largely disaggregated from going to the store to shop.

Consumers won't be walking up to a cashier after standing in a checkout line to swipe a card when they visit a store. Nor will they be whipping one out to check out in the aisle while milling about the store. Mobile devices, apps and voice assistants – by allowing consumers to order ahead and pay, pay via QR codes anywhere in the store and use auto-pay when leaving the store – will make checking out 100 percent digital, even when consumers choose to visit a physical store to make a purchase.

Which will become less frequent and involve trips to far fewer stores.

But that's old news, since we already see it happening today.

Twenty years from now, the portfolio of networked connected devices owned by consumers – and the apps and intermediaries that power them – will make commerce not only 24/7/365, but also immersive and highly [contextual](#). Buying things won't be something people plan around store hours or

allocate chunks of their day to do – it will happen just like everything else: on demand.

Doing laundry will prompt reminders to order laundry supplies or send clothes out for dry cleaning. Voice assistants will help consumers build their grocery lists dynamically as part of meal preparation, prompting consumers when to order and how to fulfill those orders – whether by curbside pickup or delivery. Apps will remind consumers when it is time to order breakfast or lunch, and prompt orders based on preferences and specials. Digital assistants will make curated clothing and accessory recommendations based on what's been purchased in the past and what's hanging in the consumer's closet.

But even that's old news, because we are seeing some of this happen today, too – and the consumer's interest in and adoption of these new ways to shop and pay has accelerated rapidly.

Will everything move this way in five or 10 years? Maybe.

But in 20 years? Almost for sure, unless something even more transformative happens.

Perhaps the real news, then, will be how the consumer's thirst for convenience will have accelerated their preference for and embrace of the trusted

intermediaries who are using AI and voice and new tech to help them decide what to buy and where to buy it.

And the profound impact these intermediaries could have for how consumers pay for those purchases across all of the channels they shop.

THE BIG SHIFT

In a world where, as the Census says, 90 percent of retail sales still happen in the physical store, [cards rule](#).

Using mobile phones as a form factor at the physical point of sale to pay for things has been a big bust, now more than four years into that experiment. Sure, more terminals in the U.S. are now able to accept those types of payments, and many more issuers have their cards provisioned in those mobile wallets — but so far, consumers haven't taken the bait.

That's been the case in markets such as the U.K. and Australia where merchants' contactless terminals and consumers' ability to provision and use mobile contactless payments have been more evenly matched.

Here and everywhere, consumers, with phones in one hand and their plastic cards in another, mainly dip, tap or swipe to pay in the store.

As longtime readers of my columns know well, the 90 percent of retail sales promulgated by the Census is just an average across all categories of retail spend. It also includes [auto sales](#), which most people don't think about when they toss the 90 percent number around. For this and many other reasons, we believe their numbers may well overestimate physical sales.

But since it's the data point that most use to define the online/physical retail sales split, let's use it to project, based on historical trends what the world looks like in twenty years. Then, physical stores would drop from 90 percent today to 68.9 percent of all retail sales, including auto, in 2039.

But those sorts of projections almost certainly don't reflect the reality of shopping and payments 20 years from today.

To begin with, these projections don't reflect the hockey-stick growth in Amazon's [share of spend](#) has blown big holes in the sales that once only happened in physical stores.

In four years, Amazon's share of eCommerce has grown from 28 percent to the 50 percent that it is today. And in certain categories, such as books, auto parts and electronics, Amazon's share of spend is decimating that of retail stores.

Projections based on Census data also miss the blurring of the physical and digital channels of massive players like [Amazon](#), and to a lesser extent, [Walmart](#), as they each build out their physical and virtual footprints. That's important because these intermediaries have the potential to influence purchases and payments across their growing physical and virtual storefronts.

Amazon, of course, owns [Whole Foods](#) and operates its own branded book stores and convenience stores. It also purchased online pharmacy [PillPack](#), and owns Zappos and fashion eTailer Shopbop. It would also surprise no one if Amazon added another brick-and-mortar asset to its portfolio.

Walmart owns Jet.com and several other online brands, in addition to the 4,700 physical storefronts that within a 15-minute drive for 90 percent of all U.S. consumers. It would surprise no one if Walmart acquired a large online brand or two to add to its portfolio. Investor activists think it should be eBay.

At the same time, both Amazon and Walmart are bulking up their [private-label](#) efforts to drive more higher-margin sales.

For payments and the ecosystem that supports payments as we know it today, I suspect the headlines in 2039 will be less about which channels

account for how much of consumer retail spend, and more about how these intermediaries have influenced where consumers are shopping and what those consumers are using to pay for those purchases.

BRING IN THE MIDDLEMAN

Today, more than a decade after the launch of the iPhone, and 24 years after the birth of Amazon, there are 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 and to help retailers go omnichannel.

At the same time, innovators, policymakers and regulators have become obsessed with cutting out the retail middleman – or cutting them up into little pieces to “level the playing field” and give smaller players “a chance.”

Ex-AOL Chief Tim Armstrong is just the latest in a series of innovators who wish to give brands the wings they need to deal directly with the consumer. [He announced last week](#) that he has created a new venture, dtx, that will help emerging DTC brands do just that.

In theory, if you’re a brand, cutting out the middleman sounds like a great idea.

The proliferation of broadband at home, PCs, mobile devices and apps has expanded the options and opportunities that consumers now have to find and buy things outside of their traditional physical store or online marketplace haunts.

There’s only one problem with that theory.

The promise of the “endless aisle” of choice has become exhausting for consumers.

Not having a filter other than the internet creates friction. Who among you reading this piece hasn’t spent a couple of hours looking for something to buy online, only to then revert to your familiar shopping stomping grounds to make that purchase?

Those experiences only reinforce your instincts – and that of every other consumer who has experienced the same thing – to start at those familiar and trusted stomping grounds the next time a purchase needs to be made.

That’s what the numbers are beginning to show, too.

The commerce cacophony that’s being created in the name of giving consumers choices about where to

shop seems, at times, deafening. Yet, the result seems to drive consumers that much faster into the arms of the intermediaries they trust to deliver value and save them time.

With their mobile and voice-activated ecosystems that are the front door to a vast, curated selection of products, linked to payment credentials that make it effortless for consumers to pay.

THE BIG SHIFT

[Amazon Prime](#) members now top 100 million – all of whom use Amazon Pay to make their purchases. Amazon Prime members can also shop on sites that accept Amazon Pay and receive the same member perks.

Recently, Comscore reported that 35 percent of consumers between the ages of 18 and 35 say that the [Amazon app](#) is the one mobile app they can’t live without – topping a list that included Gmail, Facebook and Instagram. Consumers consistently rate Amazon high on the list of brands they trust to innovate their commerce experiences. Some studies even report that, when asked, consumers would trust Amazon to handle their banking needs.

Amazon Pay is how consumers pay in Amazon’s branded stores, like Amazon Go. It won’t be long before using

Amazon Pay in the Whole Foods store becomes a totally seamless experience, and one preferred by the Prime members who shop there. [The Wall Street Journal reported](#) in June of 2018 that there were, at that time, 60 million Prime members who shopped at Whole Foods. That’s 60 million consumers who could potentially shift from whatever they are using today to pay at the store, to whatever is linked to that Amazon Pay account instead.

In December of 2018, Walmart launched [the Dotcom Store](#) as a way to keep sales inside the Walmart ecosystem. Store associates roam the aisles to help Walmart customers find things online that may be out of stock in the store and have it shipped to them. Those consumers, if they don’t already have an online account with Walmart and a Walmart Pay account, can then easily get one.

Walmart has also long positioned itself as a “financial services” provider to its customers, offering a variety of services, including money transfer and bill payment. [Walmart Pay](#) is also one of the only mobile “Pay” experiences, outside of Starbucks, to have gotten traction in the store. More than just a payments app, Walmart Pay allows consumers to shop online and pay with cash in the store, in addition to holding balances, aggregating offers and auto applying

them at checkout, expediting returns and enabling order-ahead services. In a recent study, consumers reported that they'd even bank with Walmart – in fact, many today already use them in that capacity.

In 2018, Amazon and Walmart alone, by the calculations we did for our [Whole Paycheck](#) study, collectively accounted for 15.3 percent of all consumer retail and roughly 54 percent of all online spend.

By 2039, those numbers will only shift up and to the right, particularly given the efforts both are making to expand their on- and offline franchises into retail adjacencies, such as prescriptions and healthcare-related purchases and the competition for consumers' food – not just grocery – spend.

That suggests their mobile apps, plus voice, plus their proprietary payments networks, could give Amazon and Walmart a wide berth to shift how payments for those purchases are made, if that's what they want to do.

WHO'S AT RISK

Amazon and Walmart occupy a different place in the commerce ecosystem than other players vying for a piece of the payments pie. They are merchants, each with a vast selection of products

and choices for consumers, and each with a proprietary payments networks embedded into those purchasing experiences. That, and the level of trust consumers have with them today, gives them more influence over how consumers shop, and could increasingly have more sway over how they will pay. That could also include asking consumers to link their bank accounts to make those purchases. Given the level of trust that consumers have with Amazon today, many might not think twice.

Amazon and Walmart are but two examples. There are other large and trusted intermediaries, in their own respective categories, that could take a page from that same payments playbook. Those who have made online shopping and buying easy and painless, who can extend their reach into the physical store space that consumers, twenty years from now, still frequent.

That could make the world in 2039 a lot different than it is for today's payments players.

The payment apps of these large intermediaries like Amazon could become much more important at the physical point of sale.

Physical stores may not have point of sale terminals, and that could shift power in the ecosystem from those

who have it today to these large online intermediaries – who have the customers and their trust.

Large online intermediaries could also be running many of these physical stores' payments operations – or providing the payments infrastructure for stores that operate in the physical world just like they do online.

You scoff. [Amazon](#) running payments for physical stores – isn't that nuts?

About as nuts as saying that more than half of all products sold by Amazon are sold via its marketplace – which, of course, they are. Think of it as omnichannel taken to another level – all in the name of consumer convenience and retailers wanting to make a sale.

Lots of things could also get in the way of this happening.

But if it doesn't, in 20 years' time, it may be too late to ask why.

February 18, 2019

What Amazon HQ2, Interchange Fees And Facebook Have In Common



I hosted a digital discussion last week with an executive from [Sift](#) with more than 15 years of experience building trust and safety organizations for some of the biggest digital brands in the world – including [Google](#), [Facebook](#) and [Square](#).

We had roughly 340 execs register to listen live to the two of us banter about the people, processes and tech necessary to do more than simply rebrand what's typically described as the fraud and risk departments of digital platforms.

Toward the end of our conversation, the topic turned to what would make someone the “ideal” candidate for one of those roles.

In addition to the obvious technical skillsets, this executive said that being a contrarian was at the top of his list.

“Why?” I asked.

For those charged with managing the consumer's trust and safety when transacting online, and in the midst of increasingly clever cybercrooks, being comfortable going against the status quo flow has become much more important than ever before, he said. Giving consumers a safe and trusted online payments experience means being comfortable finding and then following the paths not typically taken

to uncover potential vulnerabilities – and then defending those decisions to team members and management.

I joked that I'd be a shoo-in for the job.

A contrarian, [so says the dictionary](#), is someone who feels comfortable pushing back against the status quo, inevitably associated with going against the grain.

The point made as part of our conversation was that too many people following more or less the same game plan can become blinded to a new way of thinking that could inform better outcomes for the customer and the business.

The most effective contrarians, of course, are those whose countervailing opinions are rooted in an intellectually honest framework or set of hypotheses that offer credible support for looking at things through a different lens.

Or at least injecting some balance into the conversations to sharpen the debate.

I say this as your payments and commerce contrarian-in-residence here at PYMNTS, happily challenging the status quo [52 weeks a year](#).

This week, I'm compelled to offer a few thoughts that go against the grain on several topics that made the news

last week: [Amazon's NY HQ2](#), [card interchange fees](#) and Facebook ad revenue.

Whether they rise to the level of being contrarian will be for you to decide.

AMAZON TAKES ITS BITE OUT OF THE BIG APPLE

There are countless articles now on [Amazon's decision](#) to break up with New York, ironically announced on Valentine's Day, and the withdrawal of its plans to build HQ2 in Long Island City.

I'll leave the political and public policy discourse to others.

The seemingly prevailing view that I'd like to weigh in on is that Amazon's decision to bolt from New York is somehow proof that [Amazon is bad for the world](#) and isn't interested in making it a better place – and all because it is a self-interested business only out to make a buck.

Accusing a business of being self-interested is a bit like accusing humans of liking to breathe air.

Pretty much all businesses are self-interested, since most have a duty to their shareholders to make profits. That's the only way the business can ultimately continue to create value for its customers, create jobs for people,

serve the ecosystem in which it operates and provide tax revenues.

Most also know that to do that, they have to pay attention to doing right by those stakeholders.

The self-interested business known as Amazon has created its shareholder value by putting the consumer experience at the center of its strategy.

What the Amazon detractors seem to have missed is the value of the experience that the company has built over the last 25 years – an experience that has not only transformed the consumer's retail shopping experience over that time, but has also raised the bar for how all businesses, everywhere, must rethink the delivery of their digital, omnichannel experiences to their end users.

All while keeping prices low for consumers.

Today, it is impossible to have a conversation with a CEO, a management team or the board of any company and not have Amazon – and the expectations that it has set for consumers and businesses over those 25 years – as an input to their strategic thinking.

So, Amazon hasn't just benefited its customers: It has forced retailers to

lower prices and increase their levels of service.

It has also spurred other businesses to follow its lead, irrespective of whether Amazon is even a relevant player in the ecosystem in which it operates.

Whether that business is a traditional retailer, a consumer brand, a bank, a healthcare provider, a small business, an insurance company or an automobile manufacturer, the "[Amazon effect](#)" has forced it to think differently about the experiences it is creating for its customers.

All this seems like a pretty good thing for the world and the people living in it.

Businesses that are forced to think harder today about eliminating friction and making it easier for their customers to do business is a big win for everyone – even if it inevitably means that some businesses will lose if they can't make that transition and compete effectively.

The introduction of Alexa in 2014, and the creation of a [voice-activated ecosystem](#) with tens of thousands of skills, is a more recent proof point of that value creation.

Amazon, with Alexa, wasn't the first voice-activated assistant to enter the world – that was Apple, with Siri – but it was the first to marry voice with a commerce experience that gave

consumers access to new contextual buying opportunities wherever Alexa can be found: in their kitchens, family rooms, offices and [even their cars](#). Consumers today can use Alexa to order food, book an Uber and do their banking – and they do.

The popularity and utility of Alexa has since accelerated the [development of voice](#) as an important commerce channel, now for almost every player across every sector.

[Our own studies](#) show that more than 14 percent of all consumers over the age of 18 living in the U.S. own voice-activated speakers, as do more than a third of the 30- to 40-year-old [bridge millennials](#). More than a quarter of consumers who own voice-activated speakers use them to purchase things, and more than half of all bridge millennials do, too – with growth that more than doubled from 2017 to 2018.

Twenty-five years after Amazon opened its virtual doors, consumers have more places than ever to buy things. Yet, over the last four years, [Amazon](#) has gone from 2.2 percent of all retail sales to 6.4 percent of retail sales and 50 percent of all eCommerce sales.

Consumers shop with Amazon because they value the experience. If and when they no longer do, they won't.

And then, there will probably be an uproar about why the next player has made life worse than it was when Amazon was the lead dog.

CARD NETWORKS WANT TO RAISE THEIR PRICES

[The Wall Street Journal](#) reported last week that the card networks are mulling increases in the fees paid to issuers by the merchants that accept their cards, as well as the processing fees paid by acquirers that process those transactions.

A Visa spokesperson quoted in the article said this was the first such contemplated increase in more than three years.

These fees are being considered on the heels of a [Supreme Court decision](#) in the fall of 2018 that ruled in favor of the networks and pricing schemes that reflect the dynamics of multi-sided platforms, the business model that has underpinned the payments ecosystem for six decades.

And the news also comes after most of the interchange cases brought by merchants in the U.S. have been settled.

Naturally, this announcement has merchants roiling in response, since the cost of accepting cards has long been the subject of their disdain. Particularly,

they say, the cost of accepting rewards cards – which, of course, consumers really like using for the cash back and other goodies they get.

This outrage also comes, ironically, at the same time that more merchants are making the decision to go [cashless](#). Even the small merchants, like coffee shops and QSRs, are publicly denouncing what was once decried as their favored payment method – cash – in favor of plastic cards or their digital facsimiles.

Merchants now admit that [cash has become a friction-filled](#) and expensive payment tender to manage – and that cards are good because they can also increase average order value.

This thinking is shaped by the introduction of mobile apps that can [order and pay ahead](#) and/or pay using QSR codes in the establishments where cash was once king.

For those consumers who prefer not to use mobile apps, [contactless cards](#) will pick up the cashless slack. No more waiting in line behind someone fumbling around for dollar bills or waiting for an [EMV transaction](#) to finish (even as fast as it is becoming). Mobile banking apps that make transaction history accessible instantly – and mobile apps that use stored value cards that decrement purchases from an existing balance –

make it easier to track that small dollar spend, and help consumers overcome the social stigma of using cards for those types of transactions at the point of sale.

Of course, all of this won't stop merchants from complaining, or from spending money to create their own "Pay" schemes that use decoupled debit products over ACH to wrest their dependency from network-branded cards. [Kroger](#), with its announcement last week, is the latest merchant to throw its hat into that ACH-based payments ring.

Good luck with that.

Some consumers will take the bait, of course, but most won't. This topic was one that I [researched and wrote about](#) last year. I found that even the early adopters of that strategy, like Target, have seen their market share plateau.

Consumers have this thing about their money – as in, they want it to be kept safe. They trust their banks and the card networks to do that on their behalf. With a few notable and obvious exceptions, they don't trust merchants, whose reports of being breached have become so familiar as to be numbing.

In the meantime, consumers everywhere are using cards more and more.

[RBR Research](#) reports that card volume worldwide increased by 13 percent to \$25 trillion in 2017, and is expected to increase to \$45 trillion in 2023. At the same time, the average transaction value is expected to dip slightly – from \$67 to \$62 – owing to the increased use of contactless cards at the places where cash was more used.

The Journal's article also reported how consumers will likely feel the increase at the places they shop. Unfortunately, that assertion only adds unfounded fuel to the fizzling fire that the merchants would like to see stoked.

Remember when the Durbin amendment resulted in a dramatic decline in interchange fees? If consumers pay higher prices when interchange fees go up, why didn't they pay merchants lower prices when they went down? Since, of course, they didn't – even though that was the merchant party line at the time.

What did happen back then is that consumers paid more – at their bank, since (surprise, surprise) banks have to make money, too. The decline in interchange fee revenues from merchants meant that banks had to raise their consumer fees on checking accounts and cut back or eliminate debit card rewards.

FACEBOOK'S NOT-SO-FAKE CONSUMER VALUE

As longtime readers of my columns know, I have been very vocal about [Facebook](#)'s failure to govern its platform.

One of the things I advocated that the payments and commerce ecosystem leave behind [at the start of 2019](#) was the free-for-all governance attitude that I said Facebook personified. That anything-goes governance, I wrote then, was one that failed to address the [Russian election meddling](#), fake news and the bad behavior on the platform for many years – when it was painfully obvious that something was amiss.

New research reports now quantify just how valuable, even in the face of those lapses in governance, consumers – and therefore advertisers – find Facebook as a platform.

Facebook crushed its [Q4 earnings](#) with a 30.4 percent year-on-year revenue growth – but what took many by surprise was the increase in its average revenue per user. At \$7.37 in Q4, that was 19 percent higher than it was in 2017 and 21 percent higher than it was in Q3.

Where there are consumers – more precisely, 30 percent of the world's

population – there are advertisers eager to reach them.

What [economists found recently](#) is that not only are there consumers on Facebook, but there are consumers who stick around because they value the efficiencies created by the social networks they've created there. On average, they found, consumers would have to be paid [a little more than \\$1,000](#) over the course of the year to shut down their Facebook accounts.

The study authors are quick to point out, however, that this doesn't mean consumers would pay \$1,000 to have a Facebook account. Nor do they say that their study suggests any correlation between a consumer's feelings toward Facebook as a social network and Facebook's stance on privacy and data usage.

What's clear, though, is how much people value being connected to one another – and the social value that Facebook has created by giving people a platform on which they can do that.

And a platform for advertisers to, in turn, reach them.

Now, there are lots of reasons to complain about Facebook's lax governance – and critics, including regulators and lawmakers, are pushing to make it harder for Facebook to

collect data from the consumers on its platform.

But wait a second.

Facebook uses that data to better serve targeted ads. And that's what motivates Facebook to provide free social networking services that people seem to love and say they can't live without. Facebook also uses that data to make sure consumers get the right organic posts, which further increases their value.

Is Facebook collecting data because it wants the world to be a better place?

Nope. Just like every other business, it, too, is self-interested. But in being self-interested, it has created and maintains an enormously valuable and popular platform. It can't do that, certainly not as well, without collecting lots of data.

Now, getting back to where we started with Amazon.

In the words of [Dave Loggins](#), who crooned his famous ballad, "please come to Boston for the springtime and even for the wintertime, now that you have tasted what it's like to have snow in the winter."

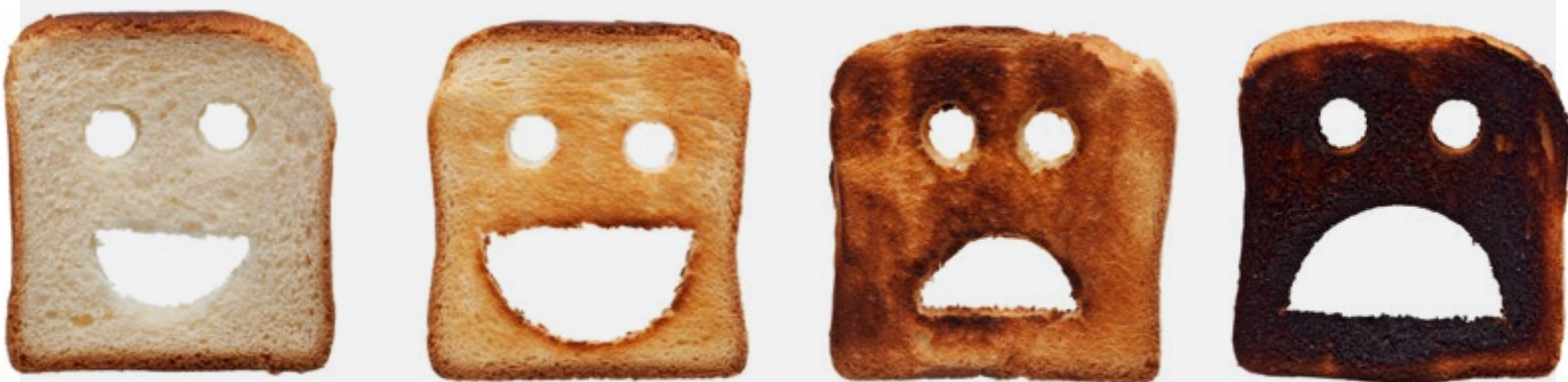
And for the sports teams and one in particular: You do know that we are the home to the greatest sports dynasty ever, don't you?

Yes, I know you've said "no" to another HQ2 – for now.

But remember, I'm a contrarian and like to think differently.

March 4, 2019

Why Restaurants Should Be Worried



The true measure of innovation is when no one has come up with anything better a couple of centuries later.

Nearly 300 years ago, an entrepreneur in Paris introduced the world to an innovation in dining that has remained the backbone of the restaurant industry ever since.

The concept, by today's standards, seems so simple: Give consumers a choice of what to eat, choice of what time to eat it and a private place to sit in a dining establishment outside of their own home.

The innovation itself seems simple – in part because it is so familiar: a reservation system, a menu and a dining room format with separate tables for parties to sit together, but apart from others who are dining at the same time.

According to Yale historian [Paul Freedman](#), [Delmonico's](#) in New York was the first establishment to offer that innovative experience to Americans in the 1830s. He devoted a full chapter to it in his book, [Ten Restaurants That Changed America](#), (Liveright, 2016) – a highly recommended read on the impact of restaurants on food culture and vice versa.

Over the next couple of centuries, there have been many variations on that basic theme.

Food options on menus now reflect the broad and changing tastes of consumers.

Tens of thousands of restaurants now include everything from the fancy to the fast casual to the coffee shops and cafes that offer a more “grab-and-go” experience.

Search engines help consumers discover new places to eat, software platforms eliminate the friction from making reservations at desired times.

[Mobile devices](#) make those options more accessible, and the opportunities to dine out more spontaneous. Buy buttons and credentials on file expand restaurant sales channels.

New business models and new tech drive standardization, consistency and scale for restaurant operators.

But the basic concept – giving the consumer the ability to choose food from a menu at a place of their preference at a time that’s most convenient for them remains the fundamental innovation behind the restaurant experience.

It’s also the source of its biggest disruption today and in the decade to come.

BACK TO THE FUTURE

Eating meals outside of the home wasn’t always a thing.

At the turn of the 20th century, about 60 or so years after the restaurant concept was introduced in the U.S., eating at a restaurant was still very much a novelty. At that time, dinner was almost always eaten at home – or at someone else’s home.

For the well-heeled, dinner was a ritual in which a couple of hours were spent sitting at a dining table with courses served by waitstaff. For the working

class, dinner was much less a ritual and much more an act of sustenance. In the early to late 1800s, most meals outside of the home were eaten by tradesmen sitting at communal tables at inns and taverns, eating whatever the proprietor felt like cooking that day. Eating at fancy restaurants like Delmonico’s was a rarity.

Restaurants became more popular as the economy revved into high gear and the nature of work shifted from farming to manufacturing. It was no longer practical or convenient for workers to go home to eat lunch, and restaurants emerged to fill that void. They also became places where men – along with their wives and families – gathered for a night on the town.

Americans’ love affair with cars and driving in the 50s and 60s gave birth to fast casual establishments and, of course, the massive [QSR economy](#) that now accounts for 52 percent of all restaurant orders.

Still, having a meal at a restaurant wasn’t done all that often.

Most women didn’t work outside of the home and prepared the meals eaten by the family. Growing up, I don’t really remember going “out to eat” with my family aside from very special occasions, and the occasional Sunday drive “in the country.” The occasional trip to

McDonald’s or Burger King was a really big deal for my brother and me, much to the disappointment of my mom, who took great pride in her home-cooked meals.

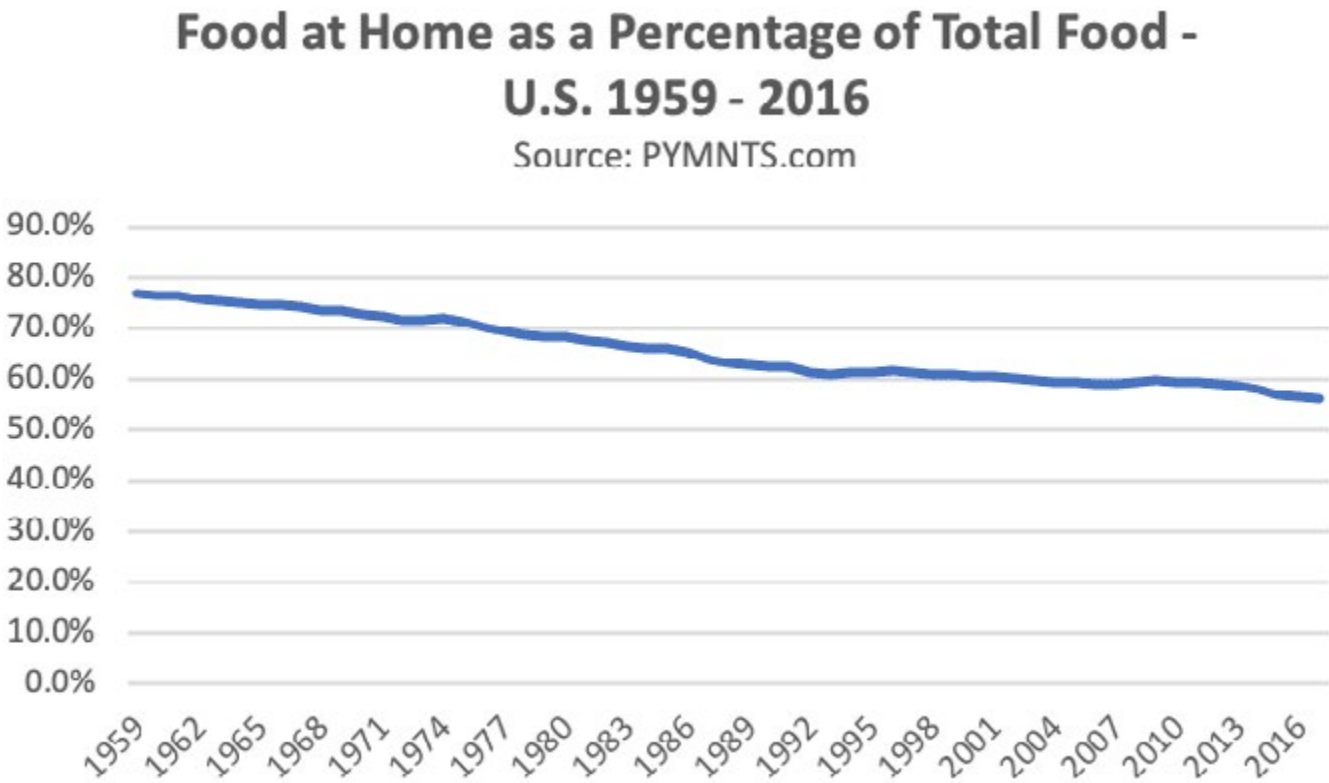
Times have obviously changed.

Over the last several decades, the composition of the workforce and demands on the family unit have shifted rather dramatically, and the restaurant industry has flexed to accommodate those changing times. Consumer spend has shifted, too, but more slowly. It wouldn’t be until 2002 – 162 or so years after the first true restaurant opened in the U.S. – before consumers gravitated to options outside of their own kitchens to make and eat their food and food dollars spent at grocery stores would dip below 60 percent.

For the [restaurant industry](#), that’s the “glass half-full” part of the story.

WHEN THE HOME BECOMES THE RESTAURANT

Today, 56 percent of U.S. consumer food spend remains grocery store-based. But there’s an important catch to the 44 percent of spend allocated to eating outside the home. Since restaurant meals are more expensive than eating at home (not counting the time to make them), the spend doesn’t mean



that 44 percent of meals are eaten at restaurants. It just means that eating out costs more than eating in.

In fact, according to restaurant analyst NPD, more than 80 percent of dinners in the U.S. are eaten at home, up from 75 percent a decade ago. In 2018, they report that totaled [100 billion dinners](#) – up, they say, from 75 percent a decade ago. Visits to restaurants dropped to a 28-year low in 2018.

Millennials are part of that story.

A decade ago, millennials ate outside the home 257 times a year; in 2018, that number dipped to 241 times a year.

Millennials, though, aren’t the entire story. Consumers, overall, have [stopped frequenting restaurants](#) at the pace they once did. In 2000, according to NPD, consumers ate outside the home 216 times a year; in 2018, that number declined 15 percent to 185 times a year.

There’s a catch here, too.

Just because more people are eating at home doesn’t mean more people are cooking at home.

Of the 100 billion dinners who ate at home in 2018, only 37 percent of those meals were made from scratch.

That means more competition among the growing list of players vying for the 63 percent of spend on food that

is eaten at home, but purchased somewhere else.

Maybe that’s directly from a restaurant’s app or via a telephone order. But increasingly, that’s the grocery store’s prepared foods section, or a delivery aggregator like Uber Eats or [Grubhub](#).

To put that in dollars and sense, that also means restaurant stakeholders are now competing not for the \$3,558 that consumers spent last year on food eaten at restaurants, but for the \$8,755 that the typical American consumer spends on food over the course of the year.

That could very well be the “glass half-empty” side of the restaurant story.

CONSUMERS ARE REDEFINING FAST FOOD

The innovations that gave birth to the restaurant industry – a reservation, a menu with options and a private table at which to eat food – are the very same tools that innovators are using 300 years later to reinvent the experience.

But now, instead of using those tools to drive more spend to restaurant operators, they’re using them to recreate the restaurant experience inside the consumer’s own home.

2018: TYPICAL US HOUSEHOLD SPENDING	Total Spending		eCommerce	
	Amount per year	Percentage	Amount per year	Percentage
Auto parts	\$378	0.6%	\$46	1.8%
Furniture and home furnishings	\$1,084	1.7%	\$284	11.3%
Food and beverages	\$5,197	8.3%	\$83	3.3%
Health and personal care	\$3,265	5.2%	\$237	9.5%
Electronics and appliance	\$1,425	2.3%	\$585	23.3%
Clothing and apparel	\$2,297	3.6%	\$503	20.0%
Sporting goods, hobby, books and music	\$1,472	2.3%	\$543	21.6%
Other retail	\$4,438	7.1%	\$230	9.2%
Total retail	\$19,556	31.1%	\$2,511	100.0%
Restaurants	\$3,558	5.7%		
Housing	\$11,646	18.5%		
Healthcare	\$10,731	17.0%		
Financial	\$3,211	5.1%		
Personal services	\$3,216	5.1%		
Insurance	\$1,799	2.9%		
Telecommunication	\$1,687	2.7%		
Entertainment and recreation	\$1,652	2.6%		
Transportation	\$1,209	1.9%		
Other services	\$4,675	7.4%		
Total Consumer Spending	\$62,941	100.0%		

SOURCE: PYMNTS.COM

The friction for which each of these matchmakers is solving is well-known and well-defined: a time-starved consumer with little time to prep and cook a meal from scratch — or to sit and wait for food to be served at a restaurant.

These time-starved consumers are allocating less of their day to eating.

Long gone are the days of the two-hour dinner – perhaps even the half-hour dinner.

A study of consumers over two periods (2006 through 2008 and 2014 through 2016) reports that consumers now spend [5 percent less time](#) eating over the course of a day. In 2016, that was roughly 64 minutes a day to eat all three meals. The study also found that nearly 17 minutes each day is spent eating while doing other things – working, helping kids with homework, talking on the phone, watching TV.

Three years later, who knows how much further it might have dropped.

Takeout, delivery, grab-and-go to heat up and eat later are now at the top of the consumer’s menu when it comes to getting a meal to eat at home.

Today, we have a ringside seat as a whole new crop of innovators use their scale to compete for the biggest consumer expenditure, outside of

healthcare and housing, and force restaurants to change how they view their market and compete to stay relevant.

These innovators are taking a page out of the classic [matchmaker’s playbook](#) and introducing perhaps the first real innovation to hit the consumer-facing part of the restaurant experience in the last 300 years: logistics that power delivery at scale.

THE BATTLE FOR THE FOOD DOLLAR

Grocery stores, which already capture a big chunk of the consumer’s food dollars, see the opportunity to cash in even more. They’re stepping up by expanding their selection and quality of prepared foods, including from restaurant brands, and creating “[grocerants](#)” where for people can eat what they buy in the store. Investments in logistics have ramped up both curbside pickup and delivery orders that are increasingly being placed by commuters [driving](#) home from work.

Some grocery stores themselves have decided to become matchmakers by bringing restaurant brands — which might otherwise compete for their food spend outside of the store — inside their own four walls.

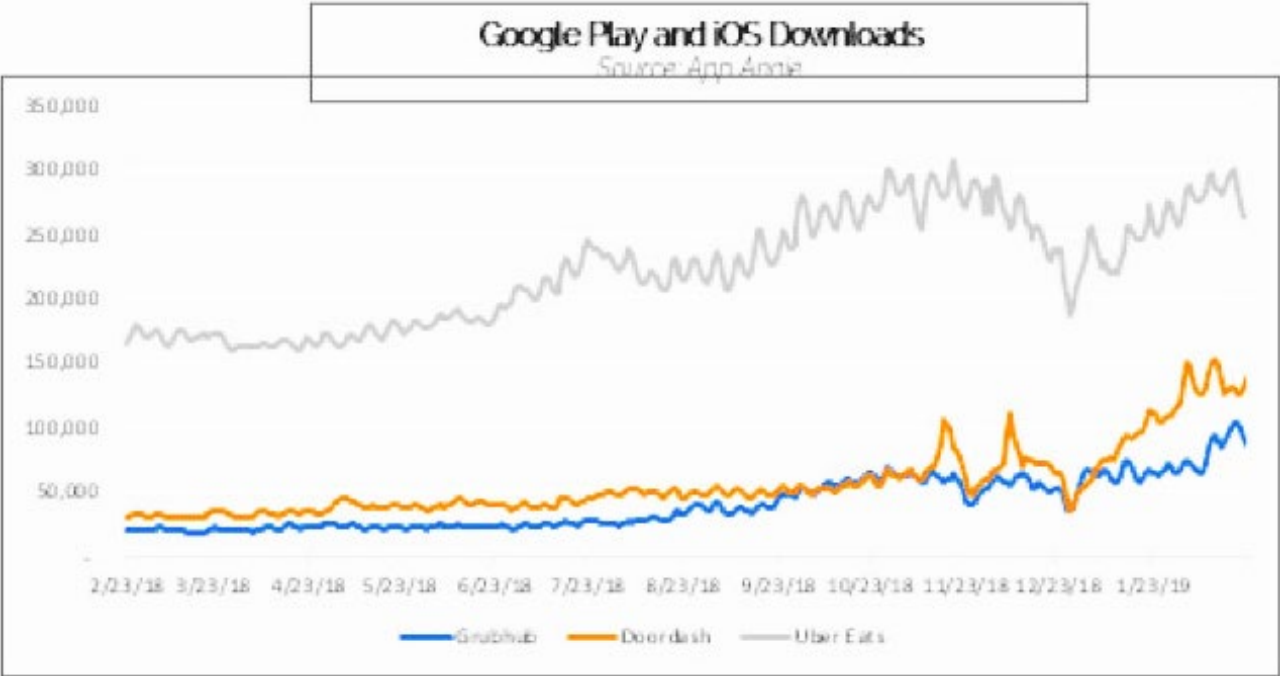
ShopRite grocery stores in Philly recently did a deal with [Saladworks](#), a fast casual salad chain, to bring its restaurant experience inside of their stores; after a successful pilot, there are now plans for the eatery to expand into more supermarket locations.

Then, of course, there are the aggregators that give consumers the mashup of convenience and restaurant-quality food, serving as a one-stop ordering and delivery platform for the restaurant brands they know and love.

Over the last several years, these [aggregators](#) have built a critical mass of consumers — and secured their

loyalty — by assembling a critical mass of restaurant brands ready to fulfill their orders. Restaurants sign on because they see it as a way to get orders, even though they run the risk of losing consumer loyalty to their brand and perhaps even the consumer herself as aggregators inevitably pivot their platforms — and their platform economics — to create their own branded food experiences.

Although Grubhub tends to get the lion’s share of the headlines in that regard, the numbers tell a different story: Uber Eats appears to be the 800-pound gorilla in the space.



Not only do their mobile app downloads and usage dwarf that of Grubhub, UberEats leverages the platform adjacencies of Uber’s massive driver network to nail logistics and economics of delivery, now to more than 100,000 U.S. cities.

[Uber Eats](#) is also using its data on consumer food preferences to persuade restaurants on its platform to create digital-only “pop ups” inside of those establishments with limited, cheaper menu options and a stand-alone brand.

Restaurants say they like the idea because the marginal costs of serving those consumers can add incremental profits to the mix. Consumers say they like the idea because the quality is good but cheaper to buy.

Uber Eats really likes the idea because they are, in essence, setting up test kitchens inside existing restaurants that can, in theory, be used to bolster their own restaurant platforms with a built-in customer base at some point down the road.

And they are doing it, not by leveraging their expertise in operating restaurants, but their expertise in logistics wrapped around giving consumers a choice of what to eat and when and where to eat it.

Then there’s the two other 800 pound gorillas in the space — Amazon and Google — whose restaurant glass-half-full or glass-half-empty story remains to be told.

[Amazon](#) takes logistics and ups the ante further with voice via Alexa and payments via Amazon Pay, all inside of an expanding and expansive ecosystem of food ordering and delivery options, physical grocery and convenience stores and 100 million Prime Members who buy regularly from them.

Google has voice too, but also an important asset called search in a retail sector where search still matters and could be used to create a competitive advantage to help restaurant establishments reclaim control over their brand and the consumer’s loyalty to it.

Collaboration with platforms that can marry search with logistics to connect consumers directly with a restaurant could turn them into an intermediary that helps restaurants hold their own in a world in which competition for the consumer’s attention and food dollar will only intensify.

THE MATCHMAKER IS IN THE CONSUMER’S CONTROL.

According to a study of consumers done earlier this year, consumers just want what they have always wanted from a restaurant – good food, delivered when they want to eat it, where they want to eat it. It’s the same three things that a menu, a reservation and a dining establishment called Delmonico’s innovated and delivered more than 300 years ago in Paris and 200 years ago in the U.S.

Meanwhile, innovators, the matchmakers building their digital platforms, are blurring the bright lines that once divided how consumers thought about and purchased food at and away from home — now it’s all just food.

Just as they have done with retail. Soon the lines between food eaten in or out will seem as arbitrary as those between buying online or in the store.

But that’s what matchmakers do – step in to solve big problems for key stakeholders using a variety of platform design and pricing principles to create critical mass and drive profits.

Successful matchmakers do that at scale.

Really successful matchmakers leverage their platform assets into adjacent businesses and recast the dynamics of the sector.

What we’re seeing now is some of the most disruptive innovation in dining since the very first restaurant opened. The key problem for the consumer stakeholder is time. The platform asset matchmakers bring is logistics — restaurants have already done a great job of delivering choice through the design of menu options that cater to the diverse tastes of the consumer. Their value to the consumer is to shorten the distance between a hungry, time-starved consumer and food at a table of their choosing – which is now increasingly their home.

What we are starting to see is how some of those matchmakers and those dynamics are changing and who’s driving that shift.

It’s not just restaurants that will feel the impact. Almost everything about how people eat in or outside the home will change.

It’s why food is such a bellwether for how the rest of retail may evolve. And why for whom the glass is half-empty or half-full remains to be seen.

March 18, 2019

Faster Payments: Does The Fed Have A Hidden Agenda?

“Connect the dots”

is used as a metaphor to describe how a series of discrete events can explain a “big picture” – often high-impact – action or outcome.

Steve Jobs, in his famous [2005 Stanford commencement address](#), said connecting the dots was only possible with hindsight, by looking in the rearview mirror at the series of things that had happened over the course of one’s life to explain the actions of the here and now.

So let’s connect some dots.

Take two announcements from just last week, related to the evolution of faster payments in the U.S.

First, there was the Fed’s decision to slow faster payments progress via [Same Day ACH](#) because it wasn’t ready to approve another processing window during the day. Then came PayPal’s debut of Instant Transfer to Bank. This new feature, available to PayPal customers in good standing, leverages the company’s partnership with Chase, and Chase’s connection to The Clearing House’s (TCH) Real-Time Payments (RTP) network, to move money instantly into the bank accounts of consumers and SMBs.

Connecting these two dots suggests a few important things that, for banks and card networks, might be the 20/20 hindsight that could have come in handy had they stopped to look backwards a few years ago:

That the Fed has much more than a passing interest in how faster payments are run in the U.S.

That alternative financial services providers have much more than a passing interest in using an alternative to card rails in moving money between people and businesses, both domestic and globally.

That faster payments, whether via the Fed or via the TCH’s [RTP network](#) or both, could be a big threat to how banks monetize the movement of money between senders and receivers and their depository accounts.

That all of this might stem from the hidden agenda of making it free – or as close to free as possible – to move money.

And finally, that the banks and the card networks may have a lot to lose.

A COUPLE OF IMPORTANT DOTS

Last week, NACHA issued an [ACH operations bulletin](#) announcing the delay of the rollout of a third Same Day

ACH (SDA) processing window by six months, to March 19, 2021. This new window – which will allow banks to submit requests for SDA until 4:45 p.m. EST – is understandably of great interest to all banks, but particularly to those in the Mountain and Pacific time zones.

This delay was initiated by the Fed. The regulator notified NACHA that they need more time to evaluate required changes to their system before giving it the green light. The Fed also said NACHA needed to open their decision to public comment, even though NACHA said a third processing window was “overwhelmingly approved” by FIs on Sept. 13, 2018. No date has been given for that process.

So, we have one of the most vocal proponents of faster payments throwing sand in the gears of ... faster payments.

It is a bit of a curiosity – particularly since this new settlement window is not exactly new news. In fact, it’s more like four years old.

A third settlement window was part of NACHA’s original announcement [in May of 2015](#), of the unanimous adoption of SDA by all of the FIs in the U.S. Phase 3 of the process, announced then, was to expand settlement windows to include three, including the one the Fed just announced they needed more time to study.

Okay, so maybe the Fed’s payments folks are just busy. After all, there’s a lot to do when it comes to assuring the safety and soundness of our financial system and the thousands of stakeholders who rely on it.

Or maybe the delay is part of a strategy to buy more time to sort out where and how making SDA even faster could interfere with their own faster payments agenda – and the part they’d like to play in making payments faster in the U.S.

NOT A PASSIVE BYSTANDER

For those longtime readers of PYMNTS and my columns, I’ve always said the Fed’s interest in [faster payments](#) was never simply as an interested, but passive, bystander.

When the Fed launched its 500-person [Faster Payments Task Force](#) in 2015, it did so as much more than a convener of stakeholders looking to improve the speed at which money moves. It was an opportunity to have a ringside seat at an industry-wide, two-year long conversation about how faster payments would evolve in the U.S.

In its final report, published in January of 2017, the Fed expressed its support of the collectively developed faster payments framework in the U.S., which

also included the role of The Clearing House.

It also left open an opportunity to explore how it might play further down the road.

THE FED’S HAT AND THE FASTER PAYMENTS RING

Fast forward a few years, and we now have [the Federal Reserve Board](#) soliciting public comments on its potential role as the operator of a new faster payments network in the U.S. More than 400 comments were received, with many advocates for the Fed taking on this role.

Among the strongest were those who see an alternative to existing card rails as an advantage to their own business models and strategic payments plays – big merchants like Walmart, as well as alt financial players like Apple, Google, Amazon, PayPal, Square and Stripe, among others.

Somewhat ironically, these are some of the same players who now use the card rails to push payments in real time between senders and receivers on their respective platforms – Square Cash App, Venmo and Apple Pay Cash – and pretty cheaply, and very securely, across the debit card rails to nearly everyone in the U.S.

Also keen on the Fed’s involvement were the community banks and credit unions that worry (as they should) about having TCH as the only operator of an RTP network in the U.S. TCH is the association of [the 26 largest banks](#) in the U.S., and one of two operators of the ACH network in the U.S., the other being the Fed.

It’s been reported that TCH had 36 banks on board RTP at the end of 2018, and expects that number to reach 1,000 by the end of Q1 2019 – about two weeks from today.

TCH also reported ending 2018 with slightly less than half of all of the depository accounts in the U.S. capable of receiving a real time payment, with roughly 40 percent of such accounts being able to send them to banks. By the end of 2019, it expects to have nearly half of all banks connected to the RTP platform either directly or via a third party such as FIS or Fiserv.

Of course, until we see transaction data it is hard to know how real this is.

FASTER PAYMENTS IS HAPPENING, FAST

Ubiquity, of course, is the real measure of how effective we are in making money move fast and getting consumers and businesses to sign on. At the

moment, there are only two ubiquitous faster (than before) payments rails in the U.S.: Same Day ACH and the card rails – both of which allow for money to move fast into consumer and business bank accounts for every consumer with a debit product. That’s roughly 95 percent of consumers in the U.S., and every consumer and business with a bank account, regardless of where they bank.

[NACHA reported](#) that in Q4 2018, SDA volume hit 51.3 million transactions, up 46 percent year over year. They also reported notable increases in B2B transactions (up 11.5 percent), as businesses swap checks for ACH transactions and P2P transactions (up 47 percent) between bank accounts. There are real limitations to SDA, which NACHA acknowledges and says they are addressing, including not being available on weekends and holidays when banks aren’t open – when SMBs and gig workers want and need instant access to their money.

Card rails are using push payments to close those gaps and support many new use cases for instant money.

Both [Mastercard and Visa](#) report that disbursements via debit cards to consumer and SMB bank accounts are on the rise. Both card networks are pushing money over their debit rails

and instantly into the bank accounts of consumers and SMBs using their debit card aliases. Use cases for Mastercard Send and Visa Direct range from P2P to C2B in the gig economy world – and B2C for disbursements supporting a diversity of use cases, including tax refunds, insurance claims and on-demand payroll for W-2 workers.

[Visa reported](#) in its Q1 2019 earnings call that it had two billion debit cards in circulation, worldwide, at the end of 2018, while [Mastercard](#) had 933 million worldwide. In the U.S., those numbers are reported as more than half a billion for Visa, and about a quarter of a billion for Mastercard.

In other words, a lot of consumers and SMBs have the potential to receive instant access to funds in their bank accounts either via ACH rails or the debit rails today.

THE BATTLE FOR THE BANK ACCOUNT

If faster payments were only about moving money faster, even instantly, into consumer and business bank accounts, then one might wonder why we’re all still messing around with new ways to make money move faster since we seem to have that covered already today.

Yes, RTP and the Fed’s plan for faster payments is about upgrading the creaky, aging bank infrastructure that no one would ever build today but runs the U.S. banking system today – and that’s a great development.

But the real focus on instant payments today and using new rails to move money faster seems to be a battle for control of the bank account, and who gets to make money by moving funds into and out of it.

The banks, I (naively) believe, think the current efforts around RTP and faster payments put them in control of how that all goes down.

Instead, it could put them at great risk. How big, we’ll have to see.

Take the Fed.

The Fed sees an opportunity to introduce competition in the faster payments space as a second operator of faster payments rails, like it is today with [ACH](#).

That seems like music to the ears of FinTechs seeking new rails to connect them directly to and from the bank accounts of consumers and businesses. And a win for banks, yes?

Not exactly.

The Fed, in this scenario, would own and operate a new set of non-bank,

non-card rails. That includes setting the fees for moving money between parties.

If past is prologue, the Fed would do what every other central bank around the world has done – make payments faster and make them much, much cheaper. Not free, but not that far from it.

Maybe that’s good news for the FinTechs, which would find other ways to monetize their services. But it’s anything but good news for the banks whose depository account is the funding source, and whose fee revenue is regulated to a silver of what it once was – while the costs of securely supporting, maintaining and servicing those accounts continues to rise.

The big winners then would be the Fed that operates the network and the FinTechs who use it to get a critical mass of consumer bank accounts registered with their platform.

And the emergence of a new business model that could include collecting fees from the receiver for access to funds faster – a different kind of interchange that they would set and collect.

RTP AND FASTER PAYMENTS

Then there’s [RTP](#) and faster payments more generally, where the same fee risk applies, times three. RTP appears to

have gotten traction and distribution of its network by working directly with their big owner banks as well as thru third party processors with a critical mass of banks on its platform. There, the risk to the banks and the card networks is that the card payments, which generate interchange fee revenue on consumer payments, could move to RTP, where the revenue is much less. Or that wire transfer revenues could be cannibalized as consumer and business end users are incented to shift payments to RTP. Or that in both of those cases, TCH via RTP could impose a fee structure that, like the Fed, sets fees to the banks that are a fraction of what they receive today.

Many say that's not the plan, which is focused on BigB to BigB payments, where card networks don't much play today and therefore wouldn't have as much to lose – and where there is still a lot of paper-based and ACH payments that must move much faster.

But how much faster? And at what cost to the banks?

No one argues the need to rid the payments systems of inefficiencies and frictions associated with getting access to funds when needed – or the importance of knowing with certainty when good funds will arrive.

Everyone agrees that consumers and businesses need and want fast options for moving money between parties. It's one of the factors driving the consolidations and partnerships that have dominated the headlines in 2019 as players look to acquire access to rails they don't have in order to create a single über-network for consumer and business payments, and support the many interesting faster payments use cases that are emerging.

And have more control over the end points that connect the two – which is ultimately their bank accounts.

See today's announcement that [FIS is buying Worldpay](#).

See [First Data and Fiserv](#).

See Mastercard and [Transfast](#) (and [Voca](#) before that).

See [Visa and Earthport](#).

See [ACI and Speedpay](#).

You know there will be others.

All of these market consolidations, along with the emergence of new networks, and intermediaries that sit between the consumer, the business, and the payments methods they use to pay them now have the potential to do more than innovate the speed at which the

money moves between those senders and receivers, but influence they use to make and receive those payments.

The question is whether these developments signal the big shifts in what consumers and businesses use to make and receive payments and who monetizes those flows, not simply the speed at which they are made or received.

Steve Jobs' advice to the Stanford class of 2005 on connecting the dots was a framework for thinking about their personal futures – one that encouraged them to embrace the serendipity life offers and trusting that those dots along the journey will connect into something meaningful down the road.

Whatever.

If I were the banks, and card networks, I would connect the two most recent dots and forget about looking backwards. I'd also worry less about becoming disintermediated and more about becoming marginalized as payment utilities, and essentially free ones.

As I wrote at the start of 2019, this year will be among the most important in payments since it represents the bridge year between the decade of the 10's

and the decade of the 20's. Everyone in payments will be examining – or should – what to take forward and what to leave behind. It appears that we are watching that process unfold in real time. The next nine-plus months will surely set the stage for the decade that will be here before we know it.

March 25, 2019

Will Amazon Pay Plus Worldpay Conquer Food?



Most of the payments chatter last week focused on [FIS' mega acquisition of Worldpay](#). The topic of conversation was the inevitable consolidation of the payments sector, as scale becomes critical to optimizing the payments experience and innovating new payments flows.

Another piece of Worldpay news broke last week that has as much potential to innovate new payments flows and shape the direction of commerce in the decade of the 20s, now only nine months away.

[It was announced on March 20](#) that Worldpay would become the first merchant acquirer to enable Amazon Pay as a payment tender type.

As the largest merchant acquirer in the world, that in itself was news.

In the conversation I had with [Amazon Pay and Worldpay](#) executives about the partnership, both said simplifying merchant onboarding and working through things like chargebacks, fraud, disputes and refunds – all of the complexities that only make payments look easy to the end user – was their first and highest priority.

And they added that, although nothing in payments is ever as easy as “flipping a switch,” they had worked very hard

to make the Amazon Pay onboarding experience as easy as possible.

Then, my thoughts immediately jumped to the opportunities this new tender type could create for online merchants down the road.

[One-click checkout](#) could give way to a “one-click commerce” experience, including with Alexa and her growing voice commerce ecosystem, across a variety of connected endpoints and a growing number of connected devices.

Given that there are 300 million Amazon users worldwide – whose habitual use of [Amazon Pay](#) inside of Amazon has driven its growth to 50 percent of eCommerce volume – presenting Amazon Pay as an option on merchant websites could attract and convert more browsers into buyers.

Giving merchants the chance to integrate more fully with Amazon’s logistics network to meet the consumer’s expectation of getting things shipped to them for free – same-day, next-day or two days later – could reduce what has become a costly pain point.

All things that could get merchants to come around to the “if you can’t beat ‘em, join ‘em” mentality, in what is now a very challenging retail environment.

Before you say, “no way, Jose,” keep in mind that [Discover](#) ignited the fourth (and last) U.S. card network in 1985 by turning a merchant’s cardholder base – 25 million Sears customers – into Discover cardholders by letting them use those cards at other merchants. There was the same talk then about retailers not letting consumers use a payment card owned by their largest rival.

Guess what?

The low-hanging fruit for Amazon Pay and Worldpay is, of course, to bring a familiar online payment method to lots of online retailers across categories like clothing, shoes, accessories, sporting goods, electronics and home furnishings.

Those are also the segments in which Amazon is growing market share inside its marketplace, where Amazon Pay could offer merchants an additional payments tender, as well as a built-in customer base. For the latest and greatest on those share shifts, check out our [Amazon/Walmart Whole Paycheck Index](#).

But that’s not where Amazon Pay, with Worldpay, has the potential to make the biggest impact.

That would be in one of the biggest categories of consumer spend, besides housing and healthcare.

Food.

All food – not just food purchased in the grocery store, but also food ordered from restaurants, and sometimes even eaten there.

A sector in which Amazon Pay could tap into Worldpay’s [integrated restaurant payments](#) and quite possibly create a consistent payments and commerce experience across all consumer touchpoints using the same method of payment.

BECAUSE EVERYONE HAS TO EAT

[Jeff Bezos](#) launched Amazon in 1995 as an online seller of books for one reason: Everyone bought them.

In the nascent days of online retail, getting a critical mass of consumers onto the platform meant selling them something with mass appeal. Other categories followed, including music, electronics, sporting goods, toys – and even shoes, with the acquisition of Zappos. All of that served as a cornerstone to getting the now-famous “Amazon flywheel” moving.

Food fits that category, too, but comes with a much heavier lift as just an online player.

Before August 2017 (when the June 2017 [Whole Foods acquisition](#) closed), Amazon was making a dent in the grocery category, but a small one.

Amazon Pantry and [Dash](#) buttons (physical and virtual) were starting to ever-so-slowly shift the purchase of grocery staples regularly bought online. Amazon Fresh, now known as [Prime Now](#), was launched as a subscription grocery delivery service available in some U.S. cities.

Still, it was a slow go.

Revving up the food flywheel required Amazon to move more aggressively into the environment where consumers still make most of their goods purchases: the grocery store.

August 2019 will mark the two-year anniversary of Amazon’s Whole Food acquisition.

Even though the Amazon Pay/Worldpay partnership announcement said the initial focus was on digital, it wouldn’t surprise me if Amazon Pay wasn’t on Whole Foods’ near-term roadmap – maybe even in time for their two-year anniversary celebration.

[Whole Foods](#) is a Worldpay merchant, and Amazon Prime customers today get all the benefits of Prime member discounts at checkout – with the exception of using Amazon Pay to check out.

Whenever that happens – and it’s just a matter of time – it doesn’t seem like much of a stretch to put two and two together to get five.

Grocery shopping is a friction for most who do it. For Amazon, it’s an opportunity to capture more consumer spend on groceries by making it easier for consumers to order and pay across the many touchpoints of their Whole Foods shopping experience. And in the future, that will include the smaller-format stores expected to open in U.S. cities over the next three years.

The lynchpin of that experience would be the consumer’s ability to use Amazon Pay in a merchant app – [Whole Foods](#) – to track and manage their grocery purchases. And a virtual assistant that can also remind consumers when it’s time to reorder and offer suggestions on products to try.

It could even lead to becoming a template for how Amazon Pay and merchant-powered apps and experiences could play out in other verticals.

LETTING AMAZON PAY THE CHECK

Then there’s food ordered from restaurants.

I admit that I had high expectations of [Amazon Restaurants](#) when it was announced in 2015.

Wait, was that four years ago already? Time flies.

It seemed like a no-brainer to me – an opportunity for Amazon users and restaurant brands to create a mobile order-ahead and delivery experience without having to download a branded restaurant app or use an aggregator – all from the Amazon site.

It also happened to be a retail category where Amazon as a competitor wasn’t much of an issue, but where Amazon as potential commerce-enabler using Amazon Pay might be viewed as a positive.

It was also a time when mobile order-ahead and delivery was just gaining steam, even though Seamless and Grubhub had been at it for more than a decade. In 2015, Uber Eats was a year old, Postmates was four and DoorDash was two.

Over those four years, it has been reported that Amazon has attracted

[more than 7,000 restaurants](#) to its platform.

But that’s peanuts compared to the competition.

Uber Eats and [DoorDash](#) each count 200,000 establishments worldwide; Grubhub has 105,000 across 2,000 U.S. cities. Meanwhile, Amazon Restaurants shut down its service in the U.K. in 2018, claiming strong competitive headwinds.

The Worldpay partnership could reverse that course at a point in time when market dynamics around restaurant ordering and payment are now more clear, and restaurant operators are feeling the pressure to make some tough decisions.

Today, restaurant operators are dealing with their own version of what retail has dubbed the “Amazon experience.” Aggregators like Uber Eats, Grubhub and DoorDash sit between the restaurant brand and their customer, where they believe their customer relationships are in jeopardy.

These operators now find themselves caught between the proverbial rock and a hard place, as they balance the need to acquire new customers and the risk of not being present on the platforms where their competition lies, or not having the ability to provide a convenient ordering and delivery

experience using a customer-focused intermediary.

Today, many restaurant operators hold their noses and hope for the best.

Could the “best” could come in the form of a Worldpay, Amazon pay partnership?

Maybe. And who knows in what format. There are innovators, including some of the existing aggregators and order ahead platforms, that all recognize the issues facing restaurant operators and are crafting solutions to give restaurants better customer-centric alternatives – particularly those that help restaurants preserve their brand affinity and loyalty options with their customers. Working in combination with those players could ignite a new “Eats” platform that brings all of those respective assets to restaurants and their customers.

It’s also not such a crazy idea. Reinventing categories using payments is what Amazon does. Amazon Pay and Worldpay also come with installed bases on either side of the restaurant order and pay platform – users with payment credentials and restaurants and POS systems enabled to accept Amazon Pay, It’s also where some restaurant operators already have their heads.

Our latest [Restaurant Readiness Index](#) surveyed QSR operators and consumers about their satisfaction with and preferences for payment types used at those establishments. Nearly three-quarters of those operators expressed a preference for Amazon Pay, as did half of the 2,000 consumers we surveyed.



Only debit, credit, cash, gift cards and QSR prepaid cards fared higher, in a sector where very few establishments even accept Amazon Pay today.

HUNGRY FOR DISRUPTION

Food is a category that is being disrupted in its own right.

The lines are blurring every which way around how and where food is purchased, and how and where it is consumed.

There are fewer bright lines between consumer spend on food purchased at the grocery store, to eat at home, and consumer spend on food purchased outside of the home to be eaten at a restaurant. It's all now just food.

QSR innovations in apps, tech and digital payments have introduced the consumer [to new ways to pay](#) for food, and new options for where it is ordered and eaten. Prepared foods bought in the grocery store bite into restaurant and traditional grocery food spend. Further, [it's been reported](#) that 63 percent of all food purchased from a restaurant isn't eaten there. Naturally, that includes food purchased at QSRs where most people take their order away, but increasingly includes order-ahead for food to be picked up or delivered to be eaten at home.

Food, and restaurants in particular, is where we've seen some of the most interesting payments innovations happen for the same reasons Jeff Bezos targeted books 24 years ago: Everybody eats, and they usually do so at least three times a day.

The purchase frequency, loyalty and habituation that has created – and the need to eliminate friction by building convenience into the order and payments experience – has given us a real-time look into how consumers are, or are not, using mobile and digital payments to order and pay, and into what it takes to build the unbreakable habits of loyalty and brand affinity.

Could Amazon Pay, together with Worldpay, use food and the universal appeal that it has to reinvent how consumers order and buy food?

And with it, deliver the same consumer experience across those commerce endpoints – commerce without the need to stick “omni” in front of it?

Only time will tell.

April 1, 2019

Why Me-Too Services Can't Save Apple

Three years ago, [I wrote a piece](#) in which I said Apple had become the kind of company that Steve Jobs [once said](#) he never wanted it to be: one that follows the lead of others.

Jobs felt so strongly that he said he'd rather gamble Apple's future instead of trying to one-up everyone else after the fact.

Today, Apple seems to be gambling its future by doing just that: being like someone else, often years after others have led the way.

Last week, the launch of Apple's [subscription news](#) aggregator, its streaming content challenger and the [Apple Card](#) is more of the same old, same old: Apple playing "follow the leader" from way behind, instead of being the leader.

And a follower without a compelling hook for consumers to grab and get onboard.

Analysts and pundits have [mixed views](#) on what all of this means for Apple. The coverage, for the most part, has been on the pluses and minuses of each new service when stacked up against the competition.

For me, Apple's announcement last week surfaces a larger and much more strategic issue for the world's first (for a

while) trillion-dollar company: The apps ecosystem that once kept consumers tethered to Apple's iPhone has moved on, cross-device and cross-platform.

And it's taken consumers with it.

It's a shift and a sign of the eroding power of the ecosystem that Apple seems to have missed – a blind spot that could keep the company always playing the role of follower, always challenged to play catch-up.

A blind spot that could cast its fortunes – not as an ecosystem creator, but as a hardware manufacturer.

COPYCATTING IN CUPERTINO

Last week's announcements didn't mark the first time we saw Apple play "follow the leader."

What prompted my article three years ago were the company's bullish remarks on its Services future a year after the launch of Music and News – then many years after competitors had beaten them to market.

We saw Apple Music debut in 2015, seven years after the launch of Spotify. Apple, the company that transformed how consumers listened to music with the iPod, was outplayed by an innovator with a new business model and a cross-platform, cross-device appeal. Spotify

today has [200 million monthly active users](#) and 96 million subscribers; Apple Music [has 50 million](#). Amazon Music, which comes bundled with Prime and Alexa as its DJ, is expected to have [35 million subscribers](#) by the end of this year.

Apple News, the company's first entry into the news aggregation world, launched that same year. That, too, came seven years after Google News' first public debut – a cross-platform, cross-device service. It's a news feature that many consider the go-to for current news on the web and is triggered by search terms, while Apple News is based on the aggregation of approved publisher feeds.

The announcement last week that Apple's streaming content challenger could have a dozen shows to launch at the end of the year left many shaking their heads. Meanwhile, [Netflix and Amazon Prime Video](#) offered 3,839 movies and 17,461 movies, respectively. Netflix has been around since 1997 and launched its streaming service in 2007. Amazon Prime Video launched in 2006 and now includes live sports.

It's hard to attract users to a streaming content platform without content – and lots of it.

Then there's the Apple Card, now one of literally hundreds of co-branded credit

cards in the market. Co-branded cards, as all payments professionals know, have been around for decades. The first one, the American Airlines card, debuted in 1981.

Cash back as a reward isn't exactly new, either – and Apple's version, which pays 1 percent cash back on everyday purchases, seems particularly ho-hum. Discover was the first to make a splash with its cash back bonus back in 2006.

Daily Cash is a new twist on the theme, but it's also not clear how much of a game-changer it will be. The example shown on the company's [Apple Card page](#) highlights a \$.37 credit based on an \$18.50 purchase at a coffee shop – and that's assuming one uses Apple Pay and gets 2 percent cash back on that purchase. (The 1 percent applies to everyday purchases that don't use Apple Pay.)

As they say, don't spend it all in one place.

Digital card provisioning is slick, but instant card issuing to a digital wallet is something startups have been doing for a while now, too. Despite its cool design, the titanium physical card is still a physical card – an innovation that is now 60 years old.

Even [the titanium form factor](#) is old news.

More to the point, introducing a physical card seems a tacit admission that [Apple Pay](#) and contactless mobile payments aren't moving the needle enough on Apple's payments ambitions. The launch of the lowly physical card was needed to give it some transaction mojo.

Now, nearly half a decade after the launch of the [mobile payments](#) wallet that Apple's CEO told the world would eliminate the need for consumers to use a plastic card, Apple is embracing it with the hope that consumers will give Apple and payments another look.

FROM THE IPHONE TO THE APPS

Apple's embrace of the universally accepted payments form factor is a telltale sign of Apple's now bigger challenge: Consumers don't want to be limited to using their favorite apps inside of a single, device-driven ecosystem any more.

And consumers do love their apps.

In 2017, [they downloaded 178 billion](#) of them, and are expected to download 205 billion this year. That's remarkable, really, when one considers two-thirds of all consumers downloaded either one or zero apps in any given year.

When it comes to the apps consumers use the most, [Apple reported](#) at the end of 2018 the 20 that topped their list.

The familiar names included YouTube, Instagram, Facebook, Messenger, Google Maps, Chrome, Amazon, Netflix, Spotify and Square Cash.

Although these apps happen to top the charts in Apple's App Store, consumers use all of them across a variety of devices – including voice-activated speakers, smart TVs, appliances, security systems, tablets, PCs and even cars – without missing a beat.

Consumers can and do watch [Netflix](#) on their iPads and Samsung Galaxy phones and LG TVs. They can and do listen to Spotify on their Alexa devices, Windows OS ThinkPads, iPhones and Pixel phones. They can shop from Amazon and watch YouTube videos using any device connected to the internet, with or without using an app. They can connect to Google Maps via their cars' in-dash systems and on their iPhones while walking around town. They can send money using Square Cash from any iOS phone to any Android OS phone and vice versa.

Consumers don't (and won't) choose apps based on the operating systems that enable them, but rather the use cases they support – and the now many [connected devices](#) that power them. The consumer's choice and use of connected devices will only become more prolific as carriers roll out 5G technology.

Innovators interested in acquiring as many users as possible will follow their lead, developing apps and use cases that support this now platform- and device-agnostic, use case-driven consumer.

THE TRILLION-DOLLAR COMPANY DILEMMA

One doesn't get to be the world's first (for a while) trillion-dollar company without doing many things right.

Apple has obviously done a lot of things right.

The success of the iPhone put, to use Oprah's line, nearly [a billion phones](#) in people's pockets. The iPhone and the App Store helped accelerate the shift to digital and mobile commerce. It, along with Android and Google Play, provided unicorns-in-waiting with a critical platform and built-in user base to grow their businesses and introduce consumers to mobile and digital use cases.

Apple and Google both blurred the bright lines that once separated the physical and digital worlds, and transformed how people and businesses engage with each other.

Yet, Apple may have rested on its iPhone/App Store laurels for too long.

While Apple was cranking out new versions of the iPhone, iPad and Watch, innovators were expanding the utility of their apps to new devices and end points to scratch the consumer's "have apps will travel" itch.

For Apple, that's a threat.

Consumers today do have more – and much easier – options for moving between hardware devices and the ecosystems that power them. Consumers think access, not operating systems.

Where I think this could be particularly problematic for Apple is in the coming era of voice, which I have long written will be [the most disruptive commerce force](#) in the next decade. It's an area where Apple should have been the leader: They innovated voice with Siri, but have since ceded that position to Amazon, Alexa, Google and Google Assistant, and the voice-activated devices and massive skills ecosystem each has created.

Voice has the potential to shift the focus away from apps that live inside of app stores to skills attached to a voice assistant the consumer can take anywhere she goes.

It used to be that iPhone users were (happily) locked into the Apple ecosystem. They could download their

music, movies and TV show reruns from iTunes and store them all in Apple's iCloud. But now people are getting all those things from Netflix, Amazon, Spotify and many other sources. It is getting easier and easier for people to switch to Android devices and to new ecosystems, including Google's and Amazon's with Alexa.

The power of Apple's ecosystem is diminishing at the same time that it hopes to make money from its Services. Netflix and Spotify have already balked at that, and are moving new subscribers to their own websites for acquisition and signup.

WHAT'S NEXT

When asked last week about Apple Services (and streaming content in particular), Warren Buffett, one of Apple's biggest investors, seemed [lukewarm](#). Apple is a company, he said, that's big enough to afford making a few mistakes.

Given its [\\$245 billion in the bank](#), he has a point.

The larger point, though, isn't about putting a dud of a product into the market and shutting it down, as Apple just did with its wireless charger – or signing on Oprah to help plug its new content biz.

It's more about Apple's mindset, and how it perceives its place in the mobile ecosystem more than a decade since launching the iPhone. And it's about the role it has said [Services](#) will play in defining that future.

That's not so clear.

One might look to China as an indication of how that future could play out everywhere else.

There, some consumers buy iPhones because of the status those devices give them. But for those Chinese consumers, the iPhone was just a piece of hardware connecting them to an ecosystem they already used, wanted to access and didn't want to leave.

That wasn't Apple's iOS ecosystem – it was [Tencent's WeChat](#).

Apple has struggled in China, in part because its ecosystem isn't that important. Aside from the status of a device, there's not a lot keeping people loyal.

Devices, not services, drive sales – a very different story than the one that has been told over the last three years.

Over its history, Apple has taken big gambles, and made them pay off.

Hopefully, despite its loss of Steve Jobs, it will do that again – and change the world

April 15, 2019

Is Uber Next Decade's Trillion-Dollar Platform?



Uber filed its S-1 last Thursday (April 11), two weeks after Lyft went public. By close of business on Friday, Lyft's stock was trading at \$59.90 a share, 20 percent off its \$75 high at the end of its first day of trading.

Lyft's market cap was a bit lighter by the end of the day Friday, too: \$17 billion versus the \$23 billion it enjoyed, albeit briefly, on its first day as a public company.

Pundits attribute the drop to overzealous investors who may have since sobered up, perhaps even more quickly after having gotten a good look at the financial performance of the global ridesharing goliath that defined the space. That look has many of those same pundits now fretting over how to value both adequately, since apple-to-apple comparisons, they say, are hard.

And they are – mostly because there's not an apple-to-apple comparison to be made.

Both [Uber and Lyft](#) are in the ridesharing business, but that's where the similarities begin and end.

Lyft is a self-described peer-to-peer marketplace focused on “revolutionizing transportation” and reducing traffic congestion in cities.

For Uber, transportation is a platform feature that is central to its business, but is not its end game.

Lyft's marketplace of drivers and transportation alternatives gives consumers access to a variety of cost-effective transportation options, so they don't have to buy cars or drive them as much.

Uber's platform helps consumers do that, while also enabling adjacent businesses to solve their own logistics frictions.

Lyft highlights Uber and Juno as its key competitors, as well as transportation providers such as Lime, Bird and Uber's JUMP, along with OEMs like BMW that are getting into the subscription car sharing business.

Uber considers its competitors to be [Amazon and Alphabet](#).

Uber's valuation is pegged at \$100 billion.

Lyft's valuation is less than 20 percent of that.

These two platforms offer a real-time case study of the power platforms can wield – and the economic opportunity they create – when they morph from focusing only on adding more features to their core businesses to using their

core platform assets to identify and ignite new business value for others.

ONCE UPON A PLATFORM

Platforms are complicated beasts with the mission of finding a friction big enough to build a profitable business around.

For Uber Founder Travis Kalanick, spending \$800 to hire a private car to get around town on New Year's Eve was that friction.

As everyone knows, Uber started as a ridesharing platform in San Francisco that matched professional black car drivers who had idle time with people like Kalanick who wanted black car service, on demand.

In 2009, Uber was incorporated as UberCab – a nod to the business it had set out to disrupt. In 2011, the company's services and mobile app debuted in San Francisco. The rest, as they say, is history.

Over the last decade, Uber has evolved from being “everyone's private driver” to offering a form of transportation that best suits their budget and their preferences – and then some.

Today, the Uber app offers choices ranging from black car service, UberX, Black and UberPool to the metered

Taxi service, Uber Bus and car rentals. Other modes of transportation like bikes, scooters and rickshaws are also available, depending on where one happens to be in the world. According to its S-1, Uber has 91 million consumer users on its platform and 3.9 million drivers in 700 cities worldwide to service them.

Uber's core platform asset was – and remains – its network of drivers and consumer users, and the technology that powers the on-demand Uber experience. That tech includes the ability to track a driver in real time as well as the integrated payments experience that has become the industry metaphor for what a frictionless payments experience should be.

Like many of the largest players in the platform economy today – Facebook, Airbnb, Google, Amazon – Uber is leveraging its platform assets, and its critical mass of drivers and consumer users, to find new sources of value for its platform and the stakeholders who are part of it.

In 2012, Uber launched Uber Eats, a way for drivers to get more paid gigs by delivering food. The launch added a new “side” to its platform – restaurants – that had its own logistics challenges. Consumers wanted the benefits of

restaurant food, but eaten in their own homes. Uber Eats gave restaurants an alternative to aggregators and a built-in base of consumers and drivers to tap. Uber reports 220,000 restaurants are now part of its network, and out of its 91 million consumer users, 15 million are also Uber Eats customers. The company also touts delivery in 30 minutes or less, which it claims to be the fastest in the market, as well as the largest restaurant delivery network outside of China.

Uber Freight was launched in 2017, adding two new sides to Uber's platform: carriers and shippers.

According to its S-1, Uber has made its billing and tracking technology available to 36,000 carriers and 400,000 drivers, and is serving companies as diverse as Colgate-Palmolive and Anheuser-Busch. The value proposition is to bring the same level of transparency and certainty to the freight business that Uber brought to the consumer ride-hailing business.

In 2018, Uber added another side to its platform that catered to healthcare providers, which had struggled with their own logistical problems in getting patients to appointments. Patients were either showing up late or not showing up at all because of a lack of reliable transportation options. Uber's integrations with healthcare providers

and their billing platforms gets those patients reliably into doctors' offices, reducing wait times and non-adherence.

This is in addition to expanding consumer transportation options – bikes, scooters and whatever is local to the countries and cities in which Uber operates – as well as partnerships and integrations that provide loyalty and other rewards for using the service.

A SINGLE FOCUS

Lyft's S-1 describes a company with a very different mission and focus.

Founded in 2012, Lyft is about giving consumers an alternative to car ownership.

Put off by a business that just gave rides to people going [to and from banks](#) (any guesses who they were referring to there?), Lyft's founders were inspired to create an easy way for consumers to carpool – and an easy way for car owners to make money by using their own cars to give others a ride.

As the company states in its S-1, cars – and the garages and parking lots required to store them – take up green space that could be better utilized. Cities were built for people and not cars, they note, and the sheer number of vehicles on the road has turned that upside-down.

The Lyft marketplace pairs drivers and passengers who share those values. That includes expansion into transportation adjacencies such as healthcare, where they report integrations with nine out of the 10 largest healthcare systems to provide services similar in scope to Uber Health.

Lyft is about innovating the category of transportation as a service (TaaS) by giving consumers as many options as possible to serve their transportation needs through a tap-and-go experience.

The company reports 30.7 million riders, 1.9 million drivers and operations in 300 cities. They also state in their S-1 that 23 percent of their users say car ownership is less important to them than it once was, and that 46 percent of Lyft users report they use their cars less, too.

PLATFORM DYNAMICS

All this is not to declare that Uber is right and [Lyft](#) is wrong, but simply that they are different businesses. Yet what may have Lyft investors spooked is how those differences could define their respective futures, and the threat those differences could pose to the Lyft business.

Lyft's mission and value proposition is affordable and reliable transportation. It defines its addressable market as the \$1

trillion that consumers spend on owning and maintaining a car. Lyft measures its business performance in terms of active rides, riders and revenue per active rider.

It's why, not surprisingly, Lyft is doubling down on building a thick market of transportation options that reduce consumers' reliance on cars. Boosting rides, riders and revenue per rider is only possible if that is their focus and they are able to create profit-maximizing business models that can be monetized.

Uber describes its business as one that "ignites opportunity by setting the world in motion." That means it is a platform that helps people and businesses solve their logistics challenges. The company has created a metric to measure business performance in those terms. Monthly Average Platform Consumers (MAPC) measures gross bookings from what Uber refers to as its core platform business – ridesharing and Uber Eats – among consumers who use the Uber platform at least once a month, averaged across a quarter.

That means the cars, scooters, bikes, rickshaws and tractor trailers that Uber drivers operate become nodes on that global logistics network that helps people get from point A to point B, delivers dinner from a restaurant

to a home, gets patients to and from medical appointments and digitizes and delivers freight from a manufacturer to a distributor or store.

And any other use cases businesses and people might dream up that can leverage their platform assets.

Uber also defines its business potential in those terms, too, to the tune of some \$12 trillion. That's made up of the \$5.7 trillion global ridesharing market – of which Uber says only 2 percent of all people today have used – as well as the entirety of the \$2.8 trillion market for food eaten in restaurants and the \$3.8 trillion global freight market.

It helps explain why Uber is more worried about competition from mega platforms like [Amazon](#) and Alphabet than ridesharing platforms like Lyft and Juno. And why Uber is a serious competitor to anyone who competes in the businesses its platform now touches, like Grubhub, DoorDash and.

Any why Lyft investors could be nervous.

SLEEPLESS IN PLATFORM LAND

All platform operators spend their waking hours – and many a sleepless night – worrying about how to keep their platform equilibrium in balance. They know the climb to build critical mass on each side of the platform is a

years-long slog – as both Lyft and Uber clearly illustrate – but the slide down can come much faster.

The sources of that platform disruption vary. It can come in the form of regulators who don't like or understand platform business practices or new entrants with better value and tech. Or it can come from platforms with scale and a different business model that chip away at the money side of an existing business.

The rise of mobile devices, apps and new tech have accelerated, intensified and created new sources for how that can – and does – happen.

We've seen shopping malls disrupted by Amazon, which offers consumers better options and raises overall retail expectations, for both physical stores and online.

We've seen global remittance platforms disrupted in key send/receive corridors by mobile money platforms that serve a more targeted community.

We've seen content businesses disrupted by streaming services like Netflix and Spotify.

We've seen online advertising disrupted by Google, Facebook and now Amazon.

We're watching regulators across the globe call for breaking up big tech

companies, which threaten to disrupt the economic value they create for platform stakeholders, especially consumers.

We've seen the taxi business decimated by [platforms](#) like Lyft and Uber.

THE NEXT PLATFORM FRONTIER

Both Uber and Lyft face their own sets of challenges and risks, as they explain in detail in their S-1s. Both are at the risk of regulators who could force a change to their business model, or a driver deficit in key markets like the U.S., where unemployment rates are at historic lows and drivers don't want or need the side gigs as much as they once did.

Both acknowledge the intensity of the competitive playing fields in which they operate, and the risks to short- and long-term profitability given the costs of investing in, expanding and operating their platforms.

The question then becomes who is better positioned to withstand those risks in the short- and medium-term: the platform with a deep vertical focus, or the one whose assets run both broad and deep.

The answer: It's too soon to know.

While Lyft is worrying about Uber taking its share, Uber is worrying about

Amazon and Google scooping up share in verticals like restaurant delivery and hyperlocal delivery, forcing massive investments in tech like autonomous cars to fend off that threat.

For both Uber and Lyft, maintaining a critical mass of drivers is, well, critical – at least until self-driving cars reach their own critical mass. Consumers will only use a platform – any platform – if the supply side is reliable, consistent, secure and offers value for money. This is where Uber comes with an advantage, since its many-sided platform strategy gives drivers more ways to make money, thus attracting and keeping a thick market of drivers in local markets. More drivers give Uber more opportunities to expand its services.

[Uber Eats](#) and Uber Health are just two examples of platforms that can cost-effectively solve logistics frictions in their target segments. And there are plenty more segments that could use the help – including retail, where having a hyperlocal and dense network of drivers to enable delivery could help local sellers compete more effectively and cost-efficiently.

Of course, more things to do on the platform keeps consumers sticky, and attracts new ones who can access those services with one app linked with registered payment credentials. Uber reports in its S-1 that 50 percent of its

Uber Eats customers were new to the Uber platform.

SINGLE VERSUS MANY-SIDED

There are plenty of examples of platforms that add tremendous value for themselves and their stakeholders by building deep vertical expertise that is difficult to displace. Freelance marketplaces that cater to specific skill sets are thriving. Online booking sites that give consumers a single place to reserve their trips have made travel agents as anachronistic as video rental stores. Streaming services aggregate deep pools of content that consumers want to watch or hear.

It's what Lyft aims to be for transportation.

But there are many more examples where massive platforms with critical mass enter adjacent businesses and reshape the platform dynamics, to the detriment of those incumbent businesses. It's what Apple is trying to do with Apple Music and News, and what Amazon and Alexa are trying to do with voice and a wide range of connected commerce endpoints.

To me, Uber and Lyft feels a bit like the Amazon and [eBay](#) comparisons of a decade ago.

Back then, many put the two in the same bucket: competitors for the consumer's retail spend online. Thinking the same thing, eBay doubled down on building out its marketplace, mostly for used goods and later for new products. Amazon thought differently and doubled down on building out its platform, adding more sellers to its retail marketplace but also recognizing that buying online was more than, well, buying something online.

Today, Amazon has a \$900 billion market cap, while eBay's is \$33 billion with a platform that's losing ground in a field of diverse platform competitors. Some may call the comparison unfair, the fight one-sided.

Others, those who understand platform economics, beg to differ.

They say it's what can happen when platforms go deep and wide to leverage platform assets, add more stakeholders and unlock new economic opportunities — and withstand the competition given the diversity of use cases and revenue streams they can support.

Could Uber be 2020's next trillion-dollar platform? It's, of course, too soon to know — and even if it is, it doesn't mean that Lyft won't be a viable and successful business. Whatever the path, we all get to go along for the ride.

April 29, 2019

Why Amazon **Bet** (Almost) **A Billion** On Certainty



Amazon announced last week that it would spend \$800 million to make [one-day shipping](#) the default for Prime members. Much of the coverage was about the hit to Q2 profits from the additional investments in logistics, warehousing and inventory management required to cut the current default shipping option in half.

Yet, there's an insight here that goes well beyond the number of dollars Amazon will invest, and how well the company may manage investor and analyst expectations in light of revised Q2 guidance.

The question is how much should businesses invest to create certainty for their stakeholders: In Amazon's case, for its best, most loyal customers (and those they wish to attract).

And how much are consumers willing to pay to get that certainty? For Prime members, \$119 a year, it turns out.

And the businesses that create that certainty will gain the competitive advantage.

In Amazon's case, that takes the form of holding 50 percent of all eCommerce spend and more than 6 percent – and growing – of all [retail consumer spend](#). And a Prime customer who spends

\$1,400 each year, more than twice that of non-Prime shoppers.

CERTAINTY AS A COMPETITIVE ADVANTAGE

Humans hate uncertainty – so much so that scientists who study the human brain observe that people will do whatever it takes to avoid it.

For instance.

In one such study, people were given an option to either get an electric shock right away or take a chance that they might get shocked (or not) at some future point.

You guessed it. Most opted to get the shock right away. (Would you?)

It's also why [more than 90 percent of criminal cases](#) never go to trial, instead ending with some sort of plea arrangement, even if the defendant claims his or her innocence. Certainty, with some amount of pain right now, is preferred to the uncertainty of being judged by a jury of one's peers, even if the outcome could be better later.

Okay, you might say, they are probably criminals – but almost all civil cases also get settled before a judge or jury decides. Just like [Apple v. Qualcomm](#) did, before the lawyers had even finished their opening remarks.

That fear of uncertainty is why so many people choose the devil they know, but why others are driven to try the one they don't know, in hopes of flipping that certainty switch.

Take [Uber](#).

Sure, payments is a huge part of the Uber experience, but Uber ignited because it eliminated the uncertainty of getting a taxi – and became a reliable way to get to and from a destination on time. Hailing a taxi or trying to schedule one was a crapshoot – and still is. Integrating payments into the experience made Uber both certain and friction-free.

The need for creating certainty is why QSRs are hopping on the [mobile order-ahead](#) bandwagon. Standing in line waiting to order a sandwich or salad creates uncertainty. Ordering ahead and managing pickup (or delivery) gives the consumer a way to create both predictability and assurance – on their terms. And there's the added bonus of higher order values – sometimes even 15 to 20 percent higher – for those establishments.

The uncertainty over how and where to use digital wallets in the physical store is the reason many of the “Pays” fell flat – and continue to struggle now, four years later. And it's why plastic cards still rule at the physical point of sale,

even though there are more contactless POS terminals than ever before. Plastic cards and the card rails are reliable and certain, at the physical store as well as online. Consumers stick to what they know will deliver a predictable outcome.

Speaking of online, uncertainty over shopping online is what gave birth to [PayPal](#) in 1998.

Then, buying and selling online was a sea of uncertainty. Sellers never knew if they'd actually get those checks consumers said they put in the mail when they placed their orders on eBay. Buyers never knew whether they would actually get what they bought. PayPal created certainty by getting sellers paid while making sure buyers got their stuff, while keeping buyers' bank accounts and payment credentials secure and private. Today, consumers know that paying online using PayPal means a less friction-filled checkout experience, especially on mobile devices.

CERTAINTY AS RETAIL'S DISRUPTOR

Amazon introduced Prime and free two-day shipping in 2005, when buying online was still a fraction of a fraction of a fraction of all retail sales.

Back then – two years before the [iPhone](#) would change the dynamics of

shopping, when today's 27-year-olds were just turning 13 and online was still two words – shopping online was pretty miserable, even on a good day.

Websites were slow and hard to navigate. Without mobile devices, online shopping was mostly done while on PCs at home or at the office, further limiting the time and opportunities to shop. Since most purchases weren't made on the web, retailers didn't feel pressured to feature a lot of products on their sites. Loading online shopping carts and checking out was time-consuming, tedious and hit-or-miss.

If a consumer was committed enough to power through all of those frictions, there was the uncertainty at the end of the chain about when the ordered items would arrive. Shipping wasn't free and delivery was far from assured. It could be seven days, 10 days or two weeks, depending. Retailers offered a window, but never a guarantee – so consumers never knew. Sooner or later, things just showed up ... but not always.

The only way to guarantee that a consumer would receive an item when they needed it was to go to the retailer's store, buy it and take it home.

In 2005, Amazon's promise of two-day shipping in exchange for spending \$79 bucked that trend by introducing the certainty of delivery and giving

consumers more options to shop at their convenience. That got the Amazon eCommerce flywheel rolling, at the same time [Prime membership](#) got off the ground.

Slowly, to start.

It would take until 2014 – nine years after the Prime membership debut – for Amazon to confirm that it had [more than 20 million](#) Prime members. Those members could buy [more than 30 million products](#) – roughly 8 percent of all the site's products – from its marketplace, and have them delivered free within two days.

That same year, the average number of days to deliver an order placed online from any other retailer was 8.3 days – and delivery wasn't free.

Two years later, by 2016, Amazon's Prime membership had more than tripled to [63 million members](#), who could order nearly [42 million](#) products with guaranteed free, two-day shipping. That included [half a million SKUs](#) from marketplace sellers who wanted exposure to big-spending Prime members.

That same year, delivery from other e-tailers averaged 5.1 days. And it still wasn't free.

By the end of 2018, Amazon confirmed more than 100 million Prime members,

and more than [564 million products](#) in its U.S. marketplace (more than three billion worldwide). Data related to how many of those items were eligible for Prime membership aren't on any public site that I would find, but in the past it has hovered between 8 and 11 percent.

If past is prologue, last year Prime members could order more than 62 million products, with guaranteed two-day free shipping, for \$119 a year. Today, that membership includes access to other services including Prime Video and Music.

Depending on whose stats you like and believe, today roughly 15 to 20 percent of shopping is done online. The Census says 10 percent, but you know [how we feel about their estimates](#). Delivery from those non-Amazon merchants remains a mixed bag.

Some sites offer free shipping based on a minimum purchase requirement, with delivery in a three- to five-day window. Most of the time, that's closer to five rather than three days. And it's still a window – not a guarantee.

One- or two-day delivery is available, of course, but it comes at a pricey premium. To fill the void, retailers have embraced buy online and pick up in store. That works well when the items ordered are available to pick up in that store on that day.

But that's not always the case – and creates its own uncertainty loop for consumers.

During the 2018 holiday season, I was amused to find lots of stories about the merchants offering free, two-day shipping. One article proudly listed 25 of them. Many of those merchants sold things that could also be purchased on Amazon.

Amazon reported that its holiday 2018 broke all records, [with a billion items shipped](#) to Prime members and “tens of millions” of new Prime signups. [Traditional retail](#), for the most part, reported a mixed bag of results, with some of the biggest players seeing same-store sales flat or up slightly. The Macy's CEO told analysts that the holiday season did not meet their expectations even though their profits were up.

THE COST OF DELIVERING – OR NOT DELIVERING – CERTAINTY

Businesses today are spending tens of billions of dollars to create certainty.

In 2018, [more than nine billion dollars](#) of venture capital money was invested in startups using AI to improve certainty across a range of use cases. Everything from improving the odds that the right job candidates will be matched with the

right employers to helping ensure that consumers' problems will be handled to their satisfaction by the right call center workflows – even down to the inflection of their voice.

It's been reported that Google and Amazon spend two or three times that much every year on R&D, which includes the application of AI and machine learning to more precisely match brands with consumers and improve the reliability of virtual assistants when it comes to answering questions or completing transactions.

And lest you think consumers don't use virtual assistants to buy things, Alexa skills [were reported to have sold](#) 10 million items over the 2018 holiday period. And our last [How We Will Pay study](#) showed that of the more than 28 percent of consumers who own voice-activated speakers, more than a quarter used them to make a purchase during the seven-day period in which they reported their buying behaviors.

The cost of fraud and the impact of false positives on customer relationships has driven banks and FinTechs to open their checkbooks, too. They are collectively investing billions of dollars in AI and machine learning to create certainty about who's showing up in their digital channels to open new accounts or check out online, while

improving conversions and keeping the fraudsters at bay. They're also using AI and machine learning to fine-tune their credit and risk models, so that consumers and businesses seeking access to credit have a more certain outcome, even if that outcome does not involve extending credit.

[Goldman Sachs estimates](#) that Brexit has cost the U.K. roughly £600 million a week, amounting to 2.5 percent of its GDP. Part of that loss stems from people not knowing what's going to happen – or when it will happen. Banks, in the face of that uncertainty, have already moved more than \$1 trillion of capital out of the country.

In the absence of certainty, consumers and businesses have shown their willingness to pay to get it.

In the B2B payments world, the uncertainty over when good funds will post to a supplier's account has kept innovation at an impasse. It's why, when asked, all suppliers say they'd love to be paid faster, but they'd love even more to know when good funds will be available for them to spend. That lack of certainty – and the supplier trade credit deficit it creates – is why many suppliers are willing to pay something to get that assurance, as well as the positive cash flow impact that comes with it.

We also see consumers willing to pay for certainty when it's offered as an option. For a small fee, they can get instant access to money sent via P2P rails. When needed, they will also spend more to get money to someone instantly, too. The assurance of boarding an airplane first to snag scarce overhead luggage space is why consumers stick with a favorite airline or consolidate spend on co-branded airline cards.

When Amazon Prime was first introduced, people were floored by the notion that consumers would actually pay outright to belong to a loyalty program. Why, they said, would anyone pay Amazon money just so they could shop with them?

It turns out that 100 million people do just that – and not because they want to be part of Amazon's loyalty club.

They're paying (and I bet you are, too) \$119 a year to get certainty: to know that the products they order will be delivered within two days, without a doubt. And soon, that will shrink to one day.

CERTAINTY'S NEXT CHAPTER

Steve Jobs was famously quoted as saying that it makes no sense to ask consumers what they want, since they don't really know. And that is very true.

What consumers – and businesses – do know really well is where they lack certainty, where it's hard to make a decision because the options are not clear, where things look ambiguous and cloudy. And they know for sure that they really don't like not knowing for sure.

Smart business and VCs know that consumers – and business buyers – make choices to get clarity and certainty.

And when they it solves their problem, they'll even pay to get it.

Amazon isn't spending \$800 million to cut the default shipping option in half. It's investing in creating the next 100 million Prime members – and the certainty that comes along with it, for the company and for those Prime members.

Amazon knows the value of certainty for consumers, and how it has already helped them build a massive business. So, they are doubling down.

Innovators, investors and every business should take heed: Certainty pays, for sure.

May 6, 2019



Will Facebook's Crypto Payments Rails Get A Big Like?

The news last Friday that Facebook has plans to launch its own global crypto-based payments rails is déjà vu all over again.

Déjà vu because it was 10 years ago, in May of 2009, that Facebook launched the alpha version of [Facebook Credits](#). Credits was a virtual currency and payments platform used to power in-app purchases on Facebook. It shut down in 2012, 15 months after its official launch.

And déjà vu because Project Libra, Facebook's 2019 refresh of Credits – only this time with a fancier moniker – will very likely end the same way.

The notion that Facebook is going to launch and ignite a global payments network, at scale, based on its own branded cryptocurrency and achieve global merchant and consumer acceptance is as likely as the predictions a decade ago that bitcoin and blockchain would, by now, [become the internet of money](#).

A CRYPTOCURRENCY PLAY IN THREE ACTS

I have to admit to being a bit incredulous when reading the [Wall Street Journal's account](#) of Facebook's crypto-centric payments plans last Friday morning (May 3).

Between the claims that it will upend eCommerce worldwide, to the reporting that Facebook execs are literally passing the hat to raise money to fund it – from some of the very same players they plan to disrupt – my first thought was to offer my own point of view in the form of a fictional three-act play.

Something like this.

ACT ONE: Facebook execs propose crypto/ blockchain global payments rails to Facebook CEO and board.

The team presents Zuckerberg and the board with the plan to transform global payments via a crypto-powered, blockchain-based payments network. They acknowledge that the timing for this launch isn't ideal, since it's happening at the same time the company is being excoriated for [data and privacy](#) violations. And, in light of that, anything that even remotely smacks of crypto could seem a little tone-deaf, especially to the regulators, since no one but people in the Valley really get its value.

But keep in mind, they say: This plan also comes at the same time Facebook is being challenged by investors to figure out new ways to [monetize their user base](#), which is what this is all about.

Zuck and the board have admired WeChat and their success – this plan will replicate that private, closed ecosystem, but even better. Yes, they know that WeChat with [WeChat Pay](#) doesn't use crypto or its own rails, but they haven't had much luck igniting outside of China. So there. And this plan is a way for Facebook to leapfrog them by using cool, modern tech and [stablecoins](#) tied to fiat currency – today's hot payments play – and keeps them out of the bitcoin fray.

What people need to understand is that since Facebook connects a third of the world, they already know people trust them to keep their social connections strong. And despite the data and privacy scandals, their [user base still shows growth](#). Integrating Messenger back into Facebook is the play for creating and launching a new global payments system they can own, run and control.

Listening intently, the executive team, now very much consumed by [negotiations with the FTC](#) and every other regulator in the world about how to be better stewards of consumer data, tells the team they have their blessing.

But not their money.

Go find your billion dollars elsewhere, they say. After all, they've only got [\\$45 billion in the bank](#), and at some point will probably have to pony up \$5 billion

to pay the FTC and who knows how much to others at some point. So, they say, they're not going to fritter away a billion dollars right now on this scheme.

Besides, it will give them air cover if the regulated, compliant and trusted rails invest in Project Libra. So, go forth and fundraise, they say – then, once Facebook gets that billion locked up, the board can talk about if they will throw anything onto the pile.

ACT TWO: **Facebook execs hit the road with hat in hand and a \$1 billion bogey.**

First stop on Facebook's capital raising tour: The big guns with successful payments rails, loads of money and a demonstrable appetite to invest in innovation.

In meetings with the CEOs of the existing card rails and the merchant solutions companies that serve them, a beautifully crafted, well-designed pitch is made to consider the investment – a pitch laced heavily with the tried-and-true FUD factor (fear, uncertainty and doubt) as the key theme.

Investing in Facebook's rails is presented a sensible investment in their own creative destruction playbook.

Yes, the Facebook team tells these CEOs, they are motivated to create their

own payments scheme, because they want to eventually cut them out of the payments flow. But that's only because Facebook want to be nicer to the merchants and reduce how much they pay to accept payments. And, of course, Facebook knows that schemes based solely on merchant cost savings have failed in the past – they read PYMNTS and know the MCX and [ISIS/Softcard](#) stories by heart.

But their timing – and this scheme – is different.

And yes, they know how the CEOs feel about crypto and anything that even remotely smells of it. But as they are dabbling in distributed ledger tech and crypto, Facebook would like to help them out. Besides, this isn't crypto in the true sense of the word. It is stablecoin, tied to fiat currencies – the very same plan JPMorgan Chase said they will use to move money internally, via the [JPM Coin](#).

Does this sound a little self-serving? It does – after all, Facebook needs to figure out another way to monetize their asset, even if it means using investors' money to help them cut the investors out of the payments flow at some point. But, they say, that's going to happen anyway. After all, the card guys are nowhere in developing markets, and

Facebook has a third of the world's population in its network.

ACT THREE: **Facebook execs meet with the Fed and central banks.**

The scene shifts to the hallowed halls of the central bankers. Getting the blessing of the central banks is critical, and visiting those regulators is a critical stop on the regulatory and compliance march for any new payments network, never mind a global one based on a new, single cryptocurrency by a social network that has been in the regulatory crosshairs over the last couple of years.

Facebook execs tell central bankers to close their eyes and suspend disbelief for a few minutes.

Yes, this is the same company that enabled fake news, election tampering and numerous data and privacy leaks. But, they say, they have learned their lesson and have taken steps to correct those mistakes. And that should not interfere with being considered as a plausible, responsible, global monetary system that will move funds between billions of people every day, using a brand-new currency that Facebook will issue and control.

CURTAIN CALL:

The media goes nuts.

The play ends with a montage of media outlets talking about the upending of the entire global payments ecosystem in the face of Facebook's innovative new global payments scheme, and how this spells the end of the line for all who have invested in laying those tracks.

Not just the traditional players, but PayPal, Amazon, Apple, Google, WeChat, Grab, Paytm – all of them – as well as the global money transfer players like MoneyGram and Western Union.

The caution to everyone: Better make hay while the sun shines, since those Facebook/Project Libra storm clouds will be rolling in soon.

Finally, they report, with this new use case, the critics of blockchain and crypto as global payments alternatives will finally be proven wrong. As for all those times Facebook tried payments and failed in the past? That was then and this is now.

And now, is pure wow.

But then I decided to bag that idea and be constructive instead.

THE FACEBOOK CREDITS STORY

A decade ago this month, in May of 2009, Facebook launched the alpha

version of Facebook Credits. Credits wasn't called cryptocurrency, as at that time, the term hadn't yet become a Silicon Valley buzzword and bitcoin hadn't gone "mainstream."

But it was the same concept: ditching fiat currency for Facebook-branded virtual currency to make in-app purchases on the social media platform. One dollar purchased 10 Facebook Credits.

The most popular use case for Credits? Social gaming.

For those of you who need a blast from that past, game developer [Zynga](#) launched on Facebook in 2009 with a game called FarmVille, which amassed 10 million daily active users in its first six weeks. Farmville was followed by CityVille, FrontierVille and a host of other social games hosted on the Facebook platform, as users spent plenty of money tending to their farms and homesteads. In 2010, spending on virtual goods inside those games and others like it – on and off the Facebook platform – was estimated at \$15 billion, \$1.6 billion of which came from the U.S.

After a beta launch in 2010, developers were told by Facebook in June of 2011 that the only way they could be paid for those in-app purchases was to accept Credits. That meant Facebook users had to buy Credits in order to make

purchases in those apps. [Zynga adopted Credits](#) as its exclusive currency. [Target even got on board](#), selling Facebook Credit gift cards in its stores.

Facebook Credit's ignition strategy was more or less a brute force, take-it-or-leave-it approach.

Take a bunch of hooked social gamers and a captive audience of developers who wanted to make money, and tell them the only way they could do business was to use Facebook Credits, and that was how Credits got started. This "our way or the highway" strategy, they theorized, would create a critical mass of users flush with Facebook Credits who would then also want to use them with other merchants. More Credit-flush users would give more merchants on the Facebook platform a reason to accept Credits – and then it would be time to sit back and watch the network effects fly.

The media was breathless, too, over the impact Credits was expected to make on the more traditional payments ecosystem.

Credits, [they reported](#), would become the de-facto micropayments platform for all purchases made on Facebook. Facebook, with Credits, [would ignite the app economy](#). In time, it was said, Credits would become the way people paid for purchases at any retailer site

that users logged onto using Facebook Connect.

Facebook fueled those media fires. [It was reported](#) in 2010 that the company expected roughly \$835 million in purchases of virtual goods across the million or so apps on its platform would be done using Credits. Facebook Credits were positioned as being capable of not only marginalizing the traditional payments rails, but also disintermediating those that had already captured their share in online commerce: PayPal, Amazon and Google.

I recall having conversations at the time with several top payments company execs who were genuinely worried that the media hype was a foreshadowing of reality. With Facebook as the largest aggregator of human beings on the planet, what would happen if it caught on? And isn't it only a matter of time before it does? If it succeeded, wouldn't Credits put a big ding in their businesses?

Fifteen months after its official launch, in September of 2012, Facebook Credits was shuttered. Facebook told users that payments for in-app purchases would revert to their standard currencies and payments methods.

Facebook Credits turned out to be a big fizzle.

Longtime PYMNTS readers understood why: no critical mass, a flawed ignition strategy and, most importantly, no real problem solved.

Facebook had a lot of users then, but only a small sliver of them played games on the platform. In 2010, that number was roughly 20 percent of all users, with only a very small fraction ponying up money to buy stuff inside of those games. For diehard gamers, Credits was the only payments option in those apps, so they played along, so to speak.

Facebook was counting on those users to want to spend Credits on any of the one million apps on its platform – but they didn't. The 80 percent of Facebook users who didn't play games had no reason to set up Credits accounts to buy things, since they could use the payments methods they had always used and trusted.

Without a critical mass of consumer interest, merchants didn't have much, either.

Credits failed for all the same reasons most every other payments scheme-in-waiting fails: because it had an acceptance, liquidity and consumer incentive problem. And, most importantly, it simply did not solve a problem.

Few people had an incentive to buy Credits. Few merchants outside of social games accepted Credits. Fewer gamers were interested in buying Credits beyond what they needed to play those games. There was zero incentive for non-gamers to even want to try. And consumers had other payments options they liked, trusted and used.

Cue the sound of the familiar payments platform [ignition sputter](#).

BUT IT LOOKS GREAT ON PAPER – AND SOUNDS GREAT, TOO

A lot of things look great on paper and sound even better – until the rubber actually meets the road.

And especially in payments.

Take digital wallets. Consumers' love affair with the mobile device would automatically translate into their immediate embrace of using it as a replacement for plastic cards at physical points of sale.

Right?

Yet four years later, [here we are](#). Acceptance and usage of digital wallets in physical retail outside of transit in cities like London remains anemic, despite claims to the contrary.

If that wasn't true, there would be no need for players like [Apple](#) and PayPal

to issue old-school, low-tech, network-branded plastic debit and credit cards that consumers trust and like to use – which merchants can immediately accept without any change to their POS systems.

In developing markets, mobile-first payments schemes like [Grab](#) and WeChat Pay and Paytm have ignited because they leverage consumers' relationships with their existing (trusted) banks, their own domestic currencies and mobile apps that provide useful financial services and payments capabilities.

Even Facebook's [WhatsApp](#) has plans to enable payments in India using existing bank rails.

Not a crypto or blockchain rail in sight.

WHY THE STARS WON'T ALIGN FOR PROJECT LIBRA

[I wrote in January](#) that 2019 would be a critical year for payments and commerce, since it is the bridge between the decade of the 10s and the 20s, when we will see innovation accelerate and digital transformation take root. I suggested that this was the year when tough decisions would have to be made about what needed to be left behind and what needed a doubling down.

I cautioned that one of the things that should be left behind is the notion that big-bang innovation – where everything must change all at once – is the ticket to creating the next big wave of innovation in payments and commerce.

And why?

Because there is overwhelming evidence that the kind of innovation that solves real problems doesn't require innovators to force change across every single thing people and businesses do to get a platform off the ground.

[Uber](#) didn't need new cars, or an Uber currency to get started and evolve into the powerful global logistics and mobility platform that it is today.

Square ignited because it leveraged the cards people already had in their pockets to pay for things that micro-merchants, with their Square dongles, could instantly accept.

Fortnite didn't need a Fortnite-branded virtual currency to pull in a [half a billion dollars](#) on the iOS platform less than a year after it launched.

PayPal didn't and doesn't need PayPal currency to enable its users to send money and shop anywhere they want, including across borders.

Ditto MoneyGram and Western Union, both of which move money instantly to receivers in more than 200 countries.

Amazon isn't asking people to use Alexa currency to get her shopping assistance.

[Disbursements](#) didn't need new rails and a new currency to add value to senders and receivers. Instead, it leverages the debit cards people already have in their wallets to get instant access to money.

You get the point.

I will leave you with a couple of thoughts.

Merchants follow the lead of consumers.

Merchants will accept the method of payment consumers want to use. It's always been that way and will always be that way. Consumers choose the method of payment they like and trust – with trust and choice being the operative words. And they trust their banks, and their card issuers, and intermediaries like PayPal and Amazon and Grab and WeChat and Alipay, to enable those transactions. They don't care how much it costs merchants to accept those payment methods – and they never will. Merchants know this, which is why they accept cards.

That's why it is still amazing to me that, in the face of all the incontrovertible evidence to the contrary, there are still so many innovators pitching new, consumer-focused payments schemes based purely on how much they are able to lower the costs of payments acceptance.

Time is a valuable currency in payments.

Today, there are well-established global, domestic and regional schemes that enable the movement of money between people and businesses.

Those networks are in place, they work and they are extremely hard to displace. Great ideas that are too late in the cycle simply won't ignite, because change creates friction – particularly when that change doesn't solve any problem for a consumer or business. It's why I think that what I call remote payments – the use of apps and mobile devices to pay for and stage payments – will ultimately dominate contactless card payments at the physical point of sale in many of the same establishments where contactless can speed checkout, even though consumers like using their plastic cards. Consumers also like buying online and picking up in a store, when they can, as evidenced by the strong adoption

of order-ahead and the use-cases it enables.

Finally, innovation has to solve a real problem for the end user.

Consumers and merchants have plenty of ways to transact today – and they do. Of course, things could always be better. Innovators are leveraging existing rails, not to mention the methods and assets consumers use and trust today, to solve their real payments problems.

Facebook has a lot of its problems of its own to address. Spending its time and energy trying to develop payments solutions that don't solve the problems that most people have is, well, a puzzle. Then again, maybe that's why Facebook has kept the crypto payments team so small. And why they've told the team to hit the road to raise money – from anyone else but them.

With a plan that probably looks pretty good on paper.

May 13, 2019

Why The Loan Shark Prevention Act Will Harm Consumers



Let's hop into the time travel machine this Monday morning and go back to the year 1973

Here's why.

The proposed [credit card interest rate cap legislation](#), courtesy of Democratic presidential hopeful Senator Bernie Sanders and Rep. Alexandria Ocasio-Cortez is in serious need of an almost half-century-old refresher course in the unintended consequences of price caps on the American consumer.

A 46-YEAR-OLD HISTORY LESSON

In 1973, the world's energy market was a hot mess. The price of crude oil went from \$3 a barrel to \$12 almost overnight, and the Organization of the Petroleum Exporting Countries (OPEC) imposed an embargo on shipments to the U.S. (and other countries) over political differences.

That year, President Nixon imposed price controls on both crude oil and gasoline to protect consumers from paying higher prices at the pump. Any station found selling gasoline at a price higher than the cap could be found guilty of fraud.

Demand massively outstripped supply at the capped prices by about 1.4 billion gallons of gasoline each day, [economists found](#).

So, the government rationed gas to consumers by imposing an odd/even license plate numbering system that determined when consumers could go to gas stations to buy it. A bill was also signed into law to roll back speed limits to 55 mph in order to conserve fuel.

Gas station operators followed the government's rules.

Since capping prices also limited their ability to make more sales to cover their operating costs, they capped the number of hours a day they were open. Gas was sold on a first-come, first-served basis, and the stations closed up shop when their tanks ran dry. Flags were flown outside the stations to signal whether they had gas (green), were running low (yellow) or were all out (red).

It was not uncommon for people to wait in line for an hour to fill their tanks, or to drive around to find a station that had fuel available. Station operators also began charging for services that were once offered for free, such as washing the windshield and checking the tires and oil. The cost of an oil change and other services provided by [gas station](#) operators also increased to make up for lost sales and profits.

Those who were willing to pay more for those services got to cut to the front of the line. Gas station operators gave

preference to those who booked oil changes and bought car washes.

In the end, consumers didn't really save money, even though prices paid at the pump were estimated to have saved the U.S. consumer, collectively, [about \\$5 billion to \\$12 billion](#) a year. But time spent sitting in line waiting to get gas cost consumers money, too – they lost wages and, more importantly, valuable hours they could have spent enjoying themselves.

Those same economists estimated that it raised the cost of a gallon of gasoline for U.S. consumers by as much as 40 percent.

So who got hurt the most?

Not the oil companies, and not the gas station operators.

It was the average, hard-working consumers who were “supposed to” have benefited from not having to pay “exorbitant” prices.

But, of course, they paid – just in a myriad of other ways, including even losing their jobs.

LOTS OF PAIN AND NO REAL GAIN

Every time governments try to implement price controls to prevent market-based prices from balancing supply and demand, they eventually experience the law of unintended consequences.

One of the reasons the [Chinese economy](#) has had explosive growth over the last several decades is because the government dismantled most price controls, and let the market do the talking. And that's true for many countries around the world that ended price controls in favor of a market-based system.

So, what makes credit card interest rates any different?

Well, nothing, in fact. It's just the price of extending and accessing credit.

But unlike gasoline, people pay different prices because they have different likelihoods of defaulting on the debt.

THE DEFINITION OF INSANITY

We've even seen the “taming the big banks and protecting the little guy by capping credit card interest rates” movie before.

The Hollywood film, scripted by [interest rate caps](#) in the past, always has a happy ending.

Standing-room-only crowds applaud.

But not so much in the real world.

The basic economics are pretty simple.

Many people need credit to get by — to smooth out income, to handle an emergency expense, to finance an essential household purchase. Some of those consumers are in bad financial straits — a real problem that requires a real solution.

But until that happens, people actually need [credit](#) to manage their households.

Some people aren't such great credit risks, because stuff happens that is outside of their control and they just aren't very reliable in paying back the money. The card issuers give them credit because they end up getting paid, but they charge them higher rates because of the risk they take in doing that.

Even if you grant the argument that sometimes card issuers trick people into paying high rates, most of the time they don't. We, of course, know that when the economy takes a hit, as it always does, credit card defaults skyrocket and banks take a bath.

We also know that no matter what the interest rate might be, people don't always pay the money back — and banks need to adjust their pricing for that.

On average, [economists say](#), across the board, those interest rates average roughly 15 percent. Here's why.

Statistics from the card networks state that approximately 50 percent of card volumes are paid in full each month. The balances that revolve do so, on average, for a period of five months. At an average interest rate of about 18 percent across all cards, the average APR for the total amount of outstanding credit card debt is about 15 percent.

WHEN THE GOVERNMENT DOESN'T KNOW BEST

But what would happen if the government steps in and regulates a cap on credit cards?

Well, just as long lines form outside of gas stations when fuel prices are capped, card issuers will reduce credit availability to higher-risk individuals.

Unfortunately, those higher-risk individuals are often the more desperate consumers – and the ones who will be hurt the most.

Maybe that just means not getting that big-screen television – (I mean, shouldn't they just be reading more books anyway? she writes sarcastically) – but sometimes it means not being able to afford to get medical care or put food on the table.

That's where the law of unintended consequences really kicks in.

When people really need credit, they will figure out some way to get it.

And businesses – some above board, some unscrupulous – will fill the gap.

[Stores will offer credit](#), and if that's capped, they'll offer installment loans or rent-to-own fees or some other way to finance the consumer. But all of that will probably come at much higher interest rates than the card issuers offer, simply because the stores are less efficient in running credit operations.

Also, they are more likely to capitalize on desperate customers with installment credit that is designed to penalize consumers when they slip up even the tiniest bit – which they often do.

Or the consumers will be pushed to payday lenders or other similar, higher-cost options.

But, Sanders and AOC may say, not so fast – we're going to regulate all of those things, too.

Then those desperate consumers who this [Loan Shark Prevention Act](#) is supposed to help will very likely, and very ironically, be pushed into the world of loan sharks and pawn shops and illegal lending.

That's not being dramatic – that's just stating reality.

We have documented as much in our own [Financial Invisibles study](#) conducted over the last year how consumers today who can't get credit turn to pawnshops and friends and family to get by.

WHEN PAST IS PROLOGUE

But the Hollywood movie version of the credit card interest rate caps is really great.

Those big bad Wall Street “[loan shark hoodlums](#)” are put in their place. Poor families relieved of high-interest credit card debt can rejoice.

It's a wonderful life.

Or maybe not.

The movie that plays out in real life is quite different.

Short-sighted policies — like price controls — foist terrible pain on the American people.

Sure, [interest rate caps](#) would put those so-called big bad banks in their place. Some people may even cheer.

But most won't, because people all across the country are denied credit and forced into high-cost alternatives.

And that's because history — over decades and centuries — has shown that price caps don't work.

It's not such a wonderful life after all — except, perhaps, for the policymakers.

It takes a long time for unintended consequences to show up – and by then, the perpetrators are long gone.

May 20, 2019

Why Anyone Can Be A **Unicorn** Now



It started with a postcard that was slipped under my front door in Boston last fall.

It was an invitation to join an online neighborhood group.

This group would bring need-to-know information about local comings and goings to a dedicated news feed and would also send email updates to my inbox. It was positioned as one of many such groups around the world, and a source for-the-neighborhood, about-the-neighborhood, with the aim of keeping communities stronger and safer.

It sounded like a pretty good idea and a useful resource.

With 3,400 households, Beacon Hill is a relatively small, quiet neighborhood in the shadow of the State House in Boston. Aside from the free weekly [Beacon Hill Times](#) newspaper – still delivered in paper form to every front stoop of the houses in the area – there is no source of information about things like neighborhood street repairs, street closings, police activity, zoning and renovation-related issues, film production crews or other events.

A week earlier, I recalled hearing lots of helicopters circling the State House at about 7:30 at night and wondered what was going on, but there was no easy

way to find out. I thought being part of such a group would be a valuable resource for those sorts of real-time updates – so I signed up.

It wasn't long before I deactivated my account.

Instead of useful information about-the-neighborhood, for-the-neighborhood, I was getting spammed by dog walkers and babysitters advertising their services, people selling used furniture, private landlords from places outside of Beacon Hill advertising cheap apartments to rent, and ads for Maytag washers and dryers.

It was like the worst of Craigslist, but now delivered to my inbox. Not exactly as advertised, and not at all what I expected. I didn't sign up for spam emails.

I shrugged it off as another dud of a platform concept that would fizzle – and never gave it another thought.

Until I saw the news last week that this company, Nextdoor.com, had raised \$123 million at a valuation of \$2.1 billion.

I had two reactions.

Huh?

And, I'll have what they're having.

THE VALUATION NEXT DOOR

Nextdoor.com was founded in 2008. It went live in 2011. Nextdoor.com has raised a total of \$408.2 million since its founding.

I discovered that when the company raised \$110 million in May of 2015 at a \$1.1 billion valuation, it had [not a dime in revenue](#). Nada. Zippo.

After being in the market for seven years. And not having much of a critical mass of neighborhoods or users to show for it.

In 2016, it was reported that Nextdoor.com had roughly 100,000 neighborhoods, at a rate of 20,000 per year – globally! – on its platform. Its then-CEO was quoted as saying he expected to have 85 percent of U.S. neighborhoods on its platform by the end of that year.

That makes it hard to know what percentage of neighborhoods that 100,000 represented – remember, 100,000 was a global number – and how many more were needed to achieve an 85 percent penetration rate.

But I think it was probably a lot, especially according to how Nextdoor.com defines a neighborhood.

The platform recognizes legit neighborhoods as defined by Maponics geographic boundaries. But anyone living outside those defined areas who can find at least 10 households can create a neighborhood, too. Nextdoor.com’s platform supports both definitions of a neighborhood, including some that are very, very small.

By 2017, Nextdoor.com had raised a total of \$200 million and had 150,000 neighborhoods, globally, as part of its platform, reporting “tens of millions” in advertising revenue. Not surprisingly, Nextdoor.com’s monetization scheme is to sell ads that appear in the neighborhood newsfeeds.

Today, with a total of \$408.2 million in funding at a \$2.1 billion valuation, Nextdoor.com reports 236,000 neighborhoods globally. Nextdoor.com’s new CEO is Square’s very talented and well-respected former CFO, Sarah Friar. There isn’t available public information on how much Nextdoor.com is generating in revenue or whether the platform is profitable.

Nextdoor.com [describes itself](#) as “the largest social network for neighborhoods, enabling local conversations in order to build stronger and safer communities.” There is a lot of talk on its website about turning “community conversation into

clothesline conversations” and sharing helpful information about finding lost dogs, hiring babysitters and getting updates from public agencies.

Investors were quoted last week as saying the vision for Nextdoor.com is to become a hyperlocal commerce platform that connects commerce with the community.

Based on my experience, Nextdoor.com is a platform with a lot of VC funding that – 11 years later – is still searching for a purpose.

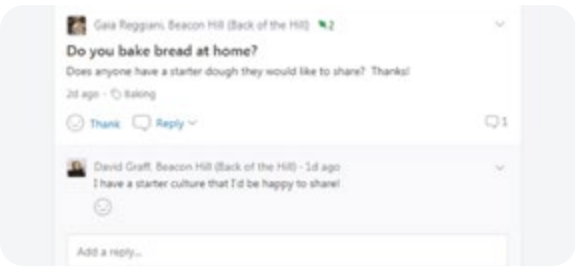
And this is from someone who once signed up hoping it would be all of that and more.

WILL YOU BE MY NEIGHBOR(HOOD)?

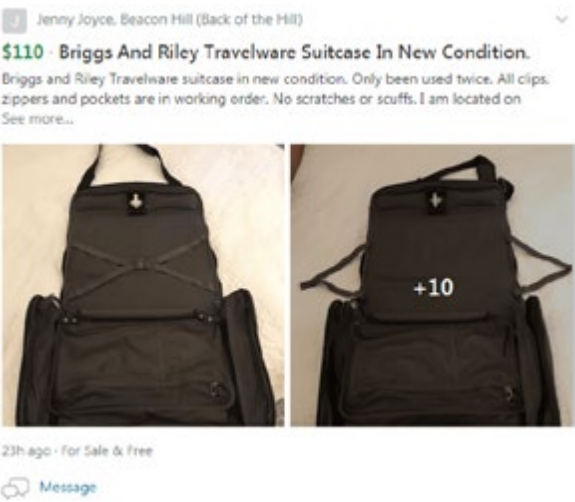
Nextdoor.com says it has penetrated 17 percent of the 3,400 households in Beacon Hill, and reports 702 households on the platform. My guess is that many of the people who are counted as part of the Beacon Hill Nextdoor.com neighborhood haven’t deactivated their accounts, but have simply blacklisted the emails or just chosen to ignore them, and don’t bother to engage.

And why would they? There is not much to engage with.

Instead of useful updates from police or community officials, the news feed is jammed with posts like this one: getting a recipe for starter dough.



Or annoying streams of posts like this one: classified ads for used stuff.



As for turning these neighborhood feeds into hyperlocal commerce engines for the local community businesses, I don’t see that, either. Neighborhood residents probably already know a lot about the businesses they visit in their neighborhoods.

Those businesses would only be interested in advertising on Nextdoor.com if they were convinced that there was a new set of eyeballs that would pay attention and convert – and drive incremental business their way.

And that it was a better investment than advertising in the local papers. In Beacon Hill, the *Beacon Hill Times* charges a whopping \$160 an issue for an eighth of a page ad and has a circulation of 8700 people. Those 8,700 people are bound to give it at least a cursory look-see, since they either have to pick it up or step over it to get to their front doors. And it might get more than a passing glance, since it's a publication that doesn't just have [Craigslist](#) ads in it, but also crime and safety, local business and public agency updates and the occasional profile of a local business establishment and its owner.

I know what you are thinking: Karen, you really aren't very neighborly, are you? If the definition of neighborly is to have clothesline conversations with people living in Beacon Hill, I guess that would be a no. But if it is to post and consume and react to content about issues related to living in Beacon Hill, and making the neighborhood better and safer, then yes, I surely am.

I would imagine that in this day and age of time-starved consumers with

pressing work and family demands, I am probably not that unusual. Even though Nextdoor.com thinks we all need to be a little more social, I think people really just want to be more dialed into what's going on where they live and how it could impact them.

For instance, Nextdoor.com would have been immensely valuable to me and others in the neighborhood if it provided updates on the new luxury hotel opening on Charles Street that we have watched being built for more than a year.

Or tell us why the cute little Peet's Coffee Shop closed. Or whether a new restaurant would be moving into the Lala Rokh's space on Mt. Vernon Street.

Or what the deal is with all of the street and sidewalk repairs going on all over Beacon Hill.

Or whether they ever caught the person who was seen stealing FedEx packages from the front steps of a house in Beacon Hill.

And if all of that came interspersed with a list of dog walkers or chimney sweeps, that would be fine, too – even if they paid for ad placement.

But Nextdoor.com isn't that mix of content pointing to perhaps one or two things – maybe both.

First, there aren't enough people engaged with the Nextdoor.com platform to know, care or share. Also, there's a lack of access to the third-party content feeds that can provide it.

Ads without relevant content added to the mix are a dead end. No great content, no user engagement. No user engagement, no users. No users, no advertisers. No advertisers, no revenue. No revenue, no business.

WHAT'S IN A VALUATION?

The news of Nextdoor.com's capital raise and \$2.1 billion valuation happened at the same time that media and analysts continue to pile onto Uber – namely, its disappointing IPO performance, its valuation on the lead-up to the IPO and now its questionable market cap.

Those conversations started right after the [Lyft IPO](#).

As you will recall, Lyft came out of the IPO gates surprisingly strong, opening at \$78.29 on March 29 with a market cap of \$24 billion. It closed on Friday (May 17) at \$53.94. Lyft has lost \$9 billion in value in the six weeks it has been a public company.

Lyft's performance fanned the flames of the then-impending Uber IPO, and speculation about what the company was really worth — actually, both of

them. The consensus opinion was that Uber's valuation wasn't anywhere close to the \$120 billion that bankers said it was last fall, and maybe not even the \$85 to \$90 billion estimates of Uber's IPO pricing.

Some valuation experts even hoped for a [busted IPO](#) to deliver a “comeuppance” to the billionaires and private investors who they said had unfairly propped up a losing company for many years.

Nice.

Valuations aren't my area of expertise, so I'm not well-suited to debate Uber's valuation pre-IPO, current stock price and market cap. What is my area of expertise, though, is the business viability of platform businesses, as well as their risks and opportunities. And, in particular, whether platforms have enough of the right stuff to solve a friction big enough to get a critical mass of stakeholders on board, and to deliver and monetize value to its stakeholders, and scale.

On that score, it's hard to dispute the significant and positive impact of Uber's innovation on people and businesses around the world. An impact in much the same way that Amazon has had on retail, the iPhone on mobile, Facebook on connecting people all over the world and the card networks on how people

can use debit and credit cards. And it is easy to see the future for Uber, with adjacent businesses like Uber Eats just getting started.

Like any business, Uber has threats to its [long-term viability](#), including competition from adjacent businesses like Amazon and regulators who continue to protect the entrenched interest of the taxi industry. And there’s the question of whether Dara has the vision and mettle to move the company forward at this important moment in its trajectory in the same way Travis did when he founded it.

That’s why I find it incredibly ironic that as we debate whether Uber is a sustainable business with long-term value, money keeps pouring into platforms whose value seems as

mythical as the unicorn status given to them by those investors.

THE UNICORN NEXT DOOR

One of the many criticisms of [Uber’s](#) pre-IPO valuation is that it remained private for a decade, raising hundreds of millions of dollars from VCs, wealthy private investors and sovereign wealth funds while losing billions.

Minus the sovereign wealth funds, that seems to be the story of Nextdoor.com.

Maybe Beacon Hill is an antisocial outlier in a sea of neighborhoods around the world that have been dying for a social network of residents who swap bread recipes and share tips on hanging wall-mounted TVs.

It could also be that Beacon Hill is a neighborhood that has a bunch of residents who are oblivious to what’s going on and don’t really care.

I somehow doubt it.

The problem that Nextdoor.com must crack is giving users the information that neighborhood residents really value and is missing from other sources they can access today.

I think that is an uphill climb.

There are already plenty of sites where users can hire local dog walkers and babysitters, with reviews and recommendations.

There are local hardware stores that not only offer real-time tips on installing TVs, but can also sell what you need to do it.

There are 611 million Facebook groups with engaged members, comprising hyperlocal or interest-based social networks that regularly update their news feeds with relevant content.

There are apps where people with stuff to sell can post and sell it to a broad base of people — not only to those living in a single neighborhood of 10 or 300 or 701 households.

There are still the local newspapers that provide updates on crime and safety, sales at local businesses and how the high-school baseball teams are doing, which get readership.

There’s even [a Neighborhood app](#), courtesy of Ring.com, the video doorbell company that Amazon bought, that connects Ring customers to an app with updates of break-ins, attempted



break-ins and real-time feeds from the local police and public agencies on community matters.

There are also loads of [recipe apps](#) for finding recipes for starter dough, complete with videos.

All of these have created a critical mass of users to monetize either through ads or sales, and value great enough to keep them engaged and onboard.

**TO DREAM THE IMPOSSIBLE
PLATFORM VALUATION DREAM**

All platforms choose a path when determining how they will start, ignite and scale. They can either go wide and provide a utility that lots of people can use regardless of where they live or work or what they do – or they can go deep and perfect a template in a particular vertical or geography, and then replicate that success in localities around the country and the world.

Trying to do both is impossible and sets up the platform for failure.

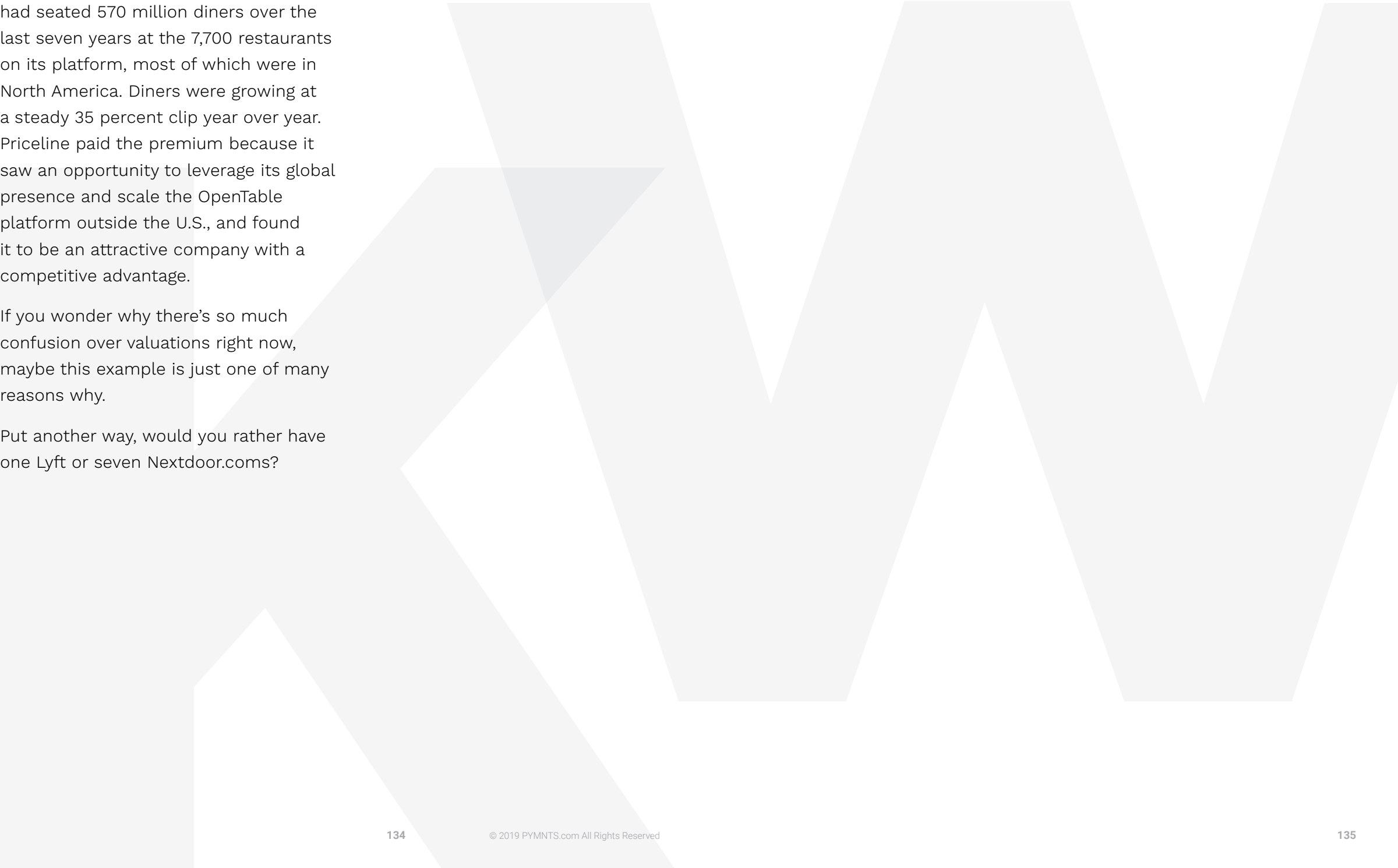
It’s a lesson that OpenTable learned between 1998 and 2001, when it tried to get into as many cities as possible, but found it didn’t have enough density of diners or restaurants to be attractive to either. They regrouped, refocused on San Francisco and Chicago and grew the platform from there, once it had

achieved critical mass of diners and establishments.

Five years ago, in June of 2014, [OpenTable was sold to Priceline.com](#) for \$2.6 billion, a \$1 billion premium over its then-\$1.65 billion valuation. It was reported at the time that OpenTable had seated 570 million diners over the last seven years at the 7,700 restaurants on its platform, most of which were in North America. Diners were growing at a steady 35 percent clip year over year. Priceline paid the premium because it saw an opportunity to leverage its global presence and scale the OpenTable platform outside the U.S., and found it to be an attractive company with a competitive advantage.

If you wonder why there’s so much confusion over valuations right now, maybe this example is just one of many reasons why.

Put another way, would you rather have one Lyft or seven Nextdoor.coms?



June 3, 2019

Why Search And Logistics Will Shape The Future Of Retail Payments



The two most powerful forces shaping the future of retail payments have nothing to do with payments at all.

At least at first glance.

Ironically, they are also the two things that shaped the modern payments landscape as we know it today, as it grew up and got wired over the last 60 years – and why that playbook is being disrupted by players decades their junior with market caps that rival or even dwarf their own.

It's why we're witness to unprecedented waves of consolidation in the merchant acquiring and payments processing space – and why there will be even more to come in the short and longer term.

Those two forces?

[Search](#) and [logistics](#).

The most powerful force in payments right now is what's happening at the intersection of payments, search and logistics – particularly as digital is disrupting how consumers find, order, pay and receive the things they want to buy.

The low bar now for payments in a digital-driven retail world isn't whether it enables a transaction on a website or in an app, but whether it can eliminate

friction for consumers who want an efficient way to find, buy and take delivery of what they purchase. It's a world in which new retail models and new places to shop have emerged to satisfy that need, blending the online and offline worlds in ways that benefit the digital and marginalize the physical – at least as it operates today.

It's also a world in which traditional merchant-acquiring players with legacy physical store footprints and hardware-centric point of sale models aren't always top of mind for those who seek to enable for that new experience.

That makes the intersection of payments, search and logistics not just a trend, but also a new framework for understanding the future of [retail payments](#) – and the viability of those who want a stake in its future.

WHEN PHYSICAL WAS ALL THERE WAS

Retail commerce has had many evolutions over the thousands of years buyers and sellers have engaged in trade. But one thing hasn't changed at all: the flow that underpins that experience.

Retail trade has always been about three things: a consumer looking for something to buy, paying for what she

found and taking possession of what was just purchased.

In the good old days – and even as recently as a mere 25 years ago – consumers did that by going to the store or the shopping mall to browse and buy. Fulfillment was pretty easy, most of the time done by the consumer before leaving the store with purchases in hand.

Find (search), pay (payments) and fulfillment (logistics) was an all-in-one experience in the physical world, enabled by those stores and malls.

For a very long time, physical stores had it made in the shade, with a captive audience that had few alternatives to find and buy stuff other than the storefront across the street. Payment cards offered consumers a more efficient and desirable way to pay, and merchants wanted to enable that better experience in their stores so as not to lose sales.

The payments ecosystem grew up around that model, enabling acceptance of network-branded credit cards and debit cards across all physical merchants at scale. The merchant-acquiring ecosystem and payments processors put plenty of feet on the street to accelerate the ubiquity of that experience, giving merchants point of

sale equipment and processing services to get them up and running.

DIGITAL TRANSFORMS MORE THAN PAYMENTS

The digital world disrupted that once fairly rote search, pay, fulfill model by giving consumers more options to find the things they wanted to buy. The web suddenly became the store as consumers searched for products via an endless aisle enabled by Google, which pointed them to places to see and buy them.

But unlike the physical store model where consumers had many options to pay, including checks or cash, finding something to buy didn't result in a sale unless there was an easy way to pay for it using a card. Finding and buying something online was an inconsistent, friction-filled experience – and shockingly remains that way even today.

PYMNTS has done a quarterly assessment of a random selection of the 700 merchants that drive 70 percent of the non-Amazon eCommerce sales for the last four years. The benchmark score, measuring 75 variables, has moved little over that time, with the average across all of them not even breaking a 70 (the higher the score, the less the friction).

In the very early days of online, though, it wasn't always guaranteed that a consumer could find something to buy at their favorite retail merchant. Many sites at that time were little more than look-books, showing consumers what could be purchased in their physical stores. And stores with a physical presence that “went online” carried different inventory – and not much of it. They didn't want those websites cannibalizing their physical stores. Also, navigating those websites was slow and tedious. If a consumer did find something to buy online and payment was an option, checkout took many clicks and many minutes to complete.

[Delivery](#) was an uncertain crapshoot – the consumer just never knew. Sometimes it took 10 days, sometimes two weeks and sometimes never. Even today, it takes an average of five days for a consumer to get a package delivered by a merchant for free.

The inability to fulfill products in a timely fashion or at a reasonable cost was the demise of many a digital pure play back in the day – famously Pets.com and Webvan, to name but two. And that's what kept categories like sporting goods and home furnishings and accessories as a viable online option in the early days. It was also a real deterrent to consumers who wanted to make purchases there.

Finding, paying and fulfilling was a very tough slog for online consumers.

It was almost as if those merchants really wanted the sites to push consumers back into their physical stores to browse and to buy. And they did – for a little while.

THE MARKETPLACE AND THE BUY BUTTON

Digital players like Amazon and [eBay](#) brought a different digital experience to the consumer, something more of what they were used to in the physical world: going to a single place to find something to buy and having an easy way to pay for it.

eBay ignited in the early 2000s when PayPal became an integrated part of that find-and-buy experience, offering a marketplace that sold what we now fashionably call sustainable products – other people's used stuff – from sellers all over the world.

Amazon, with its [one-click checkout](#), created a quick and easy experience to buy products that people could also purchase in physical stores, and have them delivered straight to their homes.

Over the years, as broadband became more ubiquitous – and especially as mobile became pervasive – more digital storefronts emerged. The players

were the digital natives themselves: PayPal, Braintree, Stripe, Adyen and hundreds of gateways that did the same. New models and new players like BigCommerce, WooCommerce, Shopify and Magento also emerged to provide small merchants with a hosted, integrated payments and inventory management solution to set up shop and run their businesses digitally.

Yet, the online checkout experience remained largely inconsistent and friction-filled. Buy buttons emerged to make checkout a consistent and trusted experience enabled by familiar digital payments brands such as PayPal, followed by the card networks with their branded buttons and, even later still, Amazon Pay.

But [buy buttons](#) only solved payments friction for an online retailer. The consumer still had to find that retailer – and the products they had to offer – by sifting through an endless aisle of search results. Once found (or if found), the consumer still had to assess whether their product needs were consistent with the retailer’s ability to guarantee delivery.

All of that took time, and introduced uncertainty into the digital retail experience.

Find, pay and fulfill still remained a slog – even as digital merchants and

payments acceptance became more pervasive online.

SEARCH, PAY AND DELIVER – ALL IN ONE

As payments players continued to expand payments acceptance and eliminate frictions, [Amazon](#) was investing heavily in ways to replicate that all-in-one search, pay and fulfill flow from the physical world into their digital marketplace.

In 2005, Amazon introduced Prime, and promised two-day free shipping for [Prime members](#). A marketplace that solved for search and pay now also solved for the uncertainty of when consumers could take possession of their products – a friction that kept many from making important purchases online.

The rest of the story we know well. Amazon has since expanded the size of their marketplace by offering access to many digital e-tailors that operate their own dedicated storefronts. Those merchants can opt into Amazon’s fulfillment offers and participate in the two-day (soon to be one-day) free shipping options.

Merchants that are off Amazon but that accept [Amazon Pay](#) can also enjoy some of those same capabilities. Not

only do those merchants get access to Amazon’s customer base, but they are also the benefactors of a higher average order value: \$252 versus \$212 for PayPal and \$205 overall, based on our latest research on buy button penetration and use among the top 1,000 online merchants.

Of course, the ability to deliver search, pay and logistics in a single experience via a marketplace isn’t the domain of Amazon, but it is clearly motivating others that see it as a competitive advantage – and it’s a valuable merchant acquisition tool for sellers that want to be where consumer eyeballs are searching.

It’s what the online aggregators like Grubhub and Uber Eats are doing in QSR. It’s what Instacart is doing in grocery. It’s why Target bought Shipt. And it’s why Walmart is investing in solving its last-mile delivery challenges. It’s what Wayfair is enabling in home furnishings, and it’s why vintage and luxury marketplaces like Chairish and 1stdibs have made fulfillment such a big part of their value proposition for sellers and buyers.

It’s why Google is integrating payments into Maps and Waze so consumers can order ahead, pay and fulfill themselves at stores and QSRs.

And it’s why [Instagram](#)’s ability to become a great contextual commerce experience may depend on how well their sellers can deliver the products consumers order and pay for there.

THE SEARCH-PAYMENTS-LOGISTICS FRAMEWORK AND THE FUTURE OF RETAIL PAYMENTS

The search, payments and logistics framework is essential to understanding the dynamics that will shape the future of payments – and the future of the many players that participate in those flows today.

Solving for search, pay and logistics has now become what consumers expect of their buying experience – one that is shifting dramatically to the digital world, even if fulfillment is still done in the physical world.

It is why many consumers only go to the store if they’ve used their [mobile devices](#) to see whether what they want to buy is in stock – in their size and color – and why increasingly, many just don’t even bother.

It’s no different online. Consumers expect that if they find something to buy, they can use one of their favorite ways to pay. Increasingly, finding and taking possession of products is driving their decisions about who gets their

business, and when and where they get it.

Payments is no longer the tip of the spear for the physical or online retail transaction flow.

Perhaps it never was.

It only looked that way, because in the physical world, there was no opportunity to separate why consumers went to the store – to find something to buy – from how they would pay and take possession of those purchases.

Now that there are, consumers and the retailers that serve them want and need to deliver more. Paying for something is only relevant if consumers find something to buy, and are certain they can get it delivered in a timeframe that is relevant to that purchase. Increasingly, aggregators and marketplaces and social channels create those experiences for the consumer – and deliver value for both the buyer and the seller.

The [physical store footprint](#) will continue to shrink. The digital footprint will consolidate, too, but for a different reason. If you believe, as I do, that consumers will be drawn to places online that make it easy to find, pay and fulfill in a single place, then the digital footprint will consolidate around those that aggregate those sellers and create

that experience. Their volumes and relevance will only get bigger.

That creates opportunities and challenges for everyone participating in these retail payments flows. The search, payments and logistics frameworks is a useful tool for examining who is best equipped to capitalize on this new transaction model – and who might be vulnerable because they can't or won't be able to.

Particularly when being able to pay for something is only one of the reasons merchants and consumers show up to do business.

June 10, 2019

The Only Thing Missing From The Big Tech Breakup Debate: A Debate



Bashing Big Tech has become something of a sport.

[Regulators](#) are circling the wagons. Policymakers are preparing to haul Big Tech execs to Capitol Hill for one big, public airing of their grievances. Presidential candidates are using the [breakup of Big Tech](#) as a policy platform. Once-upon-a-time cheerleaders of Big Tech are fanning the flames.

A bashing that started in Europe in 2015 when the European Commission filed suit against Google for anticompetitive practices has accelerated sharply worldwide. And unfortunately for all, in the aftermath of Facebook's failure to protect consumer data and the integrity of the content it publishes, everyone is being blamed.

The result is today's narrative that all Big Tech is bad.

B.A.D. Bad.

The remedy for that so-called badness is to break all of it up into tiny bits – the specifics of which no one has yet been able to articulate, beyond the buzzy “break up Big Tech” sound bites.

What's missing, at least so far, from the bashing and breakup talks is an honest and balanced debate.

So, let's start that today – using something I've always thought essential when discussing things like destroying companies that drive substantial competition and consumer value.

A few facts.

THE EXTREMES

The latest chapter in the Big Tech-bashing playbook is that because Big Tech is big, innovation in their respective spaces has gotten smaller.

Ignoring, of course, that there are direct competitors to all of those being lumped together as Big Tech: Bing for Google, Walmart for Amazon, Android for Apple, Snap and global messaging apps like [WeChat](#) for Facebook.

The evidence, those who share this view claim, is that VCs are not and will not invest in Big Tech challengers because they are so big, so no one else can ever compete. In other words, why bother?

That hurts consumers, they say, because the concentration of power in a few big players means the little guys don't get the capital they need to scale and so they close up and die, if they ever get started at all. Consumers, and those innovators, miss out.

Meanwhile, consumers are stuck with a small number of powerful firms. There goes choice, and in comes high prices.

Then again, maybe not.

Economists Esteban Rossi-Hansberg of Princeton University and Pierre-Daniel Sarte and Nicholas Trachter, both of the Federal Reserve Bank of Richmond [published a working paper in 2018](#) that addressed this very issue, among others, for a company bashed as being bad for consumers and businesses long before Big Tech ever was.

Walmart.

The song was the same, but sung to a slightly different tune: the world of physical retail. The narrative was that when a [Walmart](#) came to town, small businesses went out of business. Furthermore, on a national scale, Walmart's largesse forced a consolidation of competing stores that further eliminated the options for consumers to get good prices and a diversity of supply.

Using publicly available data from 1990 through 2014, these economists found just the opposite.

Buying products in physical stores, their research concludes, is done locally. They acknowledge, using their data, that the national market consolidation, particularly in the area of mass-market

retail, is an incontrovertible fact. But just because there are more big national firms, and higher concentration, doesn't mean consumers who buy locally have less choice. In fact, competition among discount department stores increases.

Their research showed that the number of competing local establishments in the zip codes where Walmart operated their stores increased, even though some competing stores did exit. On balance, there was a net increase of firms competing locally – an increase that persisted for at least seven years after the new establishments opened.

Sure, some of the local competition may have come from other national or regional players instead of from mom-and-pops. But competition is competition.

Consumers won on two levels.

There was the national scale of a Walmart-created supply chain and distribution efficiencies that supported “everyday low prices” for the consumers who shopped there. At the same time, local markets flourished as competition increased. Entrepreneurs, including those looking to compete nationally, viewed [Walmart](#) as an opportunity to compete for customers in new and different ways.

More generally, these authors find that what's true in discount department stores is true in most industries. Even though there are more big national players, and concentration nationally has increased, the opposite is true when looking at things locally.

To understand the paradox, think of it this way: Suppose every town has just one firm that offers a service.

Locally, that firm is a monopoly and concentration is high. Nationally, there are a bazillion firms, so concentration looks low. Now, suppose there are four firms that provide that service and operate nationally. That increases concentration at the national level. But now there are four competitors locally instead of one, so concentration has gone down. (This is an extreme example.)

Rossi-Hansberg and his co-authors didn't have data on online options. So if anything, their results are even stronger. In addition to more physical competitors, most people have access to a large number of online sources right at their fingertips.

And who's responsible for that? Big Tech.

NOW THAT WE'RE GLOBAL

In a digital world where smartphones now make every product more or less a local purchase for that consumer, Big Tech is helping companies large and small find new customers and build their businesses. They have been doing that increasingly over the last couple of decades.

Take Google.

Google says the number of “near me today/tonight” searches [increased 900 percent](#) in the period between 2015 and 2017, when there was also a 150 percent increase in “near me now” searches. “Near me” searches related to fashion and car dealers increased 600 percent and 200 percent, respectively. A majority were done via mobile devices, with 76 percent of those searches resulting in an in-store visit. Many of those visits were likely new customers.

Take Instagram.

Instagram today has [one billion active monthly users](#) – two-thirds of whom visit the platform every day. More than two million businesses have bought ads there, many of which are intended to drive users to their websites to buy products.

Many of those ads and those sites are new or young businesses. Shoppable tags now make it easy for users to tap and buy from that tag, via an influencer or in an ad, and from a variety of sellers. Instagram says 130 million people do that every month.

Then there's Amazon.

Amazon reports there are [five million marketplace sellers](#) on the eCommerce platform globally that represented [53 percent of paid units sold in 2018](#), up from 26 percent in 2007.

During the 2018 holiday season, one billion items were sold by third-party sellers. In 2018, 75 percent of those active sellers had between zero and five employees – the very small businesses that would be impossible to find outside of a platform with scale and a built-in audience of eyeballs ready to search, shop and buy.

And Apple.

Apple's App Store now has [1.8 million apps](#) that consumers can search for, find and download. Additionally, [\\$120 billion](#) has been paid to developers since the App Store opened. Many small app developers became big app players on the Apple platform. Many of those

apps help SMBs manage and grow their businesses.

All of these platforms – Apple, Instagram, Google and Amazon – compete with each other for eyeballs and sellers, while creating an environment for those who would otherwise have no shot at finding buyers outside of their own local markets to grow and thrive.

They also encourage many others to start businesses, since getting customers is easier than ever.

FOLLOW THE VC MONEY

Vcs may not be putting money into building the next Big Tech behemoth, but they are investing in lots of adjacent businesses that compete with them in different ways.

Take the many vertical search platforms, now operating at scale themselves, that aggregate buyers and sellers – many of them small – to help them find each other.

[1stdibs gives several thousand sellers](#), mostly small antique dealers, a way to reach eyeballs from around the world – and for those eyeballs to find unique items they'd otherwise never find easily. And it enables dealers to reach buyers who spend a lot: The average transaction value on 1stdibs is \$3,000.

Chairish does, too, with a mix of sellers ranging from people selling high-quality vintage stuff to dealers who want to expand their storefronts to anyone with a mobile phone.

In doing that, both 1stdibs and [Chairish](#) have unlocked opportunities for interior designers, who can now source and curate from these online showrooms and boost their own businesses. According to 1stdibs, 40,000 interior designers have registered on their site.

[Houzz](#), one of the first sites to offer shoppable tags, does the same thing for home renovations and remodeling. An aggregator of both ideas and the items to complete and furnish the project, Houzz also gives local professionals an opportunity to be found when homeowners are on the site contemplating a potential project.

There's also plenty of money being poured into food aggregators like Delivery.com, Grubhub, Uber Eats and DoorDash, which gives restaurants a chance to be found beyond the more traditional channels like Yelp and Google.

Oodles of money have also been poured into subscription businesses, many of which package items from a variety of businesses to bring a unique experience to the consumer and offer distribution for small sellers.

[Barkbox](#), the monthly subscription service that started as a small business, packages and mails goodies to delight precious fur babies. In those boxes are products from small businesses that make the best organic dog treats, or the most puppy-friendly squeaky toys. Shots Box does something similar for craft beer, offering samples of craft beers via a subscription service in an effort to create the largest online tasting room and drive distribution of the local distillers' products.

Vcs have made investments in innovators – once small businesses themselves – to help other small businesses be more successful. New tools and tech help digital businesses accept all forms of electronic payments, including the digital wallets that make it easier for consumers to buy from them online. They also enable the businesses to connect to marketplaces and contextual platforms, do business on a global scale, fight fraud, find outsourced help on gig platforms, and integrate front and back office operations into their accounting systems.

Big Tech has given rise to an entirely new set of innovators who are reaching new audiences because Big Tech is — well — Big, and gives them access. Billions have been invested to help businesses form, grow and even leverage opportunities provided by Big

Tech platforms to do business — in a safe and secure manner.

If anything, Big Tech has spawned innovation and a whole new set of competitive dynamics in the markets in which they operate and compete – and helped to grow and fund new players who compete in different ways.

NOW THE “BUT”

That’s perhaps the side of the debate that’s less publicly discussed, less the headline-making narrative, less the reality of how Big Tech has helped ignite new and different ways for business to compete and scale.

That doesn’t mean there aren’t things to worry about.

It’s possible, I believe, to roil against Facebook for its repeated failures to govern and to fix the systemic problems that exist in that platform. It’s possible to talk about remedies to correct those issues, which may, in the first instance, have little to do with [regulation](#) and more to do with having the Board take strong and decisive action to fix their corporate governance structure. (It’s amazing to me that the Board remains intact and that more heads haven’t rolled.)

It’s possible to raise a yellow flag when the ecosystems that Big Tech has

ignited in this very dynamic digital world have the potential to create conflicts that could harm consumers and businesses. As Google becomes more of a marketplace itself and begins to compete with established marketplaces – like travel aggregators, food delivery aggregators and local services aggregators – we need to understand how they will keep competition fair.

It’s also possible to do both without collectively throwing all of Big Tech as we know it under the bus for policymakers and regulators to run roughshod over.

We’re only about two decades into the massive transformation of our economy, thanks to the innovations Big Tech has created – and the many more that innovators have created – to give consumers and businesses unprecedented opportunities to find each other and do business using their platforms.

But Big Tech firms, like pretty much all big firms, probably have done, and certainly will do, some bad stuff. For most consumers, however, they are anything but B.A.D.

Before jumping on the “Big Tech is bad” bandwagon and getting rid of things that consumers value, the politicians and regulators should ask consumers how they would rate Big Tech against other

firms that provide them services – like, say, their local cable provider or the post office.

Or take another look at the recent poll of New Yorkers taken after local politics quashed Amazon’s [HQ2 plans](#) for Long Island City: [67 percent](#) said it was the wrong move.

June 18, 2019

What The Launch Of Facebook's Libra Means For Payments



The endless speculation over [Facebook's](#) plans to build a new set of global payments rails and launch a global cryptocurrency comes to an end today with the official launch of Libra.

Or does it?

The announcement today establishes Libra as the foundation for a new, low- or no-cost, global payments and financial services ecosystem, one built by Facebook, to give billions of people access to the “internet of money.” This ecosystem consists of that new network, a new global currency and governance system that puts control of Libra in the hands of an association of financial services and payments industry stakeholders. The ecosystem's first application is a stand-alone digital wallet, Calibra. The Calibra wallet is a product offered by a stand-alone subsidiary of Facebook by the same name.

Both the Libra network and the Calibra application are expected to launch in the second half of 2020.

I explain how it all works below.

Twenty-eight of the who's who in payments, marketplaces and venture investing have a seat at the Libra table as Founding Members. They are being asked to contribute their collective

experiences in operating global, regulated payments and financial services networks to shape Libra's charter and frame its governance structure. At some point, they will be asked to kick in a few bucks to fund its operation and get it off the ground. Many of those players are also the very same players that Libra would seem, at first blush, to displace if its vision of creating a new global payments infrastructure really takes off.

That makes today's launch not the end of a process for Facebook in creating that vision, but the beginning of one that will determine Libra's future — even perhaps whether it will have a place in the future of how commerce will happen on a global scale.

First, what we've been told.

THE NEW RAILS — THE LIBRA BLOCKCHAIN

The Libra ecosystem consists of **new rails**, the Libra Blockchain, built by Facebook engineers, and the introduction of a new programming language, Move, designed to make it more efficient and more secure for developers to create new payments and financial services applications that run on top of it. The Libra Blockchain code developed by Facebook is being contributed to the Libra Association

under an open source license and subject to the governance framework established by the Association.

The open source protocol that Libra uses is Apache 2.0, a permissive license which requires developers to explicitly document and preserve modifications but not release the source code after modifications are made.

Unlike other crypto rails, the Libra Blockchain is a single data structure that records transactions over time and makes the history of those transactions visible to others on the network. Like other crypto rails, the identity of the user is decoupled from the transaction itself.

Initially, the Libra network will be used by Association Members (more on that in a minute) to build or power applications that ride them.

For the first five years the Libra network will be permissioned — open only to Members that meet certain threshold criteria. After that it is Facebook's vision that the rails will become permissionless and open to all to encourage broad participation, innovation and application development.

And given the nature of the open source licensing protocol, potential forking by others to support global use cases that also use the Libra currency.

THE NEW CRYPTOCURRENCY — LIBRA

Riding those new rails is a **new global currency**, Libra, whose value is tied to a basket of low-volatility currencies, including the dollar, the pound sterling and the Euro and held in reserve in Geneva, Switzerland. Applications that ride the Libra rails will use the Libra cryptocurrency as the method by which value is exchanged between parties. The intent is for Libra to become a new exchange of value, globally, as more applications ride the network rails and more consumers and businesses use it to transact.

Libra is positioned as a currency that will offer more financial stability than fiat currencies in some developing economies with currency that can be far less stable. Facebook says that it is currently in discussions with regulators, who they claim, are eager to engage in conversations with them about it.

I have no doubt they are.

At PayPal,
we believe in democratizing
participation in the digital
economy for people from
all walks of life and
businesses of all sizes.
**PayPal is pleased to join
other leading technology
and financial services
organizations to form Libra,**
with the goal of exploring
a new, global digital currency,
built on blockchain technology.

— DAN SCHULMAN,
President and CEO, PayPal

THE NEW GOVERNANCE STRUCTURE — THE LIBRA ASSOCIATION

A **new governance structure** will monitor and manage the activities of the Libra network, the reserves backing the Libra cryptocurrency and the applications that ride the Libra Blockchain rails.

The Libra Association, headquartered in Geneva, Switzerland will be governed by a Council and a Board of Directors, led by a Managing Director with a three-year term. Decisions related to the vision, execution, business models and monetization schemes, as well as the roles and responsibilities of all participants, will be discussed, vetted and decided upon by the Council and Association Members.

Facebook has said it plans to play a large role only throughout the remainder of 2019 as the Association gets up and running and additional Members and funding are recruited. After that, Facebook has made it clear that its influence will be equal to that of any other Association Founding Member as the Council, the Board and Managing Director assume control. Some decision-making will require a supermajority — more than two-thirds of Members — others will require only

50 percent, assuming that two-thirds of all Members participate in the vote.

As I mentioned earlier, Association Members, at launch, include 28 of the leading players in payments, venture investing, crypto, marketplaces and NGOs as Founding Members. These Founding Members also constitute the Council. Facebook hopes to increase the number of Members — and therefore the Council — to 100 by 2020.

Association Members are both known and familiar: Mastercard, Visa, PayPal, Stripe, PayU, Andreessen Horowitz, Union Square Capital, Coinbase, Xapo, eBay, Uber, Lyft, Farfetch, Mercado Pago, Spotify, Vodafone among others. Members agree to operate as validator nodes on the Libra network which means that they agree to secure and validate Libra transactions running across it. Operating as a validator node means complying with certain technology and availability requirements, including 24/7/365 availability.

Members, with some notable exceptions, will be asked to contribute \$10 million to buy Libra Tokens to confirm their Membership and the voting rights associated with that Membership. The money collected will fund the operating costs of the Association, including the incentives

needed to encourage participation. Sources familiar with the matter tell me that no money has exchanged hands to this point. Association Members can increase their standing by making additional \$10 million investments in Libra Tokens, up to a threshold. No one Member can control more than one percent of the votes.

Think of the \$10 million investment, at least for now, as the price of getting a seat at the table — and the opportunity to understand, and influence, the direction of Libra. It is also apparent that as a side benefit Members get clear, first-hand information on how Libra plans to compete with them now and over time.

Several social impact organizations and NGOs — Women's World Bank and Kiva, to name two — have also signed on as Founding Members and are part of the 28 included in today's announcement. They, and others like them including academic and research organizations, will not be asked to contribute funds to participate.

All Members, including NGOs and social impact agencies, are, however, subject to strict membership guidelines, including the ability to meet financial, scale and business stability/business standing thresholds.

Libra assets will be held by The Libra Reserve, which is a decentralized and distributed network of custodians with investment-grade credit rating. Calibra is a digital wallet that stores and moves Libra across the network but will not operate as an exchange.

NEW NETWORK, CRYPTO APPLICATIONS

Finally, the ecosystem will consist of **new cryptocurrency-based applications** that ride the Libra Blockchain rails and use the Libra currency. The first such application, also announced today, is a digital wallet, Calibra, from a Facebook subsidiary by the same name. Calibra is scheduled for release in 2020 and is intended to be the application that will drive the monetization of commerce on Facebook, using the Libra currency.

Calibra will be available across all Facebook properties, starting initially with Messenger and WhatsApp. Users will be able to download the app inside of those platforms and transact with it using the Libra currency. Calibra will also be available for consumers to download in the Apple and Google app store. Calibra is registered as a Money Services Business and is in the process of securing additional licenses.

“

Tomorrow's innovation
may just be an idea today.
We are committed to ensure that
the Internet of Everything comes
with the inclusion of everyone.

**By activating partnerships
to explore, co-create,
and test new ideas,
we can cultivate ideas to make
inclusion a reality sooner than
some may think.**

This effort embraces that spirit.

”

— JORN LAMBERT,
Executive Vice President, Digital Solutions, Mastercard

Calibra was created as a stand-alone app and registered subsidiary of Facebook to avoid the appearance of and the actual inability to commingle data related to payments transacting with data related to social interactions. Calibra data, in the aggregate, will be used by Facebook to comply with AML and other regulatory requirements. With the user's permission, Calibra will allow consumers to import or export their data to third parties, including their social network contacts from Facebook.

The initial use case for Calibra will be P2P payments, cross-border.

NEW MISSION?

The mission statement of Libra is nothing short of bold and inspiring: to give the 1.7 billion people in the world without access to a bank account the ability to have one at no or low cost. It is about, Facebook says, igniting a new commerce ecosystem that will make it as easy for billions of people to send money around the world as it is to send a picture or a video across the internet, but to do it more securely. It is about laying the tracks that existing infrastructure, they also say, is lacking, with today's global payments and financial services networks.

Libra, and Calibra, as an initial application, Facebook says, will move

the ecosystem forward to solve that problem. Judging from the affirmations from many of the initial Founding Members, they seem to agree.

On that, I am not so sure.

WHY THE UNBANKED ARE UNBANKED

The white paper issued by Libra describing the vision for solving the world's unbanked problem hyperlinked to [a study published every three years by the World Bank](#) that examines that issue across 140 economies. It is called the Global Findex Index, and the 2017 report took on the impact of digital technology, mobile phones and access to the internet on financial inclusion.

Between 2014 and 2017, the report says that 515 million people gained access to an account at a bank, a mobile money account with a telco or other third party. That means that 69 percent of the world's population now has a bank account or something similar, up from 62 percent in 2014 and 51 percent in 2011. Sixty-three percent of people living in developing economies have access to a bank account of some kind now, too.

That inclusion is the result of banks, telcos, remittance players, card networks, NGOs and innovators collaborating to create access to

financial services across regulated and secure rails, and building the critical mass of users to ignite it.

Telcos have ignited mobile money networks like [M-Pesa](#). Payments players like Alipay, Paytm, WeChat and Grab are creating their own domestic and regional mobile money schemes using mobile phones and QR codes to enable consumers to pay local merchants in those markets, save and build credit. Remittance players have opened their networks to third parties to create new payments flows and lower the cost of money transfers by moving more of those flows digital.

The results are demonstrable and compelling, particularly for women and other microbusiness owners who are able to lift themselves out of poverty by being included in the world's financial system.

Yet 1.7 billion people still lack a bank account, nearly half of whom, the World Bank study reports, live in just seven countries: Bangladesh, China, India, Indonesia, Mexico, Nigeria, and Pakistan. They share a few common characteristics which makes serving them a challenge: They are extremely poor, uneducated and unemployed.

Less than a third have completed high school and 47 percent of them

lack employment. They don't have bank accounts because, when asked, two thirds say that they simply don't have enough money to put into one. Whatever cash they have, they want available and accessible. These people are living hand-to-mouth, and access to a bank account alone, sadly, isn't likely to change that fact.

Others do not have a bank account because someone else in their household does — a family of four adults has one bank account into which deposits are made and household finances are managed.

CASH AS CURRENCY

In developing markets, the ability to transact digitally means solving for the age-old, two-sided network problem that bedevils any and all payments networks: acceptance by people and businesses of a new way to pay — and an easy way to fund those digital accounts.

In developing economies, that's cash. As low tech as cash is, it's trusted by people because they have it, see it, hold it, count it, store it and use it everywhere, and can access it at any time they need.

The success of every successful digital payments network in these economies

is, therefore, linked to cash: the ability to deposit cash into a digital account and a way to take it out to spend at businesses that don't accept any other way to pay.

Or use it inside of a closed commerce and financial services ecosystem that accepts that method of payment for all of the types of payments transactions.

Take Kenya, which, by all accounts, is the poster child for financial inclusion in Africa. M-Pesa ignited in Kenya because it established an agent network of 40,000 locations where users could withdraw cash sent to them by others via those M-Pesa mobile money accounts. M-Pesa was the method of transport, and the account that kept those funds secure. But cash was the method of payment used in those villages by those recipients — and remains to this day.

Take remittances. The vast majority of remittances in developing countries aren't picked up in cash because receivers don't have bank accounts, but cash is preferred because it is how business is done.

Take [Alipay](#). Alipay is a closed ecosystem for Chinese consumers who can send payments to people and businesses inside of the Alipay ecosystem — using

a fiat currency understood and accepted by all Chinese consumers.

That sets up a rather challenging ignition problem for Libra and Calibra if they are truly aiming for the unbanked, who need any cash they can get, as well as the banked in cash-intensive economies.

People will create a Calibra wallet and send Libra if the person they are sending it to can use it to pay bills, pay people or pay businesses using it.

Or cash it out to spend where it is not accepted — which will be mostly everywhere, for the foreseeable future.

People will create a Calibra wallet and send Libra if they can buy it and put it into their digital wallets. That's easy provided that person already has a bank account, or a convenient way for cash to be deposited into that account and converted to Libra currency.

Provided, of course, they trust the wallet, network and new global currency called Libra.

THE TRUST FACTOR

Igniting the Libra network, the Libra currency and Calibra wallet requires that people feel comfortable buying into using an entirely new global currency backed by an association they've never heard of based in a country they've

probably never visited — and using, at least initially, a digital wallet created by Facebook on one of two platforms that are also part of Facebook network: Messenger and WhatsApp.

That's a lot for anyone to understand and process, much less someone living in a developing country with limited education, and for whom money — and trust — may not come easily.

A big priority for Libra and Calibra is to establish that trust with those users — and there are a number of ways that can be done. Starting with, perhaps, asking third parties that today pay consumers in cash to, instead, deposit Libra into their Calibra accounts.

For example, Libra and Calibra could approach governments that pay social benefits to people in developing countries in cash and ask them to fund Calibra accounts instead using the Libra currency. The World Bank report says that social benefits paid into a digital account would bring 100 million more people globally into financial inclusion.

Libra and Calibra could also approach private sector employers that make cash payments to workers with the same proposition. That would add another 230 million unbanked workers 235 million unbanked farmers to the mix.

Collectively, that would bring another 565 million people into the ranks of the banked and onto the Libra network with a Calibra wallet, ready to transact using the Libra currency.

A good idea — but perhaps a pretty tough sell, particularly at the same time that other schemes, including all the mobile money schemes that have launched successfully around the world, the card networks and well-funded innovators that are solving for specific use cases in their domestic markets are gaining steam. It is particularly hard to see Libra displacing Alipay or WeChat Pay in China for the unbanked or Paytm in India.

Just because consumers feel completely comfortable using Messenger and WhatsApp today to send and receive messages doesn't mean they will feel comfortable using them to send their own money to people who absolutely need to receive it.

The Libra and Calibra team understand this, too, and concede that implementing their vision is a long, slow build, perhaps even over “decades.” However, in payments, long slow builds don't always work to one's advantage, particularly when part of getting ignition means getting regulators on board who have the power to slow way, way down, or even stop progress.

Sending money to your friend shouldn't be harder than getting them an Uber ride home.
We're excited to work alongside the other Founding Members to help bring Libra to life.
Libra has the potential to bridge the gap between traditional financial networks and new digital currency technology while reducing the costs for everyone — especially consumers.

— PETER HAZLEHURST,
Head of Payments and Risk, Uber Technologies, Inc.

WHO WANTS A GLOBAL CURRENCY?

Libra has taken a page out of the payments industry playbook in setting up its initial charter: assemble an association of key stakeholders and establish a governance system that allows them to control and run it. That framework is what ignited the card networks many decades ago.

The big difference with Libra, and the big change for regulators, is the introduction of a single global currency into the mix, at the expense of domestic fiat currencies. That is where many may push pause, and where the regulators could decide to simply push stop.

It took a little bit of time, but regulators the world over have now agreed that bitcoin, as a global currency, is a non-starter, since no central bank wants to give up control of its monetary supply to a single global currency over which they have no control.

Bitcoin, of course, came with its own set of baggage. Even though Libra will be governed differently, more thoughtfully and responsibly, the issue of a single global currency persists — one that is out of the control of central banks. It may not help that it was an idea conceived by Facebook, even though Facebook has taken great pains to distance itself from having any

undue control of the network and the currency. Facebook is not exactly the darling of regulators today — and having the Calibra wallet as the first application running on the Libra network inside of two Facebook platforms may give them pause.

For regulators, and perhaps even many of the Founding Members that today operate regulated global payments rails, the real risk seems to lie in the creation and use of the Libra global currency for transacting across Libra rails.

It’s a concern that recently got the attention of the IMF head, who warned that ceding control of our financial services and payments schemes to FinTech firms, aka Facebook by name and Libra by inference, in her opinion, puts the stability of our financial system at risk. A risk that could become much more pronounced as the permissioned network transitions to a more permissionless state in five years’ time.

Persuading regulators that this risk doesn’t come with a severe downside also comes at a difficult time for Facebook. The [WSJ](#) reports last week of Mark Zuckerberg’s email trails around its privacy issues come at the same time that the FTC is about to hand down a [sweeping fine](#), and restrictions, for its data privacy failings.

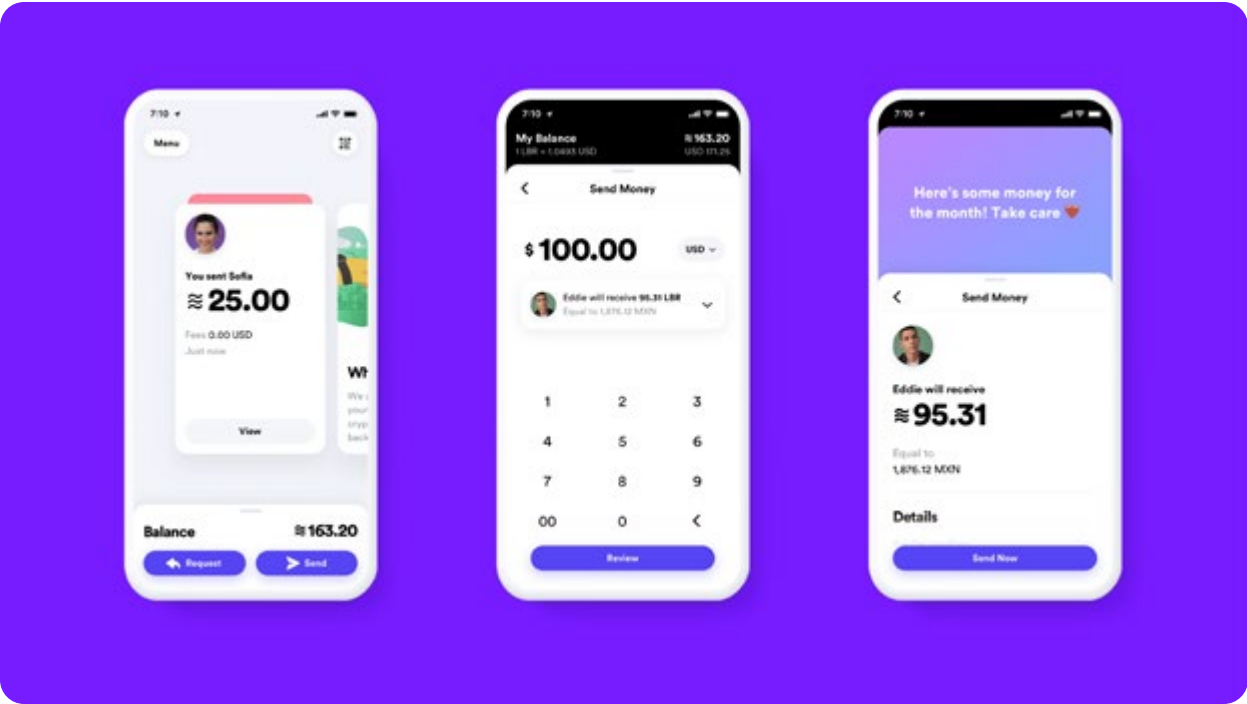
THE FACEBOOK ECOSYSTEM

Facebook sees the Libra network, the Libra currency and the Calibra wallet as an opportunity to monetize its massive user base. A new payments network and a new global currency, it hopes, will be enough to persuade the captive audience of 1.6 billion monthly active users on WhatsApp and the 1.3 billion monthly active users on Messenger to give it a try when sending money to family and friends. If they do, that could create the foundation for a global commerce network inside of the Facebook ecosystem.

Here’s the disconnect, still, for me.

Facebook says that low- or no-cost cross-border P2P payments is its initial use case, as is giving the 1.7 billion unbanked a low-cost or no-cost way to access the financial services ecosystem. I wonder if that’s simply window-dressing in an attempt to gain favor by the regulators — because otherwise, it just doesn’t make any sense.

Many of those who use Messenger for sending messages today have their own money transfer networks in place for sending money to family and friends cross-border. Persuading them to move to Calibra isn’t asking them to switch from Western Union to Remitly, but moving to something that is entirely



new, and — at least, as it is currently envisioned — without any way to get cash in and cash out.

As for the unbanked, and for all of the reasons that I just laid out, there are simply too many hurdles for Calibra and Libra to overcome to turn the unbanked into banked consumers, beginning with lifting them out of wrenching poverty. There are even more hurdles to persuade governments and employers to opt into Libra as a funding source for its citizens and workers (at least right now), when there is no easy way to spend it.

That leaves one use case: microtransactions.

It could be that Facebook uses Calibra accounts, and the Libra currency, to pay people small amounts for their data. Facebook doesn't necessarily want to do that, but regulators are suggesting that Facebook shouldn't be getting all that valuable consumer data for free (of course, users are getting Facebook for free in return, but that value exchange doesn't seem to register with the regulators).

In that case, Facebook would become a Calibra funding source, which could be enough of an incentive for consumers to release data to Facebook. That Libra/Calibra ignition strategy would help Facebook both preserve its

advertising model, keep the regulators happy and force the creation of Calibra accounts. If nothing else, Calibra and Libra provide an insurance policy if regulators start insisting that Facebook pay for consumer data and make those potentially micro, micro transactions easier. Provided, of course, that consumers have a place to spend their Libra.

Facebook may also be counting on Calibra and Libra to ignite a commerce ecosystem, which they have struggled for years to do. They may be looking enviably at China's Tencent, a social network and gaming behemoth, which is far less dependent on advertising than they are. Tencent, of course, operates commerce through WeChat, and its users can use WeChat Pay.

Then again, I could be completely wrong that these are the plans. Maybe Facebook and its Association Members really do think that Libra is the solution to the problems of the 1.7 billion people living in extreme poverty without bank accounts and money to put in them. But I just don't see how a digital currency, pegged to three non-domestic currencies, is going to help.

I was given an opportunity to be briefed by the Libra team in advance of the public announcement, and received materials to review in advance as well.

It's clear that the team has examined this issue from a technology perspective quite thoroughly, and taken on board the lessons learned from the decade-long bitcoin debacle and its attempt to solve the same global financial inclusion problems.

Bitcoin hasn't ignited as a general-purpose online payment method, despite billions in venture money, and the ecosystem of exchanges, wallets and processors (aka miners) that emerged to support its global payments ambition. The reasons are well known, but at least one of them is a lack of any real governance system — and assorted, and sordid, other problems.

After listening to the thoughtful approach that this team has taken to establishing Libra — the currency, the network and its governance — one is left to wonder where bitcoin might be today had it taken a page from the Libra playbook.

However, that was a decade ago, and 10 years is a long time in the payments world. Over that period of time, the payments and financial services ecosystem has made great progress in addressing the issues associated with moving money between people, cross-border, and in the domestic markets where banking and payments infrastructure is lacking in a safe, secure

and regulated way. Could it be better? Of course, and concerted efforts are in place to do that — in a way that consumers are familiar with, know and trust, using the fiat currency that they can spend in the places they shop — in physical and digital forms — in a way that brought 515 million people into financial services ecosystem over the last three years.

So, it's just not clear to me that a blockchain/global cryptocurrency solution — even one that is as well conceived as this one — is really what's needed to solve the problem of the 1.7 billion people in the world who don't have a bank account today, or even that it is likely to be able to do so.

I'm not even sure that's Libra's real objective.

July 1, 2019



If Facebook Wants To Be WeChat, Why Did It Launch Libra?

B Have you overdosed on [Libra](#) coverage yet?

And it's not even been two whole weeks.

[Facebook's](#) launch of Libra on June 18 unleashed a firestorm of media coverage, mostly repetitive, and mostly a piling on over the regulatory bear that it poked when unveiling its global payments plus cryptocurrency plans.

If you need a balanced refresher of Libra's impact on global payments, [here's how I called it](#) in a piece that published one minute after the Libra news crossed the wire.

In that piece, I offered a fact-based framework for understanding Libra's future and the several big "telltales" that will shape it over the short and longer term.

I'll reprise those for you at the end of this one.

But first, let me answer another of the burning questions on my mind as I more fully process Libra and [Calibra](#) (the Facebook digital wallet that will ride its rails).

If Facebook really wants to be [WeChat](#), an ambition it has referenced now for several years, then why did it launch Libra?

BACK TO THE FUTURE OF MESSENGER

Let me start with the punchline: Libra and Calibra are not WeChat, and they may never be.

To understand why, we need to do a little time travel back to July 2017, when Facebook's Messenger and its monetization strategy was front and center in the company's Q2 earnings report.

Three years earlier, Facebook hived off Messenger to become its own standalone app, and David Marcus, then PayPal's CEO, joined the Facebook team to own and monetize it.

Life was good for Facebook in 2017 – before fake news, before it was widely known that Facebook was manipulated by the Russians to meddle in elections, before it became widely criticized for playing fast and loose with the privacy and security of user data.

In fact, on [Facebook's Q2 2017 earnings call](#), there were high fives all around for its Q2 results. Active users had topped two billion, daily active users reached 1.3 billion, revenue was up 45 percent, profits were up 71 percent and mobile was driving a stunning 87 percent of ad revenue, just to highlight a few of the notable and impressive headlines.

Facebook CEO Mark Zuckerberg also mentioned as part of his prepared remarks that Facebook was planning to accelerate its investment in Messenger to “move faster” to drive activation and acquisition – and monetization – which he emphasized was still in “early days.”

That day, not surprisingly, Messenger became a key topic of conversation in the analyst Q&A. Before then, there was concern that ad growth on Facebook would slow given a change in how much ad content would be shown in the news feed. Analysts wanted to better understand Messenger’s role in potentially filling that gap.

In an almost “what-are-you-waiting-for” series of questions, one analyst even remarked how rare it was for any company with a billion active users to not have a monetization strategy – or the associated revenue that goes along with a customer base that massive.

Zuckerberg’s response to that – and to many other Messenger-related questions that July day – was consistent: [Messenger](#) is not a “near-term overall Facebook growth driver.” He added that because other messaging platforms had succeeded in creating a robust ecosystem – and Facebook had succeeded in monetizing Facebook and Instagram – the company was confident

that “over the long term, [Messenger] will get there, too.”

The questions posed by analysts that day were an attempt to dig deeper into a series of Messenger 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. Bots on Messenger were launched in April of 2016 – two years after Marcus took charge – to much fanfare. A year later, the bot hype was in the throes of a backlash, since the bot experience on Messenger was, to put it kindly, pretty clunky.

During those media interviews, Marcus defended messaging apps as the places where consumers would logically go to find things to buy and services to leverage. Messaging apps, and Messenger in particular, would become the consumer’s new inbox, he said. Bots were the ticket to that pivot and that user engagement.

Give it time, just wait and watch – even though, by his own admission, bots had become the poster child for way more sizzle than steak. Bots, he said, would eventually power the digital contact pages inside one ecosystem, making

it easy and convenient for users to do more than text their friends inside the Facebook messaging platform.

Just like Tencent has done successfully with [WeChat](#).

WHY FACEBOOK AND MESSENGER ARE NOT WECHAT

Before talking about trying to be WeChat, it’s important to understand what WeChat is.

WeChat started in a very different place and in a country, China, that is culturally quite unique.

Tencent’s WeChat was an extension of QQ, an instant messaging app for the desktop. Its base was an established network of people who interacted with each other and, among other things, played games, which was Tencent’s main business. When Tencent made the move to mobile and launched WeChat in 2011, it had to persuade QQ users to download and use the WeChat app.

And they did download and use it – because that network of friends in China had no other alternative to enjoy all of the benefits of using QQ over mobile. Over time, QQ had become about more than just sending messages and slick emojis to friends and playing games as part of a social network.

WeChat soon became that place where Chinese consumers could talk to their friends and make new ones, connect with brands they like and find new ones, and transact with them on and offline.

There simply weren’t any other options. Western brands like Facebook and [Google](#) were prohibited in China, and [Alipay](#) was more transactional than social, linking to [Alibaba](#) and [T-Mall](#) and the brands that sold there.

That’s why, then and now, WeChat has evolved to become an active ecosystem that attracts app developers and brands given its sheer size and user engagement – one billion daily active users – and the relative ease with which Chinese consumers can interact and transact with those brands. Size begets scale, and scale begets developers and brands who seek distribution on a platform that aggregates an emerging middle class of Chinese consumers. In fact, just last week, Cartier, Bulgari and other luxury brands agreed to sell on WeChat for that very reason.

Like Tencent and QQ, when Messenger separated from Facebook in 2014, it needed to get consumer and their friends to download the Messenger app. When Messenger was on Facebook, it was pretty easy to punch out to chat with Facebook friends while staying

inside Facebook’s ecosystem. Friends could see who were active and start a conversation.

But many of those close friends interacted with each other on a regular basis off of Facebook, and had other ways to reach each other: phone-based messaging apps, LinkedIn, email and the many other competitors that had surfaced to pull people off of Facebook, like Instagram, WhatsApp and Snapchat. So, not downloading the app in the U.S. and the U.K., for instance, didn’t come with much of a downside. Users could still stay in touch with those friends – it just meant using one of the other channels they already had in place. For some, Messenger became just one more channel to manage and check.

Back in 2014, Messenger users also had a different view of their “one place” to do all of those things – and it wasn’t any of their messaging apps. Instead, it was an ecosystem of apps that they used regularly and could access on their mobile phones: Uber, Amazon, Walmart, PayPal, Square, banking apps, OpenTable, Facebook, Instagram, Google, Venmo – and yes, WhatsApp and Messenger, to name but a few.

But they used them in the context for which they were intended, and engagement was efficient and suited their needs: messaging apps to talk to

friends; Facebook to broadcast what they’re doing to big groups of people they haven’t seen in years; Amazon, Walmart and Google to search for stuff to buy and then buy it; and PayPal to check out more easily online.

Since then, many of those same apps have created and scaled their own ecosystems of services. Some now even meet a wide spectrum of needs for the users they have attracted: taking funds in, viewing and managing transactions, paying bills, sending money, paying for things on and offline, and searching for things to buy within a single ecosystem.

For example, consumers can now book an Uber from a messaging app or via OpenTable. They can load cash into their PayPal accounts and pay bills or buy things from merchants that accept PayPal. Inside the Amazon ecosystem, consumers can load cash onto Amazon store cards, buy groceries using EBT cards, search and buy things and listen to music and watch movies. Consumers in developing countries can order online from Amazon and use Western Union agents to settle up in cash and pick up their packages. Inside the Walmart ecosystem, consumers can shop on and offline using the same method of payment, send money domestically and cross-border, load cash into their wallets and pay bills. Square Cash

enables P2P payments and takes in funds – now including bitcoin deposits.

The same holds true in developing countries. Grab, Paytm, Alipay and WeChat have all expanded their app functionality and acceptance regionally and globally to give users a single place to organize and manage their money, their purchases and their relationships with merchants and service providers.

And all of them – developed and developing – use regulated rails, bank accounts and compliant fiat currencies to remove user confusion and friction, establish trust, enable merchant acceptance and accelerate market entry and scale.

Just like WeChat did.

OF MESSENGER AND LIBRA

Since it was set off on its own, the number of active Messenger users has more than doubled, and it is one of the most widely used apps worldwide.

Monetization strategy, however, has yet to click.

It hadn’t in 2017, and Zuckerberg made it clear he was willing to play the long game. A year later, in May of 2018, Facebook launched a new blockchain business unit, and Marcus was put in

charge to lead it. A year after that, Libra and Calibra was born.

Now we know what Messenger’s monetization scheme is – and it is really, really, really a long game.

And it looks nothing at all like the WeChat playbook.

It was a big ask for consumers to download the Messenger app back in 2014. It seems an even bigger one to ask those consumers to download another app inside Messenger – Calibra – for the sole purpose of sending Libra currency via a Calibra digital wallet to friends, with no other use cases in sight for a very long time. It, in many cases, means giving up something else that they do off Messenger for something that is new, and quite limited in how it can be used.

It’s also not clear to what extent the bot revolution on the Messenger platform has inspired consumers to do more than message each other – in other words, laying the foundation for the launch of an entire “from-scratch” payments network, currency and commerce ecosystem. There are stories of micro-merchants using it as a channel to sell, but it’s not clear how widespread those use cases are and the extent to which they have traction and scale. MoneyGram and Western Union both have bots inside the Messenger platform, but no one is

talking about them being used much for P2P payments.

It's also not clear why new rails and a new global currency was Messenger's path, instead of leveraging existing, regulated global rails of existing players in an effort to gain scale, trust, merchant acceptance and access to users with wallets ready to transact – particularly when 69 percent of people worldwide, and 63 percent of people in developing countries with money have bank accounts. As I cited in my [piece](#) on Libra, the World Bank reports that 75 percent of those without bank accounts are living in abject poverty without money to put into one.

And particularly when none of the other commerce ecosystems, including WeChat, felt the need to create an entirely new payments network and digital currency to ignite commerce on their platforms. Apple didn't need to create an entirely new mobile telecommunications network to launch the iPhone.

It just doesn't click.

Because if Facebook and [Libra and Calibra](#) really wanted to be like WeChat, and become that "one place" for people all over the world, they'd be doing none of those things.

TIPS FOR LIBRA WATCHING

It will be two weeks tomorrow that we all got our first look at Libra and Calibra. No doubt there will be countless news stories to come, and opinions on why it will or will not fly. Here are the things I will be watching for over the coming months, things that I think provide a useful framework for understanding how Libra and Calibra's future takes shape:

How many of the 28 Founding Association Members will pony up \$10 million to remain members.

A point of enormous confusion in the press is what the 27 non-Facebook companies have agreed to do at this point. That agreement, as outlined in a Letter of Intent, is to show up at meetings to help shape Libra's governance, charter and mission. That's it. No money exchanges hands until those meetings have happened and everyone agrees to what "it" is. Among other things, that will depend on what it means to be an Association Member.

Whether being an Association Member requires an agreement to validate and process transactions on the Libra network.

The Facebook Libra whitepaper states that Association Members must agree to operate as validators on the network. For many regulated, compliant global players like Visa, Mastercard and PayPal, that could come as a big ask, particularly since it means saying yes to processing transactions that use the Libra cryptocurrency.

Given the regulators' antipathy toward cryptocurrency, that could be problematic. Things could change if regulators give Libra the green light, but the light right now seems firmly stuck on red.

What isn't helping – and I am sure that Facebook has had this same thought – is bitcoin's surge post-Libra's launch. If I were Facebook, I'm not sure I'd be thrilled to be positioned as the catalyst for bringing bitcoin and all of its big-time baggage back from the depths of demise. I'm not sure that many of the current players who've agreed to take a seat at the table like that much either. For sure, it just muddies the context with which regulators may look at Libra.

So, the big development to watch here is whether there will be tiers of membership that allow members to listen, observe and vote if they don't want to participate as part of the network from a processing standpoint. To most of these players, ten million

bucks is chump change, and worth the investment in keeping close tabs on what's going on.

Who the other 72 Association Founding Members will be.

Facebook has stated they will remain actively involved with Libra throughout the remainder of 2019 in order to recruit other Association Founding Members. The goal is to hit 100 – and their \$1 billion threshold for funding Libra and creating a reserve for the Libra currency. (Ten million dollars times 100 members equals \$1 billion.)

In theory, as I mentioned in my initial piece, creating an Association to govern Libra isn't a nutty idea – it is the same structure and governance the card networks used to start and ignite their global networks.

But there are two big differences.

Visa and Mastercard didn't, as part of the ask, require banks to do business using a fake currency. Further, all of the members had similar interests, operating principles, regulatory constructs and shared goals.

The only way Libra has a shot at becoming anything close to a global payments network is to make sure its membership checks that box, too, so the governance reflects the input of

like-minded players. That seems like it could represent a massive challenge today, given that the network and the currency are comingled – and one can't exist without the other.

If regulators can't see past the red light of crypto, and membership requires transacting on the Facebook network, that is likely to keep global banks out. It will, however, attract the zillions of crypto enthusiasts and crypto payments gateways who now view Libra as a path to their own legitimacy. Having a disproportionate number of those folks at the table increases the risk that the Association and Libra will evolve into a rogue set of alt payments rails run by people who have been waiting a decade for this big break. That would not be a good development for Libra.

Whether Libra can get past all of this in a relevant timeframe.

Libra's plan to reinvent global payments for people and businesses is an ambitious goal. [But as I said in my original piece](#), they couldn't have made it any more complicated.

For Libra to ignite, everything has to change, and for everyone: regulators, networks, banks, merchants, acquirers, consumers, businesses, governments. And in every single country on the planet. And all at once. I can't think of

anything that has ever tried to do this and succeeded, in a timeframe that is relevant to anyone. Particularly when the only way to launch a new currency is to have central banks say yes and governments mandate its use.

Today, that is a material concern for Facebook and Libra. Time is an important currency, and given the pace of technology and the global scale that payments already enjoys, it poses more of a threat to Facebook than Libra does to those it hopes to serve, and disrupt.

Consumers and merchants have many other options and will continue to deepen those relationships. Banks and networks have their own traction, operating at scale globally, and with a focus on financial inclusion, in a compliant and regulated way, and without Facebook's reputational and regulatory baggage. Regulators today have zero incentive to rush their decision about regulating crypto, not just Facebook's Libra. And given their current attitude toward Facebook, they have no real incentive to cut the social network much of a break.

Time is an important currency for investors who, two years ago, were already impatient for Messenger's monetization strategy, and were then told to be patient. For Libra and Calibra, their monetization strategy involves a

potentially decades-long wait, laced with the uncertainty and expense of getting both off the ground and at scale. It's hard to understand why, with Facebook's many other issues, they decided on a payments monetization strategy that comes with so much controversy, so much complexity and has little chance of success when other viable options were available to them.

Perhaps I am missing something – a secret acquisition play or back-pocket Member that will cause everyone to sit back and say, “okay, now I get it. And it all makes perfect sense.”

I'm dubious.

It's more likely that Libra and Calibra will become Messenger's monetization strategy, but for Facebook and about Facebook. The 2020 version of [Facebook Credits](#), but using the magic elixir of blockchain crypto rails instead inside of their own ecosystem.

Even without an ignition strategy, that will likely end [the very same way](#).

And, yes, anything but like WeChat.

July 15, 2019

Facebook Slapped With \$5B FTC Fine, But Still Has Lots Of Friends



The most interesting story about Facebook since the [Cambridge Analytica scandal](#) broke is one that hasn't really been written.

And it's the one about the value platforms can create for their customer groups, at scale.

Despite the news over the last year or more about its involvement in fake news, election tampering and user data breaches – and even before that about the bullying, live beheadings and murders broadcast and shared on its platform – people still show up at Facebook's doorstep every single day.

Billions and billions of them, and more new ones every quarter.

In the year since the near daily coverage of Facebook's missteps over the 87 million users whose data was used without their knowledge or permission, Facebook's revenue has soared.

And its user base has grown.

All of those things might help to explain why, despite [The Wall Street Journal's](#) reporting on Friday (July 12) that the FTC had reached an agreement to fine Facebook \$5 billion, the company's stock closed at \$204.87, up \$3.84 (1.81 percent).

THE FACEBOOK FRIDAY

As The WSJ noted, the fine that the FTC is ready to impose against Facebook will be the largest ever against a technology company. It is reported to result from a 3(R)-2(D) decision by commissioners after determining that the user data issues related to the 2018 Cambridge Analytica breach violated the 2012 consent decree Facebook entered into with the FTC. That breach started a groundswell of bi-partisan support for fines, other penalties related to governance and personal liability of Facebook's CEO, new regulations – and even the breakup of the company.

This news comes from “persons familiar with the matter,” and neither the FTC nor Facebook have commented. What's not yet known is the extent to which some or any of those other remedies may yet be imposed. Those familiar with the matter add that the reported remedy is also sufficiently vague about other actions, including those against Mark Zuckerberg personally, if it can be proven he had knowledge of Facebook's user data lapses.

Market pundits say Facebook's uptick in stock price can be attributed to the fact that a big fine was already baked into that price.

On Facebook’s last earnings call, Zuckerberg signaled that they were reserving \$3 billion in anticipation of such an FTC action. As a company with a market cap of \$584 billion, [Facebook has about \\$45 billion in the bank](#), and generates about \$5 billion in free cash flow per quarter. That makes a \$5 billion fine the corporate equivalent of a large traffic ticket – a nuisance to have to pay, but not something that will jeopardize the company’s financial standing. After all, it’s not like it was \$15 billion – so what’s the big deal?

Platform pundits, like me, attribute the stock price jump to something more intrinsic to the business Facebook has built over the last 15 years: the value of the platform to its stakeholders, despite its recent scandals.

THE POWER OF THE PLATFORM

Last quarter, Facebook reported that its active daily users crossed the 1.5 billion mark to 1.56 billion, up 8 percent.

On average, they reported, more than 2.1 billion people used at least one of the apps in the Facebook family – Instagram, WhatsApp, Messenger or Facebook – every day, and 2.7 billion using them every month.

User growth is clipping along in developing markets like India and the

Philippines, and still growing – albeit more modestly – in developed markets like the U.S. and Canada.

Those eyeballs bring with them the money side of the Facebook platform: advertisers.

[Facebook](#) reported that its Q1 total revenue was up 26 percent to reach \$15.1 billion, and its total ad revenue was up 26 percent at \$14.9 billion. Mobile ad revenue grew 30 percent year over year, as did the diversity of its advertiser base. In Q1, Facebook reported that its top 100 advertisers represented less than 20 percent of its total ad revenue – not because the big guys are pulling back, but because the long tail of advertisers is jumping in.

Ad growth was strongest in the U.S. and Canada – up 30 percent – followed by Asia-Pacific, at 28 percent. Europe grew more slowly, at 21 percent, in part given the increase in the number of consumers who opted out from having their data used to more precisely target ads to their feeds. Facebook’s CFO cited GDPR as an ad-targeting “headwind” that could interfere with its performance in Europe and in other markets that could adopt similar regulations going forward.

Admittedly, Facebook’s growth in both users and ad revenue sounds rather counterintuitive for a platform that has

been implicated playing fast and loose with its users’ data.

But advertisers keep showing up, because consumers keep showing up.

And consumers keep showing up – because they find value in how they use the platform today.

Even though they also say they don’t trust Facebook the same way they once did.

TRUST, BUT ADJUST

Consumer Reports did a [study of American consumers](#) in May of 2018, shortly after news of the Cambridge Analytica scandal broke – and then again in January of 2019.

They found that despite thinking about and threatening to disconnect from the platform, only 10 percent of Facebook users actually did so. The other 90 percent remain solidly engaged because they value the ease with which they can stay in touch with friends and family (72 percent) and participate in and get information about groups (25 percent).

What we don’t know is whether the 10 percent that dropped Facebook used it all that much to begin with.

The reason consumers stick around is that Facebook makes it easier for its platform stakeholders to interact – and

thus enable the platform to monetize those interactions and scale.

That’s what platforms do – or, at least, the platforms that live as long as Facebook.

Platforms that deliver great value figure out where frictions exist, and then use a variety of strategies to assemble a critical mass of customers on one side who will appeal enough to a different group of customers so that they will pay to access them. Platforms then play the role of matchmaker in bringing those sides together and monetizing those interactions.

This platform framework, one that my colleagues at Market Platform Dynamics and I first introduced publicly back in 2007, shows the platform playbook in a step-by-step process. It’s a framework that first appeared in a Harvard Business School book that we wrote and published that year, titled *The Catalyst Code: Understanding the Secrets of the World’s Most Dynamic Companies*.

The Facebook platform formula is well-known: First, get college students and their friends on board, then more and more people as they bring their respective social networks to the platform, and then advertisers who want access to those eyeballs.

It’s a platform framework that also helps to explain why Facebook remains resilient, even when advertisers and consumers have other options: the friction for both sides to leave is far greater than for both sides to stay.

As long as that remains true, advertisers will keep showing up, and so will consumers.

And Facebook’s platform will continue to grow.

All that being said, over the last year, Facebook users have changed the nature of their interactions with the platform.

According to the same *Consumer Reports* study, 44 percent of Facebook users have changed their privacy settings, 39 percent have blocked certain users, 38 percent have curtailed posting comments, 37 percent have turned off location tracking on the app and 34 percent have blocked advertisers, up from the 28 percent reported in May of 2018.

The “half-empty” view of those stats might suggest that as users are taking more control of their settings and blocking access, advertisers and Facebook will increasingly be pushed out.

THE CATALYST FRAMEWORK

Source: Market Platform Dynamic



The “half-full” view is that consumers’ ability to more precisely control who can access their data and show up in their news feeds is an innovation that will help keep the value of the platform strong for both advertisers and consumers.

Considering the media bashing about ad-supported platforms, consumers don’t mind seeing ads as much as one might think. In fact, according to [eMarketer](#), only 25 percent of all internet users block ads.

Consumers especially don’t mind seeing ads that are targeted to their interests – but they do mind getting ads for things that aren’t. The only way consumers can get a better experience is if advertisers have relevant user information, and the ads they serve make those matches possible. Consumers are smart enough to know this – and they accept it.

Facebook, by providing stronger privacy settings and allowing consumers to block advertisers they don’t want to see, is actually a platform value-add.

It helps advertisers get better data about who doesn’t want to see their stuff (so they don’t pay for worthless clicks), helps Facebook save money by not showing ads to consumers who probably won’t click on them and instead giving them something they will (which is how the company makes

money), and helps consumers see ads – and posts – that better align to their interests (which keeps them coming back).

FACEBOOK AND PAYMENTS

These survey results, and Facebook’s quarterly results to date, show that consumers find Facebook valuable as a way to stay in touch with friends, family and groups, and to see targeted ads as part of that experience.

Since the Cambridge Analytica scandal, though, users have expressed an increasing distrust of Facebook: 25 percent say they are “extremely” concerned about how Facebook uses their information. And, as the earlier stats show, they are being more proactive about who gets that access.

That still leaves a lot of people who don’t block ads and keep coming back. But lots of people aren’t concerned, don’t block ads and keep coming back. That doesn’t mean Facebook has – or will ever have – earned enough trust to expand its use beyond just a social network and an advertising platform.

Specifically, an expansion into payments and financial services.

Commerce and payments have long been on Facebook’s roadmap, well before Libra’s launch. Over the years,

those efforts have languished on the Facebook platform. Facebook executives say transactions on Marketplace are growing, but little more than a rounding error in terms of financial results: \$14.9 billion of the \$15.1 billion in Q1 revenue was all driven by ads.

The fact can’t be all that surprising to Facebook, user data scandal notwithstanding.

When it comes to their money – where consumers keep it and how they spend it – study after study show it’s with brands consumers trust, and with which they have first built a trusted commerce

and payments relationship. That’s their bank, the card networks, FinTechs like PayPal, merchants like Amazon and Walmart, and the mobile wallet players like Grab, in developing countries, WeChat and Alipay, in China. (Yes, WeChat is the exception to that rule, but so is China and how WeChat started.)

The 2018 update to our annual [How We Will Pay study](#) of 6,000 U.S. consumers showed that Facebook was dead last in a list of who consumers would most trust to innovate their payments experience – a study done four months after the details of the Cambridge Analytica story were made public.



Our more recent study on [Where We Will Bank Next?](#), done earlier this year, which identifies brands that consumers might have an interest in banking with, showed that Facebook’s results were only slightly different.

WHAT’S NEXT

A platform that has created enormous value by making it easier for consumers to stay in touch with each other isn’t logically the same platform that can easily make the transition to the “super app” that consumers then use to manage and spend their money.

Nor should we – or they – even expect that.

It’s not even clear that the transition from social network to commerce platform would have been possible, Cambridge Analytica scandal notwithstanding. And now that it’s front and center with lawmakers and regulators, it’s a transition that seems off-base and off-track.

The fifth pillar of The Catalyst Framework is about evolving the platform – scaling it, finding adjacencies that can leverage its platform assets and new ways to monetize its customers. It also cautions to “look out for cops” – which, in the platform world, are the regulators.

Regulators can be a more powerful disruptor to platforms than competition, because they also have the power – through regulation – to attack the money side of the platform. For Facebook, that means how they use data, because at its core it is an advertising platform on top of a social network, and the ability to use data to target advertising is how it makes money.

For Facebook, the cops – the regulators and Congress – want their pound of flesh. The ill-timed launch of the ill-conceived [Libra](#), and Calibra, and its new rails and cryptocurrency, has only added more fuel to their arguments.

They want a [breakup](#), whatever that means – although it sounds tough, it is potentially a move that could add more value to shareholders.

They want fundamental changes to the Facebook business model – yes, let’s tell voters that Facebook should charge them for access to their friends’ networks.

They want Facebook to transfer more control to the consumer over how data is captured and accessed –which seems like a winner to me, and something Facebook has already started to do, although perhaps too little and too late for the regulators’ taste.

The more these regulators and policymakers dig in, and the more successful they are, the less valuable the Facebook platform will become for consumers, and then the less valuable it will become for advertisers.

What Facebook has going for it is that an awful lot of people, and voters, seem to love it, despite last year’s events. So maybe at the end of the day, it’s possible that the politicians and regulators will just vent to look good to the public and to voters – and push to the back burner any actions that could crater the value of the platform consumers seem to like and use.

The ill-timed launch of the ill-conceived Libra, and Calibra, and its new rails and cryptocurrency, has only made that harder. Even though, ironically, that’s how Facebook would like to hedge its bets against whatever regulators have in store.

The market reaction to the \$5 billion Facebook fine on Friday was that it was no big deal, and that the value of the Facebook platform will prevail.

I guess we will have to wait and see.

July 22, 2019

What 'Stranger Things' Teaches Us About Attacks On Big Tech

A couple of months ago, I decided to give [spinning](#) a try. I'm a runner, not a biker, but wanted to see what it was like. When I realized I needed to buy a pair of [spinning shoes](#) for a spin class three days later, I went to [Google](#) to find articles on the latest and greatest styles, and then to [Amazon](#) to read reviews and make my purchase. Twenty minutes later, I placed my order and received a confirmation that my spinning shoes would arrive two days later, which they did.

I was traveling at the time, so that shopping experience worked really well for me. Had I been in town, I might have used Google to find a store near me in Boston that carried the brand I wanted so I could try before I bought.

But I had options: lots of choices for what to buy, places to find information about what to buy, a choice in how to buy it – and an easy way to access those options and choose before my class.

FYI: Spinning is fine, but I'll stick with running.

I tell this story not to give you a peek into my fitness likes and dislikes, but to make a point about the [lawmakers' attacks last week on Big Tech](#). They grilled execs from Google, Amazon and Facebook over claims of their size

and power, which is said to be driving smaller companies out of business, reducing opportunities for new innovators to emerge and tilting the competitive playing field too far in their direction.

Unfortunately, caught up in the "[Big Tech is bad](#)" frenzy, they seem to be ignoring the innovations those platforms have created – all of them – which democratize the retail field of play to be more inclusive of small merchants in ways that were never before possible.

And have given consumers a lot more choices than they ever had.

OF "ALL-DEVOURING MONSTERS" AND "SLIMY OCTOPI"

We've seen this movie before.

The current complaints about Big Tech are pretty much the same as complaints that go back hundreds of years (based on the paper trail), or perhaps longer.

Claims that "[all-devouring monsters](#)" (large format grocery stores) were "destroying the little man" was the topic of a chapter in a book entitled "Fame," published by ad executive and author Artemas Ward in 1897.

Main Street merchants banded together in the early 1890s to complain to lawmakers about the impact of

department stores on their own businesses. [William Leach](#), in his 1994 book, "[Land of Desire: Merchants, Power and The Rise of a New American Culture](#)," cites town hall meetings in 1893 organized by groups of small merchants, who claimed that large retailers "foster tyranny across the country" to shift the balance of money and power and control their way.

Leach writes in his book that the organizers leading that charge were the specialty retailers — liquor stores, butchers, florists, jewelers, furniture stores, shoemakers — all demanding that their state legislatures levy taxes on the "octopus which has stretched out its tentacles in every direction, grasping in its slimy folds, the specialist or one-line man."

The "octopi" were the department stores that had emerged, challenging the lock on trade and consumer choice that these "one-line men" had in their verticals in their cities and towns. Their mission was to inflict legislative pain on the big guys in an effort to artificially protect their flanks with the consumer.

Sound familiar?

In those days, Main Street USA was quite literally the butcher, the baker and the candlestick maker. Consumers' choices were limited to what they carried, which was directly related to

what they could afford to buy, and what they had room to display in their shops. If a consumer needed green and all the store owner had was yellow, it was yellow or nothing at all.

For those merchants, life and business was good. Competition in other cities and towns was too far away to be practical, so consumers didn't complain — they took yellow instead of green and shopped at their stores.

Until they didn't.

The department stores that emerged in the later part of the 19th century changed the playing field in more ways than one. They gave consumers choice — millions of square feet of products, prices and a constantly changing selection. Consumers liked what they saw — and wanted even more.

By the turn of the century, department stores had become the cornerstones of entirely new ecosystems that drove consumer consumption to record levels that, in turn, created new manufacturing, wholesale and supply chain opportunities for producers eager to capitalize on that demand.

Margaret Mead's mother, Emily Fogg Mead, [wrote in 1901](#) that department stores and the consumer's thirst for consumption drove the invention of entirely new products. She called

out "pickle and olive forks, berry and mustard spoons, sugar spoons" as examples of product innovations that spanned every category of consumer spend, from food to home goods to clothing — innovations that would only expand, because the consumer wanted more.

Ad agencies emerged and flourished to help department stores promote their products — and the value of those products. Artists were employed to create posters for store windows and train stations. Little known fact: Leach writes in his book that Georgia O'Keefe made a tidy sum in 1927 by painting posters that graced department store walls and windows.

Newspaper circulation increased because of the ad revenue created by stores that wanted to get their messages in front of those eyeballs, which drove feet into those stores and boosted purchases by consumers. Transportation options expanded and flourished over the years, making it easier for consumers to get to those stores. Home delivery gave consumers the option to buy and arrange delivery for the same day.

In addition to a vast array of new products, department stores eventually offered something else of value to the consumer: a climate-controlled shopping environment.

Even 119 years ago, merchants were laser-focused on expanding the number of days and hours for consumers to shop by eliminating frictions that got in the way. Making stores warmer in the winter and cooler in the summer created a more comfortable environment for consumers to visit and shop. Without air conditioning at home, stores not only became a place for consumers to buy things, but also a comfortable place for [shoppers to hang out](#) on hot summer days.

[Department stores](#) as places to shop, for producers to show their wares and for small businesses to grow their presence, became so popular with consumers that the legislative measures targeting their very existence gradually eased. Taxes and other measures put in place years earlier were even rolled back.

It seems that no lawmaker wanted to go home to the lady of the house to explain why his actions were the ones that blew up the shopping experience that she found both desirable and efficient.

After all, [hell hath no fury like a women's scorn](#) — particularly when it gets in the way of how she shops and what she buys.

Even 100 years later.

STRANGER THINGS AND RETAIL

The setting for [season three](#) of the [Netflix](#) blockbuster [Stranger Things](#) is the [Starcourt Mall](#). The season takes place in the year 1985 – 10 years before eCommerce and Amazon, and seven years before today's 27-year-old millennials were born.

For many of the more than [40 million people](#) who have watched the show so far, it also serves as a bit of a history lesson in the evolution of modern-day shopping.

Starcourt Mall was probably a blast from the past for some, evoking fond remembrances of having Mom or Dad drop them off at the local mall to hang out on evenings and weekends. That's what teenagers did 34 years ago for fun.

It was also a look, maybe for the first time for some, at what was then a real innovation in shopping. Malls weren't invented in the 1980s, but it was certainly when they hit their stride.

The 1980s were regarded as the [glory days of the shopping mall](#) – the department store concept on steroids with a suburban twist, as consumers moved out of cities and into the 'burbs. Consumers could make one trip, park for free near the mall entrance and shop at dozens of stores. Department stores became mall anchors – and the mall became the one place to find lots of stores and product options.

In addition to providing choice, malls also eliminated the friction in accessing that choice. Before malls and lots of stores available for the searching, there was the [Yellow Pages](#).

Instead of having to find and then call stores from the Yellow Pages, hoping that someone would pick up the phone and that the person on the other end could confirm whether a product was available, it was far more efficient to hop in the car and drive to the mall. Odds were the consumer would find something to buy.

Between 1956 and 2005, 1,500 malls were built in the U.S. [The New York Times](#) reported that by 1992, there were 48 malls within a 90-minute drive of Times Square.

Malls also became the magnet for Main Street merchants to, again, protest the competitive hit to their business that their presence created.

In season three of *Stranger Things*, there is one scene where angry mobs of merchants are protesting in front of City Hall because Main Street businesses in Hawkins, Indiana are being shuttered due to this new shopping innovation. One store in particular – which employs one of the show's main characters, [Winona Rider](#) – is on life support because of the mall ... the same mall where she takes her kids to hang out and shop (and who ultimately save it from the [Mind Flayer](#)).

For still others, like me, Starcourt Mall was a reminder of how much less friction-filled today's shopping

experience is, and how much more choice consumers have about what to buy and from whom – and when those purchases can be made. (Of course, there are some serious issues with the Starcourt Mall specifically, but I don't want to spoil the season for those who haven't yet binged.)

And there are the opportunities for participants in the commerce ecosystem that Big Tech innovations have created.

THE REAL RETAIL COMPETITION THREAT

Consumers can, like I did for my spinning shoes, shop anywhere – even at 37,000 feet – and have products waiting for them when they get back home.

Consumers can search on Google for products “near me” and find the store address, hours and websites to buy from.

Small businesses can target their advertising messages on Google and Facebook down to a level of detail that increases the odds that someone with an interest in their product or service will click.

Ordering from Amazon now introduces consumers to products from third-party sellers they'd otherwise never find – 58



percent of Amazon's sales are now from these sellers.

[Marketplaces of all types](#) aggregate merchants around interests, improving the odds they will be found. Brands today don't even need stores – they can now go directly to the consumer, on channels like Instagram. [Delivery aggregators](#) give local restaurants a place and a chance to be discovered, with the added convenience of delivery to the place where the consumer wants to eat their food.

Hosted shopping carts and commerce providers democratize the shopping and payments experience for small sellers, letting them look and play big and giving them the best-of-all-worlds experience: the ability to sell in their own storefronts and on their own websites, and to integrate with relevant marketplaces like Amazon with a single POS experience. That means small merchants now have three times as many chances to reach consumers in whatever context they may be looking to buy – with an added dose of operational efficiency.

Consumers have a choice in what they use to pay for those purchases, and suppliers have new payments and credit innovations to accelerate receivables and cash flow.

In my mind, that should make the competition – and therefore the conversation – not about Big Tech or small merchants, but about a commitment on the part of every merchant to deliver consumer choice.

CHANGING THE CONVERSATION

Looking back, every inflection point in retail has stemmed from the new guard doing more to deliver consumer choice than to protect a retail environment that can't.

Card networks gave consumers a better way to pay at all of the merchants where they wanted to shop. Department stores offered more choice than shopping up and down Main Street. Malls and superstores in the 'burbs, like [Walmart](#), gave consumers more options about what to buy in a more convenient location.

And now Big Tech is doing the same thing: creating robust commerce ecosystems that help merchants of all sizes and types move past the status quo to where and how consumers want to shop.

Because that's what consumers want to do.

Sometimes that means consumers will go to the physical store, sometimes that means transacting entirely online – and,

increasingly, it means a blend of the two.

But it's always influenced by the consumer's love of apps, their 24/7/365 use of connected devices and the expectation of real-time access to the products, merchants and payment methods made possible by those Big Tech platforms.

It's hard for anyone – even for lots of lawmakers, I would imagine – to conclude that Big Tech is so bad and has stifled so much competition, considering that we all seem to have a lot more choices, hence more competition, for our daily spending. Many more businesses can compete for my spending as a result of these global marketplaces and advertising platforms, which can use targeted data to serve up ads for things that I am more likely to buy.

And it isn't just my spinning shoes.

For much of what I buy now, I seem to have more choices, and more competitors chasing my dollar than I ever did. I'm not tied to local physical merchants who didn't give me that choice, and required an investment of time that I don't always have to shop in their stores.

Besides, what lawmakers want to admit to their constituents – much less the

most important constituents at home – that they were the ones who threw sands in the wheels of their shopping experience?

Especially since the consumer seems to be pretty good about doing that all on their own when something they like better comes along.

July 29, 2019

Who Will Be The Consumer's Everyday App?



Everyone wants to be the consumer's everyday app – the “super app” to rule them all, the front door into the goods and services consumers use as they go about their day.

It's what WeChat is to the Chinese consumer and what Grab and Gojek would like to be for those living in Southeast Asia. It's what every [Big Tech](#) and FinTech player – Google, Facebook, Amazon, Apple, PayPal – aspires to be, too, even if they haven't publicly said so. Every new function, feature, acquisition and platform extension is an attempt to add another layer of functionality to capture more of the consumer's time, attention and spend.

Everyday apps *don't have to do everything* — rather, their value is about enabling a more streamlined connection to the activities that are part of the consumer's *everyday journey*.

The appeal in being that front door is obvious: the ability to monetize access to the consumers who use it and the interactions that happen inside that ecosystem.

But it's an ambition made more challenging by multiple apps from different providers, which have eliminated much of the hassle once associated with finding and accessing those products and services.

And more than half of consumers in the U.S. are, today, more or less ambivalent — even though a third of them say it's something they'd really like to use.

THE EVERYDAY APPS

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

Today, consumers use bank apps for checking their balances and paying bills, investment apps for managing their money, payments apps and digital wallets to store balances and [pay for things](#) they want to buy, ride-hailing apps for getting around town, reservation apps for dining out, delivery apps for eating in, travel and hotel apps for booking trips, transit apps for public transportation access, merchant apps for shopping, email apps for work, calendar apps for organizing schedules, messaging apps for texting with friends and colleagues, social apps for keeping up with friends, streaming apps for watching videos, dating apps to find romance, streaming apps to listen to music and play games, digital

content apps for reading news and books, search apps for getting information, map and navigation apps for getting directions and fitness apps for tracking their health.

In fact, in June 2019, a PYMNTS study of 1,037 U.S. consumers, a representative sample of the mobile-using public, found that consumers access one of more than 44 different apps the very first thing when they wake up every day across those different categories – from email to their calendar to [mobile banking](#), social media, shopping and messaging apps. When asked which app consumers first look at when they wake up in the morning, it was either a social media app like Facebook (or Instagram if they are millennials) or text/email to organize and plan their days.

Those apps, however, largely compartmentalize access to everyday activities. It has become more convenient to check how much money is in a consumer's checking account via a [banking app](#), find what they might want to buy, then determine whether their favorite retailer has the item available for in-store pickup and how long it might take to drive to the store to pick it up after ordering online.

It takes four different apps and four different interactions across those apps and many minutes to close the loop on that single flow.

But a huge improvement, for sure, over the old-fashioned way of 20 years ago, when that single flow required calls to the bank and trips to the store – and much, much more time, with a lot more uncertainty of the outcome.

So, PYMNTS wanted to know if consumers, after a decade of living in a multi-app, icon-based world, wanted more – the everyday super app that could streamline those flows.

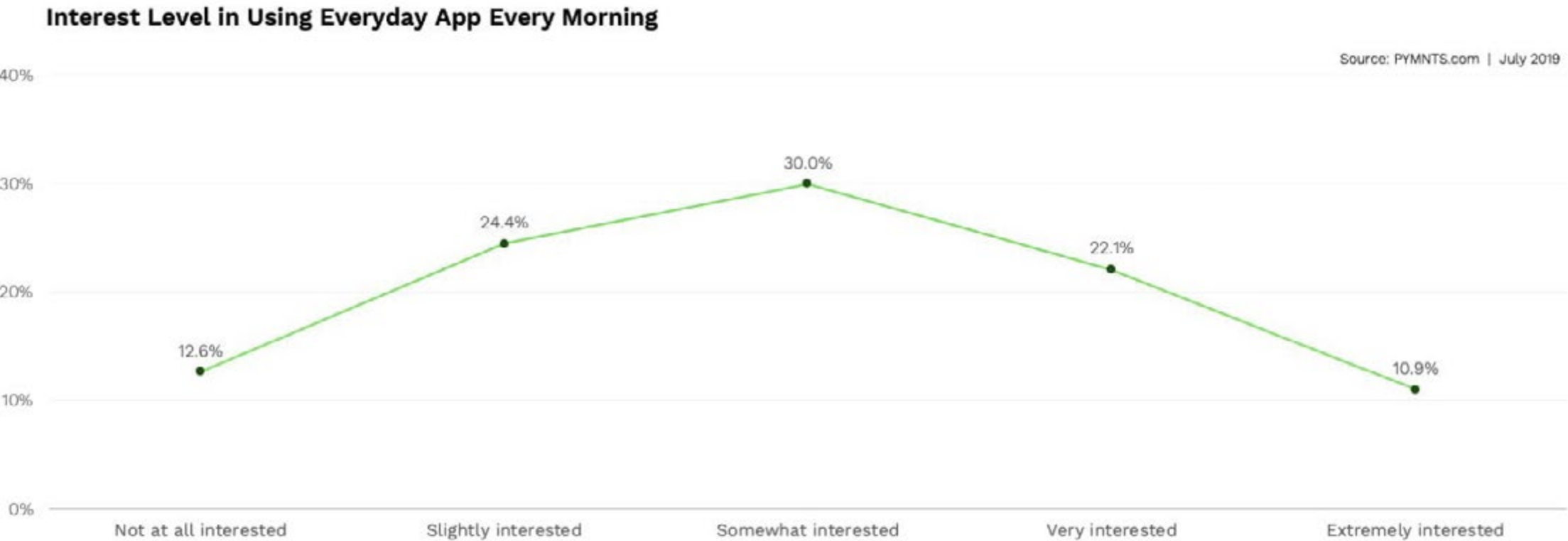
When we asked them that question, we made it clear that this app would not necessarily require them to give up the apps they use today, but would simply make it easier and more efficient to access the services or products those apps provide.

Here's what we learned: About a third of people love the idea, about half seem somewhat interested and a few absolutely hate it.

TRUST AND THE EVERYDAY APP

Just about a third of the consumers we studied expressed strong interest in the “app of apps” concept, with 11 percent (10.9 percent) expressing an extremely strong interest. Only 13 percent of the consumers said thanks, but no thanks. The majority, 54.4 percent, were on the fence – they were a little or somewhat interested in having a single app as the gateway to a more streamlined interaction with the many apps they use every day.

Seventy percent of those with a strong interest said it would make it more convenient and easier for them to organize their days and remember important tasks. It's a sentiment that's more important to bridge millennials (30-40-year-olds), Gen Z and Gen X than it is to millennials or boomers.

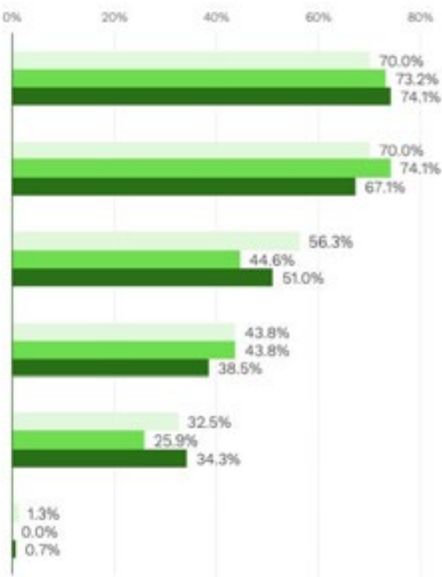


Reasons Respondents are interested in Everyday App

Source: PYMNTS.com | July 2019

Average

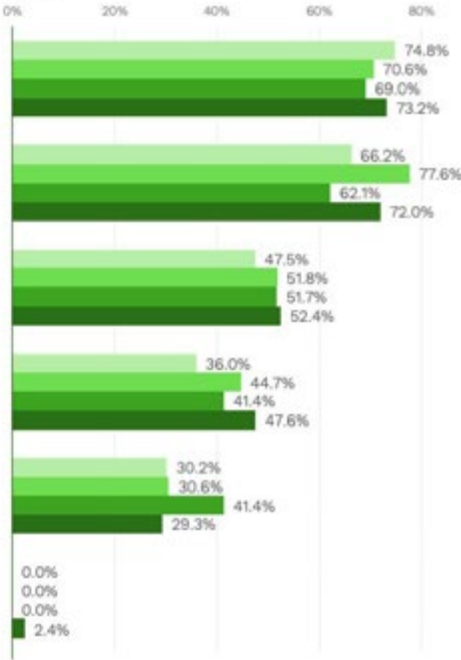
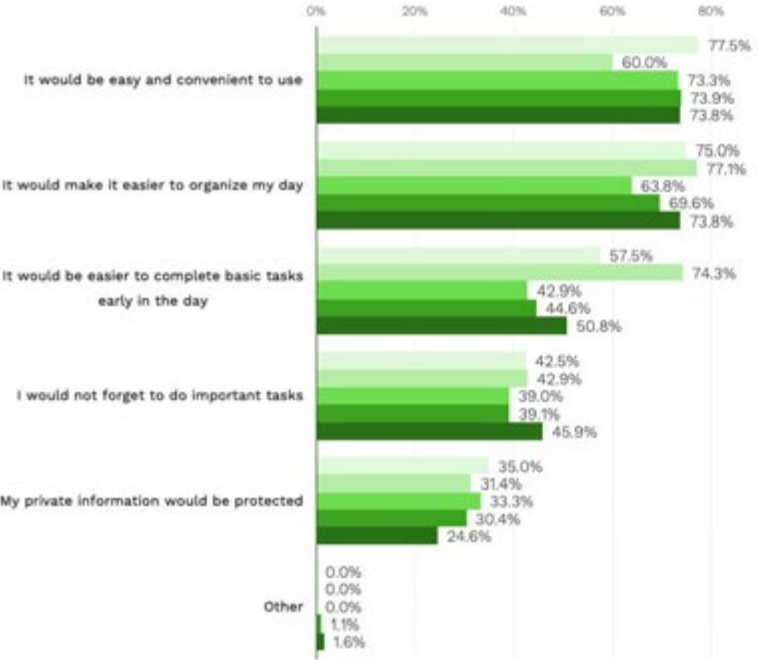
Income



■ \$0-\$50 ■ \$50-\$100 ■ \$100+

Generation

Status



■ Gen Z ■ Millennials ■ Bridge ■ Gen X ■ Baby Boomer

■ Couple--Yes ■ Couple--No ■ Single--Yes ■ Single--No

Those who are on the fence or aren't at all interested are concerned that front-door access to all they do leaves them vulnerable to hacking and data privacy issues. The front door needs to be secure – for everyone, but especially that segment – and it needs to belong to someone who is not only familiar to them, but who they trust.

When asked who that is, consumers say it's [Google](#) (45 percent), followed by [Amazon](#) (29 percent), [Apple](#) (27 percent) and [PayPal](#) (22 percent). Facebook, Samsung and Walmart are favored by 15.6, 15.3 and 14.3 of consumers, respectively – more or less a statistical dead heat.

When measured by interest, the one-third of consumers with a strong interest in using an everyday app want Google, Amazon or Apple to deliver it – and in that order.

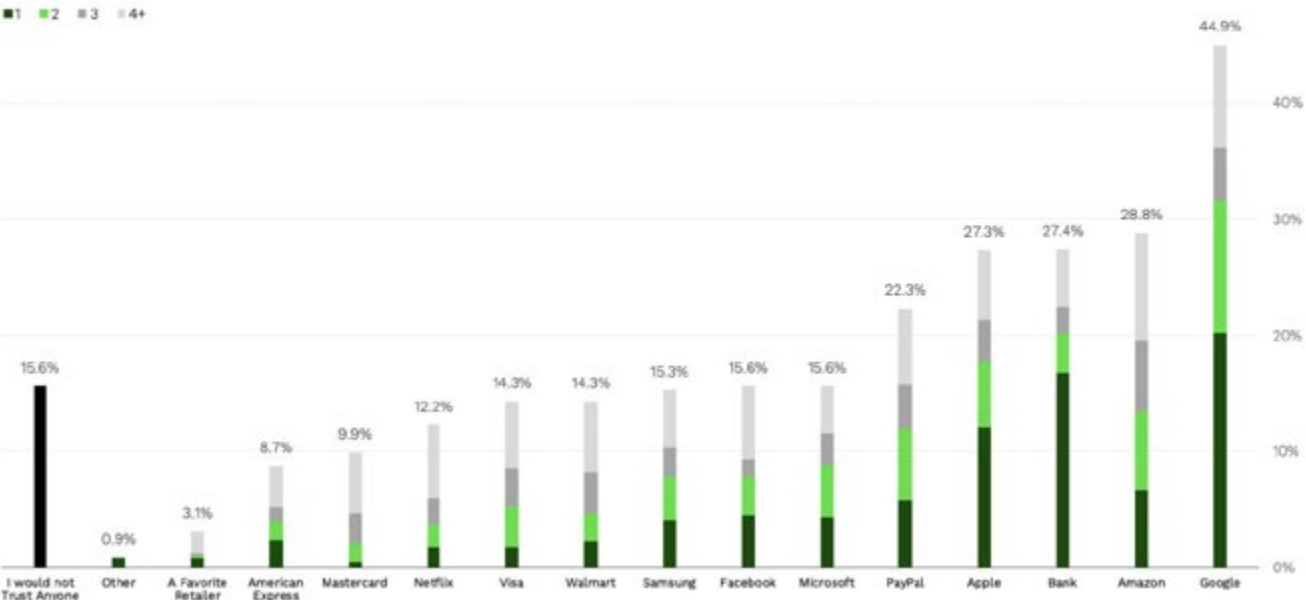
Maybe you're not surprised.

Today, the consumer's frame of mind with respect to the everyday app provider seems very correlated to the breadth of apps they interact with during the course of their everyday activities, and who provides that access.

For more than 60 percent of consumers in the U.S., that's Google. Those consumers live inside a Google ecosystem on their smartphones, and

Most Trusted Company to Provide Everyday App

Source: PYMNTS.com | July 2019



use a variety of Google apps daily to get information – Maps, Search, Shopping, YouTube and messages via text and email.

But even those who live outside the Android ecosystem use the Chrome browser app, Maps and Waze and have Gmail accounts on their iPhones. When it comes to the overall utility of an everyday app, Google is top of mind because it already checks a lot of those everyday boxes.

The same holds true for Apple and iPhone users, whose perception of the everyday app is much the same. Their iPhones, courtesy of Apple, provides

access to the apps ecosystem they have assembled on their mobile phones.

Amazon's relationship with the consumer, on the other hand, is device- and platform-agnostic. It also makes its relationship with the consumer very portable.

Consumers have a commerce relationship with Amazon, independent of the devices they use to access it. Amazon's app is the front door to a relationship that has captured roughly 50 percent of online consumer retail (we have our doubts about their revised downward market share calculations) and one in which transactions happen

in an integrated shopping, payments and fulfillment experience.

Amazon, through its Prime membership, also gives consumers more access to services that go beyond its roots as a traditional retailer, and even outside of its app.

Streaming video and music content are available from Amazon, but the consumer doesn't have to be inside the Amazon app to experience it. The same holds true for Amazon's expansion into grocery and food with their acquisitions of Whole Foods and PillPack. Both stretch the boundaries of traditional retail in terms of their products and the channels in which they touch consumers – but all wrapped inside of an Amazon experience.

Regardless, Amazon's ecosystem, by way of the Amazon payments credential, provides users with an integrated, largely consistent shopping and payments experience, and an efficient way to receive what they buy. That's also true for some, but not all, of the off-Amazon merchants that accept Amazon Pay as a payments credential on their own branded sites.

Everyday app contenders, then, must determine who is best-positioned to not only create that front-door access for consumers, but also to give them a credential that unlocks it and lets them transact efficiently inside of that ecosystem.

WHAT DOES AN EVERYDAY APP HAVE TO DO?

The consumer's everyday journey consists of a complex maze of activities, most of which touch money and determine how and where consumers spend it.

PYMNTS has taken a shot at breaking down everyday app functionality into a few buckets. These buckets capture the types of activities that might add value to consumers based on the everyday journey – and the apps consumers told us they like to use.



There are a few basic check boxes.

From the consumer’s perspective, an everyday app must provide a more integrated way to keep tabs on planning, managing and spending funds, and even enabling receipt of funds from other sources. It needs to streamline the tracking of reminders and alerts across a variety of activities – bills to be paid, appointments to be kept, deliveries to be received, important dates to remember and what friends are doing. It needs to be multi-modal and bi-directional, and should enable communication by voice and text as appropriate.

Then there are the value-adds that give consumers more of a reason to live inside of an everyday app ecosystem.

Increasingly, such an app must enable access to a variety of entertainment options like streaming services, games, music, books, video, live programming, reservations and bookings. And it should even provide access to healthcare services like the purchase of medical supplies, prescription drugs and other wellness services.

The leading everyday app contenders – Google, Apple, Amazon, PayPal – are all at different places along that continuum, which this everyday landscape shows.

The key takeaway is that no one has it all. Yet everyone is leveraging their assets to find ways into the areas they don’t yet have.

Apple is investing in content and Google has revamped [Google Shopping](#). Amazon is investing in food delivery platforms like Deliveroo, spending nearly a billion dollars on enabling one-day shipping and expanding Amazon Pay off Amazon. PayPal is enabling payouts into PayPal accounts for gig worker pay, has expanded Xoom to 32 countries and has launched its commerce platform in an effort to add more value to its merchant and consumer base. Facebook is pushing into payments, has launched Portal and would like to get a whole new payments system, Libra and Calibra, off the ground.

Both Google and Amazon are investing heavily into AI and voice in the hope of tilting the everyday app opportunity their way.

GETTING TO EVERYDAY

A third (33.7 percent) of all consumers say they’d like a voice assistant to be integrated into their everyday app experience. Another 10 percent say skip the app and go right to voice. That group wants a voice assistant to be their everyday app, and they want

Reasons Respondents Want Voice Incorporated into Everyday App

Source: PYMNTS.com | July 2019



it integrated with their voice-enabled speakers at home.

For the nearly 44 percent of consumers who want voice integrated into their everyday app experience, it's not hard to understand why.

It's much easier to ask [Alexa](#) or Google Assistant to do the heavy lifting of figuring out how to get things done, or be the friendly nudge to getting things done, then to constantly tap and scroll a series of apps.

And both Amazon and Google are both investing heavily to be that voice-activated front door.

Amazon is integrating Alexa into tens of thousands of third-party devices and bolstering Alexa's skills to include searching for content that might otherwise be diverted to Google. Amazon is offering incentives to homeowners to make their homes smarter with Alexa – and third-party devices to make their cars smarter, too. Amazon gets the fact that they don't have search covered – beyond searching their platform for what to buy – and is using the Echo and the Echo Show to prompt users to turn Alexa into their helpful everyday assistant.

Google, on the other hand, has to crack closing the loop on commerce. Google Shopping is an effort to keep

searches for products inside the Google ecosystem, and to ensure an easy payments experience with credentials stored in the browser. Google is also integrating commerce into searches for flights and food and continues to expand these contextual commerce use cases.

But Google has a long way to go to catch up with Amazon, which has nailed, literally, the last mile to eCommerce – and is expanding its commerce reach into more and more of the segments that consumers use every day.

And Alexa has more than a running head start in the [voice-activated](#) world.

For the consumer who wants an everyday app, it seems clear that they want to take it everywhere, all of the time. Mobile phones will remain important, but will become relatively less so as more connected devices emerge to allow integrated, seamless access to app-enabled activities. And over time, consumers will use voice as the bridge to that everyday app experience.

That makes Google and Amazon – those with the No. 1 and No. 2 pole positions today – the real contenders for delivering the everyday app experience.

They are the two platforms that now cross channels, software platforms and [connected devices](#), with voice assistants that have taken up residence in the consumer's homes.

And since no single platform has it all, it will be fascinating to watch the everyday app game play out. It's a game that will become more strategic as players assess where they have gaps and who can most effectively help close them.

And a game that may force everyday app contenders to consider more strategic partnerships than massive acquisitions on the big everyday app chessboard – particularly in a world in which regulators would like Big Tech to get smaller, not larger.

August 12, 2019

Why FedNow Will Slow Real-Time Payments



I'm from the government and I'm here to make sure you get your paychecks faster – even instantly...

...if you can just hang in there until about 2024.

That's the talk track now [from the Fed](#), which a week ago today announced its plans to build and operate a new set of real-time rails, using accelerated access to employer paychecks as its launch use case.

It's a move that presidential hopefuls and lawmakers fully and publicly applaud. But for the Fed and its rails, they say, employees will be resigned to the bad old days of antiquated payroll systems that force them to live paycheck to paycheck, and at great financial risk.

It's a pretty bold claim.

It's also not why the Fed decided to enter the real-time payments fray.

THE REAL-TIME PAYDAY REALITY

"Ever notice your paycheck [takes days to clear](#)?" Senator Elizabeth Warren asks in a campaign ad, ignoring the fact that 93 percent of working Americans have their checks directly deposited into their bank accounts – ready for use on payday – using the ACH network.

Employers schedule payroll a day or two in advance with their payroll providers so that employees can access and use those funds on payday. For most people, it has been a long time since they received a paper check that had to be deposited at the bank.

Ironically, perhaps, the ACH network's [first direct deposit use case](#) was the U.S. Air Force payroll, at the behest of the federal government in 1974. The pain point was giving paper checks to personnel who were always on the move. Direct deposit over the ACH network eliminated that friction and got them earlier access to those funds.

Fast-forward four decades, and everyone – FIs, ACH operators, FinTechs – have been working overtime to get payroll off the paper check and to get wages into workers' bank accounts faster.

[Prepaid payroll cards](#) were introduced decades ago as a paper check alternative for the unbanked and underbanked worker.

Over the last several years, an army of innovators with billions in venture funding have built instant pay products on top of card network debit rails. Today, [Uber and Lyft drivers](#) and a host of gig workers get instant payouts into their checking accounts, onto prepaid debit cards or into their digital wallets

– a choice powered by [instant money networks](#).

[Walmart introduced a program](#) 18 months ago that gives any of their millions of workers access to their wages as earned, subject to limits for their own financial protection.

[Same-Day ACH](#), launched in September of 2017, makes emergency payroll possible — not instantly, but within the same business day.

For the dwindling numbers of people who still receive a physical paycheck, [new applications](#) let workers take a picture of that check and get instant, irrevocable access to the funds for a modest fee.

Innovations using card network debit rails, AI and machine learning are even democratizing [pay advances for workers](#) with a steady income and employment history. For those innovators and the workers they benefit, [early is the new instant](#), further reducing the stress of paycheck-to-paycheck cash flow management for millions of workers who can now get paid before fully completing their assignments.

Payroll solutions providers are also using [new business models](#), mostly targeting SMBs and their workers, that give employees access to wages in real time, without forcing employers to change how they schedule and fund payroll.

So, by the time 2024 rolls around a half-decade from now, it's plausible that we might be able to stick a fork in the notion of faster — and even instant — payday innovations on a large scale.

Existing infrastructure that enables these innovations is cheap, secure and efficient — and ubiquitous for innovators who want to launch those products as well as the corporates that want to use them. The combination of employee/ employer demand for innovations in this area and innovators with the vision to build products on top of those cheap networks will only continue to create solutions that close the paycheck-to-paycheck funds gap for workers — whether they are working full-time or gig-time.

Now, not five years from now.

THE FED'S NOT-SO-FAST AMBITIONS

The Fed has kept a lot of details about its real-time ambitions close to the vest. We still don't have answers to some important questions.

Such as how the Fed plans get a critical mass of participants on board, which The Clearing House (TCH) is struggling to do now. Igniting a network at scale and right out of the box can be a real pain, as the litany of failed payments startups knows all too well.

[FedNow is positioned](#) as a competitor to the private systems, with TCH as its only real-time domestic account-to-account competitor, but it also competes with cards and ACH. Without requiring all 12,000+ banks to connect to it, it will be hard to convince banks and innovators to develop products that ride those rails.

And it's unclear whether the Fed will have different requirements for how FinTechs can connect to it. It seems that the [Fed and the OCC](#) will have to put their heads together to determine if or how FinTechs will be allowed to connect to the Fed while maintaining the health and stability of the U.S. financial system.

And how much will it cost anyone, especially the FIs, for all the IT infrastructure they will need to connect to it? Assuming, of course, that they still have a choice in 2024 to connect to it or not. Still, they will need to weigh the cost of all that work against the upsides of FedNow.

Much later.

What we do know is that it's been tough to get support for banks to invest in new, real-time clearing and settlement infrastructure.

Banks — or any enterprises — invest in infrastructure if there is a reason to upgrade those systems. Banks have to

believe that the use cases built on top of the new set of rails will be compelling enough — and unique and immediate enough — to monetize, not cannibalize, existing payments flows.

Banks also know that unless such a network is ubiquitous, it's not worth much.

Just ask the folks at Zelle, whose P2P network via their bank accounts is really awesome if the sender's and receiver's banks are connected to the network — and not so awesome if they're not. NACHA had this problem cracked when it launched Same-Day ACH, because its members all agreed to support it. As a result, [Same-Day ACH](#) volume has jumped dramatically in support of use cases for which faster access to funds are necessary: emergency and ad-hoc payments, including bill pay.

Even if FedNow launches in 2024, it is hard to know how quickly it will reach the ubiquity necessary for a real-time money-moving system.

SLOWING INNOVATION

The TCH experience shows the difficulty of reaching critical mass for something that can happen in real time when so many existing systems are already moving money faster — and, in some cases, instantly.

[TCH](#) cleared its first RTP transaction on November 14, 2017. Since then, it has gotten 11 of its 26 member banks on board, which it claims represents some 51 percent of deposits in the U.S. They also expect they will have nearly all banks on board by the end of 2020. But a handful of the 12,000 FIs and 51 percent of deposits does not a real-time payments network make.

[TCH](#) has also worked with FIs to make it easier for them to get on board – but they still have to invest and connect. A few of them already have – but almost two years later, it isn't clear whether any of this has led to much RTP activity.

The Fed's announcement will only make their network harder to ignite and scale – and TCH has every reason to be very nervous about the Fed's plans.

The banks that had already decided to take a wait-and-see approach may now really wait and see. The FedNow announcement injects a lot of uncertainty into how RTP will evolve in the U.S. Banks might kick the can down the road to 2023 or 2024, when more will be known about the Fed's system, such as whether they will have to make further investments in infrastructure and the cost of dealing with FedNow rather than TCH.

Without the prospect of a new real-time payments network (or ubiquity anytime

soon), banks and innovators will be less likely to build applications to run on top of them.

Corporates, who already have been diagnosed with an acute case of B2B payments inertia, will wave it off until the payments ecosystem figures it out.

TCH and its real-time payments plans could very well stall – or at least make it harder for TCH to push the ball up the hill.

WHEN 'NOW' DOESN'T MEAN FIVE YEARS FROM NOW

Meanwhile, the incumbent networks that are already moving and shaking payments without all the friction of building new rails and bank connections will double down – as will the innovators who are doing interesting things to make faster become even faster, including real-time.

Payroll isn't the only use case that innovators leverage in today's existing networks to move money faster between people and businesses – which in many cases also means real-time.

Insurance companies are early adopters of using technology to push [claims payments](#) to [debit cards](#) for real-time use, as well as digital wallets like PayPal. Some processors are using debit

rails to enable instant settlement for merchants. Consumers can use push to debit or P2P via their Zelle accounts to move money instantly between them.

There is any number of use cases, many of which you'll see soon, that will leverage these existing rails to accelerate access to funds for people and even businesses, and to give them options for receiving their money now – or just plain faster than it was available before.

FedNow, of course, isn't NOW at all – it is FedWAIT5YEARS.

And in payments, five years is a lifetime.

Think about the world five years ago, in 2014, and how quickly innovations have moved in payments, retail and commerce. Given the investments and integrations made to and from existing infrastructure to move money faster over the five years – all intended to give consumers and businesses a better, faster and more secure experience in moving money between parties – the next five years will likely see the pace of innovation accelerate even more rapidly. Existing networks will boost their own capabilities, and their ubiquity will only attract more innovators and use cases to build on top of them.

It's not that a new set of real-time rails from the Fed won't be too late five years

from now – they just might not be all that relevant.

As they say, time waits for no one, not even the Fed.

Perhaps the great irony of the Fed's interest in wanting to innovate the rails that clear and settle funds between bank accounts today is that it could bring investments in real-time networks to a screeching halt.

I worry that the Fed has actually done a disservice to the payments industry. By announcing FedNow now but with a launch date of 2024, the Fed may slow down efforts, TCH's in particular, to get RTP rails off the ground, as well as innovators' investments in apps for it.

The payments ecosystem absolutely needs competition for enabling the clearing and settling of funds, faster and even in real time. And maybe it does even need a second set of RTP clearing and settlement rails to do that. Maybe that's the Fed, or maybe that's someone else. Either way, it would be even better for the market to decide how real-time really happens in the U.S. – which would actually give all of us a chance to learn what businesses and consumers want from an RTP system that they can't get today.

September 3, 2019

Why **Invisible** Will Make 2020's Payments Innovation **Roar**



The famous 18th-century political satirist and author, [Jonathan Swift](#), wrote in 1745 that “vision is the art of seeing things invisible.” Two hundred and seventy-four years later, those words are the perfect framework for understanding what will define the next decade of innovation in payments and any ecosystem that touches it.

Which, increasingly, is just about every ecosystem.

Most of what drives the headlines and banter about the future of payments plays off what people can see right in front of their eyes – the devices and apps that people use or don’t use today, the products they buy or don’t buy today, the places where they shop or don’t shop today, the methods they use or don’t use to pay – and how all of that will or won’t change over time.

That’s an obvious, but very small, part of the story.

The most transformative innovations in payments and commerce over the last decade are mostly the result of innovators making what was once visible, invisible: payments, stores, merchants, brands, issuers, even card networks.

Those innovations did more than just leverage digital and connected devices

to make it easier for consumers and businesses to interact and to effectively blend the online and offline worlds. They influenced those choices by changing the consumer’s path to purchase and payment. Sometimes those innovations disrupted old models and players; other times they made them better and more efficient. But they always ended up redrawing the boundaries that once neatly defined how people and companies found each other and did business.

Making the visible invisible was the powerful source of those shifts.

But it’s only just begun. Invisible will likely define the next decade of payments innovations, the start of which is just four months away – and will shape the strategies of every player operating within it.

THE INVISIBLE INNOVATORS

Who doesn’t know the Uber story by now?

In 2009, [the Uber app](#) introduced consumers to a whole new way of getting transportation and a way for black-car drivers to serve them. Uber removed the uncertainty of getting a taxi and the planning required to book a ride by making reliable, high-quality

and trackable car service available on demand.

Yet, one of its most transformative innovations was making payment at the end of the ride a non-event.

In 2009, Uber made payments disappear.

Like many of Uber's customers, I registered a card way back when – and probably, like most people, have never changed it since. Like most people, I don't even think about the card, the card brand, the network or my issuer when I am getting out of the car at the end of my ride. I just take it for granted that it all works and am on to the next thing.

Making friction invisible by making payments invisible was one of the catalysts for Uber's success, and it's why payments remains one of its core competencies.

In 2009, [Square](#) introduced a white square dongle that turned a smartphone into a POS terminal, making it possible for consumers to pay micro-merchants using the cards consumers had in their wallets.

Yet Square's real innovation was making payments invisible for micro-merchants, enabling them to grow their businesses and move away from cash-only

purchases. Square did this by acting as the merchant of record and enabling payments acceptance – and, over time, scaling that model to larger and larger businesses.

Then there's [Starbucks](#).

The company made history in 2011 when it launched what is still the country's most successful in-store mobile wallet. Then, Starbucks made the act of presenting physical payments credentials at the point of sale invisible – something that more than 25 million consumers have since made part of their regular coffee routine.

But in 2014, Starbucks piloted something that would change the in-store payments experience altogether. It was then that Starbucks piloted order-ahead, which was rolled out to all U.S. stores in 2015. Starbucks wasn't the first to do this, but it was the first to do it at scale. Order ahead, suddenly, made two things invisible: payments credentials and the uncertainty of waiting in line to place an order. In doing so, Starbucks entirely changed the dynamic between the store and its customers.

Buy online pick up in-store, more broadly, is changing the nature of the consumer's relationship with many retailers – from grocery stores to department stores to mass merchants.

Stores don't become invisible, but the consumers shopping inside them do – as apps and registered payments credentials give them different shopping options and force stores to rethink their models.

That same dynamic is the source of today's love/hate relationship between restaurants and [food delivery aggregators](#) like Grubhub, Uber Eats and DoorDash, where the fear is that they will make – or have already made – individual restaurant brands invisible to the consumer. A service made popular by time-starved, hungry consumers with smartphones now enables people to order restaurant food from any participating restaurant for delivery, mostly to their homes.

What's visible is the aggregator's brand, as well as the promotions and rewards they offer to keep consumers sticky – to them – regardless of who they order from. What's less visible is the restaurant brand and the loyalty that comes with a more traditional online or mobile ordering experience. And, over time for some, there is the risk that the in-restaurant experience, like the in-store shopping experience, will become less attractive – maybe even largely invisible – to the consumer.

Then there's voice.

VOICE AS DISRUPTOR

[I wrote a piece several years ago](#)

about voice as the new payments and commerce intermediary. I remember being told then that my exuberance for voice was wildly off-base, that consumers would never take to the experience, and that as an enabler to payments and commerce, it was too friction-laden to be useful.

Yet, here we are.

Since then, we've seen the rapid adoption of voice-assisted speakers and the emergence of ecosystems and apps that have grown up to support both [Alexa and Google Assistant](#). Tens of thousands of connected devices are now voice-enabled, and tens of thousands of skills foster a robust new ecosystem in which the enabler to any experience is just a voice command away.

This time last year, we released [a study that showed](#) the impact of voice-assisted devices on U.S. consumers' connected device ownership and their usage of them to make purchases. At that time, more than a quarter of all U.S. consumers owned one, with more than a quarter of those consumers using them to make purchases.

Next week, we'll release new research that will provide even more compelling

evidence of the impact of voice – and voice assistants – on the consumer’s path to purchase today, and where it may be headed.

Needless to say, in a world in which the commerce journey starts with the sound of a person’s voice, payments are not only invisible, but will also be influenced by those new voice intermediaries: Amazon with Alexa, Google with Google Assistant, Samsung with Bixby and Apple with Siri.

Cards on file, credentials stored long before voice assistants became a thing, will likely remain just as they are. But unlike a world in which consumers pull out a plastic card with the name of their issuer and card brand, or see the last four digits and a little thumbnail of the card network associated with their payment choice when buying online, those visual cues become invisible.

Because just like Uber, the payments experience becomes invisible. But that’s not the only thing that also disappears.

Let me give you an example.

I have an [Echo Show](#), Alexa’s voice-activated device with a screen. I wanted to experience a purchase for something other than groceries and something for which I had no brand preferences, just a product need.

So, I told Alexa I wanted to buy a pepper grinder.

A few seconds later, pictures, pricing, reviews and a small description of 10 pepper grinders were displayed on the screen. I quickly scrolled across the screen and picked the one I wanted to buy. I told Alexa to put it in my cart, she confirmed and then I told her to buy it. A second later, a thank-you and confirmation appeared on the screen, and an email confirmation was in my inbox.

Brands and store were invisible, too, in that purchase. Since I had no brand preference, it didn’t really matter to me what brand I bought or what seller had it in stock. My decision was influenced by ratings and reviews — and of course, price.

The pepper grinder arrived a day later.

For that product and that purchase, I found the experience to be far easier and much more efficient than shopping online. The payment and delivery were invisible – but it always is on Amazon. Voice-assisted shopping with [Alexa](#) worked because so much of what is required when purchasing online – login, passwords, shipping address, payments, delivery options and then the endless searching – were made largely invisible because of the purchasing experience that Amazon, now via Alexa, powers.

Yet it’s an experience that’s far from perfect – right now. Alexa first started to read all 10 options to me, which I found tedious and annoying until I asked her to stop. And subsequent searches for black shoes, foldable televisions or a raincoat with a hood were, shall I say, far less satisfying.

But that probably won’t be the case for very long.

WHO WINS WHEN PAYMENTS BECOME INVISIBLE?

Making things that were once visible, invisible is about removing the frictions that get in the way of a consumer and a merchant doing business.

When payments are invisible, consumers are no longer forced to enter those credentials every time they want to buy something, increasing the odds that they’ll make a purchase. When orders are made ahead for pick up, consumers don’t have to wait in line at the store or risk not being able to get what they want when they show up. When aggregators and marketplaces make brands less visible, the odds increase that a consumer will buy something because they are presented with more choices.

All at their convenience – and on their time.

Invisible is about driving conversion, even if it changes the dynamics of who gets the sale.

Invisible is also about driving those conversions at scale, and securely, at any endpoint where the consumer wants to make a purchase. The [emergence of 5G](#) will bring even more connected devices online, enabling shoppers to buy and pay for things anywhere, anytime. Pundits who say the future of payments will connect consumer accounts directly to merchant accounts are underestimating the significance of payments acceptance, ubiquity and the role of tokenized payments credentials – in a world where payments become more and more invisible and connected commerce endpoints increase in supply.

It is really easy to reduce frictions by making payments invisible and incorporated in many more devices, using the existing rails that consumers and merchants rely on — in fact, it’s how all of these invisible innovations got their footing and will likely continue to do so. Efforts to get everyone on a whole new set of rails are unlikely to add enough value to get everyone to move. And certainly not at the pace that innovation will accelerate commerce moving online in the next several years.

INVISIBLE AS A DRIVER FOR MAKING THE RIGHT THINGS VISIBLE

In some cases, invisible is a motivator for change.

The scourge of B2B payments is the lack of transparency into when payments will arrive. Many innovators are investing their time and resources into making them faster. Yet, by using technology to make flows more visible, using AI and machine learning to authorize transactions in real time to make availability of good funds more certain and using data and new tech to unlock new working capital options, innovators can create the biggest bang for the buck for trading partners today – as many already are.

In other ways, invisible is an incentive to be better.

[Streaming services](#) – as well as an increasing number of subscription offers and online marketplaces – give content creators and brands a more efficient way to become more visible, even if it means being a smaller fish in a pretty big pond. The even greater risk for the brand is not being found at all, and for the aggregator, it is not having enough supply to keep the demand engines vibrant and strong. Each has an incentive to make invisible work.

Invisible is also an opportunity to make the right things visible.

As commerce moves increasingly online, a shift that will only accelerate over the next decade, the act of purchasing itself – not just payments – will become more invisible.

Consumers won't initiate all of the purchases they make today using their smartphones, tablets and computers. Across a wide range of devices, AI and machine learning will power those smart, personalized and secure experiences, and will anticipate what could be needed and make suggestions – or just automatically make the buy.

Appliances will reorder supplies, alert repair people to service calls and order parts to arrive in time for the repair. Shopping lists will be auto-prepared based on previous purchases and will auto-order – we are already seeing that now with “subscribe and save” options on [Amazon](#) and other sites.

Consumers will “set and forget” the purchase of things that don't require their personal involvement with a merchant or marketplace. Promos and discounts will be automatically applied. Alexa or Google Assistant will remind a consumer that supplies are running low and ask whether a refill is needed. All of these purchasing experiences will just happen as planned, and will be charged

to the registered, tokenized credential on file with that marketplace, merchant, aggregator or voice assistant.

In a world where purchasing becomes invisible, consumers will need even more visibility into what was purchased and when, as well as an opportunity to pause, add or cancel. They will need alerts when spending limits are close to being maxed out, so they will know whether it's okay to splurge on that new fall wardrobe or whether they should put half of that money into the savings account that they've been building for a home remodeling project. One can imagine in that world consumers being given a choice for how to pay and new offers to do so based on what optimizes their purchasing power and personal savings and spending goals at the time of that purchase.

Payment players can thrive in this invisible world. Transaction volumes will increase as frictions fall and everything becomes digital — and the act of transacting becomes seamless, secure and consistent.

But they will need to learn how to play in a world where there'll also be increasingly intense competition to be the payments credentials stored and forgotten, and where there will be room for wallets that make it easier to add

and subtract cards across multiple apps.

It's possible that as the payments and commerce and brands and stores and merchants become much more invisible, the need for an “[everyday app](#)” becomes more tangible, giving consumers the purchasing and payments control center that they will no doubt want to see every day, as innovators continue to deliver the invisible purchasing experiences they find so valuable.

September 16, 2019

What The Trendsetters Say About **How We Will Pay** Next Decade

Sheep are not natural-born leaders.

If they were, they wouldn't need border collies or shepherders to make sure that they didn't follow wolves blindly into harm's way and that they ended up where they needed to be at the end of the day.

Recognizing this, in the late 13th century, shepherders decided to make their lives (and that of their border collies) a little easier. They had an idea to hang bells around the necks of castrated male sheep, called wethers, and turn them into the de-facto leaders of the flock. The shepherd would simply herd those lead sheep – the bellwethers – whose bells became the audible cue for the other sheep to follow behind.

And so a shepherding innovation – and new vocabulary word – was born.

Ever since, people have been in search of the bellwether, the leader in a category that signals a powerful trend and paves the path for others to follow.

Pundits identify bellwether states to predict election outcomes. Analysts pinpoint certain companies as bellwethers for the performance of a sector. Retailers scour social media to find influencers and designer bellwethers to turn trends into sales.



In the payments ecosystem, we need look no further than the bridge millennial for how the connected purchasing experience will evolve over the next decade. The group's connected commerce behaviors are well-documented in the annual PYMNTS/Visa [How We Will Pay 2019](#) study released just today.

This study, the third in our annual series, identifies marked shifts in the attitudes, behaviors and expectations for the role devices, apps and purchasing channels play in how U.S. consumers shop and pay — today and in the future.

But it's the [bridge millennials](#) – those 30- to 40-year-olds who are the first generation of connected consumers with spending power – who offer profound insights into the future of connected commerce, and the devices and apps that enable those experiences.

This group of 60 million U.S. consumers – those older millennials and younger Gen X-ers who grew up using connected devices like smartphones, tablets and wearables – now have money to spend, and lots of choices for how to do it. Their shopping and purchasing behaviors have been shaped over the last decade by their interactions with a variety of connected devices, as well as the apps and ecosystems those devices unlock.

These early adopters of devices and apps use a different and, we're finding, much more critical lens to determine the value of money – and, most importantly, the value of time when using that technology to shop and pay.

Which, for them and for every consumer, will increasingly be done with our voices.

CONNECTED DEVICES: WHY LESS IS MORE

[How We Will Pay 2019](#) is an annual national study of more than 5,000 U.S. consumers who report their shopping, spending and payment activities over a seven-day period. It provides an exhaustive and statistically reliable portrait of the connected consumer in America. The survey gets information about device ownership, usage, apps, use cases and trusted enablers of those experiences to better understand the connected consumer's expectations of connected purchasing experiences. It relies on a very large and representative sample to capture and reflect the views of the U.S. adult population.

After three years, we are now starting to see important shifts in behavior that we believe only sharpens the focus for the evolution of the connected commerce future – from the only point of view that matters: The consumer who buys, downloads and uses connected devices.

We identified five such shifts, and two strategic trends that are important bellwethers for how, when, where and why we will pay in the decade that will begin just a few short months from now.

First, consumers are on a device and app purge.

All consumers are shedding devices and apps that don't add value or save them time or money as they go about their day-to-day activities.

Out are the devices that connect to the internet but only do one thing – fitness trackers that only track vital stats or eReaders that only download content, for example.

In are those that provide their intended functionality, but also connect to an [ecosystem of apps](#) that offers expanded access to more activities and commerce-enabled opportunities.

Less has become more – much more.

The bridge millennials, more so than any other connected commerce persona in our study, appear to be more selective about the devices they buy or don't buy – and the apps they use or don't use – as they navigate their own connected purchasing experiences.

[Bridge millennials](#) own slightly more devices than the average consumer in our study: six devices compared to the roughly five that most consumers own. But they own far fewer devices than those we identify as “super-connected,” those who own roughly eight.

Bridge millennials are also more likely to drop apps that don't offer value beyond the initial pop of curiosity or incentive offered to download it the first time.

Some of the apps and use cases that were perhaps the poster children of [connected commerce](#) experiences in years one and two of our study have faded in popularity for all consumers, and bridge millennials in particular. We think those preferences serve as bellwethers for the apps and devices that hold the most promise for how we will pay moving forward.

Apps like the ones that auto-fit clothes for purchase, auto-pay at restaurants, auto-find parking spaces and use smart devices like fridges to order food are both less used and of less interest to bridge millennials – as well as to all consumers – this year compared to years past.

On the flip side, the auto application of promo codes at checkout and auto alerts of car problems increased in interest and usage this year. For bridge millennials in particular, apps that help track and manage spending and automatically order clothes are of more interest and are used more often than by the average U. S. consumer.

Yet owning and using fewer devices and deleting apps doesn't mean bridge millennials have less of an appetite for a highly connected commerce experience.

In fact, it's quite the opposite.

The average consumer in our study engages in roughly 12 activities during the course of her day, and makes a purchase while doing roughly four of them. In other words, that means about one-third of U.S. consumers' daily activities involve connected purchasing experiences.

For the bridge millennials, that's even more pronounced. These consumers engage in roughly 14 activities during the course of the day and make a purchase during roughly six of them – more than half the time.

Think about that for a minute.

[Connected devices](#) are making commerce a contextual part of every consumer's everyday life. Apps and devices have moved beyond the idea of owning a cool gadget to play around with to owning one that can connect consumers' worlds to commerce – and for bridge millennials, that spans more than half of their daily activities.

We tend to use words like “seamless” and “frictionless” to describe what that end state means to the consumer.

Observing this consumer behavior, according to our study, suggests something very different. How we will pay, moving forward, comes with the expectation that it will become an integrated part of the consumer's everyday journey.

No longer will it be “good enough” to have devices and apps that enable purchasing experiences anywhere and anytime. How we will pay means having connected devices that make purchasing experiences possible while a consumer is doing *anything* – eating, cooking, taking care of the kids, cleaning, commuting, watching TV ... you get the point.

Consumers have shifted their focus from thinking about shopping and buying as something they have to “go do” to something they can get done when using those devices and apps – no matter what they're doing or where they happen to be doing it at the time.

Bridge millennials help us see the apps and use cases that can unlock the true potential of a connected purchasing experience.

One that will increasingly be powered by the sound of our voices.

WHEN CONNECTED COMMERCE IS ONLY A VOICE COMMAND AWAY

Then there's voice.

In the 2018 edition of [How We Will Pay](#), we observed something that we thought was remarkable at the time: The percentage of U.S. consumers who reported owning a voice-activated device grew from 14 percent to 27 percent year over year. And of the 26 percent of consumers who owned such devices according to last year's report, 28 percent used them to make a voice-activated purchase.

We thought that was a remarkable penetration for a device – a voice-activated cylinder sitting at home in the kitchen – that was still new, and whose use cases were quite nascent from a commerce perspective.

This year, in 2019, we were blown away.

Our study reports that this year, 31 percent of consumers report owning a voice-activated device, up from 26 percent in 2018 – and up from 14 percent when we began the study in 2017.

More than twice the number of U.S. consumers own voice-activated devices today than three years ago.

Even more dramatic: This year, nearly one-third (31 percent) of voice-activated

device owners used them to make a purchase.

That means today, across all U.S. consumers, one in 10 have made a purchase using a voice-activated device, up 8 percent from this time last year.

[Voice](#) is connected commerce's killer app.

Consumers are using their voices and those devices to order food – both groceries via shopping lists and take-out delivered at home. To a lesser extent, they are using their voices to buy clothes.

Sure, that's still just a sliver of all commerce, but it is growing rapidly as more skills expand the number of things that can be ordered using voice, and as the virtual assistants that are the intermediaries of those purchases get smarter in managing those requests.

Don't forget, it wasn't too long ago that everyone thought online commerce was a sliver of commerce, too.

Even more interesting, perhaps, is the “[omnichanneling](#)” of voice as an enabler to commerce, which we observed this year. Voice is not only the most ubiquitous payment enabler on the planet, it is also the most portable.

Those consumers who use voice to enable purchasing do so using voice-

activated devices in their homes, as well as apps on their phones, while out and about, including in their cars. Of the 31 percent of voice-enabled device owners who use voice to make a purchase, 45 percent do so across multiple voice-enabled environments.

The most avid users of voice commerce are the bridge millennials, 37 percent of whom own both voice-activated speakers and smartphones, and 32 percent of those using them to make a purchase. Those stats are even more compelling when compared to the “super-connected” consumers, more of whom own voice-activated devices but use them less often to make a purchase.

Bridge millennials, more so than any other consumer persona, will both shape and accelerate the voice commerce future.

So, too, will be the ability to have a multi-modal [voice commerce](#) experience.

Having links sent to a screen for a consumer to confirm a purchase or validate a piece of information – either in an app on a smartphone or via a voice-activated device – helps create a more seamless voice-enabled experience for the consumer while increasing the certainty of a sale for the merchant.

If voice commerce is connected commerce’s killer app, voice plus visual is the connected commerce gamechanger.

WHY PERSPECTIVE MATTERS

There are a number of other important findings in [How We Will Pay 2019](#), a study that will serve as a strategic framework for the connected commerce future that each of you reading this aims to power, shape, develop or disrupt.

For instance, the home is becoming the command center of a connected commerce experience. And consumers increasingly view the brands they know, see and interact with – the card networks like Visa and Mastercard, FinTechs like PayPal and Big Tech players like Apple, Amazon and Google – as trusted enablers of the experience. Merchants and Facebook fare far worse, hovering at or near the bottom.

This year, we also observed fewer consumers identifying [data security](#) issues as the major inhibitor to engaging in a connected purchasing experience. Data privacy and security remain top concerns, of course, but fewer consumers identified them as their key concern compared to last year. Years of using connected devices and apps to engage in commerce, powered by trusted brands, seems to be increasing

consumers’ level of confidence in making connected commerce a secure and integrated part of both how they pay and how they live their lives.

That experience has also given consumers a much better way to assess the value of the devices and apps that they trust to power those experiences.

[Ecosystems](#) generally make it easier for relevant parties to get together and do business. Connected commerce ecosystems make it easier, too, for consumers and ecosystem stakeholders to get together and do business, too. Consumers’ winnowing of devices that don’t provide that access can be seen as an interesting bellwether for how that connected purchasing landscape will play out in the years to come.

What we don’t yet know, but will see evolve, is how the consumer will make those ecosystem choices, as well as the role that devices, apps and enablers like voice will have in influencing those decisions.

Consumers in our study told us they trust the payments credentials and enablers that they know and use today – more so than the ecosystems and devices they interact with – to power those experiences.

Including the bridge millennials, the bellwethers for shaping how we will all pay in the decade to come.

And who will shape how the ecosystems that enable those experiences must evolve to make commerce a contextual part of our daily lives.

In part, because they’ve already shaped how we pay today.

It’s time to watch, learn and follow their lead.

No border collies or shepherders required.

September 23, 2019

The Real-Time Payments Receivables Conundrum



P [.T. Barnum](#) perfected the art of showmanship, a reputation burnished by the spectacular fame of the traveling circus and side show that bore his name: the [Ringling Bros. and Barnum & Baily Circus](#). Barnum grew a series of small but well-marketed performances of human oddities into a full-blown traveling circus/freak show extravaganza for 146 years before the “big top” folded forever in 2017.

FYI, his first show in 1841 featured a woman who was then reportedly 161 years old and George Washington’s nurse.

Lesser-known about Barnum are his many business and financial ups and downs, including his fight back from bankruptcy in the mid-1800s. In 1880, he published a book titled “[The Art Of Money Getting](#)” to share what he had learned as an entrepreneur and local politician in the town of Bridgeport, Connecticut, where he and his family lived.

True to Barnum himself, the book is filled with quotable quotes – including an entire chapter titled “[Don’t Blab](#),” advising entrepreneurs to never talk about losing money, and one reminding them to always “[Preserve Your Integrity](#).”

One quote in the book that is particularly relevant to one of the

hottest topics in payments today goes like this: “[Comfort is the enemy of progress](#).”

In business, comfort is commonly referred to as inertia.

Inertia can be the death knell of any innovation – and in payments, it’s the proverbial showstopper.

For innovation to ignite, stakeholders must find enough value to switch. It’s not enough for switching to be easy (although that definitely helps). Switching has to create enough value to invest in the people, processes and technology to make the move. And they must be convinced that switching will give them a shot at improving their customer relationships and business propositions to get a return on those investments.

That is the crux of the dilemma playing out on the new [real-time payments](#) rails arena as it relates to the B2B side of the payments ecosystem. That’s where the big payments flow – and where the big opportunities for innovation, change and disruption lie.

Businesses now see the value and competitive opportunities in many C2B, C2C and B2C real-time payments use cases. They are investing in ways to make them happen right now, using the rails available to them. For example,

businesses are paying insurance claims to consumers and loan proceeds to borrowers in real time – and banks and FinTechs are enabling payments between people in real time.

Businesses and marketplaces see payroll as an emerging real-time use case, to pay their W-2 workforce and avoid tying up their cash two days in advance with a payroll provider and also to pay [gig workers](#) instantly as services are performed. There, existing rails and new flows are giving people and SMBs access to funds faster with an obvious ROI for the business.

Interest is also building to make instant settlement available to qualifying SMB merchants via their payment service providers. PayPal, Square and Stripe already are.

Clearly, those use cases are game-changing – and the ROI is direct and compelling.

But those use cases don't drive the bulk of payments flows, which happen between businesses – and, increasingly, when those businesses [transact cross-border](#). Many of these transactions are between large buyers and small suppliers. There, payments terms – not the speed of the rails or whether they're real-time or batch-based – dictate how fast payments move between buyers and suppliers.

And that's where inertia reigns supreme.

REAL-TIME'S RECEIVABLES DILEMMA

Cash flow may be king, but as that wise cartoon sage, [The Wizard of ID](#), told us in 1964, "[he who has the gold makes the rules](#)."

Buyers in the B2B payments ecosystem have the gold and, therefore, can largely make the rules about when money flows out of their bank accounts and into the sellers' accounts. They decide from whom they will buy, how much they will spend on those purchases and – most relevant to payments – when they will pay for them.

Terms – ranging from 30 days (which, for most suppliers, is like dying and going to heaven) to 45, 60 or 90 days, or even longer – are often dictated in the end by the buyers, particularly larger ones. Those decisions are driven by one thing: how long they can push out payment without losing access to a valuable supplier.

Suppliers, unless they are large and/or very strategic to the buyer, typically have very little to say about it. They can decide not to transact with buyers that take too long to pay, but that rarely happens, as they want the business. Buying organizations not only operate

with set payments terms, but also have strict policies and procedures baked into their payables processes.

That dynamic is the bedrock of how business is done between trading partners today – and the very intractable [B2B payments](#) dilemma that characterizes those trading partner dynamics.

It's a dynamic that can be solved by access to speedy real-time rails – but it also comes with a hefty price tag for suppliers.

PYMNTS research estimates that in the U.S., buyers owe suppliers \$3.1 trillion in outstanding receivables. That trade credit, which suppliers have extended to buyers by accepting their terms, isn't what's late – it's what's owed.

And a large part of that is owed to small businesses from much larger businesses.

The payments to support that \$3.1 trillion are all scheduled by payors to be paid according to those terms, scheduled at the last possible minute so the money can stay in the buyers' accounts for as long as possible.

[Real-time rails](#) might give buyers access to their funds a few days longer, and some big payors might find that valuable. But for suppliers, receiving a payment over real-time rails on day

45 or 60 is the same old, same old – it doesn't solve their real payments pain point, which is the need to get paid faster.

WHY INCENTIVES – AND BUSINESS MODELS – MATTER

At the heart of this trading partner dilemma is the question of how fast is fast enough, and how much each is willing to invest to make payments instant (or faster), in a world in which terms still dictate how fast payments move and buyers still control those purse strings and those decisions.

However, recognition is dawning that to ignite a faster, even real-time payment network, simply making investments to move from a batch-based system to one that clears and settles in real time isn't enough to move the [B2B payments](#) innovation needle. Igniting new networks and new ways to pay requires going back to the basics – understanding that there are two distinct customer groups for every platform, and that both of them must find enough value to invest in trying something new.

At the PYMNTS B2B payments event held two weeks ago, our many conversations that day led to a new and interesting call to action for FIs, innovators and corporate treasurers.

Warning: Ignore the supplier at your peril.

It was an interesting admission, a reality check of sorts, that most of the innovation in B2B payments to date has been to the payors' benefit. After all, he who has the gold makes the rules, and is eager to consider innovations that enable them to make and keep more of it.

But those efforts – and the lack of supplier incentives for accepting many of those innovations – haven't moved the B2B payments innovation needle as far or as fast as many across the payments ecosystem might prefer. Even if the suppliers aren't interested in new methods of payment, they won't put any pressure on buyers to move – and those buyers won't have much interest in doing anything differently than they do today.

Innovations are starting to emerge that [pay suppliers faster](#) – much faster – yet give buyers the chance to hold onto their money for as long as they want or need to. That is, innovations that benefit both sides of the platform.

These programs are varied, as are the rails that they ride, but they all share a few common characteristics.

Many leverage existing rails, but use tech to solve for the underwriting or

fraud issues that prevent good funds from moving faster between accounts. Many also leverage existing contractual relationships to create network effects across banks to accelerate the delivery of those good funds.

Nearly all of them leverage business model innovations that play to the inherent trading partner standoffs, which reinforce the notion that comfort could remain the enemy of progress. Suppliers will pay to get their money faster, but want to have the option to do so (or not). Similarly, buyers want the option to pay faster at a discount if they so choose.

Only when both sides of the transactions are assured that there is enough value will we see FIs and their corporate customers move from being the couch potatoes of B2B payments to being agents of innovation and transformation.

September 30, 2019



Apple – Phone Home



There's no place like home

are the famous words spoken by Judy Garland, playing the character of Dorothy, at the end of the iconic movie, [“The Wizard of Oz.”](#)

All it took were three clicks of her ruby-red slippers and those five words to transport Dorothy back to Kansas and her beloved Auntie Em and Uncle Henry after she, her dog Toto and her farmhouse were uprooted and transported to the Land of Oz in a tornado.

It may not be that easy for [Apple](#), a tech giant that seems to have missed one of the most important anchors of connected commerce – the home – along with trendlines that suggest the smartphone is slowly becoming less central to the consumer and the commerce experience.

We saw that this year when we analyzed the results of our third annual [How We Will Pay Study](#). This study of more than 5,000 U.S. consumers across a nationally representative sample found that they are using their place of residence – along with a curated selection of connected devices – as a home base for many more of their

connected commerce experiences than we've seen in years past.

We attribute that shift to two things.

The first is the rapid adoption and usage of voice-activated devices and apps that make it convenient for consumers to make purchases at home while doing other things like cooking, cleaning or watching the kids.

All without having to be tied to a smartphone, tablet or PC.

The second, and perhaps more obvious, is the increase in the number of apps consumers now access, using any connected device, to do things at



home that they could once only do in a particular physical place – like going to the store to buy things or to the theatre to watch a movie or to a stadium to see a live sporting event.

More telling, our research shows that consumers are going to the store to buy things much less frequently, and are using connected devices to make purchases much more than last year. Consumers are spending more time at home without the fear of missing out – or going without.

It's why I think Apple's announcement last week that it would release its original movies in theatres before streaming them to its Apple TV+ service is an interesting window into their strategy for winning the hearts and pocketbooks of connected consumers – and also how different it is from the strategies of its Big Tech rivals Amazon and Google.

DOUBLING DOWN ON CONTENT

Apple's streaming content announcement comes at a time when movie theatre attendance is at an all-time low and competition for streaming content is at an all-time high.

Naturally, Apple's content release strategy isn't about pumping up another ailing brick-and-mortar business, but

about attracting movie producers to work with them to create original content.

Movie producers like to see their original content played out on the big screen first, since box office sales keep movie producers in business and keep big stars interested in playing their parts, so to speak. They, as well as the directors and artists, are more interested in making deals with distributors that let their movies play in theatres before dumping them into those big, "all-you-can-eat" streaming movie bundles.

But Apple's announcement – and its entire Apple TV+ programming initiative – also comes at a time when the streaming content business is becoming incredibly competitive and saturated.

There's [Netflix](#), Amazon Prime, Hulu and now Disney, on top of Comcast and the cable operators and their content packages, all vying for the consumer's attention span and monthly subscription dollars.

Really, who's not getting into this business?

The digital streaming providers have already eaten the lunch of the cable providers whose subscribers are cutting the cord with great abandon. And all of them, with the exception of Disney, already have a huge critical mass of

eyeballs that regularly tap into a critical mass of content on any connected device they happen to have – their Samsung or Pixel phone, their LG TV, their Lenovo PC or their iPhone or tablet.

And, it happens mostly in their homes.

Consumers will ultimately slim down the number of subscription services to only those that offer the best mix of content – movies, sports, original programming, old favorites, etc.

Apple is investing heavily to make sure they stay on that list.

But so what if they do – in the big picture of how the connected consumer and connected commerce plays out?

Apple's streaming content investment is part of the company's bigger strategy to beef up its Services offerings. Last quarter, for the first time since the iPhone launched, Services revenue topped iPhone sales. Apple hopes that Services will keep existing iPhone users in the ecosystem, drive more sales of the product and keep them hooked. Original content, like movies and [book deals with Oprah](#), is part of that plan.

All of that is important, given the slump in the number of iPhones sold in the U.S. and worldwide.

Sales are an important indicator of the health of the iPhone business, but more telling is the number of units sold. iPhone sales also include healthy aftermarket sales of used (and previously counted) iPhones. Knowing how many new units shipped and sold is a better indicator of how well the iPhone truly fares on the global smartphone stage.

Since Apple no longer reports the number of iPhone units sold, it's hard to know precisely the extent of the sales slump. [Several analysts estimate](#) that iPhone shipments are down in the 10 to 11 percent range so far this year. Analyst firm [Piper Jaffray](#) recently projected that units sold could scooch slightly higher this year given the lower cost of the iPhone models, but that overall sales will decline by 1 percent through the end of this year because iPhones cost less than they once did. Jaffray predicts that new iPhone sales won't spike again until Apple releases its 5G model in 2020.

The basis for that forecast is Jaffray's annual survey of iPhone users, conducted shortly after the latest iPhones were introduced, which found that only 51 percent of current users said they were interested in upgrading their phone this year, compared to the 69 percent who said they were interested last year.

The average upgrade cycle for iPhones, [according to some analysts](#), is now a full four years, up from three just a year ago.

Without a reason to buy new hardware, consumers remain content to upgrade the OS on the phones they already own to get new features and functions.

That's bad news for Apple looking ahead.

THE LOOMING THREAT

Regardless of what Apple may say, more so than any of its Big Tech rivals, it is heavily dependent on the iPhone being a hit, and being the primary device consumers use to power their connected everything experiences, including commerce.

Everywhere and anywhere, including the home.

That's because Apple's only connected commerce offerings are the iPhone, tablet and smartwatch. Keep in mind, too, that Services revenue also depends heavily on Apple keeping, at a minimum, its existing share of devices.

Oddly absent from the Apple stage last month at the launch of its new iPhone and Watch was any announcement of a smart home device. The HomePod, first introduced at Apple's WWDC in 2017 and released in early 2018, is described

[on the Apple site](#) as a speaker with incredible sound quality.

Big yawn.

And there's been nothing since.

That stands in sharp contrast to the [Amazon Devices Event](#) held last Wednesday, which saw Amazon launch a whole new suite of Alexa-powered devices to take her anywhere in the home – including appliances – as well as in the car and in consumers' ears via earbuds and smart glasses.

That also stands in sharp contrast to Google's upcoming [Made By Google](#) day, scheduled for Oct. 15 in New York. Google expected to release a new version of its Pixel phone as well as new versions of its Google Home devices, aiming to make Google Assistant more accessible throughout the home, too.

THE BET THAT DIDN'T PAY OFF

Two years ago, with the launch of the HomePod, Apple appeared to have made a bet that, since one of the most frequent asks of Alexa and the Echo was to play music, consumers would want better sound quality to listen to their voice-activated music selections at home.

As it turned out, most consumers really didn't.

While Apple was busy competing in the high-end speaker market with [HomePod](#), consumers were getting comfortable listening to music they asked Alexa to play on the Echo, and later experimenting with using a voice assistant named Alexa, and Google Assistant, to help them navigate their daily activities at home.

Amazon and Google both scratched that consumer itch, introducing devices and a range of skills that expanded the number of things consumers could do with those devices – first with smart speakers, later with mini versions of those speakers to put around the home and security systems to protect the home, and now with devices with screens that give consumers a new alternative to sitting down at a PC to search for information.

Consumers now use those devices to play music, get the news of the day, find the closest pizza place, figure out what to make for dinner, get tips on how to housetrain their new pup.

And buy things.

Consumers seem hooked on using those devices, in their homes, to access a variety of new experiences that, yes, they once did on their smartphones, but now don't have to.

According to our [How We Will Pay study](#), the ownership of voice-enabled devices, particularly voice assistants, has more than doubled in the three years since we started the study. This year, we found that roughly one in every three consumers (31 percent) now own voice-activated devices, up from 27 percent in 2018 and just 14 percent in 2017.

Nearly 10 percent (9.6 percent) of voice-activated device owners now use voice-activated devices to make purchases, up from 7.7 percent in 2018. Purchases made via voice-enabled devices while performing other activities are up across the board.

In fact, there is not a single-use case in which consumers are using voice-enabled devices less often than they did in 2018.

So, while Apple is thinking like a hardware company and developing a 5G phone to hook consumers to their content, Amazon and Google are thinking like technology companies using software and payments to power new connected experiences, including those that involve finding things to buy and making those purchases, that go wherever the consumer wants to take them.

Amazon and Google have each created a skills marketplace and voice SDKs for developers to create new ones. Today,

[Amazon has 56,750 skills to Google's 4,253](#). Amazon is also spearheading the [voice interoperability initiative](#) with 30 leading tech companies to make voice interoperable – and highly distributed – across applications, devices and connected endpoints.

All of those endpoints will ultimately enable commerce or provide an onramp to it — 5G will only accelerate those opportunities by layering a high-capacity, high-speed data network everywhere. All that will boost incentives for innovators to develop skills and use cases to enable it – and for consumers to use it.

THE WAY HOME

The [iPhone](#) introduced consumers to a device that changed the way they accessed the internet – using apps and a piece of hardware that blurred the online and offline worlds in ways they could have never imagined. The iPhone and its apps ecosystem opened up entirely new commerce opportunities that have driven untold value over the last decade. There is no doubt that the iPhone was a remarkable innovation.

Yet, in four short years, voice-activated devices have introduced a portability to commerce that will take that opportunity and those sources of value to an entirely new level.

Not only are these voice-activated experiences multi-modal – brought to consumers by Amazon and Google via speakers with screens – but they are also multi-device. Consumers who use voice to enable purchases do so using voice-activated devices in their homes, as well as via apps on their phones while out and about, including in their cars. Of the 31 percent of voice device owners who use their voices to make a purchase, 45 percent do so across multiple voice-enabled environments. Voice and voice activated devices make it possible for commerce to follow the consumer, and not the other way around.

And it all started in the home.

Of course, I know that just because Apple is getting into streaming big-time, and getting onto the big screen at theatres near you, doesn't mean they don't also have something up their sleeve for voice-connected devices. Maybe the next version of the HomePod will crush it.

But there's no evidence now that they have a strategy for competing with Amazon and Google in what's likely to be the next really, really, really, really big thing: voice and the continuous commerce experiences it will unlock across the tens of millions of new connected endpoints that will – and

already do – live outside the Apple ecosystem.

They don't have the e-commerce assets, nor the cross-platform mindset, that both of those tech giants have and are leveraging to deliver a connected commerce experience beyond the smartphone.

Apple getting into motion pictures could be another [canary in the coal mine](#) when it comes to its long-term future.

October 7, 2019

What We've Learned From **Libra**



PayPal officially pulled its support of Facebook's Libra initiative after it no-showed at the Libra Association meeting last week in Washington, D.C. [PayPal's endorsement of the Libra mission](#), signed by CEO Dan Schulman when Libra was officially unveiled in June, has also been removed from the Libra site.

We'll know today how many others may follow. [According to the FT](#), members have been asked to sign a membership declaration by today. It wouldn't surprise me if we see more follow PayPal's lead.

Before the launch of Libra a few short months ago in June of 2019, the 28 (now 27) founding members of the Libra Association committed nothing more than to show up at a meeting to hear more about Libra's plans at some point in the future. A \$10 million payment to remain a founding member would come sometime after that meeting took place – before the end of the year, it was said.

Last week's meeting was presumably an important milestone to keep the 27 remaining founding members in the boat –and motivated enough to sign that declaration and later, open their checkbooks to fork over the \$10 million down payment on the Libra vision.

In addition to getting an update on [Libra's progress](#) (now four months after its public debut and reaction), it is likely that Libra executives were pressed hard last week on how it will address the concerns of global regulators – who have largely thrown up the idea that Libra, and Facebook, even getting close to running a parallel global payments network and monetary system using its rails and “currency” is a big non-starter. Questions about regulatory compliance related to money laundering were reported to be the reason for PayPal's exit.

What has happened four months after the official launch of Libra was highly predictable – and a path that I laid out in the 10 pages I published the day the news broke.

Instead of piling on, though, I'd rather be constructive and lay out what we've learned from the Libra experience that may be helpful to other innovators who have big ideas to change the world.

And how everyone can use those lessons to reliably predict failure for future payments efforts.

ONE: SOLVE A SOLVABLE PROBLEM

Bloomberg [published an Index last week](#) that measures the relative wealth of people based on a ratio of assets to liabilities. The Index goes from a -2 to 11.

There are two people in the 11th Wealth Index bracket – Bill Gates and Jeff Bezos. Both have a net worth of \$100 billion-plus – and, the Index says, have enough money to do just about anything.

There are 150 in the 10th bracket – those with a net worth of \$10 billion-plus who can do lots of things, too, like buy professional sports teams.

On the other end of the spectrum are the 1.5 billion people in the -2 to +2 net worth bracket, whose wealth ranges from having a penny to \$100 in net worth. As Bloomberg reports, these are the farmers in developing economies and the simply “dirt-poor” people who have no net worth because they have no money to do anything with.

These are the same 1.5 billion people that Libra said at launch it intended to help.

Access to smartphones is giving people unprecedented access to financial services, Libra recounted at launch – and the Libra network and currency, coupled with the Calibra wallet, would

accelerate and democratize access to those services.

As noble and inspiring as this sounds, [as I wrote in June](#), there’s a pretty huge flaw with that storyline.

The 1.5 billion people targeted by Libra as the unbanked without access to mainstream financial services are largely those living hand-to-mouth every day. Before people need a digital wallet in which to store their money, they need to have the money – and food in their bellies. Before they get a phone that supports a digital wallet, they need to have money to buy that phone and purchase airtime.

Before they can gain access to the financial services mainstream, they need a way to make enough money to live.

Some innovators the world over are solving the real problems of these 1.5 billion people, as well as the very poor people in the next level, by helping them make money.

Whether it’s ride-hailing platforms like Grab or Gojek; delivery aggregators like Zomato; eCommerce marketplaces like Vesicash, Flipkart or Jumo; supplier-centric FX trading platforms like Verto FX; digital platforms that help farmers sell their crops more efficiently; or microlenders who give sellers a hand

in making and selling their crafts on a global marketplace, there is now a groundswell of innovation that gives those at the lowest levels of income and wealth in developing economies a shot at improving their standing.

Telcos, banks and PSPs, and global remittance platforms are also providing those 1.5 billion people with bank accounts and digital wallets, enabling them to accept payments in a familiar currency.

Libra’s mission and the network targeted a huge number of people who have problems and need the world’s help, but it didn’t give them what they really need to solve them.

TWO: BE CLEAR ABOUT WHAT YOU ARE

The launch of Libra ignited a global debate over the role of cryptocurrencies in payments and financial services.

Some [central bankers](#) have expressed interest in creating digital fiat currencies – and one country, China, says it’s ready to launch its own version of Libra.

Others have used the occasion of Libra’s launch to further elevate the threat of money laundering and the potential for financial crimes – with crypto specifically and cross-border money movement more generally.

Still others are trying to sort out the potential value of crypto in streamlining the movement of money between countries and bank accounts, or in protecting people living in countries with corrupt governments from currency manipulation and runaway inflation rates.

But nearly all of them have raised big red flashing cautionary flags over the notion of a single global currency, Libra, running over new payments rails, and into a Facebook wallet called Calibra. The potential for an association of private companies, conceived by Facebook, to operate a network and a currency that could usurp the power of central banks and governments to make fiscal and monetary policy has proven a bridge too far for them to cross.

David Marcus, Facebook’s chief Libra architect and now CEO of the Calibra wallet that will store and manage the Libra currency, has attempted to assuage regulators’ concerns by telling them Libra won’t move forward until they are comfortable.

As part of that narrative, Marcus recently [told regulators](#) that Libra really isn’t a new currency, but that it is a “better payment network utilizing national currencies to deliver meaningful value to consumers all over the world.”

Except that's not what [the Libra](#) [whitepaper says](#).

The first two sentence in that whitepaper goes like this:

Libra's mission is to enable a simple global currency and financial infrastructure that empowers billions of people.

This document outlines our plans for a new decentralized blockchain, a low-volatility cryptocurrency and a smart contract platform that together aim to create a new opportunity for responsible financial services innovation.

Taking the Libra Association at its word, Libra is a new currency whose value is pegged to a basket of low-volatile currencies like the USD, the euro and the pound sterling managed by the Libra Reserve. It runs over a new network also called Libra, managed by the Libra Association, whose membership now seems a bit in flux.

You really can't blame the regulators for being nervous, and maybe even now a little confused. Particularly when it's not at all clear that the people Libra says it launched its network to help – those 1.5 billion people with less than a dollar in wealth – are its intended targets.

Especially when the only other example of a global cryptocurrency running over new rails at scale is [bitcoin](#) – a crypto that every cybersecurity expert says has ignited cybercrime and funded efforts by authoritarian states to disrupt the world's financial and political systems.

It was a tough sell at launch. Four months later, it has become even tougher.

THREE: DON'T TRY TO BOIL THE OCEAN

One of the things I pointed out in my June piece was how everything about Libra and Calibra was new – and that adoption and ignition depended on

every single stakeholder being okay with an entirely new way of moving money between people, globally.

Users had to be okay with downloading and setting up a new digital wallet, and using a new currency they'd never heard of from a new network called Libra (which they had also never heard of). And when sending money to someone else who really needed to get it, they had to trust that the service was going to be better than what they used today, like Western Union, Xoom, MoneyGram, M-Pesa, GCash – you name it.

And the 1.5 billion people with barely any money to their names, who may not be financially literate or even literate at all, would have to trust their limited funds to a network they've never heard of – when they need every penny just to stay alive.

Central bankers have to be okay with the notion of a new global financial network moving a new crypto that is detached from their own fiat currencies and that could, at scale, compromise their ability to control their fiscal and monetary policies.

Regulators have to be assured that Libra isn't a new way for bad guys to transact. And both have to look past the idea that Libra and Calibra – the network construct, the code, the initial digital wallet, the currency – is the brainchild

of the social network that is already in their crosshairs for a raft of privacy and user data issues. And the fact that Facebook's influence, long-term, will be muted by an association whose committed membership as of today seems [a bit uncertain](#).

Card networks and banks have to trust that Libra and Calibra will somehow end up being good for them at some point in the future, rather than a Trojan horse.

Digital wallet providers have to be okay with the promise that they'll be able to participate, once Calibra gets off the ground and beyond the initial P2P use cases that many of them already enable today.

And everyone has to be convinced that, despite all of this, it's collectively worth putting \$1 billion into the Libra Association's bank account to get it off the ground.

The world is a big place, and igniting a new global financial services network is expensive, time-consuming and daunting. There's a reason there are only a few global card networks or global FinTechs with the scale of a PayPal in the world.

The decision to take on the world – and payments – in this way is puzzling, given Facebook's success in creating, launching and scaling a

global social media and advertising network. Facebook first ignited its social network by going campus to campus and building a base of users and their friends. It used that critical mass to open up the network to anyone who wanted to invite a friend to join. Only years later, once that critical mass was achieved on a global scale, did Facebook open its network to advertisers as a way to monetize its user base.

Libra took the position that the financial system is broken and that the cross-border movement of money is too expensive and clunky. Fixing it required a total overhaul, the creation of a new network from scratch that would reinvent the process.

Except the global financial system isn't broken – even though everyone agrees it could be better. People in developing economies can get money from senders in minutes, via mobile money accounts or in cash. Innovators in developing economies are using existing rails to ignite digital wallet schemes, including what wallet providers are doing to leverage the card rails to make their own wallets global and interoperable for their users. Alipay leveraged existing bank and card rails to scale. WeChat Pay leveraged its social network and existing bank and card rails to do the same.

New platforms have many points of failure, but time is probably their most potent threat. The longer it takes for critical mass to take hold on any side of the platform, the less likely it ever will.

Libra has too many moving parts and nothing as a cornerstone to give it a plausible foothold to ignite, at least in the near term. Libra leadership say that they are patient and are in it for the long haul. In the meantime, innovators across the world will continue to innovate, use existing rails and networks to do so, and create the interoperability built on trust to solve the payments problems that create friction for all of the people in the world.

FOUR: TIMING IS EVERYTHING

Let's suppose that all of these challenges could be overcome, and that Libra as a concept was just the thing the world needed to reinvent the movement of money between them. That would mean Facebook bringing Libra to market as its creator, initial funder, network and currency architect in June of 2019 was a great idea – but one that launched at a really, really bad time.

In the leadup to Libra's launch, Facebook and its leadership had been grilled by just about every regulatory authority in the world over its privacy, its user data violations and its role in

enabling the Russian meddling in the 2016 U.S. presidential election. If trust is the cornerstone of financial and payments systems, Facebook – and thus Libra – was at an all-time low.

I mentioned this notion of bad timing to several payments execs at its launch since I was curious about why Facebook would risk putting forward such a bold notion at what was obviously such an inopportune time. Some posited that it might be a way for Facebook to prove that it had the best interest of the world's people at heart by tackling the big problem of financial access and helping people at the low end of the wealth index become part of the financial mainstream. If that, was in fact, their plan.

But that was then, and this is now. If anything, Libra seems to have only stiffened the regulators' resolve about its intention, along with its ability to preserve the safety, soundness and integrity of our global financial system.

So now what?

That will depend on how many of the original Libra Association's founding members remain, as each is likely weighing its continued support of Libra against the risks of being caught up in regulatory battles. Few may be keen to meet with regulators and to have their own important global payments

initiatives hijacked by conversations about their support of Libra. More important than Libra's success, as interesting a concept as it might be, are their own reputations and a desire to advance their own global payments innovations.

One possibility is that Facebook could turn Libra into Facebook Credits, version two, a closed loop network operating with its own ecosystem. When Facebook first announced its intentions to create its own global payments network, I wrote about the failure of [Facebook Credits](#) in 2010 to ignite due to a lack of liquidity. When it was launched, Facebook Credits aimed to give users a way to buy and use that digital currency to play games on the Facebook platform. As games moved off of Facebook, so too did users' interest in buying Credits. No place to spend Credits meant no reason to buy them. Credits folded.

Since then, commerce on Facebook has been a work in progress, not going much beyond advertisers using payments credentials to buy ads. If more Libra Association members bail, maybe Libra will decide that its best bet is to become a payments network inside of Messenger or Facebook, to enable commerce between the people and merchants already there. Messenger's strategy of using chatbots to ignite

commerce on that platform has also met with lackluster response, and Facebook may think Libra could give it a fresh start.

Anything's possible.

But creating a payments network on Facebook means first creating a commerce platform inside of it. That means getting enough merchants to sign on and agree to get paid in Libra currency. And getting enough users on board who are comfortable using Libra currency to buy things – users who probably aren't the 1.5 billion people who Libra initially said it aimed to help.

And even if they are, all of whom would have to trust Facebook with their money when many other familiar and trusted alternatives for shopping, and payments already exist, globally and within their own domestic market – all of which begs the question: why not use existing rails, like Amazon, WeChat, and Alipay have done, to get commerce off the ground?

Libra has performed one really great service — it has provided valuable lessons on what not to do to launch a new, global payments network.

If enough people take those lessons to heart, Libra will save entrepreneurs a lot of time and investors a ton of money.



October 14, 2019

What's Wrong With The Attack On Gig Economy Pay

Drivers can't make ends meet. Given the median income of roughly [\\$25,000 a year](#) and the number of hours required behind the wheel to earn that, drivers' wages fall well below the federal hourly minimum wage.

As independent contractors, drivers also have no benefits. After taking into account expenses like gas and insurance, there's barely enough left over to meet their daily living expenses.

Drivers increasingly feel trapped, working for a company that keeps upping the percentage of their wages in exchange for picking up passengers and driving them from point A to point B. Adding insult to injury, the competition to get passengers into their vehicles is intensifying, making it even more of a challenge for drivers to keep even a modest income level at a steady state.

So went the narrative, which formed the [central thesis of a study](#) about the regulated taxi industry in the City of San Francisco, which was presented to then-mayor of San Francisco and now Governor of California [Gavin Newsom](#).

In 2006.

Yet here we are 13 years later, with a taxi industry that remains structurally identical to what it was in 2006 – and even 50 years before that – with drivers

who are truly struggling to make ends meet. And that's before we even get to the medallion fiascos that have burdened some of them with onerous debt that they may never be able to repay.

And yet here we are with lawmakers apoplectic over Uber and Lyft creating platforms and business models that have revolutionized transportation all over the world – and created job opportunities with flexible work schedules for many.

It's nuts.

TURNING A BLIND EYE

In 2006, four years before anyone ever Uber-ed their way across town, there were rising public and private sector concerns about the conditions facing taxi drivers in the regulated, monopolistic industry – particularly in big cities like San Francisco and [New York](#). Then and now, the dynamics of the taxi industry are linked to the medallion system – the permits that give taxis a license to drive and pick up passengers on the street.

Taxi medallions have always been rationed, which drove up their prices in the good old days of the taxi monopoly. Drivers waited for 10 or 15 years to buy one, scraping together the \$250,000

or even \$1 million to buy their piece of the American dream, seeing it as a valuable asset that would feather their retirement nests and provide for their families in the meantime.

Drivers who couldn't afford to buy a medallion of their own drove for taxi operators as independent contractors, with the companies dictating the terms of their deal. It was not uncommon for drivers to have to fork over as much as [a third of their wages](#) to the taxi company, as well as payment to lease the taxi and an additional 10 percent for any fares put on a credit card.

When taxis were the only way to get around town, this way of doing business was the only way to play that game.

Medallions were also the big prize that lured many taxi drivers into doing bad deals at about the same time competition from ride-hailing platforms was starting to emerge.

Many [medallion owners](#), particularly in New York and California, found themselves at the mercy of unscrupulous lenders when financing their medallion purchases. When California decided to sell medallions in 2010 (they were previously assigned for free to those on a decade-plus waiting list), lenders offered interest-only loans to drivers who didn't understand what they were signing. Those loans – and the competitive dynamics of the industry – have turned the economics of their deals, and their businesses, upside-down. Many medallion owners have been forced into bankruptcy, while still others, sadly, felt so overwhelmed that they took their own lives.

One San Franciscan cabbie who has driven a taxi for 20 years told [SF Weekly](#) in June of 2019 that he needs to earn \$4,000 a month just to make the monthly payment on a \$250,000 loan for a medallion that is worth far less today. How much less is unknown –

there hasn't been a [medallion sold in San Francisco](#) since 2016. And he has to make those ends meet in a city where the average number of trips for a taxi driver [is down by about 65 percent](#).

A few months back, SF Weekly published an article whose title posed this rhetorical question: “[Who's Killing the Taxi Industry?](#)”

To me, the answer seems quite clear.

It's not Uber, and it's not Lyft.

Unlike today's ride-hailing platforms like Uber and Lyft, whose drivers are independent contractors and who use those platforms to earn money as a side gig when time permits, [taxi drivers](#) are self-employed small business owners driving taxis full-time. They are drivers who got behind the wheel and bought medallions — or worked for those who did — hoping to make enough money to raise their families and enjoy a middle-class lifestyle.

What's really killing the taxi industry is the taxi industry itself, along with regulators and lawmakers who looked the other way and tolerated a regulatory nightmare where taxi drivers got a raw deal and passengers were driven around in unreliable and often disgustingly dirty vehicles. Whatever you think about the “bad bro” culture and shenanigans at Uber – and that was pretty bad – it's nothing compared to what was going on in the [taxi industry](#) in big cities like New York, where lawmakers simply looked the other way.

So now, instead of focusing on making life better for their own drivers as well as the passengers in the back of those cabs, the industry – with lawmakers in tow – seems determined to hobble those who are using technology and better business models to make the transportation experience better and more efficient.

THE RISE OF THE GIG ECONOMY

Uber, when it launched in 2009, popularized a new label for the drivers it recruited for the supply side of its platform: gig workers. At the time, these gig workers were mainly black car drivers who could monetize their idle capacity via an app that connected them with would-be passengers who had places to go.

Years later, the platform expanded to provide different levels of service as long as drivers and their vehicles meet a specific Uber-set standard. Uber Black has upended the black car industry, while Uber X has, over time, largely displaced the taxicab.

The ride-hailing platform that Uber created – and that others like Lyft have since replicated – is a profound innovation that has revolutionized mobility for passengers and expanded income opportunities for drivers.

Passengers were liberated from the inconsistency and uncertainty of getting a taxi at the precise time one was needed.

Take New York.

For New Yorkers or anyone visiting the Big Apple, it almost seemed too good to be true at first. No longer did anyone have to watch dozens of yellow cabs

zoom by with their [off-duty light](#) on at 4 p.m. on any given weekday in the mad scramble to catch a 6 p.m. flight home. Uber and Lyft solved for that friction, and the invisible payments experience that came along for the ride was just the cherry on top of that delightful passenger experience.

Ride-hailing platforms have also been a boon for employment in the transportation sector.

A Bureau of Labor study [reported](#) last year that the number of people who claim “taxi driver” as a full- or part-time profession has [tripled over the last decade](#). This isn’t because more people are driving taxis in the traditional sense of the occupation, but because they are providing taxi services as part of a ride-hailing platform.

Many of these drivers use those ride-hailing platforms as side hustles.

A [study done by Uber](#) in 2016 reports that more than half of their drivers have full-time jobs, and another 14 percent have at least one other part-time job.

That’s consistent with the findings of the quarterly studies PYMNTS has done of 6,000 [gig economy workers](#) over the last several years. A small but growing fraction of consumers have reported that gig work is their full-time

gig, so to speak. Those are mostly the workers we used to call “self-employed” or “freelancers” – the long tail of web designers, software engineers, tutors, copy editors, nurses and other caregivers, to name a few – who can now tap into gig economy platforms to string together enough work to equal a full-time job.

But the vast majority of gig workers do it as a way to pay bills or save for big purchases like a family vacation, down payment on a house, college tuition for their kids or the discretionary extras that their full-time employment doesn’t necessarily provide.

For workers living paycheck to paycheck who lack adequate savings, the ability to tap into a platform and, in the case of Uber or Lyft, get in the car and earn \$50 or \$100 to pay a bill or cover an unexpected expense is a lifeline they never had before.

Only a small fraction of those workers, based on our studies, want benefits – at least in the classic sense of the word. Given the rhetoric around gig platforms today, the finding came as a bit of a surprise to us at first, but makes sense upon further reflection.

Gig workers want benefits if they can’t access them from another source. Since the vast majority of gig workers have

other employment that presumably provides what might be considered more traditional benefits, like healthcare or 401(k) plans, they don’t want or need those benefits from the platforms where they find their side hustles.

Gig workers, however, do want some help. They want tools to help track their expenses and manage tax payments for the work they perform. They want the option to be [paid instantly](#) as wages are earned. They want ready access to leads for the type of services they have the skills to provide or the equipment to perform. Platforms, recognizing this, have stepped in and stepped up to provide those services to remain competitive.

Perhaps the most important benefit is the flexibility to find work on demand. Gig platforms – and not just Uber and Lyft – make it easy for workers with a skill to find someone willing to pay for their services. The value of Uber and Lyft, and other gig platforms, lies in the ability of drivers to tap in and out of that experience at their convenience.

It’s a luxury that taxi drivers – or anyone trying to find part-time work – never had. And it’s a luxury that, if lawmakers keep pushing, gig workers using Uber, Lyft or any of the gig platforms will soon find they won’t have, either.

FOLLOW THE MONEY

Businesses have a responsibility to their shareholders – and their workforce – to make profits. Profits are how we measure the health of a business, and investors like putting money into companies that sell more than they spend to operate – or have a clear path to getting there.

Workers like the security of working for those kinds of businesses, too.

The pressures that lawmakers are putting on gig economy platforms like Uber and Lyft to operate more like a traditional business and treat workers more like traditional employees will only hurt those who need the platforms the most – the drivers who use them regularly to supplement their full-time or part-time incomes.

As profit-maximizing businesses, [Uber](#) and [Lyft](#) will figure out ways to protect the other side of their platform – the passenger – and manage the downside, a necessity to return value to their shareholders. They'll do that by, among other things, limiting the times drivers can sign on and off, as well as their areas of service. Drivers who used to be able to punch in and out will no longer have that option.

Uber and Lyft will use years of data to manage the supply to meet passenger demand. That will make driving for Uber or Lyft just like any other part time job – tied to a schedule that drivers either like or they don't like at times that are independent of how much money they might want to make and totally dependent on how long these platforms say they can spend behind the wheel and on the road. All to get benefits that the vast majority say they don't want or need.

These platforms will revert to new models, like Uber is doing in Latin America with its recent acquisition of Cornershop, a delivery business that uses store employees to make deliveries. Say hello to new business models that change the driver/delivery/business dynamic – and bye-bye to the opportunities for entrepreneurs to buy a car and build their own on demand mobility services business.

Watch this space and this trend as [Uber Eats](#) and the ghost kitchens they are building to compete with U.S. restaurants gain traction.

Longer-term, of course, the investments that Uber, Lyft and others will make in autonomous vehicles will eliminate the need to have humans behind the wheel at all.

None of which helps the gig workers, most of whom really like the Uber experience and the flexibility it provides. Or the taxi drivers whose industry is too busy tearing everyone else down to help build them and their futures up.

The real irony though, and the hypocrisy of politicians who have piled on, is that the industry that Uber and Lyft is disrupting was based on independent contractors who drove a taxi full time and who didn't have much in the way of benefits or fair pay. So, I wonder if the real debate here is truly about treating workers as employees versus independent contractors, providing a living wage and benefits vs. piece rates, as some are making it seem.

Or whether it's simply part of the ongoing wave of bashing that is demonizing tech for providing services that disrupt the status quo and that consumers value and use.

October 21, 2019

What Apple Pay At Five Says About The Future Of Mobile POS Payments



Apple Pay went live five years ago yesterday, on [Oct. 20, 2014](#).

When Tim Cook took the stage a month beforehand to announce this mobile payments innovation, he shared Apple's vision for modernizing how consumers and merchants would interact at the physical point of sale. Instead of wasting time fumbling around for plastic cards and swiping them at terminals, consumers would use the mobile devices always in their hands to check out quickly, easily and securely with Apple Pay's mobile wallet.

He used [this video](#) to make that point.



In true Apple fashion, the user interface was clean, crisp and slick. Apple Pay's security and privacy protocols were state-of-the-art, leveraging the NFC standard and their Secure Element to enable secure, tokenized, contactless payments at the physical POS. Issuers lined up to enable cards in their wallets.

The tech press and pundits [lauded Apple Pay](#) as a payments and commerce

game-changer, and predicted the demise of the plastic card a decade hence. Some even said Apple Pay would replace PayPal – and investors took note. eBay, which owned PayPal at the time, saw its stock slide 6 percent the day Apple Pay was announced.

I wasn't so sure.

[As I wrote in a piece](#) right after Apple Pay was unveiled, I thought it faced many difficulties in securing ignition, and the company had vastly underestimated the challenge of getting consumers to adopt it. Apple's reputation as a mobile innovator couldn't overcome the reality of launching with very few merchants with contactless terminals – and even fewer consumers with compatible phones.

Perhaps the biggest obstacle of all was the consumer's muscle memory associated with using cards in stores to pay, and their ubiquitous penetration. The lowly plastic card – practically a prehistoric relic standing alongside an iPhone 6 and an Apple Pay wallet – was accepted everywhere and at every merchant point of sale. Most consumers had a debit, credit or prepaid card they could use, and knew it would work the same way each and every time. Apple Pay wasn't anywhere close to being able to make that claim.

And contrary to the video, most people weren't fumbling for cards (they used them all the time). In fact, they could pay with cards lickety-split. For most consumers, there was no burning problem to be solved at the physical point of sale.

Five years later, there are more consumers with iPhones and Apple Pay wallets and more stores that can enable an Apple Pay transaction. So that's not a problem anymore.

So, there are more transactions, because there are more phones and more places to use it, but the rate of use – the percentage of people who can use Apple Pay and do at the physical point of sale – has remained small and steady.

APPLE PAY AT FIVE

At the time of iPhone's live debut in October of 2014, merchants accounting for only 19 percent of all retail sales could enable an Apple Pay transaction, only 39 percent of all iPhones could support an Apple Pay wallet and just 11 percent of all consumers owned one. Getting to critical mass would come down to solving the age-old "chicken and egg" platform ignition problem: getting enough consumers with the right iPhones to use it at stores that accepted it, which would incent more

merchants to get on board, which would get more consumers to use it – and so on.

PYMNTS decided to document Apple Pay's adoption and usage at the physical point of sale as almost a real-time case study in igniting an entirely new way to pay in stores where plastic cards had ruled for 60 years. Shortly after its launch and for its first three years, we studied U.S. consumers with the right iPhones who shopped at the stores that accepted [Apple Pay](#) each quarter to document how many of them used it to check out. Over those years, Apple never released anything other than vague statements proclaiming Apple Pay's "awesome" progress, so our studies became the de facto public record for its in-store performance.

Over that three-year period, we reported that, not unsurprisingly, adoption and usage – the percentage of people with Apple Pay who shopped at merchants with contactless terminals and used it to pay at those merchants – was a slog.

Like many of you, I would stand in line behind people, iPhones in one hand and plastic card in another, paying for their purchases in the store. For most consumers, ubiquity, certainty and familiarity with how to pay trumped slickness and elegance, for both mobile and digital.

Our survey data backed that up.

I wrote over those years that the longer it would take for those consumers to get comfortable and try Apple Pay once, and then twice, at stores that supported contactless transactions, the greater the risk that it would never get enough usage and critical mass to overtake cards at the physical point of sale.

Five years after Apple Pay was available for consumers to use, and two years after our last consumer field study, PYMNTS went back into the field to examine iPhone owners and their usage of Apple Pay at the physical point of sale at merchants that accepted it.

Like always, we asked eligible consumers – those with [iPhones](#) with the Apple Pay wallet who made a purchase at a store that could enable an Apple Pay transaction – whether they used Apple Pay to pay for those purchases. For this study, in September of 2019, we fielded a national survey of 1,000 such consumers.

APPLE PAY'S PAYMENTS PIE PROBLEM

As I mentioned earlier, the Apple Pay opportunity pie has grown tremendously over the last five years, because the number of iPhones that can use Apple Pay and the number of merchants that

can take it have both increased several-fold.

According to the PYMNTS analysis, in 2015, about 69 percent of the total U.S. adult population had a [smartphone](#); currently, 81 percent own one.

In 2015, Apple Pay was compatible with only two iPhone models, iPhone 6 and 6S, representing about 39 percent of all iPhones with 11 percent of consumers having one. Today, that percentage has grown to roughly 89 percent of all iPhones and about 34 percent of all consumers capable of using Apple Pay to pay for an in-store purchase.

Apple has also done a lot of nudging over the last few years to prompt consumers to download Apple Pay. Upgrading the OS, for example, isn't deemed complete by Apple until Apple Pay is installed – and it's also required to make that little round, red circle on the Settings app on the iPhone home screen go away.

In 2015, [contactless](#) terminals were new to merchants, and merchants that offered contactless only accounted for roughly 19 percent of all retail sales. Many merchants with contactless terminals also resisted activating contactless for fear of losing control of their customers and competition for their own mobile wallets. In 2019, contactless terminals are present at

merchants that we estimate account for 51 percent of all retail sales, excluding automobiles.

As a result of the increase in the number of compatible iPhones and in merchants that take contactless, the volume of transactions that could be paid for with Apple Pay has increased more than eight-fold, from roughly \$88 billion in 2015 to \$768 billion in 2019.

In 2015, when Apple Pay was a newbie, consumer usage was about 5.1 percent. In other words, among consumers who could use Apple Pay to pay in a store that accepted it, they did so only one out of every 20 times. Just to be extra clear: When we measure usage, we are referring to consumers with an iPhone capable of having an Apple Pay wallet who are shopping in stores capable of enabling an Apple Pay purchase.

Five years later, usage of Apple Pay to check out in a physical store is about 6 percent, down from 6.9 percent in 2017. In other words, roughly 1.2 out of every 20 people who could use Apple Pay to pay in a store that accepts it, do so.

Based on these results, we estimate that Apple Pay accounts for roughly 1.1 percent of all retail and food services sales – excluding online and auto. Unless the usage rate increases from this 1/20 range, there are only two

paths to increasing Apple’s share of the payments pie at the retail point of sale.

First, and most promising, the penetration of contactless terminals could increase (it could almost double from 51% percent to 100 percent, eventually). Second, and less likely, Apple’s share of smartphones could increase. Neither provides much headroom for growth in the long term, and even less so in the next few years.

THE WALMART PAY PAYMENTS PIE

As part of our analysis in September, using the same methodology, we also surveyed 1,000 smartphone owners about their adoption and usage of [Walmart Pay](#).

Walmart Pay launched a year later than Apple Pay, in December of 2015, but without two of the ignition hurdles facing Apple Pay.

Walmart Pay was enabled at all of Walmart’s U.S. stores, making the wallet ubiquitous from the start. Walmart Pay was compatible with almost all devices, too. Consumers with just about every kind of smartphone, Android and iOS, could download the Walmart Pay app – 95 percent of all smartphone users compared to Apple’s 39 percent – and

could use it at every single Walmart store.

That meant Walmart Pay’s ignition challenge was to create the incentives to get consumers to download and use the Walmart Pay app to check out instead of use cash or cards in the store.

When Walmart Pay launched, it was described as a “hands-free” way to pay without tapping or waving a phone at the terminal – appealing to busy moms with kids in tow who didn’t want to fumble around for cards or fiddle with

a phone at checkout. The Walmart Pay app was also linked to its Savings Catcher feature – something that was once touted as a key value driver for Walmart Pay – which did automatic price comparisons and deposited the savings differences into an account that consumers could apply at checkout via the app.

For the first three years of Walmart Pay’s debut, we saw impressive, almost hockey-stick, growth. In its first two years, the adoption and usage of Walmart Pay had outpaced that of Apple Pay, and in less time.

Apple Pay vs. Walmart Pay					Source: PYMNTS.com October 2019
	Apple Pay			Walmart Pay	
	2015	2017	2019	2017	2019
U.S. adults who have eligible devices					
• Portion of U.S. adults who use smartphones	69.0%	77.1%	81.0%	77.1%	81.0%
• Share of smartphones with correct operating systems	42.7%	43.5%	47.0%	95.5%	99.0%
• Portion of iPhones (version 6 or newer) that work with Apple Pay	39.2%	87.0%	89.8%		
• Share of individuals who have eligible devices	11.5%	28.2%	34.2%	73.6%	80.2%
Total estimated eligible sales					
• Total retail sales (excluding automobiles and eCommerce), in billion USD	\$3,937	\$4,144	\$4,396	\$4,144	\$4,396
• Share of sales for which the Apple Pay or Walmart Pay eWallet is accepted	19.40%	23.40%	51.10%	8.00%	7.80%
• Total sales from merchants that accept select eWallets, in billion USD	\$764	\$970	\$2,246	\$332	\$343
Total estimated sales U.S. adults with qualifying devices made at eligible merchants					
• Potential value of sales made using select eWallets, in billion USD	\$88.2	\$282.9	\$768.0	\$244.1	\$275.0
Usage Summary					
• Share of eligible transactions made using select eWallets	5.1%	6.9%	6.0%	5.9%	4.5%
• Portion of eligible stores' shoppers who used select eWallets	0.6%	2.0%	2.1%	4.5%	3.6%
• Estimated share of in-store sales for which select eWallets were used	0.1%	0.5%	1.1%	0.4%	0.3%
• Estimated sales in which select eWallets were used, in billion USD	\$4.5	\$19.5	\$46.4	\$15.1	\$12.3

But unlike Apple Pay, over that last two years, Walmart’s piece of the payments pie hasn’t seen that much of an increase. In the U.S., Walmart Pay’s retail footprint includes Walmart stores – and, since all stores could enable it almost from day one, growth in share of sales had to come from growth in Walmart’s in-store sales.

Overall smartphone ownership has also increased since that time, but since Walmart Pay has always been accessible on more smartphones than Apple Pay, the growth in ownership hasn’t expanded its eligible consumer base all that much.

And over that same period, in November of 2018, Walmart announced [changes to its Savings Catcher program](#) – and announced that it [would sunset the](#)

[program](#) in May of 2019. And Walmart has invested heavily in online order-ahead and curbside pickup for groceries, which drives more than half of their U.S. retail sales.

Today, Walmart Pay is [positioned](#) as a fast, easy and secure way to pay in Walmart stores.

Over the last two years, we observed that Walmart Pay’s in-store usage has declined slightly, among those consumers who have phones that can enable Walmart Pay and who choose to use it at the physical point of sale – although it’s close enough statistically to be more of a flat line than a pronounced downward trend. We estimate that Walmart Pay accounts for about 3.6 percent of sales in the retailer’s physical stores.

Like Apple Pay, Walmart Pay’s use as an in-store payment method among consumers who could use it seems to have plateaued. Unlike Apple Pay, that could be the result of consumers using the Walmart Pay app to order ahead and pay for groceries instead of going to the physical store to shop for them. Or, like Apple Pay, it could mean consumers don’t have a problem using whatever other form factors they have always used to pay.

THE DIGITAL WALLET ACHILLES HEEL

Over the last five years, I’ve been very vocal on these pages about the failure of Apple Pay – and most every other digital wallet – in displacing the plastic card at the physical point of sale. Apple Pay and Walmart Pay, for different reasons, today stand as interesting proof points about the power of consumer habit, the efficiency of using plastic cards, and the incentives required to change the behavior of consumers when most of them don’t feel they have any problem using cards to pay when they go into stores to shop.

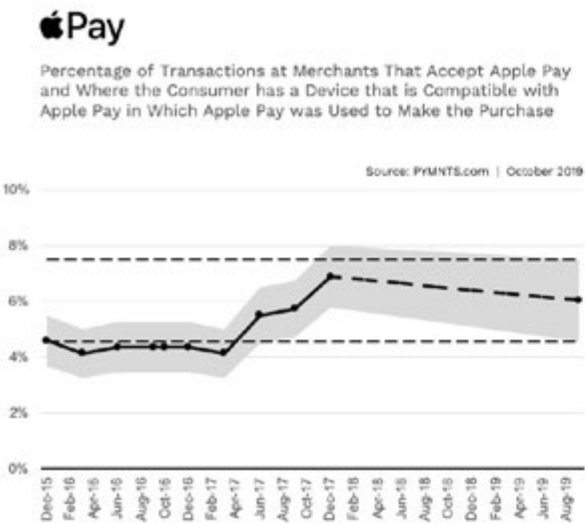
Long gone, thank goodness, are the annoying chirps and screams that came from terminals in the early days

of chip and PIN transactions. These days, those transactions are quick, easy and quiet. More issuers are also putting contactless cards into the hands of consumers who, according to our research, are more than eager to use them to pay in-store.

In the 2019 [How We Will Pay study](#) released last month, which looked at more than 5,000 U.S. consumers, interest in contactless cards increased by 20 percent over the last year, now including nearly one-third of all consumers. Forty-three percent of the mobile-first 30- to 40-year-old bridge millennials cite having an interest in and willingness to use them at the physical point of sale. Convenience (77 percent) and security (61.9 percent) were noted as the key reasons. When it comes to where consumers are interested in using contactless, mass merchants (81 percent), grocery stores (80 percent) and drug stores (76 percent) topped the list.

Those are the same everyday merchants that Apple Pay targeted when it launched.

In a world dominated by mobile devices and apps – and trillions of dollars of sales conducted at the physical point of sale – cards still rule.



THE PLASTIC CARD TAIL THAT WAGS THE MOBILE WALLET DOG

This insight has not gone unnoticed by Apple, Walmart or even PayPal with Venmo, as digital wallets are turning to them, quite ironically, to drive usage of their digital wallets.

As I noted above, Apple Pay has only a few levers at its disposal to drive more share of Apple Pay at the physical point of sale.

With more than 80 percent of the U.S. adult population owning a smartphone and all of Walmart stores capable of enabling a Walmart Pay transaction, Walmart Pay gives more consumers more of a reason to download and use it.

Say hello to the plastic card with cashback rewards.

Apple made news when it introduced what Goldman Sachs' CEO said was the most successful card launch in history – the [Apple Card](#) – which offers 2 percent cash back on Apple Pay purchases. The Apple Card runs over Mastercard rails, so it can be used everywhere Mastercard is accepted – including all of those physical points of sale that Apple Pay set out to disrupt five years ago.

Walmart introduced a cashback credit card, too, issued by Capital One and

also running over Mastercard rails, which offers the same thing for Walmart Pay users. For Walmart, the co-branded card is also a way to capitalize on purchases made beyond its physical store footprint.

PayPal also joined the digital wallet credit card game when it announced last week that it will issue a [Venmo credit card](#) next year, designed to monetize the 40 million users of its digital app.

Now, whether these cards become the bridges to getting consumers to use digital wallets instead of those cards at the physical point of sale remains to be seen.

For now, they seem to be an admission by the mobile payments pioneers that consumers have some pretty strong preferences for what they like to use when checking out in the physical store.

SO, WHAT HAVE WE LEARNED?

Despite the splash and pizzazz of the various “Pays” at the physical point of sale over the last five years, the Starbucks mobile app remains the most successful example of a mobile wallet ever introduced in the U.S. Mobile app users [now top 16 million](#), driving roughly 40 percent of sales, according to the

Starbucks CEO during the company's last earnings report.

What hooked consumers at first – the ability to pay in-store using an easy-to-reload mobile app and collect cool rewards – isn't necessarily why consumers remain hooked today. Increasingly, the appeal of the Starbucks mobile app is the convenience of using it to order ahead and skip the checkout line completely, while racking up stars to redeem on future purchases.

For the Starbucks I visit today, the lines of people waiting to order and check out in the store are dwarfed by those who have already done that on their way there. The order-ahead feature is apparently so successful that Starbucks is piloting a [mobile-only store](#) in New York City.

Every QSR is investing in order-ahead to try and hook consumers into using their app. And delivery aggregators are using it to appeal to consumers who don't want to go to a physical restaurant to eat.

It's what every retailer with an online presence is prompting consumers to do – buy this dress or those shoes or that watch online and pick it up in the store. It's why grocery stores, especially Walmart, are investing so heavily in curbside pickup. Why use an app to check out in the store when you can

use it to order ahead and skip the standing-in-line scene entirely?

Maybe we've learned what we knew all along: that for a new platform to ignite – any platform, not just payments – it has to solve a big and obvious friction. For consumers, then and now, when they are in the store checking out, the majority of the time they reach for their cards and not their mobile phones.

When they do reach for their phones, it's because they want to skip the instore experience completely. The biggest pain point when shopping in the store isn't pulling out a card to pay at checkout, it's hoping that what a consumer wants to buy is in the store and then waiting in line to pay for it if it is.

October 28, 2019

Why **Super Apps** Could Have **Superpowers**



It's what WeChat and Alipay already are in China, and what LINE is in Japan. Rappi follows suit in Latin America.

It's what Grab and Gojek are investing hundreds of millions of dollars to become in South Asia. It's Facebook's global ambition, with or without Libra and Calibra.

It's the path that Amazon, Google and Apple are blazing for its users, too.

According to Uber CEO Dara Khosrowshahi, it's also [Uber's next big move](#).

The "it" is to become the consumer's "Super App" – the everyday app that becomes the front door for how consumers interact with and purchase goods and services as they go about their everyday activities.

And, for those who aspire to be WeChat, it includes pretty much everything else.

In truth, these everyday apps don't have to do everything – but to be effective, they must eliminate the friction associated with jumping among the slew of apps with cards on file that consumers use today to get things done, or to fill the gaps in access that exist.

As its moniker implies, a Super App is supposed to make it super easy for consumers to have more seamless

access to the activities that are part of their everyday journey. And enabling payments for those goods and services within that Super App goes along for the ride.

The interest in becoming that [everyday app](#) – the one app to rule them all – is obvious: It provides the ability to monetize access to the consumers who use it and the interactions that happen inside of that ecosystem.

The opportunity for the Super App is to continuously engage those who are already part of its ecosystem by introducing new features and functions that make the app even more super-cool for those using it – and super sticky for the app itself.

The threat, depending on where one might sit in the Super App ecosystem, is that Super Apps create entirely new ecosystems that marginalize some of the same platforms that gave them their everyday app wings. Once people spend a lot of time on the app, it becomes attractive to integrate new features and functionalities into the Super App from third parties.

In fact, it's already happening.

THE SUPER APP-FUELED SHIFT

Not that long ago, the conventional wisdom was that mobile operating

systems – iOS and Android – would rule, because mobile devices would remain the primary channel consumers used to manage relationships with all of the companies they interacted with.

Then, the battle became one of getting mobile devices into consumers’ hands – and getting those consumers to download apps onto their phones for every company and brand.

The thinking was that more apps on more phones would make consumers stickier to their devices and to the operating systems that powered them.

But that’s not how things have played out over the last several years.

Super Apps have opened their own ecosystems to others to develop apps and skills that work only within their Super App environments. In doing so, they have become new, robust platforms built on top of the same operating systems that would like to achieve their own Super App status rather than playing host to the many others with similar, competing ambitions.

WeChat opened its ecosystem in 2017 for [developers to create mini-programs](#) that work within the WeChat ecosystem. LINE has done something similar with mini-apps. Between all the features that WeChat offers and the mini-programs

now available from third parties, Chinese smartphone users live primarily in a WeChat ecosystem on their iPhones, not one driven by the App Store.

Amazon is creating an entirely new ecosystem around voice and skills for Alexa and is expanding the number and types of things Amazon Prime users can do within the Amazon ecosystem. It is also expanding the types of items consumers can buy from them – now including prescriptions, medical supplies, designer fashions, meal kits, and groceries from Whole Foods and online. Between all of the features Amazon offers and the expanse of its ecosystem and devices, consumers are starting to live more of their commerce lives in an Amazon/Alexa ecosystem using whatever mobile phones they own.

Google is trying to do the same thing by integrating payments functionality inside of Search for a range of activities, including food delivery and travel bookings, and also by revamping Google Shopping.

[PayPal](#) is enabling payouts into PayPal accounts for gig worker pay, has expanded its Xoom remittance platform to 32 countries and has launched its Commerce platform to add more value to its merchant and consumer base.

Grab and Gojek are adding more capabilities to supplement their ride-hailing roots so consumers have more places to use their wallets, and are providing access to a range of financial services to help them manage their money.

LINE users can buy insurance, shop at brand-name stores and get access to credit using LINE Score, which assesses their creditworthiness.

Uber has [begun that journey](#) by making Uber Eats part of the Uber app, creating its own currency called Uber Cash, enabling instant pay options via Visa Direct for its drivers and providing a growing range of capabilities for drivers to access inside of its ecosystem.

The more effectively these Super Apps and Super App contenders aggregate more functionality into their own ecosystems, the less dependent they are on the smartphone operating system providers that consumers use today to access them.

[Super Apps](#) are shifting the power away from mobile devices to these new interoperable, portable ecosystems that follow their users everywhere they want to take them.

“Have Super App, will travel” is the value proposition as consumers get more functionality with fewer moving

parts to navigate and manage – across platforms, across borders, across devices, across shopping channels, across commerce endpoints, even across payment options.

As these Super Apps evolve, smartphones and their operating systems will become a means to an end and no longer the end to the means – important, but less so as more connected devices emerge that are capable of providing access to those apps.

Much like the [physical store](#) has become one of many places to shop, and no longer the only way shopping is done.

WHAT MAKES SUPER APPS REALLY SUPER?

No matter where they are in the world, the consumer’s everyday journey consists of a complex maze of activities, most of which touch money and how and where they spend it.

Today, consumers use bank apps, or bank-like apps from neobanks or telcos, to check their balances and pay bills. They use *investment apps* to manage their money, and *payment apps* and *digital wallets* to store balances and pay for the things they want to buy. They use *ride-hailing apps* to get around

town, *reservation apps* when they want to eat out and *delivery apps* when they want to eat in. They use *travel and hotel apps* to book travel, *transit apps* to access public transportation access and *merchant apps* for shopping. They use *email apps* for work, *calendar apps* to organize schedules and *gaming apps* to play the latest video games. They use *messaging apps* to text with friends and colleagues, *social apps* to see what friends are up to and *streaming apps* to watch videos, listen to music and play games. They use *dating apps* to find romance, *digital content apps* to stay up-to-date with news and to read books and *search apps* to obtain information. They use *map and navigation apps* to get directions and *fitness apps* to track their health.

That’s a lot of apps – and a lot of [app fatigue](#). It’s not surprising that so few consumers download new apps, and that so many more of them have opted into apps that aggregate access to goods, services and activities.

Each of those apps probably has a card on file to make it easier and more efficient to buy things from them.

That’s a lot of payment credentials on file for a consumer to manage – and a lot of payment acceptance options for merchant apps to enable and manage.

In a perfect world, an everyday app must provide a more integrated way for consumers to keep tabs on all of the things these individual apps now enable: planning, managing and spending their funds – and even enabling funds to come in from other sources.

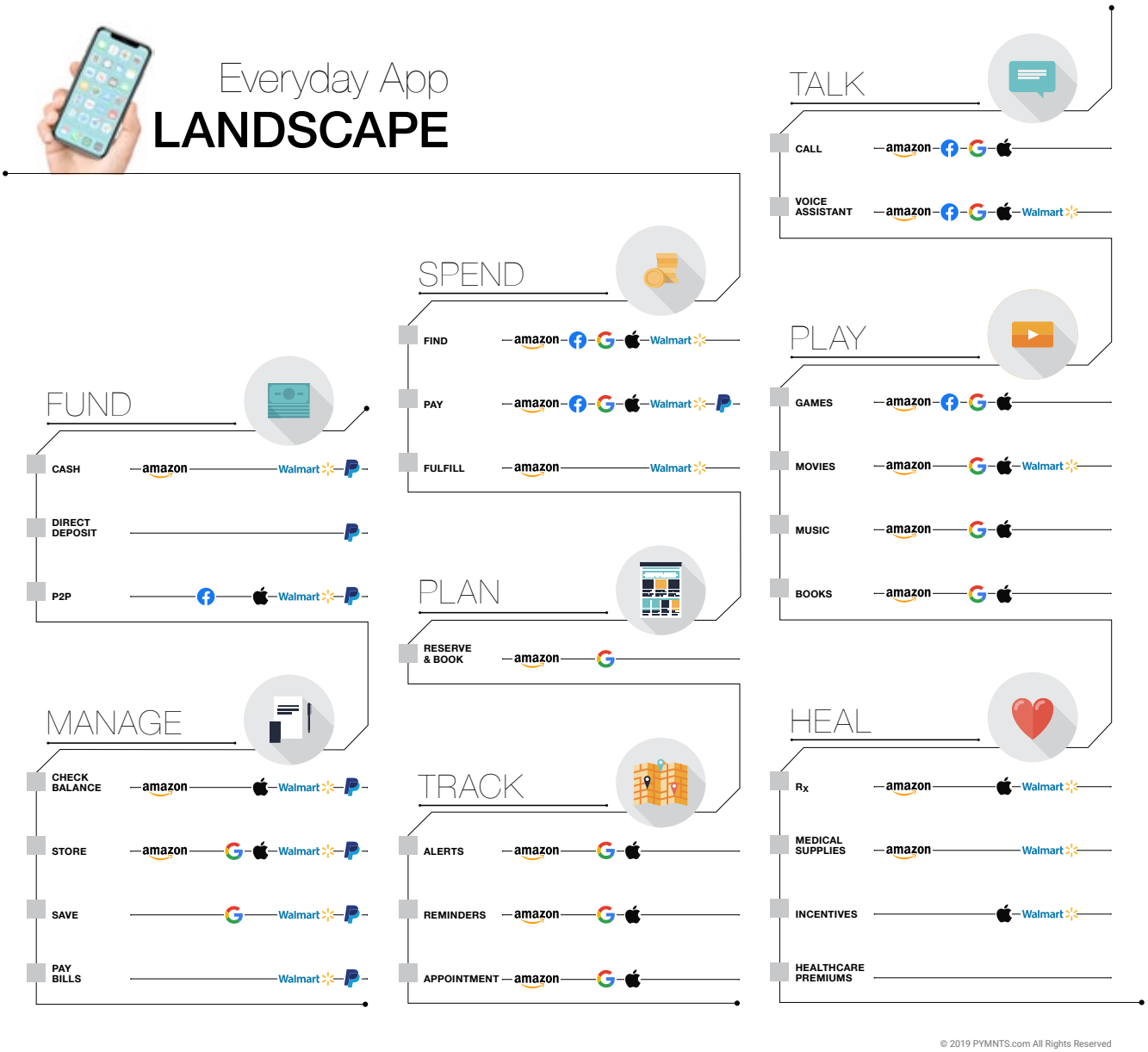
PYMNTS has taken a shot at breaking down everyday app functionality into a few buckets that capture the types of activities that might drive Super App interest based on the common types of apps and experiences consumers use every day – and bucketing some of the leading global contenders into those categories.

Those with their sights set on becoming the consumer’s Super App in the U.S. – Google, Apple, Amazon, PayPal, Facebook, [Uber](#), Walmart – are all at different places along that continuum. No one has it all, yet everyone is using their assets as leverage into the areas where they have a gap.

question then becomes: Who is best-positioned to become the consumer’s Super App front door?

The answer may vary based on where in the world one is, and who can fill the gaps that are most critical in enabling important everyday app capabilities.

In emerging economies, that may be access to a bank account and/or a place



where incoming funds are received. Apps like [Grab and Gojek](#), and WeChat and Alipay started out as digital wallets, but have become essential ecosystems as funds from wages, other earnings and government benefits are deposited

into those accounts. Managing spend – and providing places to spend, save and invest those funds – has flourished as a natural extension of the digital repositories where funds are received.

In developed worlds, where bank apps and bank relationships are already well-entrenched, commerce is the starting point for aggregating features and capabilities that today require multiple apps to manage. There, Amazon clearly has an advantage – and voice is becoming a differentiating enabler.

[Amazon is integrating Alexa](#) into tens of thousands of third-party devices, and bolstering Alexa’s skills to include searching for content that might otherwise be diverted to Google. Amazon is offering incentives to homeowners to make their homes smarter with Alexa – and third-party devices to make their cars smarter, too. Amazon gets that they don’t have search covered (beyond search on their platform for what to buy), and is using the Echo and the Echo Show to prompt users to turn Alexa into their helpful everyday assistant.

Google, on the other hand, has to crack closing the loop on commerce.

[Google Shopping](#) is an effort to keep searches for products inside the Google ecosystem, storing credentials in the browser for an easy payment experience. Google is also integrating commerce into searches for flights and food.

But Google has a long way to go to catch up with Amazon – which has nailed the last mile to eCommerce and is expanding its commerce reach into more and more of the segments consumers use every day.

Facebook is an advertising platform that hasn’t yet cracked commerce – and it’s not clear that they will, outside of Instagram.

Apple is sort of an odd duck when it comes to commerce. They support a lot of commerce apps –including Uber – in the [App Store](#). But Apple makes money on commerce only for digital apps – and only when those digital apps collect money through the App Store. And Apple Pay doesn’t seem to be really integrated into an overall commerce strategy or doing much to habituate usage.

In the U.S., there is more than just a passing interest in the concept of a Super App.

In research PYMNTS did over the summer, we found that about a third of all consumers expressed strong interest in the “app of apps” concept, with 11 percent of those we studied expressing an extremely strong interest. Only 13 percent said thanks, but no thanks. The majority of consumers, 54 percent,

were on the fence – they were a little or somewhat interested in having a single app as the gateway to a more streamlined interaction with the many apps they use every day.

When asked who that is, consumers say it’s Google (45 percent), followed by Amazon (29 percent), Apple (27 percent) and PayPal (22 percent). Facebook, Samsung and Walmart are favored by 15.6, 15.3, and 14.3 percent of consumers, respectively – more or less a statistical dead heat.

When measured by interest, the one-third of consumers with a strong interest in using an everyday app would pick Google and Amazon, in that order, to deliver it.

Google’s ability to go beyond commerce to apps like email and calendaring provides more of the everyday app reminders, such as when to pay bills, that consumers say is helpful in managing day-to-day activities.

Not surprisingly, it’s why [Alexa](#) – at least mine, via the Echo Show that sits in my kitchen – is now starting to remind me when deliveries are coming and prompting me to provide her with more information to help manage the day-to-day.

From where I sit, it appears the race is on to capture a big part of the Super App market.

There’s an incredible opportunity for Super Apps to create a new way for consumers to reduce the friction in their lives. Several of the leading players, not to mention the upstarts, already have key pieces of what’s needed to do this. And they will have even more as innovators provide new tools that make Super Apps even more portable, even more interoperable and even more voice-enabled.

Those who succeed can own an ecosystem that creates new opportunities to monetize their Super App status, but also less dependence on the platforms – and commerce flows – that others control.

November 4, 2019



Congress Wants Digital Platforms To Release Their Algorithms – Why?

U.S. lawmakers [proposed new legislation](#) last week that would require internet platforms to more or less lay bare the intellectual property that drives their business model – their algorithms.

[The Filter Bubble Transparency Act](#) targets “large-scale internet platforms” and the so-called “filter bubbles” they create when their “secret algorithms” are used to curate and personalize search returns. Since consumers don’t know what goes into creating those returns, the algorithms create the “filter bubbles” that the Act’s sponsors say are both manipulative to the consumer and harmful to innovation.

In practice, the Act would give consumers a “plain vanilla” search return option, devoid of the “filter bubbles” that lawmakers say are created when their browsing history, prior search queries, devices and locations are used to personalize and curate search results – in other words, garbage.

Under the Act, consumers can also opt-in to give these platforms access to basically the same information used now to return results when a search is initiated.

Thus, the proposed legislation would introduce a new layer of friction to a process that works pretty well

and garners few complaints from consumers.

The Act was named after a book written by [Eli Pariser](#) called “[The Filter Bubble: How the New Personalized Web Is Changing What We Read and How We Think.](#)” Pariser is the CEO of [Upworthy](#), a website for viral content that he started in 2012.

The main feature on the [Upworthy home page](#) as of yesterday, when I last checked, was about Mariah Carey declaring that the Christmas season is officially here. And so it must be. (Pariser is also the board chairman of Moveon.org.)

Excluded from the Act are internet platforms that employ fewer than 500 employees, have data on fewer than one million people and earn less than \$50 million in annual revenues. Apparently, not until the 501st employee is hired, data is gathered on 1,000,001 people and annual sales reach \$50,000,001 do algorithms become both secret and pernicious.

The Filter Bubble Transparency Act would make it unlawful – as in, against the law and subject to civil penalties – if internet platforms do not (a) clearly notify users that it creates “filter bubbles” using “secret algorithms” and (b) provide users with the option to

transition between filter bubble and filter bubble-free versions of search.

A suggested visual cue for that option is a “sparkle icon” that lets consumers know when they are moving between the two search return versions.

I kid you not.

Welcome to the latest chapter of [Big Tech bashing](#).

THE BEGINNING OF THE END OF RELIABLE SEARCH RESULTS?

Like many new pieces of proposed legislation, this one is sufficiently vague on how any of its proposed regulations will work in the real world.

Taking the Act’s authors and key supporters at their word, though, those filter bubbles can only be popped if consumers are given information about how the “secret algorithms” used by these platforms are created, so they can decide whether they want their search results filtered or unfiltered.

That would be giving them – and every other business and competitor – the wiring diagram for the intellectual property that these platforms have invested billions upon billions of dollars over years, even decades, to create.

If I were cynical, I might make the point that giving businesses power

and protection over their intellectual property rights has always created a highly-coveted competitive advantage for businesses everywhere – and particularly here in the U.S., where so much of tech innovation has emerged and flourished.

So much so, that it has become one of the big obstacles standing in the way of ending the China-U.S. trade war. The current administration is insisting that as a condition of ending the tariffs, the Chinese must take concrete steps to [respect the intellectual property rights](#) of U.S. companies doing business there.

And if I were cynical, I might also make the point that asking U.S. firms to give up their own intellectual property rights under the auspices of giving consumers more choice in how their data is used seems a bridge too far – even by the now de rigueur “let’s bash Big Tech” standards.

And it’s quite possibly not what this Act is all about.

It’s not clear how the Act’s co-authors define a large-scale internet platform, but the book that is its namesake highlights Google, Facebook and Apple as examples of quintessential “filter bubbles.”

But those aren’t the only places where consumers seek information.

Today’s consumers have a nearly endless array of marketplaces and other aggregators of products and services where they can search and find information. And they do. They also seem quite happy to move between them as their information requirements dictate.

That makes the dynamics – and competitive playing field – for search now very different. Google competes with Facebook for ad dollars and eyeballs, but vies with Apple in an entirely different way. All three compete with Amazon. You might as well throw Walmart into the mix – and Instagram and WhatsApp and Expedia, and Houzz, and Airbnb and Open Table, and Skyscanner and Trip Advisor, and Zillow, too. While we’re at it, let’s toss in Netflix and Spotify. And Boxed.

Consumers use all of those platforms to look for and find stuff. But why stop there?

There are the delivery platforms where consumers search for take out, including Grubhub, which got caught with its hand in the search engine gaming cookie jar when it was buying restaurant names and keywords. There’s Etsy and 1st Dibs and Chairish and eBay where consumers search for things they want to buy, and Home Advisor for home repairs, and LinkedIn that’s now

in the content distribution business. Of course, there’s Pinterest too, along with the thousands of other platforms that consumers now have available to them to find what they want and need.

Will all of those platforms be subject to the Act? Or do you have to be part of the Band of [FAANG](#) to be regulated by it?

Most important, it’s not even clear that consumers think they have a filter bubble problem. Or let me put it more bluntly—there is no evidence that consumers want what the Senators are selling.

But they could soon have one if the Act’s sponsors have their way.

There’s a reason why these platforms keep their algorithms secret, besides the fact that they don’t want their competitors to copy their hard-earned innovations.

Many of these platforms are helping consumers sift through lots of different entities – like websites for search, products for marketplaces and applications for app stores. Naturally, every one of these entities would like to be at the top of the stack.

So all of these platforms are constantly working to prevent these entities from gaming the algorithms. As more secrets of the algorithms dribble out, they’ll

have an easier time gaming the system – so even consumers who don’t opt-in to the “plain vanilla” option will start getting the garbage they don’t want.

HOUSTON, IS THERE REALLY A PROBLEM?

The Filter Bubble Transparency Act is both troubling and amusing for many reasons, but perhaps even more so given the results of at least three different brand studies released over the last several months.

These studies, done by well-respected brand research organizations – [Kantar](#), [Morning Consult](#) and [Interbrand](#) – each have their own methodologies for measuring the value of top consumer brands and the attachments those brands have with the American consumer. Value, of course, is a mix of attributes linked to the consumer’s use of (and satisfaction with) those brands, as well as the return on that value.

Across all three of those studies, in 2019, [Amazon, Google and Apple](#) each occupy one of the top three spots, and they have for years. This year, in two of those three studies, Facebook appears in the top 10, but lost some ground over last year. It is the Kantar study that reported Facebook’s drop out of the top 10 for the first time in many years.

Those results are also consistent with how consumers trust and use these platforms to innovate their payments experiences. Some combination of Amazon, Google, and Apple is always in the top five, and Facebook, when it comes to payments, appears at the bottom of the list.

All of these independent sources of information point to consumers who seem largely happy with the large-scale internet platforms they interact with today. They also don’t hesitate to let brands know when they’ve been disappointed and then turn away.

This also suggests that most consumers are also quite savvy about interpreting search returns and understanding how they work. They can distinguish between ads that are paid and organic search results that are not. Many marketplace sites also give consumers options to choose their own filter bubbles – lowest price, highest discount, newest arrivals.

When they are on the hunt for information, time-starved and convenience-driven consumers seem to value internet platforms. And internet platforms have invested billions of dollars into giving them relevant, personalized options.

In an era when the consumer demands relevance in context, personalized experiences and instant and timely

return of queries when they make them, introducing friction into an experience they seem pretty happy with seems backward-looking instead of forward-facing.

POPPING THE BUBBLE OF THE FILTER BUBBLE TRANSPARENCY ACT

Transparency is a powerful word, and one that is rightfully and importantly used today to hold businesses accountable for their actions on behalf of all their stakeholders.

Perhaps an act that purports to be all about transparency should be a little more transparent about its own motives.

Consumers aren’t complaining, and the current model seems to work very well for them. They can search for free for anything they might want to find. Advertisers can compete for the chance to grab their eyeballs, and hopefully a click-thru and a sale. Publishers and content creators invest in SEO techniques to build authority in organic search by creating content that those algorithms will recognize as relevant and useful.

Those who do complain are typically those who can’t compete unless they first have all of the answers – and can

then use them to game the system for their own benefit. The Filter Bubble Transparency Act wouldn’t be the first piece of legislation proposed because competitors felt disadvantaged. The record-breaking fine that [Google paid in the EU](#) was the result of efforts funded by Microsoft, whose search engine Bing was unable to attract eyeballs and advertisers to its platform.

That doesn’t mean there aren’t things to worry about.

It’s possible to roil against Facebook for its repeated failures to govern and explore remedies to fix the systemic problems that exist in that platform, since they don’t seem able to do that themselves.

It’s possible to raise a yellow flag when the ecosystems that [Big Tech](#) has largely ignited in this now very dynamic digital world have the potential to create conflicts that could harm consumers and businesses. We should be keeping a careful watch as Google becomes more of a marketplace itself and starts to compete with established marketplaces, like travel aggregators, food delivery aggregators and local services aggregators. We need to understand how they will keep competition fair.

It’s also possible to do all of that without collectively throwing all of Big Tech as we know it today under the bus

for policymakers and regulators to run roughshod over. And without forcing them to expose the valuable IP they've spent decades and billions creating for the benefit of their stakeholders.

We're only about two decades into the massive transformation of our economy, thanks to the innovations Big Tech has created and the many more that innovators have built to give consumers and businesses unprecedented opportunities to find each other and do business.

But tech firms, like pretty much all big firms, probably have done – and certainly will do – some bad stuff. For most consumers, however, they are anything but horrible. They think of them as big, but not in a bad way. Their bigness does a lot to simplify their lives.

So, before jumping on the “Big Tech is manipulative and harmful to innovation” bandwagon, it might be time to ask consumers how they would rate Big Tech against other firms that provide them with services – like their local cable provider or the post office.

Or Congress.

In fact, Congress has a [20 percent approval rating](#) among all Americans and hasn't broken a 30 percent approval rating in 10 years.

As for me, if the Filter Bubble Transparency Act ever makes it into law, I can't wait to see the redesigned search pages that go horizontal instead of vertical so that everyone – relevant or not – can be given the top spot in a plain vanilla search world that most of us happily left behind two decades ago.

And how could you not love that sparkle icon?

November 18, 2019

Why Google's Deal With Citi Isn't About Becoming A Bank

(But Is Still A Big Deal)



It was the gasp heard 'round the world last week.

[Google confirmed](#) that it will partner with Citi and Stanford Federal Credit Union to launch a checking account linked to Google Pay sometime next year.

Media outlets and pundits have chalked this up to Google doing what every other ecosystem player wants to do: finding new ways to keep consumers inside the Google ecosystem and monetize those interactions.

I think it's more than that.

Cache, reportedly the project's code name, is described by Google as a "smart" DDA.

Smart, according to Google, because it will provide its checking accountholders with money management tips to optimize and manage the funds in those accounts – funds linked to payments and identity credentials that consumers can use to buy things, pay bills and send money to others in and outside the Google ecosystem.

Smart, too, because instead of trying to be **the** bank, Google is leveraging the brand name, banking infrastructure and reputation for trust and stability of two banks, one of which is among

the world's largest global financial institutions, to acquire new users for that product and for [Google Pay](#).

Smart, because if successful, these accounts could become the cornerstone for the everyday app ecosystem that every Big Tech and FinTech player has its sights set on developing – which WeChat and [Alipay](#) have already created with great success in China.

Project Cache seems intent not to make Google a bank, but to use banks, starting with these two, to leapfrog their Big Tech and FinTech competitors and gain the consumer's trust for keeping their funds safe. Project Cache will move the management of consumers' separate financial services, banking, payments, investments, commerce, messaging, entertainment, offers, media and information apps into an app powered by Google's ecosystem.

If successful, this ecosystem would link payments, banking, identity and commerce credentials to a funding source that does something no other FinTech or Big Tech ecosystem has been able to do at scale: capture the consumer's primary paycheck and use it as the flywheel to make funds movement between those various ecosystem endpoints seamless, trusted and secure.

GOOGLE'S EVERYDAY APP OPPORTUNITY

Google comes to this everyday app ecosystem party with a mixed bag of potential.

Today, many consumers live – and even work – inside of the Google ecosystem.

According to [Comscore's September 2019 rankings](#), in the U.S., there were 258 million unique monthly visitors to Google sites across desktop and mobile channels, versus 209 million to Amazon sites, 219 million to Facebook sites and 161 million to Apple's. In addition to search, for which there are nearly [six billion Google queries](#) every day, Google operates a variety of utilities that consumers use regularly on both iOS and Android devices, as well as their Windows and Apple desktops – Google Maps, Waze, YouTube, Gmail and Google Drive, to name a few. [Chrome](#), Google's search app, surpassed five billion downloads in June of 2019 across both the Android and iOS ecosystems. Google's Android operating system in the U.S. has a 51 percent market share, [according to Statista](#), as compared to Apple's 48 percent share as of October 2019.

If usage stats are a measure of satisfaction, it would certainly appear that consumers like being part of the Google ecosystem, despite what the

media, lawmakers and regulators might want us to believe.

With everyday usage and familiarity has come a certain level of consumer trust in Google as an enabler of new, connected commerce experiences. The results of several PYMNTS studies over the last year seem to support this idea.



As we reported in early September as part of our annual [How We Will Pay study](#) done in collaboration with Visa, Google ranks No. 6 behind Visa, PayPal, Amazon, Mastercard and the consumer's existing bank as the player consumers trust to enable an innovative, connected purchasing

experience. Facebook ranks dead last in a list of two dozen or so FinTech, Big Tech and merchant brands – and has for the last three years.

According to that same study, among [bridge millennials](#), the consumer group between the ages of 30 and 40 who represent the first generation of connected consumers with buying power, Google rises to No. 4, ahead of PayPal and Amazon. With Facebook, still, dead last.

In July of 2019, PYMNTS released its own study of U.S. consumers and their interest in using an [everyday app](#) – a concept that for most U.S. consumers is somewhat unfamiliar right now.

As part of that study, we described what an everyday app could do for a consumer: provide a single doorway into a variety of features and functions that help consumers manage their everyday activities. We took a rather broad view of that, which included keeping tabs on their money, their spending and how and where they make purchases as well as managing their appointments, messages, bill pay reminders and more.

More than half of all consumers (54 percent) said they would be interested, with a third saying they have a strong interest in such a concept.

When asked who consumers would trust to deliver that experience, Google ranked fourth, behind PayPal and Amazon and in between Walmart and Apple. And again, Facebook was way behind.

Perhaps even more interesting are the results of a study PYMNTS did last spring in collaboration with [Green Dot](#) on consumers' satisfaction with their bank and their level of interest in exploring banking alternatives from a wide range of non-traditional players.

For that study, PYMNTS asked consumers to describe what “banking services” means to them and from whom they'd like to receive those services if they were to move away from their current FI. On that list, we included familiar merchant brands like Walmart and Target, apps like Uber, payment providers like PayPal, and Big Tech players like Apple, Amazon, Facebook and Google.

What we discovered was that consumers, overall, have a high degree of satisfaction with their current financial institutions, with 88 percent saying they trust their bank and would be unwilling to switch to an alternative. In that study, we found that consumers see basic banking services as consisting of a checking account where funds can be deposited and held until used, along

with a debit product that provides a way to access and spend those funds.

We also found that most consumers feel as though banks “have their backs,” and trust them to keep their funds secure and meet their needs with basic banking services.

That said, roughly a third of all consumers in that study said they might consider switching away from their current financial institution to a provider whose core business isn't banking, as long as the right features and functions were offered.

Consumers identified over 30 different consumer brands from many different segments, including retail, technology and payments brands that could be candidates for that shift. The brands that came out on top were PayPal (35 percent), Amazon (25 percent), Walmart (18 percent), Google (15 percent) and Apple (13 percent). Facebook, again, falls way behind.

Net-net, although Google is consistently ranked as one of the top five to six providers in all of the studies we have done, they are not in the top one, two or three when it comes to being considered a provider of financial services or an enabler of the everyday app/ecosystem experience. Others consistently place higher on those lists – and in some cases, much higher.

GOOGLE’S EVERYDAY APP CHALLENGE

These results, collectively, suggest a few things.

Consumers like living in the Google ecosystem and use their apps a lot. But that usage of the Google ecosystem, broadly – and Google Pay, specifically – hasn't yet translated to Google's opportunity to play the role of a more strategic [everyday app](#) or financial services provider for consumers.

Part of the reason may be that the more innovative, contextual commerce experiences Google has recently linked to Google Pay are still too new, and not widely adopted enough, to be captured in these survey results. For example, Google's connected commerce experiences via Google Flights, Maps and Waze; its integration with Olo to enable food orders from 70,000 restaurants; and the revamp of [Google Shopping](#) are recently enabled experiences that consumers may still be getting familiar with.

Part of that could be the lack of connective tissue provided to consumers by voice – and, in Google's case, supplied by Google Assistant. Recent reports show Google has lost ground to Amazon and Echo in the smart speaker race, which means Google is losing traction in the voice

assistant race as well. Voice, while still nascent as a commerce and financial services enabler, will play an important role in driving consumer usage of and demand for a growing range of experiences, including an everyday app-like experience.

But I suspect that a big part of how these rankings shake out could be how consumers compartmentalize Google and use it to conduct their payments, banking and commerce activities.

Consumers may go to Google to search for what to buy, find a site that has what they need and then punch through to buy it on that site using a set of credentials they have stored there, or via a buy button that makes checkout efficient. Which is probably not Google Pay.

Consumers may watch YouTube and not buy anything at all, simply using it as a place to watch cool videos and endure the ads.

They may store payments credentials in Chrome, but don't connect that to Google Pay or Google as a commerce or payments enabler when storing and using those credentials.

Consumers may get reminders for bills to pay via Gmail and then go to their online banking site or to their mobile app to pay them.

Now contrast that with how consumers today use PayPal, Walmart and Amazon – which, from the consumer's standpoint, consistently place ahead of Google as a trusted innovator in payments, financial services and commerce.



Consumers today use both PayPal and Walmart as much more than just payments credentials. Based on the last PYMNTS study of the [gig economy](#), more than a third of gig workers in the U.S. have their gig pay deposited into their PayPal accounts. Consumers can use PayPal to store funds, pay bills, shop, and save and manage their money,

much as they would any other bank account.

Consumers use [Walmart](#) in a very similar way: to send and receive funds, buy groceries, pay bills and shop for clothes, toys and electronics – and now, to manage their healthcare and prescription services.

Amazon’s ecosystem now includes access to a variety of everyday spend products, including groceries, prescriptions and, soon, healthcare, along with fashion items such as designer labels. Amazon has an expanding roster of digital content, including live sporting events. And [Alexa](#) – which leads the voice assistant market by a wide margin – is used by consumers to order products, food and other services, as well as to check their bank account balances and pay bills.

In each of those scenarios, consumers are fully aware that they are engaging with Amazon, Walmart or PayPal to complete their transactions, end to end. And when they do, consumers associate that engagement as being very much tied to that named, branded and specific ecosystem.

That’s not how it is today with consumers and Google. Even though consumers may be engaging with Google apps outside of Google Play, consumers haven’t connected the dots

– or been given the chance to connect them – to a seamless payments, banking or commerce experience powered by Google.

The question for Google, and for the two banks it has partnered with, is whether connecting its ecosystem to their primary paycheck – the one thing that starts the financial services, banking, payments and commerce flywheel – will help consumers more effectively make that connection.

WHO WILL FILL THAT EVERYDAY APP GAP?

When I first wrote about the notion of an [everyday app](#) for U.S. consumers, I created a framework that identified the key activities any contender must satisfy to occupy the pole position.

An everyday app ecosystem, like the ones WeChat and Alipay have created, had to not only enable funds in and out, but also had to provide tools for users to manage those funds, receive offers, find and buy products and services across a variety of channels and payment methods, pay bills, receive reminders and alerts, and access a variety of digital media and content.

All while making it easy for others to become a part of that ecosystem – just

like [WeChat and Alipay](#) have done with their mini apps.

All of this seemed a tough order to fill, since no single U.S. player today has all of those capabilities. So Big Tech and FinTech players with everyday app ambitions have used their specific areas of strength and user engagement to gain momentum and then chip away at filling the gaps in their own ecosystems through partnerships, APIs and other methods.

But no single player has been able to convince the majority of U.S. consumers that having their primary paycheck deposited anywhere but their primary bank is a great idea. Nor has anyone successfully built a seamless bridge between the payments, identity and commerce credentials consumers use inside of one ecosystem and that precious funding source that consumers trust to their banks.

It’s obviously the card that Google – with Citi and Stanford Federal Credit Union as partners – says they will play next year.

Google and Citi each stand to win if consumers agree that having a new Google bank account at Citi can help them optimize their spend, manage their money and keep those funds safe until they are used. And if they trust Google and their bank partners to

enable that end-to-end, everyday app ecosystem experience.

Citi stands to win by playing the role of that everyday app ecosystem bridge – adding deposits to a retail banking portfolio that, for them, has remained largely flat. Citi also stands to win by aligning with a consumer and merchant ecosystem that is massive – and global – in digital and mobile, and using it to upsell and cross-sell other banking products and services. Consumers could win, too, if the combination of Google and Citi can enable more optimized, relevant and dynamic spending options that save them time, money and friction.

Google’s announcement with Citi also comes with a number of unknowns.

For the banks who are part of the launch, is the deal with Citi and Stanford Federal Credit Union exclusive? And if so, for how long? If not, will more banking partners be added to the mix?

For the payments ecosystem, could the combination of Google and Citi become an existential threat to the existing payments rails if Project Cache gains steam? One possibility is that Citi and Google Pay could become a new set of payments rails that uses the DDA to pay merchants directly, while sidestepping the traditional card rails. Could that be the first attempt, at scale, for RTP rails

to enable those transactions between consumers and the companies they do business with?

Don't forget that in the spring, [Citi](#) will launch Spring, a gateway that will enable digital payments acceptance for their international merchant clients. The timing on that launch seems anything but coincidental, and could also disrupt the existing merchant services ecosystem.

For the global and domestic players outside of the U.S., how long before this partnership moves out of the U.S. and goes global, where Citi has a strong international retail banking presence and Google Pay has strong payments ambitions?

For consumers, is the combination of Citi with Google an on-ramp for the everyday app ecosystem that has, as yet, remained elusive in the U.S.? To be successful, consumers will need an account with Citi or Stanford Federal Credit Union, and switching bank accounts is never easy for consumers to do. Will the value proposition be strong enough for consumers to make the switch? Or are consumers more

comfortable living in an ecosystem like Amazon with Alexa, where skills and their voices provide that on-ramp and access to existing banking relationships?

And can the combination of Citi with Google make it easier for consumers to trust transacting in an everyday app ecosystem powered by Google?

Last but certainly not least, given all the recent hoopla, one has to wonder whether Facebook has a plausible strategy for entering this fight. The irony of this announcement is that WeChat evolved out of a social network that today claims about a billion active users as part of its ecosystem. Messenger was positioned several years ago with chatbots to be that everyday app, then Libra a few months ago as a new network to do the same for the billions of underserved. And now [Facebook Pay](#), which is positioned as a single sign-on with registered payments credentials across all of Facebook's properties, could be the doorway into an ecosystem where everyday activities, including payments and commerce, can be managed.

Creating crypto-based rails and wallets to lift billions of dirt-poor consumers will always sound much sexier than a Big Tech player making a deal with a 200-year-old bank to link a basic banking service like a checking account to digital payments and identity credentials and an ecosystem that consumers use and like today to go about their day-to-day activities.

Of the two, my bet is on boring.

December 16, 2019

What's Next For Payments In The Next Decade: **The Seven 2020 Trendlines**

Making [predictions](#) is simply irresistible at this time of the year – this year in particular.

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

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

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

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

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

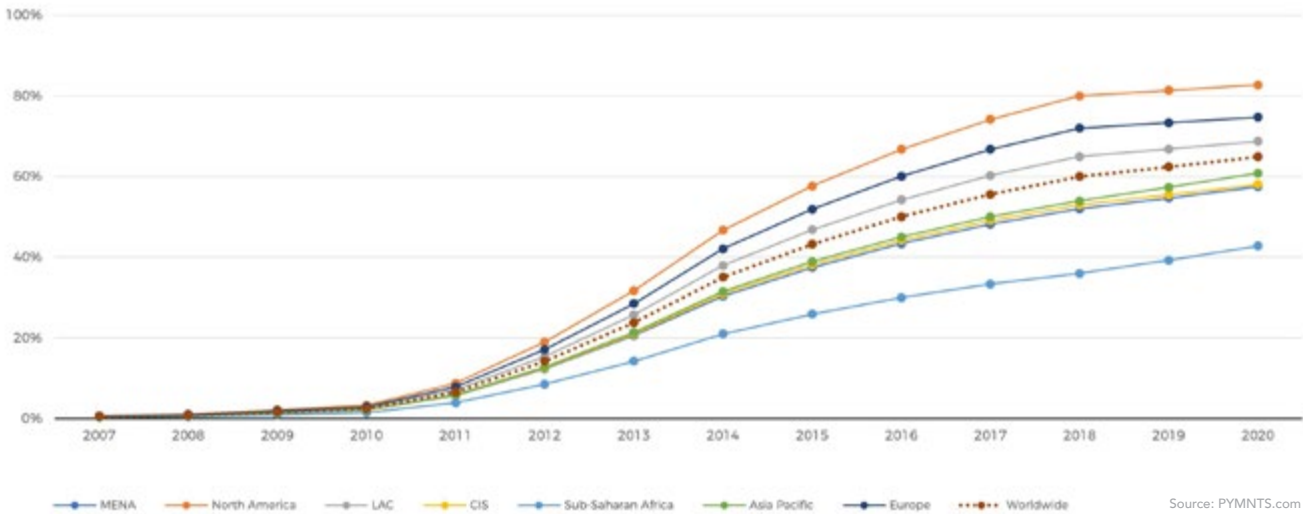
“
LOOK BACKWARDS
AND
CONNECT THE DOTS
TO UNDERSTAND
WHERE THE FUTURE
MAY BE HEADED.”

— Steve Jobs



THE MOBILE DEVICE
AS THE CATALYST

Share Of Population With Smartphones



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

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

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

Payments will power that shift.

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

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

A status quo that a decade ago seemed almost unimaginable.

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

2020's
7 KEY TRENDLINES

- 01

Rapid acceleration of cash to digital
- 02

The rise of on-call commerce
- 03

The shift from eWallet to everyday app
- 04

The banking of the un- and underbanked
- 05

The massive monetization of payments choice
- 06

The global game-changer of voice
- 07

The enduring power of the card networks

01

RAPID ACCELERATION
OF CASH TO DIGITAL**2020 TRENDLINE ONE:
RAPID ACCELERATION OF CASH TO DIGITAL PAYMENTS**

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

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

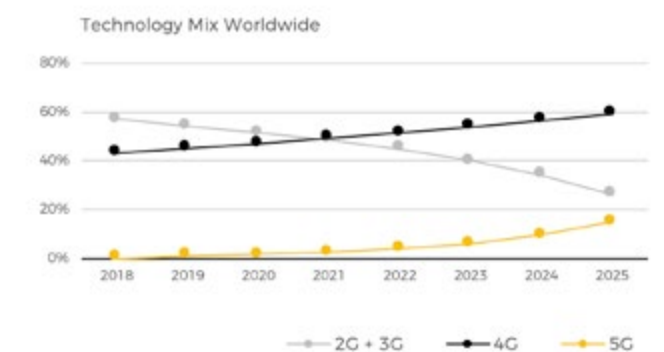
And that's just five years from now.

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

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

**5G
PROJECTED ACCESS BY 2025**

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



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

markets move from 2G/3G to 4G, and as developed markets move from 4G to [5G](#).

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

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

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

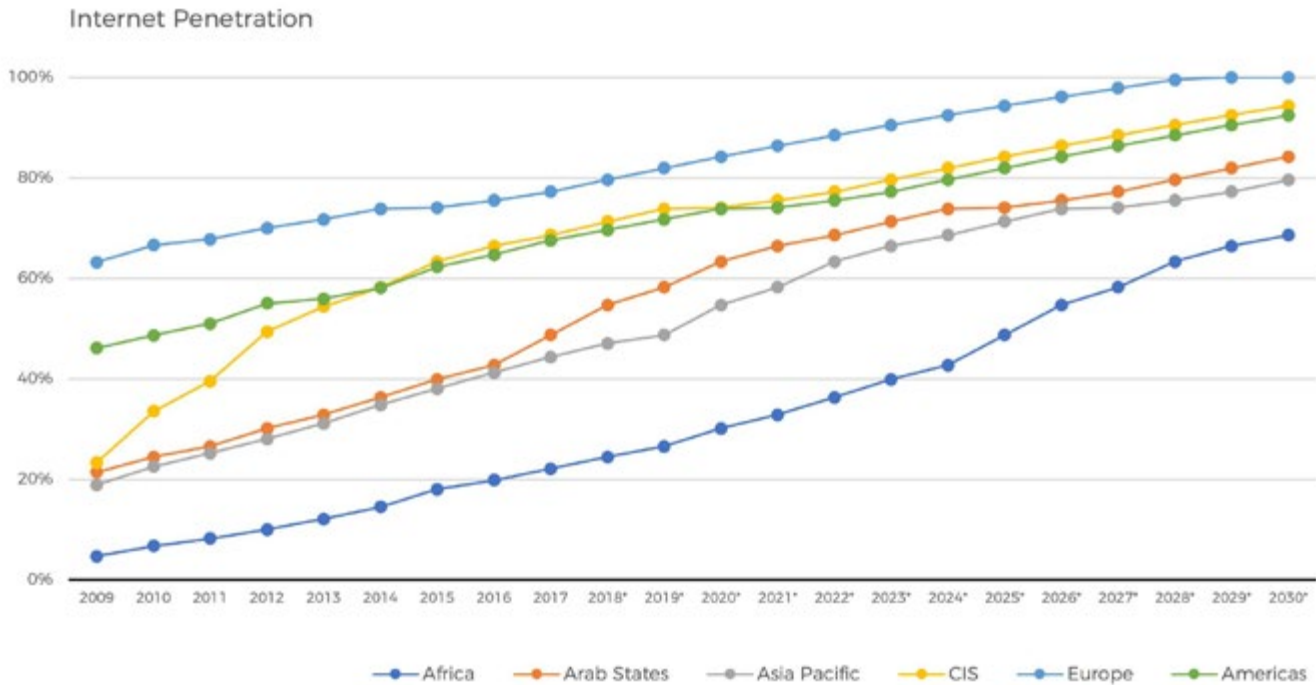
This is happening even faster than we anticipated.

[Cash usage](#), across the more than 60 countries that PYMNTS has tracked over the last decade, has seen modest growth, even outpacing the overall GDP growth in many of the key countries we monitor. Much of that growth is driven by the growing size of the spending pie – that is, even if cash is declining in use as a payment method, more people spending more money will

sustain or increase its use. That’s true even in developed markets like the U.S., where mobile devices, apps and digital methods are strong, and cash usage continues to maintain a stable course.

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

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



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

02

THE RISE OF
ON-CALL COMMERCE2020 TRENDLINE TWO:
THE RISE OF ON-CALL COMMERCE

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

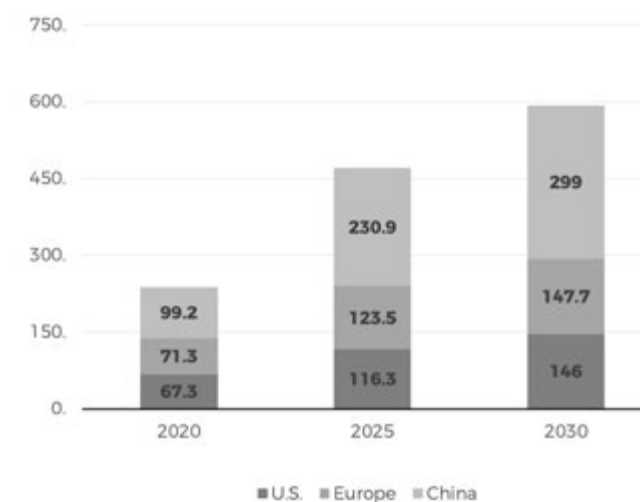
Today, with mobile devices and apps, commerce is portable – simply a click or a swipe away. But in the connected economy, commerce will be all around us. Our homes, cars, workplaces, schools, hospitals and cities will become powerful software platforms capable of enabling on-call commerce by anyone,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

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

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

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

Connected vehicle fleet from 2020 to 2030, by key region
IN MILLION UNIT



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

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

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

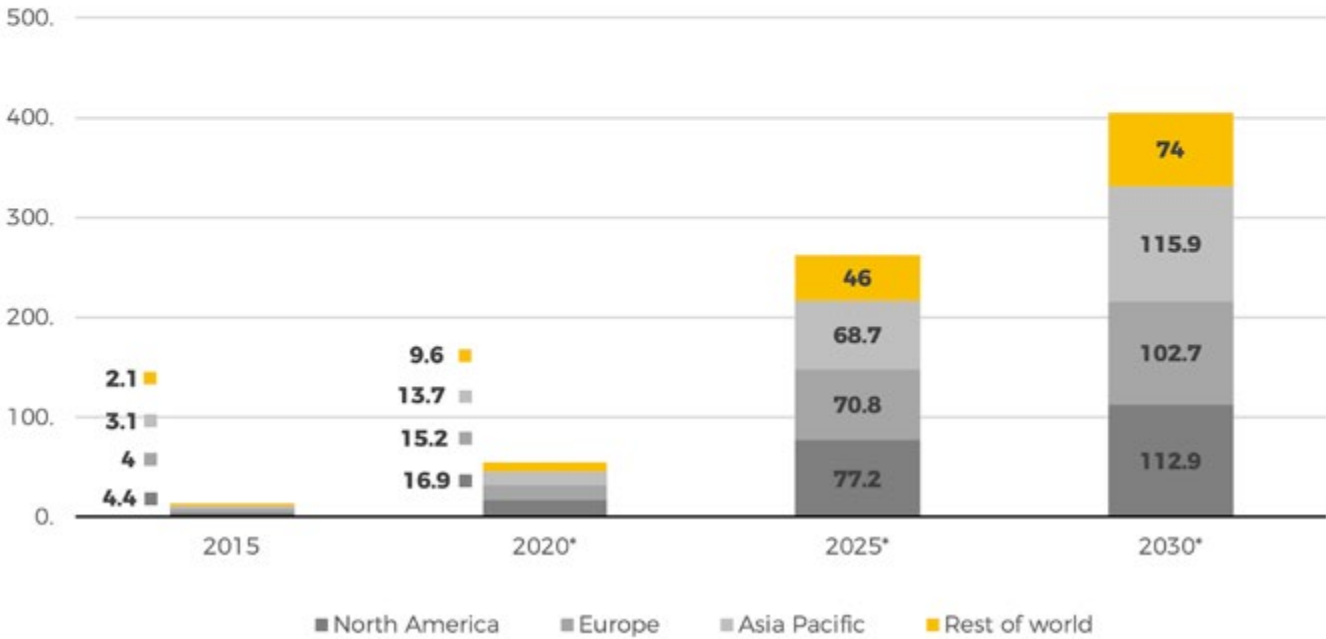
But the shift from portable commerce to on-call commerce will come from the explosion of connected devices, which will push commerce anywhere a device and an internet connection intersect.

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

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

Smart home market revenue worldwide from 2015 to 2030

IN BILLIONS USD



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

Homes will get smarter, too.

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

other “smart” devices linked to a virtual assistant as they upgrade and remodel their residences.

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

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

More consumers are working from home, which changes their patterns and preferences for shopping and eating,

as well as their daily routines. They’re watching Netflix at home while eating carryout instead of going to dinner and a movie. And instead of investing in tickets to go to a game, they’re investing in smart flat-screen TVs to watch live sporting events at home with friends. Instead of going to the gym, they’re climbing on their [Peloton bikes](#) or exercising in front of their Magic Mirrors with trainers and others who are part of those digital fitness communities.

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

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

The background of the right page is a light gray with a pattern of thin, white, wavy lines that create a sense of movement and depth, resembling a stylized topographic map or a liquid surface.

03

THE SHIFT FROM eWALLET
TO EVERYDAY APP

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

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

What a difference a decade makes.

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

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

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

Still others, like [Amazon and Walmart](#), are merchant-driven, linking authentication credentials to registered

payments credentials to check out online and offline.

The next decade’s conversation will be different.

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

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

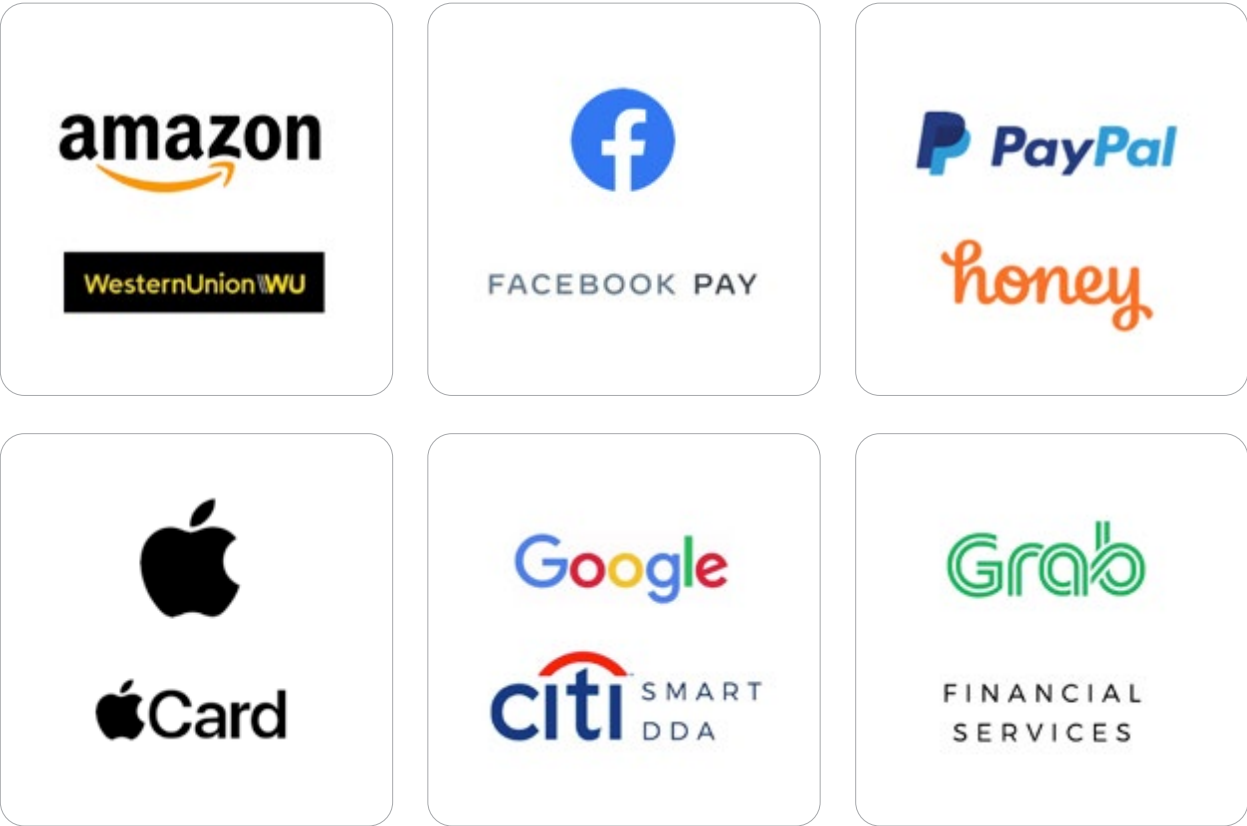
Walmart has expanded its financial services ecosystem to include healthcare services for its users, in addition to making P2P transfers, bill pay, savings and payments part of the services they provide. Amazon is leveraging Western Union’s global cash in/cash out network to let consumers shop online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

“ ECOSYSTEMS
NEED PAYMENTS TO KEEP
– AND MONETIZE
THE CONSUMER’S
ATTENTION.”



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

THE EMERGING
EVERYDAY APP ECOSYSTEM



to become a commerce platform instead of just an advertising platform. Apple has introduced a [credit card](#) and companion card app with personalized offers and an easy customer interface to drive more Services revenue. Uber is giving its drivers free digital wallets to receive their pay (and, they hope, all

of their other pay as well) as well as access to special deals and promotions to linked to that account to keep more of them driving for the company. In South Asia, [Grab and Gojek](#) are giving drivers and consumers access to financial services, including microloans.

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

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

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



04

THE BANKING OF THE UN-
AND UNDERBANKED**2020 TRENDLINE FOUR:
BANKING THE UNBANKED AND UNDERBANKED**

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

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

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

funds will reliably reach those for whom they are intended.

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

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

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

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



05

THE MASSIVE MONETIZATION
OF PAYMENTS CHOICE

2020 TRENDLINE FIVE:
THE MASSIVE MONETIZATION OF PAYMENTS CHOICE

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

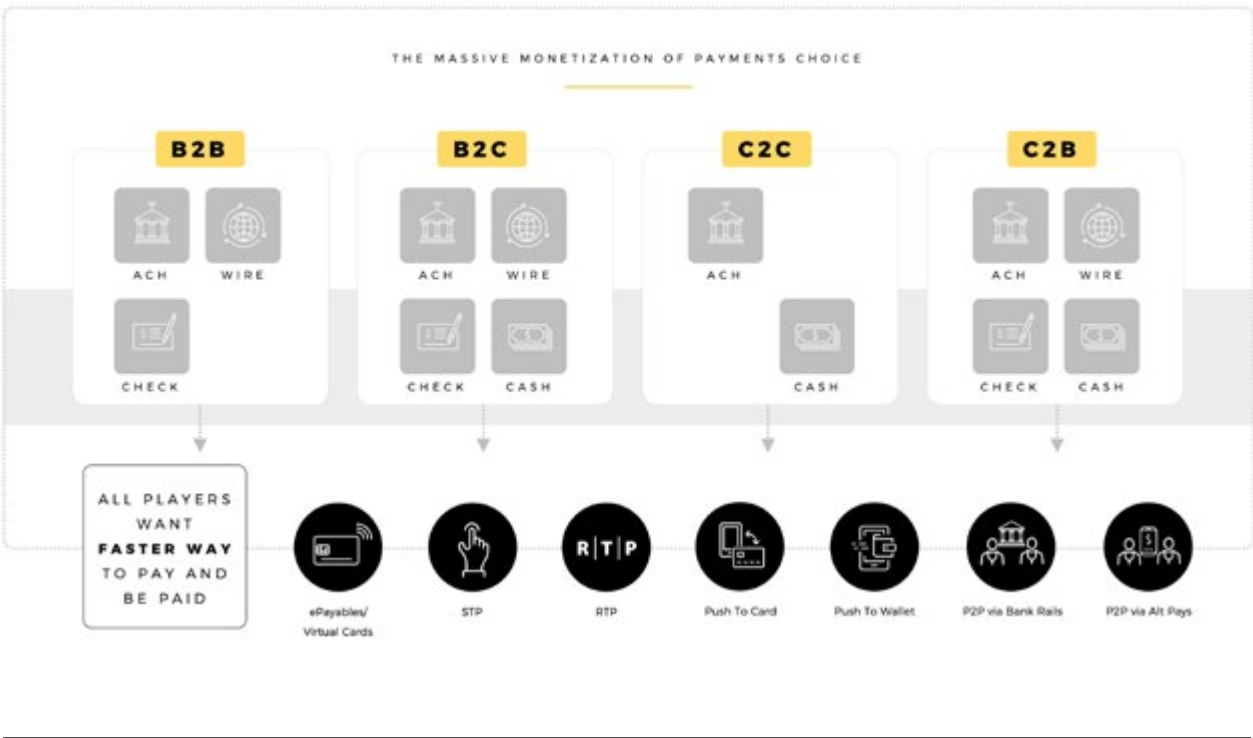
In the apps economy of the 2010s, the number of digital options expanded dramatically for consumers and businesses – and with that expansion came pressure to enable acceptance by merchants and by businesses.

Over the last decade, on the retail side of payments, merchants waited to expand checkout choice until they felt that sales were at risk if they didn't. On the B2B side of payments, acceptance

by suppliers of anything other than a check or ACH payment often came through brute force. The larger the enterprise, the more demanding the supplier onboarding process becomes, and many simply defaulted to the paper check, particularly for one-off or infrequent ad-hoc payments, including disbursements. Today, the [paper check](#) still drives well more than half of all payments made between businesses – a percentage that's even higher when small businesses pay each other.

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

ADVANCES IN TECHNOLOGY
TO ENABLE SAFE
AND SECURE TRANSMISSION.



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

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

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

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

06

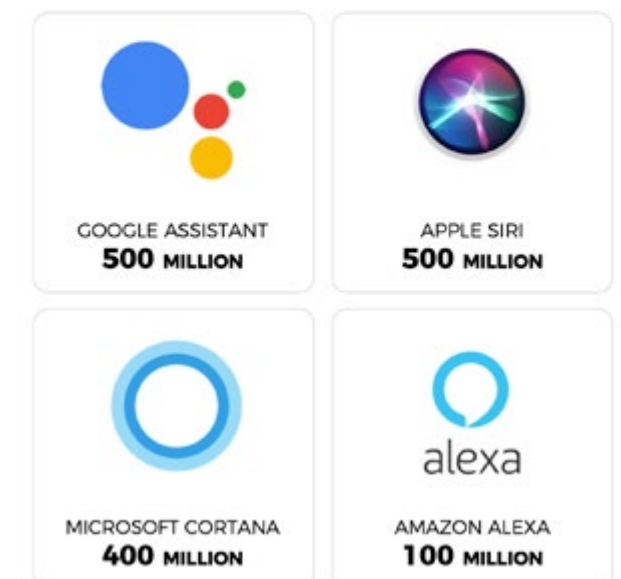
THE GLOBAL
GAME-CHANGER
OF VOICE**2020 TRENDLINE SIX:
THE GLOBAL GAME-CHANGER OF VOICE**

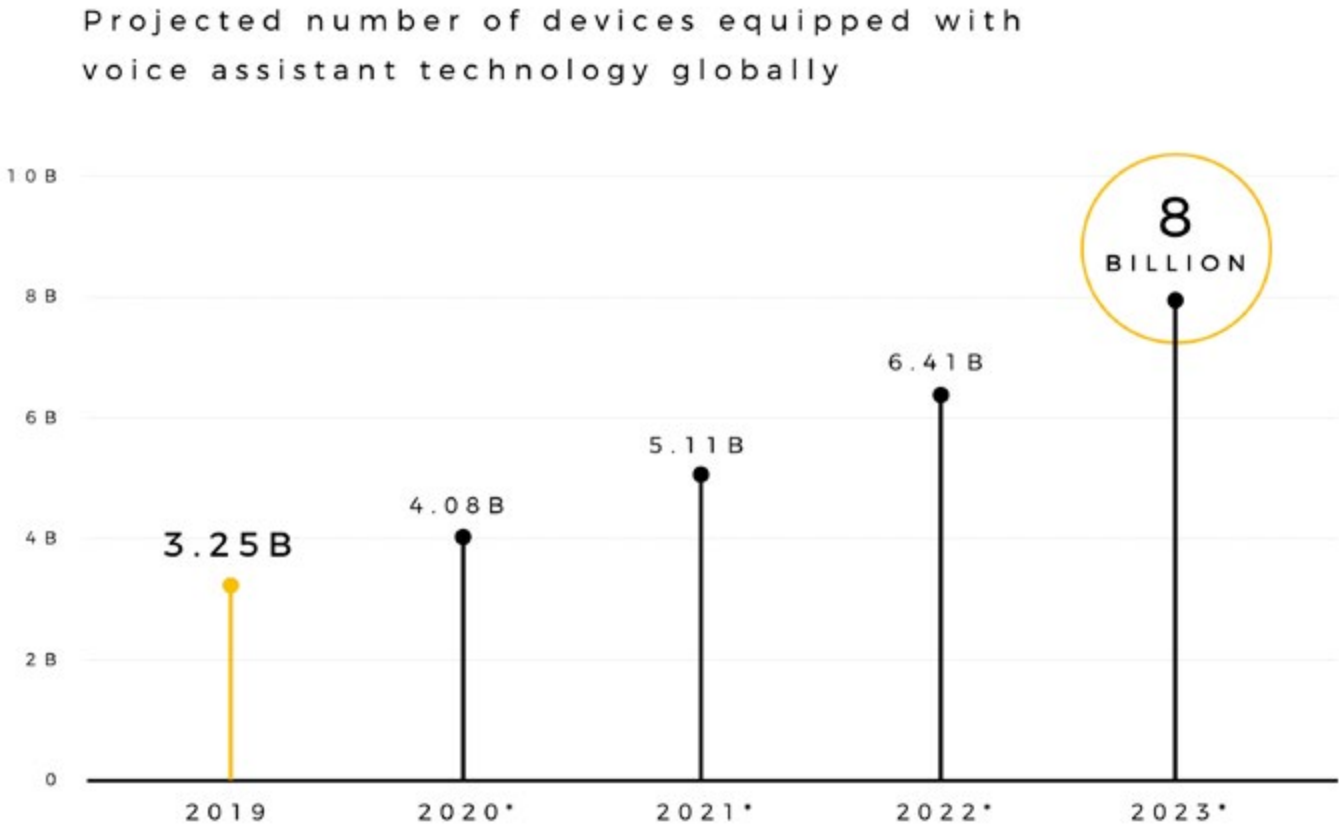
Voice emerged in the second half of this decade as the new commerce ecosystem, one that will power the connected economy of the 2020s.

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

DIGITAL VOICE ASSISTANT

Installed base worldwide in 2019



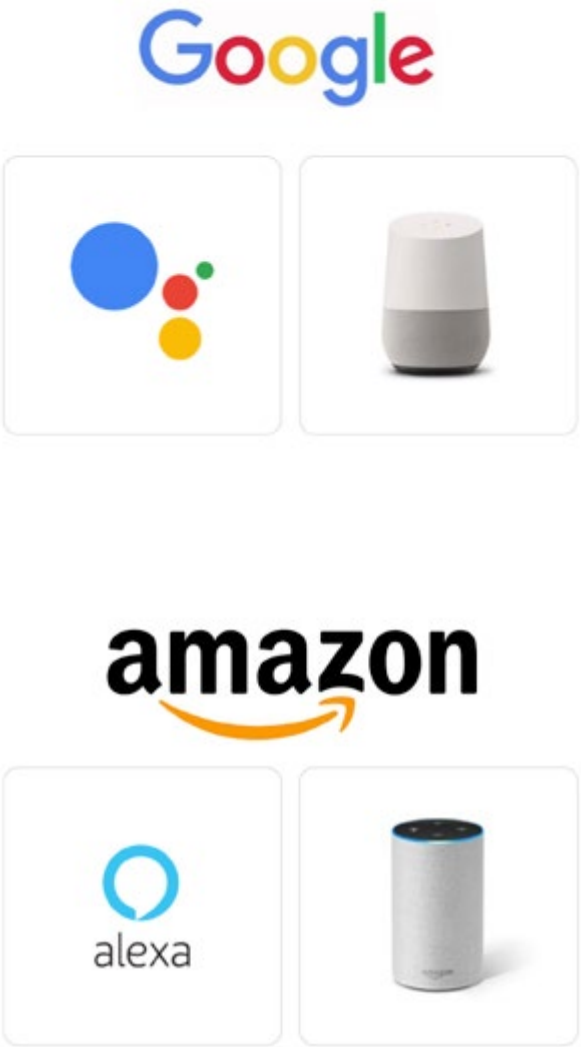


In four short years, we have seen the rapid adoption of voice-activated speakers and the rapid emergence of ecosystems and apps that have grown up to support both [Alexa and Google Assistant](#). The shift was so fast, in fact, that it took half the time for 25 percent of the U.S. population to own a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

Today, based on our own research, more than 30 percent of consumers report owning a voice-activated speaker – more than triple the number who

reported owning one over the three years PYMNTS has been tracking this – and nearly as many reported using it to make a purchase. That will only increase as voice plus visual – via a smart device with a screen or a voice-enabled mobile device – streamlines the commerce process.

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



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

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

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

07

THE ENDURING
POWER OF
THE CARD NETWORKS

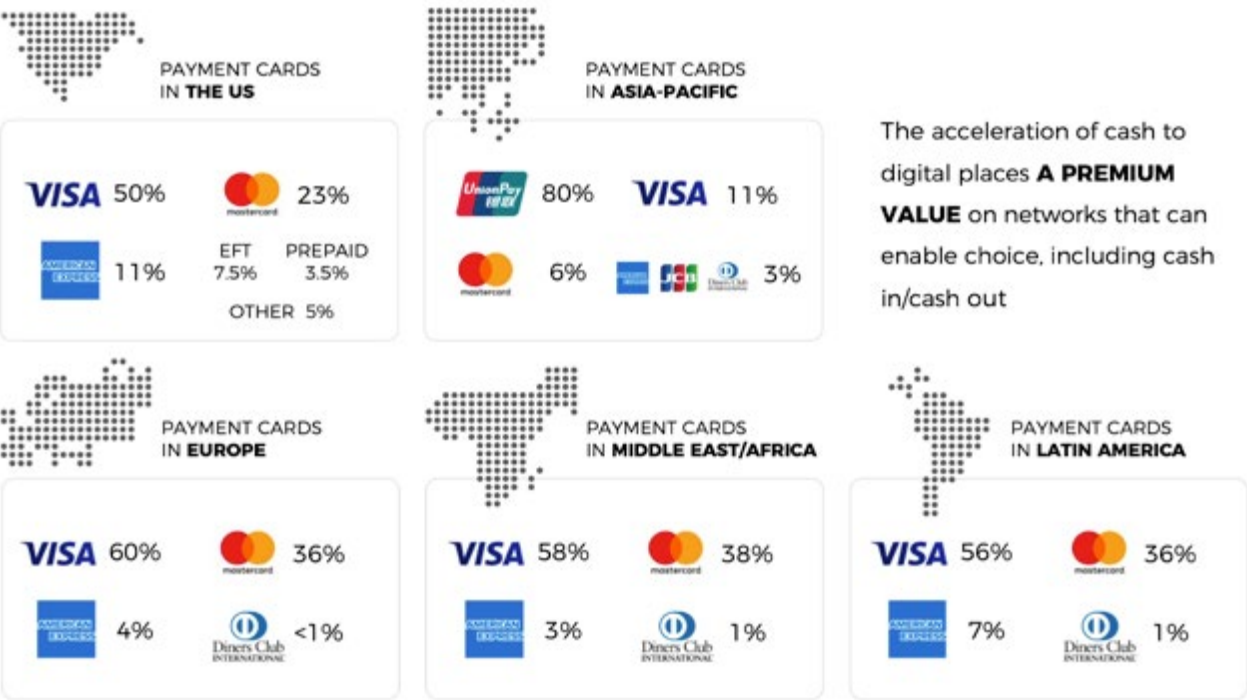
2020 TRENDLINE SEVEN:
THE ENDURING POWER OF THE CARD NETWORKS

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

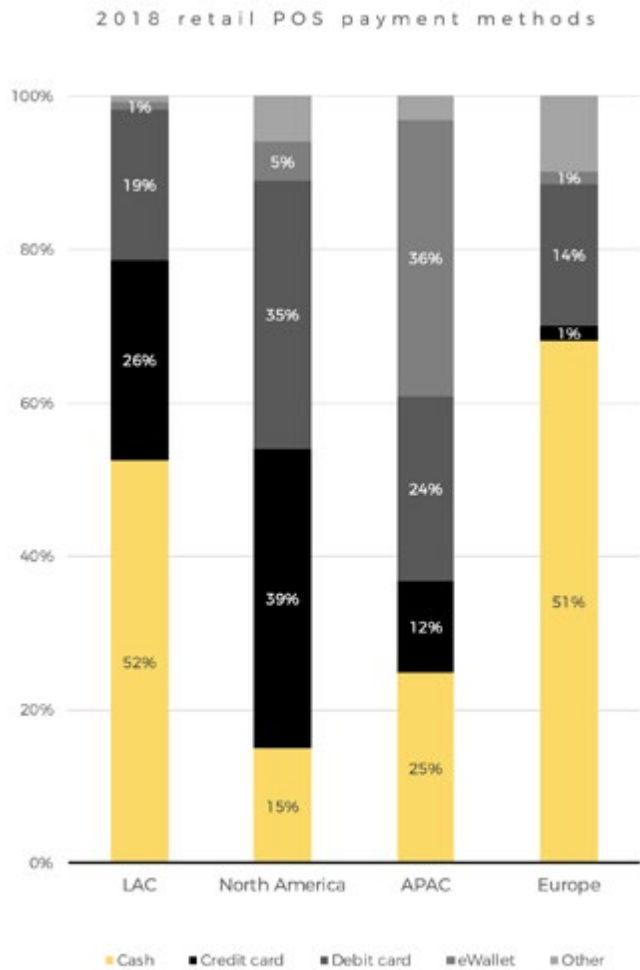
Consumers who once only used cash, checks and store accounts at retail stores could use a plastic card with a line of credit attached to it to shop at

any store that accepted it. Thirty years ago, Visa ignited the debit card, which gave consumers the ability to buy things with funds in their bank accounts.

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



The acceleration of cash to digital places **A PREMIUM VALUE** on networks that can enable choice, including cash in/cash out



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

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

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

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

“ NETWORKS RACE TO MOVE BEYOND THE CARD. ”

Today, [Visa and Mastercard](#) partner with innovators globally to enable the instant issuance of credentials to power installment payments at the point of sale, to turn funds in bank accounts into virtual debit cards for transacting online and across borders, and to leverage global remittance providers in moving funds instantly between senders and receivers. With China as an exception, it's safe to say that every digital wallet in every country where Visa and



Mastercard is accepted will also have a Visa- or Mastercard-issued credential. And the card networks will continue to work with merchants worldwide to increase their acceptance, as well as with innovators to remain relevant in the developing parts of the world, where consumers and merchants have fallen in love with mobile payments and often don't rely on traditional cards for transactions.

WHAT COULD BEND, AND SHAKE UP, THE TRENDLINES

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

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

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

For instance, if the regulators are crawling all over Google for its potential [Fitbit acquisition](#), then imagine

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

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

Part of what erodes consumer trust is bad behavior by those who want their business – and their trust. Facebook is the poster child for that over the last

several years, which is why its prospects for Facebook Pay seem limited, and why [Libra](#) is simply dead.

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

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

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

SO, WHAT'S NEXT?

Over the last decade, about this time of year, I've defied the advice of one of my economist colleagues who says to never make a prediction that can be disproved in your own lifetime. Instead, I've put it

all out there and shared my thoughts on how I see the next year evolving. I think I've had a pretty good track record of correctly [calling a lot of those shots](#). Not because I have a secret crystal ball or superpowers, but because so often, the industry, pundit and media consensus isn't based on an intellectual framework with which to assess the chances of success or failure in a complex ecosystem like payments. It's one where platform economics rule, scale matters and even the best ideas may never get enough critical mass to succeed.

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

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

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

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.

ABOUT

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