8 PIVOTAL STRATEGIES

FOR PAYMENTS AND THE DIGITAL ECONOMY IN 2024

January 8. 2024

By **Karen Webster**

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By **Karen Webster**

ABOUT THE AUTHOR

Karen Webster is one of the world's leading experts on payments innovation and the digital economy and a strategic advisor to CEOs and Boards of multinational players in the payments and commerce space.

Webster also serves on the boards of emerging companies in the AI, healthtech and real time payments sectors and helps these innovators refine their business models for profitable market adoption and growth.

Webster is a frequently sought after keynote speaker and prolific author of articles on innovation, platforms and the digital economy. She has a long history of consulting, having served as the Managing Director of Global Marketing and Planning for Price Waterhouse Coopers's US$6 billion management consulting practice and as COO for the US$200 million economic consulting subsidiary that is part of the MMC family of companies. Webster also served as an adjunct faculty member at her alma mater, Johns Hopkins University, where she holds a master's degree in marketing and developed and taught graduate level courses on business-to-business marketing.

Webster is a passionate philanthropist and served as a member of the Board of Trustees at the Dana Farber Cancer Institute and Chairman of the Board of the Susan G. Komen Advocacy Alliance. She lives in Boston with her husband and their two amazing canine companions.

INTRODUCTION

2024 is going to be my best year ever. I know that for sure because that's what an online astrologist told me. My biggest creative and intellectual bets will pay off, I'm told — and so much so that I can anticipate a promotion and **substantial** (I added the bold for emphasis) salary boost. Wowee! March, May and August are the three months in which my professional achievements will rev into high gear, provided I pay attention to my health. Noted. Red is my lucky color and nine my lucky number.

For me and my many fellow Scorpios in 2024.

'Tis the season for astrologers to cast their eyes to the skies and forecast what's in store for every person based on their Zodiac sign. **Nearly 30% of people in the U.S. believe** in the power of astrology to predict their future, nearly 40% of people under the age of 30 do, and a quarter are on the fence. Whether the predictions sound good probably has a lot to do with who counts themselves as believers.

The most famous astrologer is **Nostradamus**, who celebrated his 520th birthday last December. More than five centuries later, the 942 passages in his book *Les Prophéties*, are studied by scholars, historians, journalists and modern-day pundits to see if, in fact, his powers to predict the future, well into the future, are as claimed. One of Nostradamus' most famously accurate predictions is that he would die the day before he did. Whether he was a prophet or just someone who knew he was really sick and his time on Earth was coming to an abrupt end is a secret he took to his grave.

Many believe that Nostradamus' 942 writings, just like those of my online astrologer, are sufficiently vague so they only seem prescient when things coincidentally come true. It's not a bad strategy when it comes to predictions. British economist **John Maynard Keynes** was quoted as saying he'd rather be vaguely right than precisely wrong, a maxim based on using data and frameworks to forecast big trends and then monitoring the market to see how things play out.

I'll buck the trend and spare you vague predictions for what will shape payments and the digital economy in 2024. Instead, I'll give you eight pivotal strategies for the future — based on data, frameworks and hundreds of conversations with many of you who are reading this right now. No astrologers were consulted. Hopefully, by the end, I can count you as believers.

8 PIVOTAL STRATEGIES

FOR PAYMENTS AND THE DIGITAL ECONOMY IN 2024

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1

Companies monetize certainty as businesses and consumers prize predictability

A huge source of friction for everyone is not knowing.

Not knowing whether taxicabs would show up on time to get to the airport or be available during rush hour is what helped Uber get its start and scale to become the $118 billion platform it is today. Not knowing if the check really was in the mail or when it might arrive is what sparked the digital B2B payments revolution that's finally chipping away at paper payments. Not knowing a company's cash position has ignited innovations in real-time treasury. Knowing when stuff will actually show up is why 200 million consumers globally pay Amazon $139 a year for a Prime Membership to get their purchase in one or two days, with same-day now available for more and more items — and why 97% of U.S. Prime Members renew each year. Consumers pay more for streaming services without ads for the certainty that their listening or viewing pleasures won't be interrupted by ads featuring retired football players selling reverse mortgages or term life insurance.

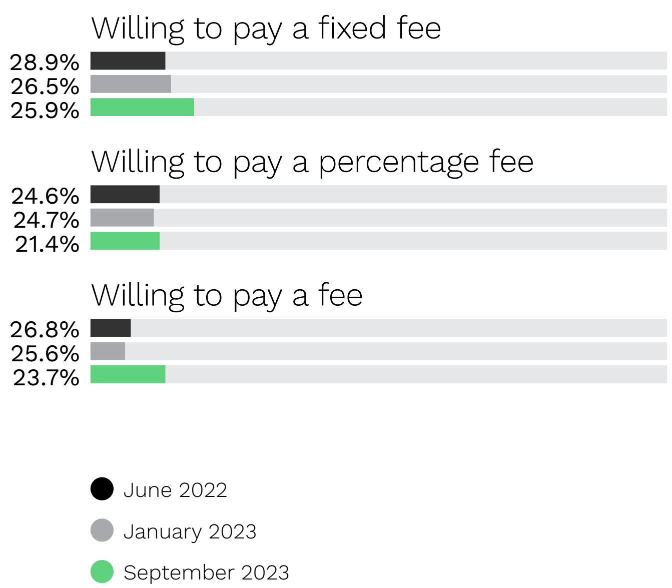
1.7%

A QUARTER OF U.S. CONSUMERS SAY THEY'D PAY AS MUCH AS 1.7% TO GET THEIR MONEY RIGHT AWAY.

When it comes to payments, getting money instantly to consumers — and particularly to businesses — is the great promise and potential of scaling instant payments. The prevailing wisdom that instant should be free, which has been the bank and FinTech mantra for years, should be and is changing. Consumers have and do pay to send money faster than snail mail checks or regular ACH — it costs more to send a wire and same-day ACH. In fact, a quarter of U.S. consumers say they'd pay as much as 1.7% to get their money right away. And when they do, their satisfaction with the business enabling that option increases by 13%.

FIGURE 1:

Consumers willingness to pay fees to receive ad hoc disbursements
Share of consumers stating their willingness to pay a fee to receive instant disbursements



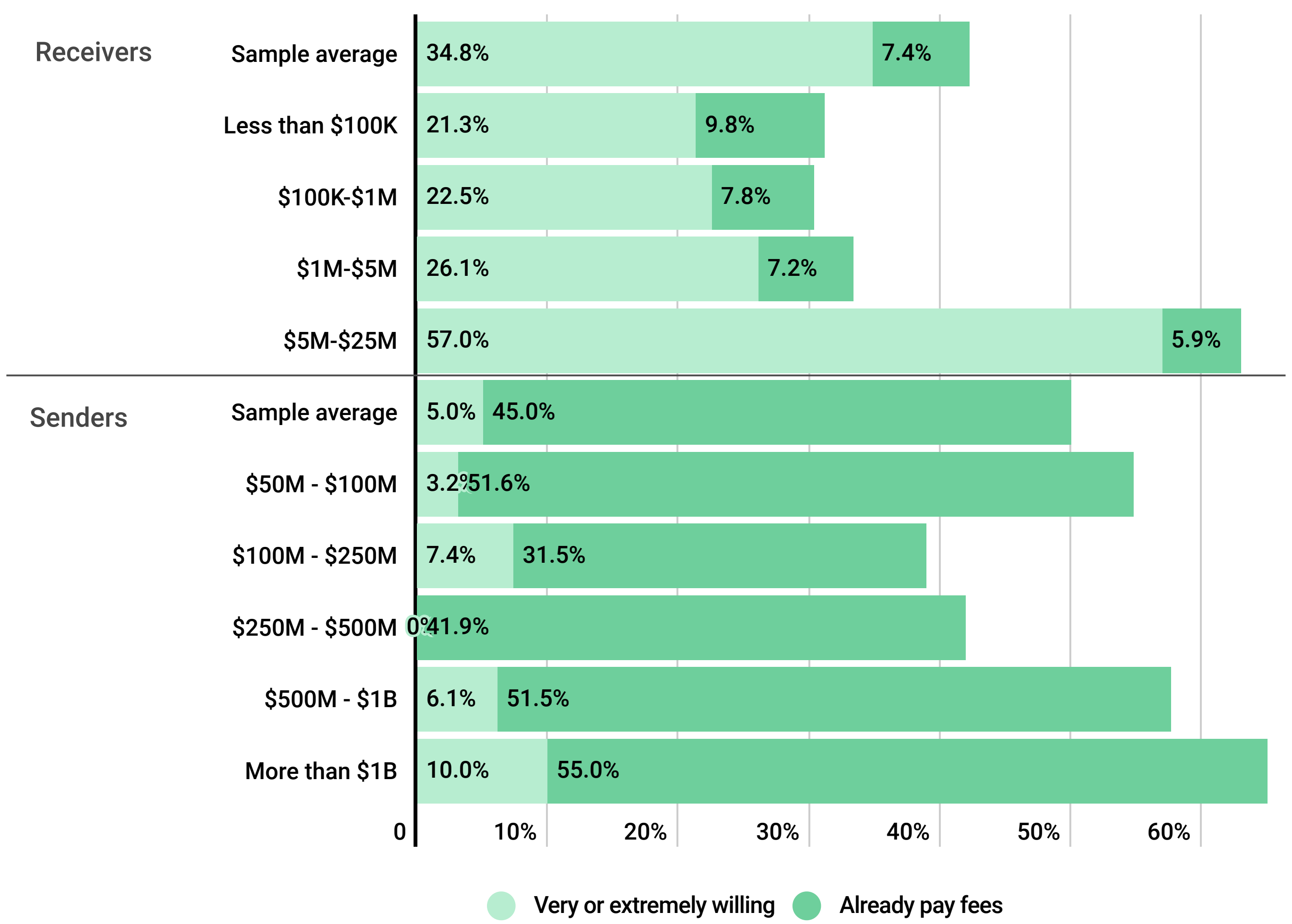
Source: PYMNTS Intelligence
Measuring Consumer Satisfaction with Instant Payouts, November 2023
N = 2,606: Complete responses, fielded Aug. 28, 2023 – Oct. 4, 2023

Businesses will too, and small businesses who need the money to cover cash flow are especially willing to pay 3.3% of the amount or $67k a year as a fee to get their non-recurring revenue (aka Ad Hoc payments) from buyers instantly. Consumers will pay for small-dollar, short-term cash advances from trusted sources for the certainty of aligning bill payments with payroll when funds are tight. New customer-friendly models help platforms monetize the risk while giving consumers the necessary lifeline.

In 2024, smart companies across the digital landscape will use data to create pricing frameworks that optimize the value/certainty/time payoff.

FIGURE 2:

SMB willingness to pay fees to send/receive ad hoc disbursements
Share of SMB senders and receivers who pay fees or are willing to pay fees, by size



Source: PYMNTS Intelligence
Streamlining Ad Hoc Payments with Instant Pay, November 2023
N = 200: Complete responses for senders, fielded Aug. 7, 2023 – Sept. 15, 2023
How Instant Ad Hoc Payments Drive SMB Success, December 2023
N = 394: Complete responses for receivers, fielded Sept. 8, 2023 – Sept. 26, 2023

Payors will increasingly give up on the notion that certainty — as defined by instant payments — is an automatic feature without putting a premium on paying for it and offering receivers a choice to pay or not. Clever instant payments orchestrators will find ways to monetize both sides of the transaction with new business models. Consumers and businesses can decide if and when to pay for certainty — just like they do in every other circumstance — and how much it is worth to get it.

It's not just payments. Retailers will use AI and better inventory management to train consumers not to wait if they really want something because waiting for inventory to sell at a discount will be a fashion faux pas in 2024. Some will work with influencers to create demand, at full price, for trendy merch to monetize FOMO. Consumers say they will pay as much as 11% more to purchase sustainable products, and retailers will get on the bandwagon.

On the other hand, things will go off the rails when businesses ask consumers to pay more when there is no value. **The tipping backlash**, as well as surcharges added to checkout to cover merchant processing costs, has more than half of consumers just saying no to tips — and, increasingly, **to the businesses that levy tips and surcharges**.

2

Shopping shifts from buying to editing as replenishment models change retail dynamics

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In 1796, Harding Howell and Company opened its doors on Pall Mall in London. It was described in the local press as a place "**where women could browse and shop, safely and decorously, away from home and from the company of men**!" (Exclamation point added). Merchandise was kept behind a counter. Buyers walked up to one, inspected the merchandise and then paid the sales associate for their purchases.

Over the next 228 years, innovations in store layouts and merchandising put products in the hands of customers, and operational efficiency experts figured out ways to manage checkout queues to move consumers through them more efficiently. Electronic terminals, banks, payments processors and card networks replaced cash and checks with cards at the checkout counter. More recently, contactless cards and digital wallets have made paying at the checkout faster.

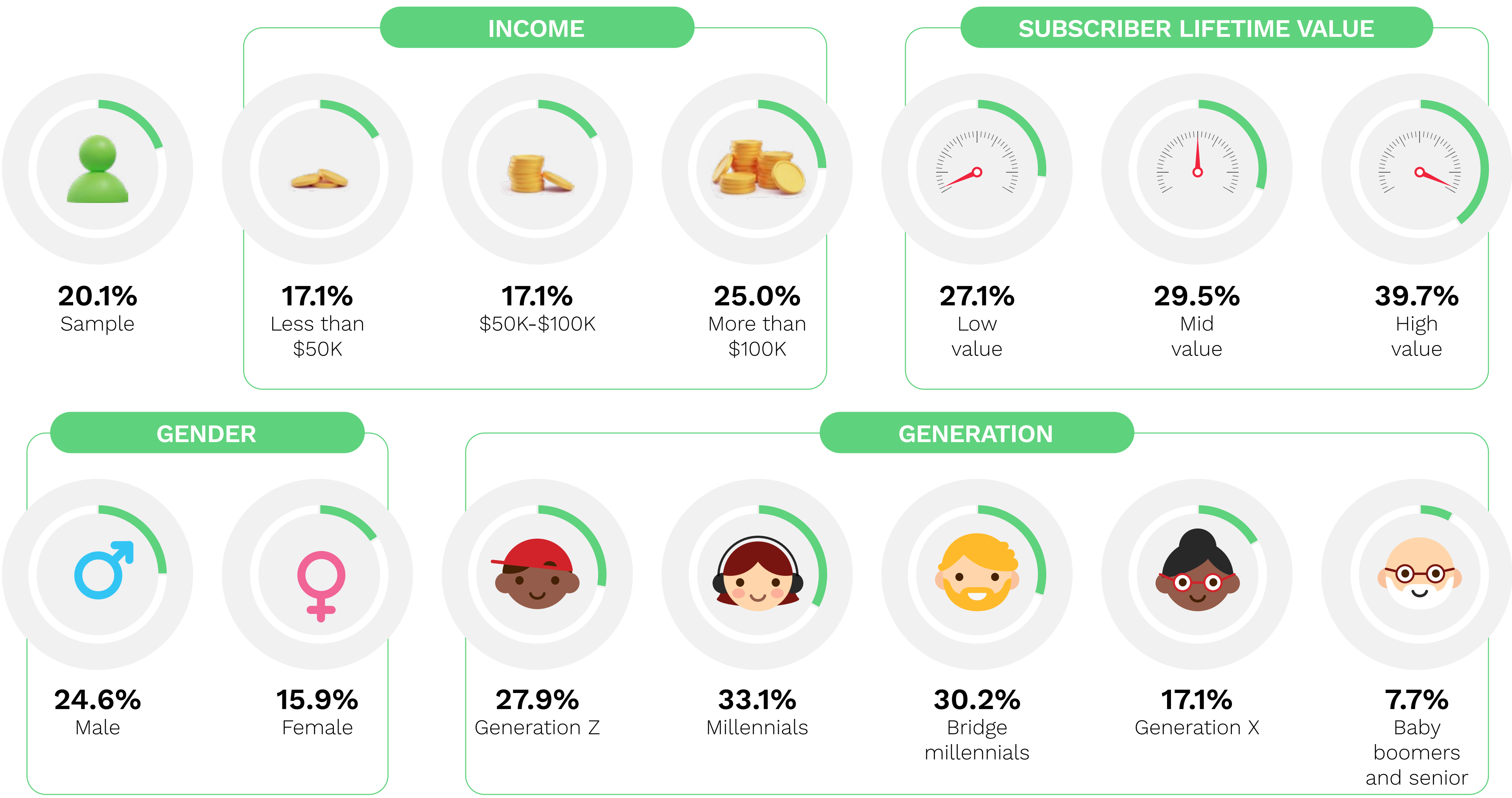
But 228 years later, when consumers actually march into the store to make a retail purchase and pick out the items they want to buy, they still wait in some sort of line or walk up to some sort of counter to "check out." As you know, fewer and fewer consumers did this in 2023 and over the last three years. According to **PYMNTS Intelligence**, only 63% of consumers made their last retail purchase in a physical store, and 80% made their last grocery purchase in one.

2024 will be the year that brick-and-mortar retailers will be forced to think beyond incremental improvements in in-store checkout and begin using their physical footprint to support the shopping journey that consumers want. And not because busy consumers use digital channels more often, but because consumers have embraced new digital buying options that keep them away from the store entirely.

At immediate risk is the $18 billion in monthly spend across all U.S. consumers on essential products like groceries, pet food, like health and beauty supplies, garden supplies, and other odds and ends that consumers use as part of their regular routines. "Stocking up" is now the domain of the replenishment economy — and the items consumers add to those stocking-up lists are expanding.

FIGURE 3:

Scheduled and auto-fill product subscription reliance
Share of consumers who purchased most or all their regular shopping via scheduled or auto-fill subscriptions in the last six months, by demographics



Source: PYMNTS Intelligence
The Replenish Economy: A Household Supply Deep Dive, November 2023
N = 13,858: Whole sample, fielded Sept. 5, 2023 – Sept. 21, 2023

The replenishment economy turns the notion of shopping into editing (if need be) an already curated list of items that are frequently purchased at a specific interval. **PYMNTS Intelligence** data finds that more than 30% of retail subscribers and 20% of all consumers say that most or all their personal products are bought using auto-fill methods. Forty percent say that auto-refill has reduced their need to go to the store and 70% say they'd like to do more so that they skip the store entirely for those purchases.

Today, replenishment is done across a variety of direct-to-consumer sites, retailers who want in on the recurring sales opportunity for relevant SKUs, and Amazon Subscribe & Save, a service that now counts 18.5 million U.S. consumers as customers.

But it won't stop there.

Savvy retail innovators will tap into the consumer's appetite for auto-refill and get creative. **Instacart could send consumers an email** with their shopping carts filled with all the items they usually buy every week so that all they need to do is add or subtract. Grocery stores get the sales but not the foot traffic. Instacart's advertising network could influence brand preference for what goes in the cart.

Specialty retailers could send an email every month to loyal customers based on purchase history with ideas for adding a few things here and there to complement what was previously bought and reminders to stock up on fresh white shirts for the summer. Or Nike could set up an auto replenishment that ships my **Nike Alphafly 2 running shoes** six times a year instead of me forgetting only to discover my size is sold out.

Seems like such a no-brainer.

Or Amazon can do all of that instead. Amazon's 2013 **anticipatory shipping patent** — packaging and shipping items before consumers order them — was clearly devised with the replenishment economy in mind, using data from the hundreds of millions of consumers who order products from them every year to refine it.

Retailers think they've checked the digital and digital transformation box because they've "gone online" and embraced omnichannel. Yet for many, omnichannel is code for getting consumers into their stores after picking out something online. Thinking store-first cost retailers dearly when the world moved online in the mid-2010s, and today they are paying the price. According to **PYMNTS Intelligence**, Amazon accounts for 8.3% of all retail sales and 53% of online sales.

2024 should be the year that retailers think and execute customer-first by closing the book on 228 years of store-first traditional thinking — before consumers close their wallets on them.

FIGURE 4:

Subscription impact on in-store shopping and share of subscribers per subscription

Share of subscribers who say their subscription reduced need for in-store shopping and total share of subscribers, by subscription

Subscription	Share who shop in-store less or not at all due to their subscription	Share of subscribers
AVERAGE	42%	
STITCH FIX	56%	11%
GOODY BOX by chewy	53%	15%
amazon subscribe and save	48%	42%
HELLO FRESH	47%	25%
IPSY	45%	13%
SCENTBIRD NEW YORK	45%	6%
SPREZZABOX	45%	3%
BARKBOX	45%	14%
BOXYCHARM	42%	8%
DOLLAR SHAVE CLUB	42%	20%
Sock Fancy	41%	2%
HARRY'S	40%	11%
BIRCHBOX	37%	8%
Blue Apron	36%	18%
LIPMONTHLY	35%	3%
SNACKNATION	35%	6%
BEAUTYFIX	35%	9%
gwynnie bee	33%	3%
LOOTCRATE	33%	3%
Cat Lady Box	31%	6%
GLOSSYBOX	30%	4%
MISTOBOX	29%	4%
BESPOKE POST	29%	7%
fabfitfun	27%	13%
Winc	22%	2%
MENLO CLUB	21%	2%
Alltrue	20%	5%

Share who shop in-store less or not at all due to their subscription
Share of subscribers

Source: PYMNTS Intelligence
The Replenish Economy: A Household Supply Deep Dive, November 2023
N = 13,858: Whole sample, fielded Sept. 5, 2023 – Sept. 21, 2023

3

GenAI becomes a feature, and everything has a conversational front end

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Once upon a time, GPS was a separate gadget that consumers bought and stuck on their windshields to help with navigation — until it became a standard feature in 2007. It wasn't until 1969 that more than half of all cars on the road in the U.S. came equipped with air conditioning — before that, it was an expensive option available mostly in luxury cars. Wi-Fi wasn't integrated into consumer devices until Apple did it for the first time in 1999. Many software upgrades came as an a la carte option at a price. Alexa started out as a disembodied voice inside of a tall round cylinder in 2014 before an SDK made it possible to be embedded in third-party connected devices a year later.

Consumer demand, government regulation, competitive dynamics and improvements in technology made embedding these once-separate features — and many more like them — into products cost-effective and made the quality of those features better.

GenAI and GPT-esque apps are now mostly accessed through a separate site, a separate log-in and a separate app on the phone. But not for long.

OpenAI has opened the GenAI floodgates and made innovations using it accessible to almost everyone. It is one of the most powerful forces for innovation that our economy has seen in the last century.

Innovators will create GenAI-powered conversational applications that fall largely into two distinct buckets: librarians and assistants. Like software, GenAI applications will become specialized and embedded, solving specific problems for specific use segments.

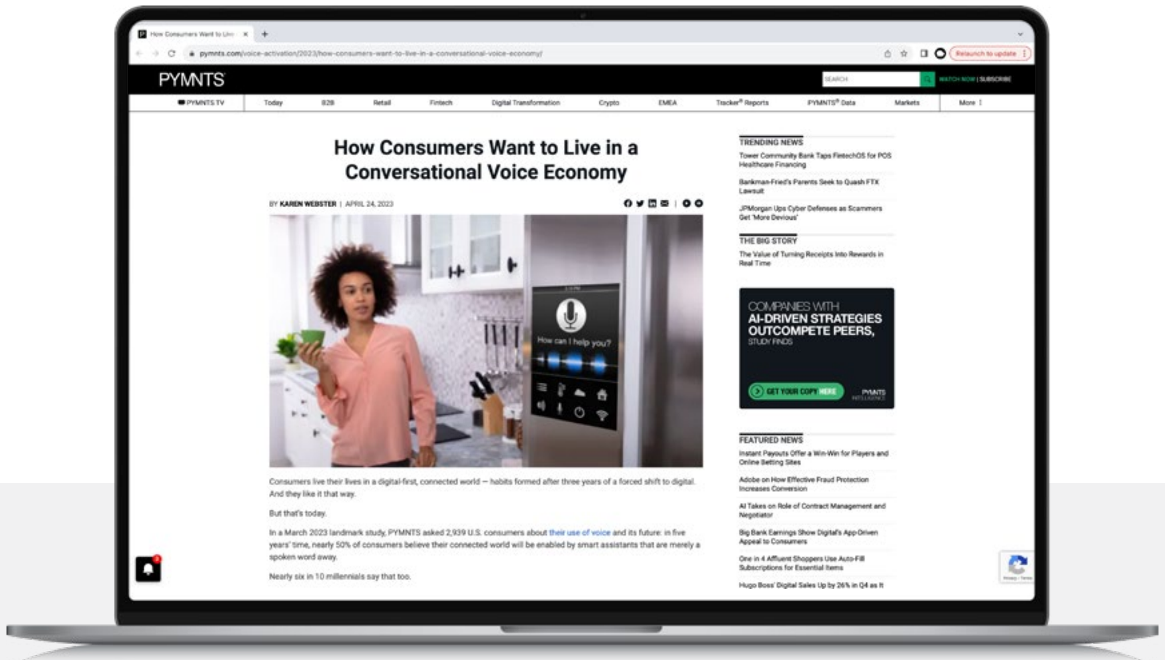
Librarians will make finding content and data faster, easier and — with training — more accurate. Assistants will manage complex activities and transactions against an expected outcome, including commerce. GenAI will make voice an integrated, ambient part of those experiences, creating the voice-activated conversational front ends that more than 50% of U.S. consumers told **PYMNTS Intelligence** in 2023 they wanted — that likely as many businesses will, too — and more than 30% of consumers said they'd pay a monthly fee to use.

30%

OF CONSUMERS SAID THEY'D PAY A MONTHLY FEE TO USE **VOICE-ACTIVATED CONVERSATIONAL FRONT ENDS**

And it will happen quickly given the accessibility that developers will have to develop innovative use cases based on large language models that touch every person and every business. Just like the internet and app economy, these GenAI-focused entrepreneurs and business leaders will build apps and app ecosystems to connect devices with AI-powered experiences.

As I wrote in April of 2023 before OpenAI's Sam Altman teamed with Jony Ive to create a new GenAI-operating system and handset, we will see new GenAI-powered operating systems or new versions of iOS and Android with embedded identity and payments credentials at the core, with voice the ubiquitous access method. **Innovation will happen at the application level**, and innovators will compete to create novel experiences for consumers and businesses that are embedded into their existing workflows and routines.



Whether it will be one of the BigTech players that have a strong voice presence today or someone who's working under the radar remains to be seen. I get it that Microsoft invested, but it did that only after it bagged its own efforts and doesn't appear to have any protection from OpenAI competing with it. That OpenAI pulled ChatGPT off was, and is, **a wake-up call for BigTech**.)

And we are already staring at the future. OpenAI is launching its app store later this month (January 2024), Sam Altman and ex-Apple execs are creating an AI smartphone and operating system, and Google is releasing a version of its own GPT on its own Pixel device.

We've gone from research think tanks in 2015 to commercial release in 2022 to mass distribution of GenAI across many use cases in 2023. And the voice operating systems that we have been talking about since 2014 will be ignited and set to scale.

4

Platforms gain power as point solutions seek distribution, businesses say no to "another" integration and consumers crave curation.

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The average small business has 172 separate software applications to manage, middle market companies 255 and large enterprise companies about 644. That's reported to be fewer than it was a year ago. At the same time, CIOs and HR teams say tech resources are becoming harder to hire and taking a job doesn't necessarily mean staying in the job — the average tech worker tenure is about 2.7 years.

The last time heads were counted in startup land, **there were 11,651 FinTechs in the U.S.** That's probably about 11,651-point solutions looking for a nice cozy bank or business to call as a customer home and potentially a non-humiliating exit.

When PYMNTS Intelligence talked with CFOs across a variety of industry segments about a variety of payments and digital economy innovations and asked about the biggest inhibitors to implementing new tech — including mission-critical tech like AI fraud solutions to battle financial crime — CFOs cite access to tech resources as being in the top three.

Half of PayFacs in wholesale and logistics cite workforce issues as their biggest challenge to bringing innovations to market. Twenty-nine percent of independent software vendors in multimedia and communications said the same. It's getting harder for point solutions to break through, even if they add value, since internal resources are so scarce.

On the consumer side, the endless aisle of choice is beginning to be more friction-filled than fun. Three-quarters of Google searchers never make it past the first page — and depending on whose survey data you like better, **anywhere from 50% to 36% of consumers don't even start there**. It just takes too much time to scroll, click and then scroll again.

There may be 80 apps on the average person's mobile phone screen, but most only use eight or nine every day. **PYMNTS Intelligence** finds that 44% of consumers used a single store for all their groceries in the past month, while of the consumers who ordered food online, 32% ordered from the same place. There are 1.06 million retailers in the U.S., but most consumers shop for most of what they buy at fewer than 5 of them.

The flip side is that choice is valuable to consumers and businesses.

Platforms and platforms called by other names — intermediaries, aggregators, orchestrators — will become even more powerful in 2024 as consumers and businesses say "yes!" to choice but "no!" to having to figure it out on their own.

PYMNTS Intelligence finds that **44%** OF CONSUMERS USED A SINGLE STORE FOR ALL THEIR GROCERIES IN THE PAST MONTH.

Whether it is embedding payments into software to make transacting more efficient, embedding tax and compliance solutions into ERP systems or acquirer's tech stacks, orchestrating payout options so that consumers have the ubiquity of choice and payors manage a single integration to provide it, or aggregating lenders so merchants have more credit options for their buyers and lenders more customers for their products, platforms will simplify the complexity of integrating to multiple rails and processors using APIs.

This, of course, is what platforms have been doing for millennia. **Modern-day platforms have accelerated the trajectory of the digital economy over the last 30 years.**

But over that same period, technology and access to capital have made it easier for point solutions to emerge, targeting sticky problems for consumers and businesses. Endless commerce and digital payments innovations have bred an explosion of direct-to-consumer brands. The problem for consumers and businesses is too much choice — and too much time required to pick through a long list of options — and then decide — and then support them.

In 2024, consumers and businesses that prize their time will prioritize efficiency and happily outsource the complexity of integrating choice and innovative new solutions to an intermediary with whom they already have a trusted relationship. They get the benefit of choice and a better experience without the hassle of doing it all themselves.

Direct-to-consumer brands, even the big ones, will increasingly **embrace platforms** that offer a critical mass of the right customers who can boost conversion. The big ones with brand names and their own critical mass of customers may create their own. Innovators will use tech to solve the problem of first-party data/attribution/targeting while giving these brands customer and data control.

On the B2B side, buyers and suppliers will increasingly embrace doing business online because business pressures will force a more competitive and cost-effective supply chain.

Platforms will introduce a new competitive dynamic in 2024.

This dynamic will put pressure on point solutions to be better, differentiated and a true value-add for their customers. Not every point solution or product will succeed, and we will see increasing numbers in 2024 shrivel and die as businesses turn to trusted platforms, with networks operating at scale, to offer them the best of all worlds.

5

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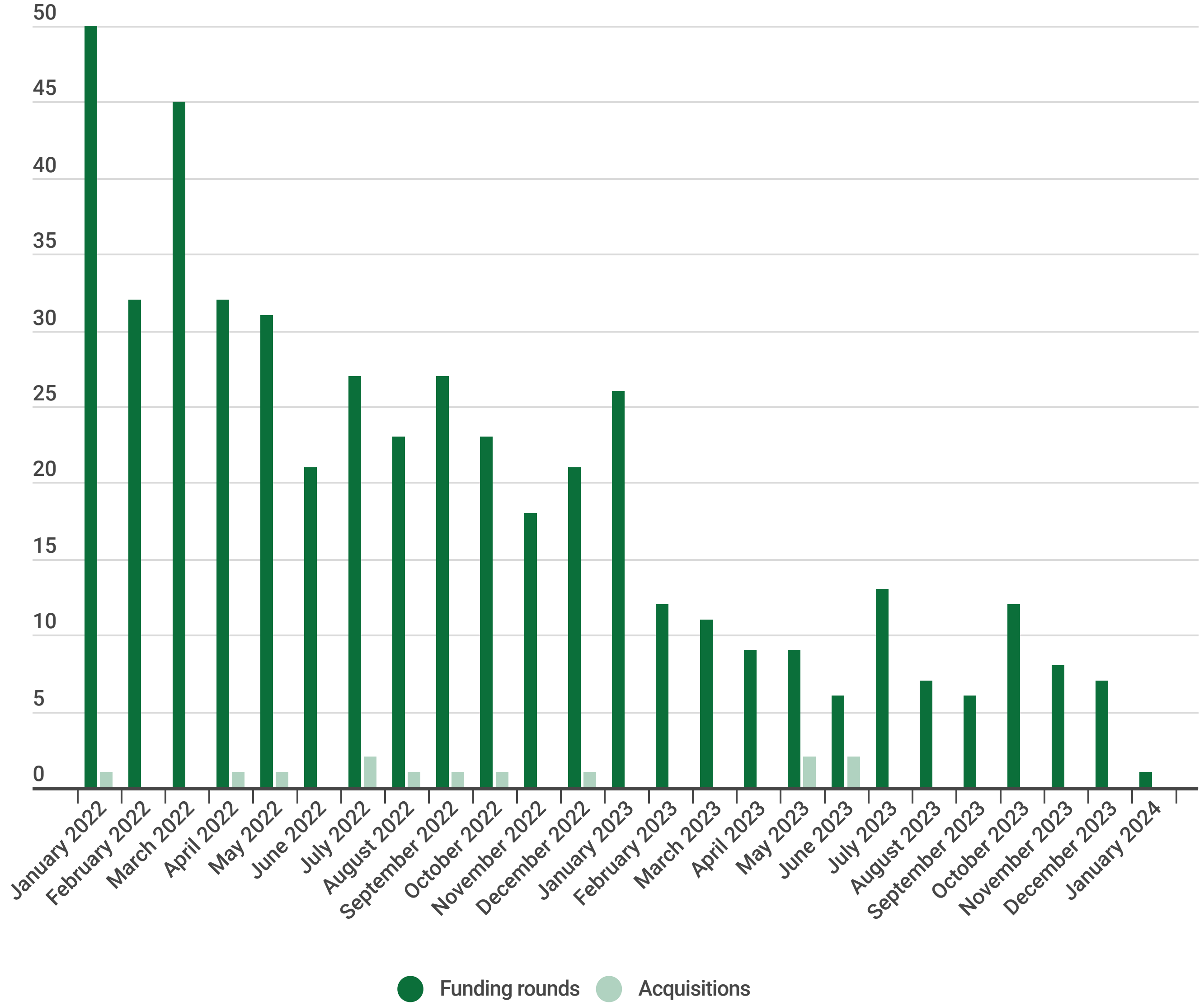
Investors and executives get back to basics as “that vision thing” takes a back seat

Two thousand years ago **Aristotle wrote of the unmoved mover**, **the concept of a foundational element that moves all other things but cannot itself be moved.** The modern-day rendition of this two-millennia-old scientific thesis is the notion of first principles. Understanding the root cause of a problem or friction becomes an opportunity for disruption and innovation and is often the key to figuring out what’s best for customers and investors.

That hasn’t been the case for many investors and companies who have spent much of the last five to ten years funding fliers that didn’t solve real problems but sounded cool: **the metaverse**, crypto and stablecoin as global payments alternatives, Web3, and the 250th neobank built on top of a fragile interchange fee model with loads of customer churn. The result is billions of dollars of capital and millions of hours of executive time wasted pursing things that didn’t (and couldn’t) solve a fundamental problem for businesses and the end-customers they served.

Figure 5: Investments and acquisitions - Metaverse

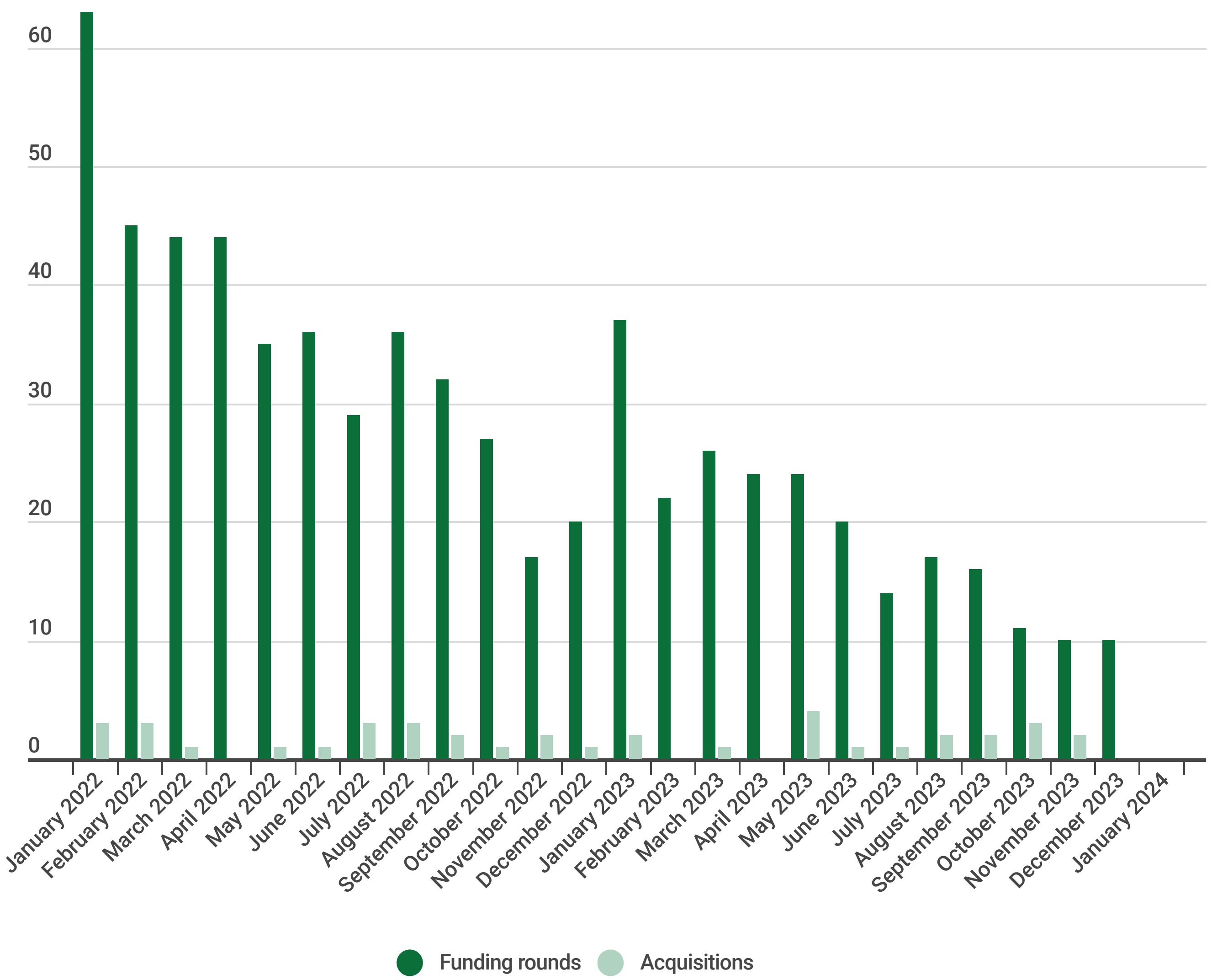
Number of funding rounds and acquisitions in companies related to the metaverse



Source: Crunchbase

Figure 6: Investments and acquisitions - Crypto

Number of funding rounds and acquisitions in companies related to cryptocurrencies

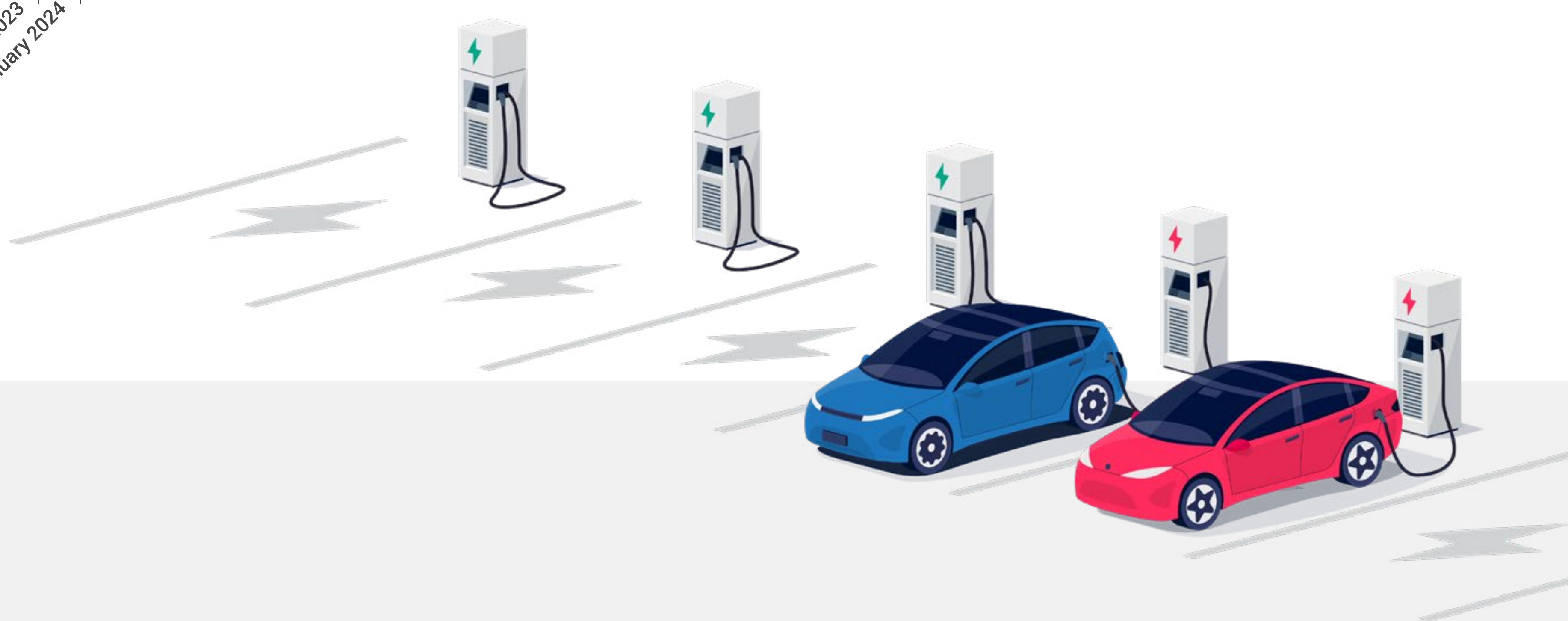


Source: Crunchbase

2024 will be the year that serious players use their time, money and resources to solve real problems because they see the opportunity to leapfrog the competition and build an impenetrable moat when they do.

There are a lot of first principal problems to work through across payments and the digital economy.

Take electric vehicles. The automotive ecosystem, along with the government, is in a mild state of panic now over the consumer's growing EV ambivalence. The Biden Administration says they're committed to funding 500,000 EV charging stations in the U.S. (by way of comparison, there are 153,000 gas stations with multiple pumps in the U.S.). Innovators, including C-stores, are investing in strategies to make charging stations more entertaining since consumers will spend three to as much as one hundred times longer "filling the tank" when they do.



But the real problem to solve is making a better battery since more charging stations can't solve the fact that charging is a massive time suck. Until someone can figure out how to produce a battery that can reliably deliver a 500-mile range, range anxiety will keep the mainstream consumer from jumping in. That's not an easy or quick problem to solve. In the meantime, OEMs should shift their focus from getting people to buy EVs to getting people to buy their cars, making them smarter, safer and more fun to drive. And then their EV models, once the fundamental problem of battery life can be solved.

Then there are retailers and the returns. The $1 trillion retail return problem is a huge logistical and financial problem for retailers and a growing pain for consumers. Retailers have responded by charging for returns to make consumers think twice before sending something back and teaming with innovators to present consumers with options to get immediate store credit to keep the money inside their ecosystem. Influencers describe how things look on them and how sizes fit their shape in an effort to help consumers make better size choices. But so far none of that is making a big dent, as more commerce moves online and returns just keep piling up and retailers aren't solving the real problem: There is no sizing standard to help consumers pick the right size.

Then there's payments.

The G20 is pushing for faster cross-border payments, but payments providers caution that **faster increases the risk of violating sanctions and escalating fraud**. I guess we'll keep being slow until someone solves the fundamental problem that is knowing the customer, with certainty, in the digital world. Of course, that becomes harder as AI solutions for detecting fraud race with AI solutions for committing fraud.

Merchants believe that consumers in the U.S. will gladly link their bank account directly to them when making a purchase so they can save the merchant interchange fees. It's not a new idea, but it remains as challenging in 2024 as it was in 2011 when merchants formed MCX to create their own payments network. Consumers don't think they have a problem paying today, and in fact want even more options at checkout to pay for what they buy.

The fundamental problem isn't how much merchants pay to accept cards, it's making sure that consumers have a reliable, secure and ubiquitous payments experience.

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Money mobility powers new ecosystems and disrupts payment network economics

A **little payments 101:**

The history of on-us transactions is as old as check writing and banking. A depositor who walks into a bank and presents a check from the same bank can get that check cashed immediately, provided there are sufficient funds. Transaction costs are lower for the bank since the funds stay within their own closed ecosystem. The ability to manage risk is more efficient since banks see both sides of the transaction. Clearing houses clear and settle funds for intrabank transactions.

As transactions moved online, clearing and settlement networks did too. Today, card networks enable any consumer with any card from any issuing bank to present it to any merchant for payment and have the right merchant and issuing bank accounts debited and credited. Card networks monetize that service through network fees and use interchange to provide incentives.

Over the years banks and large acquiring platforms have invested to connect both the issuing and acquiring banks inside of a single platform; that can reduce transaction costs, increase bargaining power with card networks to reduce fees, manage risk more efficiently and capture better data to inform customer and business trends.

2024 will be the year that we begin to see the green shoots of what I call money mobility-powered networks — to create new on-us networks that recast the current payments economic model.

Over the last five to ten years, money mobility networks have emerged to enable the end-to-end **flow of funds** between B2C or B2B payors and receivers. These networks offer multiple options for money in and money — including branded **embedded payments** and finance options — to keep money inside of their ecosystem. These new branded payments options can be network-branded cards or account-to-account off-network products to monetize transactions within these new money mobility-powered ecosystems.

New business models will change the payments economics within these networks. Money mobility network operators can create incentives for consumers and businesses inside of that ecosystem to spend or store funds there for future use. Businesses and banks with large, **actively engaged customer bases** will model the viability of using this technology and payments-powered networks at scale to capture more of the payments economics and use data to create more value-added products. That will include monetizing third parties, who could add value for their customer inside of their networks and keep them engaged and spending.

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AI-native startups **marginalize the role of incumbents**

You all know the story. Jack McKelvey, part-time glass-blower, **was tired of losing sales** because he didn't accept cards. A call to his friend, then CEO of Twitter, Jack Dorsey, resulted in founding Square, which produced little white square dongles that turned smartphones into credit card terminals. The business model was as innovative as the technology, and a new SMB payments platform was born in 2009.

Critics said Square would never amount to much — what did Jack Dorsey know about payments, anyway — and fraud would eat Square alive. He didn't and it did in the early days. What Jack Dorsey knew at the time was that digital payments for small and micro-merchants was broken, and technology and thinking differently could fix it. The Collison brothers and Stripe would do the same thing for mobile payments in 2011. Sam Altman and OpenAI have done the same thing for GenAI at warp speed.

All three, and many more like them, changed the sectors they entered and marginalized the incumbents hundreds of times their size who never saw it coming. And then had to spend lots of time and money catching up.

In 2024, we will begin to see how AI-native startups introduce new ways to solve old problems that marginalize incumbents, as disruptors are known to do. There are many AI-native startups already at work doing that.

VC firm Accel **says that GenAI is the new unicorn breeding ground**, including innovators who managed to capture about $10 billion in capital despite the 2023 VC drought. Many of those unicorns and unicorns-in-waiting are developing applications that will be embedded into existing workflows, giving consumers and businesses new conversational front ends that will change how and with whom they interact.

Although there may never be the Bank of AI, GenAI and its powerful models will give innovators, including Big Tech, the capability to realize their banking and everyday app ambitions. A voice-activated and conversational front end will simplify the many banking, investments and payments transactions that today may require multiple accounts, multiple steps and even multiple banks. There will still be a bank — but the interface, the front end, won't be the consumer's primary bank. How banking services are delivered and by whom is ripe for disruption.

There might never be the Hospital of AI, but AI-native innovators are already changing the delivery of healthcare. Device manufacturers will continue to miniaturize diagnostic devices to outsource healthcare monitoring to the patient and an app. Remote access to specialists with AI-powered diagnostic tools democratizes patient outcomes and accelerates time to treatment as needed. The role of traditional healthcare providers is marginalized at the same time patient outcomes are improved. There will always be doctors, but how healthcare is delivered and by whom is ripe for disruption.

There might never be the University of AI, but AI-native innovators are creating new ways to personalize curricula to students, and new conversational front ends to automate and assist with students who need help learning outside of the classroom. There will always be teachers, but an AI-powered educational ecosystem will disrupt incumbents by creating new ways for students and content to engage.

The Car of AI is squarely within reach. Even though self-driving technologies are regarded by 45% of Americans as unsafe, the technology is improving, and OEMs are integrating it into car operating systems. It is entirely possible that AI-native innovators will perfect the technology and use it to power a driverless car platform to compete with Uber and DoorDash. Maybe even solving the pain of EV charging with cars that drive themselves to charging stations to power up.

8

Brands date GenZ, **but they marry boomers**

Charlie Munger died a month shy of his 100th birthday. He left behind his 93-year-old business partner Warren Buffett, who is regarded as one of the most successful investors in history. Munger was active in business until the end. It was a real shock when we all learned of his passing.

In 2023, there were more than 89,000 people aged one hundred and older, twice as many as 20 years ago. A **study done by Johns Hopkins** reports that a random scan of a room full of 80-year-olds would find only 15% of them to be so frail as to be unable to do much. The rest are out and about, some more robust and energetic than others, spending money on traveling, eating out and otherwise enjoying good health.

An anecdote in one of the most interesting books that I have read recently, *The Perennials*, written by Wharton School professor **Mauro Guillen**, describes the dissolution of Brooke Astor's $100 million estate when she died at the age of 105. The feud was scandalous and included her only heir, who was 89 at the time.

In the book, Guillen posits how advances in technology and healthcare increase longevity, shift the composition of the workforce and change how people view retirement — including the fact that many don't retire. He documents how this dynamic will threaten the gigantic transfer of wealth that Gen Xers and their millennial and Gen Z offspring might be expecting when their parents and grandparents pass. There might not be as much left to go around — and that transfer of wealth may happen much later in their lifetimes.

That will impact how and how much people spend, in both the short and long term. Retailers are taking note.

There are 76 million baby boomers in the U.S. and 68 million Gen Z, those between the ages of 11 and 26. Boomers control about $78 trillion in wealth across the U.S. and 80% of all of the net worth.

80%

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Because they are healthier, living longer and working (even well past “retirement”) to put more disposable income in their pockets, boomers are spending machines. It is reported that boomers have an overall purchasing power of $2.6 trillion dollars and spend $548 billion a year. Seventy percent of their income is disposable. Gen Z’s spending power is $44 billion a year, and most of their income is anything but discretionary.

In 2024, marketers will continue to spend billions to get the attention of Gen Z — and entertain them on new social channels. After all, they are the future shoppers, even as it remains unclear how many of the GenZs who spend more than five hours a day on TikTok spend money with the brands they see there.

At the same time, brands will double down on how they woo their grandparents. The demographic group buying the **most cars are the 55 to 64 year olds**. BCG says that middle-aged millennials outspent boomers for the first time in 2023 when booking luxury travel, but Boomers continue to drive a boatload of spend at five-star resorts — and on the clothes and jewelry needed when they get there. Their sources of income aren’t dependent on whether they have a job or a big raise. They have more freedom to spend, and many have a different attitude about how they spend their money. They’re brand loyal and value a great experience — music to any marketer’s ear.

Of course, Gen Zs are retail’s future, but it will take time for their spending power to catch up. Meanwhile, retailers and brands looking to make their numbers this year and over the next several, would be wise to focus their dollars on the boomers who are going to be around for a lot longer, and spending a lot more of their money.

SO WHAT AND **WHAT'S NEXT?**

It is too early to tell if 2024 will be the best year ever for payments and the digital economy. But I do sense a more optimistic mood this year than last among the many business leaders with whom I have spoken. The last two years have bred a more confident, disciplined and efficient business focused on execution — a business that seems ready to capitalize on the eight strategies I have outlined.

2024 is interesting for another reason. It is the year that will take us into the halfway mark of the decade of the 2020s. I believe it will be a year defined by innovation, brimming with excitement and energy and focused on outcomes. I can't wait to watch it all unfold right there with you.

ABOUT

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- **Co-Founder/Advisor**
  Fact First.ai
- **CEO/Co-Founder**
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STAY IN TOUCH

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Karen Webster is one of the world's leading experts on payments innovation and the digital economy and a strategic advisor to CEOs and Boards of multinational players in the payments and commerce space.

Webster also serves on the boards of emerging companies in the AI, healthtech and real time payments sectors and helps these innovators refine their business models for profitable market adoption and growth.

Webster is an accomplished entrepreneur, who has successfully developed and launched new ventures in the online media, consulting, GenAI and social commerce sectors, each of which was focused on introducing disruptive business models and product solutions to fill a market need.

This includes PYMNTS.com, a media and data intelligence platform that she founded in 2009 and has successfully scaled into the leading source of news and market intelligence for innovation in the payments, commerce and digital economy sectors.

As co-founder and CEO of Market Platform Dynamics, she worked extensively with the most innovative players in the payments, healthcare, financial services, digital media and technology sectors to identify, ignite and monetize innovation using proprietary platform ignition frameworks and market simulation models.

Webster is a frequently sought after keynote speaker and prolific author of articles on innovation, platforms and the digital economy. She has a long history of consulting, having served as the Managing Director of Global Marketing and Planning for Price Waterhouse Coopers's US$6 billion management consulting practice and as COO for the US$200 million economic consulting subsidiary that is part of the MMC family of companies. Webster also served as an adjunct faculty member at her alma mater, Johns Hopkins University, where she holds a master's degree in marketing and developed and taught graduate level courses on business-to-business marketing.

Webster is a passionate philanthropist and served as a member of the Board of Trustees at the Dana Farber Cancer Institute and Chairman of the Board of the Susan G. Komen Advocacy Alliance. She lives in Boston with her husband and their two amazing canine companions.

ABOUT

PYMNTS

PYMNTS 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.

We are interested in your feedback on this report. If you have questions, comments or would like to subscribe, please email us at feedback@pymnts.com.

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